

# Commission’s Main Extension Rules

## **Introduction**

The Commission’s main extension rules apply to not-for-profit, investor-owned, and municipal water and wastewater utilities. In March 2020, Indiana House Enrolled Act 1131 added Indiana Code § 8-1-2-101.5, requiring municipally owned water and wastewater utilities to comply with the main extension rules of the Indiana Utility Regulatory Commission (“Commission”), regarding main extension agreements entered into after June 30, 2020.<sup>1</sup> The Commission’s main extension rules are located in the Indiana Administrative Code (“IAC”) at 170 IAC 6-1.5 for water and 170 IAC 8.5-4, for wastewater, as may be amended by the Commission. All provisions within these rules apply to municipally owned water and wastewater utilities, with the exception of any provision that requires reporting to the Commission. Ind. Code § 8-1-2-101.5(c).

	<b>Required to follow Main Extension Rules</b>	<b>Required to file reports required by Main Extension Rules</b>
<b>Jurisdictional investor-owned or not-for-profit water or wastewater utility</b>	Yes	Yes
<b>Jurisdictional municipal water utility</b>	Yes, after June 30, 2020	No
<b>Municipal water utility withdrawn from matters under IC 8-1.5-3-9 or IC 8-1.5-3-9.1</b>	Yes, after June 30, 2020	No
<b>Municipal wastewater utility</b>	Yes, after June 30, 2020	No
<b>Regional districts and conservancy districts</b>	No	No

The Commission’s rules for main extensions include specific terms that are italicized throughout this document. This document can generally assist a utility in understanding the requirements of the Commission’s main extension rules. However, utilities should review the full text of the rules for a more comprehensive understanding and to determine when special exceptions may apply.

## **Main Extension Agreement**

### **Overview**

Generally, an “*applicant*”, also called the “*original depositor*” who requests a main extension from the utility will enter into an agreement and the “*customer*” provides a “*deposit*.” The agreement should include the “*total required deposit*” the *original depositor* would pay. The agreement

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<sup>1</sup> HEA 1131 only applies to main extension rules and does not add existing municipal utilities under the commission’s jurisdiction for rates and charges.

should also include the “*subsequent connector fee*” that would be paid for new connectors on the main after the main extension is constructed. For up to 10 years after the main extension is constructed, new connectors must pay a pro rata share of the *original depositor’s* deposit (a *subsequent connector fee*), and that money is refunded to the *original depositor*.

### Procedure

An *original depositor* is an *applicant* who requests a main extension, enters into a main extension agreement, and makes a *deposit* with the utility.<sup>2</sup> The main extension agreement should include the *total required deposit* the *original depositor* must pay.<sup>3</sup> The *total required deposit* includes the “*cost of the main extension*”<sup>4</sup> less an “*immediate revenue allowance*.” *Immediate revenue allowance(s)* is provided to the *original depositor* as long as service(s) is taken within 9 months of the “*completion date of the main extension*.” For example, a developer plans to connect 3 homes to the main within 9 months of the main extension being complete. The *total required deposit* to this *original depositor* would be the *cost of the main extension* less 3 *immediate revenue allowances*.<sup>5</sup> A revenue allowance is equal to 3 times the “*estimated annual revenue*” the utility can expect to receive from either the *original depositor*, a depositor-authorized connection, or a “*subsequent connector*.”<sup>6</sup> These revenue allowances are paid by the utility to the *original depositor* as a form of “*refund*” toward the *original depositor’s total required deposit*.<sup>7</sup>

A *subsequent connector fee* is a charge that should be calculated and included in the *original depositor’s* main extension agreement.<sup>8</sup> This fee will be collected from *subsequent connectors* prior to their main extension connections for up to 10 years after the *completion date of the main extension*.<sup>9</sup>

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<sup>2</sup> 170 Ind. Admin. Code §§ 6-1.5-14 and 8.5-4-14.

<sup>3</sup> 170 Ind. Admin. Code §§ 6-1.5-26 and 8.5-4-25.

<sup>4</sup> 170 Ind. Admin. Code §§ 6-1.5-5 and 8.5-4-5.

<sup>5</sup> 170 Ind. Admin. Code §§ 6-1.5-10 and 8.5-4-10. See also Admin. Cod §§ 6-1.5-27 and 8.5-4-26.

