

# New Supply Cost Recovery



**Presentation to Operating Board**

**March 1, 2012**

# New Supply Cost Recovery

- **Why are we discussing Facilities Charges and Equivalent Residential Units?**
- **Definitions and Authority under the Contracts**
- **History**
- **Current Issues**
- **Recommendation**

# New Supply Cost Recovery

- **Additional wholesale customers are starting to pay Facilities Charges in 2011 and 2012**
- **Confusion about the terms “Facilities Charge” and “Equivalent Residential Unit”**
- **Desire to revisit current cost recovery structure and Operating Board guidance on that structure**

# Definitions and Authority

- **Contract recital: “As a general philosophy for cost sharing purposes, the parties desire to adopt the principle that ‘growth should pay for growth.’ ”**
- **Under the F&P contracts, conservation is designated as a New Supply cost**

# Definitions and Authority

- **Operating Board has authority to decide if New Supply Assets are paid for by either**
  - Rates
  - Facilities Charges
- **Seattle has authority to decide the structure of Facilities Charges by defining an Equivalent Residential Unit**
- **Water Utilities and Seattle are “free to choose the method of incorporating FCs or new supply rates into their own retail rate and charges”**

# Definitions and Authority

- **Examples of ERUs from the contract are:**
  - retail connection meter size as set forth in Exhibit VI,
  - number of residential units,
  - water use,
  - or other basis which shall be consistent with accepted industry standards
- **ERUs are not defined as:**
  - The amount of water consumed by a typical full-time SFR per WAC 246-290-010 and DOH's Design Manual
  - Equivalent Meters per AWWA M6: maximum capacity per meter size
- **Similarly, Facilities Charges are not the same as retail connection charges under RCW 35.92.025 or RCW 57.08.005**

# Definitions and Authority

- The F&P contract term ERU would be more appropriately named:

New Supply Cost Recovery Units

(NSCR Units)

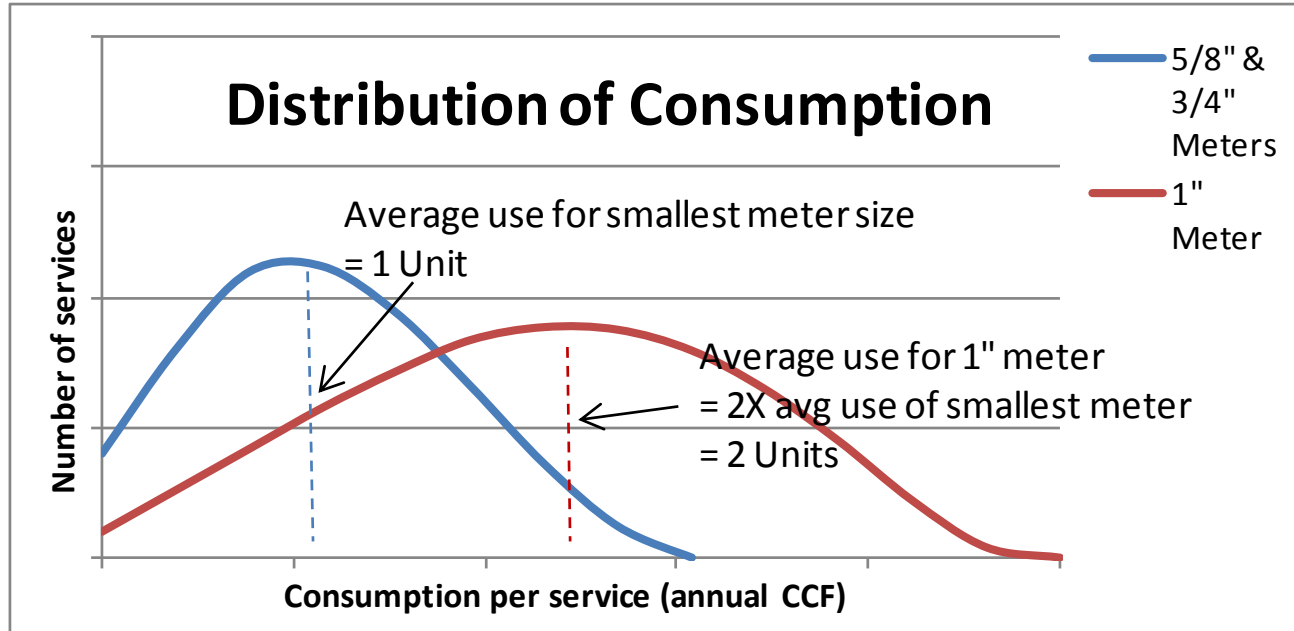
- The F&P contract term Facilities Charges would be more appropriately named:

New Supply Cost Recovery Payments

(NSCR Payments)

