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PETITION OF TRAVIS COUNTY	§	BEFORE THE STATE OF TEXAS
MUNICIPAL UTILITY DISTRICT	§	FILING CLERK
NO. 12 APPEALING CHANGE OF	§	
WHOLESALE WATER RATES	§	
IMPLEMENTED BY WEST	§	
TRAVIS COUNTY PUBLIC	§	
UTILITY AGENCY, CITY OF BEE	§	OF
CAVE, TEXAS, HAYS COUNTY,	§	
TEXAS AND WEST TRAVIS	§	
COUNTY MUNICIPAL UTILITY	§	
DISTRICT NO. 5	§	ADMINISTRATIVE HEARINGS

**WEST TRAVIS COUNTY PUBLIC UTILITY AGENCY'S
 MOTION FOR PARTIAL SUMMARY DECISION**

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EXHIBITS

- A November 21, 2013 Order Adopting the Protested Rate
- B November 15, 2012 Order Adopting the Prior Rate
- C TCMUD 12's Supplemental Responses [to] Requests for Disclosures
- D WTCPUA's Third Supplemental Responses to Requests for Disclosure
- E TCMUD 12's Responses to WTCPUA's Requests for Admission
- F ALJ's Order No. 9
- G WTCPUA's Response to TCMUD 12's Second Requests for Production, Nos. 2-1, 2-2, and 2-3
- H TCMUD 12's Responses to WTCPUA's Second Requests for Information
- I TCMUD 12's Responses to WTCPUA's Second Requests for Admission

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PUC DOCKET NO. 42866

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MUNICIPAL UTILITY DISTRICT	§	
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CAVE, TEXAS, HAYS COUNTY,	§	
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DISTRICT NO. 5	§	ADMINISTRATIVE HEARINGS

WEST TRAVIS COUNTY PUBLIC UTILITY AGENCY'S
MOTION FOR PARTIAL SUMMARY DECISION

TO THE HONORABLE ADMINISTRATIVE LAW JUDGE:

West Travis County Public Utility Agency ("*WTCPUA*") files this Motion for Partial Summary Decision ("*Motion*"), in accordance with the Administrative Law Judge's ("*ALJ*") Order No. 1 in this matter. The ALJ should grant this Motion under P.U.C. PROC. R. 22.182(a), finding that the WTCPUA did not violate the public interest criteria found in P.U.C. SUBST. R. 24.133(a)(1), (a)(2), (a)(3)(B)-(H), or (a)(4) because there are no genuine issues as to any material fact indicating that WTCPUA violated such criteria. In support hereof, WTCPUA would show the following:

I. INTRODUCTION

This contested case hearing arises from TCMUD 12's Petition, dated March 6, 2014, appealing WTCPUA's wholesale water treatment rate charged to TCMUD 12 (the "*Protested Rate*"), as adopted by the WTCPUA Board of Directors on November 21, 2013.¹ Prior to adopting the Protested Rate, the WTCPUA last modified the wholesale water treatment rate it charged TCMUD 12 for Wholesale Water Treatment Services on November 15, 2012 (the "*Prior*

¹ A copy of the rate order from the WTCPUA for the Protested Rate is attached hereto as Exhibit A.

Rate").² WTCPUA is a public utility agency and political subdivision of the state governed by Chapter 572 of the Texas Local Government Code, and TCMUD 12 is a municipal utility district and a political subdivision of the state governed by Chapters 49 and 54 of the Texas Water Code.

On October 22, 2009, the Lower Colorado River Authority ("*LCRA*"), entered into a certain "Wholesale Water Services Agreement" ("*Wholesale Agreement*") with Petitioner, providing in part that for a specified rate, the LCRA will divert, treat and deliver Petitioner's raw water supply that it obtains from LCRA under a separate raw water agreement. Then, in an agreement effective on March 19, 2012, TCMUD 12, LCRA, and WTCPUA agreed to amend the Wholesale Agreement, in part assigning the Wholesale Agreement to WTCPUA. Accordingly, as of March 19, 2012, WTCPUA diverts and treats TCMUD 12's raw water supply that TCMUD 12 purchases from LCRA, to a potable water quality, and then delivers such treated water to TCMUD 12 at a certain point of delivery (collectively, "*Wholesale Water Treatment Services*").

Because the Protested Rate is a wholesale rate charged pursuant to a written contract, TCMUD 12 is first required under P.U.C. SUBST. R. 24.131(b), 24.132(a), and 24.133(a) to demonstrate that the Protested Rate somehow violates certain "public interest criteria," which are expressly enumerated in P.U.C. SUBST. R. 24.133(a). Then, in the event that TCMUD 12 is able to meet its burden of proof, a second hearing commences regarding whether WTCPUA's wholesale water treatment rate is just and reasonable, through a review of its cost of service study, under P.U.C. SUBST. R. 24.134. The parties are currently in the first phase of the process.

As discussed in more detail herein, the ALJ should grant this Motion in favor of WTCPUA, substantially reducing the scope of this matter on the public interest criteria.

² A copy of the rate order from the WTCPUA for the Prior Rate is attached hereto as Exhibit B.

II. SUMMARY DECISION STANDARD

The standard for granting a motion for summary decision in proceedings before the Public Utility Commission ("*Commission*") is found in P.U.C. PROC. R. 22.182(a). This rule provides that the summary decision of any or all issues may be granted when:

the pleadings, affidavits, materials obtained by discovery or otherwise, admissions, matters officially noticed, or evidence of record show that there is no genuine issue as to any material fact and that the moving party is entitled to a decision in its favor as a matter of law, on the issues expressly set forth in the motion.³

The motion for summary decision must specifically describe the facts on which the request is based, the materials which demonstrate those facts, and any laws or legal theories that entitle the movant to summary decision.⁴

III. GROUNDS FOR PARTIAL SUMMARY DECISION

The WTCPUA's Motion should be granted because there are no genuine issues as to any material fact alleging or demonstrating that the Protested Rate violates P.U.C. SUBST. R. 24.133(a)(1), (a)(2), (a)(3)(B)-(H), or (a)(4). Of the public interest criteria listed in P.U.C. SUBST. R. 24.133(a), the entirety of the pleadings, discovery responses, and other applicable evidence in this proceeding only address two elements of the public interest criteria: P.U.C. SUBST. R. 24.133(a)(3)(A) and (C), which deal with disparate bargaining power and changed revenue requirement or rate methodologies, respectively. Further, however, TCMUD 12's discovery responses in this case also clearly indicate that WTCPUA has not violated P.U.C. SUBST. R. 24.133(a)(3)(C) because TCMUD 12 admits that WTCPUA has not changed the computation of the revenue requirement or rate from one methodology to another.

³ P.U.C. PROC. R. 22.182(a).

⁴ P.U.C. PROC. R. 22.182(b).

A. Summary Decision on Public Interest Criteria Not Addressed

TCMUD 12's pleadings and discovery responses do not present any information indicating that WTCPUA has violated any of the public interest criteria found in P.U.C. SUBST. R. 24.133(a)(1), (a)(2), (a)(3)(B)-(H), or (a)(4) (such public interest criteria are collectively referred to as the "*Uncontested Issues*"). TCMUD 12's Supplemental Responses [to] Requests for Disclosures ("*Disclosures*"), filed on November 7, 2014 under Tex. R. Civ. Proc. 194.2(c), establish that TCMUD 12's legal theories and general factual bases for its claims in this matter are limited to two allegations, to-wit: WTCPUA abused its monopoly power with respect to (1) changing the computation of the revenue requirement and rate from one methodology to another; and (2) greater bargaining power. Specifically, TCMUD 12's Disclosures state the following:

...TCMUD 12 claims that the 2014 rate change adversely affects the public interest as evidenced by the PUA's abuse of monopoly power in its provision of water service to TCMUD 12. The factors that demonstrate the PUA has abused monopoly power include the PUA's change in the computation of the revenue requirement and rate from one methodology to another; the PUA's disparately greater bargaining power, including limitations on TCMUD 12's alternative means and costs, and problems of obtaining alternative water service; and the PUA ability to control the price and quantity of water services in the market served by TCMUD 12 at the retail level.⁵

In reviewing the Uncontested Issues of the public interest criteria in light of TCMUD 12's expressed legal theories, above, it is clear that TCMUD 12 does not contend that WTCPUA has violated the Uncontested Issues. The text for each of the Uncontested Issues is listed below as follows:

- P.U.C. SUBST. R. 24.133(a)(1): The protested rate impairs the seller's ability to continue to provide service, based on the seller's financial integrity and operational capability;

NOT ADDRESSED IN DISCLOSURES

⁵ A copy of TCMUD 12's Disclosures is attached hereto as Exhibit C.