<sup>6</sup> 170 Ind. Admin. Code §§ 6-1.5-19 and 8.5-4-19. The *Commission’s* rule defines an *immediate revenue allowance*, a “*subsequent connector’s revenue allowance*,” and a “*revenue allowance from a depositor-authorized connection*.” All revenue allowances are based on 3 years of estimated revenues.

<sup>7</sup> See additional information at 170 Ind. Admin. Code §§ 6-1.5-18 and 8.5-4-18.

<sup>8</sup> 170 Ind. Admin. Code §§ 6-1.5-23 and 8.5-4-22.

<sup>9</sup> 170 Ind. Admin. Code §§ 6-1.5-23 and 8.5-4-22.

The *subsequent connector fees* and revenue allowances should be refunded to the *original depositor* for service connections along the *main extension* that occur within 10 years of the *completion date of the main extension*.<sup>10</sup>

Important things to remember:

- If the *immediate revenue allowance* is greater than the *cost of the main extension*, the main extension is provided by the utility at no cost to the *original depositor*.
- If the utility's future extension plans require a larger main than necessary to serve the *original depositor*, the incremental cost for the larger main size and increased material and installation costs is paid by the utility and not included in the *original depositor's total required deposit*.<sup>11</sup>
- If a utility charges separate fees to connect a *customer* such as a tap fee or system development charge, these charges are not to be included in the *main extension cost*.<sup>12</sup>

### **Calculations of the Total Required Deposit and Subsequent Connector Fee**

#### Overview

As mentioned above, the *total required deposit* is the *cost of the main extension* less an *immediate revenue allowance*. *Subsequent connector fees* are the amounts utilities will charge *customers* who connect to the *main extension*, other than the *original depositor*, for a period of 10 years after the *completion date of the main extension*. The *subsequent connector fee* is based on the “*cost per lot*.” For unplatted properties, the number of “*lots*” are calculated by dividing the total land “*frontage*” of the extension by 100’. Utilities can calculate the *cost per lot* by dividing the *cost of the main extension* by the number of *lots* or by the *customers’* pro rata share of the land *frontage*.

#### Procedure

A *subsequent connector fee* is based on a *cost per lot*. To calculate the *subsequent connector fee*, the utility must determine the number of *lots* for which service could be requested on the *original depositor's main extension*.<sup>13</sup> If the property along the main extension is platted, the number of *lots* platted along the main shall be used.<sup>14</sup> For unplatted property, the number of *lots* is determined

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<sup>10</sup> Refunds should not exceed the *original depositor's total required deposit*.

<sup>11</sup> 170 Ind. Admin. Code §§ 6-1.5-31 and 8.5-4-30.

<sup>12</sup> 170 Ind. Admin. Code §§ 6-1.5-4 and 8.5-4-4.

<sup>13</sup> 170 Ind. Admin. Code §§ 6-1.5-23 and 8.5-4-22.

<sup>14</sup> 170 Ind. Admin. Code §§ 6-1.5-30 and 8.5-4-29.

by dividing the total land *frontage* along the main extension by 100 feet.

**Number Lots**

<b>Platted</b>	Number of lots
<b>Unplatted</b>	Total frontage along extension ÷ 100'

Next, the *cost per lot* must be determined. The Commission’s main extension rule provides two methods to determine the *cost per lot*.<sup>15</sup> Under the first method, the *cost of the main extension* is divided by the total number of *lots* calculated pursuant to this rule. Under the second method, the *cost of the main extension* is divided proportionately on the basis of land *frontage* for all *lots* along the main extension.

**Cost per Lot**

<b>Method 1</b>	Cost of Main Extension ÷ Total number of lots
<b>Method 2</b>	Main Extension Cost ÷ Main Extension Length  * Lot Length  (the proportionate allocation)

The following examples illustrate how a utility would compute the *original depositor’s total required deposit* and the *subsequent connector fee* using these two *cost per lot* methods. The first example uses the number of *lots* method to determine the *cost per lot* and assumes the property along both sides of the main is unplatted. The second example includes a mix of platted and unplatted property along both sides of the main and calculates the *cost per lot* based on a proportionate allocation of cost (the proportionate method). Both examples assume an *immediate revenue allowance* of \$900 (\$25 average monthly residential customer bill \* 12 months \* 3 years). With both examples, there are no depositor-authorized connections.<sup>16</sup>

<sup>15</sup> 170 Ind. Admin. Code §§ 6-1.5-32 and 8.5-4-31.

