

EXHIBIT C

**METHODOLOGY FOR ALLOCATION
OF
INTERCEPTOR EXPANSION CAPITAL COSTS**

Principles:

This Agreement (2010 update) provides that, for all Interceptors that have been constructed to JSA standards and reserved capacities, interceptor maintenance and replacement costs are to be recovered using the same ratios and procedures as for the 11,400 EQR BRWWTP. (this is a simplification from earlier procedures). Note: at this time, there are two segments of the E Bank Interceptor which probably do not qualify; these segments are to be reviewed, and upgraded if found necessary, with costs allocated to the participating user entities in proportion to their reserved capacities. When so upgraded, all interceptor segments will be maintained and replaced in accordance with the new provisions.

The methodology outlined in this Exhibit pertains only to situations where an individual Participant(s) wants additional Constructed EQR capacity in the subject replacement segment. When a Participant wants increased capacity, then part of the project cost is allocated to each Participant, based on its change in value.

- Each of the Joint Authority Interceptors has been segregated into segments so as to approximate a constant Reserved Interceptor Capacity in each segment.
- The assumed value of each segment is to be determined by a Replacement Cost New Less Depreciation Valuation. Each participant's assigned value is in proportion to its Reserved Interceptor Capacity — as compared to total segment capacity.
- For any expansion/replacement project, the entity's contribution will be the difference in assigned value before and after completion.

Illustration

Use Lower Segment (1) of the East Bank Interceptor.

Example 1: Additional capacity requires Line Replacement Capital Project

Assume:

- a. (Line installed June 1972 at a cost of \$64,000, length of segment = 3,200 lin. ft.) Replacement Cost New Less Depreciation (at a 1.25%/yr rate) valuation is made by Engineer selected by the Joint Authority. The RCNLD valuation is \$240,000. The present value of the subject 800 lin. ft. segment, then, is set at \$60,000.

Note: If the line had to be replaced at this time for quality reasons, the appraised value would have been zero.

- b. 800 ft of line (segment "1a") is to be replaced in July 2005 because Silverthorne requests 500 EQR additional capacity. Total project cost of replacement is \$100,000.
- c. The status of allocated reserved capacity at the BRWWTP at the time of line replacement is:

	<u>EQR</u>	<u>% Reserved</u>
Dillon	2,100	18.42%
Silverthorne	5574	48.89%
Buffalo Mtn.	2294	20.1%
Dillon Valley	1183	10.38%
Mesa Cortina	252	2.21%
Total	11,400	100.00%

- d. The reserved capacities in segment 1, relative to the subject project were: (See Exhibit D-3)

	Before Project	After Project
	<u>EQR</u>	<u>EQR</u>
Dillon	2,100	2,100
Dillon Valley	1,900	1,900
Silverthorne	<u>941</u>	<u>1,411</u>
	4,941	5,441

Step 1 – Determine Allocation of Values Prior to Project (Segment 1a)

Step 1 – JSA Equity in Segment Before Project
 = \$240,000 x 800 l.f./3,200 l.f. = \$60,000

Step 2 – JSA Equity After Project
 = Project Cost = \$100,000

Step 3 – Amount to be paid by JSA (AMP Fund)
 \$100,000 - \$60,000 = \$40,000

Step 4 – Amount to be paid by Silverthorne
 = \$100,000 - \$40,000 = \$60,000

Example 2 – Additional Reserved Capacity Does Not Require Capital Project. In this case the actual size and slope of the existing line can accommodate reserved capacity increase without upsizing.

Assume:

- a. (Line installed June 1972 at a cost of \$64,000, length of segment = 3,200 lin. ft.) Replacement Cost New Less Depreciation (at a 1.25%/yr rate) valuation is made by Engineer selected by the Joint Authority. The RCNLD valuation is \$240,000. The present value of the subject 800 lin. ft. segment, then, is set at \$60,000.
- b. The reserved capacities in segment 1, prior to the subject project were: (See Exhibit D-3)

	Before Project	After Project
	<u>EQR</u>	<u>EQR</u>
Dillon	2,100	2,100
Dillon Valley	1,900	1,900
Silverthorne	<u>941</u>	<u>1,411</u>
	4,941	5,441

Step 1 – Determine Silverthorne’s Prior Reserved Equity in Segment 1A
 $= 941/4,941 \times \$60,000 = \$11,427$

Step 2 – Determine Silverthorne’s Reserved Equity After Paper Project.
 $= 1,441/5,441 \times \$60,000 = \$15,890$

Step 3 – Allocate Payment to Entities.

Payment Required by Silverthorne = \$15,890 - \$11,427 = \$4,463

	<u>Prior EQR</u>	<u>Prior Equity</u>	<u>After EQR</u>	<u>After Equity</u>	<u>Payments (Receive)</u>
Dillon	2,100	\$25,501	2,100	\$23,158	(\$2,343)
Dillon Valley	1,900	\$23,072	1,900	\$20,952	(\$2,120)
Silverthorne	941	\$11,427	1,441	\$15,890	\$4,463
Totals	4,941	\$60,000	5,441	\$60,000	\$0