

Senate File 2304 - Reprinted

SENATE FILE 2304
BY COMMITTEE ON COMMERCE

(SUCCESSOR TO SSB 3068)

(COMPANION TO HF 2032 BY VONDRAN)

(As Amended and Passed by the Senate March 31, 2026)

A BILL FOR

1 An Act relating to certain public utilities, including the
2 development of ratemaking principles permitted for recovery
3 costs of certain investments in infrastructure by water and
4 wastewater utilities and cost considerations for acquisitions
5 of water, sanitary sewer, or storm water utilities.
6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. NEW SECTION. **476.59 System enhancement**
2 **infrastructure.**

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

10 2. For purposes of this section:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 (d) Pretax return.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 improvement.

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

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

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

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

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

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

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

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

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

34 e. An eligible utility that operates both a water and
35 wastewater utility shall establish separate plans for water and

1 wastewater system enhancement improvements and such plans shall
2 be presented to the commission through different applications.

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

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

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

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

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

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

34 (3) Recover eighty percent of the revenue requirement
35 necessary to recover system enhancement costs incurred prior to

1 the date of the application and not previously recovered through
2 a system enhancement charge.

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

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

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

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

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

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

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

30 e. The commission shall not authorize an adjustment to the
31 system enhancement charge to incorporate system enhancement costs
32 incurred since the date of prior application filed under this
33 subsection if the commission has not issued a final order in a
34 general rate case proceeding under section 476.6 involving the
35 eligible utility within the past five years.

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

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

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

19 7. Notice of an eligible utility's applications under section
20 476.6, subsection 2, must be published.

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

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

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

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

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

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