



Control Number: 49189



Item Number: 2

Addendum StartPage: 0

DOCKET NO. 49189

APPLICATION OF THE CITY OF §
AUSTIN DBA AUSTIN WATER §
FOR AUTHORITY TO CHANGE §
WATER AND WASTEWATER §
RATES §

RECEIVED
JAN 10: 07
BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS

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DOCKET NO. 49189

APPLICATION OF THE CITY OF	§	BEFORE THE
AUSTIN DBA AUSTIN WATER	§	
FOR AUTHORITY TO CHANGE	§	PUBLIC UTILITY COMMISSION
WATER AND WASTEWATER	§	
RATES	§	OF TEXAS

**STATEMENT OF INTENT TO CHANGE RATES
FOR WHOLESALE WATER AND WASTEWATER SERVICE**

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

The City of Austin (City) doing business as Austin Water (AW) files this Application for Authority to Change its Water and Wastewater Rates (Rate Application, Rate Filing Package, or RFP) in compliance with Texas Water Code (TWC) § 13.044(b) and the Public Utility Commission of Texas' (Commission) Order on Rehearing in Docket No. 42857.¹ In support of this filing the City would respectfully show the following:

I. STATEMENT OF JURISDICTION

The Commission has jurisdiction over this Rate Application pursuant to Chapter 13 of the TWC § 13.044(b), requiring AW to obtain Commission approval before increasing wholesale water and wastewater rates applicable to the four wholesale customer petitioners (Petitioners) who initiated Docket No. 42857.²

II. FACTUAL STATEMENT

After an extended proceeding, the Commission established AW's wholesale water and wastewater rates for the Petitioners after they appealed AW's rates in Docket No. 42857. The Commission also ordered AW not to increase wholesale water and wastewater rates applicable to

¹ *Petition of the North Austin Municipal Utility District No. 1, Northtown Municipal Utility District, Travis County Water Control and Improvement District No. 10, and Wells Branch Municipal Utility District from the Ratemaking Actions of the City of Austin and Request for Interim Rates in Williamson and Travis Counties*, Docket No. 42857, Order on Hearing (Jan. 14, 2016).

² The four petitioners consist of Austin Municipal Utility District No. 1 (North Austin MUD), Northtown Municipal Utility District (Northtown MUD), Travis County Water Control and Improvement District No. 10 (Travis WCID No. 10), and Wells Branch Municipal Utility District (Wells Branch MUD).

the Petitioners without prior Commission approval. This Application is being presented in response to the Commission's Order on Rehearing in Docket No. 42857.

This case is unique in many respects. First, the Commission's jurisdiction over AW is limited to appellate review of rates and service charged to customers residing outside the City and certain special districts. Second, this case is the first instance where a utility has filed for approval of rates following the filing of a challenge to its rates. Third, this case addresses wholesale water rates to just four customers. Fourth, the law provides no procedural requirements directing the processing of this case.

After the Commission establishes rates in an appeal by a special district, 16 Tex. Admin. Code (TAC) § 24.45(c) states that "a municipality desiring to increase rates must provide the commission with updated information in a format specified in the current rate data package developed by the Rates Section." Because of the unique nature of this case, the Commission has not developed a rate data package for this proceeding. Accordingly, pursuant to direction from the Commission's Rates Section, AW has used the Class A Investor-Owned Utilities Water and/or Sewer Rate Filing Package for Cost-of-Service Determination (Class A RFP) in the preparation of this Application.

In many instances, the Class A RFP requires substantial amounts of information that is not applicable to a municipally-owned utility. Specifically, those portions of the Class A RFP requesting data relating to return, capital structure, federal income taxation, rate base, depreciation, rate design for retail customers, and other items have been left blank. An index identifying those schedules that are not applicable as well as explanations why they are not applicable are contained in the Application. AW and its consultants have, however, endeavored to respond to the RFP to the fullest extent possible. For example, AW does not use the NARUC chart of accounts for its own accounting, and therefore does not use it in this case. However, AW does have a similar chart of accounts method that provides a level of detail which is consistent with the NARUC system.

III. RELIEF REQUESTED

AW provides service to sixteen wholesale water customers and ten wholesale wastewater customers. In this case, AW is seeking approval to increase rates to the four petitioners from Docket No. 42857. Besides the Petitioners, no other wholesale or retail customers are impacted by this filing.

AW conducted a lengthy consultative and public process to consider AW's rates and develop new wholesale and retail water rates. Based upon a test year concluding on September 30, 2018 adjusted for known and measurable changes, AW seeks an annual revenue requirement associated with water service to the Petitioners of \$10,030,804. This equates to a water rate increase of \$3,786,241.

