REGIONAL CAPITAL FACILITIES CHARGE (RCFC) METHODOLOGY
Cascade Code, Chapter 5.25

5.25.010 Introduction.

Section 5.5 of the Cascade Water Alliance (Cascade) Joint Municipal Utility Services Agreement ("Cascade Agreement") provides that the Regional Capital Facilities Charge (RCFC) shall be calculated according to the RCFC Methodology, which shall define the analytical steps required to calculate the RCFCs based upon the average unit cost of past construction of the existing system plus the Supply System improvements planned at the time of calculation. The methodology shall provide for an annual escalator, recalculation and update not less frequently than every fifth year, and a methodology for determining Cascade Equivalent Residential Units (CERUs). The RCFCs shall be imposed on a Member for each new CERU of that Member. Amendments to the RCFC Methodology shall require a 65 Percent Dual Majority Vote of the Board. [Res. 2012-12 § 1; Res. 2006-02 § 1].

5.25.020 General provisions

A. The Regional Capital Facilities Charge (RCFC) Methodology provides a mechanism for the recovery of growth-related costs from Member agencies experiencing growth. It is imposed as a member charge based on net growth in customer base, and payments are treated as revenues of Cascade and expense of its members. For Members, the RCFC is explicitly a system cost exclusively attributable to new growth and as such can be considered for pass-through to such growth or inclusion in Member system connection charges.

The general objectives of the RCFC Methodology include:

1. Recovery of a minimum share of capital costs commensurate with a pro rata share of system investment.
2. Equitable allocation of capital costs to Members that are growing.

B. The RCFC methodology is premised on the following:

1. Members experiencing growth should bear a proportionate share of the increase in capital costs.
2. Changes in actual volumes and demands provide a poor short-term indicator of growth impacts, due to the effect of other factors on demand.
3. Changes in customer base can be readily documented and provide an adequate measure of relative changes in demand and reliance on the Cascade Supply System.
4. The use of an RCFC allows for uniform and more stable long-term rates through its equitable allocation of capital costs and generation of funds for capital use.

C. The RCFC methodology involves several basic steps:

1. Define Existing Cost Basis. The existing capital cost basis consists of capital costs incurred by Cascade.
2. Define Cost of Future System Expansion. Based on the planned capital improvement program, identify projects and portions of projects allocable to growth in customer base during the analysis period. Cascade's most current Transmission and Supply Plan will be the primary document defining the regional system's capital needs.
3. Define Customer Base. Define a methodology for determining system capacity in terms of Cascade Equivalent Residential Units (CERUs). Based on the CERU definition, develop an estimate of current customer base and anticipated growth during the analysis period.
4. Calculate the RCFC. Consistent with the objectives above, the RCFC shall be the average unit cost of the combined total of existing and expansion projects.

Prior to developing the RCFC, the definition of customer base in terms of measurable units must be established. [Res. 2012-12 § 2; Res. 2006-02 § 1 (1)].

5.25.030 CERU methodology.

A. The purpose of the Cascade Equivalent Residential Unit (CERU) methodology is to establish an equitable estimate of system demand, which can be used for the allocation of capital costs to Members serving new customers. It has been structured to allow ready provision of information by members without undue burden.

Central to this approach is the establishment of a common basis for measurement against which all other development can be compared. This has been defined as the equivalent demand of a typical single-family home, or CERU.

The CERU definition and structure can be modified as the quality and quantity of data available to Cascade increases. Such revisions might include: meter equivalent factors based on actual usage levels or patterns rather than meter flow capacity; differential CERU factors based on customer class; changes in emphasis, for example, between peak

instantaneous and some other measure, such as peak season or annual volume; a greater level of sophistication in estimating demands; differences in demand levels between comparable existing and new developments; or other factors specified by the Board.

B. The CERU methodology relies on available measures that reflect relative demand levels. The CERU methodology currently uses the following basis for estimation:

CERU Conversion Factors

Meter Size	Flow Rate	CERUs
5/8 x 3/4 and 3/4 inch	20 gpm	1.0
1 inch	50 gpm	2.5
1.5 inch	100 gpm	5.0
2 inch	160 gpm	8.0
3 inch	320 gpm	16.0
4 inch	500 gpm	25.0
6 inch	1,000 gpm	50.0
8 inch	1,600 gpm	80.0

For water meters sized four inches or larger, Cascade reserves the right to determine CERUs based on specific water demands and requirements.

Fire sprinkler and meters used to deduct volumes for sewer billing purposes are not counted as CERUs, and no RCFC is imposed since these meters do not increase system demand. This assumes that the customer and Member can demonstrate that the meters will not be used for domestic use or do not represent additional system demands. For single-family customers, domestic “combination” meters that are oversized to provide for both domestic use and fire protection through installed fire sprinkler systems will be charged according to the meter requirement for domestic demands absent such fire protection requirement; the incremental meter sizing required solely for fire capacity will not be subject to RCFCs.