- P.U.C. SUBST. R. 24.133(a)(2): The protested rate impairs the purchaser's ability to continue to provide service to its retail customers, based on the purchaser's financial integrity and operational capability;

NOT ADDRESSED IN DISCLOSURES

- P.U.C. SUBST. R. 24.133(a)(3): The protested rate evidences the seller's abuse of monopoly power in its provision of water or sewer service to the purchaser. In making this inquiry, the commission shall weigh all relevant factors. The factors may include:
 - The seller's failure to reasonably demonstrate the changed conditions that are the basis for a change in rates;

NOT ADDRESSED IN DISCLOSURES

- Where the seller demands the protested rate pursuant to a contract, other valuable consideration received by a party incident to the contract;

NOT ADDRESSED IN DISCLOSURES

- Incentives necessary to encourage regional projects or water conservation measures;

NOT ADDRESSED IN DISCLOSURES

- The seller's obligation to meet federal and state wastewater discharge and drinking water standards;

NOT ADDRESSED IN DISCLOSURES

- The rates charged in Texas by other sellers of water or sewer service for resale;

NOT ADDRESSED IN DISCLOSURES

- The seller's rates for water or sewer service charged to its retail customers, compared to the retail rates the purchaser charges its retail customers as a result of the wholesale rate the seller demands from the purchaser;

NOT ADDRESSED IN DISCLOSURES

- P.U.C. SUBST. R. 24.133(a)(4): The protested rate is unreasonably preferential, prejudicial, or discriminatory, compared to the wholesale rates the seller charges other wholesale customers.

NOT ADDRESSED IN DISCLOSURES

WTCPUA contends that it has not violated any of the public interest criteria. Specifically, in its Third Supplemental Response to Requests for Disclosure under TEX. R. CIV. P. 194.2(c), WTCPUA asserts that:

WTCPUA further contends that Travis County Municipal Utility District No. 12 (“TCMUD 12”) has not and will not be able to meet its burden of proof that the WTCPUA’s wholesale water treatment rate (the “Protested Rate”) charged to TCMUD 12 under the Wholesale Water Services Agreement, as amended, as adopted by the Board of Directors of WTCPUA on November 21, 2013, adversely impacts the public interest or violates any of the public interest criteria under P.U.C. Subst. R. 24.133(a).⁶

Thus, WTCPUA denies that the Protested Rate violates any of the Uncontested Issues. Consequently, there are no genuine issues to any material fact regarding whether WTCPUA violated any of the Uncontested Issues, and WTCPUA should be granted summary decision on the Uncontested Issues.

B. Summary Decision Is Warranted Regarding a Change in Revenue Requirement or Rate Methodology

TCMUD 12’s discovery responses demonstrate that no genuine issue of material fact exists regarding P.U.C. SUBST. R. 24.133(a)(3)(C), dealing with a change in revenue requirement or rate methodology, because TCMUD 12 admits that there is not a change in revenue requirement or rate methodology from the Prior Rate to the Protested Rate. P.U.C. SUBST. R. 24.133(a)(3)(C) states the following:

The protested rate evidences the seller’s abuse of monopoly power in its provision of water or sewer service to the purchaser. In making this inquiry, the commission shall weigh all relevant factors. The factors may include: (C) the seller changed the computation of the revenue requirement or rate from one methodology to another.

⁶ A copy of WTCPUA’s Third Supplemental Responses to Requests for Disclosures, the latest version of such discovery response, is attached hereto as Exhibit D. See page 3 of such Exhibit.

1. **WTCPUA Revenue Requirement Methodology Did Not Change Between Prior Rate and Protested Rate**

The WTCPUA and TCMUD 12 both agree that the revenue requirement methodology used by the WTCPUA for the Prior Rate and Protested Rate did not change. Methodologies for computing revenue requirements or rates are well-established in the water and sewer industries. As set forth in P.U.C. SUBST. R. 24.129 ("*Definitions*"), only the two methodologies are defined:

Cash Basis calculation of cost of service – A calculation of the revenue requirement to which a seller is entitled to cover all cash needs, including debt obligations as they come due. Basic revenue requirement components considered under the cash basis generally include operation and maintenance expense, debt service requirements, and capital expenditures which are not debt financed. Other cash revenue requirements should be considered whether applicable. Basic revenue requirement components under the cash basis do not include depreciation.

Utility Basis calculation of cost of service – A calculation of the revenue requirement to which a seller is entitled which includes a return on investment over and above operating costs. Basic revenue requirement components considered under the utility basis generally include operation and maintenance expense, depreciation, and return on investment.⁷

In its discovery responses in this matter, TCMUD 12 admitted that the cash basis and utility basis are both generally accepted methodologies in the water rate-making industry for calculating the cost of service for an entity that provides Wholesale Water Treatment Services, as follows:

RFA No. 1-3: Admit or deny that the cash basis is a generally accepted methodology in the water-rate making industry for calculating the cost of service for an entity that provides Water Treatment Services.

RESPONSE: Admit.

RFA No. 1-4: Admit or deny that the utility basis is a generally accepted methodology in the water-rate making industry for calculating the cost of service for an entity that provides Water Treatment Services.

⁷ P.U.C. SUBST. R. 24.129(3) and (4). These definitions were imported into the Commission's substantive rules with no changes from the rules as previously adopted by the Texas Commission on Environmental Quality.

RESPONSE: Admit.⁸

WTCPUA contends that the Prior Rate and Protested Rate utilize the same revenue requirement methodology.⁹ WTCPUA utilized a cost of service rate study, dated October 11, 2012, to set the Prior Rate. Then, WTCPUA employed subsequent a minimum bill analysis and a volumetric rate analysis to set the Protested Rate. These documents, the 2012 cost of service study and subsequent minimum bill and volumetric rate analyses, are the documents that TCMUD 12 included as Exhibits B, C, and D in its First Requests for Admission to WTCPUA.¹⁰

Fatal to TCMUD 12's claim, TCMUD 12 has conceded in its discovery responses that these 2012 cost of service study and subsequent analyses were created using the cash basis revenue requirement methodology as well. Such admissions are provided below:

RFA No. 1-7: Admit or deny that the October 11, 2012 rate study, attached to MUD 12's Requests for Admission and Requests for Production to the PUA as Exhibit B, utilizes the cash basis methodology.

RESPONSE: Admit that the referenced document utilizes a cash basis approach.

RFA No. 1-8: Admit or deny that the analysis used by the PUA to set the minimum bill and the volumetric rate, attached to MUD 12's Requests for Admissions and Requests for Production to the PUA as Exhibits C [and] D, utilizes the cash basis methodology.

RESPONSE: Admit that the referenced documents utilize a cash basis approach.¹¹

Further, TCMUD 12 admits that the revenue requirement methodology did not change between the Prior Rate and Protested Rate.

⁸ A copy of such discovery responses are attached hereto as Exhibit E. Also included in Exhibit F is a copy of ALJ's Order No. 9, which addressed TCMUD 12's failure and unwillingness to sufficiently answer these two requests for admission (amongst other requests for admission).

⁹ See Exhibit D, page 3 (the WTCPUA's disclosures).

¹⁰ Compare WTCPUA's Response to TCMUD 12's Second Requests for Production, Nos. 2-1, 2-2, and 2-3, with referenced exhibits, attached hereto as Exhibit G with TCMUD 12's Exhibits B, C, and D provided in Exhibit E.

¹¹ A copy of these discovery responses, with the referenced exhibits, are attached hereto as Exhibit E.

RFI 2-35: Do you contend that in establishing its revenue requirement for the rates to be effective on January 1, 2014, the WTCPUA changed from the cash basis to the utility basis? If yes, explain the basis for your contention, and provide citations to all documents that support your contention.

