



Control Number: 42866



Item Number: 13

Addendum StartPage: 0

House Bill (HB) 1600 and Senate Bill (SB) 567 83rd
Legislature, Regular Session, transferred the functions
relating to the economic regulation of water and sewer
utilities from the TCEQ to the PUC effective
September 1, 2014.

SOAH DOCKET NO. 582-14-3382
TCEQ DOCKET NO. 2014-0439-UCR

428666
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2014 SEP -5 AM 11:13

PUBLIC UTILITY COMMISSION
FILED CLERK

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

BEFORE THE STATE OF TEXAS

OF

ADMINISTRATIVE HEARINGS

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 12'S
REQUESTS FOR ADMISSION AND REQUESTS FOR PRODUCTION
TO WEST TRAVIS COUNTY PUBLIC UTILITY AGENCY**

COMES NOW Travis County Municipal Utility District No. 12 ("TCMUD 12 or District") and, pursuant to Rules 191 through 198 of the Texas Rules of Civil Procedure, submits the following Requests for Admission and Requests for Production to be answered by West Travis County Public Utility Agency ("PUA").

For each response, please identify all persons who provide information for the answer to each request and identify the witness in this matter who will sponsor the answer to the question and can vouch for the truth of the answer. The PUA is under a continuing obligation to supplement or amend as needed in accordance with Texas Rule of Civil Procedure 193.5.

These requests are not intended to seek, and should be read as expressly excluding, privileged information or documents. Should any information be withheld from a response, please state in that response that you are withholding information or materials and the privilege(s) asserted.

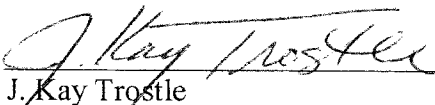
Please provide responses to the requests to the undersigned counsel at the address listed below.

1.3

Respectfully Submitted,

SMITH TROSTLE & HUERTA LLP

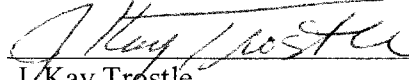
4401 Westgate Blvd., Ste. 330
Austin, Texas 78745
(512) 494-9500 (Telephone)
(512) 494-9505 (Facsimile)
ktrostle@smithtrostle.com

By: 
J. Kay Trostle
State Bar No. 20238300

ATTORNEYS FOR TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 12

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document has been sent as indicated below to the following persons on this 14th day of July, 2014.


J. Kay Trostle

West Travis County Public Utility Agency

Via Hand Delivery

David Klein
Lloyd Gosselink Rochelle & Townsend, P.C.
816 Congress Ave, Ste. 1900
Austin, Texas 78701
512-322-5818
512-472-0532 Fax

TCEQ Executive Director

Via First Class Mail

Ron Olson & Jessica Gray
Texas Commission on Environmental Quality
Environmental Law Division
P.O. Box 13087, MC-173
Austin, TX 78711
512-239-0600
512-239-0606 Fax

TCEQ Public Interest Counsel

Via First Class Mail

Rudy Calderon
Texas Commission on Environmental Quality
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Austin, TX 78711
512-239-3144
512-239-6377 Fax

West Travis County Municipal Utility District No. 5

Via First Class Mail

Randall Wilburn
3000 South IH 35, Suite 150
Austin, Texas 78704
512-535-1661
512-535-1678 Fax

The City of Bee Cave, Texas

Jim Haley

The Akers Law Firm

6618 Sitio Del Rio Blvd., Bldg E, Ste. 102

Austin, Texas 78730

512-810-2142

512-233-0801 Fax

Via First Class Mail

Hays County, Texas

Mark Kennedy

Office of General Counsel, Hays County

111 E. San Antonio St., Ste. 202

Austin, Texas 78701

512-393-2208

512-392-6500 Fax

Via First Class Mail

Definitions

“You” and “Your” refers to West Travis County Public Utility Agency (“PUA”) named as a Party to SOAH Docket No. 582-14-3382 by Order No. 1.

“West Travis County Public Utility Agency” or “PUA” refers to its officers, employees, agents, representatives, attorneys, and all other natural persons, businesses or legal entities, presently or formerly, acting in concert with, under the direct or indirect control of, or on behalf of the PUA.

“West Travis County Municipal Utility District No. 5” or “District 5” refers to its officers, employees, agents, representatives, attorneys, and all other natural persons, businesses or legal entities, presently or formerly, acting in concert with, under the direct or indirect control of, or on behalf of District 5.

“City of Bee Cave” or “City” refers to its officers, employees, agents, representatives, attorneys, and all other natural persons, businesses or legal entities, presently or formerly, acting in concert with, under the direct or indirect control of, or on behalf of the City of Bee Cave.

“Hays County, Texas” or “County” refers to its officers, employees, agents, representatives, attorneys, and all other natural persons, businesses or legal entities, presently or formerly, acting in concert with, under the direct or indirect control of, or on behalf of the County.

