AUSTIN WATER COST OF SERVICE RATE STUDY
WHOLESALE INVOLVEMENT COMMITTEE
APRIL 25, 2017 – 9:30 A.M.
WALLER CREEK CENTER – ROOM #104
625 E. 10TH STREET, AUSTIN, TEXAS

AGENDA

For more information, please visit http://www.austintexas.gov/department/2016-cost-service-rate-study

MISSION: The purpose of the Wholesale Involvement Committee (WIC) is to examine the methodology being developed to determine cost of service for all customer classes with a primary focus on the retail customer classes, discuss the impacts of key cost of service factors, and advise the Austin Water Executive Team in their decision-making process.

MEETING GOALS: Discuss preliminary Water and Wastewater Cost of Service (COS) results.

CALL TO ORDER

1. **CITIZEN COMMUNICATION**
   The first 10 speakers signed up prior to the meeting being called to order will each be allowed a three-minute allotment to address their concerns regarding items not posted on the agenda.

2. **DISCUSSION ITEMS**
   a. Austin Water Forecast 2018-22
   b. Water and Wastewater COS Results
   c. Executive Team Decisions

3. **COMMITTEE DISCUSSION**
   a. WIC Member Questions and Discussion

4. **FUTURE AGENDA ITEMS**

5. **PUBLIC COMMENT**

6. **ADJOURN**

Presentation | WIC

Presentation | WIC

Presentation | WIC

Presentation | WIC

PRELIMINARY RESULTS

WIC Meeting #11 / April 25, 2017

RAFTELIS FINANCIAL CONSULTANTS, INC.

ALAN PLUMMER ASSOCIATES, INC. ENVIRONMENTAL ENGINEERS AND SCIENTISTS

LRPR LAURA RAUN PUBLIC RELATIONS SIMPLICITY WORKS

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TODAY'S WIC MEETING

1. Welcome
2. Citizen Comment (Standard Format – 3 Min)
3. Financial Forecast update
4. Question and answer update
5. Decision point update
6. Water and Wastewater Cost of Service Results
7. Summary of today's meeting and look ahead
8. WIC and Public Comments
9. Adjourn

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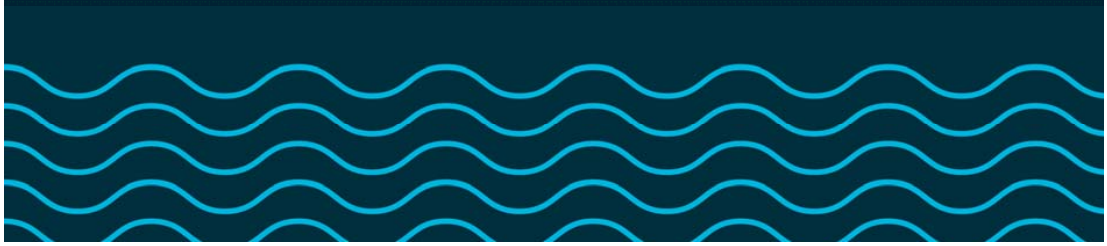
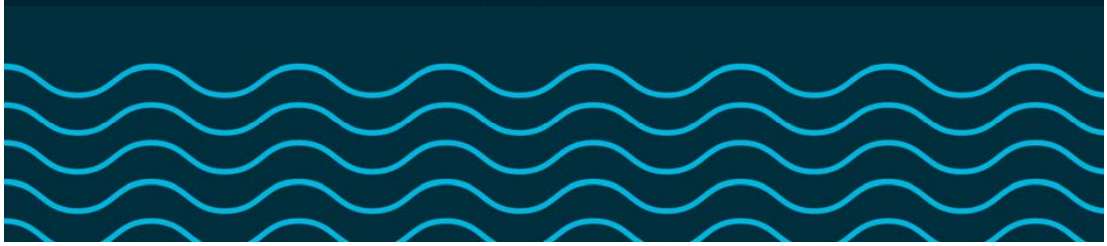
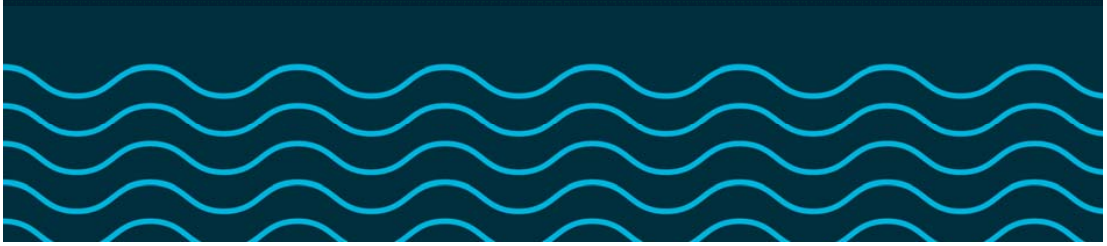
CITIZEN COMMENT



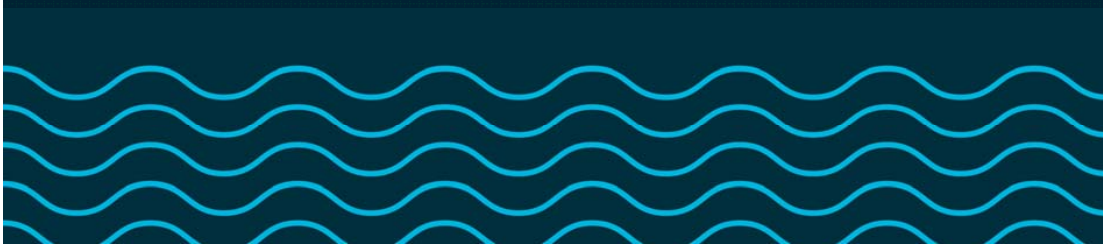
WIC COMMENTS FROM LAST MEETING



QUESTION AND ANSWER UPDATE



DECISION POINTS UPDATE



Austin Water
Financial Forecast Update

David Anders, Assistant Director

Executive Team Decisions

Issue #	Issue	Decision
20	Modification of Fire Demand Meter Fixed Charges	AW will modify the fixed charges for fire demand meter charges by basing the fixed meter charge on the smaller meter size rather than the larger meter size.
21	Fire Protection Costs and Allocation to Customer Classes	AW will modify the fire protection allocation using revised meter equivalencies based on hydraulic capacity by meter type as identified in AWWA M6, Water Meters - Selection, Installation, Testing, and Maintenance
22	Elimination of Commercial and Large Volume Subsidy of Residential Customers	AW will recommend to eliminate the current commercial and large volume subsidy of residential water customers. However, based on levels of impacts to residential customers, AW will likely recommend a short-term transition of this subsidy.

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AUSTIN WATER FINANCIAL FORECAST

Austin WATER

Austin Water
Financial Forecast Update

Joseph Gonzales, Utility Budget & Finance Manager

Austin Water
Forecasted Rate Revenue Increases

- Recent Rate Pressures
  - Severe drought
  - Reduced water consumption
- Austin Water Response
  - Business model adaptions to stabilize revenues
  - Debt management strategies
    - $40M in defeasance transactions in FY16 and FY17
    - Additional defeasance transactions planned during forecast period
- Stable rate environment expected throughout forecast period
  - No rate increase forecasted for 3 of 5 years

Forecasted Rate Revenue Increases

	2018	2019	2020	2021	2022
Water:	0.0%	2.0%	0.0%	1.9%	0.0%
Wastewater:	0.0%	2.0%	0.0%	1.9%	0.0%
Combined:	0.0%	2.0%	0.0%	1.9%	0.0%

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COST OF SERVICE PRELIMINARY RESULTS AND MODEL OVERVIEW

New COS Models Overview

- **Preliminary Results**:
  - New models review ongoing; results subject to change
  - Assumes 100% cost recovery for all customer classes
  - New COS models reflect the Executive Team decisions
- **Cost Allocation Methodology**:
  - Cost allocation methodologies used in the new COS models are similar to existing models
  - Exception is the specific functionalization of non-rate revenues

New COS Models Overview

- **Outside City Adjustments**:
  - Outside City adjustments are costs reallocated from outside city to inside city customers
- **Test Year Rates**:
  - Test year cost of service *rates* are adjusted uniquely by class within the COS models to reach class/customer cost of service due to an implementation delay
- **Cost of Service Transparency**:
  - A set of summary worksheets within the models provide different representations of the build-up of revenue requirements to arrive at class cost of service

SUMMARY AND LOOK AHEAD

RECAP OF TODAY'S DISCUSSION

I. Financial Forecast Update

II. Question and Answer Update

III. Executive Team Decision Point Update

IV. Water and Wastewater COS Preliminary Results

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NEXT STEPS

- **COS MODEL DISTRIBUTION/REVIEW SESSION**
- **RESULTS QUESTIONS/COMMENTS**
- **ADDITIONAL MEETING**
- **IMPARTIAL HEARING EXAMINER PROCESS**

WIC - SCHEDULE & TOPICS

Meeting	Day	Date	Objective
~~1~~	~~Tue~~	~~27-Sep~~	~~Orientation~~
~~2~~	~~Wed~~	~~5-Oct~~	~~Revenue Requirements~~
~~3~~	~~Tue~~	~~8-Nov~~	~~Revenue Requirements-Cont'd~~
~~4~~	~~Tue~~	~~29-Nov~~	~~Revenue Requirements-Cont'd~~
~~5~~	~~Tue~~	~~13-Dec~~	~~Water Cost Allocation~~
~~6~~	~~Wed~~	~~4-Jan~~	~~Decision Points~~
~~7~~	~~Tue~~	~~17-Jan~~	~~Decision Points~~
~~8~~	~~Tue~~	~~31-Jan~~	~~Wastewater Cost Allocation/Financial Benchmarks~~
~~9~~	~~Tue~~	~~21-Feb~~	~~Customer Assistance Program/Financial Benchmarks/Other Decision Points~~
~~10~~	~~Tue~~	~~6-Mar~~	~~Decision Point Recommendations~~
11	Tue	25-Apr	Overview of Results and Wrap-up
12	Tue	23-May	Overview of Results and Wrap-up (if necessary)

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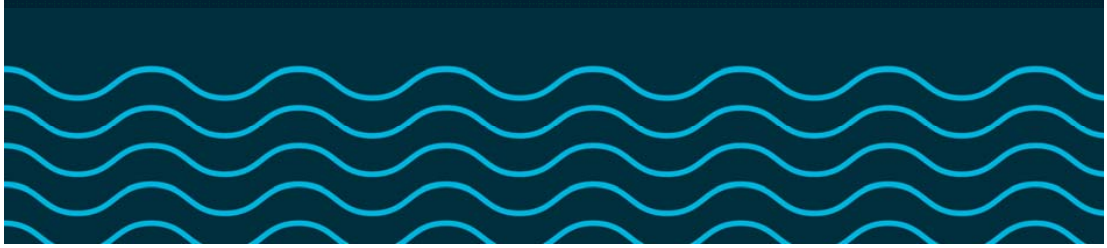
ADDITIONAL COMMENTS



ADJOURN

CONTACT: **RICK GIARDINA**
rgiardina@raftelis.com
www.raftelis.com

Question & Answer Summary | WIC

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Austin Water
COS Rate Study 2016 - Q&A Summary
As of 4/21/2017

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998	Multifamily	General Cost of Service	Marcia Stokes	**Submitted: 03/14/2017** Please provide the number of irrigation meters by size and class. What is the reasoning for charging fire protection on irrigation meters? Wouldn't this result in a double charge, domestic meter plus irrigation meter? Are parks or golf courses with higher irrigation demands than building use treated differently?	Posted	**Posted: 4/20/2017** Austin Water provided a summary of irrigation meters by customer class. The recovery of the costs of providing fire protection, including capacity, through fixed charges based on meter size was a decision made by Austin Water during the 2008 Cost of Service Rate study. This change from recovery through indirect volumetric charges was made in an effort to make recovery more equitable and increase revenue stability. The fire protection cost are recovered through all retail meters regardless of "domestic" or "irrigation".
997	Residential	Allocation Methodologies	Grant Rabon	**Submitted: 03/08/2017** Per the discussion at the March 6 PIC meeting, please provide the source documents used to develop the meter factors utilized in the water cost of service model to calculate the fixed charges by meter size (for those costs associated with meters).	Posted	**Posted: 4/20/2017** The equivalent meter ratios are calculated by using the maximum meter flow rated capacity of Class I meters. The turbine and fire flow meters were defaulted to the Class I ratio during the 2008 Cost of Service study which included a decision to not assign costs by meter size.
994	Wholesale	Allocation Methodologies	Howard Hagemann	**Submitted: 03/03/2017** In your formula for Class Max Day and Max Class Hour there is an Average Ay of Max Month and a System Average DAy of Max Month. What is the difference? Also, it was mentioned in one of the meetings that Austin Water currently uses a three year average. Is this for all factors in the formulas or only certain factors?	Posted	**Posted: 4/20/2017** Under the current peaking factor methodology, Austin Water uses a 3-year rolling average of Non-Coincidental Peak (NCP) factors in an effort to alleviate some volatility within each customer class. The calculation of the NCPs uses the 3-year rolling average of the customer class data and system demand characteristics to derive the peaking factors by customer class.
993	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/27/2017** Please describe what steps if any W or WW has taken to obtain grants and such other beneficial funding (like low-interest loans) for infrastructure improvement and for water reclamation and re-use projects. In your response, please itemize the current grant programs and any current reduced funding programs.	Posted	**Posted: 4/20/2017** AW has entered into a multi-year commitment from the State Water Implementation Revenue Fund for Texas (SWIRFT) to fund several eligible projects. Austin Water issued $20.4 million of revenue bonds through this program during 2016 and is reviewing future issuance opportunities through the multi-year commitment.
992	Residential	General Cost of Service	Grant Rabon	**Submitted: 02/24/2017** What is the credit rating goal, or target, desired by Austin Water (e.g., A, AA, AAA, etc.)?	Posted	**Posted: 4/20/2017** Austin Water's (AW's) goal is to maintain its current ratings assigned by the three credit rating agencies: Fitch, Moody's, and Standard & Poor's Global Ratings. AW's internal performance measure uses Standard & Poor's Global Ratings (S&P) "AA" rating as a benchmark for separate lien obligations.

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991	Residential	General Cost of Service	Grant Rabon	**Submitted: 02/20/2017** We understand Austin Water has participated in the AWWA performance indicators survey (Benchmarking Performance Indicators for Water and Wastewater: 2016 Edition). As a participant, Austin Water should have been provided a custom report that shows Austin Water's performance indicators against the aggregate data for all participating utilities in the same service category (water, wastewater, or combined systems). Please provide a copy of this report.	Posted	**Posted: 3/3/2017** Data collection for the the 2016 American Water Work Association (AWWA) Benchmarking Performance Indicators for Water and Wastewater Utilities survey is currently underway. AW provided the results from the 2015 AWWA Benchmarking Performance Indicators for Water and Wastewater Utilities survey.
984	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/16/2017** Do you use a different income eligibility requirement than Austin Energy for your CAP customer bill discount program? If so,: a. What is your income eligibility requirement? b. How does Austin Energy implement that requirement?	Posted	**Posted: 3/3/2017** Austin Water (AW) adheres to the same eligibility requirements that Austin Energy (AE) uses to enroll customers in the Customer Assistance Program (CAP). AE
983	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/16/2017** Please tell me the family size you relied upon for developing your MHI CAP amount ($ 54,265-adjusted for CPI inflation) in your response to Question No. 833.	Posted	**Posted: 3/3/2017** Austin Water (AW) used the most recent American Community Survey Median Household Information (MHI) as of 2015 for the Austin-Round Rock-San Marcos MSA. MHI for the area is based on an average household size of 2.47.
982	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/16/2017** You refer to MHI in response to Question No. 833. You provide $ 67,831 for FY MHI for non-CAP customers. Please tell me the family size that you relied upon for developing your MHI non-CAP amount?	Posted	**Posted: 3/3/2017** Austin Water (AW) used the most recent American Community Survey Median Household Information (MHI) as of 2015 for the Austin-Round Rock-San Marcos MSA. MHI for the area is based on an average household size of 2.47.
981	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/16/2017** In your response to Question No. 865 you identify a bad debt expense (Account No. 6802) and a commission on debt (Account No. 6804). Please explain what is a commission on debt and how, if at all is it related to bad debt. In your explanation, please address whether you received revenues relating to a commission on debt expense, and if so, how those revenues were treated for COS purposes.	Posted	**Posted: 3/3/2017** Commission on debt expenses include commercial paper administrative expenses, utility revenue bond commission expenses, arbitrage rebate administrative expenses and other administrative costs associated with AW's capital financing program. Bad debt expense represents the amount of customer uncollectible accounts receivable balances for a given year. Austin Water does not receive any revenues related to commission on debt expenses.

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980	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/16/2017** Please answer the following questions that derive from the 2017 Water and Sewer Medians report by Fitch ratings. In your responses please use data points, if possible, from the same time period. Please also identify the time period relied upon in your answers. In answering these questions, please rely upon the Fitch ratings report's definitions for their meaning. a. What is your water treatment capacity remaining (%)? b. What is your sewer treatment capacity remaining (%)? c. What is your age of plant (in years) involving the water utility? d. What is your age of plant (in years) involving the wastewater utility?	Posted	**Posted: 4/21/2017** Provided table with treatment plant information, including age and average remaining treatment capacity.
979	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/16/2017** Please explain the inconsistencies in the levels of debt addressed in your answer to Question No. 942 and in your answer to Question No. 838. In addition to the timing (FY 2015 for Question No. 942 and FY 2016 for Question No. 838), please address whether different and/or additional source data were relied upon in deriving the different answers and what that source data were.	Posted	**Posted: 3/3/2017** The primary difference between responses provided by Austin Water for Question 838 and Question 932 is due to the specific information requested in each question. Question 972 requested the total current outstanding principal balance for AW, while question no. 838 requested information about how AW accounts for and calculates debt service coverage (DSC). The DSC ratio is based on annual debt service requirements (payments) and not AW's total outstanding principal balance.
978	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/09/2017** What is the status of the Austin Energy promised review of the utility billing system costs allocation that was to occur during FY 2017. (reference, your response to Question No. 840) If the review has been completed, please provide a copy of that review.	Posted	**Posted: 2/17/2017** Austin Energy (AE) has submitted a Scope of Work to various firms and expects to receive proposals by the end of February. AE hopes to select a vendor to conduct the review of the Customer Care & Billing cost allocation model in early March. A timeline for the completion of this project will not be available until a vendor is selected.
977	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/09/2017** Please provide both the budgeted and the actual costs incurred related to your utility-wide allowance fund for the following FYs: FY 2012, 2013, 2014, 2015, 2016.	Posted	**Posted: 3/2/2017** AW provided contigency budget and actuals for fiscal years 2012 - 2016.
976	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/09/2017** Your response to Question No. 900, p. 4 reveals that the reclaimed water utility had an estimated 370 days of cash on hand, higher than the estimated days of cash on hand for WW or for the water utilities. Since the reclaimed water utility is currently being subsidized by the w and ww utilities, please explain how the reclaimed water utility can have days of cash on hand - especially greater than the w or ww utilities' respective days of cash on hand.	Posted	**Posted: 4/20/2017** Austin Water (AW) does not collect data for water leaks involving residential customers, including CAP participants. Property owners are responsible for the service lines past the meter (private side) and internal plumbing, while AW is responsible for maintaining and replacing water mains throughout the service area.

Austin Water
COS Rate Study 2016 - Q&A Summary
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975	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/09/2017** What research, if any, have you performed or received concerning water leaks involving your CAP customers? In your response, please provide any studies, reports, memos and such other written information prepared by or provided to you that address this issue.	Posted	**Posted: 3/2/2017** Austin Water (AW) does not collect data for water leaks involving residential customers, including CAP participants. Property owners are responsible for the service lines past the meter (private side) and internal plumbing, while AW is responsible for maintaining and replacing water mains throughout the service area.
974	Residential	Customer Demand Characteristics	Lanetta Cooper	**Submitted: 02/09/2017** Without disclosing the identity of the customers please provide the workpapers relied upon by you in developing the peaking factors referred to in the previous question regarding CAP customer peaking factors.	Posted	**Posted: 3/2/2017** Austin Water provided working papers used to populate the FY 2017 Cost of Service model to calculate peaking factors for retail customer classes.
973	Residential	Customer Demand Characteristics	Lanetta Cooper	**Submitted: 02/09/2017** The December 13, 2016 report provided the W/WW PIC at p. 22 (slide No. 35) revealed that residential CAP customers had higher retail peaking factors. Please explain how the values were derived. In responding to this question please address how billings, if at all, were utilized in developing the peaking factors.	Posted	**Posted: 2/17/2017** Currently Austin Water uses the following method for calculating customer class peaking factors: "Class Peak Day Factor" = ((Class Peak Month Demand/Class Average Month Demand) X (System Peak Day Demand/System Peak Month Demand)) "Class Peak Hour Factor" = ((Class Peak Month Demand/Class Average Month Demand) X (System Peak Hour Demand/System Peak Month Demand)) Customer billing data for each class is extracted from the Customer Care and Billing system, (CCB) on a monthly basis and is used to populate the Utility's Cost of Service models.
972	Residential	Allocation Methodologies	Lanetta Cooper	**Submitted: 02/09/2017** According to our October 5, 2016 meeting, the Texas PUC disallowed Green Water treatment plant capital costs. According to COA answers to a request for information (Question 920) the COA has no outstanding debt service obligations for this plant. Is the Green Water treatment plant decommissioned? If so, how are the costs relating to the Green Water treatment plant to be addressed under a ROR methodology. Specifically include addressing whether the treatment plant will be listed as a capital asset for purposes of deriving a ROR.	Posted	**Posted: 2/17/2017** The Green Water Treatment Plant (GWTP) is decommissioned and the asset was removed from the general ledger at the time of decommissioning. Because the GWTP is no longer "used and useful", the plant would not be included as a capital asset under the Rate of Return (ROR) methodology.

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971	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/09/2017** For the FY 2017 Reclaimed Water utility's COS, what was the amount of debt allocated to residential customers, if any? What was the debt-service coverage ratio you relied upon for the FY 2017 reclaimed water utility? In providing the answer, please do not include the estimated revenues transferred from the water utility and the wastewater utility in calculating the debt service coverage. Please identify the estimated revenues transferred from the water utility and from the wastewater utility for FY 2017.	Posted	**Posted: 2/17/2017** Austin Water does not allocate Reclaimed debt to residential customers as the Reclaimed utility does not serve residential customers. The FY 2017 targeted debt service coverage for Reclaimed Water is 0.88x. Reclaimed debt service coverage only includes revenue collected in the Reclaimed water fund does not include Transfers In from the Water and Wastewater funds. The FY 2017 budget includes a transfer of $3,400,000 to the Reclaimed fund which is an equal transfer of $1,700,000 from the Water fund and the Wastewater fund.
970	Residential	Customer Demand Characteristics	Lanetta Cooper	**Submitted: 02/09/2017** Please provide the billing frequencies for the CAP water utility customers for the following fiscal years: FY 2014; FY 2015; FY 2016; and FY 2017. Please provide the billing frequencies by the consumptions levels used to set the various tariffed rate levels for the residential customer class if possible.	Posted	**Posted: 2/17/2017** Response provided historical actual bill frequency information by block for Customer Assistance Program customers for FY 2014, FY 2015, FY 2016, and FY 2017 year to date. Also provided forecasted residential class bill frequency information for the FY 2014, FY 2015, FY 2016 and FY 2017 used set rates for those years.
969	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/09/2017** What was the debt-service coverage ratio you relied upon for the FY 2017 water utility's COS? What was the debt-service coverage ratio you relied upon for the FY 2017 wastewater utility's COS?	Posted	**Posted: 2/17/2017** AW's FY 2017 budget targeted debt service coverage of 1.61x for the Water Utility and 1.82x for the Wastewater Utility.
968	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/09/2017** For the FY 2017 wastewater utility COS, what was the amount of debt included in the utility's COS?	Posted	**Posted: 2/17/2017** Austin Water's budgeted Wastewater debt service requirements included in the FY 2017 Cost of Service model were $93,805,347.
967	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/09/2017** For FY 2017 wastewater utility COS, what was the amount of debt allocated to residential customers?	Posted	**Posted: 2/17/2017** Austin Water's FY 2017 Wastewater Cost of Service model included a debt service allocation of $32,724,872 to the residential customer class. This amount includes $29,779,150 for non-CAP residential customers and $2,945,721 for CAP residential customers.
966	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/09/2017** For FY 2017 water utility COS, what was the total amount of debt included in the water utility's COS?	Posted	**Posted: 2/17/2017** Austin Water's budgeted Water debt service requirements included in the FY 2017 Cost of Service model were $109,112,808.

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965	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 02/09/2017** For FY 2017 water utility COS, what was the amount of debt allocated to residential customers for the water utility?	Posted	**Posted: 2/17/2017** Austin Water's FY 2017 Water Cost of Service model included a debt service allocation of $41,328,905 to the residential customer class. This amount includes $37,432,948 for non-CAP residential customers and $3,895,957 for CAP residential customers.
956	Residential	General Cost of Service	Grant Rabon	**Submitted: 01/04/2017** Please provide the recently released 2017 Fitch medians report.	Posted	**Posted: 2/14/2017** Austin Water provided link to 2017 Fitch Ratings Water and Sewer Medians Report.
951	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/29/2016** "You" in these questions refer to Austin W/WW and its employees including the general manager, officers and consultants. "PIC" means Public Involvement Committee. "COS" means cost of service. "COA" means City of Austin. 1. How much O&M costs are related to the COA water utility's transmission mains? 2. How are the O&M costs related to the COA water utility's transmission mains allocated among the customer classes. In your response please include the $ amount of costs assigned to each customer class, the methodology(ies) the utility relied upon in allocating the O&M costs among the customer classes, and the FY the utility used for its data. 3. How much of the O&M costs identified in No. 1 above are attributable to the "extra capacity costs" incurred by the COA water utility? In other words if the transmission main was constructed and maintained to handle only "base capacity" usage, what O&M costs would be avoided?	Posted	**Posted: 1/11/2017** The FY 2017 Cost of Service (COS) model includes O&M costs for water Transmission Mains totaled at $16,424,157. Austin Water allocates these costs in accordance with the Principles of Water Rates, Fees and Charges (American Water Works Association M1 Manual).

