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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

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APPEAL OF THE RETAIL WATER AND WASTEWATER RATES OF THE LOWER COLORADO RIVER AUTHORITY

PUBEFORE THE STATE OFFICE FILLECOLLOE OFFICE ADMINISTRATIVE HEARINGS

44000

LOWER COLORADO RIVER AUTHORITY'S EXHIBIT LIST - VOLUME I

LCRA's Exhibit No.	Document Description
1.	Direct Testimony of Suzanne Zarling
SZ-1	Resume of Suzanne Zarling
SZ-2	LCRA Organizational Chart
SZ-3	Chart of LCRA Water and Wastewater Utility Four Geographic Regions
SZ-4	The Feasibility of Regionalizing Water and Wastewater Utilities: A TCEQ Policy Statement (Jan. 2003, RG-357)
SZ-5	Comparison of Monthly Volume per Residential Connection of West Travis County Region (Bee Cave) to Hill Country Region
SZ-6	Executive Summary of R.W. Beck Report
SZ-7	West Travis County Water and Wastewater Cost of Service and Rate Study
SZ-8	Executive Summary of Barrington-Wellesley Group, Inc. Water Utility Audit (November 1, 2006)
SZ-9	LCRA Board Approval of Rate Increase, LCRA Board Agenda Item Recommending Approval of Rate Increase and Approved Rate Schedules
SZ-10	Board Approval of Amendment to Commitments of Stored Water for Municipal and Recreational Purposes (Mar. 22, 2006)
SZ-11	Board Approval of Motion to Amend LCRA Raw Water Rates (Sept. 2006)
SZ-12	Rate Case Expense Supporting Data
SZ-13	West Travis County Regional Water System Revenue Requirement Summary

PAGE 1

LCRA's Exhibit No.	Document Description		
SZ-14	West Travis County Regional Wastewater System Revenue Requirement Summary		
2.	Direct Testimony of Kelly Payne		
KP-1	Resume of Kelly Payne		
KP-2	West Travis County Regional Water System Timeline		
KP-3	Map of LCRA West Travis County Regional Water System		
KP-4	West Travis County Regional Water System: Capital Improvements Plan and Impact Fee Calculation for Development Between 2006 and 2015		

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SOAH DOCKET NO. 582-08-2863 TCEQ DOCKET NO. 2008-0093-UCR

APPEAL OF THE RETAIL WATER§AND WASTEWATER RATES OF THE§LOWER COLORADO RIVER AUTHORITY§

BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

DIRECT TESTIMONY OF SUZANNE ZARLING ON BEHALF OF LCRA

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EXHIBITS

- SZ-1 Resume of Suzanne Zarling
- SZ-2 LCRA Organizational Chart
- SZ-3 Chart of LCRA Water and Wastewater Utility Four Geographic Regions
- SZ-4 The Feasibility of Regionalizing Water and Wastewater Utilities: A TCEQ Policy Statement (Jan. 2003, RG-357)
- SZ-5 Comparison of Monthly Volume per Residential Connection of West Travis County Region (Bee Cave) to Hill Country Region
- SZ-6 Executive Summary of R.W. Beck Report
- SZ-7 West Travis County Water and Wastewater Cost of Service and Rate Study
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- SZ-9 LCRA Board Approval of Rate Increase, LCRA Board Agenda Item Recommending Approval of Rate Increase and Approved Rate Schedules
- SZ-10 Board Approval of Amendment to Commitments of Stored Water for Municipal and Recreational Purposes (Mar. 22, 2006)
- SZ-11 Board Approval of Motion to Amend LCRA Raw Water Rates (Sept. 2006)
- SZ-12 Rate Case Expense Supporting Data
- SZ-13 WTC Regional Water System Revenue Requirement Summary
- SZ-14 WTC Regional Wastewater System Revenue Requirement Summary

EXHIBIT 1

SOAH DOCKET NO. 582-08-2863 TCEO DOCKET NO. 2008-0093-UCR

APPEAL OF THE RETAIL WATER § AND WASTEWATER RATES OF THE § Ş LOWER COLORADO RIVER AUTHORITY

BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

DIRECT TESTIMONY OF SUZANNE ZARLING

INTRODUCTION

2 PLEASE STATE YOUR NAME AND CONNECTION WITH THIS PROCEEDING. 3 **Q**.

I.

My name is Suzanne Zarling, and I am the Executive Manager of the Water Services Business 4 Α. Unit ("WSBU") for LCRA. 5

HOW LONG HAVE YOU BEEN EMPLOYED BY LCRA? 6 **Q**.

- I have been employed by the Lower Colorado River Authority ("LCRA") for over fourteen years. 7 Α.
- I first joined LCRA in May, 1995. 8

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WHAT ARE YOUR AREAS OF RESPONSIBILITY FOR LCRA AS EXECUTIVE 9 **O**. **MANAGER OF WSBU?** 10

In my position as Executive Manager of WSBU, I report directly to the LCRA General Manager, 11 A.

Thomas Mason, and am responsible for managing WSBU, which includes the following 12 13 operations units:

- Raw Water (River Services), which includes flood management, 1. 14 management of the Highland Lakes dams, daily river flow management, 15 water supply management and planning, water quality protection, 16 floodplain management and water conservation. Among other 17 responsibilities, this area is responsible for the sale of untreated water 18 from the Lower Colorado River for municipal, industrial, and other
- 19 beneficial uses: 20
- Hydroelectric, which includes the operation and maintenance of 2. 21 thirteen hydroelectric generating units at the Highland Lakes dams and 22 sells hydroelectric power to the Wholesale Power Services Business Unit 23 of LCRA; 24
- Water and Wastewater Utility Services, which in 2007 owned 3. 25 and in most cases operated 40 water and wastewater utility systems 26 serving over 250,000 people across largely rural and urbanizing areas of 27 Central and South Central Texas, and provides retail and wholesale water 28 and wastewater services; and 29

4. Irrigation, which owns and manages three coastal irrigation divisions that sell and distribute water to farmers in Wharton, Colorado and Matagorda Counties.

4 My responsibilities include oversight of all business, personnel, operational and financial matters 5 related to the services provided by WSBU.

6 Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

- 7 A. I received a Bachelor of Arts in Political Science from Texas A&M University in 1979; completed 8 course work for a Master of Public Administration at North Texas State University (all but thesis); 9 and received a Juris Doctor from the University of Oklahoma in 1986. I am an attorney, licensed 10 by the State Bar of Texas since 1986. From 1986 through 1992 I practiced law with the law firm of Matthews & Branscomb in Corpus Christi, Texas. In 1992 I left the firm and joined the law 11 12 firm of Ellis and Prehn, where I practiced until 1993. In 1994 I became Assistant General Counsel for the Texas Department of Agriculture and worked as lead regulatory attorney until 13 1995 when I joined the Lower Colorado River Authority (LCRA) as a Real Estate Representative. 14 15 Since joining LCRA I have held a number of positions in different areas of the company and have been responsible for the management and oversight of various water functions within LCRA 16 17 since 1996.
- Prior to law school I worked for the U.S. Department of Energy as an Energy Information and
 External Relations Specialist from 1981 to 1982 and for Texaco, Inc. as a Regulatory Compliance
 Coordinator from 1982 to 1983.
- 21 Q. PLEASE IDENTIFY EXHIBIT SZ-1.
- 22 A. Exhibit SZ-1 is a true and correct copy of my resume.
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II. PURPOSE AND SUMMARY OF TESTIMONY

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

- 25 A. I will provide testimony on:
- 261. the organizational structure of LCRA (with specific focus on the27various business units, operating units and regions that are relevant to28this rate proceeding);
- 292.the West Travis County Regional Water and Wastewater30Systems and customers ("WTC Regional Systems" collectively, and31"WTC Regional Water System" and "WTC Regional Wastewater32System" individually),
- 33 3. the challenges associated with providing service to this area;
- 34 4. the basis for requesting the rate increase;

- 15. the reasonableness of the cost components used in determining2the revenue requirements;
- 3 6. the LCRA budgeting that was used to determine the revenue
 4 requirements;
 - 7. LCRA Board of Directors' approval of the proposed rates; and
 - 8. the rate case expenses for which LCRA is seeking reimbursement. My testimony in this proceeding regarding rate case expenses is limited to non-legal expenses and fees. The rate case expenses for legal services will be addressed by James Rader.

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10 Unless otherwise specifically noted, my testimony relates to matters as they existed before or at 11 the time of the LCRA Board's approval of the WTC Regional Systems' rate increase on August 12 22, 2007. Furthermore, any reference to "revenue requirements" in my testimony relates to 13 revenue requirements sought to be recovered in this proceeding (and as set out in the Cost of 14 Service and Rate Study (the "Cost of Service Study")). As will be explained in my testimony, the 15 revenue requirements of the WTC Regional Water System, as set out in the Cost of Service 16 Study, have been off-set by certain funds that are contributed to the system by LCRA.

17 Q. PLEASE DESCRIBE LCRA'S TESTIMONIES SUPPORTING THIS RATE CHANGE.

- 18 A. A brief description of the testimony of LCRA's other witnesses is included below:
- 191. Jim Travis provides testimony on the manner in which LCRA records on its books the20costs of activities performed for WSBU to provide its services; how LCRA records direct and21indirect expenses; allocation of Corporate Services Business Unit's ("CSBU") residual costs to22WTC Regional Systems; total actual costs incurred by the WTC Regional Systems in FY 2006;23debt service and associated debt service coverage assigned to WTC Regional Systems; and24LCRA's statutory public service funding obligations.
- 2. Stephen Kellicker provides testimony on the budgeting process for LCRA; components 26 used to develop the revenue requirement for the WTC Regional Systems; the cost allocation 27 method that is used to allocate relevant costs to the WTC Regional Systems; debt service and debt 28 service coverage; LCRA's proposed rate increase in relation to the rates and property taxes of 29 West Travis County Municipal Utility Districts 3 and 5 ("MUDs 3 and 5") that were in effect at 30 the time of the acquisition of the Systems by LCRA.
- 3. Kelly Payne provides testimony on the historical and existing facilities of the WTC 32 Regional Systems since LCRA first acquired the WTC Regional Systems; regionalization as it 33 pertains to the WTC Regional Systems; operations, specifically discussing the quality and 34 reliability; and improvements made to the WTC Regional Systems since acquisition by LCRA 35 and the process of determining and budgeting for needed capital improvements.