“Lower Colorado River Authority” or “LCRA” refers to its officers, employees, agents, representatives, attorneys, and all other natural persons, businesses or legal entities, presently or formerly, acting in concert with, under the direct or indirect control of, or on behalf of the LCRA.

The term "**Commission**" refers to the Texas Commission on Environmental Quality, an administrative agency of the State of Texas, and its Staff and Commissioners, natural persons employed by and working for the agency.

The term "**Staff**" as used herein refers to the natural persons employed by and working for the Texas Commission on Environmental Quality in any capacity.

"Document" and "Documents" are used herein in their broadest sense as set forth in Tex. R. Civ. P. 192.3(b), and specifically include electronic information or magnetic data as described in Rule 196.4. These words mean and include all written, printed, typed, recorded, or graphic matter of every kind and description, both original and copies, and all attachments and appendices. Without limiting the foregoing, the terms "Document" and "Documents" shall include all agreements, contracts, Communications, correspondence, letters, opinion letters, telegrams, telexes, telefaxes, messages, memoranda, records, reports, books, summaries or other records of telephone conversations or interviews, summaries or other records of personal conversations or interviews, minutes, summaries, or other records of meetings and conferences, statements obtained from witnesses, summaries or other records of negotiations, other summaries, diaries, diary entries, calendars, appointment books, time records, instructions, work assignments, forecasts, progress reports, statistical data, statistical statements, financial statements, work sheets, work papers, drafts, graphs, charts, tables, accounts, analytical records, consultants' and experts' reports, appraisals, bulletins, notes, notices, marginal notations, notebooks, telephone records, bills, statements, records of obligation and expenditure, invoices, lists, journals, printouts, compilations, tabulations, analyses, studies, surveys, expense reports, microfilm, microfiche, tape or disc recordings, sound recordings, video recordings, film, tape, photographs, programs and data compilations from which information can be obtained (including

matter used in data processing), and other printed, written, handwritten, typewritten, recorded, stenographic, computer-generated, computer-stored, magnetically-stored, optically-stored, or electronically stored matter and Electronic Information, however produced, prepared, reproduced, disseminated, made or stored in any data source. The words "Document" and "Documents" also include all copies of documents by whatever means made, except that where a document is produced, identical copies of it that do not contain any markings, additions, or deletions that are different from the original do not have to be separately produced.

The term "**Communication**" includes, without limitation of its generality, statements, discussions, conversations, speeches, meetings, remarks, questions, answers, panel discussions and symposia, whether written or oral. The term includes, without limitation of its generality, both communications and statements which are face-to-face and those which are transmitted by any media such as intercoms, telephones, television, radio, or computer including electronic information.

The term "**Electronic Information**" includes, without limitation, the following: databases, data files, program files (e.g. DOC, XLS, WPD files), image files (e.g. JPEG, TIFF, PDF files), email messages and files, voice mail messages and files, instant messaging messages, text messages, temporary files, system-history files, deleted files or emails, back up files and archival files, website files, website information stored in textual, graphical or audio format, cache files, and cookies.

The term "**Data Sources**" includes, without limitation, mainframe computers, network servers, internet ("web") servers, computers (including desktop, laptop and handheld computers), hard drives (including portable or temporary hard drives), flash drives (including thumb drives,

secure digital cards or other flash memory devices), email servers, handheld devices like personal digital assistants and cell phones or smart phones (e.g. iPhones, BlackBerrys).

The terms "**relate**" or "**relating**" to any given subject, when used to specify a document, communication, statement, or correspondence mean any document, communication, statement or correspondence that constitutes, contains, evidences, embodies, reflects, identifies, states, discusses, refers to, deals with, or is in any manner whatsoever pertinent to that subject.

The term "**identify**," when used in reference to a natural person means to provide his or her (1) full name and (2) present or last known position or business affiliation, job title, employment address, and telephone number (designating which).

The terms "**identify**" and "**describe**," when used in reference to facts, an event, or an **allegation**, means to include: (a) a detailed description of the facts, events, or allegation at issue; (b) the date or dates on which the facts or event occurred, or the time period involved in the events giving rise or relating to the allegation; (c) the name, address, telephone number, and affiliation of all persons involved in the facts, event, or allegation; and (d) the date, author, addressee or recipient, and type of document of any document relating to or concerning the event or allegation.

The term "**TCMUD 12 Petition**" means the Petition of Travis County Municipal Utility District No., 12 Appealing Change of Wholesale Water Rates Implemented by West Travis County Public Utility Agency, City of Bee Cave, Texas, Hays County, Texas and West Travis County Municipal Utility District No. 5, filed at the Commission on March 6, 2014, TCEQ Docket No., 2014-0439-UCR, transferred to SOAH and assigned SOAH Docket No. 582-14-3382.