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950	All Classes	Allocation Methodologies	Marcia Stokes	**Submitted: 12/29/2016** Cost allocation: Please provide by meter size and customer class, the number of fire demand aka fire service meters which are 8x2"FD, 10x2"FD and 12x2"FD. In addition, for each fire service meter size and class, please provide how many meters are within each DOMESTIC USE equivalent meter size of 2",3",4",6"or 8". DOMESTIC USE equivalent meter size can be found by retrieving the CRF (capital recovery fee) paid and reverse lookup the service units and corresponding equivalent meter size. For example in 2007, a fire demand meter with domestic use of 8 service units which is equivalent to a 2" PD meter paid a $5600 CRF in DDZ zone or $12000 in a DWPZ zone; 16 service units (3" meter equivalent) paid a $11,200 CRF (DDZ) or $24,000 CRF (DWPZ); 25 service units (4" meter equivalent) paid a $17,500 CRF (DDZ) or $37,500 CRF (DWPZ), 50 service units (6" meter equivalent) paid a $35,000 CRF (DDZ) or $75,000 CRF (DWPZ).	Posted	**Posted: 04/20/2017** Austin Water provided a listing of 520 fire service meters and capital recovery fee amount paid for the meter if available.
949	All Classes	Customer Demand Characteristics	Marcia Stokes	**Submitted: 12/29/2016** COS Model and Cost Allocation: Please provide the external pivot table 'C:\Rates and Charges\COS\FY 2009-10 & COS Study\Water\[Meter Size Pivot.xlsx]Sheet1' which is referenced in the COS model provided under: spreadsheet "Water Option_01 Budget submittal, Characteristics worksheet, Table 58, Equivalent Meter schedule, Equivalent Fire Services Column. Also, explain the methodology and formula used for the overridden values of equivalent fire services for 8", 10" and 12" meters changed May 7, 2012 by Michael Castillo.	Posted	**Posted: 1/11/2017** The equivalent meter analysis was completed as part of the 2009 Cost of Service Study by the previous COS rate consultant (Red Oak). This analysis was prepared in order to determine the average monthly adjusted consumption by meter size. An external pivot table is provided in the attachment as referenced in the FY 2017 COS model. The overridden values included in the COS model, are the result of an executive decision to implement adjustments to the 8", 10" and 12" equivalent meters in order to reduce the fixed cost allocations.
948	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/22/2016** (Question received via email on 12/22/16) 2. Does the COA W/WW department have a fiscal policy(ies) relating to debt levels, including debt equity ratios? If so please list each such policy.	Posted	**Posted: 1/5/2017** Austin Water does not have a financial policy related to debt levels. Response provided a listing of Austin Water's debt related financial policies.

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947	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/22/2016** (Question received via email on 12/22/16) You" in these questions refer to Austin W/WW and its employees including the general manager, officers and consultants. "PIC" means Public Involvement Committee. "COS" means cost of service. How do you derive your level of budgeted revenues for purposes of setting water and wastewater rates for the FY budget year? (In other words, what calculations, assumptions, formulas, and such other methods do you rely upon in deriving the amount of revenues you estimate will be realized during the budget FY). In your explanation, please address how the calculated revenues are normalized, if at all, for weather.	Posted	**Posted: 1/27/2017** Austin Water (AW) analyzes several factors when projecting the level of budgeted water and wastewater revenue. Historical monthly usage patterns of water consumption and wastewater flows by customer class are examined in order to weather-normalize the future demand projections. Adjustments are made to the demand projections to account for water conservation policy changes affecting customer behavior. Monthly growth trends by customer class are analyzed and adjustments are made to account for any known and measurable changes (i.e. new account growth, annexations, commercial or industrial expansion projects, etc.) for the upcoming budget fiscal year.
944	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** General fund transfer A. How is it considered in the COS? B. Should the current General Fund formula continue to apply to all revenues or should some revenues arising from certain costs be exempted because the costs incurred relate to the public good such as conservation lands or from costs related to excess capacity	Posted	**Posted: 1/12/2017** The General Fund Transfer is set at 8.2% of the three-year average of Austin Water operating revenues. This three-year average is calculated using the year-end estimate at March 31st for the current year and the previous two years of actual revenue. Each customer class for Retail and Wholesale is allocated a proportionate share of the General Fund Transfer based on the percentage of revenue each customer class contributes in revenue.
943	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** How are grants and such other non-rate revenue infusions addressed in COS?	Posted	**Posted: 12/29/2016** Non-rate revenue, including grants, is subtracted from the gross revenue requirement in the COS model in order to determine the net revenue requirement.
942	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** How is debt accounted for? A. d/s coverage ratio i.) What are the bond covenant requirements ii.) What are the COA financial policy requirements iii.) How is the COA's bond covenant requirements related to the general fund transfer, if at all? B. debt/equity ratio	Posted	**Posted: 12/29/2016** AW's bond covenant requirements for debt service is to maintain a 1.25x coverage. AW's financial policy requirements for debt service is to target 1.50x coverage. The COA's bond covenant requirements are not related to the general fund transfer. The debt to equity ratio is calculated using the City's CAFR and reported at the combined utility basis. Debt service and debt/equity information as FY 15 was provided.

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941	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** Who can appeal a council decision on w/ww rates? A. What is the process? B. What is the regulatory standard applied by PUC on appeal? C. What is the status of customer refunds and/or surcharges should the PUC adjust the COA's revenue requirement and/or its COS on appeal?	Posted	**Posted: 12/29/2016** Inside city customers can appeal their water and wastewater rates by contacting the Water and Wastewater Commission, City of Austin Public Utilities Committee, and the Austin City Council. Outside city and wholesale customers can appeal directly to Public Utility Commission of Texas (PUCT) .
940	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** Continued from above... D. How should prudency be considered when an investment is proposed that is replacing a current investment not fully depreciated? E. Should COS and/or the rate effect that is related to the timing of the financial commitment to investment be considered? In other words, should some investments be deferred or fast tracked because of the COS and rate effects of the investments? Is this a component of prudency?	Posted	**Posted: 12/29/2016** Replacement of current investments/assets is based on operational needs and service demands as part of Austin Water's (AW's) Capital Improvement Project (CIP) program. Rate impact is considered to the extent that AW manages its CIP Spending Levels to balance asset and infrastructure needs with the fiscal impact on AW's budget and rates.
939	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** How does COA relate its investment decisions to the used and useful regulatory standard-in other words, is the COA prudent in its investment decisions to ensure that it is not creating excess capacity? A. Is COA investment decisions driven by customer demand or by utility supply? i.) What is the long term and short term cost/benefit analysis of marketing and acquiring wholesale water contracts to retail base customers? Should a different COA approach be used to ensure retail base customers are not harmed? ii.) How does our current policy of entering into wholesale water contracts or serve retail customers outside our city limits affect: 1. Affordable housing 2. Environment 3. Sprawl and other growth concerns 4. How does this tie in to COS B. What should be the regulatory standard to determine whether an investment is a prudent utility decision? C. How should the effect on utility rates affect if at all an investment decision?	Posted	**Posted: 1/3/2017** Austin Water's infrastructure investments are based on operational needs and service demands as part of Austin Water's (AW's) Capital Improvement Project (CIP) program. Rate impact is considered to the extent that AW manages its CIP Spending Levels to balance asset and infrastructure needs with the fiscal impact on AW's budget and rates.
938	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** What is the amount of capital investment that is used and useful?	Posted	**Posted: 1/11/2017** Response provided the Capital Plant in Service information from the Water and Wastewater Cost of Service Models. The net capital plant in service is $1,607,078,593 for Water and $1,435,204,022 for Wastewater.

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937	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** How are new service connections addressed in COS?	Posted	**Posted: 12/29/2016** New service connections (i.e. Capital Recovery Fees) are considered non-rate revenue and are not based on the volume of water and wastewater sold in the COS analysis. Capital recovery fees are used to reduce debt service requirements associated with growth related projects, which reduces rate revenue required to cover revenue requirements.
936	All Classes	Allocation Methodologies	Lanetta Cooper	**Submitted: 12/19/2016** What is the rage of alternate COS methodologies? A. How was the range determined? B. How were the COS methodologies relied upon by consultants for residential customer classes determined? (what kind of vetting process was used to ensure the consultants that are relied upon for COS methodologies represented residential customer class in rate cases?).	Posted	**Posted: 04/21/2017** Austin Water provided a summary of issues (decision points) evaluated during the current Cost of Service study.
935	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** How does the water conservation program factor into rates? Into the cost of service?	Posted	**Posted: 12/29/2016** In the current COS model, the Water Conservation Program is allocated as a common to all (retail and wholesale) administrative cost. Costs associated with this indirect cost category are allocated based on the projected volume by customer class.
934	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** Does the COA have any customers who are not either within the city limits of Austin or within the service territory of AE?	Posted	**Posted: 12/29/2016** Austin Water (AW) provides water and/or wastewater services to outside city and wholesale customers that are not within the city limits or within the service territory of Austin Energy (AE). A map is provided showing the current service territorry for AW and AE.
933	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** How can we hold low income customers harmless for potential rate increases with the goal of maintaining affordability?	Posted	**Posted: 12/29/2016** The volumetric rates for the water and wastewater CAP participants are designed to collect 60% of the revenue requirements for the class. Residential CAP participants receive an average combined bill discount of 34.9% compared to the Residential Non-CAP customers.
931	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** How consistent, if at all, is the w/ww reserve policies with AE's reserve policies? A. What are all of COA's reserves and what is the policy behind each reserve? B. Are nontraditional expenses such as specialized reserves considered O&M expenses for purposes of determining the needed level of COA reserves such as the amount needed for cash working capital?	Posted	**Posted: 12/29/2016** Austin Water's (AW's) reserve policies are only consistent with AE's reserve policies as it pertains to debt service, specifically, the Combined Utility Reserve Fund which is a debt service reserve fund shared by both AE and AW. Other reserve funds are specific to each utilities master debt ordinance or financial policies adopted by City Council.

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927	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** What is the current low income bill discount program?	Posted	**Posted: 12/29/2016** Tthe City of Austin's Customer Assistance Program (CAP) provides waived water and wastewater customer charges to enrolled customers. In addition, volumetric rates are reduced for CAP participants.
926	Residential	Customer Demand Characteristics	Lanetta Cooper	**Submitted: 12/19/2016** What is the amount of wastewater used for families meeting basic needs?	Posted	**Posted: 12/29/2016** Austin Water (AW) considers the "winter average" of water consumption for residential customers, currently 4,000 gallons per month, as the amount of **wastewater** flows for families to meet basic needs since this period generally reflects the lowest level of residential consumption during the year.
925	Residential	Customer Demand Characteristics	Lanetta Cooper	**Submitted: 12/19/2016** What is the amount of water needed for families meeting basic needs?	Posted	**Posted: 12/29/2016** Austin Water considers the "winter average" of water consumption for residential customers, currently 4,000 gallons per month, as the amount of **water** needed for families to meet basic needs since this period generally reflects the lowest level of residential consumption during the year.
924	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** Except for low income customers participating in bill discount programs, are residential customers treated alike in w/ww rates? A. Do some residential customers have more than one meter that affects their usage characteristics for purposes of billing-that is do customers avoid conservation high tier rates by having a 2nd meter? If this is so, how are these customers billed for their water consumption and for "customer costs". B. How are tenants in multi-family structures charged for water/wastewater? I. If LL charges tenants a monthly amount for water, is the system fair? How does COA monitor? What utility costs are involved in providing w/ww to these tenants? II. If tenants water usage is individually metered, are there some COS savings?	Posted	**Posted: 12/29/2016** All residential water and wastewater customers that do not participate in the Customer Assistance Program (CAP) are treated alike and pay the same fixed fees and volumetric rates for water and wastewater service.
923	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/19/2016** What conservation studies have been done to justify conservation rates adopted by COA? What are their results? What reports have been done to verify estimated amounts of water conservation occurring as a result of rate structures?	Posted	**Posted: 12/29/2016** Recent research indicates that the effect could be higher but due to the variability of rate structures, weather, and conservation measures between cities, it is difficult to specifically determine the impact of conservation based on customer consumption. A 2014 report produced by the UNC Environmental Finance Center and the Sierra Club provides a good summary of the issue specific to Texas, and links to available national research.

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922	All Classes	Cost Recovery Basis	Lanetta Cooper	**Submitted: 12/19/2016** Are the current rate designs reasonable and equitable? A. Do the rate designs include riders or surcharges? B. What are the policies behind the rate designs for each customer class and for each rider or surcharge that exist, if any? C. Are there differentials in rates based on geographic location? D. Fixed vs volumetric charges	Posted	**Posted: 12/29/2016** Under the current rate design, water rates for the residential customer class do not fully recover the costs of providing service, while wastewater rates for the residential customer class are designed to recover the full revenue requirements. In addition, current water and wastewater rates for the Wholesale customer class are also below the calculated cost of providing the services, while rates for commercial, multifamily and large volume customers recover over 100% of the calculated cost of service for those classes.
921	All Classes	Allocation Methodologies	Lanetta Cooper	**Submitted: 12/19/2016** How should excess capacity be addressed?	Posted	**Posted: 12/29/2016** Excess capacity (i.e. Base Demand versus Max Day Demand and Max Hour Demand) costs are allocated based on the water demand parameters and usage characteristics of each customer class.
920	All Classes	Allocation Methodologies	Lanetta Cooper	**Submitted: 12/15/2016** 1. Do you have any debt service costs relating to facilities that have been decommissioned and are no longer used and useful in providing service? 2. If the answer is yes, please identify each facility and for each facility provide the following: a. The total amount of debt and the annual debt service requirement. b. How the costs were allocated, if at all, among the customer classes and please explain the methodologies along with the supporting reasoning utilized for the cost allocations.	Posted	**Posted: 12/29/2016** Austin Water is not aware of any outstanding debt related to decommissioned facilities.
919	All Classes	Allocation Methodologies	Lanetta Cooper	**Submitted: 12/15/2016** How were construction work in progress related costs allocated among the customer classes? In your answer, please explain the methodologies along with the supporting reasoning utilized for the cost allocations.	Posted	**Posted: 1/3/2017** Austin Water includes construction work in progress in rates as debt service payments for either Revenue Bonds, Commercial Paper, Water District Bonds or Cash Funding. This is first allocated to “Key Water Service Functions” then each function is assigned to either common to all costs (both retail and wholesale), retail only, or wholesale only. The functioned costs are then allocated to demand parameters.
918	All Classes	Allocation Methodologies	Lanetta Cooper	**Submitted: 12/15/2016** How were the capital and O&M costs relating to overhead and office costs for general plant executives and staff allocated in the FY 2017 COS	Posted	**Posted: 1/11/2017** O&M overhead and office costs for general plant executives and staff are itemized as Administrative Support in the FY 2017 COS. These costs are allocated as “Common to All” expenditures that are jointly shared among the retail and wholesale customer classes based on their projected volumes. Capital overhead and office costs for general plant executives and staff is a part of the annual debt service.

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917	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/15/2016** Please identify when the load assumptions for planning identified in the previous question were developed.	Posted	**Posted: 1/27/2017** The Living Unit Equivalent (LUE) guidance document used for infrastructure planning and sizing for Service Extension Requests was last updated in September 2014.
916	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/15/2016** Please provide the load assumptions for planning a residential subdivision and for a multifamily building. To the extent load assumptions include recognition of water appliance assumptions, home size assumptions, and land assumptions, please include an explanation of all assumptions relied upon in developing the load assumptions for planning.	Posted	**Posted: 1/27/2017** Austin Water uses different planning methods for different planning projects. Several criteria and data sets are used to determine the appropriate infrastructure sizing for planning projects. Typically peak loadings are most appropriate for infrastructure project sizing, but in some circumstances the more applicable loading for planning represents minimum or average flows. For water infrastructure, peak hour or peak day plus fire flow are often used. For wastewater infrastructure, peak loadings are often represented as peak wet weather flows related to inflow and infiltration. Response provides current living unit equivalent guidance document used for Service Extension requests.
915	All Classes	Allocation Methodologies	Lanetta Cooper	**Submitted: 12/15/2016** 1. How were, if any, extra capacity costs allocated to fire protection. Please explain why or why not extra capacity costs were allocated to fire protection. 2. How were the fire protection costs identified and quantified for the FY 2017 COS study the PIC is reviewing? 3. Please provide the load factors (base, extra day and extra hour) for fire protection for the three year interval studies for the FY 2016 COS and for the FY 2017 COS.	Posted	**Posted: 12/29/2016** Fire demand costs are not allocated based on peak day or peak hour demands, consequently Austin Water does not maintain load factor information for fire protection.
914	Residential	Customer Demand Characteristics	Lanetta Cooper	**Submitted: 12/15/2016** 1. What is the total number of CAP customer relied upon in the cost of service study the PIC is reviewing? 2. For those customers identified in no. 1, please provide the bill frequency distribution for the CAP customers for each FY identified in the load data provide the PIC. (By this I mean the number of bills at the different rate levels of consumption by month and by year.) (If the request calls for inconsistent data - that is CAP customer come and go, please provide the data based on the CAP customers for the relevant requested FYs data) 3. What research, if any, have you performed or been provided that explains any large water consumption for any of the CAP customers including: peak day and peak hour consumption, if possible. 4. How many CAP customers had a consumption level for any month of the fiscal year used for the COS that were in the third tier, in the fourth tier, in the fifth tier?	Posted	**Posted: 1/3/2017** Provided requested information related to number of CAP customers, including bill distribution detail based on consumption and number of accounts

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913	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 12/15/2016** Please identify and list each cost you have identified as non-volume related in your COS the Public Involvement Committee (PIC) is reviewing. For each cost identified, please provide the following: a. Whether the cost is customer, meter, or fire b. What amount you identified for that cost; and c. How that cost was allocated among the customer classes. Please explain the allocation method used.	Posted	**Posted: 1/27/2017** Provided a list of costs Austin Water has identified as non-volume related costs.
912	Residential	Allocation Methodologies	Lanetta Cooper	**Submitted: 12/15/2016** Please explain how you developed your peaking factors for the residential class. In your explanation, please identify how the load research was developed including: the number of accounts used in the sample; how the sample was determined for sampling and for the accuracy of the sample to the whole customer class load characteristics.	Posted	**Posted: 12/29/2016** Customer class peaking factors are calculated as follows: "Class Peak Day Factor" = ((Class Peak Month Demand/Class Average Month Demand) X (System Peak Day Demand/System Peak Month Demand)) "Class Peak Hour Factor" = ((Class Peak Month Demand/Class Average Month Demand) X (System Peak Hour Demand/System Peak Month Demand))
909	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 12/07/2016** Questions relating to W/WW Cost of Service Submitted by Lanetta Cooper December 7, 2016, Prt.6 "You" in these questions refer to Austin W/WW and its employees including the general manager, officers and c16. Please provide you estimated typical monthly water consumption for each of the following residential family sizes including water used for a washing machine but not for lawn irrigation: a. Single member household b. Two person household c. Four person household d. Six person household e. Eight person household f. Ten person household g. 16 person household 17. Please provide a copy of your chart of accounts. 18. Is your chart of accounts consistent with the National Association of Regulatory Commissioners' Uniform System of Accounts? Please explain why or why not your onsultants	Posted	**Posted: 12/29/2016** Austin Water does not maintain customer household size information, consequently consumption forecasts are based on average consumption per account for each customer class, not on family size. Provided AW's chart of account elements. AW uses the City of Austin's standardized chart of accounts, which is not consistent with the National Association of Regulatory Commissioners' Uniform System of Accounts.
908	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 12/07/2016** Questions relating to W/WW Cost of Service Submitted by Lanetta Cooper December 7, 2016, Prt.5 "You" in these questions refer to Austin W/WW and its employees including the general manager, officers and consultants. 15. In your response to Grant Rabon requested on 10/18/2016 you provided the peaking factors by customer class. However, the residential customers apparently list both residential customers residing within Austin's city limits and residing outside Austin's city limits. Please break down the peaking factors for the residential class by inside the city limits and outside the city limits relying upon the same data, if able, you relied upon in your response to Mr. Rabon.	Posted	**Posted: 12/29/2016** Separate NCP factors for the inside city and outside city customers are not calculated in the COS model and Austin Water currently does not maintain separate peaking factor information for outside city customers.

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907	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 12/07/2016** Questions relating to W/WW Cost of Service Submitted by Lanetta Cooper December 7, 2016, Prt.4 “You” in these questions refer to Austin W/WW and its employees including the general manager, officers and consultants. 11. For the FY where the most recent data is available, what is the total amount of water treated on your peak day? On your peak hour day? 12. For each FY for the next ten years, please provide your estimates of water consumption during your peak day and during your peak hour. 13. In developing your peaking factors used to allocate costs, do you normalize the data for weather? Please explain. 14. How much reserve capacity do you have with your water treatment plants?	Posted	**Posted: 12/29/2016** Provided FY15 peaking factor information used in the FY17 Cost of Service model.
906	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 12/07/2016** Questions relating to W/WW Cost of Service Submitted by Lanetta Cooper December 7, 2016, Prt.3 “You” in these questions refer to Austin W/WW and its employees including the general manager, officers and consultants. 7. Please provide documents in your possession, care, or control you are aware of that support your position that W/WW needs the level of reserves you have identified in No. 6 above. 8. Please identify each non rate-related revenue source you have. 9. For each source identified in No. 8 above, please provide the following: a) Description of the source; b) The amount budgeted for FY 2017; c) How the revenues realized from that source were incorporated into your cost of service. 10. What is the total capacity of water treatment W/WW has involving its water treatment plants currently; projected for FY 2017; projected for FY 2018; and projected for each FY over the next five years and over the next ten years?	Posted	**Posted: 12/29/2016** Separate NCP factors for the inside city and outside city customers are not calculated in the COS model and Austin Water currently does not maintain separate peaking factor information for outside city customers.
905	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 12/07/2016** Questions relating to W/WW Cost of Service Submitted by Lanetta Cooper December 7, 2016, Prt.2 “You” in these questions refer to Austin W/WW and its employees including the general manager, officers and consultants. 4. Please explain how the revenue stability reserve costs were allocated among the various customer classes for FY 2017 or for the most recent FY available. 5. For each fiscal year since the creation of the revenue stability reserve to the present, please provide the amount of revenues W/WW realized from each customer class. 6. Please provide the total level of reserves W/WW opines it needs to maintain fiscal responsibility.	Posted	**Posted: 12/22/2016** Provided the amount of Revenue Stability Reserve Fund revenues realized from each customer class and Joint Committee recommedations related to reserve fund targets.

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904	Residential	General Cost of Service	Lanetta Cooper	**Submitted: 12/07/2016** Questions relating to W/WW Cost of Service Submitted by Lanetta Cooper December 7, 2016, Prt.1 “You” in these questions refer to Austin W/WW and its employees including the general manager, officers and consultants. 1. Please answer the questions I provided to you through the PIC meeting on September 27, 2016 and that are posted on your website. 2. Please provide the formula, calculation, model, and./or such other procedure you have/are using to determine what amount of revenue stability reserves is necessary to maintain the utility’s fiscal soundness. 3. Please identify what water systems you are aware of operating in Texas that have revenue stability reserves.	Posted	**Posted: 1/6/2017** The 2012 Joint Committee on Austin Water's (AW) Financial Plan (2012 Joint Committee) recommended that AW create a Revenue Stability Reserve Fund (Reserve Fund) with a funding target of 120 days of budgeted Water operating requirements by implementing a new volumetric surcharge. AW is not aware of any other water systems in Texas that has a revenue stability reserve fund or similar reserve.
900	Residential	General Cost of Service	Grant Rabon	**Submitted: 12/01/2016** Please provide the following data for each of the last five (5) fiscal years and the estimates for the current budget by utility (i.e., water, reclaimed water and wastewater). a) Dollar amount of cash funded capital expenditures b) Dollar amount of total capital expenditures c) Total debt service (principal and interest) d) Debt to equity ratio e) Debt service coverage ratio f) Total cash reserves g) Days cash on hand	Posted	**Posted: 12/29/2016** Provided 5 year history and FY17 budget for cash funded capital expenditures, total capital expenditures, debt service payments, debt to equity ratio, debt service coverage, total cash reserves and days cash on hand by utility (water, wastewater and reclaimed).
899	Residential	General Cost of Service	Grant Rabon	**Submitted: 12/01/2016** Please indicate if the $900,000 per year currently budgeted by Austin Water to support the Barton Springs/Edwards Aquifer Conservation District is a cost that has been specifically assigned to Austin Water by the Texas Legislature or, rather, was assigned to the City of Austin and the City decided that it should be paid by Austin Water.	Posted	**Posted: 12/20/2016** Texas law under Chapter 8802 of the Texas Special Local Laws Code assesses the District fee to the City of Austin. Austin Water pays the annual fee.
896	Outside	General Cost of Service	Chuck Loy	**Submitted: 11/30/2016** Regarding the current consideration of calculating the "Outside" rates using the Utility Method. Does AW have detailed records to be able to identify the plant that is providing service to outside customers? Or alternatively, can reasonable allocations be developed such as inch-feet, water produced or transferred, etc.? How would shared production facilities be allocated?	Posted	**Posted: 12/20/2016** Austin Water operates a integrated system which serves all customers. We do not identify specific plant or assets serving each customer class.
891	Wholesale	General Cost of Service	Jay Joyce	**Submitted: 11/22/2016** 8. [Wholesale] According to the COA Purchasing Office’s Scope of Work for the current COS study (Solicitation #RFP CDL2002), the consultant will have up to three meetings with PUC staff to assist AW in developing the wholesale rate filing package. Please describe how AW or the consultant is engaging the PUC and provide any documentation submitted to any PUC personnel on this topic. If the PUC has responded, please describe their response and provide all documents given to AW or its consultants by the PUC in their response(s).	InProgress	

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890	Wholesale	General Cost of Service	Jay Joyce	**Submitted: 11/22/2016** 7. [Wholesale] According to the COA Purchasing Office's Scope of Work for the current COS study (Solicitation #RFP CDL2002), the consultant will "develop written process documentation of PUC rate filing requirements learned from any meetings with PUC staff." Please provide that document when available.	InProgress	
889	Wholesale	General Cost of Service	Jay Joyce	**Submitted: 11/22/2016** 6. [Wholesale] If AW changes the rate methodology for the wholesale customers from the current cash basis to a utility basis, how does AW propose to compensate or credit these customers for their historical debt service contributions used to retire principal on debt? How will AW avoid double-collecting since most assets have shorter debt repayment schedules than the corresponding depreciable lives for the same assets?	Posted	**Posted: 3/2/2017** The Austin Water (AW) executive team decided to continue using the cash basis to determine revenue requirements for the wholesale customer class. Consequently, debt service expenditures will continue to be allocated to all customer classes and recovered using existing methodologies.
888	Wholesale	General Cost of Service	Jay Joyce	**Submitted: 11/22/2016** 5. [Wholesale] If AW changes the rate methodology for the wholesale customers from the current cash basis to a utility basis, how does AW propose to compensate or credit these customers for their historical contributions to cash-funded capital to avoid double-collecting?	Posted	**Posted: 3/2/2017** The Austin Water (AW) executive team decided to continue using the cash basis to determine revenue requirements for the wholesale customer class. Consequently, cash-funded capital expenditures will continue to be allocated to all customer classes and recovered using existing methodologies.
887	Wholesale	General Cost of Service	Jay Joyce	**Submitted: 11/22/2016** 4. [Wholesale] Provide the contract (as defined in COA Purchasing Office's Standard Purchase Definitions) for AW's Impartial Hearing Examiner related to the current AW cost of service study.	InProgress	
886	Wholesale	General Cost of Service	Jay Joyce	**Submitted: 11/22/2016** 3. [Wholesale] Provide the solicitation (as defined in COA Purchasing Office's Standard Purchase Definitions) for AW's request for an Impartial Hearing Examiner related to the current AW cost of service study.	Posted	**Posted: 4/21/2017** Austin Water provided the scope of work for the impartial hearing examiner solicitation.
885	Wholesale	General Cost of Service	Jay Joyce	**Submitted: 11/22/2016** 2. [Wholesale] According to the procedural schedule adopted for Austin Energy's 2016 cost of service and rate review (shown in Impartial Hearing Examiner's Memorandum No. 8) the parties submitted prefiled direct written testimony, conducted discovery, submitted prefiled rebuttal testimony, participated in a four-day hearing, and filed closing arguments in a manner similar to those used in a contested case at the PUC. Does AW envision using substantially the same process as AE? If not, what is expected to be different, and why?	Posted	**Posted: 04/21/2017** Austin Water (AW) has committed to an open and transparent rate review process following the conclusion of the Cost of Service study. The rate review process will include an independent review of AW's rate recommendation by an Impartial Hearing Examiner (IHE). The IHE process is expected to begin in October 2017 and conclude by May 2018. AW envisions the process to be similar to the process Austin Energy under took in 2016. The process will include pre-filed testimony, discovery, pre-filed rebuttal testimony and filed closing briefs.

