Introduction
The Austin Water Utility (AWU) retained Red Oak Consulting (Red Oak) to conduct a water and wastewater cost-of-service rate study. An important tool for analyzing and recommending appropriate alternatives or policies is to have an objective set of evaluation criteria that meets AWU’s needs.

During our recent meeting with AWU, Red Oak presented a list of preliminary evaluation criteria. During the presentation, AWU revised the criteria to better meet the needs of the citizens of Austin. This memorandum presents an overview of the selected evaluation criteria.

Description of Evaluation Criteria
The evaluation criteria are organized into five categories. These categories include:

- Implementation,
- Equity,
- Customer impact,
- Conservation, and
- Financial.

The following table presents these categories and the revised criteria within those categories.
Following is a brief description of each criterion by category.

**Implementation**
Criteria included in the implementation category are designed to compare the issues of implementing alternatives. Due to the nature of the criteria within this category, and the lack of an appropriate quantitative measure tool for many of them, these criteria are evaluated qualitatively.

**Administrative Burden**
The amount of administrative burden required can vary greatly among alternatives. Additional data collection needs, changes to the accounting and budgeting system, or additional staff needs and training are a few examples of how administrative burden among alternatives can differ.

**Public Understanding**
The public’s ability to understand alternatives, the process by which they were developed, and the resulting cost consequences are imperative for successful implementation.

**Public and Political Acceptance**
The selected alternative should be one the public and the City’s elected officials will accept. Acceptance of a new alternative is typically tied to community values and goals. This criterion typically requires gathering information on likely customer responses and the involvement of elected officials.

**Risk of Implementation**
The success of implementing any new alternative involves a degree of risk. The selected alternative should minimize risk that it may not be able to be implemented or can only be implemented outside an acceptable timeframe.
Legal Defensibility
The proposed alternative must be legally defensible if challenged.

Policy Durability
The proposed alternative should remain viable as the utility’s situation changes over time. Policies that are more likely to fair well considering an uncertain future are considered relatively more durable and receive a higher rating for Policy Durability.

Equity

Interclass Equity
This type of equity assures that the alternative distributes the costs of services across customer classes in proportion to the cost of serving each class. Each customer class pays its fair share and no class provides or receives a subsidy from another class.

Intraclass Equity
This type of equity recognizes that alternatives will vary in their ability to assign costs to customers equitably within the same customer class.

Intergenerational Equity
This type of equity recognizes that alternatives will vary in the degree which they compensate existing customers for investments already made in the system that will benefit new customers. Usually, intergenerational equity is managed by implementing appropriate system development charge methodologies.

Inside/Outside City
This type of equity measures the proportionality of costs to revenue for inside- and outside-city customers.

Industry Standards
Industry standards have evolved to ensure the integrity of the cost-of-service process. The standards focus largely on ensuring proportionality of costs and revenue. These industry standards may guide the selection of alternatives.

Customer Impact
The customer impacts focus on the affects of an alternative on customers. Some criteria are very subjective and often require the direct participation of policymakers. Others, (e.g., rate shock), can be measured quantitatively.

Affordability
In addition to promoting the health, general welfare, and fire protection needs of its customers, many utilities were formed by local governments to ensure that a minimum
level of service is available to users who might not otherwise be able to afford them. This criterion focuses on the ability of residential customers to afford services.

**Economic Development**
Water and sewer services are vital to local economic development. Also, local businesses are often affected by the cost of utility services. This criterion measures the relative impacts on economic development of the alternatives.

**Rate Shock/Volatility**
Rate shock measures the significance of changes in customer bills because of a proposed alternative. Large, sudden increases in bills can impose economic difficulties that are harmful to local governments, businesses, and residents.

**Understandability of Bill**
Public understanding of the service bill is an important criterion to consider when examining the likely customer impact of alternatives. Specifically, this criterion is tied to the complexity of the bill. Simpler rate designs will likely generate bills that are easier to read and understand by customers.

**Conservation**
Water savings is often a primary objective of modern rate designs. However, water savings can accumulate differently based on the type of rate structure selected. Therefore, the conservation criteria are selected to measure the types of water savings most important to AWU.

Often conservation criteria are considered to apply exclusively to water, and generally the criteria are more relevant to water. In some circumstances, however, conservation of water will reduce the cost of wastewater treatment.

**Average-Day Savings**
Some policies provide conservation incentives regardless of the time of year. These policies are best suited to reducing a utility’s average-day water savings. These policies generally have greater impacts on wastewater flows than the criteria that include a focus on peaking. This criterion measures the reduction in average-day demands.

**Peak-Season Savings**
A commonly used criterion is the reduction in peak usage because reducing peak demands often results in a reduction in long-term capital costs. One factor driving the sizing of certain parts of a water system is peak-season demands. Policies that affect the amount of outdoor water use can impact peak-season savings.

**Peak-Day Savings**
Like peak-season savings, reduction in peak-day demands can also result in reductions of long-term capital costs.
Sustainability
The proposed alternative should promote the sustainability of the region’s resources. Again, this may relate to promoting efficiency by the selected alternative, or in by the extent which growth is required to pay for itself.

Financial

Revenue Sufficiency
The proposed alternative needs to provide sufficient revenues to meet AWU’s capital-related revenue requirements (i.e., fund the capital projects needs of AWU.) All alternatives proposed in this study will generate sufficient revenues for the utilities in the long run. However, the amount of system development fees generated as a source of revenues will vary between alternatives. Some alternatives may require additional revenues from rates to meet AWU’s capital plan. Also this criterion measures the impact of assumptions on AWU’s service expansion policies.

Revenue Stability
The proposed alternative should minimize fluctuations in revenues due to changes in growth or other factors outside the control of AWU. This criterion measures the degree of volatility in resulting revenues from a propose alternative.

Rate Stability
Rate stability measures the volatility in the rates from year to year. A more stable rate increases at a steady pace and avoids large, one-time adjustments. Customers have a difficult time adjusting their budgets when rates are unstable.

Rate Predictability
The proposed alternative should minimize the unpredictability in the total bill and fee. A customer will have a hard time predicting his/her bill and fees in the future if changes in use cause significant changes in the total bill. In contrast to the revenue sufficiency criterion, where the criterion is evaluated from the point of view of the utility, this criterion is evaluated from a customer’s perspective.

Financial Risk
Notably for growth-related improvements, AWU takes on financial risk when anticipating growth and the expectation that new customers will connect to its systems, thereby helping to fund the improvements. The proposed alternative should minimize the risk AWU incurs when adding new infrastructure to its systems.