The term **“Participant”** is defined as in the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement attached as Attachment C to the TCMUD 12 Petition, and includes, collectively: the City of Bee Cave, Texas; Hays County, Texas; and West Travis County Municipal Utility District No. 5.

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 12'S REQUESTS
FOR ADMISSION WEST TRAVIS COUNTY PUBLIC UTILITY AGENCY**

- 1-1 Admit or deny that Exhibit A attached hereto is a true and correct copy of the Water Resources Management presentation on the PUA's Cost of Service and Rate Design Study dated October 30, 2012.
- 1-2 Admit or deny that Exhibit B attached hereto is a true and correct copy of the final study used to set the FY 13 wholesale rates by the PUA.
- 1-3 Admit or deny that Exhibit C attached hereto is a true and correct copy of the final analysis used to set the FY 14 minimum bill for TCMUD 12 by the PUA.
- 1-4 Admit or deny that Exhibit D attached hereto is a true and correct copy of the final analysis used to set the FY 14 volumetric rate for TCMUD 12 by the PUA.
- 1-5 Admit or deny that Exhibit E attached hereto is the PUA's FYE 2014 Cost of Service and Rate Design Study -- Wholesale Customer-Minimum Bill Analysis for Rough Hollow.
- 1-6 Admit or deny that Exhibit F attached hereto is the West Travis County PUA History that accurately reflects information concerning the creation of the PUA.
- 1-7 Admit or deny that Attachment G to the TCMUD 12 Petition is a true and correct copy of the Utilities Installment Purchase Agreement (including Exhibits A through H) entered into by and between the LCRA and the PUA effective January 17, 2012.
- 1-8 Admit or deny that Attachment H to the TCMUD 12 Petition is a true and correct copy of the Agreement Regarding Transfer of Operations of the West Travis County Water System from the Lower Colorado River Authority, to the West Travis County Public Utility Agency entered into by and between the LCRA, TCMUD 12 and the WTCPUA to be effective as of March 19, 2012.
- 1-9 Admit or deny that Exhibit A to Attachment H to the TCMUD 12 Petition, the subject of RFA 1-7, is the same document as Attachment F to the TCMUD 12 Petition which is a true and correct copy of the Wholesale Water Services Agreement Between LCRA and TCMUD 12.
- 1-10 Admit or deny that the only "Participants" in the PUA are the City of Bee Cave, Hays County and WTCMUD 5.

- 1-11 Admit or deny that TCMUDs 11, 12 and 13 are within the PUA's Water Service Area as shown in Exhibit C of the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement.
- 1-12 Admit or deny that the PUA has a firm water contract with LCRA.
- 1-13 Admit or deny that the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement has been modified pursuant to Section 10.06 thereto.
- 1-14 Admit or deny that during the February 20, 2014 PUA Board meeting, the Board members decided that the PUA would not undertake a new rate study to set water rates for the wholesale customers.
- 1-15 Admit or deny that during the February 20, 2014 PUA Board meeting, the Board members decided that the PUA would not change the methodology for setting wholesale water rates from the methodology that was adopted in 2013 for the rates set for FY 2014.

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 12'S REQUESTS FOR
PRODUCTION TO WEST TRAVIS COUNTY PUBLIC UTILITY AGENCY**

