



Retail Water Service Provider Rate, Fee, and Charge Review Process, Schedule, and Formal Submittal Requirements for 2012

On December 6, 2011, the Fairfax County Board of Supervisors adopted an amendment to Chapter 65 of the County Code which established an exclusive service area and maximum allowable rates, fees, and charges for water service in Fairfax County. Effective 12:01 a.m. on July 1, 2012, no provider of retail public water service within Fairfax County, Virginia, shall set, establish, bill, charge, or collect from any user in Fairfax County any rate, fee, or charge for water service that is greater than the corresponding rate, fee, or charge imposed by the Fairfax County Water Authority. The amendment also states that any provider of retail public water service in Fairfax County, Virginia, may request that the Director of the Fairfax County Department of Public Works and Environmental Services (Fairfax County DPWES Director) review any higher rate, fee, or charges that it proposes to set, establish, bill, charge, or collect from any user in Fairfax County.

For those providers of retail public water service in Fairfax County, Virginia, that want to request the Fairfax County DPWES Director to review its proposed rates, fees, or charges beginning July 1, 2012, the following process, associated timeline, and formal submittal requirements shall be used:

Process and Timeline:

1. The Retail Public Water Service Provider shall submit [Formal Submittal Requirements](#) to the Fairfax County DPWES Director no later than Friday, March 9, 2012. All submissions and other papers submitted shall clearly show the name of the Retail Public Water Service Provider on whose behalf the submission is made as well as a primary contact and corresponding signature on the original copy. Unless otherwise directed, an original and three (3) copies of any submissions shall be filed with the Fairfax County DPWES Director.

An electronic copy of all submission material shall be included wherever possible. Documents shall be in Microsoft Word format. Spreadsheets that support calculations shall be filed in Microsoft Excel format with all formulas intact and include any linked or referenced spreadsheets. Please see below for information regarding Formal Submittal Requirements.

2. The Fairfax County DPWES Director may request additional information from the Retail Public Water Service Provider no later than Thursday, March 29, 2012. Requests for additional

information shall be in writing and shall be directed to the Retail Public Water Service Provider primary contact, and shall specify in as much detail as possible the information requested.

The Retail Public Water Service Provider shall provide the additional information to the Fairfax County DPWES Director within 14 calendar days of the date of the request.

3. The Fairfax County DPWES Director shall notify the Retail Public Water Service Provider of the determination of whether the rates are fair and reasonable no later than Wednesday, May 2, 2012.

The Fairfax County DPWES Director also shall forward the determination of whether the rates are fair and reasonable to the Fairfax County Board of Supervisors for consideration by Wednesday, May 2, 2012.

4. If in agreement with the determination, the Retail Public Water Service Provider will incorporate the findings into their rates, fees, and charges as appropriate to be effective July 1, 2012. If required, the Fairfax County DPWES Director shall request a public hearing before the Fairfax County Board of Supervisors to adopt new rates, fees, and/or charges. The request for the Authorization to Advertise for public hearing will be before the Fairfax County Board of Supervisors at their Tuesday, May 22, 2012 meeting. If authorized by the Fairfax County Board of Supervisors, a public hearing before the Fairfax County Board of Supervisors will take place on Tuesday, June 19, 2012.
5. If not in agreement with the determination, the Retail Public Water Service Provider can file an appeal with the Fairfax County DPWES Director within 10 calendar days of receipt of the determination. The request for the Authorization to Advertise for public hearing will be before the Fairfax County Board of Supervisors at their Tuesday, May 22, 2012, meeting. If authorized by the Fairfax County Board of Supervisors, a public hearing before the Fairfax County Board of Supervisors will take place on Tuesday, June 19, 2012.

Formal Submittal Requirements:

Copies of any reports (internal and/or prepared by outside consultants) that support the water rates, fees, and charges as well as correspondence related to the setting of the rates, fees, and charges and/or revisions to draft reports shall be submitted. If the report does not address or include the following requirements, these shall also be included in or shall accompany the submission. If the report(s) contain any of the following information, please indicate the page(s) where such information is presented.

1. Rate Schedules; Terms and Conditions. The current and proposed rate schedules and the terms and conditions under which the Retail Public Water Service Provider provides services and/or makes non-tariffed charges. These will include any and all rates, fees, or charges related to the

water utility or department.

2. An Annual Financial Report of the Municipality for the most recent two (2) years. If a more recent report is completed during the review period, that shall also be provided when it becomes available. A statement reconciling any significant differences between items shown in the submission and items in any of the above reports.
3. Test Year and Historical Years. The submission shall present cost of service schedules for a recently completed test year period plus two additional prior years. The test year will be a historic year of actual data for a period ending within one (1) year of the submission date.
4. Rate Year. The rate year will be the period for which new rates are designed to recover the proposed cost of service. The rate year period will be a period which commences no later than three (3) months after the proposed effective date of the new tariffs.
5. Adjustments to the Test Year. Supporting schedules or workpapers shall be included to present the manner in which the rate year amounts were calculated. The adjustments to the test year shall be fully explained in writing, and the source of the data in support of the adjustments shall be presented, or disclosed, as appropriate. Normally the adjustments will be one of the following.
 - a. Normalization Adjustments. These adjustments shall be made to the test year to present a reasonable/normal amount for one full year of operations. The test year must be normalized to reflect expected results for a typical future year. All items of unusual magnitudes which occurred during the test year, but which are not expected to recur to a significant degree beyond the test year, should be adjusted to reflect what is reasonably to be expected in the future. Correspondingly, adjustments should be made to reflect items that are fixed, determinable, and likely to occur in the future, but did not occur to a significant degree during the test year.
 - i. Example: If an expense account balance includes expenditures for a period greater or less than twelve (12) months, or for a significant charge not expected to be recurring, then a normalization adjustment shall be made to the account.
 - b. Pro forma Adjustments. These adjustments serve to adjust the normalized test year amounts to the balances presented for the rate year. These may include:
 - i. Known and measurable changes to the test year where changes in unit prices (e.g. for chemicals, electricity, etc.) are known and/or changes in the quantities used. The known and measurable changes would also include future payments on existing debt.
 - ii. Inflationary changes may be included where costs are not known or measurable.
 - iii. New Debt costs may be included where future bond issues are expected in the rate year. In these cases the basis for the projected debt will be provided.

