

- Robena Jackson will capture areas of agreements at the end of each workshop.
- City would like issue papers to address impact to the customer classes where appropriate.
- End each PIC workshop presentation with a slide showing the date and topic for the next workshop.
- Each PIC workshop should begin by addressing PIC members' comments and any executive deemed decisions that have been made since the previous workshop.
- The Executive Team will not provide written response to PIC members comments unless a request for information has been made.



MEETING MINUTES

CITY OF AUSTIN
2007 COST OF SERVICE AND RATE STUDY
Executive Team Briefing PIC Meeting #2

Meeting Location: City of Austin Waller Creek Center

Date & Time: December 18, 2007; 9:30 a.m.

Attendees: Greg Meszaros, David Anders, Rusty Cobern, Mike Castillo,
Robena Jackson, Jennifer Ivey, Paul Matthews, Charles Schoening,

The following is a summary of the meeting notes from the Executive Team Briefing PIC Meeting #2 which was held on December 18, 2007. The notes below constitute Red Oak's understanding of the items discussed, key decisions made, and action items assigned at the meeting.

- Robena Jackson presented the draft Public Involvement Plan. Comments should be submitted to Robena. The final Public Involvement Plan will be distributed to the PIC with the Water Cost Allocations and Fire Charges Issue Paper on December 31, 2007.
- The Executive Team is considering interim briefings to the City Council and the Water and Wastewater Commission, possibly in March 2008.
- The Executive Team proposes a "model workshop" to allow the PIC members to view the model and request what if scenarios from the consultant. The model workshop would be held in late spring upon completion of the model. The model will not be released to the PIC members for their use.
- The water and wastewater cost allocation methodologies workshop will be separated into two workshops. The water cost allocation methodologies will be presented with fire charges at the January 7, 2008, workshop. The wastewater cost allocation methodologies will be presented with inflow/infiltration allocation methodologies at the January 22, 2008, workshop. The revised workshop schedule is as follows:
 - November 27, 2007 – PIC Orientation
 - December 17, 2007 – Revenue Requirements

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- January 7, 2008 – Water Cost Allocation Methodologies and Fire Charges
 - January 22, 2008 – Wastewater Cost Allocation and Inflow/Infiltration Allocation Methodologies
 - February 4, 2008 – Composition of Industrial Class Workshop
 - February 19, 2008 – Rate Design Workshop 1
 - March 3, 2008 – Rate Design Workshop 2
 - March 17, 2008 – Available if needed
 - March 31, 2008 – Available if needed
- The consultant will evaluate the addition of fire charges to the rate structure. The Executive Team likes the addition of another source of fixed revenue, especially with the increase in conservation. Also, new high-rise residential developments in the downtown area have increased the required fire flow significantly, but the associated costs are not being recovered because the volume used by these customers is reduced due to low-flow fixtures.
 - The Executive Team will not solicit metered data from customers for use by the consultant. There is no way for the Utility to control the quality of this data. Also, this level of detailed data is not available for all customer classes. Therefore the peaking factors cannot be calculated consistently for all customer classes.
 - The Executive Team added “Policy Durability” to the list of evaluation criteria to represent the ability of the methodologies chosen to continue to be relevant and applicable for the next several years.
 - The Executive Team rated the evaluation criteria individually. The consultant will compile the ratings to determine the Executive Team’s evaluation criteria weighting factors for use throughout the study.
 - For future issue papers, the consultant will identify the current policy being used by the Utility. The first alternative will be the status quo. This will be designated in parentheses next to the alternative. The recommended alternative will also be designated in parentheses. The status quo and recommended alternatives will also be designated in the Powerpoint presentation.
 - The first issue in the Water Cost Allocations and Fire Charges Issue Paper is Base – Extra Capacity vs. Commodity – Demand. The Utility is currently using the

Base -- Extra Capacity methodology for water cost allocations. The consultant will provide background information about how peaking factors influence cost allocations for each methodology.

- The residents of Austin voted in May 1998 to authorize a \$65 million bond issue for Water Quality Protection Lands to protect the Edwards Aquifer (Proposition 21). Since customers outside the city did not vote, the Mayor promised that the costs associated with this bond issue would not be allocated to outside city customers. Therefore, these costs will only be allocated to inside city retail customers.
- Wholesale customers currently pay their portion of LCRA costs for raw water. The Utility is revising the wholesale contracts as they are renegotiated to require wholesale customers to purchase their raw water directly from LCRA. Therefore wholesale customers will no longer pay a portion of the LCRA costs once their wholesale contracts are renegotiated and this requirement is added.
- The Utility currently has 22 wholesale customers -- 11-12 are water only, 7-8 are water and wastewater, and 3 are wastewater only.
- The previous cost-of-service study defined transmission lines as greater than 24-inch. The Executive Team would like to evaluate alternatives for distinguishing between transmission and distribution lines.
- The Executive Team would like to consider individual rates for industrial customers. The consultant will evaluate this alternative and also adjusting the industrial class so it is better defined.

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MEETING MINUTES

CITY OF AUSTIN 2007 COST OF SERVICE AND RATE STUDY *Executive Team Briefing PIC Meeting #3*

Meeting Location: City of Austin Waller Creek Center

Date & Time: January 8, 2008; 9:30 a.m.

Attendees: Greg Meszaros, David Anders, Rusty Cobern, Mike Castillo, Daryl Slusher, Perwez Moheet, Jennifer Ivey, Paul Matthews, Charles Schoening

The following is a summary of the meeting notes from the Executive Team Briefing which was held on January 8, 2008. The notes below constitute Red Oak's understanding of the items discussed, key decisions made, and action items assigned at the meeting.

Revenue Requirements Issue #1

- The Executive Team decided to use the cash basis to calculate revenue requirements.

Revenue Requirements Issue #2

- Since the Utility submits annual budgets that are approved by the City Council, it is not feasible to use a historical test year that is adjusted for known and measurable changes. This might result in revenue requirements that are less than the approved Utility budget.
- The Executive Team decided to use future budgets to calculate revenue requirements.

Revenue Requirements Issues #3-5

- The remaining issues are not relevant since the Executive Team chose to use the cash basis to calculate revenue requirements.

Other Discussion Items

- The Utility can provide Red Oak with a functional breakdown of the CWIP.

- The Utility will identify assets that are related to Proposition 2 so they can be allocated to inside city retail customers only.
- Red Oak will evaluate the option of applying the Proposition 2 debt service payments to the fixed charges instead of to the volume charges. This may not be feasible because the fixed charges are based on meter size and not customer class.
- Red Oak proposed a sensitivity analysis using Monte Carlo analysis to determine the impacts of the study assumptions. This analysis can be added to the cost-of-service model. However, the Utility would like to keep the model simple and deterministic so if a sensitivity analysis is performed, it may need to remain a separate spreadsheet. The decision to add a sensitivity analysis will be delayed until later in the project.
- The issue of marginal costs has been raised by the residential class and is likely to remain an issue. Red Oak will evaluate rate structure alternatives that can recognize economies of scale.
- The Executive Team will defer their decision regarding public fire costs until after the rate design workshop. Red Oak will design a rate structure alternative with fixed fire charges and one without for comparison of impacts to utility bills.
- The Executive Team would like to consider implementing a "lifeline" rate for low income customers. Red Oak will evaluate the use of pressure zone-based rates to indirectly provide a "lifeline" rate. This would also support the City's Climate Change and Desired Development Zone Initiatives. However, it may be difficult to implement due to the Utility's billing system.



MEETING MINUTES

CITY OF AUSTIN 2007 COST OF SERVICE AND RATE STUDY *Executive Team Briefing PIC Meeting #4*

Meeting Location: City of Austin Waller Creek Center

Date & Time: January 23, 2008; 1:00 p.m.

Attendees: Greg Meszaros, Perwez Moheet, Daryl Slusher, David Anders, Rusty Cobern, Mike Castillo, Jennifer Ivey, Paul Matthews

The following is a summary of the meeting notes from the Executive Team Briefing which was held on January 23, 2008. The notes below constitute Red Oak's understanding of the items discussed, key decisions made, and action items assigned at the meeting.