Using the same test year, AW has quantified a wastewater revenue requirement of \$4,516,231, resulting in a wastewater rate increase of \$522,158. On a combined water and wastewater basis, AW seeks an annual revenue requirement of \$14,547,035, resulting in a combined increase of \$4,308,399.

IV. PARTIES AFFECTED

This Application affects the following four wholesale customers: (1) North Austin MUD, (2) Northtown MUD, (3) Travis WCID No. 10, and (4) Wells Branch MUD.

V. DESIGNATED REPRESENTATIVE

AW's designated representative for service of pleadings, orders, and other matters related to this Application is:

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VI. RATE CASE EXPENSES

If severance of rate case expense will serve the interest of efficiency and avoid the need to estimate and update rate case expenses, AW requests that the issue be severed into a separate proceeding that will conclude after the resolution of this case. In this way, all of AW's rate case expenses can be addressed in that proceeding. In the event, however, the Commission decides to not sever the issue, AW has included testimony supporting its outside legal and consulting costs incurred through the filing of this Application. Copies of all invoices prepared and received to date may be found at Schedule II-E-4.4 of the RFP. If rate case expenses are not severed into another proceeding, AW requests the opportunity to update its rate case expense amount by submitting supplemental testimony or an affidavit, as the conclusion of this proceeding approaches. AW proposes to recover its reasonable and necessary rate case expenses through a surcharge on the Petitioners' bills assessed over a 12-month period.

VII. NOTICE

There are no specific notice requirements for this proceeding. Moreover, only four customers are affected by this Application. Nevertheless, AW is providing notice to the Petitioners using the Commission-approved form on the Commission's website. Notice will be provided at the time the Application is filed. A copy of this notice may be found at Section I of the Application schedules. In addition, the Petitioners' legal counsel will be notified and provided with a copy of the Application.

VIII. PROPOSED DEADLINE

Texas Water Code § 13.044, under which the Commission has jurisdiction over this proceeding, does not provide for the establishment of an effective date or a statutory deadline for the Commission to render a final decision on AW's Rate Application. Therefore, AW requests the Commission render a decision in time for rates to go into effect on or about November 1, 2019. This will provide the Commission with approximately six months to process the filing, which is typical for an investor-owned utility rate proceeding.

IX. CONFIDENTIAL INFORMATION

At this time, AW has not identified any material that is confidential and does not anticipate needing a Protective Order in this case. However, in the event that AW or the Commission identifies the need for a Protective Order, AW reserves the right to request that a Protective Order of the standard form used by the Commission be entered promptly in this case.

X. PRAYER

WHEREFORE, PREMISES CONSIDERED, AW requests that the Public Utility Commission of Texas approve AW's requested changes in wholesale water and wastewater rates to be effective November 1, 2019. Additionally, AW requests all other relief to which it is entitled.

Respectfully submitted,

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ATTORNEYS FOR AUSTIN WATER

DOCKET NO. 49189

APPLICATION OF THE CITY OF
AUSTIN DBA AUSTIN WATER
FOR AUTHORITY TO CHANGE
WATER AND WASTEWATER
RATES

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BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS



DIRECT TESTIMONY
OF
DAVID A. ANDERS

ON BEHALF OF THE CITY OF AUSTIN
D/B/A AUSTIN WATER

APRIL 2019

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1 I. INTRODUCTION

2 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is David Anders. My business address is 625 East 10th Street, Suite 800,
4 Austin, Texas, 78701.

5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

6 A. I am employed by the City of Austin (City) as the Assistant Director of Financial
7 Services for Austin Water (AW).

8 Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

9 A. I am testifying on behalf of the City doing business as AW.

10 Q. DID YOU PREPARE THIS TESTIMONY?

11 A. Yes. This testimony was prepared by me or under my direct supervision.

12 Q. WOULD YOU PLEASE CLARIFY YOUR REFERENCES TO THE CITY AND
13 AW?

14 A. Yes. AW is a municipally-owned water and wastewater utility, owned by the City of
15 Austin, a home-rule city. When I refer to AW, I am referring to the utility, which is a
16 department functioning within the City.

17 Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
18 PROFESSIONAL EXPERIENCE.

19 A. As I will detail in the responses that follow, I have many years of professional
20 experience working within the finance area for AW. I graduated from the University
21 of Texas and was awarded a Bachelor of Business Administration degree with
22 coursework in finance and management.