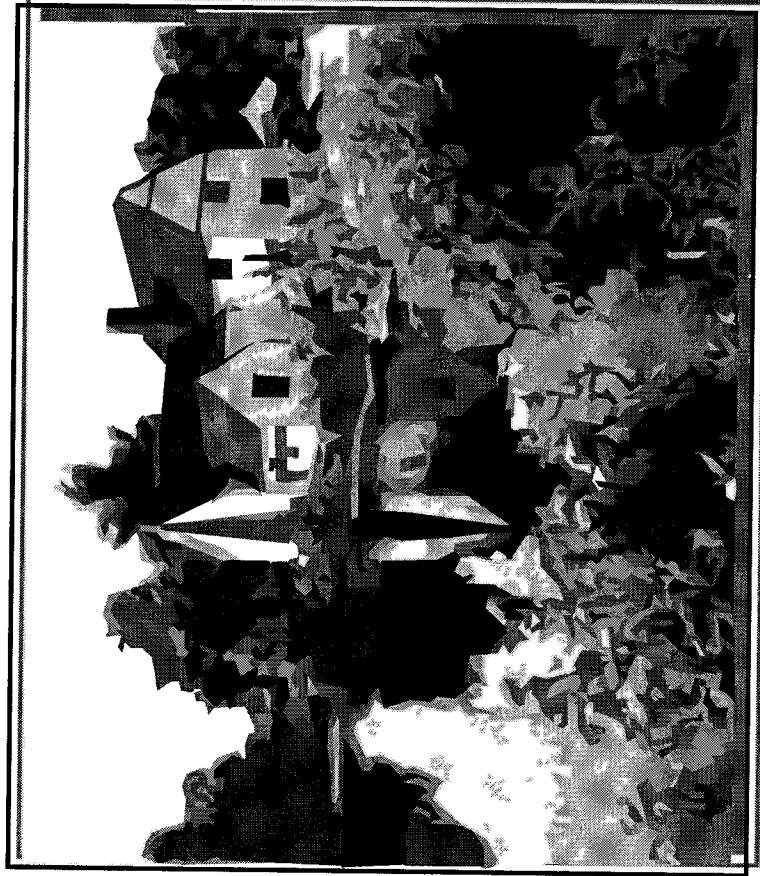
- 1-1 Provide in electronic spreadsheet form, with all links and formulae intact all workpapers for the PUA "Final Report – Wholesale Cost of Service and Rate Design Study" dated October 11, 2012, prepared by Water Resources Management, LLC, a copy of which is attached hereto as Exhibit B.
- 1-2 Provide any other supporting documents, including drafts, not included in the response to the previous question related to the "Final Report – Wholesale Cost of Service and Rate Design Study" dated October 11, 2012.
- 1-3 Provide the 2006 LCRA Cost of Service Study referenced in the attached Exhibit A at page 1 (PUA Cost of Service and Rate Design Study, dated October 30, 2012).
- 1-4 Provide all workpapers supporting the Minimum Bill Calculation for TCMUD 12 for FY 2014 dated August 22, 2013 (attached hereto as Exhibit C) in electronic spreadsheet form, with all links and formulae intact.
- 1-5 Provide any other supporting documents not included in the response to the previous question related to the Minimum Bill Calculation for TCMUD 12 for FY 14 dated August 22, 2013.
- 1-6 Provide all workpapers supporting the Volumetric Rate calculation for TCMUD 12 for FY 14 dated September 10, 2013 (attached hereto as Exhibit D) in electronic spreadsheet form, with all links and formulae intact.
- 1-7 Provide any other supporting documents not included in the response to the previous question related to the Volumetric Rate calculation for TCMUD 12 for FY 14 dated September 10, 2013.
- 1-8 Provide the final minimum bill calculation for each wholesale customer of PUA in the format similar to that used for TCMUD 12 in Exhibit C attached hereto.
- 1-9 Provide the packet detailing the draft minimum bill calculation for each of PUA's wholesale water customers prepared for and/or distributed at the wholesale customer meeting at the PUA's offices on May 6, 2013. (As an example, the packet for TCMUD 12 [aka Rough Hollow] is attached as Exhibit E.)
- 1-10 Provide all wholesale water contracts and amendments between the PUA and each of its wholesale customers, including all amendments and consent to transfer agreements.
- 1-11 Provide all PUA Board minutes from March 2012 through December 2013.
- 1-12 Provide all PUA documents, including notices, agendas, and minutes, as well as any transcripts or audio recordings, of every PUA meeting that included an executive session from March 2012 through December 2013. Provide all PUA correspondence with wholesale customers relating to water rate increases.

- 1-13 Provide all documents related to presentations made to the PUA's wholesale water customers related to water rate increases.
- 1-14 Provide all documents related to changed conditions experienced by the PUA related to wholesale water rate increases.
- 1-15 Provide all documents related to the PUA's changes in water revenue requirements or water rates from one methodology to another.
- 1-16 Provide all documents in the possession or control of the PUA related to the current rates charged in Texas by other sellers of water for resale.
- 1-17 Provide all documents showing the projected PUA retail water rates beyond 2014.
- 1-18 Provide all documents in the possession or control of the PUA showing sensitivity analyses of the variables and assumptions used to develop wholesale water rates.
- 1-19 Provide all documents that identify the "Participant's System" for Hays County, WTCMUD 5 and City of Bee Cave, as referenced in the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement.
- 1-20 Refer to the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement, at page 9, which states "each Participant's obligation to make such [Annual] payments shall be limited solely to the extent of revenues of each such Participant's System: Provide all documents that relate to the revenues of each of the three Participant's Systems.
- 1-21 Provide each Participant's current and historical information concerning the Participant's System, the financial conditions, results and prospects of the Participants, and such other information concerning the Participants as the PUA has deemed advisable for inclusion in the Sale and Offering Documents for the Bonds of each series, as referenced in Section 2.13 of the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement.
- 1-22 Provide all documents that identify the City of Bee Cave's "service area", as that term is used in Article IV of the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement.
- 1-23 Provide all documents that identify the Hays County's "service area", as that term is used in Article IV of the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement.
- 1-24 Provide all documents that identify the WTCMUD 5's "service area", as that term is used in Article IV of the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement.
- 1-25 Provide all documents that identify the customers of the City of Bee Cave's to whom the PUA renders bills, and collects and receives payments, as referenced in Section 4.03 of the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement.

