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SOAH DOCKET NO. 473-14-5138
PUC DOCKET NO. 42857

PETITION OF NORTH AUSTIN § BEFORE THE STATE OFFICE
MUNICIPAL UTILITY DISTRICT NO. 1, §
NORTHTOWN MUNICIPAL UTILITY §
DISTRICT, TRAVIS COUNTY WATER §
CONTROL AND IMPROVEMENT §
DISTRICT NO. 10 AND WELLS § OF
BRANCH MUNICIPAL UTILITY §
DISTRICT ("PETITIONERS"), FROM §
THE RATEMAKING ACTIONS OF THE §
CITY OF AUSTIN AND §
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DIRECT TESTIMONY

OF

JAY JOYCE

ON BEHALF OF PETITIONERS
OCTOBER 17, 2014

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OF JAY JOYCE, WITNESS FOR
PETITIONERS**

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- Exhibit JJJ-2 Joyce List of Utility Proceedings
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- Exhibit JJJ-5 Joyce Testimony Work Papers
- Exhibit JJJ-6 Joyce Water Model Work Papers
- Exhibit JJJ-7 Joyce Wastewater Model Work Papers

**DIRECT TESTIMONY
OF JAY JOYCE, WITNESS FOR
PETITIONERS**

1 **I. INTRODUCTION, POSITION, AND QUALIFICATIONS**

2
3 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT**
4 **EMPLOYMENT POSITION.**

5 A. My name is Jay Joyce. My business address is Expergy[®], 325 N. St. Paul Street,
6 Suite 2100, Dallas, Texas 75201. I am president of Expergy, which provides expert
7 consulting services to the energy and utility industries.
8

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
10 **PROFESSIONAL EXPERIENCE.**

11 A. Exhibit JJJ-1 is a true and correct copy of my professional resume. I graduated from
12 the University of Texas in 1986 with a Bachelor of Business Administration degree
13 in Finance. In 1989, I earned a Master of Business Administration degree from
14 Southern Methodist University. While at Southern Methodist University, I was
15 employed by Reed-Stowe & Co. as a Senior Consultant. In 1995, I joined the
16 Management Consulting division of Deloitte & Touche LLP (now Deloitte
17 Consulting) as a Manager. In 1997, I was promoted to Senior Manager. My
18 responsibilities included project management for a wide range of utility-related
19 projects including valuations, merger and acquisition analyses, merger synergy
20 analyses, cost of service studies, management audits, cash working capital studies,
21 and preparation of expert testimony before various commissions, courts, and other
22 governmental authorities.
23

24 In January 2003, I resigned from Deloitte to join Management Applications
25 Consulting ("MAC"), a small professional services firm specializing in utility rate
26 matters. In 2004, several MAC partners and I formed Alliance Consulting Group, a
27 professional services firm headquartered in Dallas and focused on the utility

1 industry. In 2008, I sold my interest in the Alliance partnership, and I launched my
2 own consulting firm, Expergy.

3
4 **Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION?**

5 A. Expergy provides expert consulting services to the energy and utility industries.
6 These services include utility cost of service studies, cost allocation, cash working
7 capital studies, valuation studies, rate case assistance, expert testimony, and other
8 related consulting services.

9
10 As President of Expergy, my responsibilities include preparing and presenting
11 analyses relating to utility pricing and rate matters; cost of service and revenue
12 requirement issues; cash working capital studies; customer and weather
13 normalization; and other gas, electric, water, and wastewater related matters.

14
15 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
16 **PUBLIC UTILITY COMMISSION OF TEXAS (“PUCT” OR**
17 **“COMMISSION”)?**

18 A. Yes. I have previously testified and submitted written testimony to the Commission
19 in numerous proceedings. Additionally, I have previously testified or submitted
20 written testimony before other regulatory agencies and courts, both in Texas and in
21 other states. Exhibit JJJ-2 provides a list of the utility proceedings in which I have
22 appeared as an expert witness, participated as an expert, or made formal
23 presentations regarding utility matters.

24
25 **Q. WHAT EXHIBITS HAVE YOU PREPARED IN SUPPORT OF YOUR**
26 **TESTIMONY?**

27 A. My direct testimony and testimony exhibits JJJ-1 through JJJ-4, JJJ-6, JJJ-7 and
28 portions of JJJ-5 were prepared by me or under my direction, supervision, or control
29 and are true and correct to the best of my knowledge.
30

1 **Q. HAVE YOU PREPARED ANY OTHER DOCUMENTS TO SUPPORT YOUR**
2 **TESTIMONY?**

3 A. I have gathered or summarized various documents from the City's direct prefiled
4 testimony, the City's responses to Petitioners' discovery requests or the City's
5 website as my testimony work papers, which are attached as Exhibit JJJ-5. Except
6 for the summaries prepared by me, the documents in JJJ-5 were prepared by others,
7 and I have no personal knowledge of whether the documents are either true or
8 correct. I assumed the documents were true and correct for purposes of rendering
9 my opinions. The copies of the documents in JJJ-5 also include some hand written
10 notations that I made while I was reviewing them.

11
12 **Q. WHAT HAVE YOU REVIEWED IN ORDER TO PREPARE YOUR**
13 **TESTIMONY AND RENDER YOUR OPINIONS?**

14 A. I reviewed all of the City's prefiled direct testimony and exhibits, which I assumed to
15 be true and correct for purposes of my testimony and opinions. I reviewed the City's
16 responses to the Petitioners' discovery requests that were provided to me by counsel
17 for the Petitioners. I reviewed the pleadings that have been filed in this matter. I
18 reviewed data and reports that are available on the City's website.

19
20 The data and documents that I reviewed are the type of data and documents that rate
21 consultants generally rely upon when determining the reasonableness of the cost of
22 service prepared for a utility.

23
24 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

25 A. I am testifying on behalf of North Austin Municipal Utility District No. 1, Northtown
26 Municipal Utility District, Travis County Water Control and Improvement District
27 No. 10, and Wells Branch Municipal Utility District ("Petitioners").

II. PURPOSE OF DIRECT TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to discuss the errors in the City of Austin's cost of service determinations for the Petitioners, which are all wholesale customers of the City of Austin. I will identify certain adjustments that are required to the City of Austin's requested water and wastewater costs of service filed before the Commission.

III. INTRODUCTION

Q. WHAT DID YOU DO TO DETERMINE WHETHER THE CITY'S COST OF SERVICE PROPOSALS WERE REASONABLE?

A. I began with a general review of information that is publicly available regarding the City's costs of providing water and wastewater service and then reviewed the information provided by the City in response to the Petitioners informal requests for information. I was reviewing the City's information in order to determine whether the City's cost of service contained any costs that should not have been included. The City's cost of service is the basis for the City's calculation of rates for its various customer classes. I became concerned when, after my initial review, it appeared to me that the City was, in fact, including costs that were unrelated to providing water or wastewater service in its cost of service used for the Petitioners' wholesale water and wastewater rates. While the City may choose to include many costs unrelated to the cost of utility service in the retail rates it charges to the City's own residents and businesses, general ratemaking principles and the rules and regulations in Texas prohibit the City from including costs that are unrelated to providing utility service to the wholesale customers in the City's cost of service for those wholesale customers. My initial findings concerned me, and I concluded that a more detailed analysis of the City's data should be undertaken.

1 **Q. HOW DID YOU APPROACH YOUR DETAILED REVIEW OF THE CITY'S**
2 **DATA?**

3 A. Before proceeding with my review, and even though the City does not provide any
4 evidence of the reasonableness or necessity of true costs that are included in its cost
5 of service study, I assumed that all of the data and information provided by the City
6 was true and correct. The City's water and wastewater rates are based on a water
7 allocation model and a wastewater allocation model. The City refused to provide
8 Excel versions of the models, so I was forced to use the PDF versions to rebuild the
9 models for analysis. I was able to rebuild the cost allocation models to tie to the
10 City's versions. In order to try to understand the costs of service, the Petitioners
11 asked numerous discovery questions of the City. Although the City objected to
12 virtually every request, I did review the limited data that the City was willing to
13 provide.