1 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?**

2 A. Yes, I am a member of the American Water Works Association.

3 **Q. HAVE YOU AUTHORED OR CO-AUTHORED ANY PUBLICATIONS?**

4 A. Yes, I have. I was the co-author and co-presenter with Michael Castillo, AW's Utility
5 Finance and Budget Manager at the time, of "Effectively Managing Conflicting Interest
6 in a Cost of Service Study" at the 2009 Texas Section American Water Works
7 Association Annual Conference. I was the featured speaker at the 2012 Central Texas
8 Water Conservation Symposium, and the co-author of a paper for the 2013 American
9 Water Works Association, Utility Management Conference, entitled "A Financial
10 Sustainability Plan: Austin's Answer to the Revenue Stability Challenge." I also
11 presented at the Texas Municipal Utilities Association Conference in 2015 entitled
12 "The Effect of Utility Rate Design on Water Conservation and Drought Restrictions."
13 I also presented at the Water and Wastewater CFO Forum in 2016 entitled "Austin's
14 Drought: Impacts and Response." Finally, I most recently co-authored and presented
15 a paper at the American Water Works Association, Utility Management Conference in
16 2018 entitled "Austin Water 2017 Cost of Service Study: Keeping Austin Weird."

17 **Q. HAVE YOU EVER PROVIDED TESTIMONY BEFORE THE PUBLIC**
18 **UTILITY COMMISSION OF TEXAS OR ANY AGENCY PREVIOUSLY?**

19 A. Yes, I provided both direct testimony and rebuttal testimony in PUC Docket No. 42857
20 (and was examined at the hearing on those testimonies), AW's previous rate proceeding
21 before the Texas Commission on Environmental Quality (TCEQ), and the Public
22 Utility Commission of Texas (Commission or PUC). That matter was initiated while
23 the TCEQ had jurisdiction over AW's rates; subsequent to the filing of that case,
24 newly-adopted legislation transferred authority over water rate setting to the

1 Commission. Those testimonies are available online, through the PUC's Interchange
2 website.

3 **Q. WHAT IS YOUR CURRENT ROLE WITHIN AW?**

4 A. My current role within AW is Assistant Director of Financial Services. I have held this
5 position since July 2007. In my role as Assistant Director of Financial Services, I
6 provide managerial oversight to all divisions within the Financial Services program
7 area including Financial Management, Budget & Accounting, Customer Service, and
8 Supply Chain Management. In addition, I am AW's Chief Financial Officer, a role
9 which requires me to provide financial guidance to AW's Executive Team and the
10 various program areas of the utility. My current role also involves managerial oversight
11 of the completion of AW's cost of service (COS) studies for water and wastewater
12 service. In that work, I manage the development of revenue requirements for those
13 services, as well as cost allocation and rate design.

14 **Q. HOW LONG HAVE YOU BEEN EMPLOYED BY AW?**

15 A. I have worked for AW in various roles for more than thirty years. My complete resume
16 is Attachment DAA-1 to this testimony.

17 **Q. BEFORE YOUR WORK AS ASSISTANT DIRECTOR OF FINANCIAL**
18 **SERVICES, WHAT WERE YOUR POSITIONS WITH AW?**

19 A. Prior to my current service at AW as Assistant Director of Financial Services, I have
20 held many positions in AW. From 1988 to 1995, I served as a Financial Analyst,
21 assisting AW's leadership team with all financial issues, including assisting with AW's
22 annual budget process, short and long term financial forecasting, and determining costs
23 and revenue requirements. I provided assistance and analysis in support of revenue

1 bond issues and defeasance. I also participated in the development of AW revenue
2 requirements and worked on cost allocation and rate design.

3 From 1995–1999, I was AW’s Rates and Charges Manager, followed by service
4 as Acting Manager of Utilities Finance, and then Manager of Utilities Finance, from
5 2000–2007. Over that time, my responsibilities included management of, and
6 providing technical guidance and support to, the sections within the Financial
7 Management Division, which include CIP Budgeting and Accounting, Financial
8 Reporting, Financial Planning and Analysis, Rates and Charges, Debt Management,
9 Fleet Management, Facilities Management, and Finance Information Technology.

10 **Q. ARE YOU SPONSORING ANY SCHEDULES IN CONNECTION WITH YOUR**
11 **TESTIMONY?**

12 A. Yes. I am sponsoring the schedules listed in Attachment DAA-3.

13 **II. PURPOSE OF TESTIMONY**

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A. In my testimony, I will address:

- 16 • My own background and qualifications;
- 17 • An overview of AW;
- 18 • Background on the Municipal Utility Districts (MUDs) whose rates are at issue
19 in this case;
- 20 • A discussion of the City of Austin’s MUD policy;
- 21 • The context for Docket No. 42857, AW’s previous water rate proceeding at the
22 Commission that gave rise to this proceeding;
- 23 • A high-level review of AW’s COS, and a discussion of the factors behind AW’s
24 need for a rate increase;