Water Cost Allocations Issue #1

- The Executive Team decided to use the Base / Extra-Capacity method to determine water cost allocations. A modified version of the Base / Extra-Capacity method, which was recommended by the residential rate advocate, will be built into the model as an alternative for comparison.

Water Cost Allocations Issue #2

- The Executive Team decided to use peak day and peak hour as time steps for extra capacity allocations.

Water Cost Allocations Issue #3

- The Executive Team decided not to develop a separate charge for private fire connections.

Water Cost Allocations Issue #4

- The Executive Team decided to defer their decision regarding the recovery of public fire costs, but has asked Red Oak to develop the ability to run scenarios for the public fire cost alternatives into the model so they can determine the impact on a typical customer's utility bill before making a final decision.

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- If the Executive Team decides to implement a fixed fire charge based on meter size, Red Oak will use meter equivalent ratios based on fire flow needs. If the fire flow needs cannot be identified by meter size, capacity-based meter equivalent ratios will be used.
 - The Executive Team is concerned that raising the fixed monthly charge will have the greatest impact on low volume users, which would typically include low income customers.
 - An advantage of the fixed fire charge is increased revenue stability, which would allow greater flexibility to implement a water conservation block structure.
 - The Executive Team would like to consider temporarily allocating a portion of the fire costs to the fixed monthly charge and the rest to the volume charge as a means of gradually implementing a fixed fire charge.

Other Discussion Items

- If a public fire charge is added to the fixed monthly charge, the Executive Team may want to consider reducing or eliminating this charge for low income customers.
- The Water/Wastewater Commission is interested in developing a "lifeline" rate for low income water and wastewater customers. Austin Water Utility needs to find out how Austin Energy reduces the energy bills for their low income customers. This may not be feasible since the Austin Water service area is larger than the Austin Energy service area. Also, the use of master meters, particularly for multifamily residential customers, will complicate this process. Austin Water and Austin Energy may need to work together to provide a credit on the energy bill for those customers who are identified as low income by Austin Energy.
- AWU is currently charging \$0.98 per 1,000 gallons for reuse water. This is 50% of the 1996 cost-of-service rate for potable water, plus some inflation. AWU is investing more money in the reuse system and will soon have new reuse customers. The Executive Team is interested in a cost-of-service analysis to determine an appropriate reuse water rate.



MEETING MINUTES

CITY OF AUSTIN 2007 COST OF SERVICE AND RATE STUDY *Executive Team Briefing PIC Meeting #5*

Meeting Location: City of Austin Waller Creek Center

Date & Time: February 20, 2008; 1:00 p.m.

Attendees: Greg Meszaros, Perwez Moheet, Daryl Slusher, David Anders, Rusty Cobern, David Juarez, Jennifer Ivey, Paul Matthews

The following is a summary of the meeting notes from the Executive Team Briefing which was held on February 20, 2008. The notes below constitute Red Oak's understanding of the items discussed, key decisions made, and action items assigned at the meeting.

Wastewater Cost Allocations Issue #1

- The Executive Team decided to use the Hybrid method, allocating O&M costs based on function and capital costs based on design, to determine wastewater cost allocations.

Wastewater Cost Allocations Issue #2

- The Executive Team decided to use flow, BOD, and TSS only as customer service characteristics for wastewater cost allocation.
- The model will be built with the capability to add TKN and Phosphorous allocations in the future.
- AWU will not implement a sampling protocol to gather data on TKN and Phosphorous in the system until future regulations require it.

Wastewater Cost Allocations Issue #3

- The Executive Team decided to defer their decision regarding the allocation of inflow and infiltration (I/I). The Executive Team will gather historical data on I/I in their system and schedule a future meeting to discuss the data and make a decision on the appropriate allocation of I/I costs.

- I/I costs are currently \$11-12 million and are decreasing due to the Austin Clean Water Program.
- Currently wholesale customers with flow meters are not allocated I/I costs based on flow, only those based on connections. If AWU changes the allocation to be based entirely on flow, these customers would not pay any I/I costs under their existing contracts.

Other Discussion Items – Irrigation Rates

- The Water Conservation Task Force has recommended that AWU implement an irrigation rate. The Executive Team is interested in an excess use rate structure as a means of identifying irrigation usage and charging a higher rate for that usage. However, the current billing system is unable to handle an excess use structure. AWU is in the process of procuring a new billing system but it will not be operational for at least three years. The Executive Team does not want to wait until the billing system is updated to implement an irrigation rate.
- The Executive Team identified two alternatives for irrigation rates until an excess use rate structure can be implemented:
 1. Subdivide non-residential customer classes into subclasses by meter size. Develop an increasing block structure with block thresholds based on capacity by meter size.
 2. Subdivide non-residential customer classes into three subclasses –
 - Domestic and outdoor use (customers with one meter for indoor and outdoor usage)
 - Domestic use only (customers with two meters – this is the indoor usage meter)
 - Irrigation use (customers with two meters – this is the outdoor usage meter)
 3. Set Blocks 1 and 2 for irrigation meters at the Block 3 rate so all water usage through Block 3 is charged at the Block 3 rate.
- The Executive Team requested a separate issue paper to discuss irrigation rates. Irrigation rates will not be discussed in detail in the Rate Design issue paper. The Irrigation Rates issue paper will be developed and submitted to the PIC following the Rate Design workshop.

- The Executive Team will discuss irrigation rates again at the next Executive Team briefing before the Irrigation Rates issue paper is finalized and submitted to the PIC.

Other Discussion Items – Low Income Rates

- Austin Energy currently has 4,600 qualified low income customers identified in its system.
- AWU will consider waiving the minimum charge for water and wastewater services for these 4,600 customers.
- The cost of waiving the minimum charge would be absorbed by the rest of the residential class.

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MEETING MINUTES

CITY OF AUSTIN 2007 COST OF SERVICE AND RATE STUDY *Executive Team Briefing PIC Meeting #6*

Meeting Location: City of Austin Waller Creek Center

Date & Time: March 4, 2008; 8:30 a.m.

Attendees: Greg Meszaros, Perwez Moheet, David Anders, Rusty Cobern,
Mike Castillo, Jennifer Ivey, Rick Giardina, Charles Schoening

The following is a summary of the meeting notes from the Executive Team Briefing which was held on March 4, 2008. The notes below constitute Red Oak's understanding of the items discussed, key decisions made, and action items assigned at the meeting.

Customer Classification Issue #1

- The Executive Team decided to disaggregate the large-volume (industrial) customer class.

Customer Classification Issue #2

- The Executive Team decided to defer their decision regarding the threshold for inclusion in the large-volume customer class.
- AWU staff will perform additional analysis to determine where the natural break falls between the current large-volume customers and the commercial customer class. Commercial customers with significant usage will be identified to determine if they would qualify for inclusion in the large-volume customer class if the threshold was lowered.
- If the large-volume threshold is lowered and the large-volume customers respond by reducing their demand, more water will be available to other customers, thereby reducing the total system demand and potentially delaying the need for additional water sources.

Customer Classification Issue #3

- The Executive Team decided to defer their decision regarding the creation of an irrigation customer class until the Irrigation Rates issue paper is presented at the next PIC workshop.
- AWU staff will meet with the Austin Energy billing group to discuss the capabilities and limitations of the current billing system.

Other Discussion Items

- The Water Conservation Task Force's recommendation to implement conservation rates for wholesale customers is intended to reduce their gallons per capita per day, which is higher for most wholesale customers than the AWU inside city customers.
- The Water Conservation Task Force's recommendations were discussed along with the need to send a pricing signal that encourages water conservation. This includes implementing a seasonal rate structure for wholesale customers and increasing the rate differential between blocks for single family residential customers.
- AWU's Financial staff are concerned about the increased revenue volatility associated with aggressive conservation rates. The Utility may need to increase its reserves as a hedge against this increased risk.
- The Water Conservation Task Force report recommends adding a fifth block to the single family residential inclining block rate structure to encourage conservation. The Executive Team discussed the best ways to achieve the goals of the Task Force...including whether to implement a fifth block or a modified 4-block rate system. The allocation of costs should also be reviewed to determine if adjustments should be made to further encourage conservation.
- A PIC workshop is scheduled for March 31 to present all Executive Team decisions to date and identify what if scenarios that should be run through the model. A model demo is scheduled for April 21 to show the PIC how the model works. A presentation of the study results to the Water and Wastewater Commission is planned for May. The results will be presented to City Council in late May or early June.