14

15 **Q. WHY DID YOU MAKE THE ASSUMPTION THAT THE DATA PROVIDED**
16 **BY THE CITY WAS TRUE AND CORRECT?**

17 A. In my work, I rely upon many documents that I do not prepare or have personal
18 knowledge of. Consequently, I have to assume that the information and data that I
19 review is true and correct, but I do not review the document or data to determine its
20 truthfulness or correctness.

21

22 **Q. WHAT ARE YOUR IMPRESSIONS OF THE CITY'S PROPOSED WATER**
23 **AND WASTEWATER COSTS OF SERVICE?**

24 A. Based upon the information provided in the City's prefiled testimony and exhibits,
25 the City does not seem to grasp the fact that it has the burden of proof. Its general
26 premise is that inclusion of costs in the models means those costs should
27 automatically be considered reasonable. The allocation models have many pages of
28 input data, but nowhere in the City's testimony or in discovery responses does the
29 City attempt to justify the reasonableness and necessity of those costs to provide
30 service to Petitioners. The City has intentionally made the process of rate
31 development so unnecessarily complicated that it is almost impossible to follow

1 costs through the allocation process. We absolutely cannot start with the assumption
2 that the City's general approach is acceptable. In my testimony, I address numerous
3 examples of costs that the City has tried to "sneak" into its cost of service, and these
4 are only the ones I was able to discover given the City's unwillingness to cooperate
5 with discovery. This undoubtedly represents just an initial scratch in the surface of
6 the City's secretive approach to ratemaking.
7

8 **Q. HAVE YOU ADDRESSED EVERY AREA IN THE CITY'S TESTIMONY**
9 **WHERE YOU MAY HAVE DISAGREEMENT?**

10 A. No. I did not address every point where I may disagree. The fact that I have not
11 addressed some portion of the application or testimony does not imply that I am in
12 agreement.

1 **Q. WHAT IS THE CITY REQUESTING IN THIS PROCEEDING?**

2 **A.** The City is requesting a total revenue requirement of \$264,922,766 for its water
3 utility and \$231,626,292 for its wastewater utility. The City is requesting the
4 following from the individual Petitioners: ¹

Petitioner	AWU Requested Petitioners' Cost of Service		
	Water	Wastewater	Total
North Austin MUD	\$ 1,605,767	\$ 1,543,918	\$ 3,149,685
Northtown MUD	1,204,825	1,243,777	2,448,602
Water District 10 *	3,635,338	-	3,635,338
Wells Branch MUD	2,001,230	2,106,357	4,107,587
Total	<u>\$ 8,447,160</u>	<u>\$ 4,894,052</u>	<u>\$13,341,212</u>

* Water only

¹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Healy Exhibits 3,5,7,9,11,13,and 15, and Meszaros Direct, Exhibit 19, Table 296 and Meszaros Direct, Exhibit 21, Table 274

1 **IV. ORGANIZATION OF TESTIMONY**

2
3 **Q. HOW HAVE YOU ORGANIZED THE REMAINDER OF THIS**
4 **TESTIMONY?**

5 A. In the next section I discuss my recommended adjustments that affect both water and
6 wastewater costs of service. The following section addresses issues that only affect
7 water, and the next section after that addresses wastewater-only issues. Finally, I
8 discuss the water and wastewater cost of service models that I developed to
9 incorporate Petitioners' recommendations.
10

11 **V. ISSUES AFFECTING BOTH WATER AND WASTEWATER**

12
13 **A. AWU Concessions**

14
15 **Q. PLEASE EXPLAIN YOUR FIRST ADJUSTMENT.**

16 A. In the prefiled testimony of David Anders, he admits the AWU water and wastewater
17 rates are not based on the cost of service.² He conceded that the wholesale AWU
18 water and wastewater rates contained costs that should not have been allocated to
19 wholesale customers. In the testimony of Greg Meszaros, he proposes adjustments
20 to remove the following Water system costs, to which I concur:

- 21 a. Sustainability Fund (Transfer from Water Utility Fund)
22 b. Economics Incentives Reserve Fund (Transfer from Water Utility Fund)
23 c. PARD-CIP – Swimming Pools (Transfer from Water Utility Fund)
24 d. Environmental Remediation Fund (Transfer from Water Utility Fund)
25 e. Land Management Division (O&M in Water Utility Fund)
26 f. Balcones Canyonland Preserve(O&M in Water Utility Fund)
27 g. Reicher Ranch(O&M in Water Utility Fund)
28 h. Bad Debt Expense(O&M in Water Utility Fund)
29 i. Accounts receivable leak adjustment (O&M in Water Utility Fund).³

² See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, pp.34 and Anders Direct, pp-51-62

³ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 24, Bates 6665

1 He also proposes removing the following wastewater system related costs, to which I
2 also concur:

- 3 a. Sustainability Fund (Transfer from Wastewater Utility Fund)
- 4 b. Economics Incentives Reserve Fund (Transfer from Wastewater Utility
5 Fund)
- 6 c. Environmental Remediation Fund (Transfer from Wastewater Utility Fund)
- 7 d. Bad Debt Expense(O&M in Wastewater Utility Fund)
- 8 e. Accounts receivable leak adjustment (O&M in Wastewater Utility Fund).⁴

9
10 **B. Reclaimed Water System - Capital Adjustments**

11
12 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

13 A. This adjustment removes capital costs related to Reclaimed Water System assets in
14 both the Water and Wastewater rates.

15
16 **Q. What are those assets?**

17 A. The City's water cost of service includes capital attributed to the following reclaimed
18 water system components:⁵

Asset Description	Net Asset Value Included in Water Rate Calculations
Central/Northeast Reclaimed Water System	\$4,968,980
South Reclaimed Water Plan	155,364
Central/Northeast Reclaimed Water System	3,502
Walnut Creek Reuse Pump Station	6,715,617
Walnut Creek Reuse Pump Station	797,062
Water Reclamation Control Phase 1	7,001,964
Water Reclamation North Water Pressure Zone Phase 3	5,432,860
Reclamation Extension East of IH35	809,106
10,000 Ft 24-in Reclaimed Water Main	666,898
Total In Water System	<u>\$26,551,353</u>

⁴ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 24, Bates 6666

⁵ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Generated by Mr. Joyce From City's Response to RFP 2-113

1 The City's wastewater cost of service includes capital attributed to the following
2 reclaimed water system components:⁶

Asset Description	Net Asset Value Included in Wastewater Rate Calculations
South Austin Regional WWTP Reclaimed Water Pump Station	\$ 7,867,191

3
4 The debt service included in rates for these assets is \$1,780,346 for the water system.
5 The cash capital outlay included in rates for these assets is \$802,919 for the water
6 system, and the depreciation expense included in rates is \$746,327 for the water
7 system. The impact on wastewater debt service, cash capital outlays, and
8 depreciation has not been quantified here.

9
10 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

11 A. AWU provides three primary services—water, wastewater, and reclaimed (aka
12 reuse) water. The City unfairly overburdens the water and wastewater utilities with
13 costs in order to subsidize the reclaimed water utility.

14
15 **Q. DOES THE CITY PROVIDE ANY RATIONALE FOR INCLUDING COSTS
16 RELATED TO THE RECLAIMED WATER SYSTEM IN WATER AND
17 WASTEWATER RATES?**

18 A. Yes. In Mr. Anders' direct testimony⁷, he states that, "The reclaimed water system is
19 funded in part from transfers from the water and wastewater utility funds."

