

PORTLAND WATER DISTRICT BOARD OF TRUSTEES

Policy 675 INFRASTRUCTURE SURCHARGE AND CAPITAL RESERVE ACCOUNTS

SUMMARY: This Policy establishes procedures for the Portland Water District to implement water infrastructure surcharges and capital reserve accounts.

1. STATEMENT OF PURPOSE

The purpose of this chapter is to establish guidelines and procedures for the implementation of infrastructure replacement surcharges and the funding of capital reserve accounts by the Portland Water District.

2. DEFINITIONS

The following terms have the following meanings:

- A. **Capital Reserve Accounts.** “Capital reserve accounts” means revenue collected and maintained in a fund to pay for future replacement and repair of qualifying infrastructure projects.
- B. **Infrastructure.** “Infrastructure” means the stationary physical plant assets needed to operate a water system. This definition includes, but is not limited to, water mains, storage tanks, and pumping facilities.
- C. **Temporary Surcharge for Infrastructure Replacement or Repair.** “Temporary Surcharge for Infrastructure Replacement or Repair” means a temporary surcharge to allow recovery of the costs of completed replacement or repairs of water system infrastructure.

3. INFRASTRUCTURE NEEDS ASSESSMENT

The Board of Trustees must approve a System Infrastructure Assessment not less than 90 days before implementing a temporary infrastructure replacement surcharge or initiating a general rate case in which proposed rates include amounts for the establishment of a capital reserve account. When a project must be undertaken that was not foreseen in the System Infrastructure Assessment and the District wishes to reflect that project in either the calculation of the Surcharge or the use of funds from the Capital Reserve Account, the Board of Trustees may revise the assessment to reflect the new project. However, any revisions must be approved no later than the filing of the Surcharge Request and within 30 days of the use of any funds from an existing Capital Reserve Account.

- A. **System Infrastructure Assessment**

The System Infrastructure Assessment shall include, for each infrastructure replacement or repair project, the following information:

1. Description of the Portland Water District 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,
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.

4. MAXIMUM FUNDS RECOVERED

A. Temporary Surcharge for Infrastructure Replacement or Repair

The District shall not implement or modify any Temporary Surcharge for Infrastructure Replacement or Repair that would result in an increase in revenue requirements greater than 3% of current revenue requirements, or if the modification of a surcharge would result in an increase in revenue requirements of greater than 10% over rates in effect after the last general rate increase;

B. Capital Reserve Accounts

1. The amount of the District's revenue requirement attributed to funding a capital reserve account shall not exceed 1% of current gross utility plant.
2. The amount of the District's revenue requirement attributed to fund a capital reserve account shall not exceed 10%.

5. AUTHORIZED USES

A. Temporary Surcharge for Infrastructure Replacement or Repair

1. A Temporary Surcharge for Infrastructure Replacement or Repair may be implemented pursuant to this policy to recover the costs of construction of completed projects that are identified in the District's System Infrastructure Assessment and are necessary to the transmission, distribution, and treatment of

water. For the purposes of this chapter, a project is considered completed when it is being used to provide service to the District's customers. No project shall be included in the calculation of the surcharge if the project was completed on or before the enactment of the legislation authorizing the surcharge or August 30, 2012.

2. Increased operating costs resulting from an infrastructure replacement or repair project may not be recovered through the imposition of a Temporary Surcharge for Infrastructure Replacement or Repair.

B. Capital Reserve Accounts

1. Revenue to fund a capital reserve account shall be included in the District's revenue requirement and recovered through rates approved by the Board of Trustees.
2. Funds held in a capital reserve account shall be used to pay for the costs of construction associated with the projects identified in the District's System Infrastructure Assessment and are necessary to the transmission, distribution, and treatment of water.

6. RATEMAKING TREATMENT

A. Temporary Surcharge for Infrastructure Replacement or Repair

1. Calculation of Surcharge

A water utility implementing a Temporary Surcharge for Infrastructure Replacement or Repair shall calculate the Surcharge Revenue Requirement necessary to recover the construction costs of completed projects and allocate that Surcharge Revenue Requirement to the customer classes as described below. If the District has implemented a Temporary Surcharge for Infrastructure Replacement or Repair may adjust the amount of revenue recovered through the surcharge no more than twice in any 12 month period. A water utility that elects to recalculate its Temporary Surcharge for Infrastructure Replacement or Repair more than once in a 12 month period must adjust its annual revenue requirement to reflect the adopted recovery period for the project. Upon the effective date of new base rates, the surcharge will be rolled back to zero.

a. Revenue Requirement

The calculation of the revenue requirement to be recovered through a Temporary Surcharge for Infrastructure Repair or Replacement shall include:

- i. Depreciation Expense – calculated pursuant to Chapter 68 of the Public Utilities Commission's rules
- ii. Increases in property taxes where applicable

- iii. The District shall be allowed to recover principal payments and interim and permanent interest and other debt issuance related expense for debt issued for projects included in the surcharge, provided documentation exists that the project was funded by the debt issuance.

2. **Applicable Customer Classes**

- a. The District shall allocate the increase in revenue requirements first to public and private fire protection charges using the percentages and methodology adopted in its last rate case and the remainder to water usage rates.
- b. The District shall calculate the surcharge revenue requirements applicable to water usage rates by subtracting from the total increased revenue requirement the amount to be recovered from both public and private fire protection as described above. The surcharge rate shall be calculated by dividing this total by the estimated sales forecast for the period that the surcharge will be effective.

3. **Filing Requirements**

- a. The Board of Trustees shall review and authorize the surcharge no less than 30 days before the effective date of the surcharge.
- b. The District will file its surcharges with the Public Utilities Commission for informational purposes only.

4. **Notice and Billing Requirements**

- a. The District must provide notice to its customers for its first filing and adopt a surcharge pursuant to the District's Rate Change Policy. The notice shall include in this notice the planned frequency of future changes in the surcharge. The District is not required to send subsequent notices of these changes.
- b. The District may, but is not required to, show the surcharge as a separate line item on its bill. If it chooses to separately label the surcharge it must label it an infrastructure replacement surcharge on the bill.

B. **Capital Reserve Accounts**

Upon the effective date of terms and conditions that includes charges attributable to capital reserve accounts, the District must establish a separate account on its books and records for this reserve and must fund the account.

7. **REPORTING REQUIREMENTS**

The District shall provide an annual report updating its System Infrastructure Assessment Report, details on expected and actual collections from the Temporary Surcharge and details on its capital

reserve account. This reporting shall be made in conjunction with the filing of the annual PUC report due on April 1 of each year.

STATUTORY AUTHORITY: 35-A M.R.S. §§ 6105, 6107-A and Resolves 2013, ch. 9 and 35-A M.R.S.A. § 6114 and Decision and Order of the Public Utilities Commission dated November 13, 2015, Docket #2015-00159

Derivation: This policy derived from Chapter 675 of the Rules of the Maine Public Utilities Commission