



Surcharging Customers of Investor-Owned Utilities for Sampling and Inspection Fees

What Are the Surcharge Rules?

An investor-owned water or sewer utility (“utility”) may request approval to collect a surcharge from each of its customers. Rules of the Texas Commission on Environmental Quality (TCEQ) allow a utility to recover the actual increase in costs to the utility for sampling, inspection fees, and other governmental requirements that are beyond the utility’s control. These rules are in Title 30 of the Texas Administrative Code, Section 291.21(k)(2).

When to Request Surcharge Approval

Under TCEQ rules, a utility may collect a surcharge over a specified time period, but only after the utility has been authorized in writing by the regulatory authority that has jurisdiction over its rates and services. If the utility is located within the territorial limits of a municipality (“city limits”), the utility must seek approval for that surcharge from that city. If the utility is located outside the city limits, the utility must contact the TCEQ. A request for approval of a surcharge is an administrative change that does not require a filing fee and does not appear on the utility’s tariff.

What Steps Are Required?

To collect a surcharge to recover the costs of sampling and inspection fees, a utility must follow these requirements:

- **obtain approval** in writing from the appropriate regulatory authority—either from the TCEQ or from the municipality with original jurisdiction—before charging and collecting the surcharge;

- **notify customers** after the surcharge is approved—never at the time approval of the surcharge is requested.

What Costs Can Be Recovered?

A surcharge may only include actual increases in costs under the surcharge rule. The primary purpose of the surcharge is to recover costs already incurred. However, a utility may be allowed to begin recovering costs for additional required sampling that has not yet been conducted if these costs would cause significant financial problems for the utility.

What Sampling Costs and Fees Can Be Surcharged?

Utility cost increases can result from a variety of required samples and inspection fees. Examples include:

- additional sampling required for implementation of the federal Safe Drinking Water Act; and
- routine water or wastewater sampling and inspection fees (for example, public water system or wastewater fees, tracer studies for surface water plants, and chemical sampling for substances, such as lead and copper).

How to Calculate the Surcharge

Here is an example that demonstrates how to calculate the amount of the surcharge:

ABC Utility Company (ABC), with 150 connections, had a \$2,700.00 increase in sampling costs that were not anticipated when its current rates were set. This cost was a nonrecurring expense, because a waiver was granted for similar sampling in the future.

ABC proposed recovering this unanticipated expense from its customers using the following calculations:

- sampling cost per connection: \$2,700.00 divided by 150 connections = \$18.00 per connection;
- proposed monthly surcharge per month for one year: \$18.00 sampling cost per connection divided by 12 months = \$1.50 surcharge per connection per month.

How to Request TCEQ Approval

Utilities serving outside the city limits should mail a request and sufficient documentation for approval of a surcharge to:

Utilities & Districts Section, MC 153
TCEQ
P.O. Box 13087
Austin, TX 78711-3087

What Should a Request Letter Include?

A letter requesting approval of a surcharge should provide the following information:

- Total amount of the increase for sampling and inspection costs covered by the surcharge request.
- Number of current connections.
- Requested monthly surcharge per connection.
- Number of months the surcharge will be in effect. TCEQ rules do not specify how long the surcharge should last, but it should be a reasonable time period—one that takes into consideration the impact of the surcharge on the customer's monthly bill.
- Calculations showing how the surcharge is divided among the current number of connections.

What Supporting Documents Must Be Provided?

The supporting documentation submitted with the surcharge request letter should include:

- An explanation or documentation of the increased costs, or how the increased costs were calculated. Include copies of payment receipts or invoices for allowable costs.
- If costs are requested for sampling that has not yet been conducted, copies of cost estimates and time schedules, along with an explanation of the financial difficulties the utility will experience if future costs are not included. A copy of the required samples for

the current year and the estimated cost list from the TCEQ's Public Drinking Water Section (512/239-6020) may be included to support these cost estimates. But remember that all tests may not be required for every utility.

- Copies of all letters to or from the TCEQ's Source Water Assessment & Protection Team. This team is authorized to grant waivers for chemical sampling in some instances. If the utility is unaware of its waiver status, it should contact the Source Water Assessment & Protection Team at 512/239-6020.

TCEQ Review of Surcharge Requests

The TCEQ's Utilities & Districts Section is responsible for reviewing surcharge requests. If a request is adequately justified and reasonable, the TCEQ usually will send an approval letter to the utility within 10 working days of receiving the request. If more information is needed, the utility will be notified.

If the TCEQ staff do not agree with the proposed surcharge or the length of time it will be in effect, staff will discuss their concerns with the utility and set an appropriate surcharge. However, the utility still has the option of filing a complete rate change application to recover reasonable and necessary expenses.

Billing Procedures after TCEQ Approval

- The surcharge may be included on the first bill the utility sends out after receiving approval.
- A surcharge notice must be included on the first bill. The following statement is an example: "The TCEQ has approved this surcharge for a 12-month period to cover the increased costs of sampling fees incurred to comply with the federal Safe Drinking Water Act."
- The surcharge must be identified and listed separately on each monthly bill.
- The utility must stop collecting the surcharge as soon as the authorized amount has been collected.
- If the utility collects any surplus amount over the authorized amount, the utility must credit the surplus back to the customers on the next monthly bill.

Questions?

- Call the Utilities & Districts Section at 512/239-4691.
- Go to the TCEQ Web site at www.tceq.state.tx.us.