- 1-26 Provide all documents that identify the customers of Hays County's to whom the PUA renders bills, and collects and receives payments, as referenced in Section 4.03 of the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement.
- 1-27 Provide all documents that identify the customers of WTCMUD 5's to whom the PUA renders bills, and collects and receives payments, as referenced in Section 4.03 of the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement.
- 1-28 Provide all documents that identify which Participant's customer TCMUD 12 is under the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement.
- 1-29 Provide all documents that relate to the PUA's annual re-determination of each Participant's Proportionate Share of the Annual Payment, as required by Exhibit A of the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement.
- 1-30 Provide a copy of the PUA's firm water contract with LCRA.
- 1-31 If the PUA admits RFA No. 1-13, then produce all documents related to the modification of the Acquisition, Water Supply, Wastewater Treatment and Conditional Purchase Agreement.

Cost of Service and Rate Design Study:

Exhibit A



**West Travis County
Public Utility
Agency**



Water Resources
Management, LLC

**Presented By:
Water Resources Management, LLC
(512) 420-9841
info@wrmlp.com**

October 30, 2012

Additional Research

Exhibit A



- Last wholesale rate increase in 2006/2007
- Last retail rate increase was in 2008
- Agency proposed 31% wholesale rate increase represents effective annual increase of 5.5%
- Current wholesale and retail rates based on cost of service study performed by LCRA in 2006

Additional Research

Exhibit A



- Proportionate share of consumption on the system
- Wholesale customers' consumption have grown more than retail since 2007

| Gallons Billed | LCRA 2007 | PUA 2013 |
|----------------|---------------|---------------|
| Wholesale | 421,997,857 | 754,994,445 |
| Total System | 1,283,862,345 | 1,780,395,270 |
| % Wholesale | 33% | 42% |

Additional Research

Exhibit A



- O&M costs increased by 77.6% since 2007 (LCRA versus Agency)
- O&M costs allocated to wholesale customers are in proportion to LCRA allocations
- LCRA FYE2010 actual O&M = \$8,735,918

| O&M | LCRA 2007 | | PUA 2013 | |
|--------------------------|-----------|-----------|----------|-----------|
| Wholesale Allocation | \$ | 982,239 | \$ | 1,699,305 |
| Total System Costs | \$ | 3,726,322 | \$ | 6,617,426 |
| % Allocated to Wholesale | | 26% | | 26% |

Additional Research

Exhibit A

- Annual debt service increased by 27.9% since 2007
- Annual debt service allocated to wholesale customers is similar to LCRA allocations
- LCRA FYE2010 actual O&M = \$8,215,945
- LCRA FYE2013 Budget = \$10,165,602

| Debt Service and Times Coverage | | LCRA 2007 | PUA 2013 |
|---------------------------------|----|-----------|--------------|
| Wholesale Allocation | \$ | 1,142,967 | \$ 1,629,463 |
| Total System Costs | \$ | 5,753,448 | \$ 7,357,752 |
| % Allocated to Wholesale | | 20% | 22% |

Additional Research

Exhibit A



- ◆ **Future rate increases likely due to:**
 - ◆ **Inflation**
 - ◆ **Annual increases in existing debt payments**
 - ◆ **Future debt associated with CIP not funded by impact fees**

Next Steps

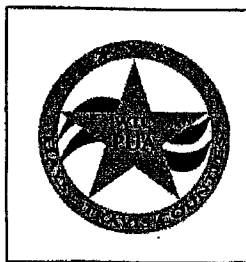
Exhibit A



- ◆ **Work session to review detailed work papers immediately following this meeting**
- ◆ **Consulting team will be available to meet with any concerned parties to review detailed work papers, answer additional questions, or have additional discussions**
- ◆ **Increase for wholesale and effluent/raw water contract customers, anticipated effective date of January 1, 2013**
- ◆ **Date for board action regarding increase scheduled for November 15, 2012**

Exhibit A

Questions?



WEST TRAVIS COUNTY PUBLIC UTILITY AGENCY

12117 Bee Cave Road
Building 3, Suite 120
Bee Cave, Texas 78738
Office: 512/263-0100
Fax: 512/263-2289
www.wtcpua.org

October 12, 2012

RE: Wholesale Water and Wastewater Cost of Service Study

Dear Wholesale Customer:

On October 1, 2012, the West Travis County Public Utility Agency (the "Agency" or "WTCPUA") provided you with notice that the WTCPUA Board of Directors is considering action to increase wholesale water and wastewater rates, anticipated to be effective January 1, 2013. As stated in that letter, the Agency is now providing you with the WTCPUA Wholesale Cost of Service Study, enclosed with this letter.