6. No changes in Rate Design. In cases where there is no proposed change in the rate design and all rates and charges are increased equally or across-the-board, no cost allocation study will be required. However, any study that is available to the municipality and contains the basis for the rate design should be included in the submission.
7. Proposed Change in Rate Design. In all cases where there is a proposed change to the rate design (where different rates or charges are increased by different overall percentages) the submission should include a cost allocation study that justifies the proposed changes. This should be a fully allocated cost of service study that is in general conformance with the guidance provided in the latest edition of the American Water Works Association's Manual of Practice M1 – Principles of Water Rates, Fees, and Charges.
8. Workpapers detailing the test year and rate year revenues by source, tariff, rate class, etc. The sales volumes/quantities, customer counts by rate class and meter size, and public and private fire service connections by size shall be presented. The basis/calculation for rate year sales volumes and customer counts is to be provided. The total rate year revenues must be supported by a billing analysis utilizing the above data and the proposed rates. Provide historic sales volumes as well that may be used to analyze trends (typically 3-5 years will be sufficient). If the municipality is projecting changes from the test year sales, customers, and services, provide a detailed description of the basis for any such changes.
9. If the municipality purchases water in bulk or on a wholesale basis, provide all available detail regarding the basis for the wholesale charges for the test year and the proposed rate year. If the municipality sells water on a bulk or wholesale basis to any customer(s), provide all available detail regarding the basis for the wholesale charges for the test year and the proposed rate year. Include any contracts or agreements that set forth the basis for wholesale or bulk purchases or sales.
10. If rates for any customers are derived using depreciation and/or a return on rate base, the municipality must also provide schedules of
 - a. gross assets at the start and end of the test year and projected for the end of the rate year.
 - b. accumulated depreciation through the start and end of the test year and the projected amount at the end of the rate year.
 - c. the value and classification (using NARUC accounts) of all contributed assets
 - d. the annual depreciation rates used for each class of assets.
 - e. a breakdown of the derivation of the requested rate of return among debt and equity along with the basis for each claimed amount.
11. In the case of chemical costs, provide the actual test year chemical use by chemical type and the unit cost of each chemical for the test year. If the chemical costs are proposed to be adjusted for the rate year, provided the estimated uses and unit costs along with the basis for the

projections. For all power costs, provide the basis or a breakdown for the test year power costs and the basis for any rate year adjustments to power.

12. For each rate class, the effect of the proposed rate changes shall be presented in a comparative billing format (current and proposed) for typical (or varying) usage levels.
13. A schedule presenting the annual principal and interest amounts paid on debt service (long-term and short-term debt) for the test year and the amounts projected for the rate year. These should be presented separately by bond issue, note/mortgage loan, etc. as appropriate.
 - a. Provide a description of each debt issue to include: source of funding, amount of original issue, date of issue, interest rates, any fees, repayment terms, security pledged on borrowing, and other pertinent information as appropriate.
 - b. In the case of revenue bonds, a copy of the general bond resolution shall also be submitted.
14. A schedule of lease payments for all property and equipment for the test year and rate year.
15. If the cost of service includes any tax expenses or a payment in lieu of taxes, provide a calculation and explanation of the method used to calculate the rate year tax (or in-lieu) expense (by city/town, if applicable). In addition any tax expense (by city/town) for the prior three (3) years shall also be included.
16. A schedule of pension, employee insurance, and taxes paid for the benefit of employees.
17. If the proposed rates, fees, and charges include the recovery of any indirect costs paid to the municipality by the water fund, include a study that provides a back-up or derivation of any such charges.
18. Show the number of employees at the beginning and end of the test year and the dollar amount of overtime paid during the test year and the previous two (2) years. Indicate the number of employees and the amount of overtime provided for in the cost of service for the rate year. If additional employees are projected for the rate year, provide an explanation that justifies the additions.
19. Provide a balance sheet as of the end of the test year and an income statement for the test year; along with a statement of changes in retained earnings for the test year.
20. For the test year and the preceding four (4) years provide a calculation of the unmetered (lost) water. If any of the unmetered water has been accounted for or estimated, that may also be presented; including estimates of any unmetered uses by the retail water service provider. The basis for all estimated should be provided in sufficient detail to allow an independent recalculation or verification.

For questions or further information, please contact James Patteson, Fairfax County Director of Public Works and Environmental Services at 703-324-5033 or DPWESRetailWaterRates@fairfaxcounty.gov.