

# Proposed Fee Method Description

## **Assumptions for this Estimate**

This package includes spreadsheets that estimate what each company's fee would be under the draft fee rule. This is our best estimate based on assumptions described below.

**Agency Overhead Charge:** The stated agency overhead charge is an estimate for 2006 fiscal year (July 2005 to June 2006). This charge is the amount the agency charges the pipeline safety program for its share of the overhead costs such as commission salaries, financial, human resource and information services, rent, utilities and other such expenses. While we do not expect any significant change to this number, the actual number might be different.

**Annual allotment of biennial appropriation:** The legislature appropriates the budget each biennium. The annual allotment used in this estimated is based on the agency's two-year appropriation as stated in the Governor Locke budget. The appropriation is higher than last year's amount but does not constitute an increase in program size. We expect this appropriation amount to either stay the same or more likely decrease when the final budget is adopted and signed.

**Federal Grant:** We expect that there will be an adjustment this next fee cycle to reflect the difference between last year's expected federal grant amounts and the actual amount received. Since that adjustment is not known at this time, no adjustment was made when determining this estimate. Also, the federal credit associated with next year's grant also might change.

**Pipeline Miles:** The pipeline miles used to determine this estimate is based on pipeline miles as reported by companies in their 2003 annual reports. This number will change with updates received from the 2004 annual reports.

## **Changes in Assigned Hours**

The staff hours for 2003 and 2004 have changed from the last set of spreadsheets. This change is the result of a detailed review of our 2003 and 2004 timekeeping data in which additional timesheet data entry fields were reviewed. The review identified additional hours that should have been directly assigned to companies. We do not expect any additional changes to these hours.

**Step by Step Description and Example**

**Step 1:** Two pools are created. The indirect pool is the amount charged to the pipeline safety program for its share of the agency’s overhead expenses such as salaries for commissioners, financial, human resource and information services, rent and utilities. The direct pool is the amount of the program’s annual allotment of its biennial appropriation minus the amount that is from the indirect pool. For 2006, the pools would be as follows:

<b>\$344,000</b> Indirect Pool Overhead Charge	+	<b>\$1,856,000</b> Direct Program Costs	=	<b>\$2,200,000</b> Annual Allotment Appropriation
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**Step 2:** The expected federal grants for the fiscal year are deducted from the direct program costs. Also, any adjustment necessary to correct for under or over collection of federal grants in the previous year are made at this point.

<b>\$1,810,000</b> Direct program costs	-	<b>\$740,000</b> Federal base grants	=	<b>\$1,116,000</b> Net direct program costs
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**Step 3:** Each company is allocated a share of the net direct program costs in proportion to the company’s two-year average share of directly assigned hours by staff in the pipeline safety section. Ellensburg is used as an example (see spreadsheet for more).

<b>\$1,116,000</b> Net direct program costs	X	<b>.010991</b> Ellensburg’s share of direct hours	=	<b>\$12,266</b> Ellensburg’s share of net direct costs
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**Step 4:** The indirect pool (agency overhead charge) is allocated based on the company’s reported pipeline miles in the state as a percentage of total pipeline miles.

<b>\$344,000</b> Indirect costs	X	<b>.004544</b> Ellensburg’s share of pipeline miles	=	<b>\$1,563</b> Ellensburg’s share of indirect costs
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**Step 5:** Add the two components together.

<b>\$12,266</b> Ellensburg's share of direct costs	+	<b>\$1,563</b> Ellensburg's share of indirect costs	=	<b>\$13,830</b> Ellensburg's unadjusted fee for next year
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**Step 6:** To ease the transition, the proposed method caps fee increases resulting from the fee method change at 25 percent (net of any appropriation increase). Dollars in excess of a 25 percent increase are redistributed to those companies with fee decreases and fee increases of less than 25 percent. Two estimated examples below.

<b>\$8,275</b> Current fee adjusted for 2006 appropriation	X	<b>1.25</b> 25 percent cap on fee	=	<b>\$10,344</b> Ellensburg's estimated fee cap for next year	<b>instead of</b> Ⓐ	<b>\$13,830</b> Company's unadjusted fee
<b>\$111,590</b> Avista's unadjusted fee for next year	+	<b>\$11,694</b> Avista's share of fee cap redistribution	=	<b>\$122,594</b> Avista's estimated fee for next year	<b>instead of</b> Ⓐ	<b>\$110,900</b> Avista's unadjusted fee