Tonight’s Agenda

1. Welcome
2. Review Internet site (http://www.ci.austin.tx.us/water/costofservice.htm)
3. Overview of water system
4. Decisions by Executive Team
5. PIC comments from last meeting
6. Presentation on water cost allocations
7. PIC member comments and discussion
8. Overview of budget and financial policies (If time allows)
9. Summary of decisions and agreements
10. Public comment period
Cost of Service Study 2007

The Austin Water Utility is conducting a comprehensive study to update and improve its methods for determining fair and defensible rates for its services. The study will use accepted cost of service principles that seek the most equitable ways to link the cost involved in serving each category of "class" of customer (e.g., residential, multifamily, commercial, industrial or wholesale) with the amount each pays.
Austin Service Area

- Estimated water served population
  Current: ~840,000
  2060 Projected: ~2 million
- Approximately 200,000 current water accounts
- Current city limits land area: ~285 sq. mi.
- Utility service area boundary: ~537 sq. mi.
- Retail and wholesale, inside and outside city limits
- Wholesale service includes municipal utility districts, cities, and private companies
Capacity of Austin’s Water System

- Treatment and Production: ~285 MGD
- Historical peak day pumpage: ~247 MGD (2005)
- Distribution:
  - 9 major pressure zones
  - 16 major pump stations
  - 18 major reservoirs (storage tanks)
  - 3,500 miles of pipe
Davis Water Treatment Plant
Water Treatment Plants

Davis WTP
- Existing Capacity 118 MGD
- Currently undergoing an improvements program (completion ~2013) to improve electrical system and other components

Ullrich WTP
- In final stages of wrapping up an expansion to 167 MGD

Green WTP
- Oldest Austin WTP 1925 - soon be decommissioned
- Future New Green WTP to pump water from Town Lake (long-term)

WTP #4
- Future WTP #4 to pump from Lake Travis
- Project underway with projected completion by Year 2014
Decisions by Executive Team

Public Involvement Committee Workshop
January 7, 2008
Executive Team Decisions

- Provide model inputs and outputs in Adobe Acrobat PDF only
- Provide model review in meeting
- Rely on City data only
- Added evaluation criterion (policy durability)
### Executive Team’s Evaluation Criteria

<table>
<thead>
<tr>
<th>Implementation</th>
<th>Equity</th>
<th>Customer</th>
<th>Conservation</th>
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</thead>
<tbody>
<tr>
<td>Administrative Burden</td>
<td>Interclass</td>
<td>Affordability</td>
<td>Average-Day Savings</td>
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<td>Public Understanding</td>
<td>Intraclass</td>
<td>Economic Development</td>
<td>Peak-Season Savings</td>
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<tr>
<td>Public and Political Acceptance</td>
<td>Inter-generational</td>
<td>Rate Shock/Volatility</td>
<td>Peak-Day Savings</td>
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<tr>
<td>Risk of Implementation</td>
<td>Inside/Outside City</td>
<td>Understand Bill</td>
<td>Sustainability</td>
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<td>Legal Defensibility</td>
<td>Industry Standards</td>
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<td>Policy Durability</td>
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PIC Comments From Last Meeting

Public Involvement Committee Workshop
January 7, 2008
Comments and Requests from PIC Members

- **Comments**
  - Release of computer model
  - Hard copies of study work papers and model tables as available
  - Variable expenses based on historical cost per thousand gallons – build into model
  - Utility basis vs. cash basis – interclass cost allocations needed
  - Industrial class agrees with Red Oak recommendations for revenue requirements issues

- **Requests**
  - System overview
  - Budget and financial policies overview
Water Cost Allocations and Fire Charges

Public Involvement Committee Workshop
January 7, 2008
Policies Reviewed

1. Which is the most appropriate overall method?
2. What are the appropriate time steps?
3. Should private fire connections be charged for direct and indirect fire costs?
4. How should public fire cost be recovered?
Water Cost Allocation in the Broader Perspective

Allocation of Costs to Function
Allocation of Costs to Customer Service Characteristic
Base Costs
Extra Capacity Costs
Customer Costs
Maximum Day Costs
Maximum Hour Costs
Cost of Service by Customer Class

Pathways to Lasting Solutions
Cost-of-Service Goal

Revenue Requirements
(O&M + Debt Service + Capital + Reserves)