MEETING MINUTES

CITY OF AUSTIN 2007 COST OF SERVICE AND RATE STUDY *Executive Team Briefing PIC Meeting #7*

Meeting Location: City of Austin Waller Creek Center

Date & Time: March 18, 2008; 8:30 a.m.

Attendees: Greg Meszaros, Perwez Moheet, Daryl Slusher, David Anders,
Rusty Cobern, Mike Castillo, Jennifer Ivey, Paul Matthews,
Charles Schoening

The following is a summary of the meeting notes from the Executive Team Briefing which was held on March 18, 2008. The notes below constitute Red Oak's understanding of the items discussed, key decisions made, and action items assigned at the meeting.

Rate Structures Issue #1

- The Executive Team decided to waive the fixed charge for qualified low-income residential customers.
- Waiving the fixed charge is targeted at the residential customers who are most in need of the low-income subsidy. It is supported by Randy Chapman, the advocate for the low-income subsidy.
- Waiving the fixed charge would require minimal adjustments within the existing billing system.
- Waiving the fixed charge will cost approximately \$450,000 to \$500,000 per year.

Rate Structures Issue #2

- The Executive Team decided to recover the low-income subsidy from all retail customer classes.
- AWU staff will verify that the low-income residential customers that are qualified for Austin Energy's low-income program are all inside-city customers.

- AWU will consider extending its low-income subsidy to outside-city residential customers who qualify, even if Austin Energy does not include these customers in its low-income program.
- The cost to administer the low-income subsidy program should be identified and included in the allocation to the retail customer classes.

Rate Structures Issue #3

- The Executive Team decided to defer their decision regarding the addition of a fifth block for single family residential customers.
- A fifth block can be easily added to the current block structure within the existing billing system.
- Any incidental excess revenues as a result of usage in a fifth block could be reallocated to another program such as reclaimed water. However, AWU should consider the implications of over-collecting from any 1 class. AWU Finance staff would like to use any excess revenues to create and maintain a rate stabilization fund to minimize the need for large rate increases in the future.
- If the AWU Executive Team considers a modified 4-block structure for residential customers, it must provide information to the Water Conservation Task Force to show that the modified 4-block structure is consistent with the task force's objectives and can achieve the conservation goals set by the task force.

Rate Structure Issue #4

- The Executive Team decided to defer their decision regarding water conservation incentives for wholesale customers.
- The Water Conservation Task Force recommended a conservation rate structure for wholesale customers.
- A seasonal rate would be easier to implement than an excess-use rate structure.
- There should not be legal issues associated with revising the wholesale rates as long as the new rate structure recovers cost of service from each wholesale customer.



MEETING MINUTES

CITY OF AUSTIN 2007 COST OF SERVICE AND RATE STUDY *Executive Team Briefing PIC Meeting #8*

Meeting Location: City of Austin Waller Creek Center

Date & Time: April 1, 2008; 9:00 a.m.

Attendees: Greg Meszaros, Perwez Moheet, Daryl Slusher, David Anders,
Rusty Cobern, Mike Castillo, Jennifer Ivey, Paul Matthews,
Charles Schoening

The following is a summary of the meeting notes from the Executive Team Briefing which was held on April 1, 2008. The notes below constitute Red Oak's understanding of the items discussed, key decisions made, and action items assigned at the meeting.

Excess Use Rate Structure Issue #1

- The Executive Team decided to pursue the implementation of an excess use rate structure to achieve the goals of the Water Conservation Task Force.
- It is unknown how long the development and implementation of an excess use rate structure will take. Rusty Cobern has been tasked to work with Austin Energy to develop a project timeline and budget.
- AWU will request a Quick Response Estimate (QRE) from Austin Energy to reprogram the existing billing system for the excess use rate structure.
- AWU will request the ability to have up to three blocks within the excess use rate structure.
- Nonresidential customers with an irrigation meter would be charged at the highest residential block rate for all water usage from the irrigation meter and at the excess use rates for all domestic water usage.
- The Executive Team will update the PIC on this decision once the QRE is received from Austin Energy.

Rates for Irrigation Customers Issue #1

- The Executive Team decided to set aside excess revenues received from the irrigation customers for other designated purposes.
- The Executive Team will determine annually how the excess revenues should be used. Potential uses for the excess revenues are the reclaimed water system, water conservation program, and a rate stabilization fund.

Rates for Irrigation Customers Issue #2

- The Executive Team decided to set the irrigation rate equal to the highest residential block rate. This rate will be phased in over 2-3 years.
- The Executive Team is concerned that setting the irrigation rate at the highest residential block rate without phasing it in will create rate shock for the non-residential customers.
- If it is not possible to implement an excess use rate structure with the existing billing system, AWU will not implement irrigation rates because, without an excess use rate structure, they would create significant inequities among non-residential customers.

Rates for Irrigation Customers Issue #3

- The Executive Team decided to price all water usage in blocks 1 through 3 from a residential irrigation meter at the block 3 rate. This will prevent residential customers with a separate irrigation meter from receiving twice as much water at a discounted rate as a residential customer with a single meter.

Other Issues

- The residential advocate is likely to request a careful review of the costs included in the minimum monthly charge. Red Oak will review these costs and the recommended minimum charge with the Executive Team prior to releasing this information to the PIC.
- The next Water Conservation Implementation Task Force meeting is scheduled for April 28, 2008. AWU will provide an update on the cost-of-service study at this meeting.



REDOAK CONSULTING
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MEETING MINUTES

CITY OF AUSTIN 2007 COST OF SERVICE AND RATE STUDY *Executive Team Briefing PIC Meeting #9*

Meeting Location: City of Austin Waller Creek Center

Date & Time: April 22, 2008; 2:00 p.m.

Attendees: Greg Meszaros, Perwez Moheet, Daryl Slusher, David Anders, Rusty Cobern, Mike Castillo, Jennifer Ivey, Paul Matthews, Charles Schoening

The following is a summary of the meeting notes from the Executive Team Briefing which was held on April 22, 2008. The notes below constitute Red Oak's understanding of the items discussed, key decisions made, and action items assigned at the meeting.

- The Executive Team is concerned that there may not be enough time to adequately present the cost-of-service rates to the Water and Wastewater Commission and the City Council for implementation on November 1, 2008. They would prefer to implement the revenue increase adjustments in November and postpone the cost-of-service adjustments until April 1, 2009. An April implementation would provide conservation rates, potentially including excess-use rates for nonresidential customers, prior to the 2009 peak season.
- The fee schedule, including the proposed water and sewer rates, is due to the Budget office in early July 2008 for inclusion in the 2009 budget.
- Another PIC workshop will be required to present the final results of the water and sewer "what if" scenarios. This workshop is tentatively scheduled for Tuesday, May 13. Red Oak will meet with Utility staff on Monday, April 28, and Tuesday, April 29, if necessary, to finalize the "what if" scenario runs. The results will be presented to the Executive Team prior to the final PIC workshop. This extended schedule will allow more time for the PIC to provide comments on the results of the "what if" scenarios.
- The Executive Team would like to transition to true cost-of-service rates and eliminate the 10% subsidy of the residential customers by the commercial and industrial customers. The allocation of inflow and infiltration as system costs will at least partially offset the elimination of the subsidy.
- An implementation timeline will be developed at the April 28 meeting with staff. Red Oak will complete its final report by early September, and the Executive Team

will present the cost-of-service results and rates to the City Council for approval in January following one-on-one briefings in October and November.