C. Each Member will report total connected CERUs to Cascade on no less than a quarterly basis. The net increase in CERUs from the prior report would be subject to the applicable RCFC. Reports shall include CERUs for all meters for which local connection charges have been received or meters installed (if the Member has not imposed a local connection charge) during the reporting period. A Member imposing local charges may choose to report CERUs for all meters installed and removed during the reporting period. Such Member shall notify Cascade in writing of this choice and may not change its method of reporting during a calendar year. Oversized meters installed to provide capacity for a required fire sprinkler system shall be reported based on the meter that would have been installed if not for the fire sprinkler requirement. Documentation of such installations shall be provided with the CERU report. When a definitional change in the CERU basis is made, the prior CERU inventory will be restated under the new definition, so that a consistent quarter-to-quarter comparison is available for purposes of this determination. [Res. 2012-12 § 3; Res. 2006-02 § 1 (2)].

5.25.040 Existing cost basis.

The existing cost basis is determined by the original cost of system assets used to serve Cascade. For assets owned or controlled by Cascade, the original cost basis is undepreciated, reflecting the level of investment made by existing customers. The cost basis may include up to 10 years of simple interest on those costs without fundamentally changing the methodology. Interest costs, when included, will be based on prevailing interest rates at the time of construction or acquisition of assets, and can be benchmarked using an appropriate bond index such as the Bond Buyer Index for revenue bonds.

The determination of the cost basis for specific assets owned, controlled or used by Cascade includes:

A. The recorded capital cost, undepreciated, recorded in Cascade financial records for assets owned by Cascade. Costs will include system costs booked as intangible assets, such as water rights or contract capacity rights, and can include

system investments recorded as expenses, such as conservation investments, when such costs yield a quantifiable contribution to delivery of system obligations.

B. The recorded capital cost, undepreciated, recorded in Member financial records for assets owned by Members but for which control has been transferred to Cascade.

C. Assets retired from service, including intangible assets and investments with finite service capacity, will be removed from the cost basis along with related accumulated interest. [Res. 2012-12 § 4; Res. 2006-02 § 1 (3)].

5.25.050 Cost of future system expansion.

A. The cost of system expansion and extension is determined based on the most current adopted capital improvement plan of Cascade and the cost of improvements to the system(s) of wholesale providers that would be allocated to Cascade. The costs are based on current cost estimates, not inflated to year of construction, that represent total project costs. Adjustment of cost estimates to current levels using appropriate cost indices is appropriate.

Capital projects which replace existing capacity are generally to be excluded from this cost basis, except that investments in new capacity intended to replace expiring contractual capacity rights can be included if related costs for the contractual rights are correspondingly excluded (substitution).

The source document used for defining the future system expansion cost is the most current Cascade Transmission and Supply Plan, which identifies planned supply improvements to the Cascade regional supply and transmission systems, including their estimated scope, costs and schedule. The resulting schedule of improvements can be amended by Board resolution when deemed appropriate to reflect changing circumstances.

B. The time period used to define system expansion costs will be 30 years. However, recognizing that different planning horizons may be determined to be more appropriate in some circumstances, the Cascade Board may, by resolution, direct the use of an alternative planning horizon as the basis for the charge. [Res. 2012-12 § 5; Res. 2006-02 § 1 (4)].

5.25.060 Calculation of RCFC.

A. The RCFC shall be defined as: The total capital cost basis for existing facilities plus future system expansion, divided by the total customer base served. The total customer base served, on a CERU basis, may be either the projection of existing customer base plus estimated future growth or the capacity of the supply system. This determines an average cost per CERU based on total system needs.

B. The RCFC shall be adjusted annually in conjunction with the development and adoption of Cascade’s annual budget. The RCFC may be adjusted by the ENR Construction Cost Index or other appropriate index as determined by the Board. However, the RCFC must be fully recalculated no less frequently than every fifth year.

C. The RCFC calculation shall be presented to the Board by Cascade staff, demonstrating compliance with the above methodology and delineating issues and considerations that defined the calculation method and proposed charge. The Board, having reviewed and considered those issues, shall adopt the RCFC by resolution. [Res. 2012-12 § 6; Res. 2006-02 § 1 (5)].

5.25.070 RCFC credits.

In recognition of existing or future independent supplies, or as compensation for transfer of such resources from a Member to Cascade, Cascade may issue credits redeemable in lieu of RCFC payments. The number and use of those credits would be defined by the board and include the following general provisions:

A. The terms and conditions for redemption of RCFC credits shall be set by the board to allow redemption under a structure that it determines appropriate to protect Cascade’s financial performance and equitable cost recovery.

B. Cascade may develop a program whereby it offers to purchase RCFC credits of one or more members, at a price and with other terms and conditions as established by the board.

These provisions are intended to protect and stabilize the cash flow derived from RCFCs. [Res. 2012-12 § 7; Res. 2011-17 § 3; Res. 2006-02 § 1 (6)].