

Community Systems Rate Methodology

Authority to Set Rates

Loudoun Water, as a state-chartered Authority, is granted the ability to set and change rates as needed through the Virginia Water and Waste Authorities Act, chapter 51, section 15.2 – #10.

General Policy

- Community Systems are financially self-sustaining. No revenue generated from rates charged to customers in the Central System are used to fund Community Systems' operations, maintenance, repair and replacement costs.
- Developers of Community Systems subsidize maintenance and operation costs (the share of unoccupied lots) until 90 percent of the community is occupied.
- Rates are reviewed and revised periodically by Loudoun Water's Board of Directors.
- Prior to 2008, each individual Community System had its own rate based on cost recovery for *that* particular system. It was then decided that all Community Systems customers are one class of customer and we must provide "equal treatment for equal classes of customers."
- Therefore, the rate structure changed in 2008 to recover costs for *all* Community Systems. This action reduced the potential for larger rate changes assessed on any one system due to major repairs or upgrades needed by that system. The consolidation balances aggregate revenues with aggregate costs.

Rate Setting Process

1. **A cost of service evaluation** was performed to assess current costs and identify mitigating factors. Cost of service guidelines included:

- Analysis of the feasibility of consolidating the Community Systems
- Keep rates and fees low over time
- Fund reserves for unexpected costs, for repair, renewal and rehabilitation of assets
- Fund reserves for unexpected O&M expense variations which may be brought on by drought for example

Cost of service evaluation resulted in the current rate structure which bases the Community Systems rate off the Central System rate with a multiplier.

2. Cost recovery goals are established to recover all operations and maintenance costs and set aside half of repair and replacement costs in a structure similar to that in the Central System applied across all metered Community Systems.

3. In the final step, rates are proposed which balance anticipated costs with revenue and usage.

4. Benefits to this structure are:

- The structure lessens the impact of significant capital expenditure on individual systems
- It produces a more stable revenue stream
- It's easier for the customer to understand
- It's easier for Loudoun Water to administer

Community System Cost Allocation