- Red Oak will evaluate the feasibility of removing the distinction between inside city customers and outside city customers.
- The Executive Team is concerned about significant increases to the wholesale customers as a result of methodology changes. Red Oak will review the model to determine what methodology changes are causing the increase.
- The billing data for the large industrial customers may need to be reviewed to identify anomalies such as a decrease in consumption due to the closing of a facility. These anomalies will misrepresent their usage patterns and affect their peaking factors.



Austin Water Utility
Cost-of-Service Rate Study 2008 - Volume II

APPENDIX

B

PIC Meeting Minutes

B. PIC Meeting Minutes





MEETING MINUTES

CITY OF AUSTIN 2007 COST OF SERVICE AND RATE STUDY *PIC Orientation Workshop*

Meeting Location: City of Austin Waller Creek Center

Date & Time: November 27, 2007; 6:00 p.m.

Attendees:

Angie Rubottom*, Residential Rate Advocate
Lanetta Cooper**, Residential Representative
Tom Graves*, Multifamily Representative
Dan Wilcox**, Industrial Representative
Joy Smith*, Wholesale Representative
Nelisa Heddin, Wholesale Rate Consultant
Myra Salas**, Wholesale Representative
Mario Espinoza, W/WW Commission
Greg Meszaros, City of Austin
David Anders, City of Austin
Daryl Slusher, City of Austin
Rusty Cobern, City of Austin
Mike Castillo, City of Austin
Darrel Culberson, City of Austin
Jimmy Jackson, City of Austin
Denise McDonald, City of Austin
Robena Jackson, Group Solutions RJW
Charles Schoening, Red Oak
Paul Matthews, Red Oak
Rick Giardina, Red Oak
Jennifer Ivey, Red Oak

The following is a summary of the meeting notes from the PIC Orientation Workshop which was held on November 21, 2007. The notes below constitute Red Oak's understanding of the items discussed, key decisions made, and action items assigned at the meeting.

- Ground rules presented by Red Oak were accepted by the attendees.
- PIC members' would like representation by small business on committee. The City is working on identifying a second commercial representative and will attempt to represent small businesses.

* Rate Consultant

** Participated in previous cost-of-service study

- The PIC Workshop scheduled for Monday, January 21, 2008 (Martin Luther King Day) should be moved to Tuesday, January 22, 2008.
- The PIC Workshop scheduled for Monday, February 18, 2008 (President's Day) should be moved to Tuesday, February 19, 2008. The PIC members would like to continue meeting at 6:00 p.m.
- The Wholesale Rate Consultant requested copies of all study data; the Residential Representative requested copies of the previous studies. They will provide these requests to Mike Castillo.
- The Residential Representative is concerned that the water and waste water allocation topics may require two workshops. The project schedule is flexible to allow additional workshops if necessary.
- Some PIC members would like to be provided the rate model in Excel in order to run what if scenarios. The City will not provide the model but will run what if scenarios requested by the PIC members and provide the results.
- Food will be provided at each PIC Workshop.
- Issue papers will provide a general overview of the accepted theories and methodologies and will use specific AWU data where appropriate.
- Some topics addressed in the previous studies may not be readdressed in this study. These topics include reserve capacity, peaking factors and sewage strength. Only topics addressing elements of the cost-of-service study that may be changed by the Executive Team will be addressed.
- Red Oak will provide information regarding cost-of-service methodologies used by comparable utilities as appropriate.
- The cost-of-service study will only address water and sewer rates. It will not address other charges and fees.
- Industrial customers have continuous metering so they can provide their specific flow and strength data. The City will consider using this data in the cost-of-service study.

AUSTIN WATER UTILITY 2007 COS STUDY MEETING SUMMARY

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Meeting: Public Involvement Committee
Workshop 2: Revenue Requirements

Date: 12-17-07 **Time:** 6pm **Location:** Waller Creek Center

PIC Members in Attendance :

<u>Name</u>	<u>Customer Class Representation</u>
Angela Rubottom	Residential
Lanetta Cooper	Residential
Kristan Arrona	Multifamily
Tom Graves	Multifamily
Dan Wilcox	Industrial
Myra Salas	Wholesale
Joy Smith	Wholesale
Gene McMenamin	Commercial

I. Agenda Items:

The following items were covered at the PIC meeting of December 17th:

1. Introductions
2. Ground rules for PIC meeting
3. Decisions by Executive Team
4. PIC comments from last meeting
5. Presentation on revenue requirements
6. PIC member comments and discussion
7. Summary of decisions, agreements, and next meeting
8. Public comments period

II. Key Interests and Issues:

PIC members comments and questions focused on:

- Access to the cost-of-service model once it is developed.
- Allocation of capital requirements under the cash basis (including the handling of debt service.)
- The impact of discussed revenue requirements options on customer classes.

III. Decisions, Agreements and Action Needed:

Action Items:

- (a) Resend PIC comments from the November 27 meeting to members
- (b) Begin posting information to the study web page

AUSTIN WATER UTILITY 2007 COS STUDY MEETING SUMMARY

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Agreements:

Written comments from the Residential Rate Advocate on the December issue paper will be submitted seven days after the December 17th workshop, rather than the normally agreed on five days.

IV. Public Comment:

One citizen spoke during the public comment period, addressing questions to the rate consultant. (Note: Citizens were encouraged to submit in writing any comments they would like included in the record.)

Meeting Sign-In Sheet: Attached

Prepared by:

Jennifer LeBaron, Group Solutions RJW

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**AUSTIN WATER UTILITY (AWU) 2007 COS STUDY
MEETING SUMMARY**

Meeting: Public Involvement Committee
Workshop 3: Water Cost Allocations and Fire Charges

Date: 1-7-08 **Time:** 6pm **Location:** Waller Creek Center

PIC Members in Attendance :

<u>Name</u>	<u>Customer Class Representation</u>
Angela Rubottom	Residential
Lanetta Cooper	Residential
Kristan Arrona	Multifamily
Tom Graves	Multifamily
Dan Wilcox	Industrial
Doris Williams	Commercial
Joy Smith	Wholesale
Dale Gray	All

I. Agenda Items:

The following items were covered at the PIC meeting of January 7:

1. Welcome
2. Review Internet Site (<http://www.ci.austin.tx.us/water/costofservice.htm>)
3. Overview of water system
4. Decisions by Executive Team
5. PIC comments from last meeting
6. Presentation on water cost allocations
7. PIC member comments and discussion
8. Summary of decisions and agreements
9. Public comment period

II. Decisions by Executive Team:

The AWU Executive Team met after the December PIC meeting and made the following decisions to:

- (a) Provide the COS model inputs and outputs in Adobe Acrobat format.
- (b) Provide "live" demonstration of model during upcoming PIC meeting.
- (c) Rely on City data only (not customer-provided data because of City's inability to control quality of outside data and maintain consistency among all customer classes).
- (d) Add evaluation criterion of policy durability (defined as a policy's ability to continue to be appropriate and result in a fair and equitable rate for all customer classes regardless of changes to the cost-of-service assumptions).

AUSTIN WATER UTILITY (AWU) 2007 COS STUDY Page B-6

MEETING SUMMARY

III. Key Interests and Issues:

PIC members comments and questions focused on:

- Water Cost Allocation—Commodity Demand versus Base/Extra-Capacity. Discussion focused on whether AWU's current methodology, the Base/Extra-Capacity, is precise enough.
- Private Fire Connection Costs—AWU's current methodology is to not charge for private fire connections. Discussion focused on whether to charge private fire connections for direct as well as indirect costs. Consultants recommend charging only for direct costs.
- Public Fire Costs—AWU's current methodology is to recover indirectly. Discussion focused on whether to have a fixed charge based on property value, a fixed charge based on fire customer class, or a fixed charge based on water meter size as recommended by Consultants.
- Economies of Scale (e.g. How customers can benefit from economies of scale).

Action Items:

(a) PIC members will review the handouts on budget/financial policies and should they have any questions, bring them for discussion to 1-22-08 meeting.