Consumption Costs for Base Load Demands
Residential Non-Residential

Consumption Costs for Peak Capacity Demands
Residential Non-Residential

Non-Consumption Costs
Residential Non-Residential

Residential Cost of Service

Non-Residential Cost of Service
Fire Costs

<table>
<thead>
<tr>
<th>Direct</th>
<th>Indirect</th>
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<tbody>
<tr>
<td><strong>Private</strong></td>
<td><strong>Public</strong></td>
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<tr>
<td>Fire Lines</td>
<td>Public Fire Hydrants</td>
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<td>Fire Hydrants</td>
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<td>Meter Reading</td>
<td>Public Fire Hydrants</td>
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<td>Oversizing of Facilities</td>
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<td>Oversizing of Facilities</td>
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Issue 1: Water Cost Allocation Options

- Commodity/Demand
- Base/Extra-Capacity*

* AWU’s current methodology
The Commodity/Demand Method allocates the non-commodity costs entirely according to the design capacity of the facility.
Commodity / Demand Method

- Encourages conservation during peak season and peak day
- Less equitable among customer classes
- May reduce costs to businesses and benefit economic development
- Less affordable for residential customers
The Base/Extra-Capacity Method allocates a portion of the costs among base, max-day, and max-hour based on the peaking factors.
**Base / Extra-Capacity Method**

- AWU’s current methodology
- More equitable among customer classes
- More affordable for residential customers
- May negatively impact business development
- Recommended by consulting team
Issue 2: Time Steps

- Peak-day and peak-hour demands*
- Peak-season, peak-day, and peak-hour demands

*AWU’s current methodology
Peak-Day and Peak-Hour Demands

- More equitable among customer classes
- More equitable between inside city and outside city customers
- Less administrative burden
- Recommended by consulting team
Peak-Season, Peak-Day, and Peak-Hour Demands

- Additional administrative burden to add a new time step
- Reduces interclass and inside/outside city equity
Issue 3: Private Fire Connections Costs

- No separate charge for private fire connections*
- Charge private fire connections for direct fire costs only
- Charge private fire connections for direct and indirect fire costs

*AWU’s current methodology
Direct Costs Only

- Less administrative burden
- More publicly and politically acceptable
- More equitable
- Less affordable for residential customers
- Potential increase in economic development
- Recommended by consulting team
Direct and Indirect Costs

- Increased administrative burden
- Less equitable
- Reduced costs allocated to residential customers
- Potential negative impact on business development
Issue 4: Public Fire Costs

- Recover indirectly*
- Fixed charge based on property value
- Fixed charge based on fire customer class
- Fixed charge based on water meter size

*AWU’s current methodology
Recover Indirectly

- Simplest to implement
- More conventional, aligned with industry standards
- Allocates more costs to residential customers
- Potential increase in economic development
- Simplest alternative for understandability of bill
- Reduced revenue stability
- Increased financial risk
Fixed Charge Based on Property Value

- Most difficult to implement
- Less acceptable – similar to *ad valorem* property tax
- Potential legal issues
- Increased interclass and intraclass equity
- Most affordable alternative
- Low bill understandability
- Improved revenue sufficiency
- Potential impact on conservation
Fixed Charge Based on Fire Customer Class

- Difficult to implement
- Less understandable to public
- Increased interclass and intraclass equity
- Less difficult to understand bill
- Potential impact on conservation
Fixed Charge Based on Water Meter Size

- Readily available data for implementation
- More conventional, aligned with industry standards
- Bill is easy to understand
- Potential impact on conservation
- Recommended by consulting team
PIC Member Questions, Discussion, and Comments

Public Involvement Committee Workshop
January 7, 2008
Next Steps

- Written comments on tonight’s meeting due 1/14 (to Mike Castillo)
- Wastewater Cost Allocation issue paper to PIC (1/15)
- Next PIC Workshop on TUESDAY (1/22)
Summary Of Decisions and Agreements

Public Involvement Committee Workshop
January 7, 2008
Overview of Budget and Financial Policies

City of Austin Annual Budget Cycle

- Sept: Council Adopts Budget
- Oct. 1: Start of Fiscal Year
- Nov-Dec: Update Business Plan
- Dec-Feb: Develop Capital Bgt & Financial Forecast
- June-July: Finalize Proposed Budget
- Early June: Finalize Proposed Rates
- Mar-May: Develop Operating Budget

Aug: Bgt. Briefings & Public Hearings

Pathways to Lasting Solutions

City of Austin
FOUNDED 1839
Public Involvement Committee Workshop
January 7, 2008

Pathways to Lasting Solutions