SOME THOUGHTS ON THE PROPOSED MPSC RATE INCREASE – PART TWO

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In the previous post, we discussed the reason for differential between what MPSC proposes to charge residential customers as compared with those for the commercial, hospitality and waterpark classes. In short, Great Eastern paid for most of the infrastructure that serves it up front, and older Resort areas and the areas where residents live are paying over time through their rate structures. We encourage you to read it if you haven't.

In this post, we'd like to focus on the wastewater treatment plant itself, because there are a lot of misconceptions about it, including speculation that it has increased costs to ratepayers. It hasn't – in fact, as far as residents are concerned, it has actually kept costs lower than they might be.

The original plant was built early in Massanutten's history, long before current federal and state clean water laws were developed. In the late 1990s, MPSC told us that its wastewater treatment plant was in violation of numerous new requirements; it didn't have the ability to remove nitrogen and phosphates from the discharge in accordance with new standards. MPSC was fined by the State of Virginia for creating a downstream fish kill and, as the laws were tightened up, it became clear to both Great Eastern and MPSC that MPSC would be required either to make a significant capital investment in the existing plant to bring it up to standards, or to build a new one.

If MPSC had retrofitted or rebuilt the plant to meet requirements back then, the capital costs of doing so (then estimated at around $4 million to upgrade the existing plant, or $6 million to replace it at its existing capacity) would have been added to the rate base and everyone – homeowners and resort alike – would have ended up paying the capital costs over time – along with a profit (formally, a Return on Equity), which the State of Virginia allows private utilities to collect.

Instead, Great Eastern stepped in and paid for a new, state-of-the-art plant. The new plant was booked by MPSC using an accounting principle called Contribution in Aid of Construction, or CIAC. Because the plant was a contribution, MPSC has no right to include it as equity in its rate base and generate a return on that equity, and it doesn't – to this day. Since there was no change to the rate base, no costs were added to homeowners' charges as a result.

The only thing Great Eastern received from MPSC in return for its investment was future tap fee waivers (worth less than half of what it spent in building the plant) for new construction – and all of the infrastructure related to subsequent new construction, including water and sewer hookups to MPSC's lines, were paid for by Great Eastern, not MPSC or its residential customers. These, too were provided with CIAC financing and MPSC cannot generate a return on equity for them.

Some in the community believe that Great Eastern paid for the plant because it needed the extra capacity to manage future growth. The potential for future growth in the service area – both residential and timeshare – WAS one of the reasons that the design capacity was increased, but it's important to remember that MPSC would have had to make a significant investment in the plant anyway, and if it had, homeowners would have had to help pay for it – along with a return on equity.

Perhaps more importantly, none of Great Eastern's subsequent developments have ever tapped into that expanded capacity. The old wastewater treatment plant had a design capacity and permit of up to 750,000 gallons of discharge per day. Even today, the new plant has never gone beyond 700,000.

Nor was the waterpark a factor in the plant design. The new plant was designed at least three years before a waterpark was even considered as a possible amenity by Great Eastern. Further, as a percentage of use – using numbers MPSC filed with its recent rate request – the waterpark draws 5.2 percent of MPSC's total potable water delivery, and generates at most only 3.4 percent of its wastewater. In case you wonder, the Hospitality – mostly timeshares – and Residential classes use the most: 58.1 percent and 29.5 percent, respectively, for potable water; 58.5 percent and 30.6 percent, respectively, for wastewater.

So: Great Eastern paid out-of-pocket to rebuild the plant; that cost didn't get added to any homeowners' charges. Great Eastern didn't get a better deal on rates as a result, either. In 2014, with SSC's creation of the rate classes, SCC further pushed the rate burden towards the Hospitality, Commercial and Water Park classes. Great Eastern effectively began subsidizing homeowners when the plant was built, and has been further subsidizing them through actual costs of water and wastewater since 2014 – even though it may not appear that way. Remember, MPSC can request a return on equity for its actual equity – but not for that paid for by others.

We hope this clarifies your understanding of these issues. We are opposed to MPSC's rate hikes and have filed testimony accordingly; if you wish to read that testimony you can do so here: https://scc.virginia.gov/docketsearch/DOCS/4_j101!.PDF. And we encourage you to file your own comments to the SCC. Together, we can hold MPSC's rate increases to a reasonable level.