

**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  
4 and wastewater utilities and cost considerations for  
5 acquisitions of water, sanitary sewer, or storm water  
6 utilities.

7 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  
5 adequate water and wastewater treatment facilities within the  
6 state to ensure resilient water supply and sanitation services  
7 for Iowa consumers. The commission shall not be bound by  
8 traditional ratemaking principles or traditional cost recovery  
9 mechanisms 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  
16 utility providing water or wastewater service subject to rate  
17 regulation 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  
21 accomplish 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  
22 or penalties assessed against or imposed on a utility for  
23 violating 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  
26 that does any of the following:

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

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

35 (c) Is nonrevenue producing and is required to maintain

1 resilience, public health, safety, or environmental protection.

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

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

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

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

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

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

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

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

34 (6) An engineering evaluation and report identifying the  
35 system enhancement improvements included in the plan, with

1 descriptions of project objectives, detailed cost estimates,  
2 and the estimated in-service dates for each system enhancement  
3 improvement.

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

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

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

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

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

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

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

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

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

1 improvements found not to satisfy paragraph "e".

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

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

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

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

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

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

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

1 of construction.

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

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

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

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

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

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

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

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

34 *e.* The commission shall not authorize an adjustment to the  
35 system enhancement charge to incorporate system enhancement

1 costs incurred since the date of prior application filed under  
2 this subsection if the commission has not issued a final order  
3 in a general rate case proceeding under section 476.6 involving  
4 the eligible utility within the past five years.

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

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

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

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

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

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

34 Sec. 2. Section 476.84, subsection 2, paragraph b, Code  
35 2026, is amended to read as follows:

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