- 1 • A review of the witnesses presented by AW;
- 2 • An overview of AW's Wholesale Involvement Committee (WIC) process that
- 3 was used to arrive at the rates addressed by this case;
- 4 • An overview of the basis for revenue requirement determination using the cash
- 5 needs approach and debt service coverage (DSC);
- 6 • An overview of items approved by the Commission in Docket No. 42857 within
- 7 wholesale revenue requirements;
- 8 • An overview of items disallowed by the Commission in Docket No. 42857 from
- 9 inclusion within wholesale revenue requirements;
- 10 • A review of the rate filing package (RFP) schedules I support, and of AW's
- 11 witnesses that support the other portions of the RFP; and
- 12 • An overview of conclusions drawn from this testimony.

13 The rates proposed in this case are stated in the direct testimony of Joseph
14 Gonzales beginning at page 50. For a comparison of currently approved operating
15 expenses and operating income as previously authorized and as proposed in this
16 Application, please see Schedules II-A-2-1, II-A-2-2, II-A-2-2(w) and II-A-2-2(ww).

17 **III. OVERVIEW OF AUSTIN WATER**

18 **Q. WHAT ARE THE ORIGINS OF AW?**

19 A. AW's roots as the municipal water utility of the City date to the early 1900s, when the
20 City purchased the private water company that had served the City since 1871. That
21 private company had constructed a dam on the Colorado River that failed on April 7,
22 1900; the acquisition of the water utility by the City occurred soon thereafter. In 1919,
23 the City constructed its first wastewater treatment plant.

1 **Q. WHAT CUSTOMERS DOES AW SERVE?**

2 A. Currently, AW serves approximately 255,000 customers in a service area with a
3 population of more than one million and that exceeds 540 square miles.

4 Additionally, AW serves sixteen wholesale water customers and ten wholesale
5 wastewater customers. The rates and service to four wholesale water and wastewater
6 customers are what are at issue in this proceeding. I discuss background on these
7 customers in Section IV of my testimony, below.

8 **Q. WHAT FACILITIES DOES AW OWN AND OPERATE?**

9 A. AW owns and operates three water treatment plants: Berl L. Handcox, Sr., formerly
10 known as Water Treatment Plant No. 4, the Albert R. Davis Water Treatment Plant,
11 and the Ulrich Water Treatment Plant. All three receive water from the Lower
12 Colorado River Authority (LCRA) system. Of these, Berl L. Handcox is the newest,
13 and was commissioned in November of 2014. As AW witness Joseph Gonzales will
14 address, the Berl L. Handcox treatment plant was not included in the Commission-
15 ordered rates in Docket No. 42857 on the grounds that it was not providing service at
16 the time of that proceeding. The Berl L. Handcox plant is now fully operational and
17 was used for providing water service throughout the test year, and since.

18 AW also operates two wastewater treatment plants. These are the Walnut Creek
19 and South Austin Regional plants. Together, these plants have a permitted capacity of
20 150 million gallons per day. These two plants receive water from AW's sanitary sewer
21 system, treat it, and return the water to the Colorado River, or direct the water to be
22 used in AW's Reclaimed Water System. The Reclaimed Water System is a critical
23 component in AW's Water Forward integrated water supply plan. AW witness Steve

1 Coonan addresses the Reclaimed Water System in his direct testimony in this
2 proceeding.

3 The sludge that results from the wastewater treatment process is turned into
4 compost at the Hornsby Bend Biosolids Management Plant.

5 Beyond these plants, AW operates a large network of pipelines, lift stations,
6 pump stations, reservoirs, and other related facilities to provide reliable water and
7 sewage service to its wholesale and retail customers.

8 **IV. BACKGROUND ON WHOLESALE CUSTOMERS**
9 **AND WHOLESALE RATES**

10 **Q. PLEASE EXPLAIN AW'S RELATIONSHIP WITH ITS WHOLESALE**
11 **CUSTOMERS.**

12 A. AW provides wholesale water and wastewater service to sixteen water wholesale
13 customers and ten wastewater wholesale customers. However, only four wholesale
14 customers gave rise to this matter. Those customers are: North Austin MUD,
15 Northtown MUD, WCID No. 10, and Wells Branch MUD (Petitioners). Additionally,
16 Shady Hollow MUD challenged AW's rates, but that case was resolved through
17 settlement, with the Commission's approval. Since that time, Shady Hollow has
18 contractually been dissolved with AW currently providing retail service.