TCMUD 12's Response: No.¹²

In light of these admissions, there is no genuine issue of material fact between WTCPUA and TCMUD 12 regarding whether the revenue requirement methodology changed between the Prior Rate and the Protested Rate. Both parties agree that the WTCPUA's Prior Rates and Protested Rate were based upon the cash basis revenue requirement methodology, and that the WTCPUA did not change its revenue requirement methodology between the Prior Rate and Protested Rate from the cash basis to utility basis.

While TCMUD 12 has made other allegations in its Petition and discovery responses that WTCPUA changed the revenue requirement methodology between the Prior Rate and Protested Rate, such assertions, even if taken in a light most favorable to TCMUD 12, are mistaken because they are premised upon cost of service issues. Cost of service issues are outside the scope and are irrelevant to this first phase of the wholesale rate appeal process, as expressly stated in P.U.C. SUBST. R. 24.133(b). Instead, the issue *at bar* is whether the WTCPUA's revenue requirement methodology changed between the Prior Rate and Protested Rate; TCMUD 12 has admitted that such methodology has not changed.

2. WTCPUA Rate Methodology Did Not Change Between Prior Rate and Protested Rate

Both WTCPUA and TCMUD 12 likewise agree that the rate methodology used by the WTCPUA for the Prior Rate and Protested Rate did not change. WTCPUA contends that the Prior Rate and Protested Rate both consist of a minimum monthly fee and a volumetric rate, and it refutes any allegation that the rate methodology changed between these Rates. TCMUD 12's

¹² A copy of such discovery responses are attached hereto as Exhibit H.

responses to WTCPUA's Second Set of Requests for Admission are consistent with WTCPUA's position that there has not been a change in rate methodology, as follows:

RFA 2-3: Admit or deny that the WTCPUA's rates effective January 1, 2013, included a minimum monthly charge and a volume rate.

RESPONSE: Admit.

RFA 2-4: Admit or deny that the WTCPUA's rates effective January 1, 2014, included a minimum monthly charge and a volume rate.

RESPONSE: Admit.¹³

Therefore, there is no genuine issue of material fact between WTCPUA and TCMUD 12 that the rate methodology has changed between the Prior Rate and the Protested Rate.

Accordingly, since there are no genuine issues of material fact between WTCPUA and TCMUD 12 that there has not been a change in the revenue requirement or rate methodologies between the Prior Rate and the Protested Rate, WTCPUA's Motion concerning P.U.C. SUBST. R 24.133(a)(3)(C) should be granted.

IV. CONCLUSION

For the reasons stated herein, WTCPUA respectfully requests that the Administrative Law Judge grant WTCPUA's Partial Motion for Summary Decision on the public interest criteria found in P.U.C. SUBST. R. 24.133(a)(1), (a)(2), (a)(3)(B)-(H), and (a)(4). WTCPUA also asks for any other relief to which it is justly entitled.

¹³ A copy of such discovery responses are attached hereto as Exhibit I.

Respectfully submitted,

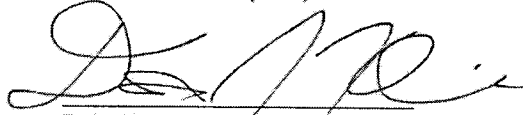
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ATTORNEYS FOR WEST TRAVIS COUNTY
PUBLIC UTILITY AGENCY

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was transmitted by e-mail, fax, hand-delivery and/or regular, first class mail on this 6th day of March, 2015 to the parties of record.


DAVID J. KLEIN

**ORDER REGARDING AMENDMENTS TO WHOLESALE WATER AND
WASTEWATER RATES**

THE STATE OF TEXAS §
§
COUNTIES OF TRAVIS AND HAYS §

The Board of Directors of the West Travis County Public Utility Agency (the "**PUA**") met in a regular session, open to the public, after due notice, at City of Bee Cave, City Hall, 4000 Galleria Parkway, Bee Cave, Texas 78738, an official meeting place within the boundaries of the Agency, on November 21, 2013; whereupon the roll was called of the members of the Board of Directors, to wit:

Larry Fox	President
Michael Murphy	Vice President
Ray Whisenant, Jr.	Secretary
Scott Roberts	Director
Bill Goodwin	Director

All members of the Board were present.

WHEREUPON, among other business conducted by the Board, Director Goodwin introduced the order set out below and moved its adoption, which motion was seconded by Director Whisenant, and, after full discussion and the question being put to the Board of Directors, said motion was carried by the following vote:

"Aye" 4; "No" 1.

The Order thus adopted is as follows:

WHEREAS, the PUA entered into that certain "Utility Installment Purchase Contract" between the PUA and the Lower Colorado River Authority ("**LCRA**") on January 17, 2012, providing in part for the sale of certain water and wastewater assets in west Travis County and north Hays County from LCRA to the PUA;

WHEREAS, in taking over and operating such LCRA facilities, the PUA in part provides wholesale water and wastewater service to the following 13 wholesale customers, based upon their existing contracts, as may be amended from time to time:

1. Dripping Springs Water Supply Corporation
2. Senna Hills Municipal Utility District No. 1
3. Crystal Mountain Homeowners Association, Inc.
4. Barton Creek West Water Supply Corporation

5. Eanes Independent School District
6. Travis County Municipal Utility District No. 18
7. Hays County Water Control and Improvement District No. 1
8. Hays County Water Control and Improvement District No. 2
9. Lazy Nine Municipal Utility District No. 1A
10. Deer Creek Ranch Water Company
11. Reunion Ranch Water Control and Improvement District
12. Travis County Municipal Utility District No. 12
13. Travis County Water Control and Improvement District No. 17;

WHEREAS on November 15, 2012, the PUA adopted wholesale water and wastewater rates at a public meeting, open to the public;

WHEREAS, the PUA's fiscal year ends September 30 of each calendar year;

WHEREAS, the PUA has been in the process of evaluating its wholesale water and wastewater rates for each of its wholesale water and wastewater customers as a part of the PUA's planning for the current fiscal year;

WHEREAS, the PUA has conducted meetings with its wholesale water and wastewater customers in 2013 regarding future amendments to the PUA's wholesale water and wastewater rates, and it has received comments from these customers regarding the proposed amendments; and

WHEREAS, the PUA desires to amend its wholesale water and wastewater rates for each of the 13 wholesale customers, to be effective January 1, 2014.

NOW THEREFORE, it is ordered by the Board of Directors of West Travis County Public Utility Agency that:

Section 1: The above recitals are true and correct and are incorporated into this Order for all purposes.

Section 2: The Board of Directors of the PUA hereby approves, adopts, and orders that the wholesale water rate for the Dripping Springs Water Supply Corporation shall include a monthly minimum charge of \$10,917.33 and a volumetric rate of \$2.14 per 1,000 gallons, effective January 1, 2014.

Section 3: The Board of Directors of the PUA hereby approves, adopts, and orders that the wholesale water rate for the Senna Hills Municipal Utility District No. 1 shall include a monthly minimum charge of \$13,466.51 and a volumetric rate of \$2.11 per 1,000 gallons, effective January 1, 2014.

Section 4: The Board of Directors of the PUA hereby approves, adopts, and orders that the wholesale water rate for the Crystal Mountain Homeowners Association, Inc. shall

include a monthly minimum charge of \$2,237.34 and a volumetric rate of \$2.69 per 1,000 gallons, effective January 1, 2014.

Section 5: The Board of Directors of the PUA hereby approves, adopts, and orders that the wholesale water rate for the Barton Creek West Water Supply Corporation shall include a monthly minimum charge of \$14,187.66 and a volumetric rate of \$2.59 per 1,000 gallons, effective January 1, 2014.

Section 6: The Board of Directors of the PUA hereby approves, adopts, and orders that the wholesale water rate for the Eanes Independent School District shall include a monthly minimum charge of \$739.32 and a volumetric rate of \$2.35 per 1,000 gallons, effective January 1, 2014.

Section 7: The Board of Directors of the PUA hereby approves, adopts, and orders that the wholesale water rate for the Travis County Municipal Utility District No. 18 shall include a monthly minimum charge of \$1,112.77 and a volumetric rate of \$2.11 per 1,000 gallons, effective January 1, 2014.

