

# Cleveland County Water System Development Fee Study



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February 25, 2026

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## Introduction

WithersRavenel was commissioned by Cleveland County Water (CCW) to calculate their maximum allowable water System Development Fees (SDFs) so they comply with North Carolina State Statutes. The statutes were initially ratified to address fee calculation and use inconsistencies among public water and sewer providers that existed before 2017. The North Carolina General Assembly enacted HB 436 during its December 2017 legislative session, introducing amendments to Chapter 162A, Article 8. After ratification, HB 436 was officially designated as Session Law 2018-34. This legislation attained full legal effect on July 1, 2018, establishing that all SDFs levied by water and / or sewer systems after this date must adhere strictly to the statutes. SDFs represent financial assessments imposed on new customers to generate revenue for capital infrastructure projects necessitated by their development. These fees are one-time charges imposed at one of the following times depending upon the type of development, as outlined in NCGS 162A-213:

1. New development that involves subdivision of land, the later of:
  - a. Application for a building permit, or
  - b. When service for development is committed by local government
2. All other development, the earlier of:
  - a. Time of application for connection of individual unit to water service
  - b. When service for development is committed by local government

They are designed to recover all or a portion of the capital investment made by CCW to provide sufficient capacity in its system to serve new users. It should be emphasized that SDFs are charged to only new customers and consequently reduce the burden on existing users for substantial future capital costs “necessitated by and attributable to new development”.

The following are notable SDF attributes according to the University of North Carolina Environmental Finance Center’s latest survey (2024), which had 78 unique utility respondents:

- Between 50% and 60% of the respondents in North Carolina include SDFs in their water and sewer rate structures.
- 70% of residential and 74% of nonresidential SDFs either vary by meter size or are fixed. Fees based upon usage, acreage, square footage, number of bedrooms, or line size are uncommon in North Carolina.
- Most providers used either the combined method (46%) or the buy-in method (42%) to calculate their SDFs.

## Methodologies

System Development Fees (SDFs) are financial charges applied to new customers connecting to water and sewer systems. These fees are designed to allocate the costs of expanding system capacity needed to support new development. Revenue from SDFs help fund capital improvements that accommodate growth, recovering the cost of existing infrastructure used by new customers, or achieving a combination of both.

It is important to distinguish SDFs from other routine charges. They do not include administrative fees, plan reviews or inspection costs, tap or connection fees, availability charges, or other development-related expenses unless a formal written agreement specifically provides for credits to offset such costs.

Providers may use one of three primary methods to calculate SDFs: the Buy-In Method, the Incremental or Marginal Cost Method, or the Combined Method. Each method has its own applicability and procedures, which are discussed in the following sections.

### Buy-In

The Buy-In Method is applied when a provider has adequate capacity to serve both current users and foreseeable future demand. It is also suitable for systems where core components are not projected to require significant expansion. This methodology is based on an equity-sharing principle. It recognizes the historical financial contributions of existing customers as built-in equity within the system. When new customers connect, they make proportional equity contributions that reflect their expected share of system usage. This contribution is calculated relative to the system's debt-free value, which represents the investment already made by existing customers. All revenue collected through the Buy-In Method is legally restricted by statute: it must be used solely for repairing or rehabilitating existing system assets or for recovering the cost of prior capital improvements that still have available capacity to serve new customers.

### Incremental Cost

The Incremental Cost Method is applied when existing system facilities can adequately serve current users but lack capacity to accommodate new development, requiring expansions. It determines the incremental costs new development pays the additional capacity it demands. This ensures that existing customers are protected from rate increases tied to growth-related infrastructure investments, including the debt service associated with financing those projects. This method requires a minimum 5-year and maximum 20-year capital improvement plan (CIP) to be utilized.

Under state statutes, the Incremental Cost Method must include a revenue credit. This credit serves as a mandatory deduction from the new development's calculated cost share. The deduction equals either the outstanding debt principal or the present value of the water and sewer revenues expected from the new development over the planning period, but no less than 25% of the aggregate cost of capital improvements. Consideration must also be given to the planned funding sources for the projects identified in the CIP. Projects that are funded from either grants or developer contributions are excluded from the SDF calculation as these are costs that are not incurred by the utility.