19 For its wholesale customers, AW provides wholesale water and wastewater
20 service under contracts with each of them.

21 **Q. WHAT RATE IS CHARGED TO AW'S WHOLESALE CUSTOMERS?**

22 A. While particular details regarding wholesale water and/or wastewater treatment service
23 are specified in the contracts, each establishes that the rates for such service shall be as

1 established by the City; typical language, for instance, is found in Northtown MUD's
2 contract with AW:

3 The sale and furnishing of water to the District shall be
4 nondiscriminatory and uniform with the policy or policies
5 of the city relating to utilities inside the City's utility
6 service area as established by Ordinance No. 810820-B, as
7 now in effect or hereafter amended. Water supplied to the
8 District pursuant to this Agreement shall be at the rate or
9 rates established by the City for water supplied to water
10 districts generally.¹

11 Given the similarity of the language embodying this concept in each of the
12 relevant wholesale contracts, I will not recite them all in my testimony. However, the
13 relevant language for each may be reviewed in the contracts included as an attachment
14 to Schedule II-C-4 of the RFP.

15 Prior to the AW water and wastewater rates that gave rise to this proceeding,
16 AW's rates for the four Petitioners for water and wastewater service were established
17 by the Commission in Docket No. 42857.

18 **Q. OF THE FOUR PETITIONERS IN THIS PROCEEDING, WHICH OF THEM**
19 **RECEIVE WATER FROM AW?**

20 A. They all do.

21 **Q. AND WHICH RECEIVE WASTEWATER SERVICE?**

22 A. Of the group, North Austin MUD, Northtown MUD, and Wells Branch MUD also
23 receive wastewater service from AW. WCID No. 10 does not receive wastewater
24 service from AW, only water service.

¹ See Rate Filing Package, Schedule II-G-2.4 (W) Wholesale/Sales for Resale – Water (Northtown MUD Resolution Article III-A).

1 **V. CITY OF AUSTIN MUD POLICY**

2 **Q. HAS THE CITY ADOPTED A FORMAL POLICY ADDRESSING AW'S**
3 **RELATIONSHIP WITH MUDS?**

4 A. Yes, it has. In 2011, Austin's City Council adopted a MUD policy and set forth criteria
5 for considering requests to establish new MUDs. That resolution was
6 No. 291192170939;² included in my testimony as Attachment DAA-2.

7 **Q. WHAT DOES THE CITY'S MUD POLICY REQUIRE?**

8 A. The City's MUD policy establishes a number of criteria by which the City considers
9 and consents to new applications for MUDs. Among other items—particularly, items
10 focused on incentivizing superior development practices—the policy requires the use
11 of City services as a condition of creating a MUD. That policy also requires that any
12 MUD proposal demonstrate that the City would benefit more from creation of a MUD
13 than from use of the standard City development process.

14 **Q. WHAT IS THE SIGNIFICANCE OF THE CITY'S MUD POLICY TO THIS**
15 **CASE?**

16 A. The Petitioners were each established long before the 2011 City MUD policy was
17 adopted. That MUD policy informs the City's consent to *new* MUD applications, not
18 the setting of rates or the establishment of wholesale contract terms for MUDs.
19 Nonetheless, the policy is instructive—the focus is on mutual benefit to both sides,
20 compared to the standard city development process.

21 Prior to the year 2017, cities had the ability to annex areas within their
22 extraterritorial jurisdiction (ETJ), such as the areas served by the Petitioners. Against

² See Attachment DAA-2; <http://www.austintexas.gov/edims/document.cfm?id=236075>.

1 that prior backdrop, the City's MUD policy was intended to condition AW's provision
2 of any wholesale service to a MUD, and to incentivize development in the MUD in
3 accordance with the City's own standards. In other words, wholesale water and/or
4 wastewater service was a component of a broader relationship between the MUD and
5 the City, a relationship premised upon the City's ultimate annexation of the area served
6 by the MUD, and which included development conditions that would facilitate the
7 incorporation of the MUD's service area into the City.

8 **Q. HAS THIS SITUATION CHANGED IN RECENT YEARS?**

9 A. Yes, significantly. In 2017, Senate Bill (SB) 6 was adopted. That legislation requires
10 cities in Texas' largest counties to obtain voter approval before annexing areas. As a
11 result, it is now substantially more difficult to annex an area within a city's ETJ. With
12 this new legal requirement, the broader context for the City's MUD policy no longer
13 exists—AW's wholesale water contract with a MUD cannot be viewed as part of a
14 larger engagement designed to facilitate annexation of the areas served by the MUD.

15 **Q. IF THIS BROADER CONTEXT IS GONE, HOW SHOULD WHOLESALE**
16 **SERVICE TO THE MUDS BE VIEWED?**

17 A. Wholesale service to the MUDs should be viewed as a regular commercial transaction
18 by a municipally-owned water utility. As I describe in Section IV of this testimony,
19 service to the Petitioners is established by a contract between the City and each MUD.
20 Those contracts have a finite term, and will, at some point, expire and be renegotiated.

