

SUEZ WATER RHODE ISLAND

**DISTRIBUTION SYSTEM IMPROVEMENT
CHARGE**

DSIC

TECHNICAL MEETING

RHODE ISLAND AND PROVIDENCE PLANTATIONS

PUBLIC UTILITY COMMISSION

AUGUST 28, 2018



DSIC – WHY HAVE IT

- **What is a DSIC?**
- **A DSIC allows for rate increases for non-revenue producing investments to replace aging utility infrastructure outside of a general rate proceeding.**
- **Water infrastructure in the United States is aging and in need of repair.**
- **The United States Environmental Protection Agency estimates that the 20-year national water infrastructure need is approximately \$384 billion, and of that \$245 billion is needed for distribution and transmission projects.**

DSIC – HOW IT WORKS

- **By implementing a DSIC program, companies that invest in these types of improvements would:**
 - 1) recover on a timelier basis;
 - 2) avoid the costs of a base rate case.
- **Some mains nationally were installed in the late 1800's and early 1900's. Based upon standard replacement, i.e. rate cases and available funds, it could take 150 to 200 years or more to replace the whole system. The replacement of the system should be closer to 100 years which is generally the expected life of mains.**

DSIC – WHY IS IT BETTER

- **Enables Company to replace mains faster than otherwise.**
- **DSIC increases are smaller and spread out in six month increments**
- **Provides Company return on investment sooner enabling it to replace more mains**

DSIC – WHEN DOES IT GO INTO RATEBASE

- **DSIC surcharges based on investment made during previous six month period**
- **Surcharges can only be made on utility plant in-service and serving customers**
- **DSIC investment is interim until next rate case when it gets rolled into rate base.**

DSIC – CUSTOMER BENEFITS

- 1) reducing main breaks and associated overtime;
- 2) improving water quality and fire flows;
- 3) lengthening time between rate cases which reduces rate case expense;
- 4) resulting in smaller rate increases over time which minimizes rate shock.
- 5) The types of items listed above would all result in reduced operating expenses which benefits customers over time.

DSIC – CUSTOMER PROTECTIONS

- **DSIC Surcharge CAP – 7.50% of Revenues**
- **Earnings test**
- **Review of DSIC projects placed in service**
- **Some states have an annual audit**

DSIC – OTHER STATES

- **DSIC first implemented in 1997 in Pennsylvania**
- **Currently in 17 states (see attachment)**
- **NARUC 2005 resolution supports DSIC as “Best Practice”
(see attachment)**

DSIC- IMPACTS NEW JERSEY

| SUEZ Water NJ | | | | | | |
|--------------------------|-----------------|--|-----------------|----------------|----------------------|--------------|
| DSIC Filings | | | | | | |
| | | Period | Amount | | 5/8" Meter Charge | Total |
| <u>Filed</u> | <u>Approved</u> | <u>Covered</u> | <u>Increase</u> | <u>Percent</u> | <u>per Month</u> | <u>Spend</u> |
| 2/17/2017 | 4/1/2017 | 8/1/16 - 1/31/17 | 1,486,151 | 0.64% | \$0.44 | 12,911,051 |
| 8/15/2017 | 9/29/2017 | 2/1/17 - 7/31/17 | 2,631,822 | 1.14% | \$1.23 | 22,727,167 |
| 2/16/2018 | 4/1/2018 | 8/1/2017 - 1/31/18 | 3,132,287 | 1.36% | | 28,937,944 |
| | | Includes reduction for tax act (\$464,363) | | | | |
| | | Curent Rate Period | 7,250,260 | 3.14% | | 64,576,162 |
| 2015 case total revenues | | 230,725,965 | | | | |

DSIC IMPACTS TOMS RIVER, NJ

| SUEZ Water Toms River | | | | | | |
|--------------------------|-----------------|-------------------|-----------------|----------------|------------------|--------------|
| DSIC Filings | | | | | | |
| 5/8" | | | | | | |
| | | Period | Amount | | Meter Charge | Total |
| <u>Filed</u> | <u>Approved</u> | <u>Covered</u> | <u>Increase</u> | <u>Percent</u> | <u>per Month</u> | <u>Spend</u> |
| 7/15/2016 | 8/29/2016 | 1/1/16-6/30/16 | 344,151 | 1.02% | 0.49 | 3,252,868 |
| 1/17/2017 | 3/1/2017 | 7/1/16 - 12/31/16 | 411,941 | 1.22% | 1.06 | 3,042,175 |
| 7/17/2017 | 8/29/2017 | 1/1/17 - 6/30/17 | 331,199 | 0.98% | 1.53 | 2,679,910 |
| 1/10/2018 | 3/1/2018 | 7/1/17 - 12/31/17 | 570,908 | 1.69% | 2.34 | 6,353,455 |
| Curent Rate Period | | | 1,658,199 | 4.91% | | 15,328,408 |
| 2015 case total revenues | | 33,707,087 | | | | |