# History

- **Seattle designated retail meter size as the basis for the NSCR Payments (Exhibit VI)**
  - 5/8" and 3/4" meters were defined as 1 NSCR Unit
  - The number of NSCR Units for larger meters are ratios of their average use as compared to 5/8"- 3/4" average use





# History

- **F&P Contract Exhibit VI:**

## ERUs by Connection Size

<u>Connection Size</u>	<u>Number of ERUs</u>
3/4" and smaller	1
1"	2
1 1/2"	5
2"	8
3"	22
4"	31
6"	66
8"	112
10"	169
12"	238

# History

- **NSCR Payments are based on ratios of actual use by meter size for a variety of reasons:**
  - Meter size is already tracked for the 300,000+ retail services under F&Ps, is easily verified, and is not subjective
  - Average demand for a particular meter size encompasses the variety of customers that may be served by that size
  - Meter size does not change without utility's knowledge
  - Average use is most closely tied to the hardware/CIP side of conservation (shower heads, toilets, washing machines)
  - AWWA capacity by meter size affects distribution system sizing, but is not that closely linked to overall regional demand

# History

- **The Operating Board issued implementation guidance on May 14, 2002**
  - Fire Service and Detect Meters: Fire service meters are exempt...provided the water provided through these meters is not being used for domestic purposes. Any meter installed to meet both domestic and fire service demands shall be considered a domestic meter for the purposes of applying FCs.
  - Replacing Meters: If the new meter is larger than the old, FCs should be paid on the difference in capacities of the two meters (as calculated based on contract Exhibit VI).

# History

- **May 14, 2002 Operating Board guidance, continued**
  - Splitting services: If a domestic service is split into several domestic meters, no FCs need be paid so long as the aggregate capacity is less than or equal to the original meter (per Exhibit VI)
  - Grace Period for Redevelopment: There should be a grace period of two years to replace a service retired because of redevelopment, and no FC should be levied if reconnection occurs within these two years.

# Current Issues

- **Procedural questions:**

- When is the payment triggered: Application, Meter Installation, or Service active/first billing?

Answer: Any of the above, as long as a utility always uses the same basis

- Pipe size versus meter size

Answer: meter size

- Handling cancellations when payment has already been sent to Seattle

Answer: take the amount as a credit off a future payment to Seattle

- Others?

# Current Issues

- **Concern over customer specific demand that is higher or lower than the average for a particular meter size**
  - Single family residential customers upsizing to 1” domestic connections due to fire sprinklers
  - Single family residential customers upsizing to 1” domestic connections for other reasons (e.g. long service lines)
  - Customers adding Accessory Dwelling Units without upsizing from a 5/8” or 3/4” meter
  - Use of combination meters for fire and domestic needs rather than separate services

# Current Issues

- Expanded list of variations in demand within meter size:

	<b>Lower than typical use per meter size</b>	<b>Higher than typical use per meter size</b>
Initial installation	<ul style="list-style-type: none"> <li>- Difference in SFR from utility to utility</li> <li>- Irrigation only meters</li> <li>- Fire sizing (<math>\frac{3}{4}</math>" <math>\rightarrow</math> 1", 1" <math>\rightarrow</math> 1.5", 1.5" <math>\rightarrow</math> 2", and all combo meters)</li> <li>- Elevation</li> <li>- Low system pressure</li> <li>- Tuberculated pipes</li> <li>- Long service lines</li> </ul>	<ul style="list-style-type: none"> <li>- Difference in SFR from utility to utility</li> <li>- ADUs</li> <li>- Various continuous-type users</li> </ul>
After installation	<ul style="list-style-type: none"> <li>- Change in use</li> <li>- Water use efficiency</li> <li>- Tuberculated pipes</li> <li>- Irrigation</li> </ul>	<ul style="list-style-type: none"> <li>- Change in use</li> <li>- ADUs</li> <li>- Irrigation</li> </ul>

# Recommendation

- If the Operating Board wishes to continue recovering New Supply costs via Facilities Charges, it is recommended that 1” services be combined with 5/8” & 3/4” services.

Existing			Proposed		
Meter Size	Units per meter size from Exhibit VI	Payment per size (2011-2013 FC rate)	Meter Size	Adjusted Units	Payment per size (2011-2013 FC rate)
5/8" & 3/4"	1	\$ 783	5/8" & 3/4" & 1"	1.12	\$ 877
1"	2	\$ 1,566			
1.5"	5	\$ 3,915	1.5"	5	\$ 3,915
2"	8	\$ 6,264	2"	8	\$ 6,264
3"	22	\$ 17,226	3"	22	\$ 17,226
4"	31	\$ 24,273	4"	31	\$ 24,273
6"	66	\$ 51,678	6"	66	\$ 51,678
8"	112	\$ 87,696	8"	112	\$ 87,696
10"	169	\$ 132,327	10"	169	\$ 132,327
12"	238	\$ 186,354	12"	238	\$ 186,354