21 AW witness Dan Wilkerson explains how the Commission's decision in Docket
22 No. 42857 has resulted in AW's other customers subsidizing the rates of the Petitioners,
23 since they do not contribute their share of AW's overall DSC. AW will have to
24 reevaluate extending water or wastewater services to any new or existing wholesale

1 customer if rates for those services must exclude its targeted DSC level, particularly if
2 mandated rates require AW's other customers to continue to subsidize rates for these
3 wholesale customers. For AW to continue to provide wholesale water and wastewater
4 service to these customers, it needs rates that adhere to AW's financial goals, including
5 its targeted DSC level.

6 **VI. REVIEW OF DOCKET NO. 42857 AND**
7 **RELATIONSHIP TO THIS CASE**

8 **Q. WHAT WAS THE SUBJECT MATTER OF DOCKET NO. 42857?**

9 A. That proceeding was an appeal by the Petitioners of the 2013 rate increase implemented
10 by AW. That case was notable in that it was processed both by the TCEQ and the
11 Commission; on September 1, 2014, House Bill (HB) 1600 and SB 567 of the
12 83rd Legislature transferred jurisdiction over the case from the TCEQ to the
13 Commission.

14 On September 12, 2012, Austin's City Council adopted a rate ordinance
15 establishing new rates for wholesale water and wastewater service based on a
16 2012-2013 fiscal year. The rates approved by City Council became effective on
17 February 1, 2013. On April 16, 2013, the Districts filed their petition with the TCEQ,
18 and challenged those rates. After a lengthy process, the Commission's Order on
19 Rehearing was issued on January 14, 2016.

20 **Q. WHAT DID THE COMMISSION DECIDE IN DOCKET NO. 42857?**

21 A. AW's rates were approved, but subject to a number of adjustments. In Finding of Fact
22 No. 52 of its Order on Rehearing, the Commission held that the following items should
23 be disallowed or adjusted:

- 1 a. General fund transfer;
- 2 b. Rate case expenses;
- 3 c. Reclaimed water system (capital and O&M costs);
- 4 d. City's reclassification of SWAP and commercial paper administration
- 5 costs from capital to expense;
- 6 e. Drainage fee;
- 7 f. Allocation of O&M expenses to the reclaimed water utility;
- 8 g. Depreciation;
- 9 h. Green Water Treatment Plant capital costs;
- 10 i. Revenue Stability Reserve Fund;
- 11 j. Barton Springs/Edwards Aquifer Conservations District;
- 12 k. Govalle Wastewater Treatment Plant (capital costs/O&M costs);
- 13 l. Utility-Wide contingency;
- 14 m. Water Treatment Plant No. 4; and
- 15 n. Green Choice electricity.

16 **Q. DID THE COMMISSION'S ORDER ON REHEARING IN DOCKET NO. 42857**
17 **CONTAIN ANY PROVISIONS DIRECTED AT THIS, THE PRESENT**
18 **PROCEEDING?**

19 A. Yes. Ordering Paragraph No. 5 states that "the city may not increase water or
20 wastewater rates applicable to the four petitioners without prior Commission
21 approval."³

³ *Petition of the North Austin Municipal Utility District No. 1, Northtown Municipal Utility District, Travis County Water Control and Improvement District No. 10, and Wells Branch Municipal Utility District from the Ratemaking Actions of the City of Austin and Request for Interim Rates in Williamson and Travis Counties, Docket No. 42857, Order on Rehearing, Ordering Paragraph No. 5 (Jan. 14, 2016).*

1 **Q. IN WHAT MANNER ARE THE DECISIONS MADE BY THE COMMISSION**
2 **IN DOCKET NO. 42857 REFLECTED IN AW'S APPLICATION IN THIS**
3 **CASE?**

4 A. AW recognizes that Docket No. 42857 reflected the culmination of a lengthy process
5 that spanned nearly three years and two separate regulatory agencies. In many ways,
6 that case was unique. The COS presented in this case reflects the Commission's
7 decisions in Docket No. 42857 in many significant respects. In other areas, however,
8 AW respectfully requests the Commission consider new evidence in this case
9 supporting those items.