Agreements and Next Steps:

- (a) Written comments on meeting from PIC due 1-14-08.
- (b) Wastewater Cost Allocation issue paper due to PIC 1-15-08.
- (c) Next PIC Workshop scheduled for 1-22-08 (Tuesday)

IV. Public Comment:

One citizen spoke in favor of low-income utility customers being given financial considerations when setting the rate structure. The citizen was encouraged to submit written comments for the record. A second citizen spoke against building Water Treatment Plant #4 and urged the AWU to encourage conservation by charging higher peaking rates for all rate classes. The citizen submitted a statement for the record.

Meeting Sign-In Sheet: Attached

Prepared by:

Rhonda Price, Group Solutions RJW

AUSTIN WATER UTILITY 2007 COS STUDY

MEETING SUMMARY

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Meeting: Public Involvement Committee
Workshop 4: Wastewater Cost Allocations

Date: 1-22-08 **Time:** 6 pm **Location:** Waller Creek Center

PIC Attendees:

<u>Name</u>	<u>Customer Class Representation</u>
Angela Rubottom	Residential
Lanetta Cooper	Residential
Kristan Arrona	Multifamily
Tom Graves	Multifamily
Doris Williams	Commercial
Jeff Covington	Industrial
Nelisa D. Heddin (sitting in for Joy Smith)	Wholesale
Myra Salas	Wholesale (Marsha WSC)
Mario Espinoza	All (Water & Wastewater Commission)

I. Agenda Items:

The following items were covered at the PIC meeting.

1. Welcome
2. Overview of budget and financial policies
3. Overview of wastewater system
4. Decisions by Executive Team
5. PIC comments from last meeting
6. Presentation on wastewater cost allocations
7. PIC member comments and discussion
8. Review Project Schedule
9. Summary of decision and agreements
10. Public comment period

II. Decisions by Executive Team

The AWU Executive Team met after the January 7 PIC meeting and made the following decisions:

- a) Revenue Requirements Issue 1—cash basis will be used
- b) Revenue Requirements Issue 2—future budgets will be used
- c) Revenue Requirements Issue 3-5—not applicable because cash basis will be used

III. Key Interests and Issues:

PIC Comments and questions focused on:

1. Which of the Wastewater Cost Allocation Options is most appropriate—Design Basis, Functional Basis, or a Hybrid Approach? The AWU's current methodology is Design Basis, but the consultants are recommending a Hybrid Approach.
2. What are the appropriate customer service characteristics—Flow, BOD, and TSS only (which is AWU's current methodology), adding Total Kjeldahl Nitrogen (TKN) and/or adding Phosphorous? The consultants are recommending adding TKN and phosphorous once sufficient data is available from an industrial pretreatment sampling program.

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3. How should I/I be estimated and added? Should it be based on combined connections and volume, contributed wastewater volume, number of connections, or land area? AWU's current methodology is to allocate 50% based on number of connections and 50% based on contributed volume. The consultants are recommending allocating I/I based on contributed wastewater volume.

Requests from PIC:

Mario Espinoza requested a cost estimate for adding TKN and phosphorous.

Agreements and Next Steps:

Rusty Cobern proposed a change (and the PIC agreed) to the schedule in order to allow everyone more time to process information:

- (a) PIC meeting originally scheduled for 2-4-08 was postponed to 2-19-08.
- (b) Deadline for written comments from PIC on 1-22-08 meeting extended to 2-5-08.
- (c) Customer Characteristics issue paper due to PIC 2-12-08.
- (d) Rate Design meetings to be held 3-3-08 and 3-17-08.
- (e) An additional meeting may be scheduled for 3-31-08, if it is needed.

IV. Public Comments:

There were no public comments

Meeting Sign-In Sheet: Attached

Prepared by: Rhonda Price, Group Solutions RJW

AUSTIN WATER UTILITY 2007 COS STUDY MEETING SUMMARY

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Meeting: Public Involvement Committee (PIC)
Workshop 5: Customer Classifications

Date: 2-19-08 **Time:** 6 PM **Location:** Waller Creek Center

PIC Attendees:

<u>Name</u>	<u>Customer Class Representation</u>
Angela Rubottom	Residential
Lanetta Cooper	Residential
Tom Graves	Multifamily
Doris Williams	Commercial
Nguyen Stanton	Commercial
Dan Wilcox	Industrial
Jeff Covington	Industrial
Joy Smith	Wholesale
Myra Salas	Wholesale

I. Agenda Items:

The following items were covered at the PIC meeting:

1. Welcome
2. Decisions by Executive Team
3. PIC comments from last meeting
4. Presentation on customer classifications
5. PIC member comments and discussion
6. Summary of decisions and agreements
7. Public comment period

II. Decisions by Executive Team

The AWU Executive Team met after the January 22 PIC meeting and made the following decisions:

- a) *Water Cost Allocation Issue 1* – Base/extra-capacity method will be used
- b) *Water Cost Allocation Issue 2* – Peak day and peak hour will be used to allocate extra capacity costs
- c) *Water Cost Allocation Issue 3* – a separate charge will not be developed for private fire connections
- d) *Water Cost Allocation Issue 4* – deferred (public fire charges)

III. Key Interests and Issues:

PIC comments and questions focused on:

1. Should the large-volume customer class be disaggregated? The AWU's current methodology maintains a single large-volume customer class (made up of seven industrial customers). The consultants are recommending that the utility disaggregate the large-volume class, citing improved intraclass equity and a potential increase in water conservation as important factors.
2. Should the threshold for inclusion in the large-volume class be adjusted? The consultants are recommending that AWU maintains the current threshold of 85 MG per year.

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3. Should an irrigation customer class be created? AWU does not currently have an irrigation class and the consultants are recommending that no irrigation class be implemented at this time.
4. PARKING LOT ITEM – The following question was tabled for later consideration by AWU: How to charge customers who have other sources of water but who use AWU water during peak times and/or as an additional source of water?

IV. Agreements and Action Needed:

In response to requests from PIC members, AWU and consultants will provide calculations of three-year peaking history, the potential differences in costs among industrial users if the large-volume class is disaggregated, and the water conservation report developed by the AWU task force. They will also report back to the PIC on the question of whether it is feasible to disaggregate the commercial customer class and if so, the logical subcategories within the commercial class.

Written comments on this meeting are due to Mike Castillo on February 26.

The Rate Design issue paper will be forwarded to the PIC on February 25.

The next PIC workshop is scheduled for Monday, March 3.

V. Public Comment:

Randy Chapman, Texas Legal Services Center, offered public comment. He thanked AWU staff for assisting him in collecting information and spoke of the importance of developing a cost of service rate structure that responds to the needs of the most economically vulnerable.

VI. Meeting Sign-In Sheet: Attached

Prepared by: Rhonda Price, Group Solutions RJW

AUSTIN WATER UTILITY 2007 COS STUDY MEETING SUMMARY

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Meeting: Public Involvement Committee (PIC)
Workshop 6: Rate Design

Date: 3-3-08 **Time:** 6 PM **Location:** Waller Creek Center

PIC Attendees:

<u>Name</u>	<u>Customer Class Representation</u>
Angela Rubottom	Residential
Lanetta Cooper	Residential
Kristan Arrona	Multifamily
Tom Graves	Multifamily
Nguyen Stanton	Commercial
Doris Williams	Commercial
Dan Wilcox	Industrial
Jeff Covington	Industrial
Joy Smith	Wholesale
Myra Salas	Wholesale
Mario Espinoza	All

I. Agenda Items:

The following items were covered at the PIC meeting:

1. Welcome
2. Decisions by Executive Team
3. PIC comments from last meeting
4. Presentation on rate design
5. PIC member comments and discussion
6. Summary of decisions, agreements, and next steps
7. Public comment period

II. Decisions by Executive Team

The AWU Executive Team met after the February 19 PIC meeting and made the following decision:

- a) *Wastewater Cost Allocations Issue 1* – Hybrid Method will be used (O&M allocated by function and capital allocated by design)
- b) *Wastewater Cost Allocations Issue 2* – Flow, BOD, and TSS will be used to allocate wastewater costs
- c) *Wastewater Cost Allocations Issue 3* – deferred (I/I cost allocations)

III. Key Interests and Issues:

PIC comments and questions focused on:

1. Low-Income Residential Subsidy. Should AWU continue its current methodology of discounted rates for Blocks 1 and 2 or waive the fixed charge for qualified low-income residential customers? The consultants are recommending that the fixed charge be waived for the low-income. It was suggested that AWU utilize Austin Energy's low-income criteria.
2. Recovery of Low-Income Subsidy. Should AWU continue its current methodology of recovering the subsidy within the single-family residential class or recover the subsidy from all inside-city retail customer classes? The consultants are recommending the subsidy be recovered from all

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inside-city retail customer classes.