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884	Wholesale	General Cost of Service	Jay Joyce	**Submitted: 11/22/2016** 1. [Wholesale] AW is required to submit a rate filing package to the PUC in order to change the rates of the four wholesale customers who were parties to the rate case (PUCT Docket No. 42857), and the COA Purchasing Office's Scope of Work for the current COS study (Solicitation #RFP CDL2002) states that the COS consultant will be designing a working model for the PUC rate filing package concurrent with the preparation of this COS Study. Please provide this model when it is available.	InProgress	
881	All Classes	General Cost of Service	Grant Rabon	**Submitted: 10/26/2016** Related to the FY 2017 Proposed O&M budget, for each line-item below please indicate what is driving the significant increase in this cost for the combined utilities (from the FY 2015 Actual) AND if the cost is expected to persist at the FY 2017 level into the future. a) Temporary Employees (acct 5006) b) Security Services (acct 5675) c) Other Services (acct 5860) d) Interdepartmental Charges (acct 6203) e) Legal Claims/Damages (acct 6355) f) Pipeline Maintenance (acct 6396) g) Commercial Incentives (acct 6811) h) Household Efficiency (acct 6813) i) Irrigation Efficiency (acct 6814)	Posted	**Posted: 12/20/2016** Response provides explanations for significant increases to the requested budget line items.
880	Large Volume	General Cost of Service	Jay Joyce	**Submitted: 10/26/2016** (This question was originally submitted as a comment on 10/24/16)Industrial/Large Volume: Please provide the proposal and the agreement with Raftelis Financial Consultants, Inc. to conduct this COS Study. How does AW propose to recover this cost from customers?	Posted	**Posted: 2/14/2017** Austin Water (AW) selected Raftelis Financial Consultants to conduct the 2016 Cost of Service rate study following a competitive solicitation process. The contract for the Cost of Service study, which includes Raftelis' proposal, is available on the City of Austin Purchasing Department website.
878	Large Volume	General Cost of Service	Jay Joyce	**Submitted: 10/26/2016** (This question was originally submitted as a comment on 10/24/16) Industrial/Large Volume: Please provide the following information pertaining to the sale(s) in FY 13, FY 14, FY 15, or FY 16 of any large AW assets (original cost greater than $1,000,000): • original cost • net asset value when sold • gross and net proceeds from sale, and • explanation of difference in gross and net proceeds (e.g., decommissioning cost, remediation, etc.).	Posted	**Posted: 12/20/2016** Response provides information on the sale of the Lime Creek Quarry in September 2015 for $4,100,000.

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875	Wholesale	General Cost of Service	Randy Wilburn	**Submitted: 10/25/2016** Why are the Wholesale and Out-of-CIty customers being excluded from the PIC? ALL customers, including wholesale and out-of-City customers, should be part of the PIC process.	Posted	**Posted: 1/5/2017** Austin Water decided to hold separate meetings for its retail and wholesale customers to provide all interested wholesale customers an opportunity to participate in the public involvement process given recent wholesale rate challenges. In prior COS studies, wholesale customers were limited to two Public Involvement Committee representatives. Although, Austin Water decided to hold separate PIC and WIC meetings, all meetings are open public meetings. As such, all interested parties, including wholesale customer representatives, are invited to attend and participate in the Public Involvement Committee process.
874	All Classes	General Cost of Service	Randy Wilburn	**Submitted: 10/25/2016** The Texas Public Utility Commission has already declared the following costs illegal for the COA to collect through water and wastewater rates: • General Fund Transfers; • rate case expenses; • reclaimed water (capital and O&M costs); • City's reclassification of SWAP and commercial paper administration costs from capital to expense; • drainage fee; • allocation of O&M expenses to the reclaimed water utility; • depreciation; • Green Water Treatment Plant capital costs; • Revenue Stability Reserve Fund; • Barton Springs/Edwards Aquifer Conservation District; • Govalle Wastewater Treatment Plant (capital costs/O&M costs); • utility-wide contingency; • Water Treatment Plant No. 4; and • Green Choice electricity When will AWU reduce all customers revenue requirements and rates in accordance with PUC Order?	Posted	**Posted: 1/5/2017** The PUC Order made findings of fact based on evidence relating to the 2013 rates charged to four specific wholesale customers; the PUC Order did not declare these costs illegal. It is incorrect and misleading to imply that the PUC's order from the specific case, with its particular facts and particular parties, must be applied more broadly. It is also important to note that the PUC Order is on appeal.
871	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please reference p. 16 of the September 27, 2016, PIC meeting Agenda and Backup document (Slide #19) which indicates that AW has 1,170.00 FTE positions in FY 2017. Please separate this into water, wastewater, and reclaimed water. How many of these positions are vacant today, and what are the revenue requirements (budgeted payroll and benefits) associated with these vacancies? Please also separate vacancy count and revenue requirements into water, wastewater, and reclaimed water.	Posted	**Posted: 12/20/2016** Table provides breakdown of 2017 Budget full time positions by utility, vacant positions, and vacant position budgeted salaries.
869	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please provide the anticipated level of capital spending for each of the next ten fiscal years (or as many years as possible if ten years' data is not available) for each of the water, wastewater, and reclaimed water utilities.	Posted	**Posted: 12/13/2016** Water asset listing available electronically upon request.

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868	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please provide the complete detailed wastewater asset listing (including original cost, accumulated depreciation, annual depreciation expense, and net asset value) that will be used in the FY 17 wastewater COS model.	Posted	**Posted: 12/13/2016** Wastewater asset listing available electronically upon request.
867	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please provide the complete detailed water asset listing (including original cost, accumulated depreciation, annual depreciation expense, and net asset value) that will be used in the FY 17 water COS model.	Posted	**Posted: 12/29/2016** Austin Water (AW) provided the Council approved 5 year capital spending plan by utility and project type for fiscal years (FY) 2017 – 2021.
866	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please provide a listing of all of the revenue requirements inputs to the FY 17 wastewater COS model and compare those amounts to the same categories of input amounts in the FY 13 wastewater COS model.	Posted	**Posted: 12/12/2016** Schedule includes FY 2013 and FY 2017 wastewater cost of service model revenue requirements.
865	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please provide a listing of all of the revenue requirements inputs to the FY 17 water COS model and compare those amounts to the same categories of input amounts in the FY 13 water COS model.	Posted	**Posted: 11/17/2016** Schedule includes FY 2013 and FY 2017 water cost of service model revenue requirements.
863	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please verify that AW has properly booked the net proceeds of the sale of the Green Water Treatment Plant ($34,765,000) into a capital account for future use in capital projects for AW as ordered by the PUCT in Docket No. 42857. How much of the $34,765,000 booked amount will AW utilize for capital projects FY 17?	Posted	**Posted: 12/13/2016** Response includes details of proper accounting for the resolution of the Green Water Treatment Plant decommissioning and sale of property.
862	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please verify that AW is properly removing from the COS all amounts transferred to the capital infrastructure fund relating to the Capital Management Department ($2.6 million in water O&M in FY 13 and $1.4 million in wastewater O&M in FY 13) as ordered by the PUCT in Docket No. 42857. What are the amounts in AW's FY 17 budget for the Capital Management Department?	Posted	**Posted: 12/12/2016** Capital Projects Management Fund budget for FY 2017 is $1,173,937 for water, $602,536 for wastewater and $37,076 for reclaimed.
861	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: What are the legal fees in the FY 17 budget associated with appeals of PUCT decisions or future PUCT rate cases?	Posted	**Posted: 12/12/2016** No FY 2017 budget was included for the appeal of wholesale rate case as internal City Law Department is handling.

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860	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please provide a listing of all legal fees in the FY 17 budget and the purpose of each.	Posted	**Posted: 12/12/2016** FY 2017 budget includes $860,000 for outside legal services, without any specific purpose. A contract for $700,000 for outside legal services for the Shady Hollow rate challenge was approved by Council in November 2016.
859	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Does AW agree that simply because an expenditure may be considered by some to be "good for society" does not mean that it is reasonable and necessary to recover the cost in utility rates?	Posted	**Posted: 1/10/2017** Austin Water believes that its' revenue requirements are made up entirely of costs necessary to provide water and wastewater services to customers, to ensure long-term water supply adequacy and to maintain a high water quality water source.
858	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Has AW quantified the difference in rate case expenses required to defend a cash basis approach vs. a utility basis approach at the PUCT? The utility basis will require qualified outside experts to conduct and defend depreciation studies, cost of capital analyses, and cash working capital amounts. If yes, how much is that difference, and how much is included in the FY 17 budget? If not, why not, since AW has indicated that it is considering submitting a utility basis approach to the PUC.	Posted	**Posted: 1/3/2017** Austin Water has not quantified the difference in rate case expenses required to defend a cash basis approach versus a utility basis approach at the Public Utility Commission of Texas (PUCT). Austin Water intends to select the method that best provides a fair and equitable allocation of costs between retail and wholesale customers irrespective of the outcome of the approach or the costs associated with defending the selected allocation basis.
857	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please reference page 25 of the October 5, 2016, PIC meeting Agenda and Backup document (Slides #39 and #40). In PUCT Docket No. 42857, AW spent over $1.3 million in legal and consulting fees in order to defend its positions before the PUCT and convince the PUCT of the validity of its costs: (SEE LIST IN COMMENTS SECTION) In addition to incurring the outside legal and consulting expenses, AW spent considerable unquantified internal resources working on the case. According to AW staff at the October 5 PIC meeting, AW "may come back" and attempt to convince the PUCT that the PUCT's decisions were wrong and that the previously disallowed items should be included in cost of service. Please quantify the cost of this effort that is included in the FY 17 budget.	Posted	**Posted: 12/29/2016** Other than COS expenses, budgeted at $494,000 for the duration of the study, and staff salaries, no other costs have been budgeted to support the COS and PUCT rate approval process. However after the start of the new fiscal year, Shady Hollow Municipal Utility District filed a new rate challenge. On November 10, 2016, City Council approved a contract for outside legal service realted to the Shady Hollow rate case in amount not to exceed $700,000.

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853	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please reference page 25 of the October 5, 2016, PIC meeting Agenda and Backup document (Slides #39 and #40). Listed on those slides are the following PUCT revenue requirement disallowances with their FY 13 amounts added below: 1. Green Water Treatment Plant Costs ($12,073,835 capital) 2. Revenue Stability Reserve Fund ($5,516,300 O&M) 3. Barton Springs/Edwards Aquifer Conservation District ($900,000 O&M) 4. Govalle Wastewater Treatment Plant ($835,516 O&M and $1,368,571 capital) 5. Utility-wide Contingency ($176,175 O&M) 6. Green Choice Electricity ($4,622,644 O&M increase vs. normal electricity costs) What are the FY 17 amounts for the above items? How are these being allocated among customer classes?	Posted	**Posted: 11/9/2016** Response includes FY 2017 budget for all requested items and the allocation by customer class.
852	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please reference page 25 of the October 5, 2016, PIC meeting Agenda and Backup document (Slides #39 and #40). Listed on those slides are the following PUCT revenue requirement disallowances with their FY 13 amounts added below: 1. General Fund Transfer ($34,524,366 O&M) 2. Rate Case Expenses ($641,811 O&M in FY 13 budget, $1.3 million actual) 3. Reclaimed water system ($960,000 O&M and $960,000 capital) 4. Reclassification of SWAP and commercial paper costs from capital to operating expense ($4,000,000 O&M) 5. Allocation of O&M expense to Reclaimed Water ($4,857,528 O&M) What are the FY 17 amounts for the above items? How are these being allocated among customer classes?	Posted	**Posted: 11/9/2016** Response includes FY 2017 budget for all requested items and the allocation by customer class.
851	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please reference page 24 of the October 5, 2016, PIC meeting Agenda and Backup document (Slides #37 and #38) which indicates that costs associated with the City Hall water feature will be allocated 100% to retail customers. In FY 13, capital costs for the City Hall water feature were $450,000. What is the amount in FY 17? Is the City Hall water feature currently running? If AW sold the City Hall water feature, could AW still provide water, wastewater, and reclaimed water service?	Posted	**Posted: 12/15/2016** Austin City Hall water feature was cash funded by Austin Water in FY 2006. There are no ongoing operating or capital costs included in retail or wholesale revenue requirements.
850	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: What other costs on page 24 of the October 5, 2016, PIC meeting Agenda and Backup document (Slides #37 and #38) that are classified as “Budget Reduction” have simply been reclassified, renamed, or otherwise changed such that they remain in the FY 17 budget despite AW’s statements that they should be and have been removed?	Posted	**Posted: 12/13/2016** 311 System Support costs were not eliminated, only reduced. Transfer to Economic Incentive Reserve fund was eliminated. Austin Water began funding a portion ot the Economic Development Fund.

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849	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please reference page 24 of the October 5, 2016, PIC meeting Agenda and Backup document (Slides #37 and #38) which indicates that costs for 311 System Support has been classified as "Budget Reduction," which AW staff indicated in the PIC meeting meant that these costs were entirely eliminated from AW's FY 17 budget because they did not relate to AW. Page 30 of the October 5, 2016, PIC meeting Agenda and Backup document shows $169,190 for Interdepartmental Charges for FY 17. According to the Austin Water Fund Line Item Description at the end of the same document, Interdepartmental Charges indicates that "…this requirement is AW's allocation to fund the 311 System Support…" Will this amount be eliminated from the Cost of Service as not necessary for AW to provide service?	Posted	**Posted: 11/8/2016** Schedule provides actual costs for 311 System Support for FY 2013 to FY 2016. FY 2017 budget for 311 System Support is $169,190.
848	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please reference page 24 of the October 5, 2016, PIC meeting Agenda and Backup document (Slides #37 and #38) which indicates that costs for the Radio Communications Fund will be allocated 100% to retail customers. In FY 13, revenue requirements for the Radio Communications Fund were $192,470 water and $192,470 wastewater. What are the amounts in FY 17? If AW eliminated the costs for the Radio Communications Fund, could AW still provide water, wastewater, and reclaimed water service? If not, how much could AW reduce the expenditures relating to the costs for the Radio Communications Fund and still continue to provide water, wastewater, and reclaimed water service?	Posted	**Posted: 11/8/2016** Regional Radio System budget for FY 2017 is $253,605 for water and $0 for wastewater.
847	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please reference page 24 of the October 5, 2016, PIC meeting Agenda and Backup document (Slides #37 and #38) which indicates that costs for Accounts Receivable Leak Adjustment will be allocated 100% to retail customers. In FY 13, revenue requirements for the Accounts Receivable Leak Adjustment were $785,000 water and $97,100 wastewater. What are the amounts in FY 17? What is the breakout of bad debt expense for each retail class?	Posted	**Posted: 11/7/2016** Accounts Receivable Leak Adjustments budget for FY 2017 is $976,000 for water and $60,100 for wastewater. Allocation by customer class is included in the schedule.
846	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please reference page 24 of the October 5, 2016, PIC meeting Agenda and Backup document (Slides #37 and #38) which indicates that costs for Bad Debt Expense will be allocated 100% to retail customers. In FY 13, revenue requirements for the Bad Debt Expense were $925,000 water and $917,500 wastewater. What are the amounts in FY 17? What is the breakout of bad debt expense for each retail class?	Posted	**Posted: 11/7/2016** Bad debt expense budget for FY 2017 is $2,508,825 for water and $1,850,456 for wastewater. Allocation by customer class is included in the schedule.

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845	Large Volume	General Cost of Service	JAY JOYCE	**Submitted: 10/24/2016** Industrial/Large Volume: Please reference page 24 of the October 5, 2016, PIC meeting Agenda and Backup document (Slides #37 and #38) which indicates that costs for Reicher Ranch O&M and capital costs will be allocated 100% to retail customers. In FY 13, revenue requirements included $105,770 in O&M and $818,704 in capital costs. What are the amounts in FY 17? If AW sold Reicher Ranch, could AW still provide water, wastewater, and reclaimed water service?	Posted	**Posted: 11/7/2016** Reicher Ranch budget for FY 2017 is $81,088.
844	Large Volume	General Cost of Service	Jay Joyce	**Submitted: 10/24/2016** Industrial/Large Volume: Please reference page 24 of the October 5, 2016, PIC meeting Agenda and Backup document (Slides #37 and #38) which indicates that costs for the Land Management Division will be allocated 100% to retail customers. In FY 13, revenue requirements for the Land Management Division were $1,458,750. What is the amount in FY 17? If AW eliminated the Land Management Division, could AW still provide water, wastewater, and reclaimed water service? If not, how much could AW reduce the expenditures relating to the Land Management Division and still continue to provide water, wastewater, and reclaimed water service?	Posted	**Posted: 11/7/2016** Land Management budget for FY 2017 is $1,446,357.
840	All Classes	General Cost of Service	Grant Rabon	**Submitted: 10/17/2016** Related to the FY 2017 Proposed O&M budget: a. The program costs for Water Resources Management in the water and wastewater budgets have increased significantly between FY 2014 (Actual) and FY 2017 (Proposed). Can you explain what is driving this increase? b. Were the transfers to Administrative Support in the FY 2017 budget formerly captured within the line item for transfers to Support Services Fund in the FY 2014 and FY 2015 actuals? c. Why is there a transfer to the Economic Development in the FY 2017 budget? Wasn't this a cost no longer to be recovered from Austin Water or did we misunderstand this treatment? d. The program costs for Utility Billing System Support in the wastewater budget have increased significantly between FY 2014 (Actual) and FY 2017 (Proposed). Can you explain what is driving this increase?	Posted	**Posted: 11/7/2016** Responses related to FY 2017 Proposed Operating Budget costs.
839	All Classes	General Cost of Service	Grant Rabon	**Submitted: 10/17/2016** What is the current cash balance for the water, reclaimed water, and wastewater utilities, segregated by purpose (e.g., Rate Stability Reserve, Operating Reserve, etc.)? Please identify any restricted amounts.	Posted	**Posted: 11/1/2016** Current restricted and non-restricted cash balances as of September 30, 2016 is $256,611,614.
838	All Classes	General Cost of Service	Grant Rabon	**Submitted: 10/17/2016** Please provide the currently outstanding principal amount for any debt that will be repaid by the water, reclaimed water, or wastewater utilities, by series. For shared debt (e.g., General Obligation issues), please identify the percentage of the issue that is allocated to water, reclaimed water, or wastewater.	Posted	**Posted: 11/9/2016** Outstanding principal as of August 1, 2016 is $2,325,094,000.

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837	Residential	General Cost of Service	Grant Rabon	**Submitted: 10/17/2016** For the allocation of Customer Care costs between electric, water, wastewater, ARR (solid waste), drainage, transportation and code compliance, please explain the rationale for the following organization costs being allocated to electric, water and wastewater only. Please also provide a brief explanation for each cost. a. Bill Production (Org 8807) b. Revenue Measurement and Control (Org 8811) c. Bill Support (Org 8817) d. Quality Management (Org 8818) e. CCC-Small Commercial (Org 8820) f. Multi-Family Partnership Program (Org 8824)	Posted	**Posted: 12/21/2016** Response includes explanations for each of the requested Customer Care costs and why they were allocated to only electric, water and wastewater only.
836	All Classes	Cost Recovery Basis	Grant Rabon	**Submitted: 10/17/2016** Given that only monthly water consumption data is available, please provide the underlying assumptions that will be used to develop the peak day and peak hour water demands by customer class, as well as the basis for these assumptions, if this methodology is pursued.	Posted	**Posted: 10/24/2016** Summary of peak day and peak hour calculation methodology.
834	Residential	General Cost of Service	Grant Rabon	**Submitted: 10/17/2016** With as many specifics as possible, please provide Austin Water Utility's plans to address residential rate affordability and the disproportionate cost of water and wastewater service for residential customers as a percentage of MHI (as reported by Fitch).	Posted	**Posted: 12/21/2016** Response provides historical cost reductions and debt management strategies to minimize rate increases.
833	Residential	Customer Demand Characteristics	Grant Rabon	**Submitted: 10/17/2016** Currently, how much is the average annual residential wastewater bill for Austin Water Utility customers in dollars per month and as a percentage of MHI?	Posted	**Posted: 11/1/2016** Average FY 2017 residential water bill of $41.60 per month which is estimated to be 0.74% of adjusted MHI.
832	Residential	Customer Demand Characteristics	Grant Rabon	**Submitted: 10/17/2016** Currently, how much is the average annual residential water bill for Austin Water Utility customers in dollars per month and as a percentage of median household income (MHI)?	Posted	**Posted: 11/1/2016** Average FY 2017 residential water bill of $41.59 per month which is estimated to be 0.74% of adjusted MHI.
830	All Classes	General Cost of Service	Dave Yanke	**Submitted: 10/12/2016** Question submitted via 09/27/16 PIC meeting. "Can staff provide information as to what other cities are using as a policy for 'Operating Cash Reserves'. Top 30 cities for example."	Posted	**Posted: 1/12/2017** Response provides reserve and debt service coverage policies and results where available for the top 35 cities ranked by population as of July 2014.
829	Wholesale	Revenue Requirements	Robert Anderson	**Submitted: 10/12/2016** Question submitted via 9/27/2016 WIC meeting. "Please provide a listing of the 'Peaking Factors' for all customer classes".	Posted	**Posted: 10/25/2016** Schedule showing FY 2013, FY 2014, FY 2015 and 3-year average peaking factors by customer class.
828	All Classes	General Cost of Service	Karyn Keese	**Submitted: 10/12/2016** 09/28/16 PIC Meeting questions submitted Via written document.	Posted	**Posted: 1/12/2017** Response provides requested information related to expenditure cost categories, transfers, capital program funding, Public Utility Commission of Texas (PUCT) disallowed wholesale expense items and cash versus utility basis revenue requirement calculation.

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827	All Classes	General Cost of Service	Amenity Applewhite	**Submitted: 10/11/2016** How have you notified Austin residents about the series of public meetings? I polled 22 residents/customers in my neighborhood and 100% had not heard about the Service Rate Study and public participation options. Additionally, I would like information on how you recruited the Public Involvement Committee Members. Thank you.	Posted	**Posted: 11/7/2016** Summary of Austin Water's cost of service rate study communication initiatives.
820	All Classes	Cost Recovery Basis	Jim Schaffrath	**Submitted: 09/30/2016** Why is it we always approach City utility rates from the revenue side of the ledger? Since we are going to computerized meters are we going to lay off the meter readers? If not, why not? Are there any other cost reducing measures that have been considered? Why haven't we an opportunity to comment on those? I do not want my water bill increased for any reason until we have exhausted cost saving measures.	Posted	**Posted: 11/4/2016** Summary of Austin Water's cost reduction efforts over the past several years and impact on meter reading costs when changing to advanced metering infrastructure.
818	All Classes	General Cost of Service	Phil Howry	**Submitted: 09/30/2016** Does the AWU pay a tiered-rate structure for water pumped from the LCRA system and by reason of the city's historic "riparian rights" to river water, at what extaction volume does the AWU begin paying the LCRA for water? Does the per unit water treatment costs rise or fall with volume? Please explain. How can AWU funds transferred per annum to the city's general fund be deemed a legitimate AWU "rate matrix expense"?	Posted	**Posted: 10/25/2016** Summary of City of Austin water rights, Austin Water firm contract with LCRA, $100M prepaid reservation and water use and the 201,000 acre feet trigger.
817	All Classes	General Cost of Service	Marcia Stokes	**Submitted: 09/30/2016** Can staff provide an updated history of fixed & volumetric charges by customer class as provided in AWU 2012 Joint Subcommittee Financial Plan website question 208 2/24/2012?	Posted	**Posted: 10/24/2016** Schedules showing historical fixed and volumetric charges by customer class for the first and final year of the previous cost of service model use time periods.
816	All Classes	Customer Demand Characteristics	Dan Wilcox	**Submitted: 09/29/2016** Question submitted at 09/27/16 PIC meeting. "Can staff provide the revenue by customer class for FY 2015 in the same format as the consumption/flows by customer class?"	Posted	**Posted: 10/4/2016** Schedule showing number of customers for August 2016, consumption/flows for FY 2015, and Actual Revenue for FY 2015.
815	Multifamily	Customer Demand Characteristics	Marcia Stokes	**Submitted: 09/29/2016** Requested information during the 09/27/16 PIC meeting. "What are the population percentages for 'single-family' residential and 'multi-family' residential water and wastewater customer of Austin Water?"	Posted	**Posted: 10/24/2016** Current population estimates include 56% single family and 44% multifamily
814	All Classes	General Cost of Service	Lanetta Cooper	**Submitted: 09/28/2016** Water and Wastewater Cost of Service meeting questions to cover over the course of the study. Submitted by Lanetta Cooper during the Public Involvement Committee on Tuesday, September 27, 2016.	Posted	**Posted: 9/28/2016** Questions submitted by Lanetta Cooper were subsequently separated into questions 921 to 944.

