



Proven Cost Recovery Mechanisms to Make Growth Pay Its Share

Daniel T. Anderson, P.E., BCEE

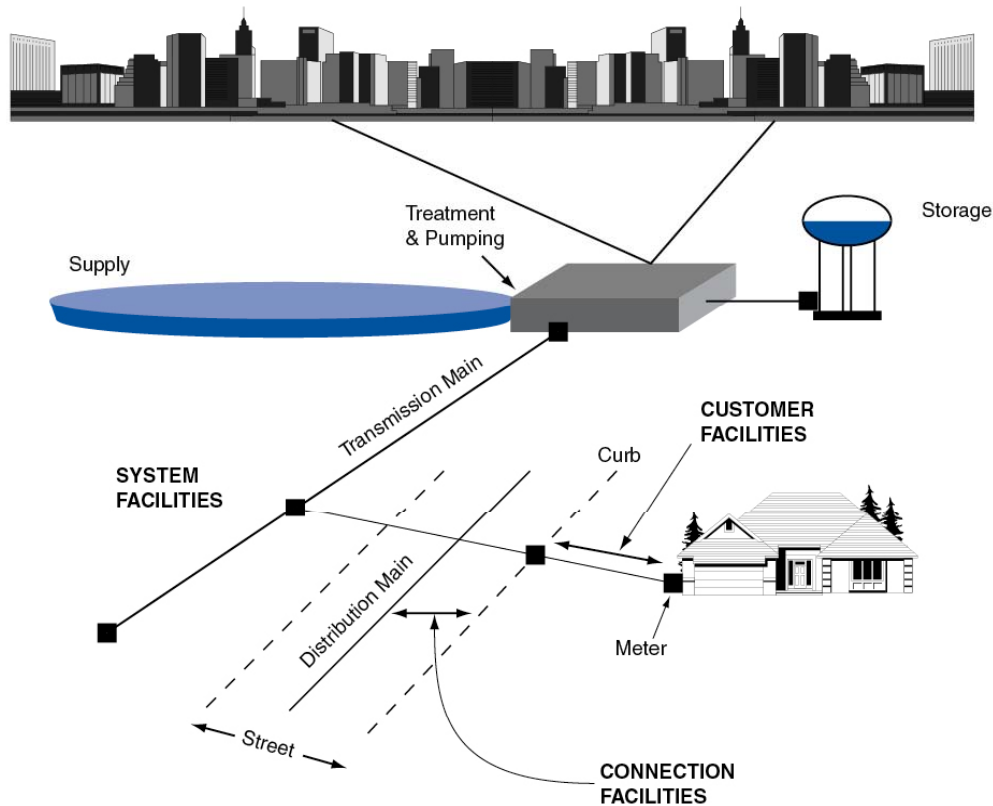
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Water System Components

- Water supply
- Water treatment and pumping
- Finished water storage
- Water transmission
- Water distribution
- Customer facilities: service line & meter

Typical Water System Components

Figure 1.1: Typical Water System Components



Overview of Cost Recovery Mechanisms

- Development impact fees
- Special assessments
- Line extension policy
- Connection fees
- Availability charges

Development Impact Fees

- Designed to recover capital cost of core system facilities
 - Supply
 - Treatment & pumping
 - Finished water storage
 - Core transmission
- Incremental cost method is widely used in computing the fees

Development Impact Fees *(Cont.)*

- Step 1: determine unit cost of capacity for each component
- Step 2: define capacity requirement for a standard connection, such as an ERC
- Step 3: compute full cost as Step 1 x Step 2
- Step 4: if any costs are recovered through rates subtract present value from full cost

Development Impact Fees *(Cont.)*

- Translate fee for a standard connection to other customers
 - Meter equivalents
 - Other residential classes
- Define timing required for payment
 - Building permit issuance
 - Certificate of occupancy issuance
 - Developers may desire to pay well in advance to assure availability of capacity

Special Assessments

- Ideal for improvements benefiting a defined geographical area
- Improvements can include both core system facilities and distribution mains
- Can be employed for either or both
 - New growth
 - Retrofit of existing development

Special Assessments *(Cont.)*

- **Step 1: define**
 - Improvements to be provided & their costs
 - Geographical area to be specially benefited
- **Step 2: define benefit by property**
 - Standard connection (“ERC”)
 - Flow equivalents for other customer types
 - Total ERCs receiving special benefit
- **Step 3: compute special assessment rate per ERC = Step 1 / Step 2**

