

Senate File 2304

S-5124

1 Amend Senate File 2304 as follows:

2 1. By striking everything after the enacting clause and
3 inserting:

4 <Section 1. NEW SECTION. 476.59 System enhancement
5 infrastructure.

6 1. It is the intent of the general assembly to authorize
7 alternative ratemaking mechanisms to develop and sustain
8 adequate water and wastewater treatment facilities within the
9 state to ensure resilient water supply and sanitation services
10 for Iowa consumers. The commission shall not be bound by
11 traditional ratemaking principles or traditional cost recovery
12 mechanisms with respect to system enhancement infrastructure.

13 2. For purposes of this section:

14 a. *"Blanket-type work project order"* means an agreement
15 between an eligible utility and a supplier to deliver goods or
16 services at a set price on a recurring basis over a specified
17 time period.

18 b. *"Eligible utility"* means an investor-owned public
19 utility providing water or wastewater service subject to rate
20 regulation by the commission pursuant to section 476.1.

21 c. *"Plan"* means a multiyear plan to implement system
22 enhancement improvements.

23 d. *"Pretax return"* means the revenues necessary to
24 accomplish all of the following:

25 (1) Producing net operating income equal to the utility's
26 weighted cost of capital approved in the utility's most recent
27 rate case and the actual embedded cost of debt at the time the
28 filing is made multiplied by investments in system enhancement
29 improvements.

30 (2) Paying state and federal income taxes applicable to
31 income under subparagraph (1).

32 e. *"Requirement"* means any decision or regulation imposed on
33 an eligible utility by a local government unit, a state, or the
34 federal government in connection with any of the following:

35 (1) The federal Water Pollution Control Act, 33 U.S.C. §1251

1 et seq.

2 (2) The federal Safe Drinking Water Act, 42 U.S.C. §300f et
3 seq.

4 (3) Any other law, order, or regulation administered by
5 the United States environmental protection agency, the United
6 States army corps of engineers, the United States department of
7 transportation, the Iowa department of transportation, or the
8 Iowa department of natural resources.

9 (4) Regulations imposed by a local government unit.

10 *f.* "System enhancement charge" means a charge assessed by an
11 eligible utility to recover system enhancement costs.

12 *g.* (1) "System enhancement costs" means the following
13 costs associated with any of the following system enhancement
14 improvements:

15 (a) Depreciation expenses, including any such expenses
16 incurred prior to the approval of a plan containing the
17 applicable system enhancement improvement.

18 (b) Restoration costs incurred to restore property to its
19 preconstruction condition other than those already capitalized
20 and included in depreciation expenses.

21 (c) Property taxes to be paid by the utility based upon the
22 first assessment date following placement in service.

23 (d) Pretax return.

24 (2) "System enhancement costs" does not include fines
25 or penalties assessed against or imposed on a utility for
26 violating laws, regulations, or consent decrees.

27 *h.* (1) "System enhancement improvement" means a water or
28 wastewater utility plant project incurred pursuant to a plan
29 that does any of the following:

30 (a) Installs new utility infrastructure required by
31 federal, state, or local requirements pertaining to resilience,
32 health, safety, or environmental protection.

33 (b) Relocates utility infrastructure necessary to
34 accommodate public improvement projects required by a federal,
35 state, or local jurisdiction to the extent the relocation costs

1 are not otherwise reimbursed through the public improvement
2 project.

3 (c) Is nonrevenue producing and is required to maintain
4 resilience, public health, safety, or environmental protection.

5 (2) "*System enhancement improvement*" does not include a
6 water or wastewater utility plant included in the eligible
7 utility's rate base in its most recent general rate case.

8 3. a. Before an eligible utility may seek recovery of its
9 system enhancement costs through a system enhancement charge
10 under this section, it must first obtain approval from the
11 commission of a plan including the proposed system enhancement
12 improvements. The eligible utility must file with the
13 commission an application and supporting evidence for the plan.
14 An eligible utility may only file one plan every twelve months
15 for water and wastewater system enhancement improvements. The
16 commission shall dismiss an application to approve a plan if
17 the commission has not issued a final order in a general rate
18 case proceeding under section 476.6 involving the eligible
19 utility for the same type of utility service within the past
20 five years.