20

⁶ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Generated by Mr. Joyce From City's Response to RFP 3-94

⁷ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Anders Direct, p. 15, lines 5-6

1 **Q. MR. ANDERS ALSO CLAIMS THAT, "THE RECLAIMED WATER**
2 **REVENUES BENEFIT ALL CUSTOMERS AND REDUCE THE NEED FOR**
3 **WATER AND WASTEWATER SERVICE REVENUE."**⁸ **DO YOU AGREED**
4 **WITH HIS STATEMENT?**

5 A. No, while it may have been true in 2008 when the Red Oak Rate Study was
6 conducted, it was not true in 2013 or today. Specifically, in the 2008 Study all
7 wastewater customers shared in \$7,364 of reclaimed water revenues⁹, and on water
8 Table B-7, all water customers shared in \$348,092 in reclaimed water revenues¹⁰.
9 However, in the FY 2013 Cost of Service Study \$0 in reclaimed water revenues is
10 allocated to any wastewater customers¹¹ and \$0 to any water customers¹².
11

12 **Q. WHAT TYPES OF RECLAIMED WATER SYSTEM COSTS ARE**
13 **INCLUDED IN THE PETITIONERS' WATER AND WASTEWATER**
14 **RATES?**

15 A. Allocated costs include the following:
16 1. Direct transfer to the reclaimed utility fund
17 2. "Other Costs"
18 3. Capital Costs
19

20 **Q. WHAT BENEFITS DO PETITIONERS RECEIVE FROM THE RECLAIMED**
21 **WATER SYSTEM?**

22 A. None.
23

24 **Q. WHAT IS THE PURPOSE OF YOUR ADJUSTMENT RELATED TO THE**
25 **RECLAIMED WATER SYSTEM?**

26 A. To remove these costs.

⁸ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Anders Direct, p. 15, lines 6-7

⁹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 17, Wastewater Table C-7

¹⁰ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 17, Water Table B-7

¹¹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 21, Table 62

¹² See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 19, Table 111

1 **Q. DOES THE CITY PROVIDE EVIDENCE THAT THE RECLAIMED WATER**
2 **SYSTEM DOES NOT COVER ITS COSTS?**

3 A. Yes. AWU provided data in response to a Councilmember's question regarding the
4 cost of the reclaimed water system: "Austin water has estimated the total annual
5 costs and revenue of the reclaimed water system shown below:

6	Total Reclaimed Water System Costs (FY 12)	\$7.3 million
7	Less: Projected Reclaimed Water Revenue	<u>\$0.9 million</u>
8	Net Reclaimed Water System Costs	<u>\$6.4 million.</u> " ¹³

9
10 **C. Transfer to the Reclaimed Utility Fund**

11
12 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

13 A. This adjustment eliminates the transfers to the reclaimed utility fund. The total is
14 \$1,920,000, which is \$960,000 each for the water system and wastewater system¹⁴,
15 comprised of \$480,000 in O&M and \$480,000 in capital costs for each system.

16
17 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

18 A. This adjustment is necessary to remove costs related to assets and activities that are
19 not necessary to provide service to wholesale customers.

20
21 **Q. PLEASE EXPLAIN.**

22 A. The basis is discussed in the previous section.

23
24 **D. "Green Choice" (Wind Power) Electricity**

25
26 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

27 A. According to the testimony of Mr. Anders, the switch by AWU to "Green Choice"
28 (wind power) electricity resulted in an unnecessary increase of \$4 million in the

¹³ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, 2011-2012 Financial Forecast Response to Request for Information No. 12:
http://www.ci.austin.tx.us/budget/cbq/index.cfm?action=pushFile&popup=true&FILE_ID=2253CCDE

¹⁴ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 2-112, Meszaros Direct, Exhibit 19 Tables 103 and 110, and Meszaros Direct, Exhibit 21 Tables 54 and 61

1 water and wastewater Cost of service for 2013¹⁵. This results in a reduction of
2 \$2,779,151 in water and \$1,843,493 wastewater costs¹⁶.

3
4 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

5 A. This adjustment is necessary to remove costs related to assets and activities that are
6 not reasonable or necessary to provide service to wholesale customers.

7 **E. Reversal of Austin's Proposed Reclassification of SWAP Debt**
8 **Administration and Commercial Paper Administration from Capital to**
9 **Expense**

10
11 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

12 A. In FY 2013 the City reclassified SWAP Debt Administration and Commercial Paper
13 Administration from a capitalized cost to an expensed cost. This unnecessarily
14 inflated the cost of service. This adjustment reverses the City's adjustment and
15 removes \$4 million from O&M and reclassifies it as Capital Costs.

16
17 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

18 A. AWU provided no rationale for the reclassification from capital to O&M expense,
19 other than it was instructed to do so by the controller's office.¹⁷ This reclassification
20 unreasonably raises current revenue requirements.

21
22 **Q. IS YOUR PROPOSAL TO FUND THIS THROUGH THE CIP BUDGET**
23 **APPROPRIATE?**

24 A. Yes. The City provided no rationale for unreasonably reclassifying this cost. It is
25 appropriate to reverse the City's adjustment.

¹⁵ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Anders Direct, p. 43, lines 14-18

¹⁶ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 24

¹⁷ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, 2014 Joint Committee on AWU Financial Plan
Response to Question #260 from Website:
[http://www.ci.austin.tx.us/water/downloads/260%20JC%20QA%20Kidwell%2004072014%20FINAL%20Res
ponse.pdf](http://www.ci.austin.tx.us/water/downloads/260%20JC%20QA%20Kidwell%2004072014%20FINAL%20Response.pdf)

1 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

2 A. This is another transfer to other City departments and is simply another hidden tax
3 on the water and wastewater utilities.²² This cost is not reasonable or necessary for
4 the provision of water and wastewater service to ratepayers. The Drainage Fees
5 provide funding to the Watershed Protection Department whose main purpose is to
6 increase flood protection and buy-out homes of Austin residents located in
7 floodplains.²³ It is worth noting that the Land Management department in AWU is
8 excluded from allocation to wholesale customers per the City's cost of service
9 study²⁴; this department is similar and should also be excluded from wholesale
10 allocation.

11
12 **H. Public Improvement District**

13
14 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

15 A. This adjustment removes the \$75,000 for the Public Improvement District property
16 tax²⁵, which is \$37,500 each for the water system and wastewater system, comprised
17 of \$18,750 in O&M and \$18,750 in capital costs for each system²⁶.
18

19 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

20 A. This adjustment is necessary to remove costs related to assets and activities that are
21 not necessary to provide service to wholesale customers.
22

23 **Q. PLEASE EXPLAIN.**

24 A. It is a phantom tax. According to the City's website, the City is exempt from the
25 tax.²⁷ When asked in discovery for proof that Austin Water is not exempt from the

²² See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Drainage Fee description from City website:
<http://www.austintexas.gov/page/drainage-fee>

²³ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 10, Bates 2154-2160 (see
2157) and City website program descriptions: <http://www.austintexas.gov/departments/watershed-protection>

²⁴ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Anders Direct, page 57 line 18 to page 58 line 7

²⁵ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 24

²⁶ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 19 Tables 103 and 110, and
Meszaros Direct, Exhibit 21 Tables 54 and 61

1 Downtown Austin Alliance tax assessments, AWU's response was to provide its
2 FY13 budget, which has a line-item for "Other Transfers." It did not provide any
3 invoices from any taxing authorities to support its cost because presumably none
4 exist. From other documentation, I determined that the Public Improvement District
5 "Tax" is included in these "Other Transfers."

6
7 **I. Eliminate Chief Sustainability Officer**

8
9 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

10 A. This adjustment removes the cost for the new Chief Sustainability Officer in the
11 General Fund. Half of the cost of this new position is funded by the water and
12 wastewater funds. The total is \$142,895 of which \$71,448 is funded by AWU, with
13 \$35,724 funded by water and \$35,724 funded by wastewater.²⁸

14
15 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

16 A. This adjustment is necessary to remove costs related to assets and activities that are
17 not necessary to provide service to wholesale customers.

