

House Study Bill 601 - Introduced

HOUSE FILE _____
BY (PROPOSED COMMITTEE ON
COMMERCE BILL BY CHAIRPERSON
YOUNG)

A BILL FOR

1 An Act relating to the acquisition of water, sanitary sewer,
2 and storm water utilities, including required findings by the
3 Iowa utilities commission, the timeline for issuing ratemaking
4 principles, and the determination of applicable ratemaking
5 principles.
6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 476.84, subsection 2, paragraphs a and c,
2 Code 2026, are amended to read as follows:

3 a. A public utility shall not acquire, in whole or in part,
4 a water, sanitary sewer, or storm water utility ~~with a purchase~~
5 ~~price of three million dollars or more from a non-rate-regulated~~
6 ~~entity described in section 476.1, subsection 3,~~ unless the
7 commission first approves the acquisition and finds that the
8 acquisition will not detrimentally affect ratepayers of either
9 the utility to be acquired or the acquiring utility. In
10 addition, if the utility to be acquired is a city utility, then
11 the public utility shall not acquire the city utility until
12 the city has first certified completion of the requirements of
13 sections 362.3, 364.2, 364.7, 384.84, 388.2, 388.2A, and 388.6.
14 A certified completion submitted pursuant to this paragraph shall
15 contain an affirmation that the city that is the subject of the
16 acquisition has timely and substantially complied in relation to
17 the acquisition with the applicable provisions of sections 362.3,
18 364.2, 364.7, 384.84, 388.2, 388.2A, and 388.6.

19 c. As part of its review of the proposed acquisition, the
20 commission shall specify ~~in advance,~~ by order issued after a
21 contested case proceeding, the ratemaking principles that will
22 apply when the costs of the acquired utility are included
23 in regulated rates, and the commission shall not defer the
24 ratemaking principles to a later contested case proceeding.
25 The lesser of the sale price ~~or the fair market value~~ of
26 the acquired utility as established pursuant to section 388.2A,
27 subsection 2, or the net book value of the acquired utility, as
28 established in the contested case proceeding, shall be used in
29 determining the applicable ratemaking principles. In determining
30 the applicable ratemaking principles, the commission shall not
31 be limited to traditional ratemaking principles or traditional
32 cost recovery mechanisms. Among the principles and mechanisms
33 the commission may consider, the commission has the authority
34 to approve ratemaking principles that provide for reasonable
35 restrictions upon the ability of the public utility to seek an

1 increase in specified regulated rates for a period of time after
2 the acquisition takes place.

3 If the acquisition would increase the average rate base per
4 customer for existing customers of the acquiring utility, the
5 commission shall not consolidate the rates for the two utilities
6 for a period of at least ten years following the contested
7 case proceeding. The final order including the rate base and
8 approving the acquisition shall consider reasonable and customary
9 closing costs, the cost of appraisals, and regulatory and legal
10 expenses incurred in connection with the acquisition.

11 EXPLANATION

12 The inclusion of this explanation does not constitute agreement with
13 the explanation's substance by the members of the general assembly.

14 This bill relates to the acquisition of water, sanitary
15 sewer, and storm water utilities, including required findings
16 by the Iowa utilities commission (commission), the timeline to
17 issue ratemaking principles, and the determination of applicable
18 ratemaking principles.

19 Under current law, a public utility is not allowed to acquire
20 a water, sanitary sewer, or storm water utility with a purchase
21 price of \$3 million or more without commission approval.
22 The bill removes the \$3 million qualifier and requires the
23 commission to find, in addition to current requirements, that the
24 acquisition will not detrimentally affect ratepayers of either
25 the utility to be acquired or the acquiring utility.

26 Under current law, the commission provides ratemaking
27 principles after a contested case proceeding. This could include
28 a general rate case in a later contested case proceeding. The
29 bill requires the commission to provide ratemaking principles
30 before the acquisition is approved and prohibits the commission
31 from deferring the ratemaking principles to a later contested
32 case proceeding.

33 Under current law, the lesser of the sale price or the
34 established fair market value of the acquired utility is used
35 in determining the applicable ratemaking principles. The bill

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1 replaces the established fair market value option with the
2 net book value, which is established in the contested case
3 proceeding.

4 If the acquisition would increase the average rate base per
5 customer for existing customers of the acquiring utility, the
6 bill directs the commission to prohibit the consolidation of
7 rates for the two utilities for a period of at least 10 years
8 following the contested case proceeding.

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