Section 8: The Board of Directors of the PUA hereby approves, adopts, and orders that the wholesale water rate for the Hays County Water Control and Improvement District No. 1 shall include a monthly minimum charge of \$16,477.28 and a volumetric rate of \$2.02 per 1,000 gallons, effective January 1, 2014.

Section 9: The Board of Directors of the PUA hereby approves, adopts, and orders that the wholesale water rate for the Hays County Water Control and Improvement District No. 2 shall include a monthly minimum charge of \$12,113.97 and a volumetric rate of \$2.06 per 1,000 gallons, effective January 1, 2014.

Section 10: The Board of Directors of the PUA hereby approves, adopts, and orders that the wholesale water rate for the Lazy Nine Municipal Utility District No. 1A shall include a monthly minimum charge of \$12,815.48 and a volumetric rate of \$1.86 per 1,000 gallons, effective January 1, 2014.

Section 11: The Board of Directors of the PUA hereby approves, adopts, and orders that the wholesale water rate for the Deer Creek Ranch Water Company shall include a monthly minimum charge of \$7,011.28 and a volumetric rate of \$2.00 per 1,000 gallons, effective January 1, 2014.

Section 12: The Board of Directors of the PUA hereby approves, adopts, and orders that the wholesale water rate for the Reunion Ranch Water Control and Improvement District shall include a monthly minimum charge of \$947.20 and a volumetric rate of \$2.08 per 1,000 gallons, effective January 1, 2014.

Section 13: The Board of Directors of the PUA hereby approves, adopts, and orders that the wholesale water rate for the Travis County Municipal Utility District No. 12 shall

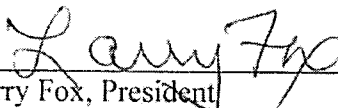
include a monthly minimum charge of \$8,140.89 and a volumetric rate of \$2.11 per 1,000 gallons, effective January 1, 2014.

Section 14: The Board of Directors of the PUA hereby approves, adopts, and orders that the wholesale wastewater rate for the Travis County Water Control and Improvement District No. 17 shall include a monthly minimum charge of \$10,981.89 and a volumetric rate of \$3.67 per 1,000 gallons, effective January 1, 2014.

Section 15: The Agency's General Manager, Engineer, and General Counsel are authorized to take all actions necessary to carry out the purposes of this Order, including, but not limited to, providing notice of the proposed increases to Agency customers and amended Tariff.

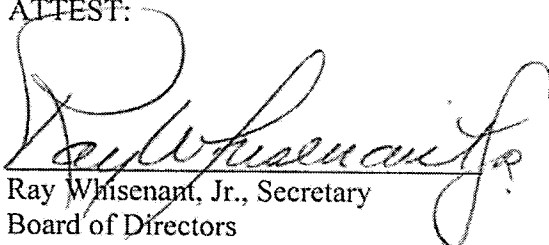
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PASSED AND APPROVED this 21st day of November, 2013.



Larry Fox, President
Board of Directors

ATTEST:



Ray Whisenant, Jr., Secretary
Board of Directors

**ORDER REGARDING PROPOSED INCREASES TO RATES FOR WHOLESALE
WASTEWATER, WHOLESALE WATER AND EFFLUENT RAW WATER
IRRIGATION CUSTOMERS**

THE STATE OF TEXAS

§

COUNTY OF TRAVIS

§

§

The Board of Directors of the West Travis County Public Utility Agency (the "Agency") met in a regular session, open to the public, after due notice, at City of Bee Cave, City Hall, 4000 Galleria Parkway, Bee Cave, Texas 78738, an official meeting place within the boundaries of the Agency, on November 15, 2012; whereupon the roll was called of the members of the Board of Directors, to wit:

**Larry Fox
Michael Murphy
Ray Whisenant, Jr.**

**President
Vice President
Secretary**

All members of the Board were present.

WHEREUPON, among other business conducted by the Board, Director Fox introduced the order set out below and moved its adoption, which motion was seconded by Director Whisenant, and, after full discussion and the question being put to the Board of Directors, said motion was carried by the following vote:

"Aye" X ; "No" .

The Order thus adopted is as follows:

WHEREAS, the Agency's fiscal year ends September 30 of each calendar year;

WHEREAS, the Agency is in the process of evaluating rates for wholesale wastewater, wholesale water and effluent raw water irrigation customers contained in Tariff ("Agency Rate Tariff") as a part of its planning for its next fiscal year;

WHEREAS, the Agency held a public hearing regarding potential amendments to the Agency rates, to ensure that the Agency's customers have the opportunity to provide input and participate in this process; and

WHEREAS, the Agency desires to consider increases to the aforementioned rates to be effective January 1, 2013 to provide additional time for review and to receive additional input from customers impacted by such proposed increases.

NOW THEREFORE, it is ordered by the Board of Directors of West Travis County Public Utility Agency that:

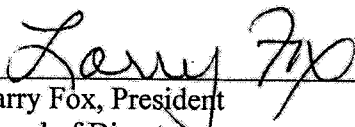
Section 1: The above recitals are true and correct and are incorporated into this Order for all purposes.

Section 2: The increases to rates for wholesale wastewater, wholesale water and effluent raw water irrigation customers are shown in **Attachment A**.

Section 3: The Agency's General Manager, Engineer, and General Counsel are authorized to take all actions necessary to carry out the purposes of this Order, including, but not limited to, providing notice of the proposed increases to Agency customers and amended Tariff, and petitioning the Lower Colorado River Authority ("LCRA") Board of Directors to confirm such rates as required by the Agency's agreements with the LCRA.

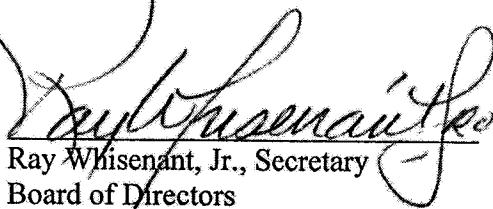
Section 4: These proposed rate increases shall be effective as of January 1, 2013.

PASSED AND APPROVED this 15th day of November, 2012.



Larry Fox, President
Board of Directors

ATTEST:



Ray Whisenant, Jr., Secretary
Board of Directors

West Travis County Public Utility Agency

Attachment A

Minimum Bill	Current	Stepped Increase - 15.5%
CRYSTAL MOUNTAIN HOA, INC.	\$ 655.00	\$ 756.53
DEER CREEK RANCH WATER CO., LLC	\$ 2,500.00	\$ 2,887.50
DRIPPING SPRINGS WSC	\$ 4,548.00	\$ 5,252.94
EANES ISD	\$ 175.00	\$ 202.13
HAYS COUNTY WCID #1	\$ 7,450.00	\$ 8,604.75
REUNION RANCH WCID	\$ 3,190.00	\$ 3,684.45
SENNA HILLS MUD #1	\$ 3,730.00	\$ 4,308.15
BARTON CREEK WEST WSC	\$ 2,167.00	\$ 2,502.89
HAYS COUNTY WCID #2	\$ 6,515.00	\$ 7,524.83
CITY OF DRIPPING SPRINGS	\$ 7,000.00	\$ 8,085.00
LAZY NINE MUD #1A	\$ 10,200.00	\$ 11,781.00
TRAVIS COUNTY MUD #12	\$ 9,430.00	\$ 10,891.65

Volumetric Rate	Current	Stepped Increase - 15.5%
Customers With own Raw Water	\$ 2.40	\$ 2.77
Customers Using PUA Raw Water	\$ 2.86	\$ 3.30

Wastewater	Current	Full Cost of Service - 18%
Minimum Charge	\$ 2,500.00	\$ 2,500.00
Volumetric Charge	\$ 2.75	\$ 3.25

Effluent	Current	Stepped Increase - 4.5%
Volumetric Charge	\$ 3.00	\$ 3.14

**SOAH DOCKET NO. 473-14-5144
PUC DOCKET NO. 42866**


PETITION OF TRAVIS COUNTY	§	BEFORE THE STATE OFFICE
MUNICIPAL UTILITY DISTRICT NO. 12	§	
APPEALING CHANGE OF WHOLESALE	§	
WATER RATES IMPLEMENTED BY WEST	§	
TRAVIS COUNTY PUBLIC UTILITY	§	OF
AGENCY, CITY OF BEE CAVE, TEXAS	§	
HAYS COUNTY, TEXAS AND WEST	§	
TRAVIS COUNTY MUNICIPAL UTILITY	§	
DISTRICT NO. 5	§	ADMINISTRATIVE HEARINGS

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 12'S
SUPPLEMENTAL RESPONSES REQUEST FOR DISCLOSURES**

COMES NOW Travis County Municipal Utility District No. 12 ("TCMUD 12 or District") and timely submits these Supplemental Responses to Request for Disclosures in accordance with P.U.C. PROC. R. 22.144(i).