## Combined

The Combined Method integrates components of both the Buy-In and Incremental Cost approaches. The calculation is the sum of the two other methodologies. This approach is most suitable when the existing system retains some available capacity to accommodate new growth, yet the CIP also identifies specific projects required to fully serve the demands of future development. As a result, the SDF derived under the Combined Method reflects a balanced contribution of funding both the use of existing, unutilized capacity and the investment for upcoming infrastructure expansions necessary to support continued growth.

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## Considerations

Upon receiving SDF calculations, CCW is required by State statutes to adhere to the following procedures:

**PUBLIC COMMENT & PUBLIC HEARING** – CCW must post the report on its website and allow for public comment on the analysis. The public comment period must allow the public to review the report for at least 45 days and solicit and furnish a means to submit written comments, which shall be considered by the preparer for modifications or revisions. The report must be prepared by a financial professional or a licensed professional engineer. After the minimum 45-day public comment period has expired, CCW must conduct a public hearing prior to adoption of the analysis.

**ADOPTION** - After consideration of comments, the fee can be adopted by the governing board. The fee must be adopted by resolution or ordinance and published in CCW's annual budget ordinance.

**USE** - The new law prescribes specific uses for the funds collected through SDFs. They include the following:

1. Costs of constructing capital improvements including, and limited to, any of the following:
  - a. Construction contract prices.
  - b. Surveying and engineering fees.
  - c. Land acquisition cost.
  - d. Principal and interest on bonds, notes, or other obligations issued by or on behalf of the local governmental unit to finance any of these costs listed in 1a through 1c above.
2. Professional fees incurred by the local governmental unit for preparation of the system development fee analysis.
3. If no capital improvements are planned for construction within five years or the foregoing costs are otherwise paid or provided for, then principal and interest on bonds, notes, or other obligations issued by or on behalf of a local governmental unit to finance the construction or acquisition of existing capital improvements.
4. Contractual obligations to another local government unit for capacity in such facilities owned by another local government unit.
5. Previously completed capital improvements for which capacity exists and for capital rehabilitation projects.

After reviewing the alternative SDF methodologies, the consensus with CCW staff was to pursue the Combined methodology because some capacity currently exists for new customers, but additional capacity is projected in the CIP to accommodate future planned growth. Our approach and conclusions are as follows.

## Approach

In performing the analysis, CCW provided a detailed listing of the current water system assets. The Asset Auditor Report contained the original cost, date placed in service, and the accumulated depreciation for each asset. Assets originally costing under \$50,000 are removed from the analysis as it assumes that any asset that costs less than the limit amount is not a major facility that provides a system-wide benefit. WithersRavenel determined the value of all existing CCW assets by adjusting the original costs to current dollars using the Handy-Whitman Index of Public Utility Construction Costs for the South Atlantic Region. This index calculates the cost trends for utility systems, including water systems and is commonly used to determine utility valuations for replacement cost methods. After the replacement cost is calculated for each individual asset item, the adjusted accumulated depreciation is deducted for each asset item. The result is the depreciable value of each asset in today's dollars.

For the SDF analyses, the existing assets are categorized based on the major components of Treatment and Transmission. The treatment category includes any treatment plant facilities, supply, and storage facilities. The transmission category consists of major water mains, tanks, and water pumping facilities. Any assets contributed by developers or funded from other sources including grants are not included for recovery through the SDFs. The existing recoverable water capital asset cost allocations included in the analysis are summarized in Table 1.

**Table 1**  
**Summary of System Asset Values**

Row Labels	Net Replacement Cost
<b>Transmission</b>	<b>\$ 78,775,369.18</b>
Electric Pumping Equipment	\$ -
Elevated Steel Tanks	\$ 11,463,107.15
Hydrants Installed	\$ 517,541.87
Mains-Average All Types	\$ 66,449,408.87
Pumping Structures & Improvements	\$ -
Treatment Structures & Improvement:	\$ -
Land	\$ 345,311.28
<b>Treatment</b>	<b>\$ 27,158,679.30</b>
Electric Pumping Equipment	\$ 151,350.13
Large Treatment Plant Equip.	\$ 8,979,513.77
Small Treatment Plant Equip.	\$ -
Treatment Structures & Improvement:	\$ 17,486,674.54
Land	\$ 541,140.86
<b>Grand Total</b>	<b>\$ 105,934,048.47</b>

