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**Office of the Public Advocate Testimony on LD 880 “An Act to Implement a Revenue Adjustment Mechanism for Water Utilities”**

Chairman Dion, Chairman Woodsome and Members of the Energy, Utilities and Technology Committee,

The Office of the Public Advocate testifies NEITHER FOR NOR AGAINST LD 660, "An Act to Implement a Revenue Adjustment Mechanism for Water Utilities." We believe the problem the statute intends to address—declining consumption by water utility customers—is real and worthy of attention. However, as drafted LD 880 is not sufficiently clear to inform the Commission as to what sort of ratemaking adjustment mechanism is being contemplated, and lacks any limitations to protect consumers.

LD 660 enables the Public Utilities Commission to establish a rate-adjustment mechanism for a water district that seeks to change its rates. The mechanism would be designed to reconcile the water utility’s “actual revenues or costs with projected revenues or costs, either on a total or per customer basis.” The bill also requires the Public Utilities Commission, as part of its annual report, to list all rate adjustments requested and all those that have been granted.

From conversations with members of the water-utility industry, we understand that one of the goals underlying LD 880 is to provide the Commission with the authority to engage in a less detailed form of ratemaking in those instances where the principal changes affecting the utility are changes in revenues – *i.e.*, changes in the amount of water being purchased by customers. Water utilities are increasingly facing situations where their

revenues are decreasing, either because customers are purchasing smaller volumes of water or because customers are no longer taking service from their water utility. We assume that the goal of LD 880 is to permit the Commission to adopt a ratemaking mechanism that will allow a water utility to adjust for its reduced revenues (or increased revenues, if that is the case) when there is a significant change in the volumes of water being purchased by customers. That way, the water utility will be able to adjust its rates without having to take on the expense of filing a rate case that requires a review of all components of its costs and revenues.

We are not sure that the bill as drafted accomplishes this goal. We will not take a position for or against LD 880 until its language is revised so as to describe more specifically the sort of rate-adjustment mechanism it contemplates, but did not want to oppose it at this stage because the concept may have merit.

We look forward to the opportunity to work with the sponsors to revise LD 880 to more clearly define its goals, and include appropriate limitations to protect consumers. These could include limits on the number of such rate adjustments, or the percentage of such rate increases, that can be approved before the water utility is required to file a full revenue-requirement case under Section 307 or Section 6104. The availability of these rate adjustments could also reduce the risk that a water utility would not recover its authorized rate of return, and thus should be incorporated into the Commission's analysis of the appropriate return on equity.

The Office of the Public Advocate will be present at the work session to assist the Committee in its consideration of this bill.

Respectfully submitted,



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