18
19 **Q. PLEASE EXPLAIN.**

20 A. According to the job description for this position, this person is responsible for
21 "...establishing a city-wide sustainability program that includes assessing the impact
22 of sustainability practices to the City and broad community at large..."²⁹ He
23 oversees a nine-person department³⁰ whose mission is to "advance local
24 sustainability and climate action by providing leadership and coordination for

²⁷ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City website description of Downtown Public Improvement Districts: <http://www.austintexas.gov/departments/downtown-public-improvement-districts>

²⁸ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 2-31 and City's Response to RFP 3-91

²⁹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Job description from City website: http://austintexas.gov/hr/jobdesc/job_title_pay.cfm?title=C

³⁰ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Organization chart from City website: http://austintexas.gov/sites/default/files/files/org_chart.pdf

1 initiatives across the City organization and the Austin community.”³¹ It is simply
2 not a water or wastewater function and should not be directly paid for by the water
3 and wastewater customers. None of the job description includes any references to
4 the water and wastewater department.
5

6 **J. 311 System Support**
7

8 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

9 A. This adjustment eliminates the \$1 million transfer to the 311 System Support Fund,
10 which is \$500,000 water and \$500,000 wastewater.³²
11

12 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

13 A. This adjustment is necessary to remove costs related to assets and activities that are
14 not necessary to provide service to wholesale customers.
15

16 **Q. WHAT SERVICES DOES 311 PROVIDE?**

17 A. 311 provides a liaison to the following services:

- 18 • AFD Wildfire Assessment
- 19 • Alley & Unpaved Street Maintenance
- 20 • Bicycle Issues
- 21 • Bridge Repair
- 22 • Channels/Creeks/Drainage Easement
- 23 • Code Compliance
- 24 • Code Compliance—Private Waste Hauler License Violation
- 25 • Code Compliance—Woodridge Apartments
- 26 • Community Engagement Feedback
- 27 • Curb/Gutter Repair
- 28 • Ditch/Driveway Pipe Services
- 29 • Drainage Pond Maintenance
- 30 • Erosion
- 31 • Fence Repair—MOPAC
- 32 • Found Animal Report—Keep
- 33 • Graffiti Abatement

³¹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Home page for Office of Sustainability on City website: <https://austintexas.gov/department/sustainability>

³² See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City’s Response to RFP 2-120

- 1 • Guardrail—New
- 2 • Guardrail Repair
- 3 • Holly Power Plant Project-Issues
- 4 • LeadSmart Program
- 5 • Ordinance Single-Use Carryout Bags
- 6 • Ordinance Universal Recycling
- 7 • Parking Machine Issue
- 8 • Parking Ticket Complaint
- 9 • Pavement Failure
- 10 • Pothole Repair
- 11 • Road Markings/Striping—Maintenance
- 12 • Road Markings/Striping—New
- 13 • School Zone—New/Review/Changes
- 14 • Sidewalk Repair
- 15 • Sidewalk/Curb Ramp/Route—NEW
- 16 • Sign—New
- 17 • Sign—Parking Sign Maintenance
- 18 • Sign—School Zone Sign Maintenance
- 19 • Sign—Street Name
- 20 • Sign—Traffic Sign Maintenance
- 21 • Speed Limit—Changes/Signs
- 22 • Standing Water
- 23 • Storm Drain Pipe Services
- 24 • Street Surface Inquiry
- 25 • Traffic Calming
- 26 • Traffic Signal—New/Change
- 27 • Utility Cut Repair
- 28 • Water Waste Report³³

29
30 The only two areas that might possibly relate to water or wastewater—the last two—
31 would not apply to wholesale customers.

32 **Q. ARE ANY OF THESE SERVICES NECESSARY TO PROVIDE SERVICE**
33 **TO WHOLESALE CUSTOMERS?**

34 A. No.

35

³³ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, From City Website—pulldown menu for 311 services:
<https://austin-plcsrprodciwi.motorolasolutions.com/Home.mvc/Index>

1 **K. General Fund Transfer**

2
3 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

4 A. This adjustment removes \$17,722,306 water and \$16,802,030 wastewater.³⁴

5
6 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

7 A. This adjustment is necessary to remove costs related to assets and activities that are
8 not necessary to provide service to wholesale customers. The General Fund
9 transfer:

- 10 1. Is not cost-based,
11 2. Has no standard industry practices, and
12 3. Is not needed for debt service coverage.
13

14 A 1999 Austin Cost of Service Study Issue Paper developed by Black & Veatch
15 stated that "Opponents of this transfer, referred to as a general fund transfer, believe
16 that the transfer is inappropriate because it is not based on the cost of service
17 provided, it circumvents taxing constraints by charging tax-exempt properties [e.g.,
18 Petitioners], and it may amount to taxation of outside City users without
19 representation."³⁵
20

21 **Q. HOW DOES THE CITY ATTEMPT TO SUPPORT THE GENERAL FUND**
22 **TRANSFER IN ITS PREFILED TESTIMONY?**

23 A. Mr. Giardina attempts to support it by stating that, "Of the largest cities located in
24 Texas (Arlington, Dallas, El Paso, Fort Worth, Garland, Plano, and San Antonio), all
25 have utilities that make some form of a payment to the city."³⁶ His statement is
26 misleading at best.
27

³⁴ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 2-120

³⁵ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Castillo Direct, Exhibit 5

³⁶ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Giardina Direct, p. 18, lines 3-5

1 **Q. WHY?**

2 A. When asked in discovery for support for the above statement, the City responded
3 with a study that Mr. Giardina had conducted for El Paso Water Utilities, the “El
4 Paso Cost Allocation and Best Practices Review.” The study surveyed six Texas
5 cities in two areas relating to transfers—General Transfers and Indirect Cost
6 Allocation from General Government to Water/Wastewater Funds. Of the six Texas
7 cities, three allocate NO general fund transfer costs to outside city/wholesale
8 customers. Of the three remaining Texas cities in the survey, San Antonio Water
9 System allocates 2.7% (vs. Austin’s 8.2%) of utility revenue to the general fund and
10 no indirect costs (vs. an additional \$12 million in Austin). Significantly, Houston
11 has no Payment in Lieu of Taxes (PILOT), no franchise fees and no Right of Way
12 fees.³⁷

13
14 An issue paper in the 1992 Austin Cost of Service Study states that, “Utility
15 transfers are a particularly important method for general government financing in
16 Austin because of the City’s unique public financing position. Austin, which is the
17 seat of state government and the site of a large public university, and where there is a
18 substantial federal government presence, has a large fraction of real property exempt
19 from property taxation. Support of general government through utility charges is,
20 therefore, an effective mechanism to recover payments for general government
21 services from institutions that would otherwise be exempt.”³⁸

22
23 **Q. HOW DID THE CITY ADDRESS THE GENERAL FUND TRANSFER IN**
24 **AUSTIN ENERGY’S RECENT HURF CASE AT THIS COMMISSION?**

25 A. Elaine Hart, the Chief Financial Officer of the CITY stated in her rebuttal testimony
26 that, “In determining reasonableness, a MOU [Municipal Owned Utility] can only be
27 benchmarked against other MOUs. While the data may be limited, what is presented
28 here supports the reasonableness of AE’s [Austin Energy’s] GFT [General Fund

³⁷ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City’s Response to RFP 3-62

³⁸ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Castillo Direct Exhibit 2 Bates 87

Transfer] rate.”³⁹ While benchmarking the General Fund Transfer may provide the City some support on the electric side, it provides absolutely no support for AWU’s General Fund Transfer. Yet, the City’s CFO says benchmarking is of utmost importance.

Q. WHAT DID THE TEXAS WATER COMMISSION SAY REGARDING THE CITY'S GENERAL FUND TRANSFER?

A. The Texas Water Commission stated that transfers to the general fund were acceptable if they were for administrative expenses; otherwise, unspecified transfers to the general fund are justified only to the extent necessary to provide adequate debt service coverage.⁴⁰ The TWC also stated that “under the cash-basis method of ratemaking, the utility is not entitled to include in its cost of service analysis a factor for profit.”⁴¹

L. Radio Communications Fund

Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.

A. This adjustment eliminates the transfers to the Radio Communications Fund of \$384,940, which is \$192,469 each⁴² for the water system and wastewater system, incorporating \$96,235 in O&M and \$96,235 in capital costs for each system.

Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?

A. This adjustment is necessary to remove costs related to assets and activities that are not necessary to provide service to wholesale customers.

³⁹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, PUC Docket No. 40627, Rebuttal Testimony of Elaine Hart at page 8

⁴⁰ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, TWC Docket No. 7144-M et. al. FOF 40 and 41

⁴¹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, TWC Docket No. 7144-M et. al. FOF 44B

⁴² See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 2-112

1 **Q. PLEASE EXPLAIN.**

2 A. According to the City's response to Informal Question #6, the wireless
3 communications fund maintains a high measure of reliability for users of the
4 Regional Radio System within Austin/Travis County, Williamson County, and other
5 jurisdictions. The program also provides services to public safety vehicles for
6 installations and repairs to voice radios, data radios, sirens, emergency lighting, and
7 automatic vehicle location devices.⁴³

8
9 The Radio Communications Fund is also funded by the Indirect Cost Recovery
10 allocation⁴⁴ in which AWU is a participant. So any additional funding is unjustified.
11 Once again, AWU's ratepayers are used to make up a shortfall in general
12 government funding. The cost is unrelated to the cost of providing service to
13 Petitioners.