Respectfully Submitted,

SMITH TROSTLE & HUERTA LLP
4401 Westgate Blvd., Ste. 330
Austin, Texas 78745
(512) 494-9500 (Telephone)
(512) 494-9505 (Facsimile)
ktrostle@smithtrostle.com

By: 
Miguel A. Huerta
State Bar No. 00787733


J. Kay Trostle
State Bar No. 20238300

ATTORNEYS FOR TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 12

EXHIBIT C

CERTIFICATE OF SERVICE

I hereby certify that a on this 7th day of November a true and correct copy of the above and foregoing document is being served via electronic mail, facsimile, U.S. mail and/or hand delivery to all parties of record.


Miguel A. Huerta

REQUEST FOR DISCLOSURES

Pursuant to TEXAS RULE OF CIVIL PROCEDURE 194, and SOAH Order No. 1, TCMUD 12 makes the disclosures of the information or material described in TEXAS RULE OF CIVIL PROCEDURE 194.2 on August 15, 2014, as follows:

(a) the correct names of the parties to the contested case hearing;

Response:

*As indicated in SOAH Order No. 4, the following is no longer a party to this case:
TCEQ Executive Director*

*The Public Utility Commission of Texas Legal Division is now a party to this case:
Jessica Gray
Public Utility Commission of Texas
Legal Division
1701 N. Congress Ave.
Austin, Texas 78701
512-936-7228
512-936-7268 Fax*

(c) the legal theories and, in general, the factual bases of the responding party's claims or defenses (the responding party need not marshal all evidence that may be offered at trial);

Response:

TCMUD 12's previous response filed on August 15, 2014 is hereby replaced in its entirety with the following:

As reflected in SOAH Order Nos. 1 and 2, this proceeding is to determine if the PUA's protested rates charged to TCMUD 12 pursuant to the Wholesale Water Services Agreement adversely affect the public interest. TCMUD 12, as the petitioner, has prefiled evidence that the wholesale water rates that the PUA began charging January 1, 2014 are adverse to the public interest, under 16 TAC § 24.133(a). TCMUD 12 stated the general factual bases for this appeal in its Petition. TCMUD 12's prefiled direct case, including the testimonies of Joseph A. DiQuinzio, Jay Joyce, and Jay Zarnikau state the specific factual bases of TCMUD 12's claims. TCMUD 12 claims that the 2014 rate change adversely affects the public interest as evidenced by the PUA's abuse of monopoly power in its provision of water service to TCMUD 12. The factors that demonstrate the PUA has abused monopoly power include the PUA's change in the computation of the revenue requirement and rate from one methodology to another; the PUA's disparately

greater bargaining power, including limitations on TCMUD 12's alternative means and costs, and problems of obtaining alternative water service; and the PUA ability to control the price and quantity of water services in the market served by TCMUD 12 at the retail level.

(f) for any testifying expert:

(iii) the general substance of the expert's mental impressions and opinions and a brief summary of the basis for them, or if the expert is not retained by, employed by, or otherwise subject to the control of the responding party, documents reflecting such information.

Response:

A summary describing the general substance of the experts' mental impressions and opinions of TCMUD 12's experts have been set out in the Direct Testimony of those experts. See, e.g., Direct Testimony of Jay Joyce at p. 5, lines 9-25 and p.6, lines 1-15, and Direct Testimony of Dr. Jay Zarnikau at p. 5, lines 12-28.

(iv) if the expert is retained by, employed by, or otherwise subject to the control of the responding party:

(a) all documents, tangible things, reports, models, or data compilations that have been provided to, reviewed by, or prepared by or for the expert in anticipation of the expert's testimony: and

Response:

The documents and discovery responses relied on by TCMUD 12's experts were identified in the Direct Testimony of those experts.

(b) the expert's current resume and bibliography;

Response:

The List of Utility Proceedings in which Mr. Joyce has testified is attached to his direct testimony as Exhibit JJJ-2.

**PETITION OF TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT
NO. 12 APPEALING CHANGE OF
WHOLESALE WATER RATES
IMPLEMENTED BY WEST
TRAVIS COUNTY PUBLIC
UTILITY AGENCY, AND THE
CITY OF BEE CAVE, TEXAS,
HAYS COUNTY, TEXAS AND
WEST TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT
NO. 5**


=====

OF

26

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was transmitted by e-mail, fax, hand-delivery and/or regular, first class mail on this 23th day December, 2014, to the parties of record.



David J. Klein

THIRD SUPPLEMENTAL RESPONSES TO REQUESTS FOR DISCLOSURE

The WTCPUA hereby supplements its previous responses to disclosures 3 and 6 (Texas Rule of Civil Procedure 194.2 (c) and (f)), with the following:

3. **Rule 194.2 (c) the legal theories and, in general, the factual bases of the responding party's claims or defenses (the responding party need not marshal all evidence that may be offered at trial).**

RESPONSE:

The WTCPUA further contends that Travis County Municipal Utility District No. 12 ("TCMUD 12") has not and will not be able to meet its burden of proof that the WTCPUA's wholesale water treatment rate (the "Protested Rate") charged to TCMUD 12 under the Wholesale Water Services Agreement, as amended, as adopted by the Board of Directors of WTCPUA on November 21, 2013, adversely impacts the public interest or violates any of the public interest criteria under and P.U.C. Subst. R. 24.133(a).

In particular, WTCPUA is not a monopoly under P.U.C. Subst. R. 24.133(a)(3), and the Protested Rate does not evidence an abuse of the alleged monopoly power in its provision of wholesale water treatment services to TCMUD 12. Specifically, WTCPUA did not have disparate bargaining power over TCMUD 12, as TCMUD 12 had alternate means, alternative costs, no environmental impacts, no regulatory issues, and no problems with obtaining wholesale water treatment services from an alternate source. Further, there was no change in the revenue requirement or rate methodology utilized by WTCPUA in the Protested Rate, as compared to the revenue requirement or rate methodology utilized by WTCPUA in the wholesale water treatment rates charged to TCMUD 12 that were previously adopted by the WTCPUA Board of Directors on November 15, 2012 (collectively, the "Disputed Issues").

The alleged factual bases stated in the testimony of TCMUD 12's witnesses, DiQuinzio, Joyce, and Zarnikau fail to provide evidence demonstrating the public interest criteria factors in P.U.C. Subst. R. 24.133(a)(3)(A) and (C). Additionally, the testimony of WTCPUA witnesses Rauschuber, Stowe, and Baudino state the bases that refute the allegations of TCMUD 12's witnesses regarding the Disputed Issues, as well as provide independent factual and technical bases demonstrating how TCMUD 12's testimony regarding the Disputed Issues is meritless.

6. Rule 194.2(f) for any testifying expert:

RESPONSE:

- (3) the general substance of the expert's mental impressions and opinions and a brief summary of the basis for them, or if the expert is not retained by, employed by, or otherwise subject to the control of the responding party, documents reflecting such information;

Summaries describing the general substance of WTCPUA's experts' mental impressions and opinions have been set out in the Direct Testimony of those experts. See, e.g., Direct Testimony of Mr. Richard Baudino at p. 4, line 16 through p. 5, line 12 and p. 31, lines 12-17; Direct Testimony of Mr. Jack Stowe at p. 6, line 23 through p. 7, line 8, p. 15, lines 29-31, p. 18, line 18 through p. 19, line 2.