3. Fifth Block for Residential. Should AWU continue its current 4-block structure, go to a 5-block structure, or go to a revised 4-block structure? The consultants are recommending a revised 4-block structure. The revised 4-block structure can provide a similar incentive for conservation as the 5-block structure and offer the added benefit of being easier to understand.
4. Conservation Incentives for Wholesale Customers. Should there be uniform rates by wholesale class, which is AWU's current methodology, seasonal rates, or excess-use rates? The consultants are recommending AWU continue its methodology of uniform rates.

IV. Agreements and Action Needed:

In response to requests from PIC members, AWU and consultants will:

- a) Provide a frequency analysis of consumption within blocks.
- b) With each issue paper, provide a short summary of issues and recommendations found in the paper.
- c) Include the topic of the next PIC meeting in the meeting summary.
- d) Provide the break-even point in usage curve for the residential customer class.
- e) Identify AWU's top users in the commercial class.

Written comments on this meeting are due to Mike Castillo on March 10.

The Irrigation Rates issue paper will be forwarded to the PIC on March 10.

The next PIC workshop is scheduled for Monday, March 17.

A meeting was also scheduled for Monday, March 31. There will be no new issue paper for this meeting. The meeting will be used to discuss executive team decisions from prior issues. The group will also discuss requests for "what if" scenarios the PIC would like run in the COS model(s).

A meeting was scheduled for Monday, April 21. There will be no new issue paper. This meeting will be used to demonstrate the COS model, review COS results, and review "what-if" scenarios.

V. Public Comment:

Regarding Issue 1: Low-Income Residential Subsidy-- Randy Chapman, Texas Legal Services Center, spoke in favor of the consultant's recommendation that AWU waive the fixed charge for qualified low-income residential customers.

VI. Meeting Sign-In Sheet: Attached

VII. Topic for Next Meeting: Irrigation Rates

Prepared by: Rhonda Price, Group Solutions RJW

AUSTIN WATER UTILITY 2007 COS STUDY MEETING SUMMARY

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Meeting: Public Involvement Committee (PIC)
Workshop 7: Irrigation Rates

Date: 3-17-08 **Time:** 6 PM **Location:** Waller Creek Center

PIC Attendees:

<u>Name</u>	<u>Customer Class Representation</u>
Angela Rubottom	Residential
Lanetta Cooper	Residential
Tom Graves	Multifamily
Nguyen Stanton	Commercial
Dan Wilcox	Industrial
Jeff Covington	Industrial
Joy Smith	Wholesale

I. Agenda Items:

The following items were covered at the PIC meeting:

1. Welcome
2. Decisions by Executive Team
3. PIC comments from last meeting
4. Presentation on irrigation rates
5. PIC member comments and discussion
6. Summary of decisions, agreements, and next steps
7. Public comment period

II. Decisions by Executive Team

The AWU Executive Team met after the March 3 PIC meeting and made the following decision:

- a) *Customer Classifications Issue 1* – Disaggregate large-volume customer class
- b) *Customer Classifications Issue 2* – Deferred (large-volume class threshold)
- c) *Customer Classifications Issue 3* – Deferred (irrigation customer class)

III. Key Interests and Issues:

PIC comments and questions focused on:

1. Issue 1: Excess Revenues from Irrigation Rates. Should AWU reduce the indoor water rate for irrigation customers, reduce rates for all customers, set irrigation rate at cost of service (resulting in no excess revenues), set revenue aside for other designated purposes, or not establish an irrigation rate which is AWU's current methodology? Consultants are recommending that no irrigation rate be set until excess-use rates can be implemented.
2. Issue 2: Appropriate Level for Irrigation Rates. Should the irrigation rate be equal to the highest residential block rate, equal to the cost of service, or is no irrigation rate appropriate? The Water Conservation Task Force recommended the irrigation rate be set at the highest residential block rate. Again, consultants are recommending no irrigation rate be set.

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However, if there is an irrigation rate set, consultants recommend it be set at the cost-of-service rate.

3. Issue 3: Residential Irrigation Usage at Blocks 1 and 2. Should AWU continue its current methodology of providing Blocks 1 and 2 discounted water, or price all residential irrigation water at Block 3 and above? Consultants recommend irrigation usage be priced at Block 3 and above.

IV. Agreements and Action Needed:

In response to a request from PIC members, AWU and consultants will:

- a) Provide 07 and 08 revenue requirements.

In response to a request from consultants, PIC members are to:

- a) Email ideas for "What if?" scenarios to be run in the COS model(s).

Written comments on this meeting are due to Mike Castillo on March 24.

The next PIC workshops are scheduled for March 31 and April 21.

There will be no new issue papers for these meetings. The meetings will be used to discuss "What if?" scenarios.

V. Public Comment:

Randy Chapman, Texas Legal Services Center, thanked consultants for their recommendation on March 3 that AWU waive the fixed charge for qualified low-income residential customers.

VI. Meeting Sign-In Sheet: Attached

VII. Topic for Next Meeting: "What if?" scenarios

Prepared by: Rhonda Price, Group Solutions RJW

AUSTIN WATER UTILITY 2007 COS STUDY MEETING SUMMARY

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Meeting: Public Involvement Committee (PIC)
Workshop 8: Model Preview

Date: 3-31-08 **Time:** 6 PM **Location:** Waller Creek Center

PIC Attendees:

<u>Name</u>	<u>Customer Class Representation</u>
Angela Rubottom	Residential
Lanetta Cooper	Residential
Kristan Arrona	Multifamily
Tom Graves	Multifamily
Jeff Covington	Industrial
Joy Smith	Wholesale
Myra Salas	Wholesale

I. Agenda Items:

The following items were covered at the PIC meeting:

1. Welcome
2. Decisions by Executive Team
3. PIC comments from last meeting
4. Preview of cost-of-service model
5. Discuss desired "what if" scenarios
6. Public comments

II. Decisions by Executive Team

The AWU Executive Team met after the March 17 PIC meeting and made the following decisions:

- a) *Rate Structures Issue 1* – Waive fixed charge for low-income customers
- b) *Rate Structures Issue 2* – Recover low-income subsidy from all retail customer classes
- c) *Rate Structures Issue 3* – Deferred (5th block for residential customer class)
- d) *Rate Structures Issue 4* – Deferred (wholesale class conservation rates)

III. Key Interests and Issues:

PIC comments and questions focused on:

1. The consultants' preview of the cost-of-service model

2. Discussion of "What If?" Scenarios:

Identified by Executive Team:

- Fire protection (recover indirectly vs. fixed charge based on meter size)
- Residential rate structure (5-block vs. modified 4-block)
- Wholesale conservation rates
- Rate design (above/below COS)

Identified by Residential Advocate:

- Modified base/extra capacity method

Identified by Industrial Advocate:

- I/I allocations

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IV. Agreements and Action Needed:

In response to a request from PIC members, AWU and consultants will:

- a) Provide an outline of the cost-of-service steps
- b) Provide a formula for indirect costs

Written comments on this meeting are due to Mike Castillo on April 7.

The next PIC workshop is scheduled for April 21.

There will be no new issue paper for this meeting. The meeting will be used to discuss the results of the "What if?" scenarios.

V. Public Comment:

There were no comments from the public.