Austin Water
COS Rate Study 2016 - Q&A Summary
As of 4/21/2017

New questions submitted since last PIC/WIC
Information not yet available
New responses posted since last PIC/WIC
Responses previously posted on website

ID	Class	Topic	Requestor	Question	Status	Summary Response
805	Wholesale	General Cost of Service	Clay Collins	**Submitted: 09/27/2016** There was some mention at today's Wholesale Cost of Service meeting about the PUC settlement with some of the wholesale customers. My understanding is that part of this case dealt with costs that were included in the current cost of service model that were determined not to be applicable to wholesale customers. Can the costs that were disallowed by the PUC be identified and discussed at one of the next two Committee meetings? And can we be informed as to which of these costs COA intends to include in the 2017 Revenue Requirements for Wholesale Customers?	Posted	**Posted: 11/4/2016** Revenue requirements disallowed by the PUC were discussed at the October 5, 2016 PIC and WIC meetings. Subsequent discussion took place at the November 29, 2016 PIC and WIC meetings and Raftelis provided their perspective.
804	All Classes		Martin Hodell	**Submitted: 08/24/2016** Could you please share the historical rates and % change by year from ~1995 to 2016. Please indicate what level of consumption is assumed (e.g., 10k gallons/mo, 15k gallons...)	Posted	**Posted: 9/28/2016** Schedule showing average monthly water bills at 10,000 and 15,000 gallons usage from 1995 to 2016 with % increase from prior year.

Total Number of Questions Submitted: **126**
Total Number Posted: **122**
Total Number InProgress: **4**

Decision Point Handout | WIC

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Austin Water
Cost of Service Rate Study 2016
Executive Team Decision Points and Recommendations

Decision Points	AW Executive Team Recommendations
Issue #1: Revenue Requirement for Wholesale	AW will continue using the cash basis to determine revenue requirements for wholesale customers.
Issue #2: Revenue Requirement for Outside City Retail	AW will continue using the cash basis to determine revenue requirements for outside city retail customers.
Issue #3: General Fund Transfer (GFT)	AW will continue to allocate an 8.2% General Fund Transfer to all customer classes including wholesale customers.
Issue #4a: Debt Service Coverage	AW will target a 1.85x debt service coverage over the next 5-10 years.
Issue #4b: Cash Reserves Target	AW will target a base operating cash reserve level of 245 days for both the water fund and wastewater fund over the next 5-10 years. In addition, AW will continue to achieve the 120 days of water reserves in the Revenue Stability Reserve Fund. The overall reserve target will be 365 days for the water fund and 245 days for the wastewater fund.
Issue #4c: Cash Financing of CIP Target	AW will target a 50% use of cash to fund our CIP projects over the next 5-10 years.
Issue #5: Allocation of Rate Case Expenses to Wholesale	No allocation of rate case expenses to wholesale customers, except for the direct recovery of rate case expenses from the challenging parties according to PUC allowances.
Issue #6: Allocation of Reclaimed Water Costs to Wholesale	AW will allocate reclaimed water costs to all customer classes including wholesale customers.
Issue #7: Allocation of SWAP and Commercial Paper Costs to Wholesale	AW will allocate SWAP and commercial paper costs to all customer classes including wholesale customers.
Issue #8: Allocation of Green WTP Costs to Wholesale	No Green WTP costs will be allocated to wholesale customers.
Issue #9: Allocation of Revenue Stability Reserve Fund Costs to Wholesale	AW will allocate revenue stability reserve fund costs to all customer classes including wholesale customers.
Issue #10: Allocation of Barton Springs/Edwards Aquifer Conservation District costs to Wholesale	No Barton Springs/Edwards Aquifer Conservation District costs will be allocated to wholesale customers.
Issue #11: Allocation of Govalle WWTP Costs to Wholesale	AW will allocate costs associated with the continued use of the Govalle WWTP site to all customer classes including wholesale customers.
Issue #12: Allocation of Utility-Wide Contingency to Wholesale	No Utility-wide contingency costs will be allocated to wholesale customers.
Issue #13: Allocation of Water Treatment Plant No. 4 to Wholesale	AW will allocate Water Treatment Plant No. 4 costs to all customer classes including wholesale customers.
Issue #14: Allocation of Green Power Costs to Wholesale Customers	AW will allocate green power costs to all customer classes including wholesale customers.
Issue #15: Peaking Factor Methodology	AW will continue current use of AWWA methodology guidelines for peaking factor calculation.

Decision Points	AW Executive Team Recommendations
Issue #16: Inflow/Infiltration cost determination and allocation to customer classes	AW will continue to determine the amount of I/I which results in I/I being 10.5% of the resulting Total Flows into our wastewater system. This is achieved by applying an 11.7% to the customer class contributed flow. In addition, AW will continue to allocate estimated I/I costs based on contributed flow volume by customer class.
Issue #17: Adding additional wastewater strength parameters	AW will not add any additional wastewater strength parameters in its cost of service methodologies. However, high levels of ammonia strengths for some customers will be considered using the current Industrial Waste Surcharge mechanism.
Issue #18: Allocation of drainage fees to wholesale customers	AW will allocate drainage fees to all customer classes including wholesale customers.
Issue #19: CAP customer costs, allocation to classes, and recovery method (Community Benefit Charge and rate)	AW will recommend creation of a Community Benefit Charge (CBC) to recover costs associated with the CAP program. Also, AW will recommend an increase in the wastewater discount to include a volumetric rate discount. No costs associated with the CAP Program will be allocated to wholesale customers.
Issue #20: Modification of fire demand meter fixed charges	AW will modify the fixed charges for fire demand meter charges by basing the fixed meter charge on the smaller meter size rather than the larger meter size.
Issue #21: Fire protection costs and allocation to customer classes	AW will modify the fire protection allocation using revised meter equivalencies based on hydraulic capacity by meter type as identified in AWWA M6, Water Meters - Selection, Installation, Testing, and Maintenance
Issue #22: Elimination of Commercial and Large Volume subsidy of residential water customers and transition	AW will recommend to eliminate the current commercial and large volume subsidy of residential water customers. However, based on levels of impacts to residential customers, AW will likely recommend a short-term transition of this subsidy.
Issue #23: Test year for revenue requirements	AW will use a historical actual test year adjusted for known and measurable changes.
Issue #24: Creation of outside city retail customer classes and rates	AW will create outside city retail customer classes and rates.

Decision Point Handout

April 25, 2017

PIC and WIC Meetings

RAFTELIS
FINANCIAL CONSULTANTS, INC.

ALAN PLUMMER ASSOCIATES, INC.
ENVIRONMENTAL ENGINEERS AND SCIENTISTS

LRPR
LAURA RAUN PUBLIC RELATIONS
SIMPLICITY WORKS

Issue #1: Revenue Requirement Determination for Wholesale Customers						
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Cash Basis**		**Utility Basis (Option for Change)**	
			Pros	**Cons**	**Pros**	**Cons**
How should the revenue requirement for wholesale customers be determined? **<u>Status Quo</u>: Cash Basis Revenue Requirement Determination**		Utility Basis	1. Historically used – "generally" accepted by all customers 2. Simple, easy to understand, determine, update and administer 3. All customers treated the same; same methodology used for everyone 4. Matches City's budget and accounting methodology, i.e., cash method	1. O/C customers start paying for assets before placed into service 2. No explicit return to I/C customers for investment and risk to serve O/C customers 3. Potential for material rate changes based on capital financing decisions (e.g., debt vs. cash funding)	1. Provides explicit return to I/C customers for investment and risk to serve O/C customers (O/C rates are higher for the same level of service) 2. Fairness and equity in terms of return provided to I/C customers (O/C rate are higher for the same level of service) 3. Fairness and equity for O/C customers in terms of elimination of subjective decisions by AW regarding method of capital financing which can cause material rate changes 4. Enhanced level of rate stability for O/C customers 5. O/C customer do not pay a return on assets or depreciation until assets are in service 6. Consistent with methodology used by PUCT in the regulation of investor-owned utilities 7. Widely used by other local government utility providers across the US in O/C service arrangements 8. The PUC is currently considering a Notice of Proposed Rulemaking that would require municipal/local government electric utilities to use the Utility Basis for O/C customers. This may indicate a preference that municipal water utilities will also be required to employ the Utility Basis for O/C customers.	1. New approach for customers to understand 2. Absent an agreed upon methodology, potential exists for extensive debate regarding determination of the cost of equity capital 3. Requires the determination of the used and useful rate base – potential for debate regarding in-service date and "usefulness" for assets under construction 4. Represents costs in a manner different than the City's current cash budget methodology 5. Transitioning to the Utility Basis for O/C customers may raise questions regarding the recovery of capital-related costs. During WIC meeting discussions, concern was raised of "paying for assets twice", based on the disconnect between financing periods and asset life, on which depreciation and rate of return is paid under the Utility Basis. 6. When considering fairness of utility rates, PUC ruling guidelines may favor the consistency of method applied, regardless of the method in use. This "fairness" concern is a consideration when evaluating a move from the Cash to the Utility Basis.
PIC Meeting Dates:	PIC Meeting #2 on October 5, 2016 / PIC Meeting #3 on October 25, 2016 / PIC Meeting #7 January 4, 2017 / PIC Meeting #10 February 21, 2017					
WIC Meeting Dates:	WIC Meeting #2 on October 5, 2016 / WIC Meeting #3 on November 8, 2016 / WIC Meeting #6 January 4, 2017 / WIC Meeting #9 February 21, 2017					
Consultant Recommendation:	AW should use the utility basis method to determine the revenue requirement for wholesale customers (see consultant Technical Memorandum dated October 17, 2016)					
PIC & WIC Comments:	**Grant Rabon (PIC-Residential Rate Advocate)** I support Austin Water to utilize the utility basis for these (wholesale and outside city) customers. **Chuck Loy (PIC-Multifamily)** The multi-family recommends the outside rates be determined by the utility method. For two reasons. 1) It is a method that the Texas PUC is most familiar with and understands and 2) it will allow for some flexibility with the Rate Of Return to cover any subsidies that could occur as a result of the recent PUC case. **Marcia Stokes (PIC-Multifamily)** I agree with previous comments by the residential rate advocate and multifamily PIC rep that the utility basis be used for wholesale and outside city customers while inside city remain cost basis. **Jay Joyce (WIC-Wells Branch MUD)**: since there's no guarantee that either cash or utility basis will result in increase or decrease of cost of service, it will be tough for customer classes to decide without a rough estimate; I wouldn't buy a car without knowing the cost and don't think it would that difficult to do a rough estimate **Gary Rose (WIC-Southwest Water Co.):** preference for utility basis with caveats: capital expenses, used and useful, and reasonable rate of return concerns **Howard Hagemann (WIC-Wells Branch MUD):** It seems the utility basis is used by a number of utilities and AW seems to be leaning that way, but I'm on the fence because the precedent seems to say utility basis will be difficult to implement and transparency can be an issue with respect to handling assets.					

	Don Conklin (WIC-North Austin MUD #1): I worry about transparency and am concerned about the continued reference to cash needs vs revenue requirements when the PUCT has repeatedly said rates should be cost of service based and not City of Austin revenue needs based. **Lanetta Cooper (PIC-Residential/Low Income):** The Inside city customers can't intervene in PUCT cases, and want clear delineation of wholesale vs retail costs. Recommend utility basis for wholesale. **Dave Yanke (PIC- Residential Rate Advocate):** Initially I prefer utility basis, but don't know methodology assumptions so it's hard to be absolute. A conditional yes. Utility basis for wholesale is not atypical; Fort Worth does it for wastewater, too. **Grant Rabon (PIC-Residential Rate Advocate):** I agree with what Dave Yanke said. **Todd Davey (PIC-Industrial/Large Volume):** Splitting wholesale and retail will require additional policy. A conditional yes as we don't know the accounting, i.e. capital expenses funding vs debt funding. What is the rate of return? Less flexibility with utility basis equals less equitability for cash basis. Have concern with how any new rules will impact the retail side. Utility basis puts the onus on Austin Water to manage the rate of return. Cash is more flexible, susceptible to swings in costs, etc. I'm generally in favor of utility basis for all. Retail shouldn't pay for wholesale cost under-recovery. **Chuck Loy (PIC-Multifamily):** Utility basis would be most equitable. We need more details but I'm fairly firm in support/preference. I believe Austin Water would be in a better position with PUCT filings if they use utility basis for wholesale. **Marcia Stokes (PIC-Multifamily):** It doesn't really matter to retail, we will still be cash basis. Utility basis is lesser of two evils for wholesale. I prefer the path of least resistance. **Dan Wilcox (PIC-Industrial/Large Volume):** If I recall, there will be a minute change in revenue requirements because the wholesale percentage is so small, but a higher cost with utility basis. It may be more equitable but is it worth the effort, risk and cost for so little a revenue change? I have no preference, really, but feel cash basis is better in the long run but utility basis is more business-like. **Mary Guerrero-McDonald (Commercial):** I agree with Todd Davey. This issue is between Austin Water and wholesale customers. I only care how it impacts retail customers. I'm neutral. Find what's best for commercial. **Jesse Penn (PIC-W/WW Commissioner):** I'm neutral/lean towards utility basis. Rate of return is a way to mitigate investment risk. It's more business-like and straightforward. **Luke Metzger (PIC-Environmental):** I'm neutral. The change sounds like a hassle for a small benefit. **Chien Lee (PIC-W/WW Commissioner):** If wholesale goes with utility basis, why keep retail as cash basis? Keep it simple and straightforward. Utility basis seems more predictable, less risky. 2/21/2017 **Lanetta Cooper (PIC-Residential/Low Income):** One of the benefits that Austin Water stipulated was that the PUCT was addressing the utility basis methodology. What has changed? It appears that the big difference between the PUCT under the cash basis and the utility basis is the recognition of timing. The PUCT has been reluctant to give a return with the CWIP. **Karen Keese (PIC-Residential):** I started thinking about the cash basis methodology, and I discovered how few of the wholesale customers Austin Water has. The costs necessary to build a case for the wholesale rate case would outweigh the benefits/savings.
Executive Team Decision:	**Decision:** AW will continue using the cash basis to determine revenue requirements for wholesale customers. **Rationale:** AW has been using the cash basis since our first COS in 1992. The cash basis method aligns the rate making process with the cash flow requirements identified during the budget process. The continuity of using the cash basis will provide a more consistent rate development. A change to the Utility basis would require significant analysis, additional consulting costs, possible adjustments to account for changing basis in capital cost recoveries, and other anticipated changes in processes. The PUC has indicated that it accepts the cash basis method for municipal utilities.

Issue #2: Revenue Requirement Determination for Outside City Retail Customers						
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Cash Basis**		**Utility Basis (Option for Change)**	
			Pros	**Cons**	**Pros**	**Cons**
How should the revenue requirement for outside city retail customers be determined? **<u>Status Quo</u>: Cash Basis Revenue Requirement Determination**		Utility Basis	Same as Issue #1	Same as Issue #1	Same as Issue #1	Same as Issue #1
PIC Meeting Dates:	PIC Meeting #2 on October 5, 2016 / PIC Meeting #3 on October 25, 2016 / PIC Meeting #7 January 4, 2017 / PIC Meeting #10 February 21, 2017					
WIC Meeting Dates:	WIC Meeting #2 on October 5, 2016 / WIC Meeting #3 on November 8, 2016 / WIC Meeting #6 January 4, 2017 / WIC Meeting #9 February 21, 2017					
Consultant Recommendation:	AW should use the utility basis method to determine the revenue requirement for wholesale customers (see consultant Technical Memorandum dated October 17, 2016)					
PIC & WIC Comments:	**Grant Rabon (PIC-Residential Rate Advocate)** I support Austin Water to utilize the utility basis for these (wholesale and outside city) customers. **Chuck Loy (PIC-Multifamily)** The multi-family recommends the outside rates be determined by the utility method. For two reasons. 1) It is a method that the Texas PUC is most familiar with and understands and 2) it will allow for some flexibility with the Rate Of Return to cover any subsidies that could occur as a result of the recent PUC case. **Marcia Stokes (PIC-Multifamily)** I agree with previous comments by the residential rate advocate and multifamily PIC rep that the utility basis be used for wholesale and outside city customers while inside city remain cost basis. **Gary Rose (WIC-Southwest Water Co.):** I agree that wholesale and outside city should probably be the same but have a hard time being okay with being lumped into someone else's rate class. **Lanetta Cooper (PIC-Residential/Low Income):** Will outside city customers become inside city customers? Can you leave outside city as cash basis? I'm on the fence. Keep a bright line and regulatory rate distinction. I share same concerns as Todd Davey regarding changing to utility basis i.e. factoring reserves, etc. Can those be recovered in the utility basis model? We need to clarify that what we're really talking about is preventing residual dumping on retail. I have no strong feelings but utility basis has clearer guidelines. The PUCT generally looks at rates on a system wide basis, so you will need to justify a change between outside city and inside city. **Chuck Loy (PIC-Multifamily):** Yes, keep outside city the same as wholesale. What costs do outside city incur that inside city don't? Higher risk for outside city being outside the city of Austin jurisdiction. **Grant Rabon (PIC-Residential Rate Advocate):** If you're not keeping assets segregated between inside city and outside city, you would be blind to the change between utility and cash. The assumption is that invested capital per outside city is higher than inside city.					
Executive Team Decision:	**Decision:** AW will continue using the cash basis to determine revenue requirements for outside city retail customers. **Rationale:** The same rationale for wholesale customers above applies to outside city retail customers.					

Issue #3: General Fund Transfer in Wholesale Revenue Requirements				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Reduce or Eliminate the General Fund Transfer (Option for Change)**	
			Pros	**Cons**
Should the General Fund Transfer be a part of the revenue requirement for wholesale customers? **Status Quo: Maintain General Fund Transfer in the Wholesale Revenue Fund Requirement**		Reduce or eliminate the General Fund Transfer and/or consider other forms of justification, e.g., PILOT, Franchise Fee, and/or Street Rental Fee	1. Wholesale customers received no benefit from the inside city governmental services funded by the transfer.	1. It is standard practice for municipal governments to earn a "profit" or "dividend" from the operation of municipal utilities. Payments to the General Fund can be structures in several ways: a. Direct transfer such as that made by Austin Water and Austin Energy b. Payment in lieu of taxes that is conceptually similar to the property taxes paid by investor-owned utilities c. Franchise fee that is conceptually similar to the fee also paid by investor-owned utilities 2. Austin Energy makes an annual General Fund Transfer to the City of Austin - there is no reason for Austin Water to be different 3. The General Fund Transfer is a cost of doing business that would be incurred by a private company providing water and wastewater services in the City and as such is a "cost of doing business" that should also be paid by wholesale customers 4. The amount of the General Fund Transfer (8.2% of Gross Revenues) is a policy decision appropriately made by the Austin City Council. Council does not need to justify their reasoning for this or any other level of General Fund Transfer.
PIC Meeting Dates:	PIC Meeting #4 on November 8, 2016 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #5 on November 29, 2016 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	General Fund Transfers, regardless of how they are structured or what they labeled, are a valid operating expense incurred by many municipal utilities and should be included in the revenue requirement of the wholesale customers. There is the possibility of restructuring the General Fund Transfer as a payment-in-lieu of taxes and/or a Franchise Fee. In the meantime, the Austin Water General Fund Transfer should continue in the amount specified by Austin City Council.			
PIC & WIC Comments:	**Gary Rose (WIC-Southwest Water Co.):** It seems rate of return and General Fund Transfer is double dipping under a utility basis. **Jay Joyce (WIC-Wells Branch MUD):** If General Fund Transfer is profit, then it's not cost of service; I can't imagine the PUCT would allow both a rate of return and General Fund Transfer. **Howard Hagemann (WIC-Wells Branch MUD):** I see things not allocated to what they're actually expended for. I recommend against the General Fund Transfer under utility basis. **Robert Anderson (WIC-Northtown MUD/Wells Branch MUD):** The PUCT has disallowed this so I'm not sure why we're discussing it. Item #4 under "Cons" is a slap in the face. **Don Conklin (WIC-North Austin MUD #1):** I request the General Fund Transfer be withdrawn as part of the cost of service allocation as repeatedly ruled by the courts; that's at the heart of my skepticism about this process. **Charles Winfield (WIC-City of Rollingwood):** My preference is to not include the General Fund Transfer. There's already one included for Austin Energy which we pay. **Luke Metzger (PIC-Environmental):** Maintain the wholesale General Fund Transfer. They should pay their fair share. **Todd Davey (PIC-Industrial/Large Volume):** No change. They're different jurisdictions (city of Austin and PUCT). Set up those rates of return in another fashion. I don't think the City of Austin should mandate General Fund Transfer by wholesale. The city should recover funds that hit operating expenses. How does wholesale get their voice heard? General Fund Transfer and City of Austin don't apply to them. **Lanetta Cooper (PIC-Residential/Low Income):** I strongly support charging the wholesale customer class the General Fund Transfer. I see the General Fund Transfer as profit. Austin Water is running a business and they deserve the chance to earn a profit. There are some expenses applicable to wholesale and they should bear their share. The General Fund Transfer shouldn't apply to costs borne by inside city only costs like CWIP/CIP. **Todd Davey (PIC-Industrial/Large Volume):** I agree with Lanetta but disagree with "Cons" item #4. **Chuck Loy (PIC-Multifamily):** I agree. Those costs should be recovered in some way. Call them something else or the PUCT will challenge them. **Dave Yanke (PIC-Residential Rate Advocate):** I agree with Chuck Loy. You will need justification. There may be other mechanisms to recover costs and they must be defensible. **Jesse Penn (PIC-W/WW Commissioner):** What did the WIC say? **Karyn Keese (PIC-Residential):** You need some formula/mechanism other than a flat 8.2% and it should be part of wholesale revenue requirements. Council should know the affordability impact of 8.2% on rates and what that means to the average resident. <u>3/6/2017</u> **Lanetta Cooper (PIC-Residential/Low Income):** I still have a concern charging a General Fund transfer to the Reclaimed Water utility when there is no profit. We have one of the highest General Fund transfer of all utilities. I hope you look at reasonableness in terms of the General Fund Transfer. **Howard Hagemann (WIC-Wells Branch MUD):** Even though the PUCT advised that Austin Water not go forward with this charge, you are still going to charge this to wholesale? **Clark Cornwell (City of Austin)**: The PUCT has not said that Austin Water cannot collect the General Fund transfer, just that Austin Water did not meet the burden of proof.			
Executive Team Decision:	**Decision:** AW will continue to allocate an 8.2% General Fund Transfer to all customer classes including wholesale customers. **Rationale:** Current City financial policy provides for an 8.2% General Fund Transfer as a payment in lieu of taxes. Municipal water utilities generally have a general fund transfer to compensate citizen owners of the utility. The current level is in a range of other cities.			

Issue #4: Rate Recovery of Costs Incurred to Meet Financial Benchmarks				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Reduce or Eliminate the Cost of Meeting Financial Benchmarks in Rates (Option for Change)**	
			Pros	**Cons**
Is it appropriate for Austin Water to continue to include in rates the costs incurred to meet financial benchmarks related to items such as Debt Service Coverage; Cash Reserves, and specific target levels of debt in the Austin Water capital structure? **Status Quo: Continue to include the cost of meeting financial benchmarks in the rates paid by both retail and wholesale customers**		Reduce or eliminate the cost of meeting financial benchmarks in the rates paid by both retail and wholesale customers.	1. Austin Water should only include in rates the absolute minimum costs necessary to maintain contractually mandated debt service coverage requirements (nothing more), the minimum possible cash reserve levels. Austin Water CIP financing decisions should be made solely on the basis of what results in the lowest rates today. Consideration of long-term capital structure issues and the reduced risks of have lower amounts of debt should not be considered in CIP financing decisions.	1. Financially stable utilities must maintain debt service coverage and cash reserve levels above the bare minimum. This is the only way to protect ratepayers from emergency rate increases due to unforeseen events such as severe and prolonged drought and major infrastructure failures. 2. Financially stable utilities must engage in CIP financing strategies that move toward an optimal capital structure with the appropriate balance of debt and equity. Such a capital structure limits the financial risk of too much debt and minimizes the rate increases caused by the use of too much cash funded CIP. 3. Austin Water must compete for funds and issue debt in the capital markets. Including in rates the costs incurred to meet reasonable financial benchmarks is prudent because it lowers Austin Water's borrowing costs and ensures unfettered access to the debt markets.
PIC Meeting Dates:	PIC Meeting #3 on October 5, 2016 / PIC Meeting #5 on November 29, 2016 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #2 on October 5, 2016 / WIC Meeting #4 on November 25, 2016 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	The costs incurred to meet reasonable financial benchmarks should be included in rates and allocated to both retail and wholesale customers.			
PIC & WIC Comments:	**Jay Joyce (WIC-Wells Branch MUD):** How do you propose to incorporate these costs into a utility basis? **Howard Hagemann (WIC-Wells Branch MUD):** Aren't impact fees intended to cover items like this? **Gary Rose (WIC-Southwest Water Co.):** Is Austin Water's bond rating separate from the City of Austin's and Austin Energy's bond ratings? **Don Conklin (WIC-North Austin MUD #1):** What is the required debt service coverage? Can we see it? Does it include reserves? Are reserves locked to Austin Water and unable to be siphoned off? **Luke Metzger (PIC-Environmental):** It's absolutely appropriate and good financial practice. **Grant Rabon (PIC-Residential Rate Advocate):** Certainly debt and bond covenants. What Austin Water is doing now far surpasses requirements. What level is an appropriate level? Please share the Fitch 2017 medians report. **Karyn Keese (PIC-Residential):** I totally agree with Grant Rabon. Certainly debt service coverage is important but at what level? I would like a more formalized policy. I would like to see a sampling of other debt service coverage plans. **Todd Davey (PIC-Industrial/Large Volume):** I don't believe you should recover any more than what is needed to operate the utility. I have concerns about pre-collecting for future rate increases. Your stated targets are way out of line. Austin Water's rates are already high. Operate more efficiently. They were able to find equitable rates/levels in the Austin Energy settlement. I contacted the Fitch analyst and there are more parts to a bond rating than what Austin Water is benchmarking. My baseline is how your rates compare to others. Right now your benchmarks are out of alignment. Council is making decisions impacting your revenue and demand, more so than with Austin Energy. Austin Water should have an affordability goal like Austin Energy does. **Lanetta Cooper (PIC-Residential/Low Income):** I don't know if the PUCT would allow it under utility basis. Depreciation would have to cover these costs. I think Austin Water will have difficulty squeezing debt service coverage and reserves into a utility basis model. These are covered by the rate of return. Look at it as a rate design issue especially Revenue Stability Reserves. I share Todd and Grant's concerns for inside city – why do you need such a big piggy bank? **Dave Yanke (PIC-Residential Rate Advocate):** Debt service coverage and reserves are critical. If you want them to grow, provide a detailed longer term analysis on how you will incrementally get there without significant rate increases. The challenge is to define what adequate levels are.			
Executive Team Decision:	The Executive decisions associated with the financial benchmarks were separated into issues #4a – 4c.			