Line Extension Policy

- Developer typically required to construct on-site improvements for his development
- Connection of remote development to existing system may require extension of transmission facilities
- Developer required initially to bear full cost of transmission extension

Line Extension Policy *(Cont.)*

- **Reimbursement agreement typically allows developer to recover costs from new connections to extension**
- **Recovery of costs limited to difference between total cost of improvements and cost of developer's required capacity**
- **Reimbursement agreement may be limited to a defined time period, such as 5 or 7 years**

Connection Fees

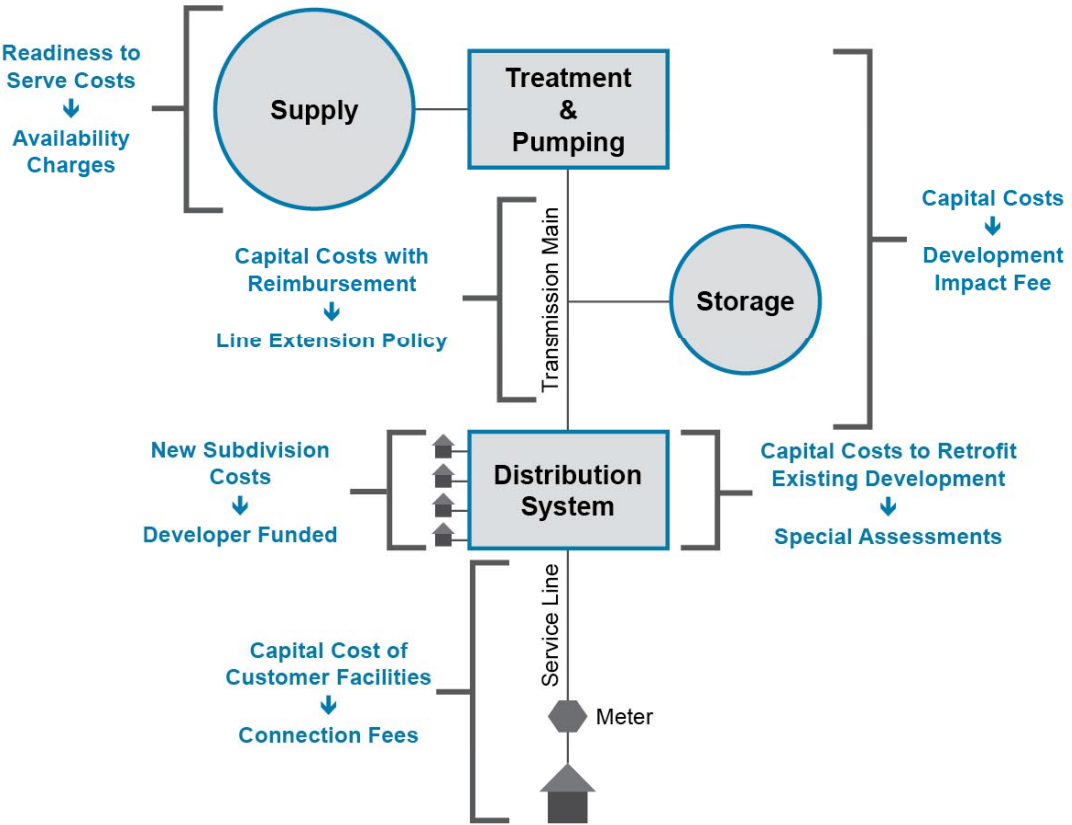
- Service lines and meter installations are readily identifiable with specific connections
- Full cost of installing these components can be appropriately recovered through a specific charge

Availability Charges

- **There are costs associated with unused capacity**
- **Those benefiting from unused capacity**
 - Reserved but unconnected properties
 - Vacant properties in developed service area
- **Costs recoverable from availability charges**
 - Portion of capital costs
 - Share of operation & maintenance costs
 - Portion of indirect costs

Cost Recovery Schematic

Figure 1.2: Cost Recovery Mechanisms by Component



Summary

- **Several mechanisms exist to make growth pay for its share of costs**
- **Different components of system can be paid by a mix of charges**
 - **Development impact fees for core facilities**
 - **Line extensions for a portion of transmission**
 - **Special assessments for distribution**
 - **Connection fees for service and meter**
 - **Availability fees for cost of unused capacity**

Thank You