VI. Meeting Sign-In Sheet: Attached

VII. Topic for Next Meeting: Results of "What if?" scenarios

Prepared by: Rhonda Price, Group Solutions RJW

AUSTIN WATER UTILITY 2007 COS STUDY MEETING SUMMARY

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Meeting: Public Involvement Committee (PIC)
Workshop 9: Cost-of-Service Model Results

Date: 4-21-08 **Time:** 6 PM **Location:** Waller Creek Center

PIC Attendees:

<u>Name</u>	<u>Customer Class Representation</u>
Angela Rubottom	Residential
Kristan Arrona	Multifamily
Jeff Covington	Industrial
Dan Wilcox	Industrial
Nguyen Stanton	Commercial
Joy Smith	Wholesale

I. Agenda Items:

1. The meeting time was spent reviewing the new cost-of-service model and the resulting water rates for the selected "what if" scenarios. This was scheduled to be the last meeting. However, because staff and the consultants did not have adequate time in which to prepare the model for review by the PIC, another meeting will be necessary.

II. Decisions by Executive Team

- a) There were no new decisions from the Executive Team following the March 31 meeting.

III. Key Interests and Issues:

PIC comments and questions focused on the proposed Red Oak cost-of-service model. The PIC compared the existing Black and Veatch model to the proposed Red Oak model and reviewed the resulting rates from selected runs of the Red Oak model.

IV. Agreements and Action Needed:

- a) AWU and the consultants asked those PIC members who had comments on the 4/21 meeting to forward them as soon as possible. Also, those PIC members planning to submit a final report were asked to begin work.
- b) AWU and consultants agreed to send out final recommendations to PIC members. (Note: Some items are awaiting final decisions by the AWU Executive Team.)
- c) A tentative date of May 6 was set for the next PIC meeting. Members will be sent a confirmation notice.
- d) PIC members were told that the Water/Wastewater Commission meets on May 16 and that there could be a presentation on the COS study. Members are welcome to attend and offer any comments they'd like.

V. Public Comment:

There were no comments from the public.

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VI. Meeting Sign-In Sheet: Attached

VII. Topic for Next Meeting:

Review of proposed model and results of "What if" scenarios.

Prepared by: Rhonda Price, Group Solutions RJW

AUSTIN WATER UTILITY 2007 COS STUDY MEETING SUMMARY

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Meeting: Public Involvement Committee (PIC)
Workshop 10: Review of Options

Date: 7-22-08 **Time:** 6 PM **Location:** Waller Creek Center

PIC Attendees:

<u>Name</u>	<u>Customer Class Representation</u>
Angela Rubottom	Residential
Lanetta Cooper	Residential
Tom Graves	Multifamily
Jeff Covington	Industrial
Dan Wilcox	Industrial
Nguyen Stanton	Commercial
Joy Smith	Wholesale
Mario Espinoza	All

I. Agenda Items:

- a) The meeting time was spent reviewing water and wastewater options developed during previous PIC workshops, comparing the current Black and Veatch model with the Red Oak base model and additional options.

II. Decisions by Executive Team

The following are decisions made by the Executive Team since the 4-21-08 meeting:

- a) 5-block rate structure for residential
- b) Outside-city retail classes eliminated
- c) No separate irrigation class
- d) April 2009 target date for implementation

III. Activities Since Last Meeting

Water Model

- a) Variable month implementation
- b) Excess-use rate design

Wastewater Model

- a) Re-constructed from water model to be consistent
- b) Updated cost allocations
- c) Developed extra-strength surcharge calculations

Other Activities

- a) Validated inputs
- b) Conducted staff training
- c) Developed "what-if" options

IV. Key Interests and Issues:

PIC comments and questions focused on water options comparing the current Black and Veatch model with Option 1 (the Red Oak Base), Option 2 (seasonal rates for wholesale customers), Option 3 (recover fire protection costs through fixed charges), Option 4 (all classes at cost of service), and Option 5 (Residential Advocate Hybrid allocation approach). Comments and questions also focused on wastewater options comparing the current Black and Veatch model with Option 1

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(Red Oak Base—including I&I as a system cost), Option 2 (I&I allocated based on 50% customer and 50% flow), and Option 3 (all classes at cost of service).

V. Agreements and Action Needed:

AWU staff agreed to email the proposed water utility rates to PIC members on July 23. Also, AWU staff will email proposed times for PIC members to participate in a "net meeting" to go through a model demonstration.

Next Steps:

- a) PIC members review options and provide comments—due August 12
- b) Executive Team review of PIC member comments and decisions on remaining issues—2 weeks (depending on comments)
- c) Update model based on FY 08-09 Approved Budget—2 weeks
- d) PIC Meeting (to review "final" Executive Team decisions and "final" model)—late September or early October
- e) Submission of final comments by PIC members—3-4 weeks
- f) COS Presentation to Citizen's Water Conservation Implementation Task Force—November or December meeting
- g) COS Presentation and Adoption by the City Council—January or early February
- h) Implementation of rates based on new COS methodology— target date of April 1, 2009.

VI. Public Comment:

There were no comments from the public.

VII. Meeting Sign-In Sheet: Attached

VIII. Topic for Next Meeting:

Review of "final" Executive Team decisions and "final" model

Prepared by: Rhonda Price, Group Solutions RJW

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MEETING SUMMARY

Meeting: Public Involvement Committee (PIC)
Workshop 11: Selected Methodologies

Date: 10-09-08 **Time:** 6 PM **Location:** Waller Creek Center

PIC Attendees:

<u>Name</u>	<u>Customer Class Representation</u>
Lanetta Cooper	Residential
Tom Graves	Multifamily
Kristan Arrona	Multifamily
Jeff Covington	Industrial
Dan Wilcox	Industrial
Nguyen Stanton	Commercial
Joy Smith	Wholesale
Myrna Salas	Wholesale

I. Agenda Items

The following items were covered at the PIC meeting:

1. Welcome
2. Low-income waiver program update
3. Executive Team decisions
4. Review model results
5. Next steps
6. Public comments
7. Closing remarks

II. Decisions by Executive Team

The following decisions were made by the Executive Team since the 7-22-08 meeting:

Water

- Water cost allocation approach - the "Base/Extra Capacity" option was chosen because it is consistent with industry standards and promotes conservation during peak periods.
- Recovery of fire protection costs - the "fixed charges based on meter size" option was chosen because it is a more equitable allocation of public fire costs and increases revenue stability.
- Allocation of general fund transfers - the "revenue-based" option was chosen because it is consistent with how the transfer amounts are determined.
- Allocation of treatment plant maintenance cost - the "base costs only" option was chosen because it aligns maintenance costs with usage.

Wastewater

- Allocation of costs for I/I - the "contributed volume" option was chosen because it recognizes that I/I is a system cost. Individual customers cannot control I/I and I/I consumes flow-related capacity.
- Large volume wastewater strengths - the "3-year average" option was chosen because it reduces volatility in charges while maintaining equity.

Rate Design

- Definition of large-volume customer - the "85 MG/year" option was chosen because it is consistent with a natural break in the consumption patterns

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**AUSTIN WATER UTILITY 2007 - 2008 COS STUDY
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for AWU's customers.

- Conservation rates for wholesale customers - the "uniform rates" option was chosen because wholesale customers have individual rates that already provide conservation incentives while other options increase revenue volatility.
- Residential subsidies - the "cost-of-service" option was chosen because it achieves cost of service while reducing rate shock. The executive team anticipates this transition to occur over a span of 5 years.

III. Key Interests and Issues

PIC comments and questions were related to the decisions presented by the Executive Team.

IV. Agreements and Action Needed

The Executive Team asked the PIC members to visit with their stakeholders to discuss all final decisions and requested final comments on the study as well as the results of the study. The Executive Team also agreed to make the final reports available to the PIC members as well as the public via the website.