- 4. Mickey Fishbeck provides testimony on West Travis County Regional Water and Wastewater Cost of Service Study, which allocated costs among the customer classes.
- Angie Flores provides testimony on the rate structure that is in effect for the WTC 3 5. Regional Systems; the rate development process as well as the information used to determine the 4 appropriate rate structure for the WTC Regional Systems, and the implementation of approved rate structures.

7 6. Jack Stowe provides testimony on the regulatory ratemaking differences between government and investor-owned utilities; the use of budgeted years to establish utility rates, the 8 9 cost allocation method used by LCRA to allocate certain costs to WTC Regional Systems; the 10 salary levels and related benefits employed by LCRA; the use of impact fees; the debt service 11 ratio for WTC Regional Systems; and the inclusion of debt service coverage as a component of 12 revenue requirements for WTC Regional Systems.

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> 7. James Rader, describes the legal expenses incurred by LCRA in this matter.

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Q. WHAT EXHIBITS ARE YOU SPONSORING?

15 A. Over the course of my testimony I will discuss and am sponsoring the following exhibits:

16	Exhibit SZ-1	Resume of Suzanne Zarling
17	Exhibit SZ-2	LCRA Organizational Chart
18 19	Exhibit SZ-3	Chart of LCRA Water and Wastewater Utility Four Geographic Regions
20 21 22	Exhibit SZ-4	The Feasibility of Regionalizing Water and Wastewater Utilities: A TCEQ Policy Statement (Jan. 2003, RG- 357)
23 24 25	Exhibit SZ-5	Comparison of Monthly Volume per Residential Connection of West Travis County Region (Bee Cave) to Hill Country Region
26	Exhibit SZ-6	Executive Summary of R.W. Beck Report
27 28	Exhibit SZ-7	West Travis County Water and Wastewater Cost of Service and Rate Study
29 30	Exhibit SZ-8	Executive Summary of Barrington-Wellesley Group, Inc. Water Utility Audit (Nov. 1, 2006)
31 32 33	Exhibit SZ-9	LCRA Board Approval of Rate Increase, LCRA Board Agenda Item Recommending Approval of Rate Increase and Approved Rate Schedules
34 35 36	Exhibit SZ-10	Board Approval of Amendment to Commitments of Stored Water for Municipal and Recreational Purposes (Mar. 22, 2006)
37 38	Exhibit SZ-11	Board Approval of Motion to Amend LCRA Raw Water Rates (Sept. 2006)

1	Exhibit SZ-12	Rate Case Expense Supporting Data
2 3	Exhibit SZ-13	WTC Regional Water System Revenue Requirement Summary
4 5	Exhibit SZ-14	WTC Regional Wastewater System Revenue Requirement Summary

6 Exhibits SZ-2 and SZ-3, SZ-5 through SZ-14 are all true and correct copies of business records 7 of LCRA. These exhibits constitute reports, records, and data compilations of acts, events, 8 conditions, or opinions of LCRA that were made by an employee or representative of LCRA at or 9 near the time of such acts, events, conditions or opinions. These business records are kept in the 10 course of regularly conducted business activities of LCRA and it is LCRA's regular practice to 11 make and keep such reports, records, and data compilations. In addition, Exhibit SZ-7 is a 12 public record of LCRA and is a true and correct certified copy of a report, statement and data 13 compilation of the activities of LCRA. Specifically, Exhibit SZ-7, along with Exhibits SZ-4 and 14 the above-listed exhibits, are also records, reports, or statements of the activities of LCRA, which 15 is a political subdivision of the State and therefore a public agency. SZ-4 is a report or statement 16 of the Texas Commission on Environmental Quality. I have knowledge of the information 17 contained within these exhibits.

18 Q. OVER THE COURSE OF YOUR WORK FOR LCRA, HAVE YOU FORMULATED ANY 19 OPINIONS REGARDING THE WTC REGIONAL SYSTEMS?

- 20 A. Yes. I have developed the following opinions regarding the WTC Regional Systems:
- The WTC Regional Systems are well run systems, and provide high quality, and reliable
 water and wastewater services to the customers.
 - 2. The WTC Regional Systems meet the infrastructure needs of a diverse and growing region.
- 253.Providing water and wastewater service in the service area of the WTC Regional Systems26is challenging. The WTC Regional Systems serve a large, diverse and environmentally27sensitive geographic area, with differences in customer service expectations. The area28has been characterized over the last ten years by rapid and substantial growth, which has29created the need for many capital improvements.
- 304.The budgeted costs of operating the WTC Regional Systems are reasonable and31necessary for providing high quality and reliable service.
- 325.The budget developed for the WTC Regional Systems for FY 2007 through FY 2010 is33reasonable. The budgeting process used to develop the revenue requirements for the

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- WTC Regional Systems for FY 2007 through FY 2010 was comprehensive and contained adequate controls to ensure that costs included in the budget are reasonable and necessary.
- 6. The WTC Regional Systems are regional systems, thus allowing for more efficient and
 reliable utility services within the service area. A regionalized system can best serve the
 service area of the WTC Regional Systems. The regionalization of utility systems is
 supported by the Texas Commission on Environmental Quality ("TCEQ").
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 7. Capital improvements to the WTC Regional Systems have been made with a considerable
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 amount of analysis and have occurred in a manner that thoroughly considers customer
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 needs, the environment, and the long-term well being of the area.
- 118.During my tenure as the Executive Manger of WSBU, and under my direction, LCRA has12taken many steps, and implemented numerous measures to review and improve the13financial and operational strength and performance of the LCRA water and wastewater14utility systems in general, and the WTC Regional Systems in particular.
- 15 9. The WTC Regional Systems are valuable to the communities they serve.
- 1610.The rates approved by the LCRA Board on August 22, 2007 for the WTC Regional17Systems are just and reasonable. Not only are they reasonable, but even after the full18implementation of third step of the rate increase they do not fully recover the cost of19operating these systems. This is because at full implementation of the rate increase, the20revenue requirements set out in the Cost of Service and Rate Study (the "Cost of Service21Study") prepared by Rimrock Consulting Company still reflect a contribution of revenues22from LCRA's Public Service Fund.
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III. OVERVIEW OF LCRA AND THE WATER AND WASTEWATER UTILITIES SERVICES

25 Q. PLEASE DESCRIBE LCRA.

26 LCRA is a political subdivision of the State of Texas, created and functioning as a non-profit A. 27 conservation and reclamation district under Article XVI, Section 59, of the Texas Constitution 28 pursuant to the LCRA enabling legislation. It is governed by a fifteen member Board of Directors 29 appointed by the Governor of Texas and confirmed by the Texas Senate. LCRA was created in 30 1934 and has no taxing authority, which means that it must fund its operations solely from rates 31 and fees it charges for its services. As a public entity, LCRA conducts its business and sets its 32 policies in open, public meetings and is subject to open records laws. LCRA's services focus on 33 three areas: energy, water and community services. Energy services at LCRA fall into two broad

- categories: generation and transmission. LCRA provides water and supplies electricity in all or
 parts of approximately 58 counties in Central Texas.
- LCRA also has responsibilities, delineated in the LCRA enabling legislation and other law, dealing with flood protection, water supply, forestation and reforestation, sewage treatment and waste disposal, parks and recreational lands management, water pollution control, economic development, surface water control and irrigation services. LCRA's mission is to provide reliable, economical utility and public services in partnership with its customers and local communities while serving as a leader of environmental stewardship to ensure the protection and constructive use of the natural resources within its statutory boundaries.

10Q.PLEASE SET OUT LCRA'S ORGANIZATIONAL STRUCTURE AS RELEVANT TO11THIS PROCEEDING.

- 12 At the time of the proposed rate increase, LCRA's operations were organized in four main A. business units: (1) Wholesale Power Services; (2) Transmission Electric Services; (3) Water 13 14 Services (WSBU); and (4) Community Services. In addition, the Corporate Services Business 15 Unit or CSBU, provides support to each of the above business units, and its costs are assigned 16 based on factors that are set out in the direct testimony of Jim Travis. CSBU is at times referred 17 to as a fifth business unit, and that is the way it is depicted in Exhibit SZ-2. WSBU operates the 18 Highland Lakes dams and hydroelectric generating facilities; provides water and wastewater 19 utility services to communities, businesses and individuals throughout the Lower Colorado River basin; and manages the basin's surface water resources to provide a clean, reliable water supply 20 21 and protect communities from the worst effects of floods.
- WSBU is divided into four operation units as follows: (1) Water and Wastewater Utility; (2) Raw
 Water; (3) Hydroelectric; and (4) Irrigation. Water and Wastewater Utility Operating Unit is
 responsible for ownership and operation of water and wastewater utility systems providing retail
 and wholesale service to customers across largely rural and urbanizing areas of Central and South
 Central Texas. In 2007, LCRA owned and/or operated 40 water and wastewater systems, serving
 a population of over 250,000 in 13 counties.
- LCRA operates its water and wastewater systems within four geographic regions as shown in
 Exhibit SZ-3: Williamson County Region, West Travis County Region (includes service to
 Northern Hays County), Southeast Region and Hill Country Region.
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a. Williamson County Region – LCRA provides water and wastewater utility services in Williamson County as part of an alliance with the Brazos River Authority. In 2007, the Williamson County Region consisted of three wastewater systems (Brushy

Creek Regional Wastewater System, Hutto Wastewater System, and Liberty Hill Regional Wastewater System) and one water treatment plant (Sandy Creek Water Treatment Plant).

b. West Travis County Region – The West Travis County Region consists of two potable water treatment systems (the WTC Regional Water System and the Glenlake Water System), one wastewater treatment and collection system (WTC Regional Wastewater System), two wastewater collection systems (West Lake Hills Wastewater System and Rollingwood Wastewater System), and a raw water intake and pumping system (Lakeway Regional Raw Water System). The WTC Regional Systems are located within this region.

