

The following terms and acronyms will be referenced throughout the Cost of Service Rate Study.

**Bill Cycle** — the schedule of recurrent time periods in which bills are prepared and sent out to customers.

**Bill Frequency** — count of customer bills at various water usage amounts within a tiered or block rate structure during a bill cycle.

**Block Rates** — usage or flow rates that incrementally increase proportional to the amount of consumption.

**Budget** — an estimate of costs, revenue, and resources over a specified period, reflecting a reading of future financial conditions and goals.

**Capacity** — the utility's ability to meet customer demands for water service based upon plant facilities and service availability. Customer service demands are based upon quantity, quality, and peak loads to various customer classes served by the utility.

**Capital Expenditures** — the acquisition of equipment and assets associated with the utility's Capital Improvement Program (CIP) spending on plants, pipelines, etc. that increases the value of the utility over a time period greater than a year.

**Cash Basis Revenue Requirements** — a method of establishing revenue requirements based on annual budget expenses for operations and maintenance, debt service payments, equity financing of capital improvements, and reserve/debt coverage requirements.

**Commercial Customer** — any non-residential customer who receives water or wastewater service, but does not meet the Large Volume classification eligibility. Examples of commercial customers include retail stores, restaurants, doctor offices, houses of worship, and office buildings.

**Cost Allocation** — the process of identifying, aggregating and assigning costs to cost centers. A cost center is any activity or item for which you want to separately measure costs.

**Cost of Service (COS)** — the total annual operation, maintenance, and capital costs incurred for the delivery of services.

**Debt** — an obligation to repay borrowed money for the purchase of goods and services typically capital equipment or projects.

**Debt Service** — periodic expense to pay for interest and principal on debt instruments.

**Debt-Service Coverage** — a ratio of total revenues less operating costs to debt service requirements. City policy requires a rating of at least 1.5x.

**Demand Costs** — costs that are associated with the facilities that meet peak rates of water use, such as maximum-day, maximum-hour, or other rates.

**Depreciation** — An accounting procedure used allocate the cost of an asset and account for the loss of value over its useful life.

**Equivalent Meter Cost** — the cost basis of a water meter typically used for residential customers (5/8") in order to compare the cost of investment in larger meters.

**Fixed Charge** — a set minimum charge that a customer must pay regardless of water consumption.

**Gallons per Capita Daily (GPCD)** — gallons of daily water consumption divided by population.

**Large Volume Customer** — a customer consuming more than 85 million gallons within a fiscal year at a single address or campus. Austin Water currently conducts a cost of service determination for each large volume customer in order to formulate an individual water and wastewater rate.

**Million Gallons Daily (MGD)** — used in the treatment plant capacities on describing water use.

**Minimum charge** — a fixed-base charge that provides a constant stream of revenue to support the operation and maintenance costs of providing service to customers, regardless of fluctuations in usage.

**Municipally Owned Utility** — any utility owned, operated, and controlled by a municipality or by a non-profit corporation whose directors are appointed by one or more municipalities. Austin Water is a municipally owned utility.

**Non-Rate Revenue** — billed revenue not associated with the delivery of water, wastewater, or reclaimed water services. Examples of non-rate revenue include various miscellaneous fees and charges such as private fire hydrant fees, dillo dirt sales, backflow prevention fees, and new service connections.

**Payment in Lieu of Taxes (PILOT)** — a payment made to a governmental entity instead of taxes that a municipally owned utility would have paid on properties and assets if they were a private utility.

**Peaking Factor** — a measure of system demand over a specified period of time (hour, day, etc.). As compared to an average, peaking factors are measured and assigned by individual customer (Large Volume) or customer class (Residential, Multifamily, Commercial, Wholesale, etc.).

**Public Involvement Committee (PIC)** —a committee formed to include citizens representing each customer class served by Austin Water. The goal of the committee is to provide for public involvement in the cost of service study, allow each customer class to be represented in the process, review and assess cost of service methodology development, and provide customer class representatives and citizens the opportunity to provide comments to the Austin Water Executive Team on cost of service methodology decisions.

**Public Utility Commission of Texas (PUCT)** — formed in 1975 by the Texas Legislature as a rate regulatory body. The PUCT now, since deregulation, oversees electric, telecommunications, and water companies to ensure Texas consumers have access to competitive utility services. The PUCT oversees competition in the wholesale and retail electricity and telecommunications markets, and regulates rates and services of certain non-competitive electric utilities, local exchange companies, and retail and wholesale water utilities.

**Rate** — a defined volumetric charge related to the amount of water usage or flow.

**Rate Design** — after the cost of service process is complete, the review turns to rate design in which rate structures and rates, or prices, are determined. Rates must be set to recover the utility's full revenue requirement.

**Rate Schedule** — the set of different rates and charges assigned to the various customer classes and customers.

**Reclaimed Water** — highly treated wastewater effluent that is recycled back into the reclaimed water system for non-potable use. Reclaimed water can be used for landscape irrigation, cooling towers, and toilet flushing.

**Residential Customer** — a customer who receives water service for domestic purposes such as, consumption, cooking, cleaning, and small scale irrigation. Examples of residential dwellings are single family homes, apartment or condo units that are individually metered, and mobile homes.

**Retail Customer** — individually metered customers receiving water from a water and wastewater utility.

**Revenue Requirement** — the amount of annual revenue needed by a utility to pay all annual expenses, debt obligations and rate of return needs.

**Seasonal Volume Rates** — commonly referred to as peak/off-peak rates. A method of deriving a cost of service volume rate based on the different system requirements during the winter and summer periods.

**Test Year** — the annualized period for which costs are to be analyzed and rates established. The twelve-month operating period selected to evaluate the cost of service and the adequacy of rates in effect or being sought.

**Tiered Fixed Fee** — structured progressive residential fixed fee based upon total billed consumption for the billing period as it falls within a rate block, not as a volumetric charge per 1,000 gallons.

**Uniform Volume Rate** — a method of deriving a single charge per unit of volume to recover the cost of service.

**Unit Cost of Service** — the cost of a unit of product or service, for example, the cost of pumping 1 million gallons of water.

**Utility Basis Revenue Requirements** — a method of establishing revenue requirements based on annual expenses for operations and maintenance, depreciation, and a rate of return.

**Volume Rate** — that portion of a water rate that is related to the volume of water used. The volume rate can be a single unit charge for all volume used, or it can be increased or decreased at selected block levels.

**Water Budget Volume Rates** — also referred to as excess use rates. A method of deriving a cost of service volume rate based on a customer's estimated efficient consumption, typically during the winter period. Customers that exceed the efficiency threshold will pay higher rates as a means to encourage conservation.

**Wholesale Customer** — the sale of any commodity to an entity who intends to resell that commodity to their retail customers.

**Wholesale Involvement Committee (WIC)** — a committee formed to consist of representatives from each wholesale customer served. The goal of the committee is to provide our wholesale customers a platform to be involved in the cost of service study, allow each customer to be represented in the process, review and assess cost of service methodology development, and provide wholesale customer representatives the opportunity to provide comments to the Austin Water Executive Team on cost of service methodology decisions.

### **Questions?**

If you have any questions about the rate review process, please [email us](#) and a representative will reply as soon as possible.