Providers commonly finance major capital improvements and system expansions through debt. Typically, the associated debt service payments are recovered through monthly user rates and charges applied to all customers, supplemented by other available revenue sources. To prevent new customers from effectively paying twice for existing capital facilities, the SDF analysis incorporates a debt service credit for those facilities. The credit equals the outstanding principal balance on all utility-related debt. Its value is based on information provided by staff regarding the specific capital projects financed through each debt. Table 2 presents a summary of the existing recoverable capital facilities, adjusted to reflect the applicable debt service credits.

**Table 2**  
**System Asset Values After Debt Reduction**

<b>Existing Facilities:</b>				
Treatment Facilities				\$ 27,158,679
Transmission Facilities				78,775,369
<b>Subtotal</b>				<b>\$ 105,934,048</b>
<b>Less Debt Service Principal:</b>				
Treatment Facilities				\$ (19,379,510)
Transmission Facilities				(2,358,472)
<b>Subtotal</b>				<b>\$ (21,737,982)</b>
<b>Net Recoverable Existing Facilities:</b>				
Treatment Facilities				\$ 7,779,169
Transmission Facilities				76,416,897
<b>Total</b>				<b>\$ 84,196,066</b>

When recovering CCW's future asset costs, new development is assigned the incremental cost of system expansions required to serve it. Under state statutes, this method requires a minimum five-year Capital Improvement Plan (CIP) that details both the costs associated with new capacity and the schedule for those expenditures. It is also essential to also account for the planned funding sources of the CIP projects. Projects financed through grants or developer contributions are excluded from the SDF calculation, as these costs are not incurred by CCW. CCW provided a CIP identifying individual projects and anticipated construction costs for fiscal years 2027 through 2041. WithersRavenel reviewed the scope of the individual projects and adjusted costs based upon current bid prices in North Carolina and recent bids within Cleveland County. In addition, an inflation factor was added for projects that would be constructed after FY 2027. The updated CIP is summarized in Table 3.