10c.Southeast Region – The Southeast Region has seven largely rural wastewater11systems (Matagorda Dunes Wastewater System, Alleyton Wastewater System, Tahitian12Village Wastewater System, Elgin Wastewater System, Camp Swift Wastewater System,13McKinney Roughs Wastewater System, and Windmill Ranch Wastewater Treatment14Plant), two water systems (Matagorda Water System and Alleyton Water System), and a15raw water delivery system (Windmill Ranch Raw Water System).

- 16 d. Hill Country Region - The Hill Country Region serves seventeen rural water 17 systems (London Water System, Harper Water System, Bridgepoint Water System, 18 Bonanza Beach Water System, Hamilton Creek Water System, Southroad Water System, 19 Lake Buchanan Water System, Lometa Water System, Paradise Point Water System, 20 Quail Creek Water System, Ridge Harbor Water System, Sandy Harbor Water System, 21 Smithwick Mills Water System, Spicewood Beach Water System, Sunrise Beach Water 22 System, Tow Village Water System, and Whitewater Springs Water System), two 23 wastewater systems (Lometa Wastewater System and Ridge Harbor Wastewater System) 24 and one biosolids composting facility (Highland Lakes Biosolids Facility).
- The appellants in this proceeding are within the West Travis County Region and are provided service by the WTC Regional Systems.

27 Q. PLEASE DESCRIBE WHEN AND WHY THE REGIONS WERE ESTABLISHED?

A. The Regions were initially established in the 2002 – 2003 timeframe. The primary drivers behind
 regionalizing the systems were to improve operating efficiency and provide cost savings for
 system customers. At the time, LCRA had dozens of utility systems stretching across hundreds of
 miles from Lometa to Matagorda. Most of the systems were small, with small customer bases,
 and it would have proved extremely inefficient and expensive to establish offices and staff at each
 system. Equally inefficient and expensive would have been to have all offices and staff work out

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8 9 of Austin, due to the significant amount of travel that would have been needed to operate most of
 the systems. Regional operations centers and structure allowed costs to be shared between
 systems, which was more efficient and saved money. LCRA formally created the regional
 management structure in 2005.

5 Q. WHAT CONSIDERATIONS WERE USED TO ESTABLISH THE REGIONS?

6 Contiguous operations, distance to travel for operations, and similarity of communities and A. 7 service level expectations of the customers all factored into the formation of the regions. Let me offer some examples. The areas included in the West Travis County Region were fairly close 8 geographically, were suburbanizing and seeing growth pressure, and no other regional system 9 10 appeared poised to accommodate the growth. What is now the Southeast Region is quite 11 different. There, the systems were geographically dispersed, but LCRA had land and facilities at 12 the Camp Swift Wastewater system that could serve as a regional base of operations. By having an operational base there, staff saved hundreds of miles of travel moving people and equipment to 13 14 remote systems.

Q. WHAT GROUP WAS RESPONSIBLE FOR REVIEWING FINANCIAL MATTERS ASSOCIATED WITH THE WATER AND WASTEWATER UTILIY OPERATING UNIT AT THE TIME OF THE RATE INCREASE?

A. Financial matters were managed by the Water Services Business and Financial Services group.
 The Water Services Business and Financial Services functioned within the WSBU and reported
 directly to me. This group was also responsible for rate development.

21Q.IS THE WATER AND WASTEWATER UTILITY OPERATING UNIT AN22INDEPENDENT ENTITY?

23 A. No, it is not an independent, stand-alone entity. It functions within WSBU and depends on CSBU 24 and WSBU for various support services. Every operating unit, including the Water and Wastewater Utility Operating Unit, receives relevant support services from CSBU, as well as the 25 business unit within which it operates (in this case, WSBU). The goal of the Water and 26 Wastewater Utility Operating Unit is to provide cost-effective and efficient utility services to its 27 customers. By centralizing certain services within CSBU, the costs can be shared by all LCRA 28 29 Business Units. Similarly, by centralizing certain costs within WSBU, the costs can be shared by 30 the operating units, including Water and Wastewater Utility Operating Unit. This arrangement 31 makes it possible to provide the services more efficiently than if each separate service was staffed 32 within each business unit or operating unit and dedicated solely to support that unit. There are 33 many examples, including communications services, legal services, public affairs services,

technology services, accounting and other financial services, access to capital markets and debt
 management, auditing services, human resources services, facilities management services,
 technology and telecommunications services, administrative services, budgeting services, records
 management, time keeping, and environmental and safety support, among others.

5 The costs associated with these services are either directly charged or allocated to the business 6 unit, operating unit, or units within the operating unit (such as WTC Regional Systems), receiving the support services. In the case of WTC Regional Systems, necessary services are provided by 7 8 the WTC Region, Water and Wastewater Utility Operating Unit, WSBU, as well as CSBU. The 9 method by which these costs are allocated to the system level is discussed in great detail in the 10 direct testimonies of Jim Travis and Stephen Kellicker. Each service, the cost of which is ultimately allocated to the individual system, is necessary for the operation of the system. 11 12 Furthermore, LCRA has made a considerable amount of effort to ensure that the costs that are allocated to individual systems fairly represent that system's use of the services. 13

14Q.WHAT IS THE MISSION FOR THE WATER AND WASTEWATER UTILITY15OPERATING UNIT?

A. The mission of the Water and Wastewater Utility Operating Unit is to provide sustainable water
 and wastewater utility services to enhance the quality of life of our communities.

18Q.PLEASE EXPLAIN THE TYPES OF WATER AND WASTEWATER SYSTEMS WITH19WHICH LCRA IS GENERALLY INVOLVED.

- 20 A. LCRA's history is rich with projects designed to help communities solve infrastructure problems. LCRA's water and wastewater utility services has continued that tradition beginning in the 1990s, 21 when communities in LCRA's largely rural and suburbanizing service area needed help to build 22 23 and finance regional utility infrastructure projects, and to refurbish and repair systems that had 24 been neglected or were not complying with environmental laws. LCRA got involved in areas 25 where it was welcomed and often invited to help meet community needs. LCRA's involvement is 26 driven by a desire to help solve the water and wastewater service challenges faced by such 27 communities, primarily by providing the communities with essential utility services. Generally, LCRA's utility systems are located in areas where municipalities and other utilities were unable or 28 29 unwilling to serve.
- LCRA's utility systems fall into a few categories. The first is small systems, commonly serving fewer than several hundred connections. These were often constructed by developers and either turned over to residents or small utility entities that did not have the financial means to make needed capital improvements. The next category is systems where LCRA got involved to address

regulatory, environmental or public health concerns that were not being addressed by system owners. A third category would be systems constructed to serve LCRA facilities. A final category would be regional systems, designed to provide efficient services to meet needs in growing areas that crossed jurisdictional boundaries and addressed the need for a consistent approach to utilities across a region. The WTC Regional Systems fall into this last category.

6 Q. BRIEFLY EXPLAIN THE HISTORY OF LCRA'S INVOLVEMENT WITH THE WTC 7 REGIONAL SYSTEMS?

- 8 LCRA purchased the Uplands Water Treatment Plant from the Resolution Trust Corporation in A. 9 1994, following the failure of the previous owner of the utility. When the previous utility failed, 10 LCRA offered a strong, regional presence with the capability of managing utility systems, as well 11 as managing the expected large capital projects that would be needed for the utility to serve the 12 rapidly growing area. When LCRA acquired the system, the only customers of the system were 13 in the Barton Creek West subdivision. LCRA's regional presence then led to the request by developers in the area to receive wholesale potable water service for Senna Hills Municipal 14 Utility District and West Travis County Municipal Utility District No. 5 to serve the planned 15 residential subdivisions of Lake Pointe and Senna Hills. LCRA began to expand the treated water 16 system with transmission lines along Bee Cave Road and Highway 71, to serve Municipal Utility 17 Districts and commercial development in Bee Cave. Please refer to Exhibit KP-3 that depicts the 18 general areas discussed herein, and Exhibit KP-2 for a more detailed timeline of LCRA's 19 20 development of the retail water system.
- 21 LCRA first adopted retail rates in 1999 in anticipation of providing retail service to residences 22 and commercial entities in and around the City of Bee Cave ("Bee Cave," or the "City"). Shortly 23 after that time, LCRA entered into agreements with Bee Cave to provide retail water and wastewater utility services inside the incorporated area and extraterritorial jurisdiction of Bee 24 25 Cave. At that time, Bee Cave was small, with limited resources, yet was experiencing rapid 26 growth and transitioning from a cross-roads community into a suburban area. Rather than 27 embarking on a new enterprise of building and managing a utility system, the City looked to 28 LCRA to provide water and wastewater services.
- During the same time period, LCRA entered into agreements with CCNG Development Company, L.P. ("CCNG"), developer of the Spanish Oaks Subdivision being planned along Highway 71, that provided, among other things, for CCNG to construct a wastewater treatment plant and collection system for conveyance to LCRA. Bee Cave was also looking for wastewater service for proposed large scale commercial developments in Bee Cave, such as the Hill Country

1 Galleria. Rather than building new systems to serve these developments, in 2001 LCRA 2 purchased the Lake Pointe wastewater system. Regional wastewater service could be provided 3 out of the Lake Pointe system to serve substantial development, and instead of building a duplicative wastewater system, CCNG provided LCRA with land to accommodate future 4 5 expansion of the wastewater treatment capacity. This arrangement enabled LCRA to fully utilize 6 existing wastewater treatment capacity and infrastructure, eliminating the need for multiple small 7 systems in this environmentally sensitive area. When LCRA acquired the Lake Pointe 8 wastewater system, it was already serving out-of-district customers.