As a reminder, the WTCPUA is hosting a meeting for wholesale customers to discuss the preliminary results of the WTCPUA's Cost of Service Study. Details of the meeting are as follows:

**Meeting of WTCPUA Wholesale Customers
Friday, October 19, 2012
10:00 a.m.**

The customer meeting will be held at the WTCPUA's offices at 12117 Bee Cave Road, Building 3, Suite 120, Bee Cave, Texas 78738. For questions, please contact the WTCPUA offices at (512) 263-0100.

A summary of the WTCPUA's Wholesale Cost of Service Study is available on the WTCPUA website at www.wtcpua.org.

MAILING LIST

FOR DEER CREEK RANCH:

Mr. Sam Hammett
P.O. Box 436
Dripping Springs, Texas 78620

Mr. Randy Wilburn
Wilburn Consulting, LLC
7408 Rain Creek Parkway
Austin, Texas 78759
WilburnConsulting@austin.rr.com

FOR THE UPLANDS COMPANY:

Attn: Ms. Gina Lardon
GTL Management
1250 Capital of Texas Highway South
Cielo Building 2 #337
Austin, Texas 78746

Mr. Ronald J. Freeman
Freeman & Corbett
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Austin, Texas 78759
rfreeman@freemanandcorbett.com

Ms. Mary Lemmons
RTC-Denver
1515 Araphoe Street
Tower 3, Suite 800
Denver, Colorado 80202

FOR BARTON CREEK WEST WATER SUPPLY CORP.:

Ms. Suzanne Swenson, President
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P.O. Box 150068
3910 Capistrano
Austin, Texas 78739

Mr. Keith Shuley
Cox Smith
111 Congress Avenue, Suite 2800
Austin, Texas 78701
kshuley@coxsmith.com

FOR CRYSTAL MOUNTAIN HOA:

c/o Linda McLean
907 Crystal Mountain Drive
Austin, Texas 78733

Jerri Strain
jlstrain@aquaamerica.com

FOR EANES ISD:

601 Camp Croft Road
Austin, Texas 78746

FOR TRAVIS COUNTY MUD NO. 12:

c/o Ms. Sue Littlefield
Armbrust & Brown, LLP
100 Congress Avenue, Ste. 1300
Austin, Texas 78701
Slittlefield@abaustin.com

FOR TRAVIS COUNTY WCID NO. 17:

Ms. Deborah S. Gernes
General Manager
3812 Eck Lane
Austin, Texas 78734
DebbieGernes@wcid17.org

FOR LAZY NINE MUD:

Mr. William T. Gunn, III
Gunn & Whittington Development Co.
6836 Bee Caves Road, Suite 400
Austin, Texas 78746

Mr. Steve Robinson
Allen Boone Humphries Robinson, LLP
Phoenix Tower
3200 Southwest Freeway
Suite 2600
Houston, TX 77027
srobinson@abhr.com

FOR HAYS COUNTY WCID NO. 1:

Attn: President, Board of Directors
c/o Andrew Barrett
Barrett & Associates PLLC
3006 Bee Caves Rd., Ste. D-310
Austin, Texas 78746

abarrett@barrettsmithlaw.com

FOR HAYS COUNTY WCID NO. 2:

Attn: President, Board of Directors
c/o Matthew B. Kutac
Barrett & Associates PLLC
3006 Bee Caves Rd., Ste. D-310
Austin, Texas 78746

FOR DRIPPING SPRINGS WSC:

Mr. Ron Kelly
President, Board of Directors
PO Box 354
Dripping Springs TX 78620
rkelly@drippingspringswater.com

Mr. Phil Haag
McGinnis Lochridge & Kilgore LLP
600 Congress Ave, Ste. 2100
Austin TX 78701
phaag@mcginnislaw.com

FOR CITY OF DRIPPING SPRINGS:

Attn: Ms. Michelle Fisher, City Administrator
P.O. Box 384
Dripping Springs, Texas 78620-0384
mfischer@cityofdrippingsprings.com

Attn: Mayor Todd Purcell
P.O. Box 384
Dripping Springs, Texas 78620-0384

Ms. Susan Zachos
901 South Mopac Exwy
Barton Oaks Plaza One
Suite 300
Austin TX 78746
zachos@zachoslaw.com

FOR HAYS REUNION RANCH, LP:

Attn: Mr. William C. Bryant
700 Lavaca, Suite 900
Austin, Texas 78701

Ms. Robin Melvin
Graves, Dougherty, Hearon & Moody
515 Congress Avenue, Suite 2300
Austin, Texas 78701
RMelvin@gdhm.com

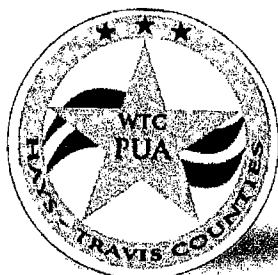
Mr. Mike Willatt
Willatt & Flickinger
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mwillatt@wfaustin.com

