

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7018
BILL NUMBER: SB 490

DATE PREPARED: Feb 17, 2000
BILL AMENDED: Feb 17, 2000

SUBJECT: Water utilities.

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FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill allows a public water utility to apply to the Indiana Utility Regulatory Commission (IURC) for an increase in its rates, in the form of a distribution system improvement charge (DSIC), to recover the costs of improvements to its distribution system under certain circumstances. It prohibits a public utility from filing a petition for a DSIC or a change in DSIC in the same calendar year in which the public utility has filed a request for a general increase in the basic rates and charges of the public utility. The bill also provides that a public utility may file a petition for a change in its DSIC not more than one time every twelve months.

This bill also authorizes a health agency and the IURC to order a local water utility to extend service to an area that is located within a city or within a county containing a consolidated city and that is served by private wells if the health agency finds that:

- (1) The area suffers from a health hazard due to the presence of at least one contaminant; and
- (2) the area lies in at least one census tract or block having a median household income of less than 200% of the most recently determined federal income poverty level.

Effective Date: July 1, 2000.

Explanation of State Expenditures: (Revised) *DSIC cost recovery:* This bill would allow a public water utility (including municipally-owned utilities) to impose a Distribution System Improvement Charge (DSIC) on its customers for replacement and improvement of existing infrastructure. Improvements made using DSIC revenue would not add new customers, but would likely be used to upgrade outdated facilities. Instead of normal rate case proceedings, water utilities could submit a petition to the Indiana Utility Regulatory Commission (IURC) containing proposed rate schedules including the additional charges to recoup DSIC costs. The IURC may approve a proposed schedule after conducting a hearing. Total revenue generated by a DSIC charge may not exceed 5% of the base revenue level approved by the IURC in the utility's most

recent general rate case.

This bill could initially result in additional rule-making and other administrative expenses for the IURC and the Office of the Utility Consumer Counselor (OUCC). However, if the use of DSIC charges reduces the number of full-blown rate case hearings, the IURC and the OUCC may experience some savings. The net fiscal impact of these provisions is not expected to be significant. The operating expenses of the IURC and the OUCC are funded through the Public Utility Fund. In FY 1999, the IURC spent \$590,000 less than its appropriation and the OUCC spent approximately \$1 M less than it was appropriated.

Extension of service to contaminated areas: Under this bill, if the Indiana State Department of Health or a local health department determines that private water wells in a certain area are contaminated, a public water utility may be directed to provide assistance. However, the affected area must be located partially or entirely within Marion County or a city.

If the IURC approves an extension, the Commission would direct the utility to extend service to the area. A utility would be allowed to increase its rates by up to 1% to recover the costs of an extension project. An increase under these provisions would not be considered a rate hike requiring a full hearing before the IURC. Expenses of the Department of Health, the OUCC, and the IURC associated with this proposal are not expected to be significant.

Costs of water service: Both elements of this bill provide for rate increases by water utilities to recover certain costs. The expenses of some state entities as water service customers could increase under this proposal.

Explanation of State Revenues:

Explanation of Local Expenditures: *Costs of water service:* Both elements of this bill provide for rate increases by water utilities to recover certain costs. The expenses of some local units as water service customers could increase under this proposal.

Explanation of Local Revenues:

State Agencies Affected: Indiana Utility Regulatory Commission, Office of the Utility Consumer Counselor, Department of Health.

Local Agencies Affected: Local health departments.

Information Sources: Mike Leppert, Director, Consumer Affairs, Indiana Utility Regulatory Commission, (317) 232-2714.