9 Q. WHAT ARE THE CHALLENGES OF PROVIDING UTILITY SERVICES IN THIS 10 AREA?

The area is large, hilly and rugged. While this is attracting new residents to the area, it is remote 11 A. 12 from reliable water supplies. This makes it necessary to construct miles of pipelines and many 13 pumps and storage facilities to move water and wastewater up and down hills and across miles of 14 terrain. Rugged and rocky terrain increases the cost and complexity of constructing needed facilities. Furthermore, the area is environmentally sensitive. Environmental regulations prevent 15 16 the discharge of wastewater into Lakes Travis and Austin, necessitating alternative effluent 17 disposal options. Large areas within this region are dependent on unreliable groundwater 18 supplies.

19 The WTC Regional Systems serve many large residences with large, landscaped lots and 20 swimming pools, as well as small, more rural areas, where water use is low. Treatment capacity 21 has to keep up with the high water demands of some area residents, who strain treatment and 22 storage capacity during peak use periods. Unlike a municipal utility system where there is often 23 not a significant distance between connections, there is frequently a great distance between 24 connections in the service area of the WTC Regional Systems. The WTC Regional Systems also 25 serve customers in multiple jurisdictions.

All of these factors affect the cost of providing utility services. These factors also make it difficult for an organization without resources and utility experience to provide quality, reliable service. LCRA, or a regional entity like LCRA, was needed to bring regional utility services into this challenging area. LCRA has the experience and resources to build complicated utility infrastructure projects and to provide utility services to such an area, making it a good fit to own and operate these systems.

32Q.GIVEN THESE CHALLENGES, WHY DID LCRA EXPAND AND REGIONALIZE THE33WTC REGIONAL SYSTEMS?

LCRA regionalized the systems to provide reliable water and wastewater utility services, which 1 2 benefit the public health, in a rapidly growing and environmentally sensitive area. This is our 3 mission, as I stated above. In 1994, Bee Cave was a small community at the intersection of 4 several highways and roads, including Texas Highway 71, Ranch Road 620, Bee Cave Road and 5 Hamilton Pool Road. At the time of the rate increase, the WTC Regional Systems served a thriving community of nearly 2000 homes and businesses in the Bee Cave area, including golf 6 courses, new schools, and two new regional shopping centers. Growth in the Dripping Springs 7 area has been similar and has placed strains on groundwater resources in that area. In yet another 8 area of the system, Deer Creek Ranch was a groundwater-based system on Hamilton Pool Road 9 10 that struggled with unreliable groundwater supplies. After significant involvement with elected officials including State Representative Patrick Rose, it now receives reliable service as a 11 12 wholesale customer of the WTC Regional Water System. These are just a few examples of how regional water and wastewater utilities can improve quality of life. As I previously mentioned, a 13 regional system, such as LCRA's, is needed for a service area such as the one in the instant case. 14 Regionalization of utility services is beneficial for the customers and is supported by TCEQ, as 15 set out in Exhibit SZ-4. The WTC Regional Systems are capital-intensive, which increases costs. 16 17 In order for LCRA to continue to provide utility services to this challenging and diverse area, it 18 must maintain its financial integrity by meeting its cost of providing services.

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IV. DESCRIPTION OF WEST TRAVIS COUNTY REGIONAL WATER SYSTEM

20Q.ARE YOU FMAILIAR WITH THE SERVICE AREA AND FACILITIES OF THE WTC2121REGIONAL WATER SYSTEM?

- A. Yes, I am familiar with both the service area and the general facilities of the WTC Regional Water
 System.
- 24 Q. WHAT IS EXHIBIT KP-3?
- 25 A. Exhibit KP-3 is a map of the service area of the WTC Regional Systems.

26Q.PLEASE DESCRIBE THE FACILITIES THAT SERVE THE WTC REGIONAL WATER27SYSTEM CUSTOMERS.

A. In 2007, the WTC Regional Water System consisted generally of a surface water treatment plant
 (the Uplands Water Treatment Plant) a raw water intake, a raw water line, and associated
 transmission, pumping, distribution and storage facilities. Specific details regarding the WTC
 Regional Water System's facilities are included in the direct testimony of Kelly Payne, P.E.

1Q.IS THE WTC REGIONAL WATER SYSTEM DESIGNATED AS A SUPERIOR PUBLIC2WATER SYSTEM BY TCEQ?

A. Yes. In 2007, the TCEQ designated the WTC Regional Water System as a Superior Public Water
 Supply System. This is a designation reserved for systems that meet regulations and achieve a
 number of TCEQ design and operating criteria relating to protection of public health, safety,
 reliability, capacity and aesthetics.

7Q.PLEASE DESCRIBE THE FACILITIES THAT SERVE CUSTOMERS OF THE WTC8REGIONAL WASTEWATER SYSTEM.

9 A. In 2007, the WTC Regional Wastewater System consisted of a single wastewater treatment plant
10 in the Lake Pointe subdivision near Bee Cave (with installed capacity of 525,000 gallons per
11 day), a wastewater collection system, lift stations and force mains, an effluent storage pond, and
12 an effluent disposal system. Specific details regarding the WTC Regional Wastewater System's
13 facilities are included in the testimony of Kelly Payne, P.E.

14Q.PLEASE DESCRIBE THE LCRA CUSTOMER BASE FOR WTC REGIONAL15SYSTEMS?

In 2007, the WTC Regional Systems provided service to retail water and wastewater customers, 16 Α. 17 consisting of residential, non-residential, irrigation, and multi-family classes. The systems provided retail service in west Travis County and northern Hays County around Dripping 18 19 Springs, Bee Cave and its extraterritorial jurisdiction, areas within the extraterritorial jurisdiction 20 of the City of Austin, residents in the service area of the former Hill Country Water Supply 21 Corporation, and subdivisions along US Highway 290 and along Texas Highway 71. The WTC 22 Regional Water System also provided wholesale service to Barton Creek West Water Supply Corporation, Senna Hills Municipal Utility District, Crystal Mountain Homeowners Association, 23 24 Dripping Springs Water Supply Corporation, Hays County Water Control and Improvement 25 District No. 1, Deer Creek Ranch Water Company, Lazy Nine Municipal Utility District, and 26 developers including N-Hays Investors, and Hays Reunion Ranch. The protestants in this rate 27 case are all from the Bee Cave area.

28Q.WHAT ARE YOUR OBSERVATIONS REGARDING WATER USAGE BY THE WTC29REGIONAL WATER SYSTEM'S CUSTOMERS IN THE BEE CAVE AREA?

A. WTC Regional Water System's customers in the Bee Cave area use significant amounts of water
 during summer months, as shown in the chart attached as Exhibit SZ-5. Average water use by
 residential customers in this area exceeds 25,000 gallons per month during peak water use periods
 in the summer. Customers in more rural areas served by LCRA have usage patterns with

1 generally lower summer peaks. Additionally, unlike other areas of the system that experience 2 system peaks only once each day, customers in the Bee Cave area create peak demand on the 3 system twice per day, typically in the morning when sprinkler systems run and in the evenings as 4 residents return home from work. These high peak demands increase the cost of building and 5 operating water systems, as they require increased treatment and storage capacity to meet peak 6 demands.

7 Q. PLEASE IDENTIFY EXHIBIT SZ-5.

A. This is the graph that I discussed above, comparing the water usage of customers of the Bee Cave
 are within the WTC Regional Water System to the customers within the Hill Country Region.
 This exhibit was prepared by staff under my direction using information that is publically
 available.

12 Q. WHAT GROWTH ARE YOU SEEING IN THIS AREA?

The service area of the WTC Regional Systems has seen significant growth since LCRA acquired the water system in 1994 and the wastewater system in 2000. The number of water meters served by the system has increased by an average of 30% per year for the four year period prior to the budget year FY 2007. There has also been considerable growth in the service area served by the wastewater system. Growth has occurred along Bee Cave Road and Texas Highway 71 in Bee Cave, along US Highway 290 toward Dripping Springs, west along Texas Highway 71 toward Spicewood and along Hamilton Pool Road.

20

V. NEED FOR RATE INCREASE

21 Q. WHAT DROVE THE NEED FOR THE RATE INCREASE IN THIS MATTER?

A. The need for a rate increase for the WTC Regional Systems was driven by costs associated with
 serving this area and the need to recover those costs through rates consistent with LCRA Board
 Policy. Rates had not been increased in several years and costs had increased as System demands
 grew.

26Q.WHAT HAS BEEN YOUR ROLE IN EVALUATING THE FINANCIAL AND27OPERATIONAL PERFORMANCE OF THE WATER AND WASTEWATER UTILITY28SYSTEMS?

A. I was hired as the Executive Manager of WSBU toward the end of 2004. At that time, one of my
 primary responsibilities was to evaluate the water and wastewater utility systems of LCRA, make
 necessary improvements to improve operations and reduce costs, if needed, and to develop a plan
 for moving the systems to financial self-sufficiency.

1Q.WAS THE WATER AND WASTEWATER UTILITY AT LCRA FINANCIALLY SELF-2SUFFICIENT PRIOR TO THAT TIME?

3 A. No.

4Q.WHAT STEPS DID YOU TAKE TO ANALYZE THE FINANCIAL AND OPERATIONAL55PERFORMANCE OF THE WATER AND WASTEWATER UTILITY SYSTEMS?

A. Under my direction, staff formed a team called the Water Utility Oversight Group ("WUOG") to
perform such an analysis. Additionally, in January 2005, I joined with the LCRA General Auditor
in hiring the firm of R.W. Beck to provide an independent assessment of the Water and
Wastewater Utility Operating Unit's operations, and to make recommendations to improve the
efficiency and effectiveness of these operations. The work of R.W. Beck and the Water Utility
Oversight Group took place concurrently.