Issue #4a: Rate Recovery of Costs Incurred to Meet Financial Benchmarks – Debt Service Coverage				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Reduce or Eliminate the Cost of Meeting Financial Benchmarks in Rates (Option for Change)**	
			Pros	**Cons**
Is it appropriate for Austin Water to continue to include in rates the costs incurred to meet financial benchmarks related to items such as Debt Service Coverage; Cash Reserves, and specific target levels of debt in the Austin Water capital structure? **Status Quo: Continue to include the cost of meeting financial benchmarks in the rates paid by both retail and wholesale customers**		Reduce or eliminate the cost of meeting financial benchmarks in the rates paid by both retail and wholesale customers.	1. Austin Water should only include in rates the absolute minimum costs necessary to maintain contractually mandated debt service coverage requirements (nothing more), the minimum possible cash reserve levels. Austin Water CIP financing decisions should be made solely on the basis of what results in the lowest rates today. Consideration of long-term capital structure issues and the reduced risks of have lower amounts of debt should not be considered in CIP financing decisions.	1. Financially stable utilities must maintain debt service coverage and cash reserve levels above the bare minimum. This is the only way to protect ratepayers from emergency rate increases due to unforeseen events such as severe and prolonged drought and major infrastructure failures. 2. Financially stable utilities must engage in CIP financing strategies that move toward an optimal capital structure with the appropriate balance of debt and equity. Such a capital structure limits the financial risk of too much debt and minimizes the rate increases caused by the use of too much cash funded CIP. 3. Austin Water must compete for funds and issue debt in the capital markets. Including in rates the costs incurred to meet reasonable financial benchmarks is prudent because it lowers Austin Water's borrowing costs and ensures unfettered access to the debt markets.
PIC Meeting Dates:	PIC Meeting #3 on October 5, 2016 / PIC Meeting #5 on November 29, 2016 / PIC Meeting #9 January 31, 2017 / PIC Meeting #10 February 21, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #3 on October 5, 2016 / WIC Meeting #5 on November 29, 2016 / WIC Meeting #8 January 31, 2017 / WIC Meeting #9 February 21, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	The costs incurred to meet reasonable financial benchmarks should be included in rates and allocated to both retail and wholesale customers.			
PIC & WIC Comments:	**Clay Collins (WIC-Sunset Valley):** My thought is the policy says you should have 1.5x, but staff says we need something else. The policy needs to be changed, but the policy is vague. If the policy said you should never drop below 1.5x, then we need to change it. **Gary Rose (WIC-Southwest Water Co.):** If 1.85x makes the rating agencies comfortable, then it would be an adequate reserve fund level. **David Yanke (Residential):** It should be relatively straight forward to perform a 5-year forecast and how it affects the cost of service with rates by customer class. **Todd Davey (PIC-Industrial/Large Volume):** I called the Fitch representative to ask about the ratings. You are stacking cash reserves. Some of the volatility is created by the rate design in the residential customer class, some is created by policy. Ratings can be improved in other methods, other than increasing the debt service coverage. It's a little misleading to compare the Fitch medians with Austin Water. As a fixed cost dependent utility, the focus needs to be less about cash on hand and more about surcharges needed at the time. More important to focus on how to bring the rates down, look at capital spending plans to get costs more in line. **Grant Rabon (PIC-Residential Rate Advocate):** In the past, when you have had financial hardships some of that was driven of the level of fixed costs recovered. Currently, the percentage is higher. I am going to suggest that it would take a much more significant level of drought to take you down to the revenue loss level of 2010 and 2014. **Lanetta Cooper (PIC – Low Income Residential):** I want to see the rate difference between different debt service coverage. Assume the debt equity and debt service coverage at minimum levels to see the rate differences. It seems like we are changing policy from what city council has recommended. <u>2/21/2017</u> **Katy Phillips (WIC- Sunset Valley):** Has 1.85x been historically consistent? **Howard Hagemann (WIC- Wells Branch MUD):** Isn't this a function of the efficiency of the utility? What is your current level? **Grant Rabon (PIC-Residential Rate Advocate):** The DSC, reserve requirements, and the cash funding of CIP are the three legs of the utility. What is the largest driver? It seems that it would be best to set the other two legs of the stool, and make the DSC an input in the COS model. Rather than taking a rating agency's figure, for rate payer and intergenerational issues, you should match up the level of cash funding of CIP with the projects being financed. Let's decide what level of reserves is appropriate then look at investments in the capital plan and match level of equity funding, so don't have intergeneration issues when cash funding 50 year life assets. Resulting in debt service coverage. I think what you have now is good and don't need to drive this further especially at the cost of affordability. **Todd Davey (PIC-Industrial/Large Volume):** You're moving the equity financing of capital to 50%, and you are now more dependent on your capital spending projections for 10-years. You are moving the cash funding from a third to a half, I still think there is room to reduce the debt service coverage if you change that figure. I agree with Grant. This is a 10-year projection, I think the method of looking at the projects. Changes should not be made until the Independent Hearing Examiner process. That is where all of these issues will be addressed. Without the model to see to see how this works, I don't think any changes should be made. It's not about revenue requirements, it's about the affordability. The decision needs to be made through the Independent Hearing Examiner not now. **Karyn Keese (PIC-Residential):** I think right where you are right now is adequate. I don't see the need to talk about going higher than that. Your current metrics look healthy.			
Executive Team Decision:	**Decision:** AW will target a 1.85x debt service coverage over the next 5-10 years. **Rationale:** Improvement in AW's debt service coverage is a critical component in strengthening our financial position and maintaining our current AA bond ratings. While this target is below the Fitch median for AA credits, it will still provide improvement from our current 1.7x level. The 1.85x target level can be achieved with a reasonable level of rate increases over the time period. Additionally, the 1.85x target level will result in reasonable cash reserve build up and CIP cash financing. In addition, Austin Water's actively manages debt levels to lower overall dollar amount required to maintain debt service coverage targets.			

Issue #4b: Rate Recovery of Costs Incurred to Meet Financial Benchmarks – Cash Reserves Target – Days Cash of Operating Requirements				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Reduce or Eliminate the Cost of Meeting Financial Benchmarks in Rates (Option for Change)**	
			Pros	**Cons**
Is it appropriate for Austin Water to continue to include in rates the costs incurred to meet financial benchmarks related to items such as Debt Service Coverage; Cash Reserves, and specific target levels of debt in the Austin Water capital structure? **Status Quo: Continue to include the cost of meeting financial benchmarks in the rates paid by both retail and wholesale customers**		Reduce or eliminate the cost of meeting financial benchmarks in the rates paid by both retail and wholesale customers.	1. Austin Water should only include in rates the absolute minimum costs necessary to maintain contractually mandated debt service coverage requirements (nothing more), the minimum possible cash reserve levels. Austin Water CIP financing decisions should be made solely on the basis of what results in the lowest rates today. Consideration of long-term capital structure issues and the reduced risks of have lower amounts of debt should not be considered in CIP financing decisions.	1. Financially stable utilities must maintain debt service coverage and cash reserve levels above the bare minimum. This is the only way to protect ratepayers from emergency rate increases due to unforeseen events such as severe and prolonged drought and major infrastructure failures. 2. Financially stable utilities must engage in CIP financing strategies that move toward an optimal capital structure with the appropriate balance of debt and equity. Such a capital structure limits the financial risk of too much debt and minimizes the rate increases caused by the use of too much cash funded CIP. 3. Austin Water must compete for funds and issue debt in the capital markets. Including in rates the costs incurred to meet reasonable financial benchmarks is prudent because it lowers Austin Water's borrowing costs and ensures unfettered access to the debt markets.
PIC Meeting Dates:	PIC Meeting #3 on October 5, 2016 / PIC Meeting #5 on November 29, 2016 / PIC Meeting #9 January 31, 2017 / PIC Meeting #10 February 21, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #3 on October 5, 2016 / WIC Meeting #5 on November 29, 2016 / WIC Meeting #8 January 31, 2017 / WIC Meeting #9 February 21, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	The costs incurred to meet reasonable financial benchmarks should be included in rates and allocated to both retail and wholesale customers.			
	Lanetta Cooper (PIC-Residential/Low Income): There seems to be more piggy banks than needed due to negative watch **Todd Davey (PIC-Industrial/Large Volume):** Bond convent is not on the graph, which is relative high to other systems and income. Volatility is created by Residential rate design and policy. Also, ratings can be improved without coverage for example Fitch customer classes are more rate sensitive. Austin Water should not focus on raising cash to reach 2.0 coverage ratio, but rather wait till there is an issue. The focus should be to bring rates down to a 1.5-1.6 level and use excess cash to fund capital. **David Yanke (Residential):** There is a lot that goes into a rating and AW suggestions are reasonable. A 1.85x over 10-years is a reasonable range for me. It would not impact affordability. **Jay Joyce (WIC-Wellsbranch):** Concerned how cash reserves would be incorporated into utility basis. **Howard Hagemann (WIC-Wellsbranch):** How will would cash reserves be allocated to wholesale customers? **Gary Rose (WIC-Southwest Water Co.):** Are Austin Water bond ratings separate from the City of Austin? **Don Conklin (WIC-North Austin MUD#1):** What is debt service requirement? Would like to see backup information. Are the reserves blocked from the City taking? <u>3/6/2017</u> **David Yanke (Residential):** I know we have talked a lot about days of cash on hand. I would like to go on record that the city hold current residential rates where they are for Fiscal Year 2018. Here in Austin there is an affordability problem. Fitch uses a 2% benchmark, but we (Austin) are at 2.4%. **Karyn Keese (PIC-Residential):** I would echo that the metrics here are too aggressive. California has drought problems and revenue problems. They brought in a debt manager. They prefer to have a low target and exceed that amount. San Diego has a 1.2x debt service target. I think Austin Water is currently fine. You want to go 50% capital funding, but they have a 10% goal. Over time 50% cash funding is less expensive but ignores affordability today. These metrics need to be rethought. I would applaud the debt management program if you increase your debt service coverage. That's fine. **Lanetta Cooper (PIC-Residential/Low Income):** For fiscal year 2017 the debt to equity ratio is 1.7x. Was that an increase from the previous target? The reserves are all interrelated. You were increasing your reserves and the debt service reserves. What happens when you achieve that target, do you lower it? There should be some adjustment to the debt service coverage when you achieve that target. You are going to pay down your debt to achieve 50:50 which means equity goes up. Debt is cheaper than equity financing especially when you have a treatment plant coming online. You don't have depreciation so customers in the future would not be paying for the plant. There are intergeneration subsidies. **Dan Wilcox (PIC-Industrial/Large Volume):** I think these three metrics are on the aggressive side. If you are looking at a balance, when you are pushing affordability it is hard to associate that with these metrics. You have no idea what rates would be to get to 245 days or 1.85x compared to 1.75x. What value is it going to give us in 5-10 years? It's not clear how these more aggressive metrics are going to pay off in the long run. **Karyn Keese (PIC-Residential):** We would like to see the quantifiable impact of these metrics on residential customers. Your recommendation versus exactly where you are today. If it's really not that much to get there. **Grant Rabon (PIC-Residential Rate Advocate):** You are a quality strong AA utility rating. I am struggling to understand the increase to these targets from where they are. I would focus more concern to affordability. **David Yanke (Residential):** I appreciate that you are developing a five year forecast that you cannot show until council approval, but if we could see the impact to affordability that would be beneficial. It helps educate citizens if they have something to look at. **Andrew Hunt (WIC- North Austin MUD):** How many Day of Cash on Hand is needed? 365 days or 245 days?			

	Robert Wood (WIC-City of Westlake Hills): On the decision point chart, is there a way to indicate change from current practice?
Executive Team Decision:	**Decision:** AW will target a base operating cash reserve level of 245 days for both the water fund and wastewater fund over the next 5-10 years. In addition, AW will continue to achieve the 120 days of water reserves in the Revenue Stability Reserve Fund. The overall reserve target will be 365 days for the water fund and 245 days for the wastewater fund. Since the water fund is more volatile, it is appropriate for additional days cash above the base level. **Rationale:** Improvement in AW cash reserves is a critical component in strengthening our financial position and maintaining our current AA bond ratings. Our bond rating agencies have indicated continued improvement in our days cash on hand is appropriate to maintain our ratings. While this target is below the Fitch median for AA credits, this level will provide improvement from our current levels. The levels of cash reserves is related to and a result of the improving debt service coverage levels.

Issue #4c: Rate Recovery of Costs Incurred to Meet Financial Benchmarks – Cash Financing of CIP Target				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Reduce or Eliminate the Cost of Meeting Financial Benchmarks in Rates (Option for Change)**	
			Pros	**Cons**
Is it appropriate for Austin Water to continue to include in rates the costs incurred to meet financial benchmarks related to items such as Debt Service Coverage; Cash Reserves, and specific target levels of debt in the Austin Water capital structure? **Status Quo: Continue to include the cost of meeting financial benchmarks in the rates paid by both retail and wholesale customers**		Reduce or eliminate the cost of meeting financial benchmarks in the rates paid by both retail and wholesale customers.	1. Austin Water should only include in rates the absolute minimum costs necessary to maintain contractually mandated debt service coverage requirements (nothing more), the minimum possible cash reserve levels. Austin Water CIP financing decisions should be made solely on the basis of what results in the lowest rates today. Consideration of long-term capital structure issues and the reduced risks of have lower amounts of debt should not be considered in CIP financing decisions.	1. Financially stable utilities must maintain debt service coverage and cash reserve levels above the bare minimum. This is the only way to protect ratepayers from emergency rate increases due to unforeseen events such as severe and prolonged drought and major infrastructure failures. 2. Financially stable utilities must engage in CIP financing strategies that move toward an optimal capital structure with the appropriate balance of debt and equity. Such a capital structure limits the financial risk of too much debt and minimizes the rate increases caused by the use of too much cash funded CIP. 3. Austin Water must compete for funds and issue debt in the capital markets. Including in rates the costs incurred to meet reasonable financial benchmarks is prudent because it lowers Austin Water's borrowing costs and ensures unfettered access to the debt markets.
PIC Meeting Dates:	PIC Meeting #3 on October 5, 2016 / PIC Meeting #5 on November 29, 2016 / PIC Meeting #9 January 31, 2017 / PIC Meeting #10 February 21, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #3 on October 5, 2016 / WIC Meeting #5 on November 29, 2016 / WIC Meeting #8 January 31, 2017 / WIC Meeting #9 February 21, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	The costs incurred to meet reasonable financial benchmarks should be included in rates and allocated to both retail and wholesale customers.			
PIC & WIC Comments:	**Robert Wood (WIC-City of Westlake Hills):** Do any of the financial policies have a ceiling? Is there any sort of prioritization given (coverage vs. cash financing). **Gary Rose (WIC-Southwest Water Co.):** I think anything more than 50% is putting too much burden on the customers. With excess cash you could always reduce rates. **Clay Collins (WIC-Sunset Valley):** Could CRFs also be used for infrastructure improvements? **Howard Hagemann (WIC-Wells Branch MUD):** What do you mean by a 50% credit for the CRF calculation?			
Executive Team Decision:	**Decision:** AW will target a 50% use of cash to fund our CIP projects over the next 5-10 years. **Rationale:** Improving our use of cash financing of CIP projects will reduce our dependency on debt financing that can drive our rate increases and reduce debt service coverage. The 50% target level strikes a balance between having current and future customers paying for infrastructure. Improvements in our debt service coverage results in cash that can be used to fund CIP projects and reduce debt service in the future. Financing costs generally double the cost of a CIP project, therefore avoiding debt is a cost effective way of reducing costs for the future.			

Issue #5: Allocation of a Portion of Rate Case Expenses to Wholesale Customers				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Allocate a Portion of Rate Case Expenses to Wholesale Customers (Option for Change)**	
			Pros	**Cons**
The PUCT disallowed Austin Water's allocation of a portion of rate case expenses to the wholesale customers. Should Austin Water seek to include these costs in the wholesale customer revenue requirement in its next rate case? **Status Quo: If Austin Water incurs rate case expenses in the future, they should continue to be excluded from the wholesale customer revenue requirement.**		If Austin Water incurs rate case expenses in the future, a portion of these costs should be allocated to the wholesale customer revenue requirement.	1. Rate case expenses are a valid operating cost that benefit all customers, retail and wholesale.	1. As the petitioning party challenging Austin Water's rates, wholesale customers should not pay any rate case expenses.
PIC Meeting Dates:	PIC Meeting #5 on November 29, 2016 / PIC Meeting #8 January 17, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #4 on November 29, 2016 / WIC Meeting #6 January 4, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	Rate case expenses are a natural outcome of the regulatory process that benefits both retail and wholesale customers. If incurred in the future, wholesale customers should be allocated a portion of Austin Water's rate case expenses.			
PIC & WIC Comments:	**Grant Rabon (PIC-Residential Rate Advocate):** Per our discussion at the PIC meeting on 11/29/16, I am formally indicating my strong belief that Austin Water should pursue the inclusion of previously disallowed costs into the revenue requirement allocated to wholesale customers. The only exception to this general statement would be if Austin Water opts to utilize the utility basis for these customers (which I support) and, then Austin Water could exclude only those disallowed costs that are inconsistent with, or inappropriate for, inclusion under the utility basis. **Don Conklin (WIC-North Austin MUD #1):** I don't think allowing any of these is a something we would support. Why do you repeatedly try to include costs that have been repeatedly disallowed by the PUCT? Best case scenario, negotiations result in agreement and a rate case is not necessary. Our concession would be what's included in rate case expenses. Inside City elects the Council who sets rates and they have recourse, but outside city doesn't. **Gary Rose (WIC-Southwest Water Co.):** Rate case expenses can be included but you're not guaranteed to recover them; the PUCT occasionally disallows. **Robert Wood (WIC-City of Westlake Hills):** Inside city should pay all rate case costs. Shareholders are City of Austin residents. If the argument for rate of return is that they bear the risk, then let them bear the risk. **Charles Winfield (WIC-City of Rollingwood):** Exclude them. **Robert Anderson (WIC-Northtown MUD/Wells Branch MUD):** Exclude them. **Howard Hagemann (WIC-Wells Branch MUD):** Exclude them. **Jay Joyce (WIC-Wells Branch MUD):** Yes, of course done properly evidence will be deliberated through judge and a decision will be reached. <u>1/17/17</u> **Grant Rabon (PIC-Residential Rate Advocate):** Consistent with my prior comments, I recommend you endeavor to recover. **Todd Davey (PIC-Industrial/Large Volume):** The utility should operate with whatever is the accepted process. <u>3/6/2017</u> **Gary Rose (WIC-Southwest Water Co.):** If we challenge the rates, would Austin Water push those costs only to the challenging party			
Executive Team Decision:	**Decision:** No allocation of rate case expenses to wholesale customers, except for the direct recovery of rate case expenses from the challenging parties according to PUC allowances. **Rationale:** Rate case expenses from the 2013 rate challenge have been paid previously by all customer classes except the Petitioners in the case. Future rate case expenses associated with future PUC challenges would ultimately be recovered from the challenging parties. Austin Water would present evidence to justify these rate case expenses as part of any rate proceeding.			

Issue #6: Allocation of a Portion of Reclaimed Water Costs to Wholesale Customers				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Allocate a Portion of Reclaimed Water Costs to Wholesale Customers (Option for Change)**	
			Pros	**Cons**
The PUCT disallowed Austin Water's allocation of a portion of reclaimed water costs to the wholesale customers. Should Austin Water seek to include these costs in the wholesale customer revenue requirement in its next rate case? **Status Quo: Continue to exclude reclaimed water costs from the wholesale customer revenue requirement.**		Allocate a portion of Austin Water's reclaimed water costs to the wholesale customer revenue requirement.	1. Reclaimed water is a cost effective source of supply that diversifies Austin Water's water supply portfolio and enhances the total amount of water available to all customers (retail and wholesale). Specifically, if more reclaimed water used, more of Austin Water's existing sources of supply are available for potable water customers, retail and wholesale. For this reason, both retail and wholesale customers should be allocated a portion of reclaimed water costs.	1. Even though reclaimed water increases the overall amount of water available to all customers (retail and wholesale), wholesale customers do not use reclaimed water and therefore should not be allocated a portion of reclaimed water costs.
PIC Meeting Dates:	PIC Meeting #2 on November 5, 2016 / PIC Meeting #3 on November 25, 2016 / PIC Meeting #5 on November 29, 2016 / PIC Meeting #8 January 17, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #2 on November 5, 2016 / WIC Meeting #3 on November 8, 2016 / WIC Meeting #4 on November 29, 2016 / WIC Meeting #6 January 4, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	Reclaimed water is a valid source of supply that benefits the entire system. A portion of reclaimed water costs should be allocated to wholesale customers.			
PIC & WIC Comments:	**Grant Rabon (PIC-Residential Rate Advocate):** Per our discussion at the PIC meeting on 11/29/16, I am formally indicating my strong belief that Austin Water should pursue the inclusion of previously disallowed costs into the revenue requirement allocated to wholesale customers. The only exception to this general statement would be if Austin Water opts to utilize the utility basis for these customers (which I support) and, then, Austin Water could exclude only those disallowed costs that are inconsistent with, or inappropriate for, inclusion under the utility basis. **Jay Joyce (WIC-Wells Branch MUD):** I oppose based on testimony in the case. What are the changed circumstances since the ruling in this case? Are there any EPA or regulatory obligations? **Robert Anderson (WIC-Northtown MUD/Wells Branch MUD):** I agree with Jay. The PUCT has already ruled. Why is the city of Austin butting its head against the wall and increasing rate case costs? **Howard Hagemann (WIC-Wells Branch MUD)**: I agree and oppose and we don't use any reclaimed water. **Don Conklin (WIC-North Austin MUD #1):** I recommend disallowing. Decisions are being made by inside city customers and we have no standing to address those choices. **Charles Winfield (WIC-City of Rollingwood):** I agree and oppose. Disallow. Does the PUCT give any reasons for disallowances? **Randall Raemon (WIC-Marsha WSC):** Do not support allocation to wholesale customers. <u>1/17/17</u> **Dan Wilcox (PIC-Industrial/Large Volume):** Is there a precedent saying you should go one way or another? Where did the PUCT decision come from? If most customers don't have access, why should wholesale be treated any differently? Include these costs. **Dave Yanke (PIC-Residential Rate Advocate):** Was there a detailed explanation/background given during the rate case? **Todd Davey (PIC-Industrial/Large Volume):** If reclaimed is a benefit to the entire system, yes wholesale should pay. But another consideration is: is it a reasonable and necessary cost? Is a return on investment there? There are only 66 customers. LCRA is moving ahead with a downstream reservoir; they learned lessons from the drought. Wholesale should bear the burden of costs, too. Can we defer some of the capital to be invested in the near term if the need is pushed out? That adds to debt service, cost of service and rates. **Dan Wilcox (PIC-Industrial/Large Volume):** Is the rate of reclaimed water still subsidized? **Chien Lee (PIC-W/WW Commissioner):** Is the statement 'wholesale customers do not use reclaimed water' true? **Chuck Loy (PIC-Multifamily):** Because reclaimed water benefits all customers, I think it should be included and you can probably make a good argument to the PUCT.			
Executive Team Decision:	**Decision:** AW will allocate reclaimed water costs to all customer classes including wholesale customers. **Rationale:** Austin Water's reclaimed water system is a cost effective water supply component. The reclaimed system extends the potable drinking water supplies, defers needs for additional water supply, and is a drought resistant supply. Texas regional water planning efforts mandate the review of reclaimed water system as a water supply alternative. Use of reclaimed water will contribute to delaying Austin Water hitting the trigger when significant raw water costs must be paid to LCRA. Our conservation and reclaimed system efforts would have avoided a possible LCRA curtailment plan had the lake levels reached critical stage during the recent central Texas drought. All customers benefit from water supply efforts and therefore all customers should be allocated these costs.			

Issue #7: Allocation of a Portion of the Reclassified SWAP and Commercial Paper Costs to Wholesale Customers				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Allocate a Portion of SWAP and Commercial Paper Costs to Wholesale Customers (Option for Change)**	
			Pros	**Cons**
The PUCT disallowed Austin Water's allocation of a portion of SWAP and commercial paper costs the wholesale customers. **Status Quo: Continue to exclude SWAP and commercial paper costs from the wholesale customer revenue requirement**		Allocate a portion of Austin Water's SWAP and commercial paper costs to the wholesale customer revenue requirement.	1. SWAP and commercial paper costs are valid debt issuance costs that are incurred by Austin Water to fund CIP projects that provide service to all customers. These costs were previously amortized over the life of each debt instrument. The Governmental Accounting Standards Board now requires these costs to be expensed in the year incurred. It is appropriate for all customers, both retail and wholesale, to be allocated a portion of SWAP and Commercial paper costs.	1.
PIC Meeting Dates:	PIC Meeting #2 on November 5, 2016 / PIC Meeting #5 on November 29, 2016 / PIC Meeting #8 January 17, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #2 on November 5, 2016 / WIC Meeting #4 on November 29, 2016 / WIC Meeting #7 January 17, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	Annual SWAP and commercial paper costs are a valid operating cost.			
PIC & WIC Comments:	**Grant Rabon (PIC-Residential Rate Advocate):** Per our discussion at the PIC meeting on 11/29/16, I am formally indicating my strong belief that Austin Water should pursue the inclusion of previously disallowed costs into the revenue requirement allocated to wholesale customers. The only exception to this general statement would be if Austin Water opts to utilize the utility basis for these customers (which I support) and, then, Austin Water could exclude only those disallowed costs that are inconsistent with, or inappropriate for, inclusion under the utility basis. <u>1/17/17</u> **Jay Joyce (WIC-Wells Branch MUD):** When did GASB make the pronouncement? **Howard Hagemann (WIC-Wells Branch MUD):** If we go to a utility basis, would this still be separate from depreciation? **Don Conklin (WIC-North Austin MUD #1):** I have concern regarding the lack of level of detail and breakout. The PUCT has ruled against these costs previously – we do not want these costs included. If more conversation is needed, then more detail is needed. I am concerned the City of Austin is trying to add disallowed costs. I feel like the previous costs were set, then the PUCT ruled, and now you're trying to insert them again. Avoid litigation and save money by reaching an agreement on what regulatory costs need to be included. **Grant Rabon (PIC-Residential Rate Advocate):** GASB indicates this is an operating expense under both cash and utility basis, so there's no rational reason to exclude it. **Todd Davey (PIC-Industrial/Large Volume):** Agree. **Chuck Loy (PIC-Multifamily):** Agree. **Dan Wilcox (PIC-Industrial/Large Volume):** Agree. **Marcia Stokes (PIC-Multifamily):** Agree. **Jesse Penn (PIC-W/WW Commissioner):** Agree.			
Executive Team Decision:	**Decision:** AW will allocate SWAP and commercial paper costs to all customer classes including wholesale customers. **Rationale:** These costs are associated with Austin Water's capital financing mechanisms that benefit all customers. The Governmental Accounting Standards Board (GASB) has required these costs to be expensed in the year they were incurred. These costs are appropriate operations and maintenance costs which should be allocated to all customer classes.			