10 **Q. WHICH ISSUES DECIDED BY THE COMMISSION IN DOCKET NO. 42857**
11 **DOES AW PRESENT IN THIS CASE?**

12 A. Of the issues decided in the prior case, AW's witnesses present evidence supporting
13 AW's treatment of:

- 14 • Rate case expenses;
- 15 • The capital costs and expenses associated with AW's reclaimed water system;
- 16 • The City's swap and commercial paper handling expenses;
- 17 • AW's drainage fee expense;
- 18 • The Revenue Stability Reserve Fund;
- 19 • Allocation of O&M expenses to the reclaimed water utility;
- 20 • The training costs and expenses from non-treatment plant operations at the
- 21 former Govalle Wastewater Treatment Plant site;
- 22 • Berl L. Handcox Sr. Water Plant (formerly Water Treatment Plant No. 4); and
- 23 • AW's cost associated with using Green Choice electricity from Austin Energy.

1 **VII. OVERVIEW OF AW WHOLESALE REVENUE REQUIREMENT**
2 **INCREASE; DRIVERS FOR INCREASE**

3 **Q. WHAT WHOLESALE RATE INCREASE DOES AW SEEK IN THIS CASE?**

4 A. AW conducted a lengthy consultative and public process to consider AW's wholesale
5 rates—the Wholesale Involvement Committee (WIC) and Public Involvement
6 Committee (PIC) process I describe in Section IX of my testimony. In Section X of
7 this testimony, I more fully describe the process used to develop new wholesale and
8 retail water rates.

9 Based upon a test year concluding on September 30, 2018, AW seeks an annual
10 revenue requirement associated with water service to the Petitioners of \$10,030,804.
11 This equates to a water rate increase of \$3,786,241.

12 Using the same test year, AW has a quantified a wastewater revenue
13 requirement of \$4,516,231, resulting in a wastewater rate increase of \$522,158. On a
14 combined water and wastewater basis, AW seeks an annual revenue requirement of
15 \$14,547,035, resulting in a combined increase of \$4,308,399.

16 **Q. IS THERE ANY IMPORTANT CONTEXT TO BE KEPT IN MIND WHEN**
17 **REVIEWING THIS INCREASE?**

18 A. Yes. Apart from the technical merits of AW's COS Study as explained by AW's
19 witnesses, it is important to remember that in Docket No. 48257, AW was denied its
20 proposed rate increase in its entirety. AW was, in fact, required to set rates for the
21 Petitioners at levels which were below rates in 2012 prior to AW's rate increase request
22 which was challenged. As the Commission is aware, Docket No. 42857 concluded in
23 2016, and was based on a budgeted test year for 2013. Subsequent to the conclusion
24 of that case, AW has not increased its rate for these customers. Now, after more than

1 five years of holding these customers' rates constant, the time has come to bring them
2 to COS.

3 **VIII. OVERVIEW OF AW WITNESSES AND ISSUES ADDRESSED**

4 **Q. IN ADDITION TO YOURSELF, WHAT OTHER WITNESSES DOES AW**
5 **PRESENT IN THIS CASE, AND WHAT IS THE SUBJECT MATTER OF**
6 **THEIR TESTIMONY?**

7 **A.** My testimony provides an overview of AW and its wholesale customers, a history of
8 AW and its recent rate activity, background on the city-level processing of the rate
9 change at issue in this case, a review of the drivers of the need for a rate increase, an
10 overview of AW's rate case expenses, a description of the WIC process that was used
11 by AW to develop its proposed rates, and a discussion of certain accounting-related
12 issues.

13 Other AW witnesses and engaged experts include:

14 **Joseph Gonzales, CPA – AW's Financial Manager III.** Mr. Gonzales offers
15 testimony in support of the development of AW's operations and maintenance costs,
16 known and measurable adjustments, AW's water COS model, the functionalization of
17 AW's costs, the development of class revenue requirements and AW's rate design, and
18 provides similar support for AW's wastewater COS model. Mr. Gonzales testifies in
19 support of AW's consumption data used to develop its rates, supports AW's debt
20 coverage and financial reserves policies, and also describes and supports AW's Capital
21 Improvement Program (CIP).

22 **Richard Giardina, CPA – Executive Vice President, Raftelis Financial**
23 **Consultants, Inc.** Mr. Giardina's testimony supports AW's COS for wholesale water
24 and wastewater, and he reviews the process used to develop the associated revenue

1 requirements. Mr. Giardina testifies in support of a number of other items that the
2 Commission disallowed in Docket No. 42857.

3 **Steve Coonan, P.E. – Alan Plummer and Associates.** Mr. Coonan provides
4 testimony on AW's reclaimed water program, and the prudence and reasonableness of
5 that program.

6 **Tab Urbantke – Partner, Hunton Andrews Kurth L.L.P.** Mr. Urbantke
7 offers expert testimony in support of the reasonableness of AW's outside legal
8 expenses arising from the preparation of this Application.