12 Q. WHO SERVED ON THE WUOG?

A. The WUOG was supported by the General Manager, and consisted of three Deputy General
 Managers: the Chief Financial Officer, the Deputy General Manager of Water, and the Deputy
 General Manager over External Affairs. The WUOG also included key senior staff from across
 LCRA.

17 Q. WHAT WAS THE WUOG CHARTERED TO DO?

18A.The WUOG spent approximately eight months evaluating the Water and Wastewater Utility19Operating Unit from a financial and operational perspective. During the approximately eight20month analysis by WUOG, we made a number of presentations to the LCRA Board and/or the21Water Committees of the LCRA Board, to report on efforts to improve the performance of the22Water and Wastewater Utility Operating Unit. In August, 2005, the LCRA Board Water23Operations Committee held a special worksession to review the results of the work done by the24WUOG.

25 Q. PLEASE ELABORATE ON THE WUOG PROCESS?

A. The WUOG process analyzed each system within the Water and Wastewater Utility Operating Unit using existing data, challenging assumptions about growth and cost projections, and assessing financial risk. The goal of the analysis was to get a better look at the financial condition of each utility system, to help us better understand the financial and operational challenges faced in each system, and, at a high level, to identify then-current and future capital needs.

1Q.WHAT CONCLUSIONS WERE DRAWN AS A RESULT OF THE WUOG AND THE R.W.2BECK AUDIT?

- 3 A. Some of the more significant conclusions were the following:
- 4R.W. Beck determined that the water and wastewater utility operations5team was an efficient and productive business with an "exceptionally6motivated, dedicated, hard working combination of individuals7performing quite well within the constraints of physical assets, system-8by-system location diversity, and current staffing compliment." The9report went on to describe the staffing as "exceptionally lean."
- 10The analyses confirmed that utility rates were too low in many of11LCRA's utility systems, including the WTC Regional Systems. The12analyses determined that significant rate increases would be needed in13order to recover the cost of providing utility services.
- 14The reviews identified challenges created by having multiple system rate15structures, which lead to extra complexity and cost in establishing and16managing rates. A move towards more regionalization of systems to17reduce costs and improve efficiency by, among other things, achieving18some economies of scale when resources were shared across systems,19was recommended.
- 20Considerable capital investment had been made by LCRA to expand its21utility systems and also bring the systems into compliance with22regulations.
- 23 Improvements were needed in the provision of retail customer service.

24 Q. PLEASE IDENTIFY WHAT HAS BEEN MARKED EXHIBIT SZ-6.

A. Exhibit SZ-6 is a true and correct copy of the executive summary from the R. W. Beck
 operational review of the LCRA Water Wastewater Utility Systems. This report was conducted at
 my request and I have personal knowledge of the information included within the report.

Q. WHAT STEPS WERE TAKEN TO IMPROVE THE FINANCIAL AND OPERATIONAL PERFORMANCE OF THESE SYSTEMS AS A RESULT OF THE WUOG AND R.W. BECK FINDINGS?

A. Following discussions with the LCRA Board in 2005, staff worked to develop a business model for the utility, and created a business plan that would bring the water utility systems to financial self-sufficiency This would require several key components: ongoing cost control, rate increases (in some systems these would be significant), an annual contribution from what is now called the Public Service Fund ("PSF," previously referred to as the Community Development Fund) for a period of time to allow growth and rate increases to off-set revenue shortfalls, and several more years of deferring debt payments until a point in the future when customer rates could pay the costs of the debt. The LCRA Board's objective at that time was to wean the utility from the PSF
 contributions and from debt deferrals in a relatively short time horizon. The WTC Regional
 Systems' rates were not then, and are not now, adequate to fully recover the cost of providing
 service to the customers of the systems.

5 Numerous steps have been taken to improve the financial and operational performance of the 6 utility systems. These steps have resulted in improvements to, and reductions in the cost of 7 providing utility services. Some examples include the following:

- Relocated the financial services function for the utility to a department outside the utility. This provided a higher level of visibility into all aspects of the financial operations of the utilities, an increased level of independence and an additional level of control with respect to financial information.
- Separated project management and engineering functions. Assigned project managers to a separate unit. This move created a stronger engineering and quality assurance function within utility services; resulted in stronger budget control and better management of projects, and also provided improved oversight of technical consultants and their recommendations.
- Enhanced the capital funding approval process used to review all proposed capital expenditures. This has most significantly reduced expenditures for general additions projects. This process has brought a higher level of scrutiny to all capital projects.
 - Created the regional manager position as the Water and Wastewater Utility Operating Unit's senior representative in a geographic area. This has allowed LCRA to be more responsive, more able to drive results, and to build stronger relationships with customers in the service areas.
- Improved customer service function by: consolidating into a single department to improve responsiveness, consistency, and customer interface; bringing the customer call center in house without adding any additional staff; and bringing water utility billing operations in-house. This action allowed for cost savings and improvements in service delivery.
 Eliminated operations superintendent position and consolidated responsibilities.
 - Eliminated operations superintendent position and consolidated responsibilities in existing operations manager and supervisor positions.

32Q.DID LCRA PERFORM A RATE STUDY SPECIFIC TO THE WTC REGIONAL33SYSTEMS?

34 Yes, LCRA hired Rimrock Consulting Company, an independent consultant, to assist LCRA staff A. 35 by completing a Cost of Service Study for the WTC Regional Systems. The Cost of Service 36 Study sets out the revenue requirements for the WTC Regional Systems as well as the actual rate 37 revenues collected from the WTC Regional Systems and other funds available to the systems. As 38 is evident from a review of the Cost of Service Study, the WTC Regional Systems had not fully 39 recovered their costs in any of the years examined between LCRA's fiscal years 2003 through 40 2006. In order to recover full cost of service, rate increases would be necessary. The Cost of 41 Service Study recommended a method to allocate system costs among customer classes within

DIRECT TESTIMONY OF SUZANNE ZARLING

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WTC Regional Systems. The Cost of Service Study is set out in Exhibit SZ-7. Exhibits SZ-13
 and SZ-14 set out the revenue requirements for FY 2007 through FY 2010 for the purposes of this
 rate proceeding.

4Q.PLEASE EXPLAIN HOW THE COST OF SERVICE STUDY WAS USED BY LCRA5STAFF.

A. Mickey Fishbeck of Rimrock Consulting used revenue requirement data provided by LCRA.
 LCRA Staff used the Cost of Service Study findings about revenue requirements by customer
 class to construct a proposed rate structure.

9 Q. DID LCRA STAFF DEVELOP A RATE STRUCTURE BASED ON THE CUSTOMER 10 ALLOCATIONS SET OUT IN THE COST OF SERVICE STUDY?

11 Yes. Recognizing the significance of the needed increases, staff initially developed a rate plan Α. 12 that spread the needed increase over a two year period. While this delayed the time at which the utility would recover costs, staff felt the plan was necessary to soften the impact of the needed 13 rate increase to the customers. LCRA staff initially planned to ask the LCRA Board to allow the 14 rate to ramp up over that two year time. However, following public and customer input, LCRA 15 staff agreed to propose that the rate increase be phased in over three years instead of two, further 16 17 delaying the time at which the utility would reach financial self-sufficiency, but mitigating some 18 of the impact of the rate increase on the customers of the systems.

19Q.YOU MENTIONED PUBLIC AND CUSTOMER INPUT. WAS THERE ANY20COMMUNICATION BETWEEN LCRA AND THE CUSTOMERS OF WTC REGIONAL21SYSTEMS PRIOR TO THE IMPLEMENTATION OF THE RATE INCREASE?

22 Yes. LCRA staff presented a proposed rate plan to the Bee Cave City Council on June 26, 2007. A. 23 A public meeting was held on June 27, 2007, to discuss the proposed rate increases, which at that 24 time were planned to take place in two steps. Based on customer input, LCRA staff proposed to 25 the LCRA Board a three-step rate increase rather than the two-step rate increase. As noted, this was done to help mitigate the impact of the proposed increases to the customers. This was 26 27 done despite the fact that prolonging the two-step rate increase would essentially mean that the 28 WTC Regional Systems would not meet its revenue requirement for yet another year. The rate 29 increase that was ultimately approved by the Board on August 22, 2007 included a three-step rate increase. Also, comments received from customers were delivered to the LCRA Board and a 30 31 number of the Systems' customers made presentations to the LCRA Board in an open, public 32 meeting.

1Q.WHEN WAS THE LAST WATER AND WASTEWATER RATE INCREASE2APPLICABLE TO THE APPELLANTS?

- A. The last water rate increase for the appellants in this case was approved by the LCRA Board in
 2003. The last wastewater rate increase for the appellants was approved by the LCRA Board in
 2004.
- 6 7

VI. MANAGEMENT'S ROLE IN BUDGETING AND RATEMAKING PROCESS

8Q.YOU TESTIFIED THAT LCRA USED BUDGETED DATA IN FORMULATING ITS9RATES. WHAT BUDGET YEARS FORM THE BASIS OF THE RATES SUBJECT TO10THIS PROCEEDING?

11 A. Budgeted data for FY 2007 through FY 2010.

12Q.IN DEVELOPING A BUDGET, IS THE MOST RECENT BUDGET REVIEWED AND IS13PERFORMANCE AGAINST THE MOST RECENT BUDGET CONSIDERED?

A. Yes. The budgeting process for WSBU, and all units within WSBU, including WTC Regional
Systems, begins with the most recent budget. To build the FY 2007 Business Plan, staff and
management first reviewed the FY 2006 budget, and performance against that budget, to
determine whether it was adequate to cover system costs and if not, where the shortfalls occurred.
Accordingly, staff evaluated that budget, and performance against that budget, to determine
whether it was an appropriate basis upon which to build a budget for the coming years. The
budget in this matter was prepared consistent with LCRA Board Policy.