**TABLE 3  
CLEVELAND COUNTY WATER  
CAPITAL IMPROVEMENTS PLAN**

PROJECT LOCATION	2026 COST	CUMULATIVE COST	YEAR 1 2027	YEAR 2 2028	YEAR 3 2029	YEAR 4 2030	YEAR 5 2031	YEAR 6 2032	YEAR 7 2033	YEAR 8 2034	YEAR 9 2035	YEAR 10 2036	YEAR 11 2037	YEAR 12 2038	YEAR 13 2039	YEAR 14 2040	YEAR 15 2041
<b>WATER IMPROVEMENTS</b>																	
<b>POLKVILLE AREA</b>																	
WATER LINE - 11,000 LF: REPLACE SDR 26 BASED ON BREAK HISTORY	1,815,000	2,206,144				2,206,144											
WATER LINE - 13,200 LF 8": NC 226, MORIAH CHURCH RD.	2,706,000	4,628,178											4,628,178				
WATER LINE - 8,200 LF 8": 5 POINTS, HOLLIS RD. NC 226	1,681,000	2,875,080											2,875,080				
WATER LINE - 18,500 LF 8" OAK GROVE, NC 226, DELIGHT	3,792,500	6,486,462											6,486,462				
WATER LINE - 5,400 8" 5 POINTS RD, STAGECOACH, HOLLIS	1,107,000	1,893,346											1,893,346				
<b>WACO AREA</b>																	
WATER LINE - 7,100 LF: 12" LITHIA SPRINGS ROAD, E.ZION CH. BOTTS	1,952,500	3,339,438											3,339,438				
WATER LINE - 9,200 LF: 12" MARION/FIELDS/POST	2,530,000	4,327,159											4,327,159				
WATER LINE - 11,000 LF: REPLACE SDR 26 BASED ON BREAK HISTORY	1,815,000	2,206,144				2,206,144											
<b>BELWOOD AREA</b>																	
WATER LINE - 14,400 LF: 8" HIGHWAY 18, BELWOOD TANK/POE RD.	2,952,000	3,955,962						3,955,962									
WATER LINE - 7,500 LF: 8" HIGHWAY 18, POE RD., NC 10	1,537,500	2,163,417							2,163,417								
WATER LINE - 2,300 LF: 8" HIGHWAY 18, NC 10, NC 10/18 INT.	471,500	731,451									731,451						
STORAGE TANK: NEW 500,000 GAL AT POE ROAD OVERFLOW 1200'	3,500,000	5,171,094								5,171,094							
WATER LINE: 11,000 LF: REPLACE SDR 26 BASED UPON BREAK HISTORY	1,815,000	2,815,661									2,815,661						
<b>BOILING SPRINGS AREA</b>																	
STORAGE TANK: NEW 500,000 GAL AT BOILING SPRINGS	3,500,000	4,051,688			4,051,688												
WATER LINE: 19,200 LF: COLLEGE FARM, HWY 150 TO STEEL BRIDGE RD	3,936,000	6,731,896											6,731,896				
WATER LINE: 3,700 LF: 8" STEEL BRIDGE, COLLEGE FARM, MT. PLEASANT	758,500	1,297,292											1,297,292				
WATER LINE: 15,400 LF 12" NEW WTP, HONEY HAVEN/MAPLE SPRINGS		4,034,860			4,034,860												
NEW 6.0 MGD WTP		43,437,500			43,437,500												
<b>PATTERSON SPRINGS/MID PINES AREA:</b>																	
WATER LINE: 65,800 LF 16" FROM NEW WTP TO PATTERSON SPRINGS TANK		18,398,860			18,398,860												
WATER LINE: 47,900 LF 12" PATTERSON SPRINGS TO MIDPINES TANK		12,155,860			12,155,860												
<b>LAWNDALE WTP IMPROVEMENTS:</b>																	
BULK CHEMICAL STORAGE PHASE 2	2,000,000	2,100,000	2,100,000														
LAWNDALE ADMIN BUILDING RENOVATIONS	197,186	217,397		217,397													
LAWNDALE WTP ROADWAY SITE IMPROVEMENTS	136,054	150,000		150,000													
VEHICLES		990,000	52,000	54,000	56,000	58,000	60,000	62,000	64,000	66,000	68,000	70,000	72,000	74,000	76,000	78,000	80,000
EQUIPMENT		2,889,000	155,000	160,000	165,000	170,000	175,000	180,000	185,000	191,000	197,000	203,000	209,000	215,000	221,000	228,000	235,000
<b>TOTAL</b>		<b>139,253,888</b>	<b>2,307,000</b>	<b>581,397</b>	<b>82,299,768</b>	<b>4,640,288</b>	<b>235,000</b>	<b>4,197,962</b>	<b>2,412,417</b>	<b>5,428,094</b>	<b>3,812,112</b>	<b>273,000</b>	<b>31,859,851</b>	<b>289,000</b>	<b>297,000</b>	<b>306,000</b>	<b>315,000</b>

Consistent with the exclusion of non-capacity assets from CCWs asset register, the capital costs from the CIP are limited to projects that provide system-wide capacity expansions; therefore, maintenance and replacement projects are excluded from SDF recovery. Like the debt credit applied to existing facilities, a credit is also applied to future CIP projects, which equals 25% of the CCWs recoverable CIP cost, as per the requirements of Chapter 162A. Table 4 presents a summary of the CIP values adjusted to reflect the 25% credit applied to eligible projects.

**Table 4**  
**Value of Future Facilities**

<b>Capital Improvement Program:</b>				
Treatment Facilities				\$ 43,437,500
Transmission Facilities				28,081,952
<b>Subtotal</b>				<b>\$ 71,519,452</b>
<b>Less 25% CIP Adjustment:</b>				
Treatment Facilities				\$ (10,859,375)
Transmission Facilities				(7,020,488)
<b>Subtotal</b>				<b>\$ (17,879,863)</b>
<b>Net Recoverable CIP:</b>				
Treatment Facilities				\$ 32,578,125
Transmission Facilities				21,061,464
<b>Total</b>				<b>\$ 53,639,589</b>

When existing facilities and future facilities are combined, the total combined value of existing and future facilities is \$137.8 million, as shown in Table 5.