Issue #8: Allocation of a Portion of the Green Water Treatment Plant Capital Costs to Wholesale Customers				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Allocate a Portion of Green Water Treatment Plant Capital Costs to Wholesale Customers (Option for Change)**	
			Pros	**Cons**
The PUCT disallowed Austin Water's allocation of a portion of Green Water Treatment Plant costs to the wholesale customers. Green Water has been decommissioned by Austin Water for treatment service. **Status Quo: Continue to exclude the Green Water Treatment Plant costs from the wholesale customer revenue requirement.**		Allocate a portion of Green Water Treatment Plant costs to the wholesale customer revenue requirement.	1. The Green Water Treatment Plant has been decommissioned but there may be some debt service outstanding related to the Green WTP improvements.	1. The Green Water Treatment Plant does not pass the "used and useful" test.
PIC Meeting Dates:	PIC Meeting #2 on November 5, 2016 / PIC Meeting #5 on November 29, 2016 / PIC Meeting #8 January 17, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #2 on November 5, 2016 / WIC Meeting #4 on November 29, 2016 / WIC Meeting #7 January 17, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	Debt service costs should be allocated to all customer classes including wholesale customers.			
PIC & WIC Comments:	**Grant Rabon (PIC-Residential Rate Advocate):** Per our discussion at the PIC meeting on 11/29/16, I am formally indicating my strong belief that Austin Water should pursue the inclusion of previously disallowed costs into the revenue requirement allocated to wholesale customers. The only exception to this general statement would be if Austin Water opts to utilize the utility basis for these customers (which I support) and, then, Austin Water could exclude only those disallowed costs that are inconsistent with, or inappropriate for, inclusion under the utility basis. <u>1/17/17</u> **Shirley Ross (WIC-Wells Branch MUD):** Is it still being used for training? Green WTP has never been used to supply water to us? **Howard Hagemann (WIC-Wells Branch MUD):** Since it's not being used, and we're not receiving a benefit, and we've paid on the debt service, how can you say a plant not being used has any costs allocated to wholesale? It's a far reach. I don't see this as having any bearing on water flowing to us. Stay with the status quo and exclude. Response: Costs are allocated through the normal cost of service process; debt service costs are common to all. **Jay Joyce (WIC-Wells Branch MUD):** The City of Austin sold a revenue producing asset that still had revenue bonds payable? **Don Conklin (WIC-North Austin MUD #1):** I'm concerned you acknowledge these costs don't pass the used and useful test. I'm concerned you didn't use the funds for paying off debt but rather for other purposes. Because outside city doesn't have a voice, I strongly encourage the status quo. **Chuck Loy (PIC-Multifamily):** Was the plant retired early? **Chien Lee (PIC-W/WW Commissioner):** What is the amount of outstanding debt? **Jesse Penn (PIC-W/WW Commissioner):** Does used and useful apply in this situation? **Todd Davey (PIC-Industrial/Large Volume):** The debt has probably been refinanced and bundled. It's difficult to trace to a specific asset. Sounds like you've tried – can revenue from the sale of other assets be used to pay this off? It sounds like an immaterial amount. For simplicity, I support requiring wholesale to pay, too. **Chuck Loy (PIC-Multifamily):** It sounds like everyone benefited from the decommissioning, deconstructing and sale of the land so all should pay. Allocate it.			
Executive Team Decision	**Decision:** No Green WTP costs will be allocated to wholesale customers. **Rationale:** The former Green WTP has been decommissioned in 2008. No assets remain. To the extent that any capital cost debt service remains from projects completed prior to decommissioning, these costs will be allocated to retail only customers.			

Issue #9: Allocation of Revenue Stability Reserve Fund Costs to Wholesale Customers				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Allocate a Portion of Revenue Stability Reserve Fund Costs to Wholesale Customers (Option for Change)**	
			Pros	**Cons**
The PUCT disallowed Austin Water's allocation of a portion of Revenue Stability Reserve Fund costs to the wholesale customers. Should Austin Water seek to include these costs in the wholesale customer revenue requirement in the next rate case? **Status Quo: Continue to exclude Revenue Stability Reserve Fund costs from the wholesale customer revenue requirement.**		Allocate a portion of the Revenue Stability Reserve Fund costs to the to the wholesale customer revenue requirement.	1. The Revenue Stability Reserve Fund protects the financial integrity of Austin Water caused by revenue fluctuations. This is a valid operating cost that accrues to the benefit of all customers, both retail and wholesale.	1. The entire risk of revenue fluctuations should be borne by Austin Water's retail customers. Therefore, no potion of these costs should be allocated to wholesale customers.
PIC Meeting Dates:	PIC Meeting #2 on November 5, 2016 / PIC Meeting #5 on November 29, 2016 / PIC Meeting #8 January 17, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #2 on November 5, 2016 / WIC Meeting #4 on November 29, 2016 / WIC Meeting #7 January 17, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	The maintenance of a Revenue Stability Reserve Fund is a valid operating cost that benefits all customers. Wholesale customers should be allocated a portion of these costs.			
PIC & WIC Comments:	**Grant Rabon (PIC-Residential Rate Advocate):** Per our discussion at the PIC meeting on 11/29/16, I am formally indicating my strong belief that Austin Water should pursue the inclusion of previously disallowed costs into the revenue requirement allocated to wholesale customers. The only exception to this general statement would be if Austin Water opts to utilize the utility basis for these customers (which I support) and, then, Austin Water could exclude only those disallowed costs that are inconsistent with, or inappropriate for, inclusion under the utility basis. <u>1/17/17</u> **Don Conklin (WIC-North Austin MUD #1):** When you look at Austin Water's responsibility to operate the utility, you expect Austin Water to save money in years when revenue is over and above requirements, not peel it off and do something else with it. In wet years when you have more revenue than intended, is the extra revenue used to expedite funding of the Revenue Stability Fund? Every dime of additional revenue should go to the Revenue Stability Fund, not to any other expense/activity/cost of service. **Gary Rose (WIC-Southwest Water Co.):** I recommend against including the Revenue Stability Fund. The Revenue Stability Fund gives Austin Water the option to not collect the full cost of service from inside city. Assume wet and dry years will happen and manage it. Cost of service and revenue requirements encourage inside city conservation which leads to reduced revenue which shouldn't be passed to wholesale. I oppose allowing it. **Jay Joyce (WIC-Wells Branch MUD):** Volatility is a product of steep inverted blocks on the retail side, not wholesale. Is it true the Council can do whatever they want with this money? **Andrew Hunt (WIC- North Austin MUD):** It should not be allowed. Is there a number goal for the fund? Does the city of Austin use drought surcharges or pull from this fund? **Todd Davey (PIC-Industrial/Large Volume):** I have concerns about the levels of the funds. Is the value of the reserves that there won't be vast fluctuations in rates? If there's no perceived value for wholesale to benefit, they don't benefit from revenue stability funded by the retail class. **Grant Rabon (PIC-Residential Rate Advocate):** What do you feel are the prospects for success at the PUCT if allocated to wholesale? How will you defend at the PUCT? We all understand the importance of reserves and applaud their growth. While they may not be at the levels of others, they seem to be more than sufficiently addressing the issue. Now we need to balance with the affordability of rates. By number of days cash on hand and total value dollar-wise of the reserves, Austin Water ranks #1 on S&P rating. **Dave Yanke (PIC-Residential Rate Advocate):** If debt can be reduced and reserves are between 180-270 days, would that help affordability? **Todd Davey (PIC-Industrial/Large Volume):** How accurate is your revenue forecasting ability? **Dan Wilcox (PIC-Industrial/Large Volume):** If 180 days if your target, do you shoot for 220 days so you never go below 180? How does this work for Austin Water?			
Executive Team Decision:	**Decision:** AW will allocate revenue stability reserve fund costs to all customer classes including wholesale customers. **Rationale:** The Revenue Stability Reserve Fund protects the financial integrity of Austin Water caused by water revenue fluctuations due to weather, drought, or conservation. Protecting the financial integrity of Austin Water through the use of reserves is a standard practice for utilities which benefits all customer classes. Cash reserves are one of many key financial benchmarks reviewed by rating agencies in assessing credit worthiness in issuing revenue bonds. All customer classes benefit from this reserve and therefore should be allocated these costs. Austin Water has determined that wholesale customers should have a reduced level of surcharge to build these reserves due to their reduced volatility and to approximate their level of rates versus retail rates.			

Issue #10: Allocation of a Barton Springs/Edwards Aquifer Conservation District Costs to Wholesale Customers				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Allocate a Portion of Barton Springs/Edwards Aquifer Conservation District Costs to Wholesale Customers (Option for Change)**	
			Pros	**Cons**
The PUCT disallowed Austin Water's allocation of a portion of Barton Springs/Edwards Aquifer Conservation District costs to wholesale customers. Should Austin Water seek to include these costs in the wholesale customer revenue requirement in the next rate case? **Status Quo: Continue to exclude Barton Springs/Edwards Aquifer Conservation costs from the wholesale customer revenue requirement**		Allocate a portion of Barton Springs/Edwards Aquifer Conservation District costs to the wholesale customer revenue requirement.	1. The fee paid by Austin Water for the Barton Springs/Edwards Aquifer Conservation District was mandated by State of Texas legislation.	
PIC Meeting Dates:	PIC Meeting #2 on November 5, 2016 / PIC Meeting #5 on November 29, 2016 / PIC Meeting #8 January 17, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #2 on November 5, 2016 / WIC Meeting #4 on November 29, 2016 / WIC Meeting #7 January 17, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	The Barton Springs/Edwards Aquifer Conservation District costs, which are paid by AW as mandated by City Council, are a valid operating expense that should be recovered from all customers. Wholesale customers should be allocated a portion of these costs.			
PIC & WIC Comments:	**Grant Rabon (PIC-Residential Rate Advocate):** Per our discussion at the PIC meeting on 11/29/16, I am formally indicating my strong belief that Austin Water should pursue the inclusion of previously disallowed costs into the revenue requirement allocated to wholesale customers. The only exception to this general statement would be if Austin Water opts to utilize the utility basis for these customers (which I support) and, then, Austin Water could exclude only those disallowed costs that are inconsistent with, or inappropriate for, inclusion under the utility basis. <u>1/17/17</u> **Jay Joyce (WIC-Wells Branch MUD):** Austin Water shows $900,000 budget for this fee, but BSEACD only shows $700,000 from Austin Water. **Howard Hagemann (WIC-Wells Branch MUD):** I'm in agreement with excluding this from wholesale. **Todd Davey (PIC-Industrial/Large Volume):** Generally, I support trying to recoup costs from wholesale but this brings up the reasonable and necessary hurdle to jump. **Dave Yanke (PIC-Residential Rate Advocate):** I agree with Todd. This seems like an uphill battle but go for it. **Chuck Loy (PIC-Multifamily):** Are costs charged by BSEACD based on volume? Does is benefit Austin Water customers? **Dan Wilcox (PIC-Industrial/Large Volume):** You should attempt to allocate. **Marcia Stokes (PIC-Multifamily):** Why is it other cities who are wholesale customers don't pay? <u>3/6/2017</u> **Grant Rabon (PIC-Residential Rate Advocate):** What is the rationale to not allocate these cost to wholesale?			
Executive Team Decision	**Decision:** No Barton Springs/Edwards Aquifer Conservation District costs will be allocated to wholesale customers. **Rationale:** These costs have been mandated by the Texas Legislature to be paid by the City of Austin. The City has decided these costs will be paid by Austin Water. While some benefit to Austin Water customers comes from this District, there is marginal benefit to wholesale customers.			

Issue #11: Allocation of a Portion of the Govalle Wastewater Treatment Plant O&M and Capital Costs to Wholesale Customers				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Allocate a Portion of Govalle Wastewater Treatment Plant O&M and Capital Costs to Wholesale Customers (Option for Change)**	
			Pros	**Cons**
The PUCT disallowed Austin Water's allocation of a portion of Govalle Wastewater Treatment Plant costs to the wholesale customers. Should Austin Water seek to include these costs in the wholesale customer revenue requirement in the next rate case? **Status Quo: Continue to exclude the Govalle Wastewater Treatment Plant costs from the wholesale customer revenue requirement**		Allocate a portion of Govalle Wastewater Treatment Plant costs to the wholesale customer revenue requirement.	1. Although the Govalle Wastewater Treatment Plant has been decommissioned, it is still being used for purposes that benefit all customers, both retail and wholesale. This includes various treatment support functions, emergency wastewater flow diversion, and for storage of treatment plant and infrastructure assets.	1. The Govalle Wastewater Treatment Plant does not pass the "used and useful" test and should not be allocated to wholesale customers.
PIC Meeting Dates:	PIC Meeting #2 on November 5, 2016 / PIC Meeting #5 on November 29, 2016 / PIC Meeting #8 January 17, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #2 on November 5, 2016 / WIC Meeting #4 on November 29, 2016 / WIC Meeting #7 January 17, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	The Govalle Wastewater Treatment Plant operating and maintenance costs should be allocated to all customer classes including wholesale customers.			
PIC & WIC Comments:	**Grant Rabon (PIC-Residential Rate Advocate):** Per our discussion at the PIC meeting on 11/29/16, I am formally indicating my strong belief that Austin Water should pursue the inclusion of previously disallowed costs into the revenue requirement allocated to wholesale customers. The only exception to this general statement would be if Austin Water opts to utilize the utility basis for these customers (which I support) and, then, Austin Water could exclude only those disallowed costs that are inconsistent with, or inappropriate for, inclusion under the utility basis. <u>1/17/17</u> **Gary Rose (WIC-Southwest Water Co.):** If we use the utility basis, obviously this is not used and useful, so exclude it. I can see why the administrative building is legitimate but the old building for training isn't because training can be done at other sites. **Howard Hagemann (WIC-Wells Branch MUD):** To determine the percentage allocations, etc., would require an inordinate amount of effort and research. What is the percentage usage by wholesale customers? Transparency is a concern that some of these points bring out. How will we get to a dollar amount that would be agreed upon? **Don Conklin (WIC-North Austin MUD #1):** Is there any current/ongoing indebtedness with Govalle even though it's decommissioned? I recognize that administrative and training costs are real costs – do they need to be associated with a decommissioned plant? Is there a more cost effective place for them? We need more detail. I withhold my support until we have more information. **Chuck Loy (PIC-Multifamily):** Costs should be allocated. **Marcia Stokes (PIC-Multifamily):** Yes. **Todd Davey (PIC-Industrial/Large Volume):** It's a hurdle to overcome but yes you should try to include. **Dan Wilcox (PIC-Industrial/Large Volume):** I agree. You should attempt to charge to wholesale. **Grant Rabon (PIC-Residential Rate Advocate):** I agree and don't find it particularly hard to sell to the PUCT. **Chien Lee (PIC-W/WW Commissioner):** Yes, include it. **Jesse Penn (PIC-W/WW Commissioner):** It should be included. What type of training takes places and should that be included?			
Executive Team Decision	**Decision:** AW will allocate costs associated with the continued use of the Govalle WWTP site to all customer classes including wholesale customers. **Rationale:** Govalle WWTP does not provide any wastewater treatment as a functioning plant. However, there are still buildings on the property which provide space for training facilities for our pipeline and treatment staff. Additionally, clearwells from the previous plant provide emergency storage for wastewater during significant rain events. To the extent these costs are for the benefit of all customer classes, these costs will be allocated to all customer classes.			

Issue #12: Allocation of a Portion of the Utility-Wide Contingency to Wholesale Customers				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Allocate a Portion of the Utility-Wide Contingency to Wholesale Customers (Option for Change)**	
			Pros	**Cons**
The PUCT disallowed Austin Water's allocation of a portion of its utility-wise contingency to the wholesale customers. Should Austin Water seek to include these costs in the wholesale customer revenue requirement in the next rate case? **Status Quo: Continue to exclude the Utility-Wide Contingency from the wholesale customer revenue requirement**		Allocate a portion of the Utility-Wide Contingency to the wholesale customer revenue requirement.	1. The utility revenue requirement item designed to provide funds in case of emergency repair or other unplanned contingency. This is a valid operating cost that benefits all customers, both retail and wholesale.	1. Austin Water maintains other reserve funds and the use of a utility-wide contingency cost is redundant. 2. Austin Water must ensure that the amount of the contingency included in its revenue requirement is appropriate based on its actual history of expenditures.
PIC Meeting Dates:	PIC Meeting #2 on November 5, 2016 / PIC Meeting #5 on November 29, 2016 / PIC Meeting #8 January 17, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #2 on November 5, 2016 / WIC Meeting #4 on November 29, 2016 / WIC Meeting #7 January 17, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	Austin Water must demonstrate why its requested contingency is appropriate to be included in the revenue requirement. If justified, a portion of this cost should be allocated to wholesale customers.			
PIC & WIC Comments:	**Grant Rabon (PIC-Residential Rate Advocate):** Per our discussion at the PIC meeting on 11/29/16, I am formally indicating my strong belief that Austin Water should pursue the inclusion of previously disallowed costs into the revenue requirement allocated to wholesale customers. The only exception to this general statement would be if Austin Water opts to utilize the utility basis for these customers (which I support) and, then, Austin Water could exclude only those disallowed costs that are inconsistent with, or inappropriate for, inclusion under the utility basis. <u>1/17/17</u> **Don Conklin (WIC-North Austin MUD #1):** Is this a fund? Continue to disallow it. Absent this being allocated specifically to a contingency fund, I oppose. **Gary Rose (WIC-Southwest Water Co.):** You've set rates based on the test year. Including contingency plans in a test year lets you get around the cost of service and charge customers more. In my business we push back into future years if something unexpected happens. Exclude it. **Grant Rabon (PIC-Residential Rate Advocate):** Does this issue go away if you used actuals and not a fund: **Dan Wilcox (PIC-Industrial/Large Volume):** It should be allocated to the wholesale class. Would it be a factor if they used utility vs cash? **Todd Davey (PIC-Industrial/Large Volume):** I agree. You should try to allocate it. Try to not take on debt. <u>3/6/2017</u> **Lanetta Cooper (PIC-Residential/Low Income):** It should be a known and measurable change, or it should be a separate cost of service item altogether. I think wholesale and retail should be treated the same.			
Executive Team Decision	**Decision:** No Utility-wide contingency costs will be allocated to wholesale customers. **Rationale:** These costs are budgeted to allow for funding for any contingencies that may arise during the budget year which were unplanned. Since these costs are not known and measurable, none of these costs will be allocated to wholesale customers.			

Issue #13: Allocation of Water Treatment Plant No. 4 Costs to Wholesale Customers				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Allocate a Portion of Wastewater Treatment Plant No. 4 Costs to Wholesale Customers (Option for Change)**	
			Pros	**Cons**
The PUCT disallowed Austin Water's allocation of a portion of Water Treatment Plant No. 4 costs to the wholesale customers. Should Austin Water seek to include these costs in the wholesale customer revenue requirement in the next rate case? **Status Quo: Continue to exclude Water Treatment Plant No. 4 costs from the wholesale customer revenue requirement**		Allocate a portion of Water Treatment Plant No. 4 costs to the wholesale customer revenue requirement.	1. At the time of Austin Water's 2013 rate case, Water Treatment Plant No. 4 was not in service. Water Treatment Plant No. 4 is now in service. Austin Water operates a fully integrated utility system and all customers, including both retail and wholesale, benefit from Water Treatment Plant No. 4.	1. Water Treatment Plant No. 4 is not specifically dedicated to wholesale customer service. Therefore, no potion of these costs should be allocated to wholesale customers.
PIC Meeting Dates:	PIC Meeting #2 on November 5, 2016 / PIC Meeting #5 on November 29, 2016 / PIC Meeting #8 January 17, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #2 on November 5, 2016 / WIC Meeting #4 on November 29, 2016 / WIC Meeting #7 January 17, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	Water Treatment Plant No. 4 related costs are a valid and benefits all customers. Wholesale customers should be allocated a portion of these costs.			
PIC & WIC Comments:	**Grant Rabon (PIC-Residential Rate Advocate):** Per our discussion at the PIC meeting on 11/29/16, I am formally indicating my strong belief that Austin Water should pursue the inclusion of previously disallowed costs into the revenue requirement allocated to wholesale customers. The only exception to this general statement would be if Austin Water opts to utilize the utility basis for these customers (which I support) and, then, Austin Water could exclude only those disallowed costs that are inconsistent with, or inappropriate for, inclusion under the utility basis. 1/17/17 **Gary Rose (WIC-Southwest Water Co.):** On a peak day, is WTP4 used? If yes, it's a legitimate cost. **Randy Wilburn:** The more appropriate question is: is it necessary to operate WTP4? No. It's a $1 billion boondoggle. We have survived for 50 years with two plants. **Jay Joyce (WIC-Wells Branch MUD):** I have no opinion on whether to include it; it certainly could be a discussion regarding used and useful. The PUCT will conduct a prudence review. They will quantify the amount that should apply to all. **Grant Rabon (PIC-Residential Rate Advocate):** You can't possibly spend too much time defending how this is a prudent and necessary investment in system planning for current and future customers. Allocate it to all. **Dan Wilcox (PIC-Industrial/Large Volume):** I agree. It should be included. **Chien Lee (PIC-W/WW Commissioner):** WTP4 is partially to replace the capacity of decommissioning other plants. **Jesse Penn (PIC-W/WW Commissioner):** I agree. **Todd Davey (PIC-Industrial/Large Volume):** I agree. It's used and useful, reasonable and necessary. You should try to recover. If not, revisit reasonable and necessary for retail as this shouldn't only be the responsibility of retail. **Chuck Loy (PIC-Multifamily):** I agree. Include it and allocate. **Marcia Stokes (PIC-Multifamily):** I agree.			
Executive Team Decision	**Decision:** AW will allocate Water Treatment Plant No. 4 costs to all customer classes including wholesale customers. **Rationale:** Water Treatment Plant #4 was put into service in November 2014. This plant is a critical component of the integrated water system which provides service to all water customers. These costs will be allocated to all customer classes including wholesale customers.			

Issue #14: Allocation of Green Power Costs to Wholesale Customers				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Allocate a Portion of Wastewater Treatment Plant No. 4 Costs to Wholesale Customers (Option for Change)**	
			Pros	**Cons**
The PUCT disallowed Austin Water's allocation of a portion of Green Choice electricity costs to wholesale customers. Should Austin Water seek to include the cost of "green power" in the wholesale customer revenue requirement in the next rate case? **Status Quo: Continue to exclude the cost of green power from the wholesale customer revenue requirement**.		Allocate a portion of green power costs to the wholesale customer revenue requirement.	1. At the time of Austin Water's 2013 rate case, Austin Water purchased electric power from Austin Energy under the Green Choice electricity tariff. The PUCT disallowed the estimated cost of the Green Choice electricity in excess of standard Austin Energy electric rates. Austin Water is now purchasing electricity from Austin Energy under the Commercial Energizer rate. The Commercial Energizer rates are lower than the rates charged under the Green Choice program but are still in excess of standard Austin Energy rates. 2. If the Austin City Council wishes Austin Water to purchases electricity produced by green power sources, this is a valid operating cost that should be allocated to all customers, both retail and wholesale.	1. Wholesale customers should not be required to pay for green power costs in excess of standard electric rates because of the City of Austin's environmental/sustainability concerns. These excess costs should only be borne by retail customers located within the jurisdictional boundaries of the City of Austin.
PIC Meeting Dates:	PIC Meeting #2 on November 5, 2016 / PIC Meeting #5 on November 29, 2016 / PIC Meeting #8 January 17, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #2 on November 5, 2016 / WIC Meeting #4 on November 29, 2016 / WIC Meeting #7 January 17, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	Austin Water's purchase of green power electricity is City Council mandated and is a valid operating cost that benefits all customers. Wholesale should be allocated a portion of these costs.			
PIC & WIC Comments:	**Grant Rabon (PIC-Residential Rate Advocate):** Per our discussion at the PIC meeting on 11/29/16, I am formally indicating my strong belief that Austin Water should pursue the inclusion of previously disallowed costs into the revenue requirement allocated to wholesale customers. The only exception to this general statement would be if Austin Water opts to utilize the utility basis for these customers (which I support) and, then, Austin Water could exclude only those disallowed costs that are inconsistent with, or inappropriate for, inclusion under the utility basis. 1/17/17 **Don Conklin (WIC-North Austin MUD #1):** This is a City of Austin choice. Wholesale is outside city, so we have no standing. I recommend we continue to exclude. **Todd Davey (PIC-Industrial/Large Volume):** I don't think Green Choice should be part of anything that's not reasonable and necessary. It's a City Council decision and the premium shouldn't be paid by any customer. It's discretionary and an added expense. But it retail has to pay it, all should pay. **Chuck Loy (PIC-Multifamily):** Allocate it. **Dan Wilcox (PIC-Industrial/Large Volume):** Allocate it. I second Todd's comments. **Grant Rabon (PIC-Residential Rate Advocate):** Allocate to all. **Jesse Penn (PIC-W/WW Commissioner):** I generally agree with an allocation to all. It affects all customers regardless of inside city or outside city. **Marcia Stokes (PIC-Multifamily):** I agree. **Chien Lee (PIC-W/WW Commissioner):** Allocate it to all but you will have a hard time defending a decision made by the City Council.			
Executive Team Decision	**Decision:** AW will allocate green power costs to all customer classes including wholesale customers. **Rationale:** Austin Water supports the City's goal of using 100% green power for operations. This is also in support of the City's Climate Action Plan. The use of green power benefits all customers and therefore should be allocated to all customers including wholesale.			