21 Q. HOW WERE THE WTC REGIONAL SYSTEMS' BUDGETS DEVELOPED?

A. Budgets at the system level were developed based on a significant amount of data, historical and projected, from subject matter experts involved with the utility. Utility staff reviewed the information that was generated and made determinations on the necessity and reasonableness of given cost items. Ultimately, I along with my direct reports reviewed consolidated budgets, which included utility systems' budgets. The direct testimony of Stephen Kellicker provides additional detail on the manner in which budgets at the system level, and ultimately by WSBU, are created.

29 Q. WAS THE CAPITAL BUDGET DEVELOPED IN A SIMILAR FASHION?

30 A. Yes. Utility staff identified and scrutinized the need for capital projects within each system and
 31 submitted recommendations for management review. The capital budget is built based on the
 32 need for the project, the ability to recover project costs through rates, and the ability to get capital
 33 projects built and funded. Separate from annual capital budgets, we have planned for long-term

capital needs of the utility systems on an on-going basis. This planning was used to develop the
 capital plans for the FY 2007 through FY 2010 budgets. The capital plan followed a process
 similar to the Business Plan (operations and maintenance budget) and was reviewed and approved
 by the Board in the same manner.

5 Q. WHAT IS MANAGEMENT'S ROLE IN THIS PROCESS?

6 A. I review budgets at the system level. Generally, my review focuses on categories of cost, 7 including staffing levels, and on determining the reasonableness of those costs in relation to 8 historical data and projected needs. The Water and Wastewater Operating Unit budget, along with 9 the proposed budgets from the other WSBU operating units, was reviewed by me and my direct 10 reports with this same focus. After being approved by each senior manager, including me, within 11 Water Services and the Water Services Business Manager, the proposed budget was reviewed and 12 approved by the Chief Financial Officer and General Manager prior to being presented to the 13 LCRA Board for consideration.

14 Q. WERE OPERATING UNIT BUDGETS PRESENTED TO THE LCRA BOARD?

- A. Yes. For the FY 2007 Business Plan, the LCRA Board held a public budget workshop on May 3
 and 4, 2006 to review and consider the proposed budget and to recommend needed changes.
 Operating unit budgets were presented to the LCRA Board at that time. The Board then approved
 the FY 2007 Business Plan at its regular meeting in May 2006. This process applies to operations
 budgets, and a similar process is used to develop capital budgets.
- 20 Consistent with LCRA Board Policy, each budget presented to the Board is a five-year budget 21 that projects costs in the following years. A significant amount of data is reviewed and analyzed 22 in order to develop the five-year budget.

23Q.WAS THE 2007 CAPITAL IMPROVEMENT PLAN PRESENTED TO AND APPROVED24BY THE LCRA BOARD?

25 A. Yes.

26Q.WERE THE BUDGETED FIGURES FOR FY 2007 THROUGH FY 2010 USED IN THE27COST OF SERVICE STUDY DEVELOPED BY THIS PROCESS?

A. Yes. However, I will note that for the WTC Regional Water System, staff incorporated newer
 information from the capital improvement plan developed in the 2006 document entitled Capital
 Improvement Plan and Impact Fee Calculation (Exhibit KP-4) that was also approved by the
 LCRA Board.

1Q.IN YOUR OPINION, ARE LCRA BUDGETED COSTS THAT WERE USED IN SETTING2RATES FOR THE WTC REGIONAL SYSTEMS A RELIABLE FORECAST OF3ANTICIPATED COSTS?

A. Yes. In my opinion, the budgeting process that was followed in establishing rates in this matter
was comprehensive and supported by a significant amount of data, analysis and review. As a
result, the budgeted cost of system operations and capital improvements is reasonably accurate
and represents a reliable forecast of system costs. Furthermore, the LCRA Board reviewed the
budgeted information and approved the rate increase that is the subject of this proceeding.

9 Q. IN YOUR EXPERIENCE AND OPINION, WAS THE USE OF THE BUDGETED DATA 10 TO SET THE RATES FOR THE WTC REGIONAL SYSTEMS REASONABLE?

- A. Yes. As I have explained, LCRA's budgeting process is a reliable forecast of anticipated costs
 and, based on my experience, can be validated. Additionally, budgeted data is commonly used by
 government utilities to establish rates.

14

VII. BOARD APPROVAL OF RATE INCREASE

15Q.WAS THE PROPOSED RATE INCREASE PRESENTED TO AND APRPOVED BY THE16LCRA BOARD?

17 A. Yes, it was presented to and approved by the LCRA Board on August 22, 2007.

18Q.DID THE BOARD APPROVE THE RATES BASED ON ITS CONSIDERATION OF19BUDGET YEARS FY 2007 THROUGH FY 2010?

20 A. Yes.

21Q.WHEN WAS THE PROPOSED RATE INCREASE ORIGINALLY INTENDED TO BE22PRESENTED TO THE LCRA BOARD?

A. Staff had intended to present this matter to the Board in September 2006.

24 Q. WAS CONSIDERATION OF THIS MATTER DELAYED?

25 Α. Yes. The FY 2007 Business Plan included a goal of making the Water Wastewater Utility 26 Operating Unit a sustainable, self-supporting operation within LCRA that financially contributes 27 to LCRA. Based on revenue shortfalls that we had experienced for many years (which was 28 routinely predicted as part of our budgeting process and illustrated in the Cost of Service Study) 29 staff had prepared to discuss the needed rate increases with the LCRA Board in September 2006. 30 However, consideration was delayed to allow the LCRA Board to conduct further studies of the 31 water utilities to ensure that the business strategy proposed by staff in 2005, which included 32 potentially significant rate increases, was appropriate.

1 Q. WHAT ACTION DID THE BOARD TAKE AT THAT TIME?

2 A. The Board hired Barrington-Wellesley Group, Inc. ("BWG") to assist with the analysis of options 3 for bringing the utility to financial self-sufficiency (the "BWG Audit"). The LCRA Board Chair 4 then created a Water Utility Audit Ad-Hoc Subcommittee (the "Subcommittee"). The 5 Subcommittee was charged with reviewing the work performed by BWG and making a report and 6 recommendations to the LCRA Board. This represented another detailed look that the LCRA 7 Board took before implementing the rate increases ultimately approved for the WTC Regional 8 Systems. The proposed rate increase was ultimately presented to and approved by the LCRA 9 Board on August 22, 2007.

10 Q. PLEASE DESCRIBE THE PURPOSE OF THE BWG AUDIT.

11 A. The purpose of the BWG Audit was to provide an outside, independent review of the utility to 12 assess the financial health of the systems and to provide options for the LCRA Board to consider 13 for making policy decisions to guide the future of the utility. The report from the BWG Audit 14 was presented to the LCRA Board on November 14, 2006. The Subcommittee conducted an 15 extensive review of the options identified by the BWG audit and adopted the options it felt were 16 in the best interest of LCRA and all its customers, including the customers of other areas and 17 functions within LCRA. The recommendations of the Subcommittee were approved by the 18 LCRA Board.

19 Q. PLEASE IDENTIFY WHAT HAS BEEN MARKED EXHIBIT SZ-8.

A. Exhibit SZ-8 is a true and correct copy of the Executive Summary of the BWG Audit Report. I
was involved in the review and consideration of this Audit Report and have personal knowledge
of the information contained within the report.

23 Q. PLEASE EXPLAIN THE PURPOSE OF THE SUBCOMMITTEE.

A. The Subcommittee met seven times to review the BWG Audit, to fully consider the options presented, and to recommend actions that could bring the utility to financial independence and best serve LCRA's customers. In July 2007, the Subcommittee issued its report, which was discussed with the LCRA Board Water Utility Committee on August 21, 2007 and presented to the full LCRA Board for consideration on August 22, 2007. The recommendations were approved by the LCRA Board.

30Q.WHAT RECOMMENDATIONS SPECIFIC TO UTILITY RATES WERE MADE BY THE31SUBCOMMITTEE?

- 1A.Among other recommendations, the Subcommittee recommended that rates for LCRA's water and2wastewater utility systems should be sufficient to cover the cost of providing service, including3reserves and debt service coverage. Specific actions recommended by the Subcommittee4included diligent cost management, equity infusion, full allocation of costs to wholesale and retail5systems, and rate increases.
- 6 On August 22, 2007, the LCRA Board adopted the report of the Water Utility Audit 7 Subcommittee and directed staff to implement the subcommittee conclusions, guidance and 8 recommendations. So, after several years of extensive review by LCRA Board and staff, the 9 LCRA Board determined the rate increases were necessary for the WTC Regional Systems.

10Q.PLEASE EXPLAIN THE RATE INCREASE THAT WAS APPROVED BY THE BOARD11ON AUGUST 22, 2007.

- 12A.The rate increase unanimously approved by the Board in August, 2007 was an increase to be13implemented over a three year period as described in the Board Agenda Item that requested Board14approval. The item received LCRA Board approval following discussion and public input. The15first step of the rate increase became effective October 1, 2007. The second step became effective16October 1, 2008. The third step has not become effective as a result of Order No. 9 issued in this17docket. The LCRA Board Agenda item recommending the WTC Regional Systems' rate increase18and the LCRA Board approval of the rate increase are attached as Exhibit SZ-9.
- 19 In the action taken by the LCRA Board in August 2007, the LCRA Board adopted retail water 20 and wastewater rates for customers of the WTC Regional Systems. All retail customer classes, residential, non-residential, irrigation and multi-unit residential, were affected by the rate 21 increases. Prior to the first step of the 2007-approved rate increase, the WTC Regional Systems' 22 23 rates had not been increased since 2003/2004. The increase in the water rates was only the second rate increase since LCRA acquired the water system in 1994. The 2007-approved 24 wastewater rate increase represented only the second rate increase since LCRA acquired the 25 26 wastewater system in 2000.
- 27 The details of the rate increases by customer class and meter size are included in Exhibit SZ-9.

28Q.DID YOU RECEIVE ANY ADDITIONAL DIRECTION FROM THE BOARD AT THAT29TIME?

