



MEMORANDUM

To: Mayor and Council Members
From: Greg Meszaros, Director, Austin Water
Date: October 7, 2016

Subject: Austin Water Cost of Service Rate Study

The purpose of this memo is to provide the Mayor and Council with an overview of Austin Water's Cost of Service rate study.

Cost of Service Study Overview

Austin Water (AW) is conducting a comprehensive study to update and improve its methods for determining fair and defensible rates for its services. Austin Water recommended, and Council approved, Raffetis Financial Consultants (RFC) to conduct the 2016 Cost of Service rate study. The study will use water industry accepted Cost of Service (COS) principles that seek the most equitable ways to link the cost involved in serving each category of "class" of customer (e.g., residential, multi-family, commercial, industrial or wholesale) with the amount each pays.

In conducting a rate study, AW's objective is to balance and reconcile the interests of all its customers in order to develop equitable and defensible water rates. This means developing appropriate allocations of costs, while recognizing that any costs not covered by one customer class must be borne by the others. This process will include an extensive public involvement process to examine the methodology used to determine cost of service for all customer classes, discuss the impacts of key cost of service decision points, and develop recommendations.

Additionally, Austin Water will utilize an independent hearings examiner process similar to that used by Austin Energy in their recent rate setting. Austin Water will be working with the Purchasing Office to look at options for solicitation of these services or amending Austin Energy's Hearings Examiner contract. Any required approval from Council would be later this fall. Austin Water would expect the Hearings Examiner process to begin by February 2017. Once our COS study results and public involvement processes have been completed, the hearings examiner will provide an independent review of Austin Water's recommendations and provide a final report to the Council.



The COS study is being conducted from September 2016 through May 2017. This timeframe aligns with the City's budget cycle. It is the Utility's plan to use the new rate methodology as the basis for AW's Fiscal Year 2017-2018 proposed rates however schedule uncertainties may extend the process beyond the Fiscal Year 2017-2018 rate adoption period. Attachments to this memo include details on the proposed timeline and public involvement committee process.

AW will routinely update the Water and Wastewater Commission on the progress of the rate study and will provide periodic updates to the City Council. Austin Water's project web page (<http://www.austintexas.gov/departments/2016-cost-service-rate-study>) is an additional COS information resource.

If you require information or have questions please contact me or our COS lead Assistant Director David Anders.

cc: Elaine Hart, Interim City Manager
Robert Goode P.E., Assistant City Manager
David Anders, Assistant Director, Austin Water
Joseph Gonzales, Budget & Finance Manager, Austin Water

Attachments: **Proposed Cost of Service Timeline**
Public Involvement Committee Background



Proposed Cost of Service Timeline

The COS study proposed timeline is shown below.

Public Involvement Meetings	Dates
Public Involvement Committee (PIC) and Wholesale Involvement Committee (WIC) Orientations	September 27, 2016
Retail and Wholesale Classes	October 5, 2016
Revenue Requirements	October 18 and November 8, 2016
Water Cost Allocation	November 29, 2016
Wastewater Cost Allocation	December 13, 2016
Reclaimed Water Cost Allocation	January 5, 2017
Rates and Customer Impacts	January 17 and January 31, 2017
Review of Study Results and Wrap-up	February 21, 2017
Hearings Examiner Process	Dates
Independent Review of Study Results	February – March 2017
Hearings Process	March – June 2017
Other Important Milestones	Dates
Final COS Study Report	April 28, 2017
Presentations of COS Study Final Results	May 2017
Final Hearings Examiner Report	June 2017
FY2017-2018 Proposed Operating Budget	July/August 2017
Rates Effective	November 1, 2017



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Public Involvement Committee Background

A Public Involvement Committee (PIC), which includes 2 representatives from all AW retail customer classes (e.g., residential, multi-family, commercial or industrial), has been established. PIC Members were selected from a diverse group of organizations with direct interest in the study. In addition to customer class representatives, the PIC will include representatives from the Water and Wastewater Commission, the Resource Management Commission, a representative from the environmental community, and a reclaimed water customer. The PIC will hear from subject matter experts, examine issues and advise AW on study issues. PIC members represent their customer class and are responsible for communicating with their constituency. The PIC is expected to meet approximately ten (10) times over the course of the study.

PIC membership will also include a Residential Customer Rate Advocate (the Advocate). The firm of NewGen Strategies & Solutions, LLC (NewGen) has been retained by the Utility to represent the interests of residential customers, and to conduct outreach and provide information to single family residential customers. The Advocate will participate on behalf of residential interests, review information from the study consultant, assess potential impacts on residential customers, and provide comments to Austin Water. In addition, the Advocate will be responsible for preparing a report containing recommendations for revenue requirement and cost allocation methodologies. The report will include a full discussion of the impacts of these recommendations on revenue requirements and rates. The Advocate will present the final report to the PIC, the Water and Wastewater Commission, City management, and the City Council.

The table below provides the current PIC membership:

Customer Class Representation	PIC Committee Member
Residential	New Gen Strategies – Rate Advocate Approved by City Council
Residential	Karyn Keese
Residential/Low Income	Lanetta Cooper
Multifamily	Kristen Arrona/Chuck Loy, Austin Apartment Association
Multifamily	Marcia Stokes
Commercial	Drew Scheberle, Greater Austin Chamber of Commerce
Commercial	Mary Guerrero-McDonald, BOMA
Industrial/Large Volume	Todd Davey, NXP
Industrial/Large Volume	Dan Wilcox/Dave Schneider, Samsung
Resource Management Commission	Commissioner James Dwyer
W/WW Commission Member	Vice-chair Chien Lee



Customer Class Representation	PIC Committee Member
W/WW Commission Member	Commissioner Jesse Penn
Environmental Community Member	Luke Metzger, Environment Texas
Reclaimed Customer	To be named

A separate Wholesale Involvement Committee (WIC), which includes representatives from each of AW's Wholesale customers, has also been established. The WIC will hear from subject matter experts, examine issues and advise AW on study issues. WIC members represent their agencies and their customers and are responsible for communicating with their constituency (e.g., board members and end-use customers). The committee is expected to meet approximately five (5) times over the course of the study.

All PIC and WIC meetings will be open to the public. Interested persons and members of special interest groups may attend. Meeting times and agendas will be posted on the City's calendar and the study web page.



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