21 b. Evidence supporting an application to approve a plan
22 shall include all of the following:

23 (1) Projected annual capital expenditures including a
24 contingency identified by major categories of expenditures of
25 system enhancement improvements included in the plan.

26 (2) A description of the age, condition, or other similar
27 and reasonably available information about the existing
28 infrastructure and any deficiencies in resilience, public
29 health, safety, or environmental protection, if applicable.

30 (3) The applicable requirements, including any consent
31 decrees and conditions, including but not limited to completion
32 deadlines, related to the requirements.

33 (4) A narrative describing how the system enhancement
34 improvements enable compliance with the requirements.

35 (5) Alternative plans for compliance considered by the

1 eligible utility.

2 (6) An engineering evaluation and report identifying the
3 system enhancement improvements included in the plan, with
4 descriptions of project objectives, detailed cost estimates,
5 and the estimated in-service dates for each system enhancement
6 improvement.

7 (7) Any blanket-type work order and its associated costs
8 proposed to implement the improvements.

9 (8) Proposed rate schedules establishing a system
10 enhancement charge.

11 (9) The estimated rate impact of the proposed system
12 enhancement charge.

13 (10) A financial impact analysis demonstrating that the
14 total projected costs of the improvements included in the plan
15 will not result in aggregate system enhancement charge revenues
16 exceeding the ten percent limit established under subsection
17 4, paragraph "c".

18 c. An application for approval of a plan shall be a
19 contested case. The commission shall issue its final order on
20 the application not more than eight months after the filing
21 of the application. However, upon good cause shown, the
22 commission may extend the time for issuing the order. When
23 reviewing the plan and corresponding system enhancement charge,
24 the commission shall make reasonable efforts to ensure the
25 utility is in compliance with the requirements as supported by
26 evidence in the application and the proceeding. The commission
27 may also consider the following criteria:

28 (1) The plan consists of projects that are system
29 enhancement improvements, except any removed pursuant to
30 paragraph "d".

31 (2) The plan includes cost estimates that enable a
32 reasonable assessment of the costs of the plan.

33 (3) The plan will result in rates that are just and
34 reasonable.

35 d. The commission shall not disapprove the plan on the basis

1 that one or more system enhancement improvements within the
2 plan do not satisfy paragraph "e". The commission may approve
3 the plan subject to the removal of the system enhancement
4 improvements found not to satisfy paragraph "e".

5 e. An eligible utility that operates both a water and
6 wastewater utility shall establish separate plans for water and
7 wastewater system enhancement improvements and such plans shall
8 be presented to the commission through different applications.

9 f. (1) The commission shall not approve a system
10 enhancement plan, or an update to an existing plan, if the
11 commission finds that the projected annualized revenue required
12 to recover the costs of the improvements included in the plan
13 would exceed ten percent of the utility's revenue requirement
14 as authorized in its most recent general rate case.

15 (2) In making the determination under subparagraph (1), the
16 commission shall consider the cumulative impact of all existing
17 and proposed system enhancement improvements for both water and
18 wastewater service.

19 4. a. An eligible utility with one or more plans
20 approved under subsection 3 shall file with the commission an
21 application annually setting forth rate schedules establishing
22 a system enhancement charge, which may thereafter be
23 automatically adjusted and include a reconciliation of revenues
24 collected under previous system enhancement charges. A revenue
25 reconciliation filing shall be filed on an annual basis no
26 later than ninety days following the expiration of the charge.
27 Revenues collected from a system enhancement charge for water
28 service shall not be used to offset costs associated with a
29 wastewater enhancement plan, and the commission shall ensure no
30 cross-subsidization occurs between the two distinct services.
31 The commission shall review the filing to ensure compliance
32 with previously approved filings.

33 b. The system enhancement charge shall do all of the
34 following:

35 (1) Be calculated as a monthly fixed charge based upon meter

1 size.

2 (2) Not include recovery of any system enhancement costs
3 recovered by the eligible utility through contributions in aid
4 of construction.