A. The direction I received from the LCRA Board was to implement a rate strategy to enable the
 Water and Wastewater Operating Unit to fully recover its revenue requirements and meet the
 goals set out in the FY 2007 Business Plan.

1 During the discussion, several members of the LCRA Board, including the Chair, emphasized the 2 significant amount of time the Subcommittee members and staff put into the review of the BWG 3 Audit and the difficult nature of the issues. Also emphasized during the discussion was the BWG 4 finding that the LCRA cost allocation method was appropriate.

5

II. IMPACT OF AND REASONABLENESS OF RATE INCREASE

6 Q. HAVE YOU EVALUATED THE REASONABLENESS OF THE WAGES AND SALARIES 7 PAID BY LCRA TO ITS EMPLOYEES?

8 A. Yes. To provide reliable services to the utilities, it is important for LCRA to be able to attract and 9 retain experienced, high performing employees. LCRA competes for good employees with other 10 employers both within and outside Central Texas. As a result, wages and salaries paid by LCRA 11 must be within the range of the market wages and salaries paid by other entities. If LCRA lags 12 behind market wages and salaries, then it is subject to excessive job turnover as skilled employees 13 leave to seek high paying jobs. High turnover rates are detrimental to the safe, reliable operation 14 of the water utility systems and it is costly to train new employees. To prevent the high cost of 15 job turnover, market wage and salary surveys are routinely reviewed to ensure that LCRA compensation is competitive. I have reviewed numerous benchmark data and believe that 16 17 LCRA's compensation is reasonable.

18Q.BASED UPON YOUR EVALUATION ARE THE WAGES AND SALARIES PAID BY19LCRA TO ITS EMPLOYEES REASONABLE?

20 A. Yes.

21Q.IN YOUR OPINION, WERE THE DIRECT O&M COSTS FOR FY 2007 THROUGH FY222010 FOR THE WTC REGIONAL SYSTEMS REASONABLE AT THE TIME OF THE23RATE INCREASE?

A. Yes. We have a rigorous, comprehensive budgeting process that factors in all of the cost
components for direct operation and maintenance costs at the system level. As I previously
stated, I review budgets at the system level. I review categories of cost, including staffing levels,
and determine the reasonableness of those costs in relation to historical data and projected needs.
Based on my review of the FY 2007–FY 2010 budget data, the costs were reasonable and
necessary for operation of the systems. Detailed testimony on this matter is provided by Stephen
Kellicker.

31Q.WERE RAW WATER CHARGES A PART OF THE REVENUE REQUIREMENT IN THE3232COST OF SERVICE STUDY FOR THE WTC REGIONAL WATER SYSTEM?

A. Yes. Raw water charges are a component of the revenue requirement for the WTC Regional
 Water System. Exhibits SZ-10 through SZ-11 show the LCRA raw water rates and the LCRA's
 commitment for raw water at the time of the rate increase.

4 Q. ARE YOU AWARE OF THE AMOUNT OF COSTS ALLOCATED TO WTC REGIONAL 5 SYSTEMS FOR FY 2007 THROUGH FY 2010?

6 A. Yes. I am aware of these allocated costs.

Q. IN YOUR OPINION, WAS THE ALLOCATION METHOD USED IN DETERMINING BUDGETS FOR FY 2007 THROUGH FY 2010 REASONABLE?

9 A. Yes, because the cost drivers (e.g., labor costs, service volumes, and asset values) that were used
10 to allocate shared costs in these budgets were fair and reasonable. Further discussion of the cost
11 allocation method can be found in the testimony of Jim Travis and Stephen Kellicker. In addition,
12 Jack Stowe discusses the reasonableness of this method.

13Q.IN YOUR OPINION, ARE THE SERVICES FOR WHICH COSTS ARE ALLOCATED TO14WTC REGIONAL SYSTEMS NECESSARY?

A. Yes. In my opinion, the shared costs allocated to the WTC Regional Systems represent necessary
 services for the operation of the WTC Regional Systems. This also complies with LCRA Board
 Policy 301 (Exhibit JT-7).

18Q.WITH THE IMPLEMENTATION OF THE RATE INCREASE, DID YOU ANTICIPATE19RECOVERING YOUR FULL REVENUE REQUIREMENTS FOR THE PERIODS FY202008, FY 2009, AND FY 2010?

21 A. No. LCRA did not anticipate that it would recover its full revenue requirements during those 22 years. First, the three-step rate increase was not intended to recover the revenue requirements 23 that are set out in the Cost of Service Study until FY 2010. Therefore, LCRA would not have met 24 its revenue requirements (as set out in the Cost of Service Study) for FY 2007 through 2009. 25 Second, the revenue requirements that have been established as part of this proceeding for the 26 WTC Regional Water System, include contributions from LCRA to the System for FY 2007 27 through FY 2010 via the Public Service Funds. Therefore, recovery of the full revenue 28 requirements is not sought by LCRA as part of this proceeding. Stephen Kellicker will provide 29 further detail on this issue in his direct testimony.

30Q.SINCE THE THREE STEP RATE INCREASE IS NOT INTENDED TO RECOVER THE31REVENUE REQUIREMENTS (AS SET OUT IN THE COST OF SERVICE STUDY)32UNTIL FY 2010, HOW WILL THE WTC REGIONAL SYSTEMS OPERATE WITH A33SHORTFALL FOR THE FIRST TWO YEARS OF THE RATE INCREASE?

A. The shortfall was intended to be made up by additional contributions from the LCRA's Public
 Service Fund, which was derived from rates charged to customers of LCRA operating services.
 Deferring debt payments, reducing revenue-funded capital spending and reducing costs also
 contributed to make up the shortfall. The Direct Testimony of Stephen Kellicker details the
 distribution of Public Service Funds to the utility.

6 Q. WHY IS IT IMPORTANT FOR THE WTC REGIONAL SYSTEMS TO COLLECT ITS 7 REVENUE REQUIREMENT?

8 Α. In my opinion, the public and our customers depend on our utility to provide reliable, safe 9 drinking water, and to adequately treat sewage to protect public health and the environment. To do this, our utility must be financially viable. This concept is captured very well in the opening 10 statement of the AWWA M1 Manual of Water Supply Practices, which states, that "every water 11 12 utility must receive sufficient total revenue to ensure proper operation and maintenance, development and perpetuation of the system, and preservation of the utility's financial integrity. 13 Nearly all of the total revenue requirements for most utilities are met from revenues derived from 14 15 selling water to their customers." The same is true for LCRA's water wastewater utility systems. 16 By state law, LCRA must fund its costs of service through the collection of rates and fees for the 17 services it provides. With minor exceptions, no other source of funds exists to cover LCRA costs. In accordance with Board Policy 301 (Exhibit JT-7), the LCRA Board expects each LCRA 18 19 Business Unit to be self-supporting, while providing continuous and adequate service. The utility 20 depends on rates and impact fees to generate revenues sufficient to recover the cost of providing 21 service to system customers. The LCRA Board has instructed staff to implement a rate strategy to 22 enable the Water and Wastewater Operating Unit to fully recover its revenue requirements. The 23 rate increases at issue were steps toward accomplishing that mandate.

24Q.DO YOU BELIEVE THAT THE RATES APPROVED BY THE LCRA BOARD ON25AUGUST 22, 2007, FOR THE WTC REGIONAL SYSTEMS ARE JUST AND26REASONABLE?

27 A. Yes.

28 VIII. RATE CASE EXPENSES 29 Q. HAS LCRA INCURRED ANY RATE CASE EXPENSES, IN CONNECTION WITH THE APPEAL OF THE RATES WHICH ARE AT ISSUE IN THIS MATTER? 31 A. Yes. LCRA has to date incurred substantial rate case expenses, and those costs will continue to be incurred until the case is finally resolved.

1 Q. PLEASE IDENTIFY AND DESCRIBE EXHIBIT SZ-12.

A. Yes, that exhibit begins with summary of the rate case expenses incurred by LCRA, and includes true and correct copies of invoices from attorneys (redacted), consultants, a court reporter service and courier service involved in the rate case. I would note that, given the stage of this proceeding, the invoices from attorneys have had the time narratives redacted, but otherwise the documents are accurate copies from LCRA's records.

7 Q. IN THIS PROCEEDING, IS ANY OTHER WITNESS TESTIFYING AS TO RATE CASE 8 EXPENSES?

9 A. Yes, Mr. James Rader, one of LCRA's in-house attorneys, will be testifying as to the necessity and
 10 reasonableness of the attorney fees incurred by LCRA.

11Q.PLEASE SUMMARIZE THE REQUESTED RATE CASE EXPENSES AND SERVICES12PROVIDED BY THE FIRMS RETAINED BY LCRA, OTHER THAN ATTORNEYS.

- A. J. Stowe & Co. LCRA hired J. Stowe & Co., an independent consultant, with extensive
 experience in utility rate matters, to review and evaluate LCRA's allocation methodology; review
 and develop an opinion regarding various components of the revenue requirement; review and
 develop an opinion as to the reasonableness of LCRA's debt component of total invested capital;
 provide an opinion as to the differences in governmentally owned utilities versus investor owned
 utility rate making standards; and provide direct testimony and rebuttal testimony as an expert
 witness.
- Rimrock Consulting Company LCRA hired Rimrock Consulting, Inc., an independent
 consultant, to complete a cost of service study for the WTC Regional Systems and to allocate
 costs to appropriate customer classes and continue to participate as needed in this rate appeal as
 an expert witness providing direct and rebuttal testimony.
- HDR Engineering, Inc. was retained by the LCRA to: (a) conduct research into the basis and usefulness of various affordability measures for the provision of retail water and wastewater services for typical residential customers, and (b) provide the Lower Colorado River Authority (LCRA) with a flexible spreadsheet modeling tool that can be used and kept updated to assess the affordability of current and prospective utility rates for its customers.

29Q.DO YOU HAVE EXPERENCE RETAINING CONSULTANTS OF THE TYPE WHICH30PROVIDED THE SERVICES DESCRIBED ABOVE?