- (4) if the expert is retained by, employed by, or otherwise subject to the control of the responding party:

- (A) all documents, tangible things, reports, models, or data compilations that have been provided to, reviewed by, or prepared by or for the expert in anticipation of the expert's testimony; and

The documents relied on by WTCPUA's expert witnesses were identified in the direct testimonies of those expert witnesses. Additionally, WTCPUA's expert witnesses reviewed the prefiled testimonies of the TCMUD 12 witnesses and discovery responses in this hearing.

- (B) the expert's current resume and bibliography.

The current resumes and bibliographies of WTCPUA's expert witnesses are attached to their direct testimonies, at Baudino Attachment A and Stowe Attachments A and B.

RFA NO. 1-3:

Admit or deny that the cash basis is a generally accepted methodology in the water-rate making industry for calculating the cost of service for an entity that provides Water Treatment Services.

RESPONSE:

Miguel A. Huerta, Counsel for TCMUD 12 conferred with David Klein and Georgia Crump, Counsel for the WTCPUA regarding this request. By agreement of Counsel, the phrase "water-rate making industry" as used in this request refers to standard setting bodies such as the American Waterworks Association and professionals engaged in setting rates for participants in the water and wastewater industry.

Miguel A. Huerta, Counsel for TCMUD 12 conferred with David Klein and Georgia Crump, Counsel for the WTCPUA regarding this request. By agreement of Counsel, the phrase "Water Treatment Services" as used in this request, is used in its broadest sense, and only the first sentence in the definition of the term "Water Treatment Services" as set forth in the Instructions to the discovery requests is applicable to this particular request.

Admit that the cash basis is an accepted approach in the water ratemaking industry.

RFA NO. 1-4:

Admit or deny that the utility basis is a generally accepted methodology in the water-rate making industry for calculating the cost of service for an entity that provides Water Treatment Services.

RESPONSE:

Miguel A. Huerta, Counsel for TCMUD 12 conferred with David Klein and Georgia Crump, Counsel for the WTCPUA regarding this request. By agreement of Counsel, the phrase "water-rate making industry" as used in this request refers to standard setting bodies such as the American Waterworks Association and professionals engaged in setting rates for participants in the water and wastewater industry.

Miguel A. Huerta, Counsel for TCMUD 12 conferred with David Klein and Georgia Crump, Counsel for the WTCPUA regarding this request. By agreement of Counsel, the phrase "Water Treatment Services" as used in this request, is used in its broadest sense, and only the first sentence in the definition of the term "Water Treatment Services" as set forth in the Instructions to the discovery requests is applicable to this particular request.

Admit that the utility basis is an accepted approach in the water ratemaking industry.

SOAH Docket No. 473-14-5144, Docket No. 42866
TCMUD 12's Responses to WTCPUA's 1st RFAs

RFA NO. 1-5:

Admit or deny that the Board of Directors of the PUA adopted an order on November 15, 2012 to amend the rates charged by the PUA to MUD 12.

RESPONSE:

Admit.

RFA NO. 1-6:

Admit or deny that the Board of Directors of the PUA adopted an order on November 21, 2013 to amend the rates charged by the PUA to MUD 12.

RESPONSE:

Admit.

RFA NO. 1-7:

Admit or deny that the October 11, 2012 rate study, attached to MUD 12's Requests for Admission and Requests for Production to the PUA as Exhibit B, utilizes the cash basis methodology.

RESPONSE:

Miguel A. Huerta, Counsel for TCMUD 12 conferred with David Klein and Georgia Crump, Counsel for the WTCPUA regarding this request. By agreement of Counsel, a true and correct copy of the October 11, 2012 rate study will be produced by the WTCPUA in response to TCMUD RFI 2-1 and TCMUD 12 will have an extra 5 days to respond to this request.

Admit that the referenced document utilizes a cash basis approach.

SOAH Docket No. 473-14-5144, Docket No. 42866
TCMUD 12's Responses to WTCPUA's 1st RFAs

RFA NO. 1-8:

Admit or deny that the analysis used by the PUA to set the minimum bill and the volumetric rate, attached to MUD 12's Requests for Admissions and Requests for Production to the PUA as Exhibits C [and] D, utilizes the cash basis methodology.

RESPONSE:

Miguel A. Huerta, Counsel for TCMUD 12 conferred with David Klein and Georgia Crump, Counsel for the WTCPUA regarding this request. By agreement of Counsel, a true and correct copy of the October 11, 2012 rate study will be produced by the WTCPUA in response to TCMUD RFI 2-2 and 2-3, and TCMUD 12 will have an extra 5 days to respond to this request.

Admit that the referenced documents utilize a cash basis approach.

RFA NO. 1-9:

Admit or deny that Water Treatment Services are available to MUD 12 from a wholesale Water Treatment Services provider other than the PUA.

RESPONSE:

Miguel A. Huerta, Counsel for TCMUD 12 conferred with David Klein and Georgia Crump, Counsel for the WTCPUA regarding this request. By agreement of Counsel, the phrase "Water Treatment Services" as used in this request, is used in its broadest sense, and only the first sentence in the definition of the term "Water Treatment Services" as set forth in the Instructions to the discovery requests is applicable to this particular request.

Deny.

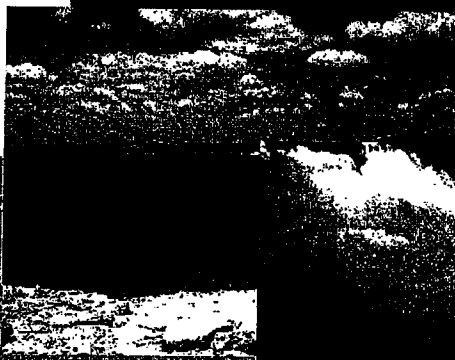
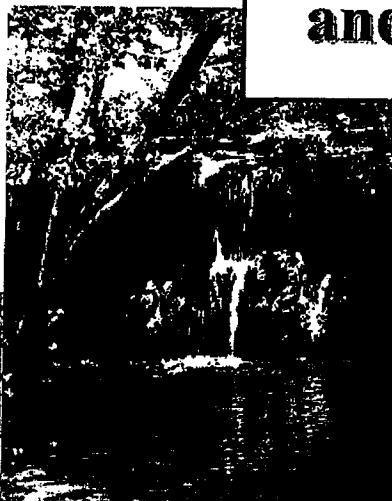
October 11, 2012
Prepared for:



West Travis County
Public Utility Agency

Final Report

Wholesale Cost of Service and Rate Design Study



Prepared by



W. Mark McQuinn
Director, General Manager

3705 Shoemaker Blvd., Suite 101 Austin, TX 78758
Telephone (512) 420-8801 Fax (512) 420-9900



Water Resources Management, LLC

October 11, 2012

Mr. Larry Fox
President
West Travis County Public Utility Agency
12117 Bee Cave Road, Building 3, Suite 120
Bee Cave, Texas 78738

Dear Mr. Fox,

Water Resources Management, LLC (WRM) is please to present our findings and recommendations for the Wholesale Cost of Service and Rate Design Study that we have conducted on behalf of the West Travis County Public Utility Agency (Agency). The project team has reviewed available data and interviewed Agency staff. From this review, we were able to develop a recommended rate design.

The enclosed report details the methodology utilized by WRM during the course of our analysis and describes our findings.

It has been a pleasure working with the Agency. Your staff has been very efficient in answering our questions and filling data requests. Please feel free to contact our office with any questions or comments regarding this report at (512) 420-9841.

Sincerely,


Nelisa Heddin

VP Business & Financial Services

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Section 1.0 Understanding Project Goals

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Goals and Objectives

Water Resources Management, LLC (WRM) is pleased to present to the West Travis County Public Utility Agency (Agency) the results of a wholesale cost of service and rate design study for the Agency's Water and Wastewater Utility. The project team had four critical goals in the performance of this task:

- 1) Isolate revenue requirements for the water and wastewater utility;
- 2) Functionalize costs;
- 3) Allocate costs to retail and wholesale customers;
- 4) Design wholesale rates that recover wholesale customer costs of service.