14
15 **M. AFD Transfer for hazmat prevention**

16
17 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

18 A. This adjustment removes the \$445,030 (\$222,515 each for water and wastewater)⁴⁵
19 Transfer to the Austin Fire Department for "Hazmat to prevent hazardous materials
20 from going into the water/wastewater systems."

21
22 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

23 A. This adjustment is necessary to remove costs related to assets and activities that are
24 not necessary to provide service to wholesale customers. It appears that this is just
25 another excuse for the water and wastewater utilities to fund Austin's general
26 government. The Joint Committee (a subcommittee of members from the City's
27 Resource Management Commission, Water & Wastewater Commission, and Impact

⁴³ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to Petitioners' Informal Question #6

⁴⁴ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 10, Bates 2457, FY 2013 Budget Vol. 1, p. 654

⁴⁵ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 2-31 and City's Response to RFP 3-91

1 Fee Advisory Commission established by the City to develop recommendations for
2 short-term and long-term financial plans to strengthen the financial stability of the
3 Austin Water Utility)⁴⁶ recommended that this cost be removed from the AWU cost
4 of service, and according to CITY documents, removal of these costs from AWU has
5 no impact on service levels.⁴⁷

6
7 **N. APD Transfer for Homeland Security**

8
9 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

10 A. This adjustment eliminates the \$1,241,943 transfer to the Austin Police Department
11 for Homeland Security. (70% water or \$869,360 plus 30% wastewater or
12 \$372,583)⁴⁸.

13
14 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

15 A. This adjustment is necessary to remove costs related to assets and activities that are
16 not necessary to provide service to wholesale customers. AWU already includes
17 \$565,000 in costs for security guard services at the plants.⁴⁹ It appears that this is just
18 another excuse for the water and wastewater utilities to fund Austin's general
19 government. The Joint Committee recommended that this cost be removed from the
20 AWU cost of service, and according to City documents, removal of these costs from
21 AWU has no impact on service levels.⁵⁰

22

⁴⁶ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 14, and from City website:
<http://www.austintexas.gov/departments/joint-subcommittee-members>

⁴⁷ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 16, Bates 3385

⁴⁸ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 2-31 and City's Response to
RFP 3-91

⁴⁹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 2-31 and City's Response to
RFP 3-91

⁵⁰ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 16 Bates 3385

1 **O. Rate Case Expenses**

2
3 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

4 A. This adjustment removes the \$641,811 in Rate Case Expenses that AWU includes in
5 its requested cost of service under “Legal Fees” and “Interdepartmental Legal
6 Charges” for “TCEQ Rate Issue.” \$370,906 was requested from water customers,⁵¹
7 and \$270,905 was requested from wastewater customers.⁵²
8

9 **Q. HOW DOES AUSTIN PROPOSE TO ALLOCATE RATE CASE EXPENSES**
10 **TO CUSTOMERS?**

11 A. Austin proposes to allocate these costs to all customers over one year.
12

13 **Q. DO YOU AGREE?**

14 A. No. Although I agree with the City’s proposal to allocate rate case expenses to all
15 customers—all retail and all wholesale, I do not agree that all the costs should be
16 recovered from ratepayers in one year. Rather, I would remove these costs from
17 base rates and surcharge these costs over a 5-year recovery.
18

19 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

20 A. This adjustment is necessary to remove costs related to rate case expenses so these
21 amounts can be surcharged to all customers. I recommend that the invoices that are
22 in evidence supporting City’s rate case expenses be reviewed for reasonableness at
23 the end of these proceedings. Any rate case expenses that are deemed reasonable
24 should be allocated 50/50 to water and wastewater and charged to all customers
25 based on water sales volume or wastewater flow. I recommend a 5-year
26 amortization with no carrying cost as is typical for these proceedings. The City
27 should separately account for the recovery of these amounts and discontinue the
28 surcharges when the authorized amount is fully recovered from all of AWU’s
29 ratepayers.

⁵¹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City’s Response to RFP 2-31

⁵² See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City’s Response to RFP 3-91

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Q. HAS AUSTIN PROVIDED AN ESTIMATE OF ITS TOTAL RATE CASE EXPENSES?

A. Yes. Mr. Anders provides a total rate case expense estimate of \$958,000.⁵³

Q. HAS AUSTIN PROVIDED THE ACTUAL RATE CASE EXPENSE INVOICES FOR WHICH IT IS REQUESTING RECOVERY IN THIS DOCKET?

A. Not to my knowledge. When asked for these documents in discovery, Austin responded that “At this time, Austin has not reviewed its invoices to determine the reasonable rate case expenses for which it will seek recovery from Petitioners. Pending additional preparation and completion of the consolidated rate case, reasonable rate case expenses will be calculated and will not exceed the amounts authorized for expenditure by the Austin City Council as referenced in the prefiled testimony.”⁵⁴

P. Fully Allocate O&M Expenses to the Reclaimed Water Utility

Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.

A. This adjustment removes O&M expenses associated with the Reclaimed Water System.

Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?

A. This adjustment is necessary to remove costs related to assets and activities that are not necessary to provide water and wastewater service to wholesale customers. The rationale was explained earlier in this testimony under subsection B. beginning at page 11, line 10.

⁵³ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Anders Direct p.64 lines 3-7

⁵⁴ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City’s Response to RFP 3-66

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1 **Q. HOW DID YOU DETERMINE THE O&M COSTS ATTRIBUTABLE TO**
2 **REUSE?**

3 A. I developed the following factors for cost allocation⁵⁵:
4

Factor	Basis	Potable Water System	Reuse Water System	Total	Percent Reuse
<u>WATER</u>					
Pump Station Factor	No. of Pump Stations	45	3	48	6.3%
Storage Factor	No. of Water Storage Facilities Storage Capacity (MG)	38	3	41	7.3%
		170.0	3.5	173.5	2.0%
				Average	4.7%
Pipeline Factor	Miles of Lines	3,672.0	44.7	3,716.7	1.2%
Composite				Average	4.0%

Factor	Basis	Total Wastewater System	Reuse Water System	Percent Reuse
<u>WASTEWATER</u>				
Wastewater Factor	Wastewater Treated (MG)	37.595	1.521	4.0%

7 **Q. HOW DID YOU APPLY THESE FACTORS TO O&M COSTS?**

8 A. I applied the Pump Station Factor to Pump Station & Reservoir Maintenance Costs
9 and Pump Station & Reservoir Operations. I applied the Pipeline Factor to Pipeline
10 Maintenance, Valves, and Distribution System Support O&M costs. I applied the
11 Water Composite Factor to Support Services, Special Support (Indirect Costs of
12 General Government), Operating Transfers, and Other Transfers O&M Costs. I also
13 applied the composite to Other Transfers Capital Costs.

14
15 On the Wastewater Utility costs, I applied the Wastewater Factor to Wastewater
16 Treatment and Wastewater Treatment Support O&M.

⁵⁵ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, AWU Key Measures:
<https://austintexas.gov/departments/city-manager/performance-reports>, 2013 Bond Issue Official Statement:
<http://emma.msrb.org/IssueView/IssueDetails.aspx?id=EA347456>, and Meszaros Direct, Exhibit 10, Bates
2304, FY2013 Budget Vol. 1, p. 503

1 Q. WHAT RECOMMENDATIONS HAS THE JOINT COMMITTEE MADE ON
2 THIS ISSUE?

3 A. The Joint Committee agrees with my assessment that the costs of the reclaimed
4 System should be fully recognized. The Joint Committee stated that "AWU is
5 currently making efforts to itemize Reclaimed Utility costs and develop a full fund
6 summary for the Reclaimed Utility. Efforts should also be made to evaluate the
7 benefits and burdens of the Reclaimed Utility..."⁵⁶
8

9 Q. Overbudgeting Adjustment

10
11 Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.