Issue #15: Modify the Peaking Factor Methodology Used in the Water Cost of Service Model				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Modify the Peaking Factor Methodology Used in the Water Cost of Service Model (Option for Change)**	
			Pros	**Cons**
Representatives of large industrial customers have stated that the current method used by Austin Water to estimate customer class maximum day and maximum hour peaking factors does not adequately reflect the nuances of large industrial customer water use and results in an overstatement of the industrial class revenue requirement. **Status Quo: Maintain the peaking factor methodology currently used in the water model.**		Modify the peaking factor methodology currently used in the water model to reflect data provided by the industrial customers.	1. The current peaking factor methodology used in the water model does not reflect the actual daily or hourly water consumption of any customer in any retail customer class. To the extent customer-specific data is available it should be used; this would allow for customer-specific peaking factor determinations.	1. Austin Water uses an industry standard methodology to estimate customer maximum day and maximum hour peaking factors. This methodology is recommended in AWWA Manual M1, Principles of Water Rates, Fees, and Charges. This industry standard methodology is used for all retail and wholesale customer classes. 2. Unless and until Austin Water installs advanced metering technology that records individual customer water consumption on an hourly basis, the peaking factor methodology used by Austin Water is a fair and equitable method for assessing customer class water consumption characteristics and allocating costs between customer classes. 3. Modifying the current methodology to estimate peaking factors would inappropriately benefit large industrial customers by shifting costs to other retail and wholesale customer classes. In order to maintain fairness, the same peaking factor methodology should be used for all customer classes.
PIC Meeting Dates:	PIC Meeting #6 December 13, 2016 / PIC Meeting #8 January 17, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #5 December 13, 2016 / WIC Meeting #7 January 17, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	Continue to use the industry standard peaking factor methodology currently employed by Austin Water (do not modify the current methodology to estimate customer class peaking factors).			
PIC & WIC Comments:	**Howard Hagemann (WIC-Wells Branch MUD):** The solution seems to be a better metering process, to continue with the status quo. Debating this issue is essentially moot as we don't have enough information to gauge against. **Jay Joyce (WIC-Wells Branch MUD):** The method Austin Water is following is not in the AWWA Manual; the Manual doesn't endorse a rote mechanical method. We'll present at the PUCT and their engineers will say it's not the right way to do it. I recommend the methodology be modified to be in conformation with the AWWA Manual and appendix. **Gary Rose (WIC-Southwest Water Co.):** I appreciate the 3-year smoothing for peaking. **Don Conklin (WIC-North Austin MUD #1):** I appreciate that Austin Water is working with unusual circumstances. If the issue is specific to large volume, each major stakeholder having separate smart meters will help. Each major stakeholder should have a separate peaking factor like their separate rates. If data and evidence show large volume aren't contributing to peaking and retail rates will increase because large volume pays less, that's legitimate and fair. I favor tweaking the methodology as it applies to large volume customers and think we can all together come up with that. I make the argument that we alone should be excluded from peaking factors altogether because we had storage but traded with the city of Austin for consideration of a lift station. We have overpaid our share of the bonds by paying for storage we never got. **Randall Raemon (WIC-Marsha WSC):** How many meters are we talking about for wholesale and large volume customers to get more accurate data? **Dan Wilcox (PIC-Industrial/Large Volume):** The method doesn't actually follow the AWWA Manual exactly and doesn't represent actuals. If the data on meters are available and would be helpful, customers can provide it. Each class should have its own metering/rate/method. **Todd Davey (PIC-Industrial/Large Volume):** The application isn't consistent with the AWWA Manual. Our consumption patterns are more consistent and predictable. Use available data and allocate accordingly. **Grant Rabon (PIC-Residential Rate Advocate):** Any data should be collected by Austin Water and not supplied by customers. Until we're at the point data is readily available, treat all classes the same. **Chuck Loy (PIC-Multifamily):** Do you have any data available at this point? Wait until everyone can use data. I recommend modification. **Todd Davey (PIC-Industrial/Large Volume)/ Dan Wilcox (PIC-Industrial/Large Volume):** We recommend the methodology be modified. **Marcia Stokes (PIC-Multifamily):** This is an opportunity because most peaking is due to irrigation during the summer, and large volume and residential usage drive it. Compare peak days to what class is allowed to water on those days. It's worth looking at modifying the methodology. Up to what size meter will be changed out? **Chuck Loy (PIC-Multifamily):** If you change the methodology, how will it work? Will wholesale and large volume provide hourly, daily data, etc.? This would probably need a demand study. **Chuck Loy (PIC-Multifamily):** I'm concerned this could really swing costs. **Dan Wilcox (PIC-Industrial/Large Volume):** Look at targeting the largest 6-7 industrials with meters first to begin to get an idea of what the data will show. **Grant Rabon (PIC-Residential Rate Advocate):** If there are going to be winners and losers, I would like to be assessed with the same method/rules for all. **Chuck Loy (PIC-Multifamily):** I could support large volume having a different hourly/daily peaking if the data is available, but generally I agree with Grant.				

	3/6/2017 **Dan Wilcox (PIC-Industrial/Large Volume):** Is Austin Water incorporating the AMI data from customers at the same time? What about customers that already have the smart meters? Could some accommodation in the model be made to include the data? If the residential customer class is 95% of the accounts, it seems like it will take a lot longer than 5-7 years. Will the residential customer volume be looked at individually? What are other cities doing? **Lanetta Cooper (PIC-Residential/Low Income):** Once they put smart meters online, there is going to be a time period to determine if they actually work. It's a brand new technology, and water meters have not been as good as electric smart meters. **Karen Keese (PIC-Residential**): I have several clients that have fully gone AMI, and it's a big shakeout. You have to work the bugs out. **Howard Hagemann (WIC-Wells Branch MUD):** When you bring in the peaking factor, is this going to be a fixed costs? Is it going to vary based on the volume of water used? There's a certain capacity that has to be reserved, and that capacity is not always used. In your formula, you use the system average day and system maximum month. What is the difference between the max day and max month by customer? When you do a 3-year average, do you use all variables by customer? That could create some disparity in the relationship between the customer and system. **Andrew Hunt (WIC-North Austin MUD #1):** Have you identified the 3-years you are going to use?
Executive Team Decision	**Decision:** AW will continue current use of AWWA methodology guidelines for peaking factor calculation. **Rationale:** Austin Water currently uses AWWA guidelines for non-coincident peaking factor calculation. Use of AWWA guidelines is appropriate for calculation of peaking factors. Austin Water provides further benefit to customers in the calculation of the peaking factors by using a 3-year rolling average for each customer class which smooths any adverse impacts of single year peaking factors. Additionally, Austin Water uses a 5-day average of water system peak day peaking factors to smooth any adverse impacts of single day system peak day factors used in estimated peak day and peak hour factors from monthly billing data.

Issue #16: Inflow/Infiltration cost determination and allocation to customer classes				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Pros**	**Cons**
Austin Water currently allocates I/I to customer classes based on 100% volume in wastewater COS model. **Status Quo: Allocate I/I flows to customer classes based on 100% volume**.			1. I/I is a flow related cost. Allocation of costs to customer class flow provides the appropriate link for cost causation.	1. Charging I/I by 100% flow allocation reduces costs for the residential class.
PIC Meeting Dates:	PIC Meeting #9 January 31, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #8 January 31, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	I/I is essentially a hydraulic cost, most directly linked to volumetric flow, and thus it is appropriate to recover 100% by volume.			
PIC & WIC Comments:	**Lanetta Cooper (Residential):** I see the change, but it would make a difference. Some wholesale customers could be double counted for I&I (with flow meters). **Shirley Ross (WIC-Wells Branch MUD):** In addition to TVing our lines, we inspect our manholes. It would be nice to consider giving a credit to wholesale customers who maintain their wastewater lines. **Clay Collins (WIC-Sunset Valley):** Right now the 10.5% is being allocated based on contributed flow. It's really just a mathematical calculation for allocation. **Andrew Hunt (WIC-North Austin MUD #1):** North Austin TVs their lines yet we don't get any credit from the city for reducing the Inflow & Infiltration. **Karyn Keese (PIC-Residential):** Recommend maintaining the status quo. In San Diego Wholesale customers are metered to give an incentive to tighten up their system. Austin needs to meter WW flows. **Todd Davey (PIC-Industrial/Large Volume):** People should be rewarded for taking care of their issues. Agree with the current system. **Marcia Stokes (PIC-Multifamily):** We have a private water line and private sewer line. We get charged 100% of our water usage regardless if it's going into the sewer system. Allocate costs based upon system usage. **Dave Schneider (Industrial/Large Volume):** You're allocating on the same percentage, regardless of I&I contributed flow by class. If there are holes in the wholesale system, you are assuming their Inflow & Infiltration is consistent. <u>3/6/2017</u> **Robert Wood (WIC-City of Westlake Hills):** Does that effectively raise everyone's flows by 10.5%? You assume that everyone's influent is actual flows plus 10.5% and then raise the billed flows? If the flow was 100k gallons, then you are going to raise it by 10.5%, right?			
Executive Team Decision	**Decision:** AW will continue to determine the amount of I/I which results in I/I being 10.5% of the resulting Total Flows into our wastewater system. This is achieved by applying an 11.7% to the customer class contributed flow. In addition, AW will continue to allocate estimated I/I costs based on contributed flow volume by customer class. **Rationale:** This methodology is consistent with the current practice used within the 2008 cost of service rate study. While a specific I/I study has not been done recently, the 10.5% seems reasonable considering a study in 1999 identified approximately 15%. The reduction was decided in a cost of service rate study following AW's Austin Clean Water Program which addressed wastewater system overflows partially caused by I/I.			

Issue #17: Adding additional wastewater strength parameters				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Pros**	**Cons**
AW wastewater COS model assumes that most customer classes have the discharge strengths. **Status Quo: AW BOD of 200 mg/L and TSS of 200 mg/L**			Adding strength parameters would identify costs associated with higher strength wastewater dischargers and appropriately allocate costs to those customers.	Adding strength parameters would require sampling and setting standard limits for typical customer flow. It would also increase complexity in the cost of service cost allocation process. Treatment costs related specifically to the treatment of the additional strength parameters would need to be identified and segregated in the process.
PIC Meeting Dates:	PIC Meeting #9 January 31, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #8 January 31, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	AW should not incorporate any additional strength parameters until there is cost causation, such as inclusion in enhanced permit requirements.			
PIC & WIC Comments:	**Lanetta Cooper (PIC-Residential):** If the TCEQ increases the treatment requirements, we are already treating these. Should we add additional cost allocation parameters? Then yes. **Dave Schneider (PIC-Industrial/Large Volume):** Stay with status quo. **Gary Rose (WIC-Southwest Water Co.):** Overall, wastewater ammonia loads are coming out much stronger at our facilities. **Shirley Ross (WIC-Wells Branch MUD):** In the future, it makes since if the TCEQ requires lower levels of ammonia that you would charge. **Andrew Hunt (WIC-North Austin MUD):** Where would you sample MUDs, at plants? <u>3/6/2017</u> **Grant Rabon (PIC-Residential Rate Advocate):** Are you currently charging any customer for these new items? How are you deciding who/when to sample? Large customers are getting sampled annually. How do you decide who/when gets sampled?			
Executive Team Decision	**Decision:** AW will not add any additional wastewater strength parameters in its cost of service methodologies. However, high levels of ammonia strengths for some customers will be considered using the current Industrial Waste Surcharge mechanism. **Rationale:** AW currently uses industry standards of BOD and TSS as strength parameters. While some systems add phosphorus, nitrogen or ammonia, AW does not plan to use these parameters for all customer classes.			

Issue #18: Allocation of Drainage Fees to Wholesale Customers				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Allocate a Portion of Wastewater Treatment Plant No. 4 Costs to Wholesale Customers (Option for Change)**	
			Pros	**Cons**
The PUCT disallowed Austin Water's allocation of a portion of drainage fees to wholesale customers. Should Austin Water seek to include the cost of "green power" in the wholesale customer revenue requirement in the next rate case? **Status Quo: Continue to exclude the drainage fees from the wholesale customer revenue requirement**.		Allocate a portion of drainage fees to the wholesale customer revenue requirement.	1. The drainage charge is calculated individually for Austin Water's facilities, based on the amount and percent of impervious cover to address flooding, erosion and water pollution within the City of Austin. Austin Water is charged at the same rates as other properties within the City.	1. Wholesale customers do not receive any direct benefits from the City of Austin drainage utility. These costs should only be borne by retail customers located within the jurisdictional boundaries of the City of Austin.
PIC Meeting Dates:	PIC Meeting #2 on November 5, 2016 / PIC Meeting #5 on November 29, 2016 / PIC Meeting #10 February 21, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #2 on November 5, 2016 / WIC Meeting #4 on November 29, 2016 / WIC Meeting #9 February 21, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	Drainage fees charged to Austin Water are a cost of doing business and is a valid operating cost required to be recovered from all AW customers.			
PIC & WIC Comments:	**Jay Joyce (WIC-Wells Branch):** Is the drainage fee charged to other government entities? **Katy Phillips (WIC-Sunset Valley):** How are drainage fees allocated to Wholesale? **Howard Hagemann (WIC-Wellsbranch):** PUC has disallowed it, so it should continue to be excluded **Lanetta Cooper (PIC-Residential):** Are drainage fees addressed by the Texas Legislature? This is cost allocation as opposed to the City has the right to charge for these fees. You should charge these fees because it is a cost of doing business.			
Executive Team Decision	**Decision:** AW will allocate drainage fees to all customer classes including wholesale customers. **Rationale:** Drainage fees are similar to other utility fees such as electric and gas. All properties within the City of Austin are assessed drainage fees based on a consistent formula related to their impervious cover. As AW owns property within the City, we are assessed drainage fees. This cost is a cost of doing business in Austin, and should be allocated to all customer classes.			

Issue #19: CAP Customer Costs, Allocation to Classes, and Recovery Method (Community Benefit Charge)				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Pros**	**Cons**
Austin Water's Customer Assistance Program currently provides discounted rates for eligible customers. **Status Quo: Maintain current level of CAP discount and do not implement CBC.**		Add volumetric discount for wastewater service and/or implement Community Benefit Charge to fund program.	1. Provides funding for low-income, most vulnerable customers who need assistance to pay water and wastewater bills. 2. Provides a discount on water services including waivers of fixed fees and discounted volumetric rates for water.	Costs of CAP program must be allocated to all other retail customer classes.
PIC Meeting Dates:	PIC Meeting #9 January 31, 2017 / PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #8 January 31, 2017 / WIC Meeting #10 March 6, 2017			
Consultant Recommendation:	The implementation of a Community Benefit Charge (CBC) would more closely align the messaging/customer assistance mechanism provided by AW with Austin Energy's CBC; resulting in a more effective/transparent customer assistance program. We also support the expansion of the assistance to include a discount on the wastewater volumetric rate.			
PIC & WIC Comments:	**Gary Rose (WIC-Southwest Co.):** I am a supporter of the customer assistance program, but the PUCT has told us that we cannot push these types of costs to all customers, so it was taken out of the rate of return. It should only be borne by the retail customer class and not by the wholesale class. **Jay Joyce (WIC-Wells Branch MUD):** During the rate proceeding at the PUCT, this was not an issue. It seems like we are intertwining the water conservation with low income and they are not the same. I really agree with Mr. Rose, I don't know how that's going to flow into the wholesale rates. On the water conservation in the rate case, we received a list of instances where low flow devices had been provided to the wholesale customers. **Katy Phillips (WIC-Sunset Valley):** I think the CBC idea makes sense for the retail classes, but for the wholesale class it needs to be transparent what portion is for water conservation. **Howard Hagemann (WIC-Wells Branch):** I don't think we have a customer assistance program, so we would want to be a part of the program. **Karyn Keese (PIC-Residential):** Are you looking at the rate structure for the CAP program? My feeling is that the CAP rates get a discount on the 4th tier, but not the 5th tier. This is not fair because there should be some price signal just like the rest of us. Water conservation should be promoted in this program as well. **Todd Davey (PIC-Industrial/Large Volume):** We also have no issue with CAP program and I have no concerns with reviewing the rate tiers. Some issues came up on the AE side regarding the administration of the program with auto-enrollment. That's an AE issue. I don't believe this an issue that can be resolved here. We think it's a good idea to have a discount program. I think the CBC is the most transparent and it's consistent with how AE displays on the bill. **Lanetta Cooper (PIC-Residential):** I know that AE thinks it's transparent, but the three tariffs administered by AE does not improve customer understanding. I don't have a formal decision. I don't know if it's necessary. I don't think you're going to get a lot more benefit for the cost incurred. I have concern with high CAP users. I have not received a CAP bill frequencies yet. We don't have the data yet to analyze what the effect would be to CAP customers. I had a tenant CAP participant who had a leak, but the owner did not repair it. The tenant received a high water bill. Other public policy changes that we might want to look at and not harm customers who cannot fix the leak. **Grant Rabon (PIC-Residential Rate Advocate)** You can also have old fixtures for water and it can happen on the water side as well. If the outside city customers are paying into the fund, it makes sense that they can receive the benefits. **Marcia Stokes (PIC-Multifamily**): Table 57 from the COS water model shows several large meters (2", 3/4"). Is the CBC pure volume based and not based on the fixed charge? The more you use, the more you contribute. 3/6/2017 **Karyn Keese (PIC-Residential):** What about outside city retail customers, will they receive this benefit?			
Executive Team Decision	**Decision:** AW will recommend creation of a Community Benefit Charge (CBC) to recover costs associated with the CAP program. Also, AW will recommend an increase in the wastewater discount to include a volumetric rate discount. No costs associated with the CAP Program will be allocated to wholesale customers. **Rationale:** By creating a CBC, the costs associated with the CAP program will be transparently identified and detailed on our customers' monthly bills. This is consistent with how Austin Energy manages their CAP program through their CBC. This will also allow for participation in CAP program initiatives, such as the arrearage management program. These funds will be segregated from other utility funds which will provide better reporting and transparency.			

Issue #20: Modification of Fire Demand Meter Fixed Charges				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Modify the Fire Demand Meter Fixed Charge Rate Design**	
			Pros	**Cons**
Retail small multi-family customers must currently pay fixed charges that contain a potentially high allocation of public fire protection costs. **Status Quo: Maintain the current small multi-family fixed charge rate design.**		Modify the current small multi-family fixed charge rate design.	Fix unintended consequences of some low-volume customers with large fire demand meters having significantly higher fixed charge portions of their monthly bill.	Will require extensive research on approximately 500-600 fire demand meters to determine appropriate domestic use. Reduced fixed revenue from these customers that will be made up on volumetric charges.
PIC Meeting Dates:	PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #9 February 21, 2017			
Consultant Recommendation:	Multifamily customers should not be charged based on fire meter size. Instead, they should be assessed a fixed charge for a meter size as determined by that customer's typical monthly use.			
PIC & WIC Comments:	**Gary Rose (WIC-Southwest Co.):** Fixed charges should be based off smaller meter and read volume for both. Only charge higher fixed charge if they use a larger meter. **Howard Hagemann (WIC-Southwest Co.):** How are peaking factors impacted? **Karyn Keese (PIC-Residential):** I think that basing the fixed charge on the smaller meter size is the best option. If you base it on the volume, you can open another can of worms. **Grant Rabon (PIC-Residential Rate Advocate)** Is this specific solution only targeting the Multifamily customer class? You might have some customers that are using the larger meter size. Has Austin Energy advised if this will be a difficult re-programming process? **Todd Davey (PIC-Industrial/Large Volume):** This is a portion of a larger rate design issue and should be discussed during rate discussion. **Marcia Stokes (PIC-Multifamily):** I have already submitted comments on how to fix this. This is an issue that not only affects Multifamily but all classes with fire demand meters			
Executive Team Decision	**Decision:** AW will modify the fixed charges for fire demand meter charges by basing the fixed meter charge on the smaller meter size rather than the larger meter size. **Rationale:** Analysis of the fire demand meters showed virtually no consumption being used through the larger meter size. All of the fire demand customers generally only use the larger size meter during annual required testing. For low monthly volume customers with fire demand meters, the current practice of charging on the larger size meter was causing some to have fixed charges as high as 90% of their total monthly bill. This unintended consequence of AW's increased fixed charge goals, will be corrected by this change in methodology.			

Issue #21: Fire Protection Costs and Allocation to Customer Classes				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Fire Protection Cost Allocation**	
			Pros	**Cons**
Fire protection costs must be allocated to customer classes based on fire demand. **Status Quo: Maintain the current fire protection cost identification and allocation as developed in 2008 COS study.**		Modify the current fire demand cost determination and allocations to customer classes.	Provides equitable allocation of fire protection costs associated with ensuring water system has sufficient capacities at all times Differences in fire protection needs between customer classes can be addressed through allocation	Fire protection is a standby service and most customers rarely use
PIC Meeting Dates:	PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #9 February 21, 2017			
Consultant Recommendation:				
PIC & WIC Comments:	**Grant Rabon (PIC-Residential Rate Advocate):** The minimum fixed charge column, the meter charge is based on the AWWA standard. When you say AWWA equivalency, I am expecting that to mean that you have looked up the max flow rate in the tables and done the math to determine the 5/8" versus the 3/4"? When I look at the tables, I get slightly different numbers than what you have chosen. **Karyn Keese (PIC-Residential):** Some of the meter allocations have changed over the years. **Marcia Stokes (PIC-Multifamily):** Meeting 6, slide 31 shows the table Austin Water is using. The customer charge is the same as the meter charge is the table, but the fire charge is higher. Those ratios are different. My concern has been, you have this model and the numbers get changed. The stuff on the left should be the AWWA standard and the stuff on the right should adjust. The fire protection charge should be based on the AWWA standards. The last COS study showed the least effective way was to use the usage by meter size to allocate fire protection charges. Private fire hydrants are only an administrative function that Austin Water has. We pay a contractor to test our fire hydrants, and then we pay the city $28/month to put it into a database. According to the model, you only allocate 1.7% to the fire protection category as a credit back. We are not even getting full credit in that category. Not only am I paying for a private hydrant to get tested and on top of that I am paying for all fire hydrants to get tested, and I'm not even getting the credit. In your model, why don't you credit 100% of that credit to those who are collected? 75% of the hydrants are allocated to the fire protection category, but we get less credit back 1.7% to that category. 27% of fire hydrants are private. Do you require the city fire hydrants to be maintained annually, are they in the same database? If there really are 10k private hydrants, you model said you only collected $58k. **Lanetta Cooper (PIC-Residential):** These costs include the customer charge, if we were to exclude the customer charges ($4.83) how would these fixed costs compare? **Marcia Stokes (PIC-Multifamily):** How do we transition from one model to another? That rate model has the AWWA ratios for meters, but when you get over to the rate sheet it's something different. Is there some council action that said the 5/8" meter charge had to stay at that amount ($7.10)? **Karyn Keese (PIC-Residential):** Are you going to unbundle that (fixed charges)? So keeping it at $7.10 will go away? I think we would like to see it unbundle based on current data with AWWA standards. **Lanetta Cooper (PIC-Residential):** Rate design is a different issue than COS allocation. The inverted block rate and conservation. It is premature to make an argument that the fixed fees are driving the subsidy. There would be a subsidy between the classes based on cost allocation and not the rate design. **Marcia Stokes (PIC-Multifamily):** Wholesale does not pay fire protection charges. What about outside city retail customers? **Lanetta Cooper (PIC-Residential):** Don't we oversize the mains due to fire protection? Why don't we charge wholesale for fire protection needs? **Marcia Stokes (PIC-Multifamily):** In the model, under hydrants 25% of those costs are allocated to joint (wholesale and retail).				
Executive Team Decision	**Decision:** AW will modify the fire protection allocation using revised meter equivalencies based on hydraulic capacity by meter type as identified in AWWA M6, Water Meters - Selection, Installation, Testing, and Maintenance. **Rationale:** Source for current meter equivalencies was undetermined and had some overrides for associated fixed charge rate design. This methodology will ensure a specific source is identified for each meter equivalency.			

Issue #22: Elimination of Commercial and Large Volume Subsidy of Residential Water Customers				
	Change? (Yes or No)	If Yes, Option for Change	Subsidy Elimination	
Issue			Pros	Cons
Residential rates currently subsidized by commercial and large volume customers. **Status Quo: Maintain current level of rate subsidy.**		Eliminate residential rates subsidy.	All customer classes would be charged rates that would recover their identified cost of service. All customers treated consistently with rates at their cost of service.	Customer impact to residential class.
PIC Meeting Dates:	PIC Meeting #11 March 6, 2017			
WIC Meeting Dates:	WIC Meeting #9 February 21, 2017			
Consultant Recommendation:	RFC recommends the elimination of the interclass subsidy. Depending on the magnitude of the updated cost of service, this may be phased in over a short-term period, such as 3 years.			
PIC & WIC Comments:	**Karyn Keese (PIC-Residential):** What would it take to get residential to 100%? Subsidy are one of my pet peeves. Affordability is a priority, and making sure everyone is at their cost of service is the goal. The elimination of the subsidy would depend on the results of the cost of service study. We are very concerned about affordability. **Marcia Stokes (PIC-Multifamily):** The goal of the last COS study was to eliminate the subsidy in 5-7 years, but it is still not there.			
Executive Team Decision	**Decision:** AW will recommend to eliminate the current commercial and large volume subsidy of residential water customers. However, based on levels of impacts to residential customers, AW will likely recommend a short-term transition of this subsidy. **Rationale:** AW's goal is to have rates for each customer class cover their identified cost of service, with no subsidy of any one class.			

