

# **Surcharges, Adjustment Clauses and Other Cost Recovery Mechanisms**

**The National Regulatory Research Institute**

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# Surcharges

- Surcharges are charges temporarily added to rates to enable expeditious recovery of an amount of revenue to fund qualifying categories of investments and expenditures, for example, infrastructure replacement and repair, SDWA compliance, debt repayment. Usually capped at a set percentage of current rates (3 - 7%)

# Selected Infrastructure Improvement Surcharges

- Pennsylvania
  - Distribution System Improvement Charge
- Delaware
  - Water Utility Distribution System Improvement Charge
- Illinois
  - Qualifying Infrastructure Improvement Projects
- Ohio
  - System Improvement Charge
- Indiana
  - Distribution System Improvement Charge
- Missouri
  - Infrastructure System Replacement Surcharge

# Other Surcharges

**Washington - Facilities Charge**, WAC 480-110-455, may fund 3 types of financing needs

- Future Water Utility Plant - This surcharge allows the company to collect money from current customers to fund a reserve in order to pay for future capital projects that are part of a long-range plan.
- Current Water Utility Plant - This surcharge is tied to the servicing and repayment of the debt used for the financing of the water utility plant required by a department of health directive or the department of ecology.
- Special Expenses - This surcharge is used to pay for operating expenses that are independent and unique from normal operating expenses or that may be subject to large variations. Examples are: New or highly variable safe drinking water act testing and treatment expenses, extraordinary maintenance expenses, or temporary taxes.

# Continued

- Idaho: In 2005 allowed Eagle Water Co to collect a one-year 42.5 percent surcharge on water use above 600 cubic feet per month to recover expenses incurred to make immediate repairs.
- New York: Case 05-W-1097, Escrow Account to collect \$72,000 for capital improvements, second escrow account to pay for main repair costs and extraordinary expenses.
- Nevada: NAC 704.600 Expansion or improvement of plant: Surcharge ([NRS 703.025](#), [704.095](#), [704.210](#)) When requested by a utility, the Commission will consider a rate surcharge to finance large additions or improvements to a plant.

# Adjustment Clauses: water, power

- Arizona
  - The operating costs that may be considered limited to specific, readily identifiable costs that are subject to the control of another person, including the cost of purchasing electricity or gas, the cost of purchasing water from another utility
- California
  - balancing account for purchased power, water, pump tax, includes earnings check in district
- Colorado
  - Resource cost pass-through option for small utilities (<1500 customers)
- Florida
  - automatic pass-through of increases in purchased water, purchased wastewater treatment, purchased power, ad-valorem taxes, or testing expenses as required by the Department of Environmental Protection.

# Adjustment Clauses

## Continued

- **Kentucky**
  - has a purchased water adjustment clause for an increase/decrease in the wholesale purchase price of water; no provision for automatic pass-through for electric/energy rate change. 807 KAR 5:0068.
- **New Jersey**
  - NJAC 14: 9-7.1 Purchased Water Adjust Clause, requires efforts by utility to investigate and analyze basis for any increase in rates and assure rates just, reasonable. Also purchased sewerage.
- **Texas**
  - Chapter 291.21 (h) (1) states: "A utility which purchases water or sewage treatment may include a provision in its tariff to pass through to its customers changes in such costs..... Chapter 291.21 (k) (2) states:
    - "If specifically authorized for the utility in writing by the ex. Dir. or the municipality exercising original jurisdiction over the utility, a surcharge to recover the actual increase in costs to the utility may be collected over a specifically authorized time period without being listed on the approved tariff for:  
(A) Sampling fees not already included in rates; (B) Inspection fees not already included in rates; (C) Production fees or connection fees not already included in rates charged by a groundwater conservation district; or Other governmental requirements beyond the control of the utility.

# Sample Criteria for Approval of Surcharges

- Enhance water quality
- Improve fire protection reliability
- Enhance long-term viability
- Increases in costs controlled by another person
- Limited to existing plant – not for new plant
- Does not result in over-earnings
- If limited or no access to capital
- To address regional water supply concerns
- Need or necessity for proposed additions or improvements
- For project that is part of a plan

# Purpose and Context

- Response to neglected Infrastructure – desire to speed up repair and replacement
- Utilities wanted an incentive to maintain their infrastructure – a core component of the water business
- Rapidly changing, unexpected increases in operating expenses e.g. energy
- For unexpected expenditures following a natural disaster or other emergency
- Rising costs in general
- To simplify and tailor state regulation
- Reduce the frequency of full rate cases

# Are they good for customers?

Surcharges and adjustment clauses are mechanisms or tools, among others, that companies and commissions in some states may use for certain types of expenses, under certain conditions. Many states don't utilize them. Under consideration in others.

# Thank you.

- For more information on surcharges and adjustment clauses or other regulatory tools, please call or e-mail:
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