

NAWC Releases *Alternative Regulation and Ratemaking Approaches for Water Companies: Supporting the Capital Investment Needs of the 21st Century*

As part of NAWC’s national regulatory strategy, the Association and its members have been exploring various indicators of regulatory lag and metrics and mechanisms that can address the problem. These alternative regulatory mechanisms are applied across all regulated utility sectors to some degree and NAWC has been working with The Brattle Group to conduct a survey of comparable policies across the country.

This is the first report of its kind and promises to be a useful tool in discussions around alternative regulation and the treatment of regulated water utilities. The survey reveals an encouraging trend that the water industry has made significant progress recently on DSIC mechanisms and future test years. However, there is a clear pattern of these alternative regulations being applied to regulated energy sectors in more states and with more frequency than to water utilities. From the executive summary:

“The report shows that the electric and natural gas delivery industries have in place a larger number and a greater variety of alternative regulation policies compared to the water industry. The water industry has made recent progress in innovative ways to recover capital investments in their distribution systems.”

While there are important distinctions in many of the individual policies, a comparison of the number of each type of policy shows a clear pattern of alternative ratemaking policies being applied to natural gas and electricity far more often than to water.

	Electricity	Natural Gas	Water
Revenue Stabilization: Mechanisms that adjust base revenues without addressing costs between rate cases. <i>Examples: Conservation adjustments, decoupling.</i>	27	30	5
Comprehensive Alternative Ratemaking and Timely Recovery: These are ways to move beyond the general rate cases of cost of service regulation and integrate future costs from investment projects and other sources. <i>Examples: Formula rates, multi-year rate mechanisms.</i>	34	18	4
Alternative Ratemaking for Capital Expenditures: Mechanisms designed to collect the costs of standard investments to maintain the integrity of distribution systems. <i>Examples: DSIC and CapEx riders.</i>	17	22	14

This report is available for download at nawc.org under *Publications*.