FOR SENNA HILLS MUD:

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Willatt & Flickinger
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mwillatt@wfaustin.com

Mr. Jeff Garrett
Severn Trent Services, Inc.
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jgarrett@stes.com

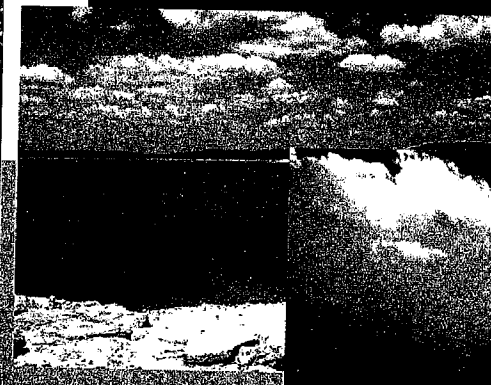
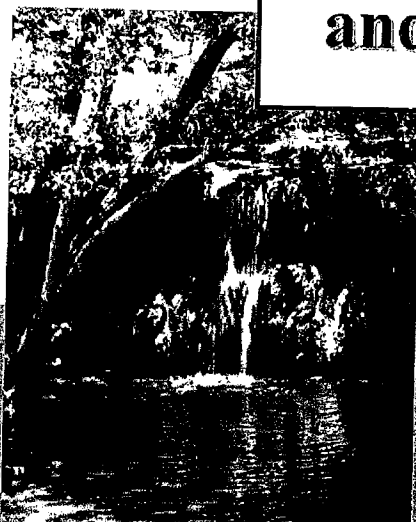
October 11, 2012
Prepared for:



West Travis County
Public Utility Agency

Final Report

Wholesale Cost of Service and Rate Design Study



Prepared by



Water Resources
Management, LLC

8705 Shoal Creek Blvd., Suite 101, Austin, TX 78757

Phone (512) 420-9841

Fax (512) 420-9237



Water Resources Management, LLC

Exhibit B

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

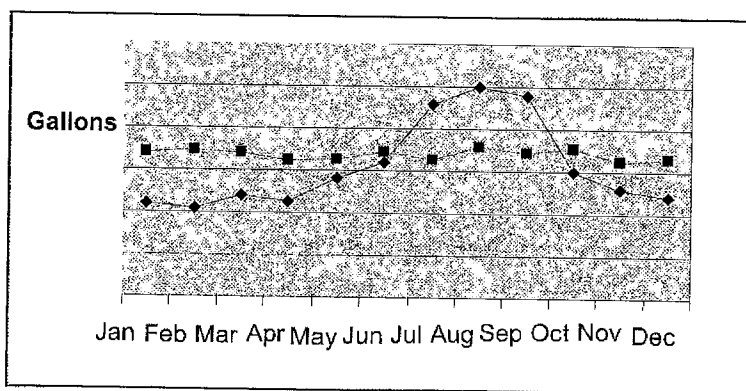
Rate Setting Theory:

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

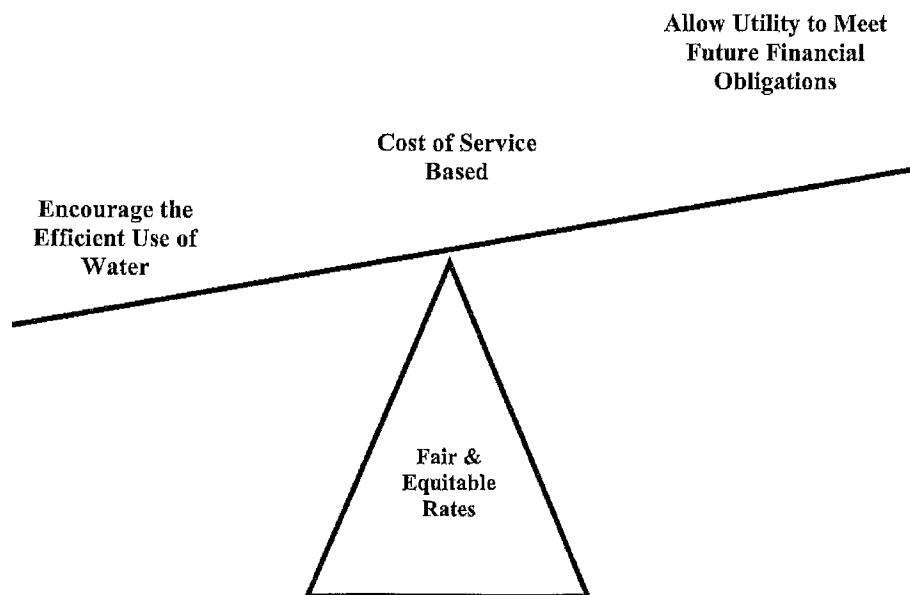


The customers represented by the blue line in Figure 1 show a dramatic peaking pattern in summer months. This peak pattern commonly occurs with customers who, for example, irrigate during the summer. The customers represented by the pink line show very little deviation in their month-to-month usage. 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.

