

# MAINE STATE LEGISLATURE

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2  
3 FIRST REGULAR SESSION

4 ONE HUNDRED AND THIRTEENTH LEGISLATURE

5 Legislative Document

No. 127

6  
7 S.P. 60

In Senate, January 28, 1987

8  
9 Reference to the Committee on Utilities suggested and  
ordered printed.

10 JOY J. O'BRIEN, Secretary of the Senate  
Presented by Senator CLARK of Cumberland.  
Cosponsored by Representative ROLDE of York,  
Representative MURPHY of Kennebunk, Senator WEBSTER of Franklin.

11  
12 STATE OF MAINE  
13

14 IN THE YEAR OF OUR LORD  
15 NINETEEN HUNDRED AND EIGHTY-SEVEN  
16

17 AN ACT to Allow for Depreciation on  
18 Contributed Property.  
19

20 Be it enacted by the People of the State of Maine as  
21 follows:

22 35 MRSa §73, sub-§5, as amended by PL 1985, c.  
23 632, §1, is further amended to read:

24 5. Purposes. The governing body may establish  
25 and file rates under this section so as to provide  
26 revenue for the following purposes, but no other:

27 A. To pay the current expenses for operating and  
28 maintaining the water system and to provide for  
29 normal renewals and replacements, including fu-  
30 ture renewal and replacements of contributed  
31 property;

1 B. To provide for the payment of the interest on  
2 the indebtedness created or assumed by the utili-  
3 ty;

4 C. To provide each year a sum equal to not less  
5 than 2% nor more than 10% of the term indebted-  
6 ness represented by the issuance of bonds created  
7 or assumed by the utility, which sum shall be  
8 turned into a sinking fund and there kept to pro-  
9 vide for the extinguishment of term indebtedness.  
10 The money set aside in this sinking fund shall be  
11 devoted to the retirement of the term obligations  
12 of the utility and may be invested in such secu-  
13 rities as savings banks in the State are allowed  
14 to hold;

15 D. To provide for annual principal payments on  
16 serial indebtedness created or assumed by the  
17 utility; and

18 E. To provide for a contingency reserve fund al-  
19 lowance by providing rates to reflect up to a 5%  
20 addition to yearly revenues over what is required  
21 to operate the water company. If this allowance  
22 results in an excessive surplus, rates may be set  
23 which use the excess to offset future revenue re-  
24 quirements. The commission shall adopt rules  
25 which define excessive surplus resulting from the  
26 allowance, set forth uses of funds in that por-  
27 tion of the surplus which is not excessive, in-  
28 cluding the retirement of debt where economic and  
29 provide that funds in the surplus which are ex-  
30 cessive be returned to customers in the form of  
31 temporary rate adjustments, credits or reduction  
32 in rates.

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STATEMENT OF FACT

2           The purpose of this bill is to permit municipal  
3 water utilities to charge depreciation expense on  
4 contributed property. The Maine Public Utilities  
5 Commission currently prohibits this practice because  
6 the commission views depreciation's sole purpose as  
7 one of recovering the utility's original investment.  
8 Depreciation can and should serve other purposes.  
9 First, it serves as a price signal to current custom-  
10 ers of the true cost of their use and the need for  
11 replacement. Second, a depreciation expense on con-  
12 tributed property permits the accumulation of funds  
13 to pay for the replacement of that property when its  
14 useful life is exhausted. Finally, when a utility is  
15 not permitted to accumulate an allowance for the re-  
16 placement of capital assets, the cost of future re-  
17 placement, including the cost of borrowing, will be  
18 shouldered by future ratepayers. Ultimately, bonding  
19 for replacement of assets consumed by past ratepayers  
20 may result in large sudden increases, i.e., rate  
21 shock, which is a disservice to both the utility and  
22 the ratepayers.

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