12 A. Utility rates are typically established based on actual historical costs adjusted for
13 known and measurable changes. Although the use of budgeted data for establishing
14 rates is widely accepted for government utilities, the utility must prove that its
15 budget approximates actual costs adjusted for known and measurable changes. In
16 order to determine the accuracy of AWU's budgeting, I compared historical
17 budgeted data to actual to determine the level of overbudgeting:

Overbudgeting Percentage ⁵⁷	
FY 2009	3.2%
FY 2010	3.1%
FY 2011	5.1%
FY 2012	4.9%
Average	4.1%

18 I excluded Transfers from the analysis since transfers to other departments are not
19 reflective of real costs and are subject to manipulation by the City. Mr. Meszaros

⁵⁶ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, 4/23/14 Joint Committee meeting;
[http://www.ci.austin.tx.us/water/downloads/259%20JC%20QA%20Kidwell%2004072014%20FINAL%20Res
ponse2.pdf](http://www.ci.austin.tx.us/water/downloads/259%20JC%20QA%20Kidwell%2004072014%20FINAL%20Response2.pdf)

⁵⁷ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Based on budget to actual comparisons; see work
papers: https://www.ci.austin.tx.us/financeonline/finance/financial_docs.cfm?ws=1&pg=1

1 confirmed that actual FY 2013 utility-wide operation and maintenance expense
2 spending was 4.18% below budget⁵⁸, which supports the use of the four-year average
3 of 4.1%.

4
5 **Q. DO YOU HAVE ANY SIMPLE EXAMPLES OF THE CITY'S**
6 **OVERBUDGETING?**

7 A. Yes. The City contributes to the Barton Springs/Edwards Aquifer Conservation
8 District. According to the budgets and audits from the Conservation District,
9 budgeted revenues from Austin historically equal exactly the amount the
10 Conservation District budgets. So Austin should know exactly the amount to budget.
11 Yet in FY 2013 Austin budgeted \$900,000⁵⁹ when the Conservation District only
12 budgeted \$748,008.⁶⁰

13
14 **R. Excess Staffing**

15
16 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

17 A. This adjustment reduces staffing costs to account for overstaffing. According to the
18 City's responses to discovery, it has not had ANY staffing studies conducted by any
19 outside firm in the past five years.⁶¹ For purposes of discovery, *staffing study* was
20 defined as "any analysis assessment, report, examination, or investigation regarding
21 the employee levels, number, efficiencies, salaries, workload, organization,
22 management, leadership, or accountability."⁶² The City did not raise any objection
23 to this definition or contact Petitioners' counsel for any additional clarification, so it
24 is presumed that the City understood the definition.

⁵⁸ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, AWU FY 12-13 Annual Performance Report, p. 192:
https://assets.austintexas.gov/budget/13-14/downloads/2013_COA_APR_Final.pdf

⁵⁹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 2-31

⁶⁰ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Conservation District Budgets and Audits show that
actual exactly equals the budgeted amount: <http://www.bseacd.org/records/current-budget> and
<http://www.bseacd.org/records/annual-report-and-annual-financial-audit>

⁶¹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 3-64

⁶² See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Petitioners' Third Request for Production, page 4,
Definitions

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A. The Austin Water Utility obtains its electricity from Austin Energy, which is also a City department. Austin Energy transfers 12% of its non-fuel revenue to the City's General Fund, with a floor set at \$105,000,000 per year⁶⁶. An effective General Fund transfer rate of 8.24% (\$105,000,000 in General Fund transfer divided by \$1,273,895,270 in budgeted revenues)⁶⁷ is applied to the AWU electric costs to remove the transfer from Austin Energy. This is simply another hidden transfer from AWU to the City. This adjustment removes \$3,305,721 in unjustified transfers from AWU to the City via Austin Energy. (\$2,119,319 water and \$1,186,402 wastewater.) I would note that support services provided by the City to Austin Energy are also in the electric rates, and I have not eliminated those costs. I have only eliminated the unjustified General Fund Transfer.

A. This adjustment is necessary to remove costs related to assets and activities that are not necessary to provide service to wholesale customers.

21
22
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29

A. In developing its revenue requirements, the City's proposed capital recovery includes three main components:

1. Debt Service
2. Cash Capital Outlays
3. Depreciation Expense.

⁶⁷ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 10, Bates 2214 and 2392, FY 2012-13 Approved City Budget, pages 413 and 589

1 Under the cash basis of utility ratemaking, depreciation is not allowed, so I have
2 excluded the depreciation expense (\$29.0 million water⁶⁸ and \$42.3 million
3 wastewater⁶⁹).

4
5 **Q. DOES THE FINAL ORDER IN THE PREVIOUS AUSTIN WHOLESALE**
6 **RATE CASE SUPPORT YOUR ADJUSTMENT?**

7 A. Yes. FOF 44B states, "Under the cash-basis method of ratemaking, the utility is not
8 entitled to include in its COS analysis a factor for profit or depreciation."⁷⁰

9
10 **Q. DOES THE AUSTIN PROPOSAL ADJUST DEBT SERVICE TO ACCOUNT**
11 **FOR ITS INCLUSION OF DEPRECIATION?**

12 A. Yes, but I disagree with the City's method because including depreciation in the cash
13 basis:

- 14 1. Unnecessarily adds to the complexity of the calculations
- 15 2. Doesn't make sense
- 16 3. Has a minimal impact on the overall customer class cost allocation.

17
18 **Q. DOES THE VERBIAGE IN THE RED OAK CONSULTING COST OF**
19 **SERVICE STUDY SEEM TO SUPPORT THE EXCLUSION OF**
20 **DEPRECIATION?**

21 A. Yes. On page 5-4 of the 2008 study, it states, "Consistent with industry standard,
22 these [O&M] expenditures exclude depreciation expenses."⁷¹

⁶⁸ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 19, Table 215 (note that there are two tables numbered 215; this refers to the second one)

⁶⁹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 21, Table 197

⁷⁰ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, TWC Docket No. 7144-M et. al. FOF 44B

⁷¹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 17, page 5-4

1 **V. Lobbyists – Legislature**

2
3 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

4 A. There are line items in both the water budget⁷² and the wastewater budget⁷³ entitled
5 “Lobbyists Legislature Pope, Johnson, Greytok for \$80,648 each. I have removed
6 these costs.
7

8 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

9 A. This adjustment is necessary to remove costs related to assets and activities that are
10 not necessary to provide service to wholesale customers. Also, per PUC Substantive
11 Rule 24.31, no lobbying expenses are allowed in cost of service.⁷⁴
12

13 **W. One-Stop Shop**

14
15 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

16 A. This adjustment is necessary to remove the O&M costs associated with the “One-
17 Stop Shop” in the amount of \$213,673 for water⁷⁵ and \$387,789 for wastewater⁷⁶.
18

19 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

20 A. This adjustment is necessary to remove costs related to assets and activities that are
21 not necessary to provide service to wholesale customers. According to the City’s
22 response to our request to “provide the documents related to any assistance provided
23 by the ‘One-Stop Shop’ to any Petitioner during 2012 and 2013,” the City responded
24 that, “There are no documents responsive to this request.”⁷⁷ Since the City is not

⁷² See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City’s Response to RFP 2-31

⁷³ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City’s Response to RFP 3-91

⁷⁴ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, PUC Subst. R. 24.32(b)(2)(A)

⁷⁵ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 19, Table 103 and City’s Response to RFP 2-31

⁷⁶ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Meszaros Direct, Exhibit 21, Table 54 and City’s Response to RFP 3-91

⁷⁷ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City’s Response to RFP 3-17

1 providing any documented service to any Petitioner through the "One- Stop Shop,"
2 these costs should be removed.

3
4 **VI. ISSUES AFFECTING WATER ONLY**

5
6 **A. City Hall Water Feature (capital costs)**

7
8 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

9 A. This adjustment removes the capital costs associated with the "City Hall Water
10 Feature" that is included in water system assets. The net asset value included in
11 water rates is \$450,000⁷⁸ which results in debt service requested of \$30,174,
12 depreciation expense of \$12,649, and cash capital outlay requested of \$13,608.

13
14 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

15 A. This adjustment is necessary to remove costs related to assets and activities that are
16 not reasonable or necessary to provide service to wholesale customers.