Background on Water Rates

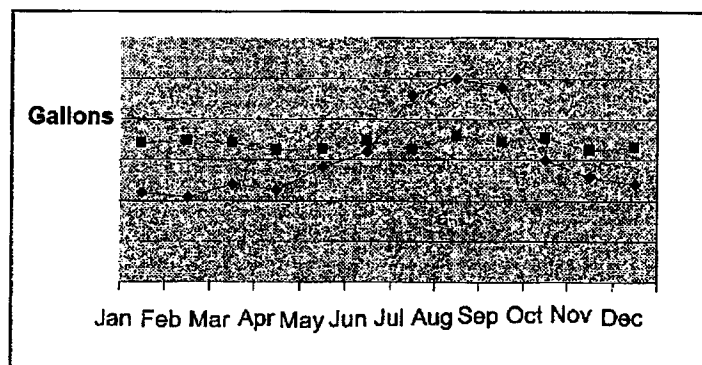
Rate Setting Theory:

The American Water Works Association (AWWA) sets forth a methodology for rate setting based on cost of service principles. The premise of this methodology is to require users to pay the cost incurred by the utility to provide that user with water service.

Water utility infrastructure is constructed to meet times of peak demand. Although on an annual basis, the average usage of water is at a lower level, the system must be constructed to meet times of peak usage, such as irrigation in summer months or early mornings when residents are showering, doing laundry, and washing dishes. Chapter 290 of the Texas Administrative Code outlines strict guidelines that the water utility must follow while providing retail water services. These guidelines outline specific requirements for items such as minimal system capacities, to meet these times of peak usage. Thus, the water utility must maintain the infrastructure to meet these requirements. Infrastructure capacity requirements are determined by the number of connections that the system serves, and the size of each connection as well as the usage patterns of those customers. As a result, water utilities are designed to handle times of peak usage. Therefore, even though the utility may have average usage at a certain level, it must have the capacity to serve customers at a level that is much greater, in order to meet peaking demands.

Different customer classes utilize water in different manners, and, thus, put different strains on the utility. Utilizing a cost of service methodology recommended by the AWWA, a particular utility's customer classes are examined to determine usage patterns for each class. Figure 1 demonstrates different usage patterns for two different types of customers.

Figure 1: Usage Patterns

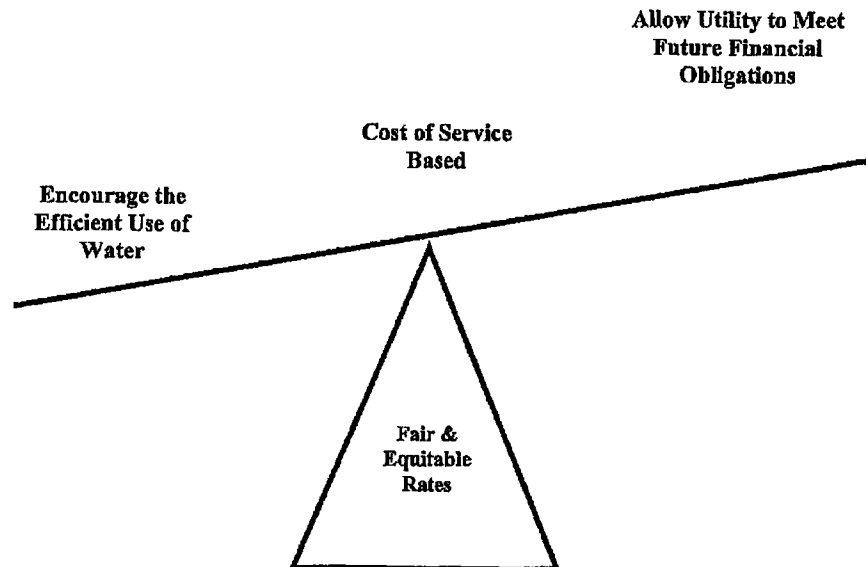


The customers represented by the blue line in Figure 1 show a dramatic peaking pattern in summer months. This peak pattern commonly occurs with customers who, for example, irrigate during the summer. The customers represented by the pink line show very little deviation in their month-to-month usage. An example of a customer using water in this manner may be a commercial customer who uses water in a consistent pattern year round.

According to the AWWA, "a water utility is required to supply water in total amounts and at such rates of use desired by the customer. A utility incurs costs in relationship to the various expenditure requirements caused by meeting those customer demands. Since the needs for total volume of supply and peak rates of use vary among customers, the costs to the utility of providing service also vary among customers or classes of customers."¹ In other words, there are significant cost implications to the ability a utility system must have to meet peaking patterns.

The blue-line customer in Figure 1 has a higher peak to average ratio of water usage. Whereas the pink-line customer has a lower peak to average ratio even though the total volume used is greater for this customer class. In this example, the utility has to maintain a total system capacity to serve the maximum (or peak) usage of all customers, even though the blue-line customer uses a peak amount of water for three months out of the year. There is a significant cost implication to this irregular usage pattern. The rates charged to customers should reflect this cost differential.

Rate Design General Considerations:



During rate analysis, the primary consideration is to determine rates that are fair and equitable among all customers. Rates should recover the cost associated with providing service to each customer from that particular customer. Determining rates that fully achieve this goal would involve a detailed analysis of each individual customer's consumption pattern. Since this is an impractical feat for most utility systems, rates are typically designed to fit average conditions for groups of customers having similar service requirements. Customers are grouped into customer classes that utilize water in a similar pattern (such as residential, commercial, apartments and irrigation). Historical usage patterns are then analyzed for each customer grouping and costs assigned accordingly.

¹ American Water Works Association M1 Manual, Water Rates, Fourth Edition, 1991.



The AWWA emphasizes, "departure from rates based on cost of service is generally a decision made for political, legal, or other reasons. Consideration of rates deviating from cost of service, therefore, is made by politicians, not the rate designer."² In addition, the AWWA states that "when a deviation from cost-related rates is made, the reason for such modification should be explicitly understood so that the responsibility for such deviation is placed on legal and policy-making factors, and the public is not misled into believing that the resulting rates are fully cost-related when they are not."³

It is important to understand that while the goal is to get as close as possible to cost of service based rates; every utility has its own political environment that must be considered when designing and implementing a new rate structure.

Rate Components:

Typically, water services are billed in a structure that consists of a minimum bill and a volumetric component. The minimum bill is intended to recover the basic costs associated with providing service to the customer, regardless of the volume of the water utilized. The bill usually recovers a high percentage of the utility's fixed costs, and is structured to ensure the utility some degree of revenue stability. Minimum bills are a fixed monthly fee. The second component of the rates is a volumetric charge. This charge is based on the amount of water utilized by the customer, and may fluctuate based on actual usage.

² AWWA M1 page 33.

³ AWWA M1 page 32.



Water Utility Background

Water Production

As a result of the transition of operations of the water utility to the Agency in March 2012; FYE 2011 pumpage data was not available, and FYE 2012 data maintained by the Agency was only a partial year of data. As such, the project team has examined FYE 2008, FYE 2009, and FYE 2010 pumpage data. Total production for 2008 through 2010 is listed in the table below.

Table 1: Historical Water Production (Million Gallons)

	2008	2009	2010
Total Production	1,797	2,039	1,724
Average Daily Demand	4.92	5.59	4.72
Peak Day Demand	10.8	9.9	11.2
Peak to Average Ratio	2.19	1.77	2.37

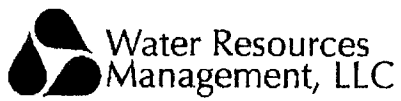
As emphasized in the previous section, there is a direct correlation between a system's production and peaking patterns and the system's costs. The Agency's peak to average ratio, as determined by dividing maximum daily production by the average daily production, was 2.37:1 for 2010.

Water Consumption

As of July 2012, the Agency provides water service to 5,335 retail, potable water customers. The Agency also has contracts to supply water to approximately 17 wholesale customers, 12 of which are currently utilizing water. The Agency meters all active potable water connections. Annual metered water consumption was approximately 1.76 billion gallons in 2011 (Table 2).

Table 2: Total Metered Consumption

	Consumption
2009	1,740,757,079
2010	1,419,778,450
2011	1,757,334,009



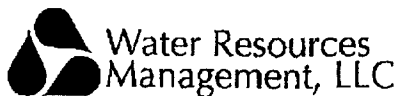
Wastewater Utility Background

Wastewater Collection and Treatment

The Agency operates and maintains its wastewater collection and treatment system.

