Austin Water Utility
2007 Cost of Service Study

Public Involvement Comments
December 17, 2007 PIC Meeting

Joy Smith, Board Director, Wells Branch MUD, PIC Member – Wholesale Class
Submitted: 12/18/2007

My comments on the December 17, 2007 meeting are as follows:

1. I’d like to document my support of the comment made by another PIC member regarding the use of public funds for the creation of proprietary information. While I understand and respect the proprietary nature of the creation of the model, I hope the City understands the concerns expressed by the PIC surrounding this issue. PIC members are representing various constituencies and as such have a responsibility to perform due diligence. The ability of PIC members to perform their required due diligence is severely limited if they do not have access to the model. I again offer my suggestion of protecting the model such that alterations cannot be made, but it would allow PIC members to follow the flow of information – even if this is released near the end of the project, it would be helpful. If the City absolutely refuses to provide this model, I would then request that hard-copies of work-papers and schedules be made available in the process as they have been completed.

2. As a means of addressing the affects that abnormal weather may have of certain cost categories (namely variable expenses such as chemicals and electricity), I’d suggest that the model be built with certain variable expense categories which would be projected for the next year based on actual historical expense on a cost per thousand gallon basis. Essentially, the model would have an input cell for prior year actual costs for applicable categories and prior year actual pumpage data. The model would then determine the prior year actual cost per thousand gallons for each line-item. This cost may then be adjusted for inflation or other known and measurable factors (if appropriate) and then applied to the projected water production for the following year.

While I understand that the City may be doing a similar analysis on a departmental level as part of the annual budgeting process; by tying this into the rate model, it is assured that the assumptions that are made in the projection of these expenses (such as inflation, growth, normalization of water sales, etc), are consistent with those made in the model itself. Through this activity these variable costs are in essence tied directly to the ultimate rates charged to customers. This assures a more accurate model and a more precise means of making future projections of costs.

3. I appreciate the planned discussion of the City’s operations at the next meeting. This should assist PIC members in getting a clear picture of the magnitude of the City’s operations. As an additional suggestion, the City may want to consider adding a discussion pertaining to the City’s financial policies, and process pertaining to annual rate setting and budgeting. This discussion may touch on:
   a. City’s capital financing policy and cash-capital outlay;
   b. The City’s impact fee policies and how these affect rates to rate payers;
   c. Annual budgeting process and general description of how future budgets are prepared;
d. The City’s policies pertaining to new development and new growth and how this growth may impact current rate payers;

e. The process taken by the City annually in setting rates and how this model will feed into that process; and

f. Reserve fund policies and how annual over/under impacts reserve funds.

I think a better understanding of these policy related issues and clear picture of how the development of this model will impact rates into the future will be beneficial to all PIC members and may address many questions and concerns in the future.

Once again, I’d like to express my appreciation to the City for its time and effort in the process and look forward to our continued relationship.

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Tom Graves, Willis, Graves Associates, PIC Member - Multifamily Class
Submitted: 12/22/2007

Comments on Meeting #2 – Revenue Requirements Methodology
As was stated at the meeting of 12/17, the utility intends to set rates at a level equal to, but not greater than, cash requirements. It appears, then, that under either methodology the total revenue will be the same: total cash requirements. The only differences between the two methods would be the specific components of the revenue requirement, not their sum. That being the case, the only meaningful concern of the various customer groups is whether the consultants’ yet-to-be-revealed cost allocation methodology would result in different inter-class allocations under the utility basis than under the cash basis. If the utility basis has not already been discarded altogether, it would be helpful for allocation differences between the cash and utility basis to be addressed in the appropriate position paper and/or in the appropriate PIC meeting.

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Dan Wilcox, Spansion, (On behalf of both Industrial PIC members and GAWF)
Submitted: 01/02/2008 – Comments on Issue Paper #1

Please see comments below for LVI customer class regarding PIC Issue Paper #1

Issue #1 - Cash Basis - Utility Basis – Hybrid: The LVI customer class agrees with Red Oak’s recommendation of using a Cash Basis.

Issue #2 Future Projections: The LVI customer class agrees with Red Oak’s recommendation of using Future Budget with the inclusion of known and measurable changes.

Issue #3 Determination of Rate of Return: The LVI customer class agrees with Red Oak’s recommendation of using Fixed Rate of Return.

Issue #4 Valuation of Rate Base: The LVI customer class agrees with Red Oak’s recommendation of using Original Cost Basis

Issue #5 Policies on Construction Work in Progress: The LVI customer class agrees with Red Oak's recommendation of using Capitalized Interest

END OF PUBLIC COMMENTS FROM NOVEMBER 27th PIC MEETING.