

Chapter 675, Infrastructure Surcharge and Capital Reserve Accounts

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Maine Public Utilities Commission
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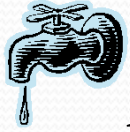
Overview of Rule

- Implements requirements of 35-A M.R.S. §6107-A to “Establish guidelines and procedures for the implementation of infrastructure replacement surcharges and the funding of a capital reserve account by water utilities and corresponding reporting requirements
- Applicable to both investor and consumer owned water utilities
- Defines infrastructure as stationary physical plant assets needed to operate a water system which includes but is not limited to water mains, storage tanks and pumping facilities
- Effective: June 21, 2013

System Infrastructure Assessment

- ⌚ In order to qualify for either of these methods, utilities must file a System Infrastructure Assessment (SIA) no less than **90 days** before implementing a surcharge or filing a general rate case which includes a reserve
- 👉 The purpose of the SIA is to give the Commission, Public Advocate and utility ratepayers a general feel for the water utility's physical system and the age of the parts of the system

System Infrastructure Assessment



Also to show that the management of the utility can show where the physical system is and the needs of the system



The SIA can be done in-house and the utility does not have to hire an engineering firm to prepare it



will be likely filed in a Project File in Case Management System (CMS)

System Infrastructure Assessment

- \$ Projects must be included in the SIA to qualify for inclusion in the surcharge calculation or to use monies from the Capital Reserve Accounts
- 1 Rule allows for modification of the SIA to allow for unexpected projects (such as projects due to DOT or local road work) up to the filing of a surcharge request



Updates to be filed annually in the Annual Report

System Infrastructure Assessment

SIA includes the following:

1. Description of the water utility's source(s) of supply,
2. Description of the treatment facilities and year(s) installed,
3. Miles of transmission mains and general range of age of mains,
4. Description of the distribution facilities, including storage tanks, booster stations and water mains, including year(s) installed for major facilities and general range of age of mains,



S.I.A. (continued)

5. Statement describing the need for the replacement or repair project, the age of the relevant infrastructure, and the identification of any adverse effects on water quality associated with the existing infrastructure,
6. Estimate of the cost of the project and the identification of any external funding sources for the project, and
7. Estimate of the year in which the project might be commenced, and the expected time necessary to complete the project once it is commenced.

Definitions

- Capital reserve account – revenue collected and maintained in a fund to pay for future replacement and repair of qualifying infrastructure projects
- Provides a method to build up a cash reserve for **future** projects
- Would be included in revenue requirements but must have a rate proceeding to allow this to happen

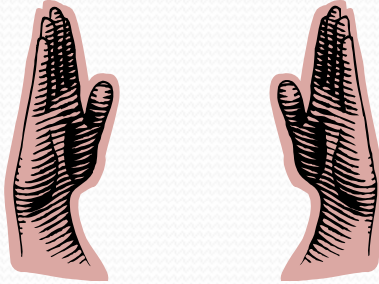


Definitions Continued

- Temporary Surcharge for Infrastructure Replacement or Repair – a temporary surcharge to allow recovery of the costs of completed replacement or repairs of water system infrastructure or
- Provides a method to recover costs related to **completed** construction projects without filing a full rate case but does not provide for quicker recovery of construction costs

Utility Size and Chapter 675

- Chapter 675 has guidelines the effect the level of dollars that can be included in rates for a Capital Reserve Account (§4(B)) and also the level of increases for a Surcharge (§4(A)) – the guidelines are on a sliding scale based upon the size of the utility. **The sizes are:**



- \$ "Large water utility" means a water utility with total annual revenues of at least \$750,000 during the most recent fiscal year.
- \$ "Medium water utility" means a water utility with total annual revenues of less than \$750,000 and at least \$250,000 during the most recent fiscal year; and
- \$ "Small water utility" means a water utility with total annual revenues of less than \$250,000 during the most recent fiscal year.

Capital Reserve Accounts

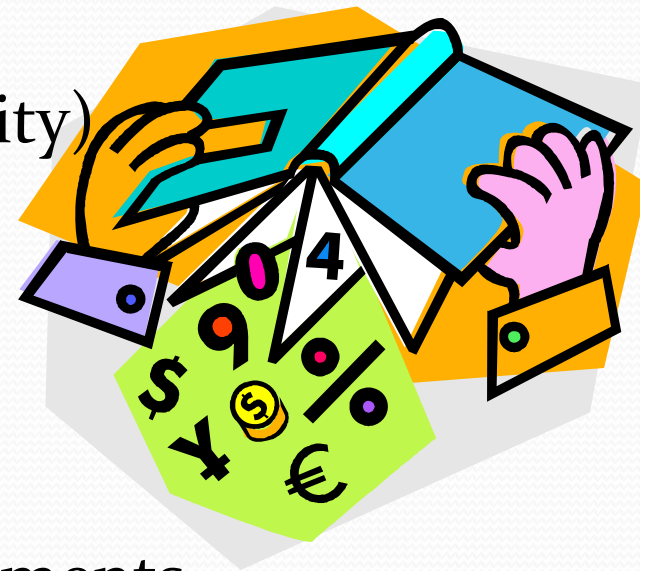
- + The amount shall be an addition to revenue requirements when filing a rate case similar to the contingency amount