5 (3) Recover eighty percent of the revenue requirement
6 necessary to recover system enhancement costs incurred prior
7 to the date of the application and not previously recovered
8 through a system enhancement charge.

9 (4) Reflect system enhancement costs for system enhancement
10 improvements placed in service prior to the date the
11 application is filed.

12 (5) Include the pretax return associated with the accrued
13 asset value reflected on the eligible utility's books
14 and records as of the date of the application for system
15 enhancement improvements.

16 *c.* (1) The aggregate total annualized revenue produced
17 by all system enhancement charges, including those for water
18 and wastewater service, shall not exceed ten percent of the
19 utility's total revenue requirement authorized in its most
20 recent general rate case.

21 (2) Costs incurred in excess of the limit established in
22 subparagraph (1) that are not otherwise exempt under paragraph
23 "b" shall be deferred for consideration in the utility's next
24 general rate case.

25 *d.* The application filed to implement the system enhancement
26 charge shall include all of the following:

27 (1) A breakdown of costs for each system enhancement
28 improvement that clearly identifies the status of completion of
29 such project.

30 (2) The actual costs incurred, the projected construction
31 timeline for projects, and the in-service or estimated
32 in-service dates or aggregate information capturing system
33 enhancement improvements constructed pursuant to blanket-type
34 work project orders and the actual annual costs of the
35 replacement programs performed pursuant to blanket-type work

1 project orders.

2 e. The commission shall not authorize an adjustment to the
3 system enhancement charge to incorporate system enhancement
4 costs incurred since the date of prior application filed under
5 this subsection if the commission has not issued a final order
6 in a general rate case proceeding under section 476.6 involving
7 the eligible utility within the past five years.

8 f. An eligible utility that recovers system enhancement
9 costs under this subsection shall defer the remaining twenty
10 percent of revenue requirement necessary to recover the system
11 enhancement costs approved under this subsection and shall
12 recover the deferral as part of its next general rate case that
13 the eligible utility files with the commission.

14 5. System enhancement costs may be deferred by an eligible
15 utility for recovery through the utility's next approved system
16 enhancement charge.

17 6. An application to implement or change a system
18 enhancement charge may include changes or updates to any
19 information provided in the plan, provided that the eligible
20 utility has a reasonable expectation that the changes or
21 updates will occur during the time the plan is effective.
22 The commission shall review such changes in accordance with
23 subsection 3, paragraph "c". Project changes may include
24 but shall not be limited to additions, replacements, or
25 deferral projects that otherwise qualify as system enhancement
26 improvements.

27 7. Notice of an eligible utility's applications under
28 section 476.6, subsection 2, must be published.

29 8. In its next general rate case, the eligible utility with
30 a plan approved pursuant to subsection 3 may include the system
31 enhancement improvements to its rate base in its application.
32 An eligible utility's system enhancement charge approved under
33 this section shall reset to zero upon approval of new base
34 rates.

35 9. The commission shall adopt rules under chapter 17A

1 establishing procedures to implement this section.

2 Sec. 2. Section 476.84, subsection 2, paragraph b, Code
3 2026, is amended to read as follows:

4 b. If a water, sanitary sewer, or storm water utility that
5 is the subject of an acquisition meets the requirements of
6 paragraph "a", then the acquiring public utility may apply to
7 the commission, prior to the completion of the acquisition, for
8 advance approval of a proposed initial tariff for providing
9 service to customers of the acquired utility. If a water,
10 sanitary sewer, or storm water utility that is the subject of
11 an acquisition does not meet the requirements of paragraph "a",
12 the commission shall consider reasonable and customary closing
13 costs, the costs of the appraisals, and regulatory and legal
14 expenses incurred in connection with the acquisition in the
15 public utility's next rate case.>

16 2. Title page, lines 1 and 2, by striking <establishing
17 procedures for system enhancement of infrastructure, including
18 for> and inserting <relating to certain public utilities,
19 including the>

20 3. Title page, line 5, after <utilities> by inserting <and
21 cost considerations for acquisitions of water, sanitary sewer,
22 or storm water utilities>

SCOTT WEBSTER