Issue #23: Test Year for Revenue Requirements (Not a Specific PIC/WIC Meeting Topic)				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Actual Test Year**	
			Pros	**Cons**
Test year that will be used to determine total revenue requirements. **Status Quo: Use the proposed budget as the revenue requirement test year.**		Historical actual expenses with possible adjustments for known and measurable changes.	Actual expenses in a historical test year is a good representation of costs needed to operate the water and wastewater systems. Adjustments for known and measurable provides transparent justifications.	Not consistent with budgeting process of municipality. Could result in a lower revenue requirement than cash flow needs
PIC Meeting Dates:	PIC Meeting #10 February 21, 2017			
WIC Meeting Dates:	WIC Meeting #9 February 21, 2017			
Consultant Recommendation:				
PIC & WIC Comments:	**Jay Joyce (WIC-Wells Branch):** Are we going to discuss known and measurable changes as a group? Labor costs, the PUC likes to use the latest payroll runs and keeps a running total. If the actual data is ending in September 2016, then we are adjusting for known and measurable for September 2017 which we already know when the hearings examiner process begins (same month). Are you going to lose a year? The City of Ft. Worth used a similar process. **Todd Davey (PIC-Industrial/Large Volume):** What's the timeline for delivery? When do you expect for the model to be complete? **Lanetta Cooper (PIC-Residential/Low Income):** My only concern is that not all of the known and measurable changes associated with revenue and costs are accounted for. PUC requires most recent data.			
Executive Team Decision	**Decision:** AW will use a historical actual test year adjusted for known and measurable changes. **Rationale:** Actual expenses from a prior fiscal year provides justification of what it takes to operate and maintain our systems. Adjusting for known and measurable changes provides further justification of requirements to meet cash needs. Actual expenses adjusted for known and measureable changes provides transparency of our costs and justifications of any expected changes. It ensures the cash flow needs of the utility can be met.			

Issue #24: Creation of Outside City Retail Customer Classes and Rates (Not a Specific PIC/WIC Meeting Topic)				
Issue	**Change? (Yes or No)**	**If Yes, Option for Change**	**Create Outside City Retail Customer Classes**	
			Pros	**Cons**
Whether to create outside city retail customer classes for residential, multifamily, and commercial. **Status Quo: Austin Water does not have outside city retail customer classes.**		Create the outside city customer classes and develop cost of service rates for each.	Identifies cost of service and associated rates for these customers. Provides cost of service justification for those customers that have jurisdiction with the PUC for rate challenges.	Different rates for customers who live just beyond the city limits as compared to city customers that might be in similar proximity Possibly have lower rates than inside city rates due to the consumption patterns generally being higher than inside city rates.
PIC Meeting Dates:	N/A			
WIC Meeting Dates:	N/A			
Consultant Recommendation:				
PIC & WIC Comments:	**Lanetta Cooper (PIC-Residential/Low Income):** Why would we create a separate outside city retail customer class? Throughout this process, we have been told these costs are intermingled. How would you calculate an outside city rate? The PUCT uses a system wide cost of service. It would add administrative costs. It doesn't seem like it's worth the money. I can't think why you would need an outside city customer class. Would you charge them more if their COS requirements were higher? **Grant Rabon (PIC-Residential Rate Advocate):** There is a natural breakpoint you go with this COS, are you going to have different peaking ratios for each (Inside City/Outside City)? I am suspicious that your O&M and Capital costs capture the difference between the two classes? Will they have different peaking factors? You are limited by the detail of your assets tracking.			
Executive Team Decision	**Decision:** AW will create outside city retail customer classes and rates. **Rationale:** The creation of outside city retail customer classes and rates provides for specific identification of cost of service revenue requirements for each class. These outside city classes have PUC jurisdiction for their rates, so this specific identification of revenue requirements and rates is necessary for any future PUC rate challenge. Additionally, the specific customer class information and transparency might help to mitigate any future PUC rate challenges.			

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Austin Water
Water Utility Cost of Service Model
Summary of Results
Test Year FY 2017

Table
Summary by Model

Customer Class	Existing COS Rate Model: Cost of Service for Test Year (1)	Existing COS Rate Model: Anticipated Revenue (2)	Existing COS Rate Model: $ Variance	Existing COS Rate Model: % Variance	New COS Rate Model: Cost of Service for Test Year (1) (3)	New COS Rate Model: Anticipated Revenue (2) (3)	New COS Rate Model: $ Variance	New COS Rate Model: % Variance	Existing Model COS to New Model COS: Cost of Service for Test Year (1) EXISTING MODEL	Existing Model COS to New Model COS: Cost of Service for Test Year (1) (3) NEW MODEL	Existing Model COS to New Model COS: $ Variance	Existing Model COS to New Model COS: % Variance	Existing Model Revenue to New Model COS: Anticipated Revenue EXISTING MODEL	Existing Model Revenue to New Model COS: Cost of Service/ Anticipated Revenue (3) NEW MODEL	Existing Model Revenue to New Model COS: $ Variance	Existing Model Revenue to New Model COS: % Variance
Inside City Retail																
Inside City Residential	$115,622,785	$113,495,981	($2,126,805)	-1.9%	$116,724,610	$116,724,610	($0)	0.0%	$115,622,785	$116,724,610	$1,101,825	0.9%	$113,495,981	$116,724,610	$3,228,630	2.8%
Inside City Multi-Family	61,577,212	62,521,507	944,295	1.5%	61,033,846	61,033,846	(0)	0.0%	61,577,212	61,033,846	(543,366)	-0.9%	62,521,507	61,033,846	(1,487,661)	-2.4%
Inside City Commercial	81,732,841	86,086,609	4,353,768	5.1%	81,674,462	81,674,462	(0)	0.0%	81,732,841	81,674,462	(58,379)	-0.1%	86,086,609	81,674,462	(4,412,147)	-5.4%
Inside City Residential CAP	6,736,309	6,736,309	0	0.0%	6,073,761	6,073,761	0	0.0%	6,736,309	6,073,761	(662,548)	-10.9%	6,736,309	6,073,761	(662,548)	-10.9%
Inside City Spansion	1,867,455	1,966,837	99,382	5.1%	1,868,784	1,868,784	0	0.0%	1,867,455	1,868,784	1,328	0.1%	1,966,837	1,868,784	(98,053)	-5.2%
Inside City NXP - Ed Bluestein Blvd	2,500,224	2,631,252	131,028	5.0%	2,552,146	2,552,146	0	0.0%	2,500,224	2,552,146	51,922	2.0%	2,631,252	2,552,146	(79,106)	-3.1%
Inside City NXP - W William Cannon	1,917,286	2,019,518	102,232	5.1%	1,879,610	1,879,610	0	0.0%	1,917,286	1,879,610	(37,676)	-2.0%	2,019,518	1,879,610	(139,908)	-7.4%
Inside City Samsung	10,772,330	11,340,744	568,414	5.0%	10,837,454	10,837,454	0	0.0%	10,772,330	10,837,454	65,123	0.6%	11,340,744	10,837,454	(503,290)	-4.6%
Inside City Novati	418,994	441,126	22,132	5.0%	415,582	415,582	0	0.0%	418,994	415,582	(3,412)	-0.8%	441,126	415,582	(25,544)	-6.1%
Inside City University of Texas	2,429,072	2,505,097	76,025	3.0%	2,396,860	2,396,861	0	0.0%	2,429,072	2,396,860	(32,211)	-1.3%	2,505,097	2,396,860	(108,237)	-4.5%
									0	0						
Total Inside City Retail	285,574,508	289,744,979	4,170,471		285,457,116	285,457,116	(0)		285,574,508	285,457,116	(117,392)		289,744,979	285,457,116	(4,287,863)	
Outside City Retail																
Wholesale																
Creedmore-Maha	392,036	342,066	(49,970)	-14.6%	381,682	381,682	0	0.0%	392,036	381,682	(10,354)	-2.7%	342,066	381,682	39,616	10.4%
High Valley	36,455	29,069	(7,387)	-25.4%	32,198	32,198	0	0.0%	36,455	32,198	(4,257)	-13.2%	29,069	32,198	3,129	9.7%
Manor, City of	780	433	(347)	-80.2%	690	690	(0)	0.0%	780	690	(90)	-13.1%	433	690	257	37.2%
Mid Tex Utilities	151,138	93,683	(57,455)	-61.3%	162,225	162,225	0	0.0%	151,138	162,225	11,087	6.8%	93,683	162,225	68,542	42.3%
Marsha Water	66,613	52,896	(13,717)	-25.9%	56,326	56,326	0	0.0%	66,613	56,326	(10,287)	-18.3%	52,896	56,326	3,430	6.1%
Morningside	12,252	10,937	(1,315)	-12.0%	9,792	9,792	0	0.0%	12,252	9,792	(2,460)	-25.1%	10,937	9,792	(1,145)	-11.7%
Nighthawk	66,369	55,139	(11,230)	-20.4%	81,557	81,557	(0)	0.0%	66,369	81,557	15,188	18.6%	55,139	81,557	26,418	32.4%
North Austin MUD	1,587,954	1,005,453	(582,501)	-57.9%	1,568,692	1,568,693	0	0.0%	1,587,954	1,568,692	(19,262)	-1.2%	1,005,453	1,568,692	563,239	35.9%
Northtown MUD	1,317,778	866,120	(451,659)	-52.1%	1,343,470	1,343,470	0	0.0%	1,317,778	1,343,470	25,692	1.9%	866,120	1,343,470	477,350	35.5%
Rivercrest	661,544	557,846	(103,697)	-18.6%	659,625	659,625	(0)	0.0%	661,544	659,625	(1,919)	-0.3%	557,846	659,625	101,779	15.4%
Rollingwood	680,314	585,542	(94,772)	-16.2%	684,134	684,134	0	0.0%	680,314	684,134	3,820	0.6%	585,542	684,134	98,592	14.4%
Shady Hollow	1,047,844	786,025	(261,820)	-33.3%	1,040,927	1,040,927	(0)	0.0%	1,047,844	1,040,927	(6,918)	-0.7%	786,025	1,040,927	254,902	24.5%
Sunset Valley MUD	569,208	512,833	(56,375)	-11.0%	610,465	610,465	0	0.0%	569,208	610,465	41,257	6.8%	512,833	610,465	97,633	16.0%
Village of San Leanna	21,848	21,673	(175)	-0.8%	21,151	21,151	(0)	0.0%	21,848	21,151	(697)	-3.3%	21,673	21,151	(522)	-2.5%
Water District 10	4,183,574	2,462,362	(1,721,211)	-69.9%	4,268,491	4,268,491	(0)	0.0%	4,183,574	4,268,491	84,918	2.0%	2,462,362	4,268,491	1,806,129	42.3%
Wells Branch MUD	2,107,515	1,349,439	(758,077)	-56.2%	2,102,050	2,102,049	(0)	0.0%	2,107,515	2,102,050	(5,466)	-0.3%	1,349,439	2,102,050	752,611	35.8%
Southwest Water	27,405	21,168	(6,237)	-29.5%	24,545	24,545	(0)	0.0%	27,405	24,545	(2,860)	-11.7%	21,168	24,545	3,377	13.8%
							0	0.0%								
Total Wholesale	12,930,627	8,752,683	(4,177,944)		13,048,019	13,048,019		0	12,930,627	13,048,019	117,392		8,752,683	13,048,019	4,295,336	
Total System	$298,505,135	$298,497,662	($7,473)		$298,505,135	$298,505,135	($0)		$298,505,135	$298,505,135	($0)		$298,497,662	$298,505,135	$7,473	

(1) Represents Full Cost of Service including Outside City Adjustments, Reserve Fund Surcharge and Community Benefit Charge
(2) Revenue assumes November Implementation: 1 month of 2016 rates and 11 months of 2017 rates.
(3) Cost of Service and anticipated revenue in new model does not include reserve fund surcharge revenue from North Austin, Northtown, Water District 10, and Wells Branch to mirror the Existing model. However, AW plans to assess that charge to all customers

Austin Water
Water Utility Cost of Service Model
Summary of Results
Test Year FY 2017

RETAIL USER CHARGES	Existing COS Rate Model 2017 RATES				New COS Rate Model 2017 RATES			
	RESIDENTIAL	COMMERCIAL	MULTI-FAMILY	RESIDENTIAL CAP	RESIDENTIAL	COMMERCIAL	MULTI-FAMILY	RESIDENTIAL CAP
Fixed Charge								
5/8"	$7.10	$17.90	$24.35	n/a	$7.40	$18.20	$24.65	n/a
3/4"	13.00	29.00	39.00	n/a	13.00	29.00	38.90	n/a
1"	15.00	42.00	58.00	n/a	16.10	43.10	59.20	n/a
1.5"	26.00	80.00	112.00	n/a	22.50	76.50	108.80	n/a
2"	42.00	128.00	180.00	n/a	33.70	120.10	171.70	n/a
3"	71.00	244.00	347.00	n/a	74.10	246.90	350.10	n/a
4"	136.00	406.00	567.00	n/a	116.80	386.80	548.10	n/a
6"	275.00	815.00	1,138.00	n/a	231.10	771.10	1,093.60	n/a
8"	916.00	1,780.00	2,296.00	n/a	402.30	1,266.30	1,782.30	n/a
10"	1,106.00	2,348.00	3,090.00	n/a	607.30	1,849.30	2,591.10	n/a
12"	1,336.00	3,172.00	4,269.00	n/a	838.00	2,674.00	3,770.50	n/a
Tiered Fixed Fee								
Block 1: 0 - 2,000 Gallons	$1.25	n/a	n/a	n/a	$1.25	n/a	n/a	n/a
Block 2: 2,001 - 6,000 Gallons	3.55	n/a	n/a	n/a	3.50	n/a	n/a	n/a
Block 3: 6,001 - 11,000	9.25	n/a	n/a	n/a	9.75	n/a	n/a	n/a
Block 4: 11,001 - 20,000 Gallons	29.75	n/a	n/a	n/a	29.75	n/a	n/a	n/a
Block 5: 20,000 - over Gallons	29.75	n/a	n/a	n/a	29.75	n/a	n/a	n/a
Volumetric								
Residential								
Block 1: 0 - 2,000 Gallons	$3.18	n/a	n/a	$2.50	$3.22	n/a	n/a	$2.22
Block 2: 2,001 - 6,000 Gallons	5.05	n/a	n/a	4.13	5.11	n/a	n/a	3.67
Block 3: 6,001 - 11,000	8.56	n/a	n/a	6.74	8.66	n/a	n/a	6.00
Block 4: 11,001 - 20,000 Gallons	12.92	n/a	n/a	11.58	13.07	n/a	n/a	10.31
Block 5: 20,000 - over Gallons	14.43	n/a	n/a	14.43	14.60	n/a	n/a	12.84
Seasonal								
Off-Peak	n/a	$5.97	$5.11	n/a	n/a	$5.49	$4.84	n/a
Peak	n/a	6.57	5.62	n/a	n/a	6.04	5.32	n/a
Reserve Fund Surcharge	$0.19	$0.19	$0.19	$0.19	$0.19	$0.19	$0.19	$0.19
Community Benefit Charge	n/a	n/a	n/a	n/a	$0.14	$0.14	$0.14	n/a

Austin Water
Water Utility Cost of Service Model
Summary of Results
Test Year FY 2017

LARGE VOLUME USER CHARGES

	Existing Model 2017 Additional Fixed Charges	Existing Model 2017 Volumetric OFF PEAK RATES	Existing Model 2017 Volumetric PEAK RATES	New Model 2017 Additional Fixed Charges	New Model 2017 Volumetric OFF PEAK RATES	New Model 2017 Volumetric PEAK RATES
Inside City Spansion	$20,100	$5.44	$5.98	$20,500	$4.97	$5.47
Inside City NXP - Ed Bluestein Blvd	29,500	5.04	5.55	29,600	4.72	5.19
Inside City NXP - W William Cannon	22,000	5.58	6.13	21,400	4.98	5.48
Inside City Samsung	127,000	5.62	6.18	125,500	5.17	5.70
Inside City Novati	3,900	5.48	6.03	4,200	4.96	5.46
Inside City University of Texas	17,250	5.97	6.57	21,200	5.50	6.05

WHOLESALE USER CHARGES

	Existing Model 2017 Additional Fixed Charges	Existing Model 2017 Volumetric Rates	New Model 2017 Additional Fixed Charges	New Model 2017 Volumetric Rates
Wholesale Volumetric Rates				
Creedmore-Maha	$2,800	$3.89	$3,500	$4.34
High Valley	250	3.87	280	4.35
Manor, City of	0	5.09	0	28.44 (2)
Mid Tex Utilities	0	4.10	0	7.51
Marsha Water	450	3.92	500	4.19
Morningside	75	5.09	70	4.47
Nighthawk	450	3.90	750	5.96
North Austin MUD	15,452	2.75	13,000	4.97
Northtown MUD	11,167	2.59	11,200	4.49
Rivercrest	4,500	4.35	5,800	5.21
Rollingwood	5,000	4.65	6,100	5.53
Shady Hollow	7,500	4.45	9,500	6.10
Sunset Valley MUD	4,000	4.24	4,900	5.17
Village of San Leanna	200	4.06	160	4.04
Water District 10	37,986	2.75	38,600	5.52
Wells Branch MUD	20,457	2.60	18,400	4.65
Southwest Water	0	4.10	0	4.87
Reserve Fund Surcharge		$0.10 (1)		$0.10
Community Benefit Charge		n/a		n/a

(1) North Austin, Northtown, Water District 10, and Wells Branch do not currently pay reserve fund surcharge.
(2) City of Manor will be adjusted similar to Existing Rates to reflect emergency usage only.

Austin Water
Wastewater Utility Cost of Service Model
Summary of COS Results by Model
Test Year FY 2017

Table Summary of COS Results by Model	Existing COS Rate Model				New COS Rate Model				Existing Model COS to New Model COS				Existing Model Revenue to New Model COS			
Customer Class	Cost of Service for Test Year (1)	Anticipated Revenue (2)	$ Variance	% Variance	Cost of Service for Test Year (1)	Anticipated Revenue (2)	$ Variance	% Variance	Cost of Service for Test Year (1) EXISTING MODEL	Cost of Service for Test Year (1) NEW MODEL	$ Variance	% Variance	Anticipated Revenue EXISTING MODEL	Cost of Service / Anticipated Revenue (1) NEW MODEL	$ Variance	% Variance
Retail																
Residential	$92,245,079	$92,287,529	$42,450	0.0%	$92,222,135	$92,222,135	$0	0.0%	$92,245,079	$92,222,135	($22,944)	0.0%	$92,287,529	$92,222,135	($65,393)	-0.1%
Multi-Family	72,814,555	73,511,737	697,182	0.9%	73,819,776	73,819,776	0	0.0%	72,814,555	73,819,776	1,005,221	1.4%	73,511,737	73,819,776	308,039	0.4%
Commercial	68,812,005	69,515,936	703,931	1.0%	69,718,595	69,718,595	0	0.0%	68,812,005	69,718,595	906,590	1.3%	69,515,936	69,718,595	202,659	0.3%
Residential CAP	6,924,518	6,924,518	(0)	0.0%	5,189,709	5,189,709	0	0.0%	6,924,518	5,189,709	(1,734,809)	-33.4%	6,924,518	5,189,709	(1,734,809)	-33.4%
Spansion	1,700,551	1,711,828	11,277	0.7%	1,736,233	1,736,233	0	0.0%	1,700,551	1,736,233	35,682	2.1%	1,711,828	1,736,233	24,405	1.4%
NXP - Ed Bluestein Blvd	2,035,874	2,047,884	12,010	0.6%	2,079,643	2,079,643	0	0.0%	2,035,874	2,079,643	43,769	2.1%	2,047,884	2,079,643	31,758	1.5%
NXP - W William Cannon	2,016,637	2,017,289	652	0.0%	2,060,607	2,060,607	0	0.0%	2,016,637	2,060,607	43,970	2.1%	2,017,289	2,060,607	43,318	2.1%
Samsung	11,050,730	11,115,765	65,035	0.6%	11,286,794	11,286,794	0	0.0%	11,050,730	11,286,794	236,064	2.1%	11,115,765	11,286,794	171,029	1.5%
Novati	347,720	349,912	2,192	0.6%	355,497	355,497	0	0.0%	347,720	355,497	7,777	2.2%	349,912	355,497	5,585	1.6%
University of Texas	1,773,823	1,785,594	11,771	0.7%	1,800,838	1,800,838	0	0.0%	1,773,823	1,800,838	27,015	1.5%	1,785,594	1,800,838	15,243	0.8%
Extra Strength Surcharge Customers	4,758,925	4,758,925	0	0.0%	4,820,875	4,820,875	0	0.0%	4,758,925	4,820,875	61,950	1.3%	4,758,925	4,820,875	61,950	1.3%
Total Retail	264,480,417	266,026,916	1,546,499	0.6%	265,090,700	265,090,700	0	0.0%	264,480,417	265,090,700	610,283	0.2%	266,026,916	265,090,700	610,283	-0.4%
Wholesale																
Mid Tex Utilities (Avana Sub)	105,741	108,796	3,055	2.8%	95,883	95,883	0	0.0%	105,741	95,883	(9,858)	-10.3%	108,796	95,883	(12,913)	-13.5%
Comanche Canyon (WCID17)	24,460	21,998	(2,462)	-11.2%	21,851	21,851	0	0.0%	24,460	21,851	(2,609)	-11.9%	21,998	21,851	(147)	-0.7%
Manor, City of	532,325	507,780	(24,545)	-4.8%	486,131	486,131	0	0.0%	532,325	486,131	(46,194)	-9.5%	507,780	486,131	(21,649)	-4.5%
North Austin MUD	1,367,042	973,512	(393,530)	-40.4%	1,249,014	1,249,014	0	0.0%	1,367,042	1,249,014	(118,028)	-9.4%	973,512	1,249,014	275,502	22.1%
Northtown MUD	1,372,882	959,370	(413,512)	-43.1%	1,254,341	1,254,341	0	0.0%	1,372,882	1,254,341	(118,541)	-9.5%	959,370	1,254,341	294,971	23.5%
Rollingwood	234,917	224,656	(10,261)	-4.6%	214,590	214,590	0	0.0%	234,917	214,590	(20,327)	-9.5%	224,656	214,590	(10,066)	-4.7%
Shady Hollow	500,996	478,337	(22,659)	-4.7%	458,164	458,164	0	0.0%	500,996	458,164	(42,832)	-9.3%	478,337	458,164	(20,173)	-4.4%
Sunset Valley MUD	417,118	401,831	(15,287)	-3.8%	381,090	381,090	0	0.0%	417,118	381,090	(36,028)	-9.5%	401,831	381,090	(20,741)	-5.4%
Steiner Ranch (WCID17)	116,625	91,324	(25,301)	-27.7%	105,256	105,256	0	0.0%	116,625	105,256	(11,369)	-10.8%	91,324	105,256	13,932	13.2%
Wells Branch MUD	2,126,581	1,481,490	(645,091)	-43.5%	1,943,026	1,943,026	0	0.0%	2,126,581	1,943,026	(183,555)	-9.4%	1,481,490	1,943,026	461,536	23.8%
Westlake Hills	242,701	231,868	(10,833)	-4.7%	221,758	221,758	0	0.0%	242,701	221,758	(20,943)	-9.4%	231,868	221,758	(10,109)	-4.6%
Total Wholesale	7,041,388	5,480,960	(1,560,428)	-28.5%	6,431,104	6,431,104	0	0.0%	7,041,388	6,431,104	(610,284)	-9.5%	5,480,960	6,431,104	(610,284)	14.8%
Total System	$271,521,805	$271,507,876	($13,929)	0.0%	$271,521,805	$271,521,805	$0	0.0%	$271,521,805	$271,521,805	($0)	0.0%	$271,507,876	$271,521,805	($0)	0.0%

(1) Represents Full Cost of Service including Outside City Adjustments and Community Benefit Charge.
(2) Revenue assumes November Implementation: 1 month of 2016 rates and 11 months of 2017 rates.

Austin Water
Wastewater Utility Cost of Service Model
Summary of COS Rate Results for 2017
Test Year FY 2017

Customer Class	Volumetric Rates ($ per 1,000 Gallons)			
	2017 Rates from the Existing COS Model	2017 Rates from the New COS Model	$ Difference	% Difference
Residential				
Block 1	$4.90	5.16	0.26	5.1%
Block 2	$9.94	10.47	0.53	5.1%
Residential CAP				
Block 1	4.90	3.76	(1.14)	-30.3%
Block 2	9.94	7.63	(2.31)	-30.3%
Multi-Family	9.20	9.52	0.32	3.4%
Commercial	9.26	9.51	0.25	2.6%
Large Volume				
Spansion	7.95	8.52	0.57	6.7%
Ed Bluestein Blvd	8.52	9.25	0.73	7.9%
W William Cannon	8.52	8.99	0.47	5.2%
Samsung	7.89	8.42	0.53	6.3%
Novati	7.63	8.30	0.67	8.1%
University of Texas	9.08	9.51	0.43	4.5%
Wholesale				
Mid Tex Utilities (Avana Sub)	5.66	4.93	(0.73)	-14.9%
Comanche Canyon (WCID17)	3.98	3.95	(0.03)	-0.7%
Manor, City of	5.64	5.38	(0.26)	-4.8%
North Austin MUD	4.23	5.54	1.31	23.7%
Northtown MUD	4.15	5.55	1.40	25.2%
Rollingwood	5.67	5.39	(0.28)	-5.1%
Shady Hollow	5.73	5.47	(0.26)	-4.8%
Sunset Valley MUD	5.71	5.39	(0.32)	-6.0%
Steiner Ranch (WCID17)	3.80	4.43	0.63	14.3%
Wells Branch MUD	4.14	5.56	1.42	25.5%
Westlake Hills	5.68	5.41	(0.27)	-5.0%

Customer Class	Monthly Fixed Charge			
	2017 Rates from the Existing COS Model	2017 Rates from the New COS Model	$ Difference	% Difference
Residential	$10.30	10.30	0.00	0.0%
Residential CAP	0.00	0.00	0.00	0.0%
Multi-Family	10.30	10.30	0.00	0.0%
Commercial	10.30	10.30	0.00	0.0%
Large Volume				
Spansion	10.30	10.30	0.00	0.0%
Ed Bluestein Blvd	10.30	10.30	0.00	0.0%
W William Cannon	10.30	10.30	0.00	0.0%
Samsung	10.30	10.30	0.00	0.0%
Novati	10.30	10.30	0.00	0.0%
University of Texas	10.30	10.30	0.00	0.0%
Wholesale				
Mid Tex Utilities (Avana Sub)	10.30	10.30	0.00	0.0%
Comanche Canyon (WCID17)	10.30	10.30	0.00	0.0%
Manor, City of	10.30	10.30	0.00	0.0%
North Austin MUD	51.00	10.30	(40.70)	-395.1%
Northtown MUD	60.00	10.30	(49.70)	-482.5%
Rollingwood	10.30	10.30	0.00	0.0%
Shady Hollow	10.30	10.30	0.00	0.0%
Sunset Valley MUD	10.30	10.30	0.00	0.0%
Steiner Ranch (WCID17)	10.30	10.30	0.00	0.0%
Wells Branch MUD	51.00	10.30	(40.70)	-395.1%
Westlake Hills	10.30	10.30	0.00	0.0%