<sup>16</sup> Depositor-authorized connections are included in the main extension agreement as *lots* or unplatted area designated by the *original depositor* for connections that were not provided an *immediate revenue allowance*.

### Example 1

The *original depositor* executes a main extension agreement for a 6" main extension of 200'. The estimated cost for this main extension is \$10,000. The *total required deposit* paid by the *original depositor* is \$9,100 (see below):

Proposed Cost to Extend 6" Main 200'	\$ 10,000
Less: Immediate Revenue Allowance:	
Average Monthly bill for Residential class	\$ 25
Multiply by: 36 months (3 years)	36
Immediate Revenue Allowance	<u>\$ 900</u>
Cost to Original Depositor	<u>\$ 9,100</u>

The *cost per lot* would be computed as follows:

Main Extension Cost: 6" main @ 200'	\$ 10,000
Divided By: 4 (org. cust + 3) - 100' lots	<u>4*</u>
Cost Per Lot:	<u>\$ 2,500</u>

\*Both sides of the road are considered. The original depositor owns 1-100' lot.

A *subsequent connector* who connects to the main would also benefit from a revenue allowance, called a *subsequent connector revenue allowance*.<sup>17</sup> Thus, each *subsequent connector* would be required to pay a \$1,600 (\$2,500 *cost per lot* - \$900 *subsequent connector revenue allowance*) *subsequent connector fee* to the utility. The utility will forward the payment to the *original depositor*.<sup>18</sup> In this illustration, the utility will forward 3 *subsequent connector fees* to the *original depositor*, if all *lots* connect within 10 years of the completion of the *original depositor's* main for each of the three *subsequent connectors* or \$2,700. Note that the *original depositor* pays the same amount of \$1,600 if all 3 *lots* are subsequently connected (\$9,100 - \$4,800 - \$2,700 = \$1,600). The first method is used in this example because the 4 *lots* along both sides of the main are of equal size.

<sup>17</sup> 170 Ind. Admin. Code §§ 6-1.5-24 and 8.5-4-23.

<sup>18</sup> Utilities are not required to make the *refund* until the number of actual connected customers equals the number of *immediate revenue allowances* included in computing the *total required deposit*. Refunds shall be paid annually or more frequently at regular intervals, at the utilities' discretion. 170 Ind. Admin. Code §§ 6-1.5-36(b) and 8.5-4-35(b).

## Example 2

The *original depositor* requests service, which requires a 6" main extension of 500'. The cost estimate for this main extension is \$23,500. The *total required deposit* paid by the *original depositor* is \$22,600 (see below):

Proposed Cost to Extend 6" Main 500'	\$ 23,500
Less: Immediate Revenue Allowance:	
Average Monthly bill for Residential class	\$ 25
Multiply: 36 months (3 years)	36
Immediate Revenue Allowance	<u>\$ 900</u>
Cost to Original Depositor	<u>\$ 22,600</u>

As part of the main extension agreement with the *original depositor*, a *subsequent connector fee* is determined. First, the number of *lots* available for subsequent connection must be determined. In this example, it is assumed that there are 7-100' sections of land in unplatted areas, which includes the *original depositor's* 100' lot, and 4-75' platted *lots* within a 25-lot subdivision that will connect directly to the 6" main. Next, compute the *cost per lot* using the proportionate method as follows:

Proposed Cost for 6" Main 500'	\$23,500
Divided By: Total lot frontage along main in feet	<u>1,000</u>
Cost Per Foot:	<u>\$ 23.50</u>
Cost per 75' platted lot: 75' @ \$23.50/foot	<u>\$ 1,762.50</u>
Cost per 100' unplatted lot: 100' @ \$23.50	<u>\$ 2,350.00</u>

Each *subsequent connector* benefits from a *subsequent connector revenue allowance*. Thus, each "*prospective customer's*" *subsequent connector fee* is calculated as follows:

Cost per 75' platted lot:	
75' @ \$23.50/foot	\$1,762.50
Less: Subsequent connector revenue allowance	<u>\$ 900.00</u>
Subsequent Connector Fee	<u>\$ 862.50</u>
Cost per 100' unplatted lot:	
100' @ \$23.50	\$2,350.00
Less: Subsequent connector revenue allowance	<u>\$ 900.00</u>
Subsequent Connector Fee	<u>\$1,450.00</u>

In this example, the utility pays the *original depositor* 10 *subsequent connector fees* (SCF) or \$12,150 [(\$862.50 SCF \* 4 *prospective customers* on 75' platted lots) + (\$1,450 SCF \* 6 *prospective customers* on 100' unplatted lots)] based on all property along the *main extension* connecting within 10 years of installation. The utility will also pay the revenue allowances to the *original depositor* for each of the 10 *subsequent connectors*, or \$9,000 (\$900 *subsequent connector revenue allowance* x 10 *subsequent connectors*). The proportionate method is used in this example to divide proportionately the cost of the water main extension to both the *original depositor* and the *prospective customers* due to the different lot sizes along the main.