Next Steps:

- a) PIC members review decisions and provide comments to Michael Castillo by October 31
- b) Update rates for FY 08-09
- c) Final Reports from Red Oak and the Residential Rate Advocate
- d) Move forward with Excess-Use Rate Design
- e) Present Study results to:
 - City Manager
 - Boards and Commissions
- f) Public hearing on proposed rate changes - January 2009
- g) City Council briefing and action - January 2009

V. Public Comment:

There were no comments from the public.

VI. Meeting Sign-In Sheet: Attached

Prepared by: Nicole Arntz, Group Solutions RJW



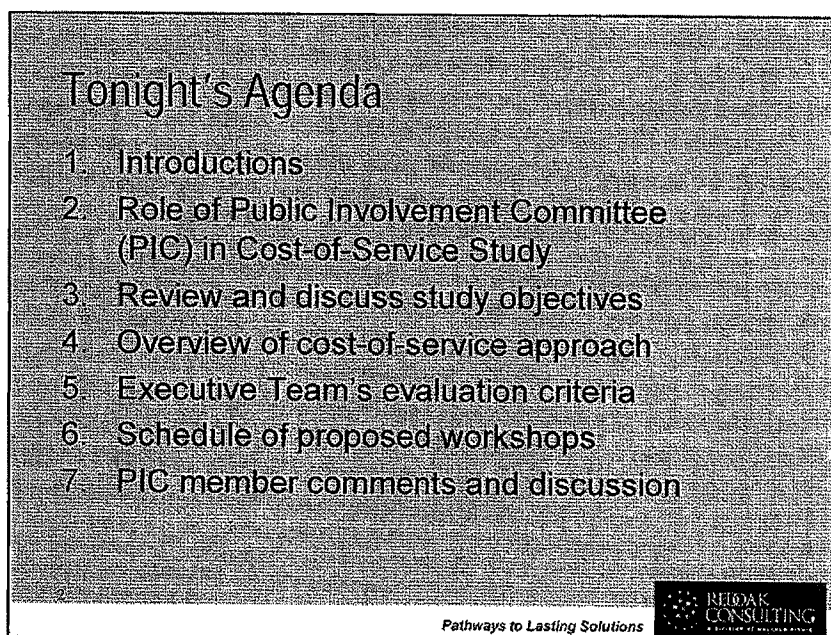
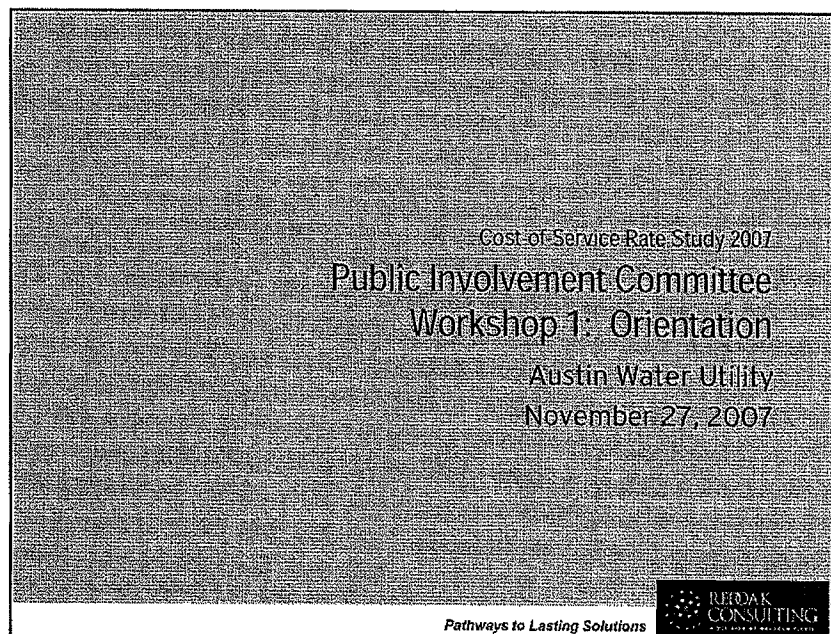
Austin Water Utility
Cost-of-Service Rate Study 2008 - Volume II

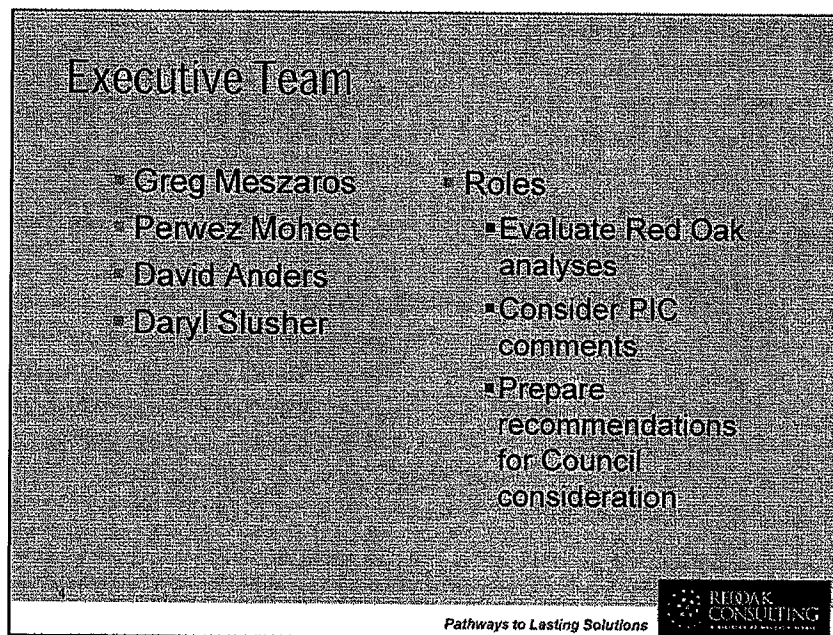
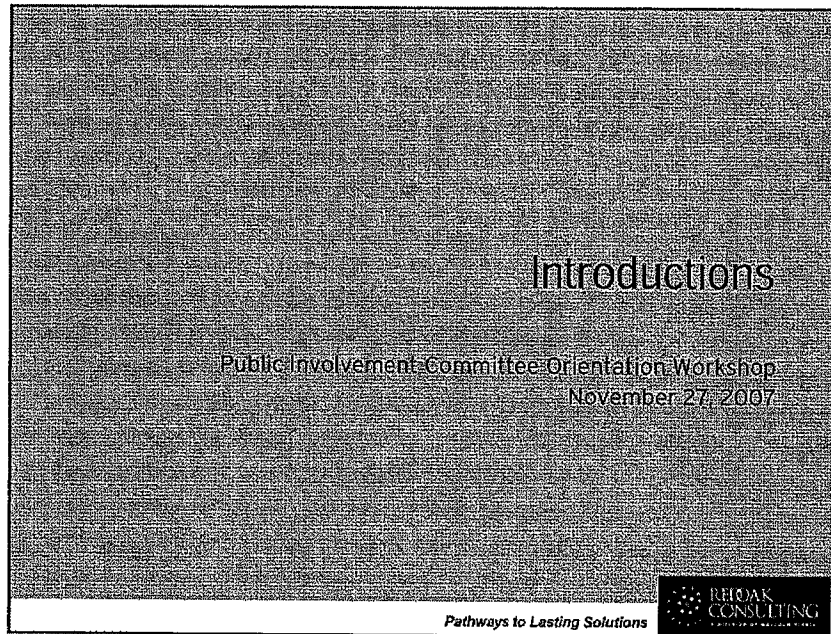
APPENDIX

C

PIC Meeting Presentations







City Project Team

- Rusty Cobern
 - Mike Castillo
 - Darrel Culberson
 - Denise McDonald
 - Jimmy Jackson
- Roles
 - Provide technical support and data resources
 - Review all technical analyses

Pathways to Lasting Solutions



Our Red Oak Project Team

- Robena Jackson, Group Solutions RJW
 - Red Oak, a division of Malcolm Pirnie
 - Rick Giardina
 - Paul Matthews
 - Jennifer Ivey
 - Charles Schoening
- Serve as public involvement consultant/facilitator
 - Provide technical analyses
 - Prepare cost-of-service analysis

Pathways to Lasting Solutions

