



KIM REYNOLDS
GOVERNOR

OFFICE OF THE GOVERNOR

CHRIS COURNOYER
LT GOVERNOR

June 01, 2026

The Honorable Paul Pate
Secretary of State of Iowa
State Capitol
Des Moines, Iowa 50319

Dear Mr. Secretary,

I hereby transmit:

Senate File 2304, an Act relating to certain public utilities, including the development of ratemaking principles permitted for recovery costs of certain investments in infrastructure by water and wastewater utilities and cost considerations for acquisitions of water, sanitary sewer, or storm water utilities.

The above Senate File is hereby approved on this date.

Sincerely,

A handwritten signature in black ink that reads "Kim Reynolds".

Kim Reynolds
Governor of Iowa

cc: Secretary of the Senate
Clerk of the House



Senate File 2304

AN ACT

RELATING TO CERTAIN PUBLIC UTILITIES, INCLUDING THE DEVELOPMENT OF RATEMAKING PRINCIPLES PERMITTED FOR RECOVERY COSTS OF CERTAIN INVESTMENTS IN INFRASTRUCTURE BY WATER AND WASTEWATER UTILITIES AND COST CONSIDERATIONS FOR ACQUISITIONS OF WATER, SANITARY SEWER, OR STORM WATER UTILITIES.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. NEW SECTION. 476.59 System enhancement infrastructure.

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

2. For purposes of this section:

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

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

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

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

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

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

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

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

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

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

(4) Regulations imposed by a local government unit.

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

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

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

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

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

(d) Pretax return.

(2) "System enhancement costs" does not include fines

or penalties assessed against or imposed on a utility for violating laws, regulations, or consent decrees.

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

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

(b) Relocates utility infrastructure necessary to accommodate public improvement projects required by a federal, state, or local jurisdiction to the extent the relocation costs are not otherwise reimbursed through the public improvement project.

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

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

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

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

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

(2) A description of the age, condition, or other similar and reasonably available information about the existing infrastructure and any deficiencies in resilience, public

health, safety, or environmental protection, if applicable.

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

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

(5) Alternative plans for compliance considered by the eligible utility.

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

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

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

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

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

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

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

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

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

d. The commission shall not disapprove the plan on the basis that one or more system enhancement improvements within the plan do not satisfy paragraph "e". The commission may approve the plan subject to the removal of the system enhancement improvements found not to satisfy paragraph "e".

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

e. The commission shall not authorize an adjustment to the system enhancement charge to incorporate system enhancement costs incurred since the date of prior application filed under this subsection if the commission has not issued a final order

in a general rate case proceeding under section 476.6 involving the eligible utility within the past five years.

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

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

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

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

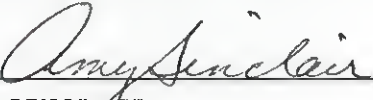
8. In its next general rate case, the eligible utility with a plan approved pursuant to subsection 3 may include the system enhancement improvements to its rate base in its application. An eligible utility's system enhancement charge approved under this section shall reset to zero upon approval of new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

9. The commission shall adopt rules under chapter 17A establishing procedures to implement this section.

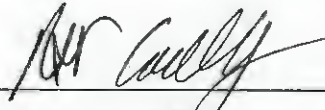
Sec. 2. Section 476.84, subsection 2, paragraph b, Code 2026, is amended to read as follows:

b. If a water, sanitary sewer, or storm water utility that is the subject of an acquisition meets the requirements of paragraph "a", then the acquiring public utility may apply to the commission, prior to the completion of the acquisition, for advance approval of a proposed initial tariff for providing service to customers of the acquired utility. If a water,

sanitary sewer, or storm water utility that is the subject of an acquisition does not meet the requirements of paragraph "a", the commission shall consider reasonable and customary closing costs, the costs of the appraisals, and regulatory and legal expenses incurred in connection with the acquisition in the public utility's next rate case.

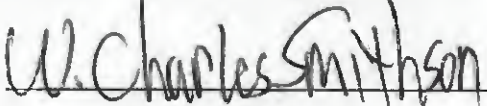


AMY SINCLAIR
President of the Senate



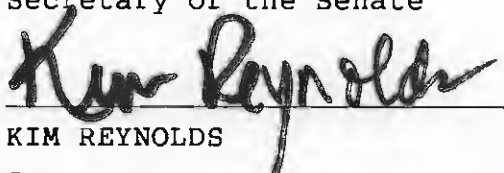
PAT GRASSLEY
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 2304, Ninety-first General Assembly.



W. CHARLES SMITHSON
Secretary of the Senate

Approved June 15th, 2026



KIM REYNOLDS
Governor