17
18 **B. Reicher Ranch (capital costs)**

19
20 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

21 A. This adjustment removes the capital costs associated with the Reicher Ranch
22 included in water system assets. The net asset value included in water rates is
23 \$818,704⁷⁹ which results in debt service requested of \$54,897, depreciation expense
24 of \$23,013, and cash capital outlay requested of \$24,758.

25
26 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

27 A. The City already conceded that the O&M for the Reicher Ranch should be excluded
28 from wholesale costs⁸⁰, but the City did not follow through and excluded the Reicher

⁷⁸ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 2-113

⁷⁹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 2-113

⁸⁰ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Anders Direct, page 58, lines 11-13

1 Ranch capital costs as well. This adjustment is necessary to remove costs related to
2 assets and activities that are not necessary to provide service to wholesale customers.
3

4 **C. Green Water Treatment Plant (capital costs)**

5
6 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

7 A. This adjustment removes the capital costs associated with the Green Water
8 Treatment Plant included in water system assets. The net asset value included in
9 water rates is \$12,073,835, which results in debt service requested of \$809,586,
10 depreciation expense of \$339,381, and cash capital outlay requested of \$365,115.
11

12 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

13 A. The City decommissioned the Green Water Treatment Plant (WTP) in September
14 2008⁸¹. Although the Green WTP is no longer in service, the CITY is still charging
15 customers for debt service, depreciation and cash capital outlays based on the net
16 asset value of the Green WTP. This adjustment is necessary to remove costs related
17 to assets and activities that are not necessary to provide service to wholesale
18 customers.
19

20 **D. Revenue Stability Reserve Fund**

21
22 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

23 A. This adjustment eliminates the \$5,516,300 transfer from the water utility to the
24 Revenue Stability Reserve Fund⁸², which is really just a euphemism for a slush fund.
25

26 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

27 A. This adjustment is necessary to remove costs related to assets and activities that are
28 not necessary to provide service to wholesale customers. It is not cost based. It is
29 speculative. In Mr. Anders' testimony, he states that, "If the Revenue Stability

⁸¹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City website "Water and Wastewater History":
<http://austintexas.gov/departments/water-and-wastewater-history>

⁸² See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 2-120

1 Reserve Fund was [sic] not approved, Austin Water would have had to increase its
2 ending fund balance to have sufficient reserves to operate.”⁸³ When asked in
3 discovery to provide all documents supporting that statement, Mr. Anders provided a
4 comparative document from Fitch Ratings that looked at industry medians.⁸⁴ Not
5 only is a rate or revenue stabilization fund not mentioned in the document, Austin
6 Water is not even included in the 18 Texas utilities analyzed.⁸⁵ This is the ONLY
7 document the City provided to support its need for a revenue stability reserve fund,
8 and this document provides absolutely no support for the City’s ridiculous position.
9

10 **E. Green WTP Sale**

11
12 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

13 A. This adjustment incorporates the net proceeds from the sale of the Green Water
14 Treatment Plant into the water rate calculation.
15

16 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

17 A. This adjustment is necessary to reflect the net proceeds of the Green WTP into the
18 water cost of service. Although all of the water customers, including the Petitioners,
19 have been paying O&M and capital costs for the Green WTP, Austin proposes to
20 give those customers none of the proceeds of the sale. Instead of crediting any of the
21 net proceeds to AWU, it instead proposes to let the general city government have all
22 of the money to add to its slush fund. In fact, if I had not identified the Green WTP
23 O&M and capital costs in the FY 13 rates, these costs would continue to be charged
24 to the Petitioners. The Petitioners are still being asked to pay for a decommissioned
25 plant, yet the City proposes to give them nothing for its sale!
26

⁸³ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Anders Direct, p. 53, lines 4-6

⁸⁴ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City’s Response to RFP 3-45

⁸⁵ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City’s Response to RFP 3-45, Bates 6200

1 **Q. IS THE AUSTIN CITY COUNCIL AWARE OF THIS ISSUE?**

2 A. Yes. At the April 5, 2012 Council meeting, Paul Robbins pointed out to the Council
3 the inequity of the Council decision to give the profit from the sale to the general
4 fund "instead of back to the utility that owned it."⁸⁶ Yet his comments appeared to
5 have fallen on deaf ears.

6
7 **Q. HOW DO YOU PROPOSE TO INCORPORATE THE PROCEEDS OF THE**
8 **SALE INTO THE WATER RATES?**

9 A. AWU sold the Green WTP site to Trammel Crow in May of 2012 for \$43,175,000.⁸⁷
10 I subtracted \$8,500,000 from the proceeds earmarked to reimburse Austin Energy for
11 its costs to downsize the Seaholm electric substation which is on or near the Green
12 WTP site. The remaining \$34,675,000 in proceeds should go to AWU, and this
13 amount includes \$14,299,856 in cost reimbursement for costs already incurred (and
14 already paid for by ratepayers) to decommission the Green WTP. I recommend
15 amortizing the \$34,675,000 in AWU proceeds over five years which is the timeframe
16 that I estimate rates will be in effect until Austin files for its next wholesale rate
17 increase. That amortization results in an annual amount of \$6,935,000.

18
19 **Q. WHAT BENEFIT WILL THE CITY'S GENERAL FUND RECEIVE FROM**
20 **THE SALE OF THE GREEN WTP?**

21 A. City officials have estimated that over the next three decades, Green's
22 redevelopment will generate \$112 million in property taxes and \$9.6 million in sales
23 taxes for the City.⁸⁸

24

⁸⁶ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Transcript of April 5, 2012 City Council meeting:
<https://www.austintexas.gov/department/city-council/2012/20120405-reg.htm>

⁸⁷ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, 5/24/2012 Recommendation for Council Action:
<https://www.austintexas.gov/department/city-council/2012/20120524-reg.htm#013>

⁸⁸ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Austin American Statesman 2/5/14

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A. AWU proposes to allocate certain water costs between the water transmission and distribution systems based on the “net asset values” of the transmission and distribution components.⁸⁹

A. No.

A. The wastewater system allocation is based on length of pipe and diameter, not cost.⁹⁰

A. The 1992 cost of service study conducted by CH2M Hill allocated water lines based on length of pipe and diameter, not asset value. In the report, CH2M Hill states that, “water lines that are 24 inches and larger are designated as transmission lines, while all lines less than 24 inches in diameter are considered distribution lines.”⁹¹

A. Yes.⁹²

⁹² See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 3-11

1

2 **Q. HOW DOES THE ALLOCATION FACTOR BASED ON THAT DATA**
3 **COMPARE TO THE ALLOCATION FACTOR BASED ON NET ASSET**
4 **VALUE?**

5 A. Use of the correct inch-feet calculation reduces the allocation to Transmission
6 (common-to-all) from 45.8% to 34.5%.

7 **G. Barton Springs/Edwards Aquifer Conservation District**

8

9 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

10 A. This adjustment eliminates the \$900,000 budgeted cost for the Barton
11 Springs/Edwards Aquifer Conservation District.⁹³

12

13 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

14 A. This conservation district deals with groundwater, and AWU does not use any
15 groundwater to provide service to its customers. This adjustment is necessary to
16 remove costs related to assets and activities that are not necessary to provide service
17 to wholesale customers. The City can certainly participate in the Conservation
18 District, but it is not necessary for any treated water customers, including Petitioners,
19 and the customers should not bear any responsibility for the cost.

20

21

22 **VII. ISSUES AFFECTING WASTEWATER ONLY**

23

24 **A. Austin Youth River Watch**

25

26 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

27 A. This adjustment removes the \$152,667 in costs associated with the Austin Youth
28 River Watch⁹⁴ under a three-year contract for \$818,000.⁹⁵

⁹³ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 3-91

⁹⁴ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 3-91, Colorado River Watch d/b/a Austin Youth River Watch

⁹⁵ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City's Response to RFP 3-91

1

2 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

3 A. This adjustment is necessary to remove costs related to assets and activities that are
4 not necessary to provide service to wholesale customers.