A. Yes, in my role as Executive Manager of the Water Services Business Unit for LCRA I am
 routinely involved in interviewing, retaining and working with outside consultants. I am also

ultimately responsible for the charges incurred by LCRA for these types of consultants, and
 therefore, I am familiar with the necessity of their services and the hourly rates and fees they
 charge.

4Q.IN YOUR OPINION, ARE THE HOURLY RATES CHARGED BY THESE CONSULTING5FIRMS REASONABLE, GIVEN THE EXPERIENCE AND QUALIFICATION OF THE6FIRMS?

A. Yes, in my opinion they are reasonable. Based on my review the rates are reasonable and
comparable to fees charged by other similar firms.

9Q.ARE THE RATE CASE EXPENSES INCURRED TO DATE BY LCRA REASONABLE10AND NECESSARY TO ADEQUATELY REPRESENT LCRA'S INTERESTS IN THIS11MATTER?

A. Yes. I have reviewed the services provided by each of these consultants, and in my opinion those services have been necessary for LCRA in this proceeding and the amounts charged are reasonable. I would note that LCRA has taken great efforts to use many of its in-house staff to provide testimony and to support, organize, manage and over-see the rate case, in an effort to control the rate case expenses. However, a case of this importance to LCRA necessitates use of other experienced consultants.

18 Q. PLEASE SUMMARIZE YOUR FINDINGS AND CONCLUSIONS REGARDING LCRA'S 19 RATE CASE EXPENSES IN THIS MATTER?

A. I have concluded, relying upon Mr. Rader as to the reasonableness and necessity of legal
 expenses, that LCRA's requested reimbursement of total rate case expenses in the amount of
 \$162,188.97 (incurred through January 18, 2010) for participation in the appeal proceedings is
 reasonable and necessary and should be approved. This amount will be supplemented as
 additional fees and expenses are incurred by LCRA as the case progresses.

25 Q. DOES LCRA SEEK TO RECOVER ITS RATE CASE EXPENSES?

A. Yes, absolutely. The statute under which the appeal has been made makes it clear that LCRA may
 recover its reasonable expenses, and we desire to do so.

28 Q. HOW DOES LCRA SEEK TO RECOVER ITS RATE CASE EXPENSES?

A. Rate case expenses are generally recovered through a surcharge on customers' bills. This is what
 LCRA requests the TCEQ to do in this case. When the Administrative Law Judge and the TCEQ
 Commissioners determine the final amount of LCRA's rate case expenses, LCRA seeks to

recover those expenses as a monthly surcharge to each customer's bill over an appropriate
 number of months.

3 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

4 A. Yes, except as to the portion related to rate case expenses, which I intend to supplement to reflect
5 updated costs through the date the case is finally resolved.

SZ-1

SUZANNE GIESECKE ZARLING

Home

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EDUCATION

University of Oklahoma School of Law: Juris Doctor, 1986. Admitted to practice in Texas and the Fifth Circuit Court of Appeals.

North Texas State University: Master of Public Administration, Federal and Intergovernmental Relations (all but thesis).

Texas A&M University: Bachelor of Arts, Political Science 1979.

PROFESSIONAL EXPERIENCE

Lower Colorado River Authority

Executive Manager, Water Services (October 2004 to present). Oversee staff of 300 with revenues over \$118 million, operations budget of over \$60 million and capital budget of \$42 million. Responsibility for management of the lower 600 river-mile segment of the Texas Colorado River for water quality protection and natural resource conservation, water supply planning and management for over 1 million citizens, flood and floodplain management, operation of six dams and 13 hydroelectric generating facilities, provision of water and wastewater utility services through 35 utility systems, operation of three coastal irrigation districts, and water quality monitoring and protection of Matagorda Bay system.

Executive Manager, Community Services (2001-October 2004). Responsible for overseeing staff of 200 in management and operation of LCRA park system, water quality in the Colorado River, community and economic development, operation of natural science and environmental learning centers, environmental laboratory, police and emergency response force, public-private recreation partnerships, Colorado River Trail programs and projects and LCRA regulatory programs including Highland Lakes Marina Ordinance and Boat Dock Safety Standards, Highland Lakes Nonpoint Source Pollution Control Ordinances, Illegal Dumping Ordinance and On-Site Sewage Facilities regulations.

Manager, Environmental, Safety and Real Estate (2000-2001). Responsible for water quality and water safety regulatory programs, environmental and conservation programs, employee and public safety programs and real estate acquisitions and sales.

Manager, Water Resource Protection and Real Estate Services (1998-2000). Manager, Water Surface and Shoreline Permitting (1996-1998). Supervisor, Real Estate Services (1995-1996)

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Texas Department of Agriculture, Assistant General Counsel (1994-1995). Lead Regulatory Attorney responsible for regulatory programs relating to agricultural products and operations and for prosecuting agriculture related environmental violations. Represented agency in administrative hearings.

Ellis and Prehn, P.C., Attorney (1992-1993). Practice focused on oil and gas, natural resources and real estate law.

Matthews & Branscomb, P.C., Attorney (1986-1992). Practice focused on oil and gas, natural resources, real estate and business transactions. Oil and gas law practice included emphasis on oil and gas title examination and federal and state regulation of natural gas exploration and development, transportation and sale.

Texaco, Inc., Regulatory Compliance Coordinator (1982-1983).

U.S. Department of Energy, External Relations and Energy Information Specialist (1981-1982).

MEMBERSHIPS AND HONORS

Awards: Chief Articles Editor, Oklahoma Law Review; Hardin Ballard Memorial Award for Outstanding Appellate Advocate; International Academy of Trial Lawyers Award for outstanding Trial Advocate; Dean's Honor Roll; Phi Delta Phi; Phi Alpha Alpha; Community Collaboration Award, Colorado River Watch Network Outstanding Stewardship Award.

Memberships (past and present): Senate Bill 3 Environmental Flows Bay and Basin Stakeholder Committee for Colorado and Lavaca Rivers and Matagorda and Lavaca Bays; City of Austin LCRA Water Planning Partnership Executive Management Committee; National Watershed Coalition Steering Committee; Texas Water Resources Institute Steering Committee; Texas Water Monitoring Council; Austin-Travis County On-Site Sewage Facility Rules Advisory Committee Chair; Texas Water Conservation Association; Water Environment Federation; Leadership Texas Alumni Association; Austin Science Academy Advisory Board; First Lego League Robotics Judge; Corpus Christi State School Volunteer Advisory Council Chair; Junior League of Corpus Christi; American Heart Association Dance for Heart West Texas Chair; Colorado River Watch Network Volunteer Water Quality Monitor; LCRA Volunteers; PADI Master Scuba Diver Trainer; NAUI Technical Diver.

PERSONAL

I am an avid recreational and technical scuba diver, and have traveled extensively throughout the Caribbean (Mexico, Honduras, Belize, Bonaire, Turks and Caicos, Cayman Islands, Bahamas), Thailand and Myanmar, the Red Sea in Israel and Egypt, the Pacific (Palau, Papua New Guinea, Chuuk, Australia, FIJI, Hawaii, Costa Rica, Galapagos, California), and Bali and Sulawesi in Indonesia, diving reefs and wrecks. I am part of a deep ocean exploration team that first filmed the U.S.S. Perry, and was the second woman to dive the Perry. I have taught scuba and underwater photography since 1990. I provided water resource management consulting to the Jewish National Fund in Israel through the Texas Israel Exchange Program. I have supported a number

of conservation and marine advocacy organizations, including Hill Country Conservancy, Nature Conservancy, Oceana, Ocean Conservancy, CORAL, REEF, PADI Project AWARE, Colorado River Foundation.



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LCRA ORGANIZATIONAL SUMMARY





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January 2003 RG-357

The Feasibility of Regionalizing Water and Wastewater Utilities:

A TCEQ Policy Statement

Water Supply Division

SZ-4

printed on recycled paper

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

The Feasibility of Regionalizing Water and Wastewater Utilities:

A TCEQ Policy Statement

Prepared by Water Supply Division

> RG-357 January 2003



Robert J. Huston, Chairman R. B. "Ralph" Marquez, Commissioner Kathleen Hartnett White, Commissioner

Margaret Hoffman, Executive Director

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Sensific Authority
Specific Authority
Public water Systems
water and Sewer CCNs

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Introduction

Building and operating a successful water or wastewater system is not easy. To comply with the state and federal requirements that ensure that drinking water is safe and wastewater is treated adequately, you must have—or have access to—these and other resources:

- ! for drinking water systems, an adequate and reliable source of water that either is or can be made safe for human consumption;
- ! the financial resources and technical ability to design and build a system that can provide service effectively and reliably;
- ! the financial resources and technical ability to operate and maintain the system so it operates safely for your workers, your customers, and, in the case of wastewater systems, the environment;
- ! the ability to read and understand the many, highly technical state and federal regulations associated with water and wastewater systems;
- ! the management skill to successfully operate a business that is critical to public welfare.

Recognizing the critical role these resources play in the success of a water system, Congress amended the Safe Drinking Water Act in 1996. Under these amendments, states must determine whether new community water systems are likely to be able to comply with regulatory requirements. In 1997, the 75th Texas Legislature made similar amendments to Chapter 341 of the Texas Health and Safety Code and Chapter 13 of the Texas Water Code.

Along with other recent legislative changes—and wastewater regulations that were already on the books—these amendments establish a clear message: All new public water systems and any wastewater systems owned and operated by entities required to obtain a CCN must be capable of operating efficiently and effectively for the long term. In Texas, the Texas Commission on Environmental Quality (TCEQ, "we") is responsible for reviewing and approving the design and operating plans of proposed water systems, and the Texas Water Development Board (TWDB) can assist growing areas with water resource planning.

This document states the TCEQ's policy for evaluating applications for new systems to determine whether regionalization—the consolidation of the operations, physical systems, or both of two or more existing or proposed water or domestic wastewater systems—is a viable option for the