Wastewater Customers and Billing Units

As of August 2012, the Agency had 1,699 wastewater connections. FYE 2011 billed wastewater consumption was approximately 194,739,027 gallons.



Project Work Plan

WRM has met the goals and objectives of this study by utilizing the following work-plan:

- ✦ Determine the Agency's current and future revenue requirements for the five-year study period for the Water and Wastewater Utility;
- ✦ Isolate Retail only costs of service and remove from analysis;
- ✦ Functionalize costs to cost categories (base costs, extra-capacity costs, and customer costs) based on the function related to that particular cost category;
- ✦ Allocate those costs to customer classifications based on the customers' historical usage patterns;
- ✦ Project customer growth and billing units into the five-year study period;
- ✦ Design rates that fully recover the Agency's costs associated with providing service.

Each stage of the project work-plan is further described, and the results of the analysis are presented in Sections 2.0 and 3.0, Methodology and Findings. Section 4.0 presents various supporting schedules.

Section 2.0 Water- **Methodology and Findings**

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Revenue Requirement

Development of Base Year Retail Revenue Requirement

Water/Wastewater Fund

The Agency has an Operating Fund that consists of three departments: Water, Wastewater, and Shared, to account for the water and wastewater utility operations. Water departmental costs are those costs that are solely associated with providing water utility services to customers. Wastewater departmental costs are generally those costs that are solely associated with providing wastewater services to the Agency's customers. Shared departmental costs are costs that are generally associated with providing both water and wastewater utility services.

FYE 2013 Budget

The Agency began operating the systems in March 2012; prior to that date, the Lower Colorado River Authority (LCRA) operated the systems. As the Agency's operating costs are vastly different than that of the LCRA, the Agency's actual six-months of operating costs was the basis for the development of the FYE 2013 budget. In developing the FYE 2013 budget, FYE 2012 actual expenditures were closely examined; adjustments were made as appropriate to reflect known and measurable changes and anticipated full-year operating costs. The Agency's FYE 2013 budget has been presented as Schedule 1.

FYE 2013 Revenue Requirements

Revenue requirements may be simply defined as the revenues that the Agency needs to recover through its rate structure. The Agency's future revenue requirements were determined by first developing a base-year estimate of costs, one that is reflective of the normal operation of the systems, and adjusting that data for known and measurable changes into the future. WRM used the Agency adopted FYE 2013 budget as the starting point for development of the Agency's revenue requirements. The Agency is still in a period of transition of operations; as such, the FYE 2013 budget has certain transitional operating costs that are not associated with "normal" operations of the system. For ratemaking purposes, the revenue requirements should be reflective of normal operating costs. This prevents the utility from over-collecting from customers for many years when the cost is one-time in nature. WRM adjusted the FYE 2013 budgetary expenses to reflect such one-time and transitional costs.

WRM identified that the Agency provides services to customers beyond potable water service and wastewater service. The Agency also provides raw water/effluent water irrigation service. In order to assure that the revenue requirements reflect solely potable water and wastewater costs of service, the costs of providing irrigation water were also removed from the analysis.

Revenue Offsets

In order to isolate the revenues that need to be collected by rates from all customers, it was necessary to capture all revenue offsets and remove the corresponding dollar amount from the total system expenditures to determine the net revenue requirement. Revenue offsets may be defined as items such as late fees and tap fees that offset the Agency's expense.

**Base Year Revenue Requirement**

The base year total revenue requirement determined by the project team for the water and wastewater utility for FYE 2013 was \$13,935,691. Schedule 2 provides the development of the FYE 2013 Revenue Requirements and further describes the adjustments that were made to the FYE 2013 budget for the development of the Revenue Requirements.

Water/Wastewater Split

The next phase of the analysis is to isolate the revenue that should be recovered by the water utility. For the base year, the water revenue requirement was determined to be \$10,962,457 and the wastewater revenue requirement was determined to be \$2,973,235, Schedule 3.



Cost Functionalization - Water

Background on Cost Functionalization

The base-extra capacity method of functionalization, allocating costs to service functions and distributing costs to customer classes, is commonly used in the water utility industry. The AWWA and the Texas Commission on Environmental Quality (TCEQ) have accepted this methodology. This method recognizes the differences in the cost of providing service due to variations in average rate of use and peak rate of use by a customer class. The method also recognizes the effects of system diversity on costs. Costs are generally divided into three components:

- Base Costs
- Extra-Capacity Costs
- Customer Billing Costs

Base costs fluctuate with the total amount of water taken under average operating conditions. Extra-capacity costs are those costs incurred that are above the average operating conditions and are necessary to support peaking conditions. Customer billing costs are those costs associated with serving customers, such as meter reading and billing.

WRM has relied upon this methodology for the performance of this analysis, as it is a widely accepted means of distributing costs to customer classes based upon the individual customer classes' usage characteristics.

Removal of Retail Only Costs

Prior to the performance of the Base-Extra Capacity analysis, the project team had to first recognize that certain costs are solely associated with providing services to retail customers. Retail only costs were isolated and removed from the analysis. Retail only costs that were identified include:

- **Raw Water Costs** - Most of the Agency's wholesale customers have their own raw water contracts with the LCRA. As such, raw water costs were removed from the costs, which were allocated to wholesale customers. These costs are then added into the costs for the Agency's wholesale customers who do not have their own raw water at a later point in time in the analysis.
- **Repairs and Maintenance Costs** - The Agency has a contract service provider who operates and maintains the Agency's facilities. The Agency is billed a base-fee for general operational services. The Agency is also billed an additional fee for services for repairs and maintenance of facilities which are above and beyond the Agency's general contract services. These services are invoiced separately based on the time, equipment, and materials necessary to perform individual repairs. Repairs and maintenance services include anything from repairing a motor at a pump station to repairing a leak on a distribution line. Given the limited sample of work-orders available to quantify the fees associated with repairs and maintenance to regional facilities (which serve all of the Agency's customers) versus non-regional facilities (such as distribution line maintenance), the entirety of these costs have been removed as a "retail only" cost.⁴

⁴ It must be noted that in future years, when adequate data is available, the Agency may re-evaluate this line item and determine that a portion of the costs should also be recovered from wholesale customers.



- **Debt Service for Non-Regional Facilities** – The Agency has an installment payment liability with the LCRA as well as Agency issued bonds for which annual debt service must be paid. The Agency's assets were closely examined to determine facilities that were regional in nature (that serves both retail and wholesale customers) and those facilities that were non-regional in nature (that service retail only customers). The debt obligation attributable to retail-only customers (such as internal facilities in subdivisions) was removed from the analysis.

Cost Functionalization Analysis

The project team thoroughly analyzed the Agency's cost structure and functionalized the costs into appropriate categories. The result of the cost functionalization analysis is presented below:

Table 3: Cost Functionalization⁵

	2013
Base Costs	\$ 4,383,629
Extra-Capacity Costs	3,608,507
Customer Costs	(437,660)
	\$ 7,554,476

⁵ Cost functionalization presented for system-wide costs only and do not reflect retail only costs, that are also included in retail customer cost allocations.



Cost Allocation to Customer Classes – Water

Customer Cost Allocation Background

The first step in the Customer Cost Allocation analysis is to identify appropriate customer classifications. The establishment of customer classes is important in setting equitable rates for utility service. A customer class should include only those customers who (a) are in similar location in relation to the utility (b) use the same or similar facilities of the utility, (c) receive similar service from the utility, and (d) place similar demands on the utility. The objective of the distribution of costs to customer groups is to avoid cross-subsidization (inequities between customer classes). It is important, with this objective in mind, that differences in service commitment and service requirement be given full consideration in determining customer classes. In being consistent with LCRA's previous philosophy, wholesale customers have been established as an individual customer classification.

Once appropriate customer classifications have been determined, the next step is to analyze usage patterns for each customer class. Usage analysis includes evaluating the average and peak usage for each customer class. Finally, costs are allocated to customer classes based on their relative usage patterns.

Customer Cost Allocation Analysis

The final step in this phase of analysis is to allocate the Base, Extra-Capacity, and Customer Costs to customer classifications, based on their usage patterns. Through the performance of this analysis, WRM determined the revenue requirements for wholesale customers, before raw water, was \$3,340,366 for FYE 2013.