5 **Q. PLEASE EXPLAIN.**

6 A. The Austin Youth River Watch is a program that teaches high school students from
7 the Austin Independent School District to collect and track water quality data. It also
8 teaches leadership skills and encourages students to stay in school. ⁹⁶

9

10 **B. Govalle Wastewater Treatment Plant – Capital Costs**

11

12 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

13 A. This adjustment removes the capital costs associated with the Govalle Wastewater
14 Treatment Plant (WWTP).

15

16 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

17 A. The Govalle WWTP was decommissioned in October 2006.⁹⁷ It provides no service
18 to anyone, including Petitioners, and its capital costs should be removed.

19

20 **C. Govalle WWTP – O&M Costs**

21

22 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

23 A. This adjustment removes the O&M costs associated with the Govalle Wastewater
24 Treatment Plant (WWTP).

25

⁹⁶ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, Austin Youth River Watch Website:
<http://www.ayrw.org/about-us/history> and <http://www.ayrw.org/about-us/sponsors-partners>

⁹⁷ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City Website, "Water and Wastewater History":
<http://austintexas.gov/departments/water-and-wastewater-history>

1 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

2 A. The Govalle WWTP was decommissioned in October 2006.⁹⁸ It provides no service
3 to anyone, including Petitioners, and its O&M costs should be removed.

4

5 **D. Utility-Wide Contingency**

6

7 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.**

8 A. There is a line item in the wastewater O&M budget for “Utility-Wide Contingency”
9 in the amount of \$176,175.⁹⁹ I have removed this budget item.

10

11 **Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?**

12 A. It is already apparent that the City overbudgets. It has multiple financial safeguards
13 in place including reserves, optional transfers out of the utility funds, etc.; for AWU
14 to propose an additional amount of fluff in the form of a “contingency” on top of all
15 of that is simply unconscionable.

16

17

⁹⁸ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City Website, “Water and Wastewater History”:
<http://austintexas.gov/department/water-and-wastewater-history>

⁹⁹ See Jay Joyce Testimony Work Papers, Exhibit JJJ-5, City’s Response to RFP 3-91

1 **VIII. PETITIONERS' REVENUE REQUIREMENTS AND COST ALLOCATION**

2 **MODEL**

3 **A. Water**

4 **Q. WHAT WATER REVENUE REQUIREMENTS ARE YOU**
5 **RECOMMENDING FOR EACH OF THE PETITIONERS?**

6 A. I am recommending the following water revenue requirements:
7

Petitioner	AWU Requested Petitioners' Water Cost of Service	Petitioners' Total Adjustments	Petitioners' Adjusted Amount
North Austin MUD	\$ 1,605,767	\$ (468,259)	\$ 1,137,508
Northtown MUD	1,204,825	(345,807)	859,018
Water District 10	3,635,338	(1,032,623)	2,602,715
Wells Branch MUD	2,001,230	(573,397)	1,427,833
Total	\$ 8,447,160	\$ (2,420,086)	\$ 6,027,074

8 **Q. HOW DID YOU CALCULATE YOUR RECOMMENDATIONS?**

9 A. I used the FY 2013 Water Cost of Service schedules provided by Mr. Meszaros in
10 Exhibit 19 of his direct testimony. Since the City refused to provide the Excel
11 version of the cost of service model as a starting point, I constructed my own Excel
12 version of its model which replicates the formulae and results.
13

14 **Q. HOW CAN YOU BE CERTAIN THAT YOUR EXCEL WATER MODEL**
15 **PRODUCES THE SAME RESULTS AS THOSE PRODUCED BY THE**
16 **CITY'S MODEL?**

1 A. I checked the accuracy of my model by removing all of my recommended
2 adjustments. After removing all of my adjustments, the results of my model equal
3 those of the City's model thus proving the accuracy of my model.
4

5 **Q. PLEASE EXPLAIN THE RESULTS OF YOUR MODEL.**

6 A. The output of my model is shown as Exhibit JJJ-3. The Excel version of the model
7 and all associated Excel workpapers (Exhibit JJJ-6) are included with the native files
8 submitted in conjunction with the filing of this testimony.
9

10 The output is comprised of the following schedules:

11 Schedule A—shows the recommended water revenue requirements for each of the
12 Petitioners.

13 Schedule B—summarized the adjustments revenue requirements, other than capital
14 adjustments.

15 Schedule B-1—provides further detail of the adjustments on Schedule B.

16 Schedule C—is a roll-up of all of the individual (non-capital) adjustments, which are
17 divided into two groups: Tier 1 and Tier 2.

18 Schedule C-1 shows the detail of each of the Tier 1 adjustments. Tier 1 adjustments
19 are those adjustments that are independent of the other adjustments. The following
20 adjustments are included on Schedule C-1:

Adj #1	AWU Concessions
Adj #6	Eliminate Transfer to Reclaimed Utility Fund
Adj #7	"Green Choice" Electricity
Adj #8	Reclassify SWAP Debt Admin and CP Admin from Expense to CIP
Adj #9	Reclassify Contract Management from Expense to CIP
Adj #10	Drainage Fee

Adj #11	Public Improvement District
Adj #12	Eliminate Chief Environmental Officer
Adj #13	311 System Support
Adj #14	Eliminate General Fund Transfer
Adj #15	Eliminate Revenue Stability Reserve Fund
Adj #16	Eliminate Radio Communications Fund
Adj #17	Eliminate AFD Transfer
Adj #18	Eliminate APD Transfer
Adj #19	Sale of Green WTP
Adj #22	Rate Case Expense
Adj #E-2	Engineering Adjustment - WTP4 O&M [not used]
Adj #FA-1	Adjustment to O&M Reserves [not used]
Adj #36	Lobbyist - Legislature
Adj #37	One-Stop Shop
Adj #38	Barton Creek/Edwards Aquifer Fees

Schedule C-2 shows the detail for the Tier 2 adjustments. A revenue requirement subtotal is required after each of these adjustments in order to avoid double-counting any adjustment. These adjustments include the following:

Adj #23	Fully Allocate Cost to Reclaimed Water Utility
Adj #24	Adjustment for Overbudgeting
Adj #25	Adjustment for Overstaffing
Adj #26	Adjustment for Excessive Salary Levels
Adj #27	Eliminate General Fund Transfer Embedded in Austin Energy Electric Rates

Schedule D-1 shows the Allocation Factors used to allocate Revenue Requirements to “Common-to-All”, “Retail-Only”, and “Wholesale-Only” categories. The adjustment to the T&D factor is linked to this page.

Schedule D-2 shows the Allocation Factors used to allocate “Common-to-All” O&M to Base/Extra Capacity components. This is linked to Table 65 so that the Base and Max Day demands may be changed if desired. The City’s model does not allocate any costs to Max Hour, so that factor is unnecessary.

Schedule E—shows the adjustments to plant costs:

Adj #2	City Hall Water Feature
Adj #3	Reicher Ranch
Adj #4	Reclaimed Water System

Adj #5	Green WTP
Adj #8 & #9	Reclass Admin and Contract Management (increases plant equal to reduction in O&M)
Adj #E-1	WTP4 capital [not used]

1 Schedule F—Summarizes the overall cost allocation into Base/Extra Capacity
2 categories. Note that the City proposes to recover capital costs from Depreciation
3 Expense, Debt Service, and Transfers to Water Construction Funds and Other
4 Transfers.

5 Schedule F-1a—shows the allocation of non-capital costs to Base/Extra Capacity
6 categories.

7 Schedule F-1b—shows the allocation of net plant to Base/Extra Capacity categories.

8 Schedule F-1c—shows the allocation of depreciation expense to Base/Extra Capacity
9 categories. Note that depreciation expense is eliminated at the bottom of this
10 schedule.

11 Schedule F-1e—shows the allocation of Transfers to Water Construction Funds and
12 Other Transfers to Base/Extra Capacity categories.

13 Schedule F-2a—shows the allocation of non-capital costs to Common-to-All and
14 Wholesale-Only.

15 Schedule F-2a—shows the allocation of plant costs to Common-to-All and
16 Wholesale-Only.

17 Schedule F-2b—shows the allocation of depreciation expense to Common-to-All and
18 Wholesale-Only.

19 Schedule G—shows the development of costs per unit and the application of those
20 unit costs to each of the Petitioners' water usage characteristics to develop the City's
21 cost of service.