

In Cause No. 44203 (March 14, 2013), the Commission approved an Alternative Regulatory Plan (“ARP”) for small water and wastewater utilities. The ARP required the calculation of a cost index based on the following formula (see Exhibit A, page 4):

$$\text{Cost Index} = [(W*\text{Labor ECI Index}) + (X*\text{Electric Power PPI Index}) + (Y*\text{Chemical PPI Index}) + (Z*\text{CPI})]$$

The chart below shows the calculation for 2014, based on inflation in 2013.

Index	2013	Weight	Weighted Average
Labor Index ECI	1.90%	0.4751	0.90%
Industrial Electric Power PPI	-2.67%	0.1053	-0.28%
Industrial Chemicals PPI	-1.67%	0.027	-0.05%
CPI	1.50%	0.3926	0.59%
<b>Weighted Index</b>			<b>1.17%</b>

Based on the chart, staff recommends using 1.17% as the annual cost index for 2014. Please note that the Industrial Electric Power Index and the Chemical Index are based on preliminary figures and the Labor Index ECI is based on third quarter 2012 to third quarter 2013 since fourth quarter figures are not yet published.