Customer Growth and Billing Units - Water

Customer Growth

Population projections for the Agency can vary depending on the assumptions used in developing the projections. In estimating future growth patterns, projections are typically based on historical information and recent growth trends. Population projections are necessary because the projected water and wastewater volumes are directly tied to the existing number of customers and the projected growth in new customer accounts. It is important to recognize in forward-looking rate making that the system is anticipated to grow. As such, it is appropriate to assume some system growth in the coming year.

In reviewing historical growth for the Agency, the project team made assumptions as to future growth on the system, as outlined on Table 4.

Table 4: Projected Customer Count

| FYE 2013 | |
|-------------------------------------|-------|
| Total Residential | 5,048 |
| Total Commercial | 260 |
| Total Irrigation | 113 |
| Total Multi-Family | 34 |
| Total Construction | 12 |
| Total Wholesale, without raw water | 8 |
| Total Wholesale, raw water purchase | 2 |
| | 5,477 |

Billing Unit Projection

Billing units, otherwise known as water consumption, are projected by analyzing historical usage for each customer classification. Billing units are projected by establishing a "normalized" average usage per connection per month and applying that usage to the projected customer count to establish a projection of consumption for each customer class.

The project team reviewed historical water consumption data for each customer class for the prior three years and compared the average usage per connection for each year. In developing projections of future demands, WRM attempts to "normalize" the data. Ideally, projections should be made for "normal" operating conditions. The projected water consumption for FYE 2013 is presented below:

Table 5: Projected Water Consumption (Thousand Gallons)

| | 2013 |
|-------------------------------------|---------------|
| Total Residential | 794,887,329 |
| Total Commercial | 99,683,570 |
| Total Irrigation | 75,147,560 |
| Total Multi-Family | 29,795,870 |
| Total Construction | 30,172,950 |
| Total Wholesale, without raw water | 586,130,000 |
| Total Wholesale, raw water purchase | 141,476,000 |
| | 1,757,293,279 |

Water Rate Design

By comparing the Agency's projected revenue recovery at currently effective rates to the revenue requirements for wholesale customers, WRM determined that the Agency is projected to under-recover from wholesale customers by 31%, as outlined on Table 6.

Table 6: Summary of Wholesale Revenue Recovery at Current Rates

| | Cost of Service | Projected Revenues at Current Rates | Projected Over/(Under) | Percent Over/(under) Recovery |
|-----------------|-----------------|-------------------------------------|------------------------|-------------------------------|
| Total Wholesale | \$ 3,340,366 | \$ 2,549,898 | \$ (790,468) | 31% |

Minimum Bill

In order to achieve full cost recovery from wholesale water customers, a 31% increase to both the minimum charge and the volumetric charge for the Agency's wholesale customers is necessary. Table 7 outlines the recommended minimum bill for each wholesale customer.

Table 7: Recommended Minimum Bill

| Minimum Bill | Current | FYE 2013 |
|---------------------------------|--------------|--------------|
| CRYSTAL MOUNTAIN HOA, INC. | \$ 655.00 | \$ 858.05 |
| DEER CREEK RANCH WATER CO., LLC | \$ 2,500.00 | \$ 3,275.00 |
| DRIPPING SPRINGS WSC | \$ 4,548.00 | \$ 5,957.88 |
| EANES ISD | \$ 175.00 | \$ 229.25 |
| HAYS COUNTY WCID #1 | \$ 7,450.00 | \$ 9,759.50 |
| REUNION RANCH WCID | \$ 3,190.00 | \$ 4,178.90 |
| SENNA HILLS MUD #1 | \$ 3,730.00 | \$ 4,886.30 |
| BARTON CREEK WEST WSC | \$ 2,167.00 | \$ 2,838.77 |
| HAYS COUNTY WCID #2 | \$ 6,515.00 | \$ 8,534.65 |
| CITY OF DRIPPING SPRINGS | \$ 7,000.00 | \$ 9,170.00 |
| LAZY NINE MUD #1A | \$ 10,200.00 | \$ 13,362.00 |
| TRAVIS COUNTY MUD #12 | \$ 9,430.00 | \$ 12,353.30 |

Volumetric Rate

Table 8 below outlines the required volumetric rates for the Agency's wholesale water customers to meet full cost recovery.

Table 8: Recommended Volumetric Rate

| Volumetric Rate | Current | FYE 2013 |
|-------------------------------|---------|----------|
| Customers With own Raw Water | \$ 2.40 | \$ 3.14 |
| Customers Using PUA Raw Water | \$ 2.86 | \$ 3.75 |

Section 3.0 Wastewater- Methodology and Findings

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