**Table 5**  
**Combined Values of Existing and Future Facilities**

<b>Net Capital Costs:</b>				
Treatment Facilities				\$ 40,357,294
Transmission Facilities				97,478,361
<b>Net Recoverable Costs</b>				<b>\$ 137,835,655</b>

The SDF methodology identifies the water treatment plant capacity and estimates the capacity of transmission facilities. Because water treatment plants are subject to regulatory oversight, their rated capacities are usually known. However, determining the volumetric capacity of transmission infrastructure is more challenging; therefore, industry practice often estimates transmission capacity as a factor of the associated treatment plant capacity. The capacity estimates used in this analysis are based on discussions with CCW and supplemented with standard engineering assumptions. CCW currently owns and operates a 7.325 million gallons per day (MGD) water treatment plant. Future facilities, as projected by CCW staff, are expected to increase total treatment capacity by 4 MGD to a total of 11.325 MGD. Although plant capacity is expressed in terms of maximum daily flow, SDF calculations are based on average daily flow, representing typical usage conditions. Consistent with industry norms and staff input, the rated maximum daily flow is assumed to be approximately 1.5 times the average daily flow. An additional adjustment accounts for unaccounted-for water by applying an average 15% loss factor, reducing the effective capacity available for customer use. After applying these adjustments, the resulting average daily treatment capacity is 6.418 MGD, as summarized in Table 6.

**Table 6  
Treatment Capacity**

<b>Existing Treatment Capacity:</b>			
CCW Water Treatment Plant			7.325
Additional CIP Capacity			4.000
Total Capacity of Treatment Facilities (MGD)			<b>11.325</b>
<b>Average Day Capacity Adjustment:</b>			
Treatment Capacity Based on Max/Avg Day Factor		1.50	7.550
Unaccounted-For Water Capacity Adjustment		15.0%	
Estimated Treatment Capacity			<b>6.418</b>

Unlike the treatment facilities, the capacity information for major transmission facilities is often difficult to determine and quantify and as such transmission capacity estimates are often not available. Based on discussions with CCW staff, it is assumed that the existing transmission facilities can provide water flow at least equal to 2 times the existing treatment capacity, resulting in 22.65 MGD. Like the adjustment for treatment, a 15% loss factor is made to the transmission facilities resulting in an adjusted capacity of 19.253 MGD, as shown in Table 7.

**Table 7  
Transmission Capacity**

<b>Estimated Transmission System Capacity:</b>			
Existing Max Day Treatment Capacity			11.325
Transmission-to-Treatment Capacity Factor		2.00	
Assumed Existing Transmission Capacity			<b>22.650</b>
Unaccounted-For Water Capacity Adjustment		15.0%	
Estimated Transmission Capacity			<b>19.253</b>

The methodology utilized for developing the water SDF uses the value of major existing system facilities as well as the existing system capacities to calculate an estimated cost per gallon of capacity. Based on this methodology, the water facility costs are \$11.42 per gallon of water capacity as shown in Table 8.

**Table 8  
Cost of Capacity**

<b>Estimated Cost Per Gallon of Capacity:</b>			
Treatment (\$/Gallon)		\$	6.29
Transmission (\$/Gallon)			5.06
<b>Total Cost Per Gallon of Capacity</b>		<b>\$</b>	<b>11.35</b>

In further developing the SDF, the unit cost per gallon of system capacity is applied to a typical single-family residential dwelling served by a 5/8 and/or 3/4-inch water meter. According to 15A NCAC 18C .0409, the design standard for a residential connection is 400 gpd. Although the regulation does not specify whether this reflects a maximum-day or average-day flow, this analysis assumes it represents a maximum-day value. Using the previously established Max-Day to Average-Day Adjustment Factor, the 400 gpd standard is converted to an equivalent average daily flow requirement of 267 gpd per ERU. Applying this average-day factor to the calculated unit cost per gallon of capacity results in a maximum allowable SDF of \$3,020 when rounded for a standard single-family residential connection, as summarized in Table 9.