10 subsequent connector fees	\$ 12,150
allowances	<u>\$ 9,000</u>
Sub-total	\$ 21,150
Divided By: Frontage of Main Per Foot for Subsequent Connectors	<u>900</u>
<b>Main Extension Cost Per Subsequent Connector per foot</b>	<u>\$ 23.50</u>
Total Cost of Main Extension:	\$ 23,500
Less: Cost reimbursed by the Utility:	<u>\$ 21,150</u>
Main Extension Cost to Original Depositor	\$ 2,350
Divided By: Frontage of Main for Original Depositor	100
<b>Main Extension Cost to Original Depositor per foot</b>	<u>\$ 23.50</u>

What happens in Example 2 if, within the 10-year refund period, another developer comes along and buys acreage to develop a 20 home subdivision, which results in a “*lateral main extension*” along the 200’ of main *frontage* he owns to serve his development? The developer has subdivided the unplatted *frontage* in a manner different from the 6-100’ *lots* contemplated in the *original depositor’s* main extension agreement such that one or more of the *lots* will not require service directly from the original main extension.<sup>19</sup> In that case, the utility shall collect a *subsequent connector’s fee* for each equivalent lot of the *frontage* land used to determine the main extension *cost per lot*. Thus, the developer would pay two *subsequent connector fees* (the equivalent of two 100’- original plats) or \$2,900, which includes two revenue allowances.

Cost per 100' unplatted lot:	
200' @ \$23.50	\$4,700.00
Less: 2 Subsequenet Connector Revenue Allowances @ \$900	<u>\$1,800.00</u>
Subsequent Connector Fee	<u>\$2,900.00</u>

It is also worth noting that none of the developer’s lots within its subdivision were included in these calculations because none of the lots directly connect to the original main extension.

**Dispute Resolution for Municipalities**

If an *applicant* has a dispute with a municipality regarding the applicability of these rules, the *applicant* may submit an informal complaint to the Commission’s Consumer Affairs Division.<sup>20</sup> A utility should make a good faith effort to resolve disputes and provide the *applicant* a proposed resolution.<sup>21</sup> If *applicants* are not satisfied, they should submit an informal complaint within 7 days of receiving the proposed resolution. Utilities must provide information to the Consumer Affairs Division and follow other requirements for consumer complaints. For more information, go to [http://iac.iga.in.gov/iac/iac\\_title?iact=170](http://iac.iga.in.gov/iac/iac_title?iact=170) and review Article 16, Customer Complaints, or call the Commission’s Consumer Affairs Division at (317) 232-2785.

<sup>19</sup> 170 Ind. Admin. Code §§ 6-1.5-35 and 8.5-4-34.

<sup>20</sup> Ind. Code § 8-1-2-101.5(d) and 170 Ind. Admin. Code 16.

<sup>21</sup> 170 Ind. Admin. Code 16-1-4(c)



### **Additional Resources**

For main extension agreement contract must haves, please visit: <https://www.in.gov/iurc/2338.htm>

For more information regarding the Commission's water main extension rules, go to [http://iac.iga.in.gov/iac//iac\\_title?iact=170](http://iac.iga.in.gov/iac//iac_title?iact=170) and review Article 6, Rule 1.5, Extension of Water Mains, , or call the Commission's Water/Wastewater Division at (317) 232-2785.

For more information regarding the Commission's wastewater main extension rules go [http://iac.iga.in.gov/iac//iac\\_title?iact=170](http://iac.iga.in.gov/iac//iac_title?iact=170) and review Article 8.5, Rule 4, Extension of Wastewater Mains, or call the Commission's Water/Wastewater Division at (317) 232-2785.

To review the statute regarding applicability of the Commission's main extension rules for municipalities, go to <http://iga.in.gov/>, click "Code", and enter 8-1-2-101.5.