Two tests to determine the amount:

1. Percentage of Gross plant – total of Account 101 (first test)
2. Percentage of Revenue Requirements (Operating Expenses plus depreciation, debt repayment and contingency for COUs, and return for IOUs)

Capital Reserve Account

- ⇒ Sample calculation (for medium utility)
- ⇒ Gross Plant = \$22,000,000
- ⇒ First test: 3% of Gross Plant
- ⇒ Maximum is \$660,000
- ⇒ Revenue Requirement - \$4,000,000
- ⇒ Second test: 15% of Revenue Requirements
- ⇒ \$600,000 Maximum to be Included
- ⇒ No test on impact on rates – utility must judge its customer's appetite for increases for future projects – could result in petitions under §6104 if it causes the increase to be too high



Capital Reserve Account Other Requirements

- \$ The rule requires that the capital reserve account be **funded** meaning that the utility must set aside the cash
- \$ The rule does not require a separate bank account but it might be beneficial to do so to ensure that the monies are not spent and are not comingled with other funds
- \$ The utility must include in its annual report a breakdown of the amounts collected from ratepayers and any amounts spent, which must be broken down by Projects in the SIA



Surcharge - Purpose

1. Allows utilities to put a surcharge on existing rates to allow the recovery of the rate impact of projects completed and in service without having to file a full rate case
2. Projects completed prior to August 30, 2012 are not eligible for the surcharge
3. Cannot include changes in the operating costs resulting from infrastructure projects in the surcharge
4. Can implement a surcharge change every six months
5. Rolled back to zero when a full rate case is filed

Surcharge – Rate Limitations

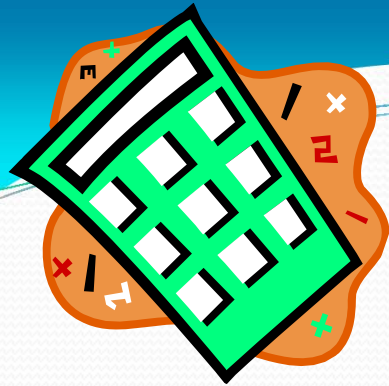
- ✓ Two tests of impact of surcharge on rates
- % Percentages on sliding scale based upon utility size
 1. First, the increase in revenue requirements is limited to a percentage of current revenue requirements (in years of subsequent surcharges, revenue requirement would include surcharge revenue requirement)
 2. Second, the increase cannot result in an increase of a set percentage over rates in effect after the last general rate case

Surcharge – Limitations

Sample for medium:



- ☑ Current revenue requirements
\$4,000,000
- ☑ Limitation of 5% means infrastructure revenue
requirement cannot exceed \$200,000
- ☑ Rate set in last rate case: \$80
- ☑ Rate from combined surcharges cannot result
in a rate greater than \$92 – (15% x \$80)



Surcharge Calculation

Surcharge Revenue Requirement Includes:

1. Depreciation Expense
2. Increased Property Taxes
3. Rate of Return for Investor Owned Utilities –
generally based upon current cost of debt with capital structure and cost of equity from last general rate case
– rule allows agreement between Commission staff, OPA and utility on these rates

Surcharge Calculation continued

Surcharge Revenue Requirement Includes:

4. Debt repayment costs for consumer owned, including principal payments plus interest. Must show that debt issue was used to fund completed projects in surcharge request

! Surcharge shall be calculated using Commission approved format

Surcharge – Determination of Rates

The revenue requirement is allocated to customer classes as in the last general rate case

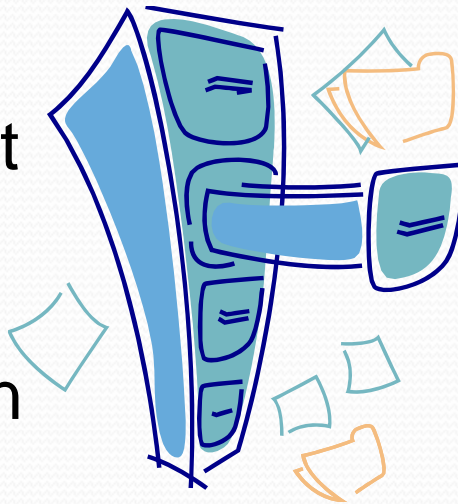
- First, public and private fire protection using the percentages and methodology adopted in last rate case
- Revenue requirement net of fire protection recovery will be recovered through water usage charge by dividing net revenue requirements by estimated sales for the rate period the surcharge will be effective but no more than annually



Surcharge – Filing Requirements

The surcharge has to be filed no less than 30 days prior to the effective date of the surcharge




- Commission may investigate to determine if it is just and reasonable but must make its determination within 75 days of filing



- Filing requires a cover letter justifying the need for the surcharge, the surcharge rate change worksheet and revised tariff(s)

Surcharge

Notice Requirements

-  Water utility must provide notice to its customer for its first filing of a surcharge pursuant to the requirements of 35-A M.R.S. §307 which must identify the planned frequency of surcharge changes
-  No subsequent notice is required
-  The utility may, but is not required to, show the surcharge as a separate line item on its bills

Questions?

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