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**Table 9**  
**Maximum Single Family Residential System Development Fee**

<b><u>Estimated Cost Per Gallon of Capacity:</u></b>				
Treatment (\$/Gallon)				\$ 6.29
Transmission (\$/Gallon)				5.06
<b>Total Cost Per Gallon of Capacity</b>				<b>\$ 11.35</b>
Daily NCAC Residential Flow Requirement				400
Max/Avg Day Adjustment Factor			1.50	
Assumed Standard Level of Service Per ERU (GPD of Capacity)				267
<b><u>Calculation of SDF Per ERU:</u></b>				
Treatment Facilities				\$ 1,679
Transmission Facilities				1,351
Combined Cost				<b>\$ 3,030</b>
<b><u>Adjusted Fee - Treatment:</u></b>				
Calculated Fee Per ERU				\$ 1,679
Less Rounding Adjustment				(9)
Adjusted Fee				\$ 1,670
<b><u>Credit Adjusted Fee - Transmission:</u></b>				
Calculated Fee Per ERU				\$ 1,351
Less Rounding Adjustment				(1)
Adjusted Fee				\$ 1,350
<b><u>Proposed SDF Per ERU (Rounded):</u></b>				
Treatment Facilities				\$ 1,670
Transmission Facilities				1,350
<b>Combined Cost</b>				<b>\$ 3,020</b>

New connections equipped with larger water meters have the potential to place greater demand on the system and therefore require proportionally more capacity. To account for this, SDFs for larger meter sizes are scaled using maximum meter flow rates. These factors are determined by the American Water Works Association (AWWA). Based on their criteria, the applicable multipliers for larger meter sizes reflect their incremental increase in potential demand relative to the standard residential meter. The resulting maximum allowable water SDFs for each meter size are presented in Table 10.

**Table 10**  
**Maximum System Development Fees per Meter Size**

<b><u>Meter Size:</u></b>	<b><u>Flow Factor</u></b>	<b><u>Fee</u></b>
5/8 & 3/4 Inch	1.00	\$ 3,020
1.0 Inch	1.67	\$ 5,033
1.5 Inch	3.33	\$ 10,067
2.0 Inch	5.33	\$ 16,107
3.0 Inch	10.67	\$ 32,213
4.0 Inch	16.67	\$ 50,333
6.0 Inch	33.33	\$ 100,667
8.0 Inch	53.33	\$ 161,067
10.0 Inch	76.67	\$ 231,533

## Fee Comparison

To provide CCW with additional insight regarding the development and application of the SDFs, a comparison is included in Table 11 to show the level of SDFs charged by other utility systems in North Carolina. The fees range from \$100 to \$8,670 for water systems.

**Table 11**  
**System Development Fees of Other Providers**

<b><u>Provider</u></b>	<b><u>Water</u></b>
Shelby	\$ 100
Mount Holly	\$ 700
Winston-Salem	\$ 816
Mooresville	\$ 1,170
Greensboro	\$ 1,338
Charlotte	\$ 1,398
Hickory	\$ 1,695
Belmont	\$ 1,780
Selma	\$ 1,820
Two Rivers Utilities (Gastonia)	\$ 2,120
Harnett Regional	\$ 3,000
Lincoln County	\$ 3,592
Tuckasegee Water & Sewer Authority - North System	\$ 3,690
Weaverville	\$ 4,090
Union County	\$ 4,669
Johnston County Public Utilities	\$ 8,670
OWASA *	\$346 - \$4,690
* OWASA 3/4-in Single Family Residential fees based on heated square footage	

## Outcomes and Conclusions

An alternative that helps manage the magnitude of SDFs is charging a fraction of the system values. CCW has the flexibility to discount the total valuation of its systems by a factor that they deem appropriate. For example, CCW may charge 75% or 50% of the maximum fees. In any case, the total fee cannot exceed the maximum fees specified in this report.

The proposed SDFs provide a diversification of CCW's water fund revenue stream by creating a revenue source that lessens future water rate increases on existing customers. These fees should be viewed as important to ensure the equitable distribution of cost responsibilities between existing and future rate payers. Consequently, they must be reviewed at least every five years to account for changes in system usage and valuation and abide by State statutes.

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