DSIC IMPACTS PENNSYLVANIA

| SUEZ Water Pennsylvania | | | | | | | |
|------------------------------|----------------|-------------------------|--------------------------|-----------------------|-----------------------|--------------------|--------------------|
| Historic DSIC Filing Summary | | | | | | | |
| Additions | | | | Effective | | Quarterly DSIC | Incremental |
| <u>From</u> | <u>Through</u> | <u>Incremental Adds</u> | <u>Cumulative Adds</u> | <u>Surcharge Rate</u> | <u>Effective Date</u> | <u>Requirement</u> | <u>Increase</u> |
| - | | | | - | | | |
| - | | | | 7.50% | 4/1/2018 | | |
| 9/1/2017 | 11/30/2017 | 75 | \$6,904,9 \$24,472,9 | 7.50% | 1/1/2018 | 494 | \$872, \$45,775 |
| 6/1/2017 | 8/31/2017 | 97 | \$5,331,0 \$17,567,9 | 7.09% | 10/1/2017 | \$740,997 | \$327,269 |
| 10/1/2014 | 5/31/2017 | 88 | \$12,236,8 \$12,236,8 | 3.70% | 7/1/2017 | \$413,728 | \$413,728 |

DSIC IMPACTS DELAWARE

| SUEZ Water Delaware | | | |
|--|------------------|-----------------|--------------|
| | Docket No. | Docket No. | |
| | 9075 | XXXXX | Total |
| Item | 11/1/16 -4/30/17 | 5/1/17-10/31/17 | |
| Net Utility Plant Additions | \$ 2,290,138 | \$ 2,517,439 | \$ 4,807,577 |
| Total Semi-Annual DSIC Revenue Requirement | \$ 157,799 | \$ 184,127 | \$ 341,926 |
| Semi-Annual Projected Water Service Revenues | \$ 14,691,439 | \$ 14,702,407 | \$14,702,407 |
| Projected DSIC Rate Increase Percentage | 1.07% | 1.25% | 2.33% |
| Effective date | 7/1/2017 | 1/1/2018 | |

DSIC- SUEZ RI REPLACEMENT TIMETABLE

○ Total miles of mains – 154

| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Main Breaks | 29 | 16 | 13 | 22 | 24 |
| Miles of Mains Replaced | 0.38 | 0.52 | 0.24 | 0 | 0.16 |
| Total Miles of Mains | 154 | 154 | 154 | 154 | 154 |
| Years to Replace System | 405 | 296 | 642 | | 963 |
| | | | | | |
| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
| Estimated cost | \$987 | \$1,000 | \$1,000 | \$1,100 | \$1,100 |
| Miles of Mains Replaced | 0.28 | 0.4 | 0.4 | 0.44 | 0.44 |
| Total Miles of Mains | 154 | 154 | 154 | 154 | 154 |
| Years to Replace System | 550 | 385 | 385 | 350 | 350 |
| Note: to get replacement interval to approximately 150 years would need to spend approximately \$2.2M | | | | | |

DSIC – FUTURE PROJECTIONS

| | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|--|--------------|-------------|-------------|-------------|
| Eligible Investment (page 2) | \$1,000,000 | \$1,000,000 | \$1,100,000 | \$1,100,000 |
| Less: Accumulated Depreciation (page 2) | (3,900) | (3,900) | (4,290) | (4,290) |
| Less: Deferred Tax (page 2) | (1,281) | (1,281) | (1,409) | (1,409) |
| Eligible Net Investment | \$994,819 | \$994,819 | \$1,094,301 | \$1,094,301 |
| Pre-Tax Rate of Return (page 3) | 8.55% | 8.55% | 8.55% | 8.55% |
| Pre-Tax Return on Investment | \$85,057 | \$85,057 | \$93,563 | \$93,563 |
| Add: Depreciation Expense (page 2) | 15,600 | 15,600 | 17,160 | 17,160 |
| Revenue Recovery | \$100,657 | \$100,657 | \$110,723 | \$110,723 |
| Revenue Factor (page 4) | 1.01706 | 1.01706 | 1.01706 | 1.01706 |
| DSIC Revenue Requirement Recovery Amount | \$102,374 | \$102,374 | \$112,612 | \$112,612 |
| Stipulated Revenues Current Rate Case | \$ 5,435,965 | | | |
| Annual Percentage DSIC Surcharge | 1.88% | 1.88% | 2.07% | 2.07% |
| Cumulative Surcharge | 1.88% | 3.76% | 5.83% | 7.90% |

COMPARISON TO NATIONAL GRID

(based upon National Grid Infrastructure, Safety and Reliability proposal Dec 2016)

| | <u>National Grid</u> | <u>DSIC</u> |
|-------------------------------|----------------------|-------------|
| Rates before in-service | Yes | No |
| Pre-approved plan | Yes | No |
| All investments | Yes | No |
| O&M Expenses | Yes | No |
| Inspection of facilities cost | Yes | No |
| Annual reconciliation | Yes | Yes |