9 **Dan Wilkerson – Principal, Associated Power Analysts.** Mr. Wilkerson
10 provides testimony in support of AW's revenue requirement from a debt-service
11 coverage (DSC) perspective, and testifies that, because the Petitioners do not provide
12 their proportionate share of AW's DSC, they are being subsidized by AW's retail
13 customers.

14 **Dennis Waley – Managing Director, PFM.** Mr. Waley testifies on the need
15 of AW to achieve a DSC of at least 1.85x to support its credit ratings.

16 **IX. HOW PROPOSED WHOLESALE RATES**
17 **WERE DEVELOPED**

18 **Q. WHAT PROCESS DID AW UNDERTAKE TO DEVELOP AND ADOPT THE**
19 **RATES AT ISSUE IN THIS CASE?**

20 **A.** AW and the City undertook a multi-year COS Study, which included a collaborative
21 public involvement process centered around our COS Study Committees for retail and
22 wholesale customers. The retail committee was called the PIC, or the Public
23 Involvement Committee. The wholesale committee was called the WIC, or the

1 Wholesale Involvement Committee. The PIC and WIC processes were designed to
2 assist Austin Water in considering and adopting new water and wastewater rates.

3 **Q. HOW DID THAT PROCESS BEGIN?**

4 A. AW began work on a new COS Study in July of 2016. To conduct that study, AW
5 engaged the rate consulting firm of Raftelis Financial Consulting (Raftelis). Raftelis'
6 scope included a review of AW's COS methodologies to facilitate a public involvement
7 process to engage AW's customers in decisions regarding COS, and to develop fair and
8 equitable water and wastewater rates, including the associated COS models. In this
9 proceeding, Austin Water presents the Direct Testimony of Richard Giardina, of
10 Raftelis, to support the COS Study.

11 **Q. WERE AW'S CUSTOMERS INVOLVED IN CONSIDERATION OF NEW AW**
12 **RATES?**

13 A. Yes, extensively. AW created two public involvement committees to review and
14 consider AW's rates. One group, the PIC, addressed retail customer issues presented
15 by the COS Study. The other group, the WIC, focused on issues and concerns of AW's
16 wholesale customers. Representatives of the Petitioners were participants in the WIC
17 process. Between the PIC and WIC together, AW supported 25 separate public
18 meetings. Specifically, the WIC met 12 times to discuss revenue requirements and cost
19 allocation. The WIC also explored water and wastewater results based upon the
20 different methodologies that were discussed.

1 **Q. HOW ELSE DID AW SUPPORT ITS CUSTOMERS' ENGAGEMENT IN THE**
2 **PIC/WIC PROCESS?**

3 A. AW set up a special COS website at which PIC and WIC meeting agendas and
4 supporting materials could be reviewed by the public. That website was also used to
5 disseminate particular information that was requested by PIC or WIC members. Any
6 customer of AW was able to post questions to the COS website; those comments were
7 reviewed by AW leadership prior to making any decisions on AW's rates. Through
8 these channels, AW answered 132 questions, and received 32 submittals of comments.

9 **Q. HOW DID THE PIC AND WIC PROCESSES CONCLUDE?**

10 A. The consideration of AW's COS culminated in a decision-point process. Through that
11 process, PIC and WIC representatives were given the opportunity to provide comments
12 and recommendations on twenty-four identified COS issues. These issues centered
13 around methodological questions, such as the selection of a test year and the approach
14 used to quantify AW's revenue requirements. During the PIC and WIC process, AW's
15 rate consultant (Raftelis) and AW staff made presentations to the PIC and WIC to share
16 information regarding each of the identified decision points. AW and the PIC and WIC
17 participants had thorough discussions on each of the decision points. Through this
18 process, additional decision points were added.

19 Once all of the PIC and WIC comments were received, they were compiled into
20 a Decision Point Detail handout that contained a discussion of the issues and a
21 recommendation for resolution of each. AW leadership discussed each of the issues
22 internally and made the final decisions.

1 **Q. WHAT IS THE RELATIONSHIP OF THE PIC AND WIC PROCESS YOU**
2 **JUST DESCRIBED TO THE COS THAT IS THE BASIS FOR THE RATES**
3 **PROPOSED IN THIS CASE?**

4 A. The wholesale water and wastewater rates proposed in this case are the result of an
5 updated COS Study, as detailed in the Direct Testimony of Richard Giardina. This
6 updated COS uses the same decision points arrived at through the process I just
7 described, but with updated, actual data from a test year that concluded on
8 September 30, 2018. As a result, AW's filing represents a set of policy decisions that
9 have been fully vetted through a public process, combined with actual data arising from
10 a recently-concluded test year.

11 **Q. ARE YOU FAMILIAR WITH THE INTERNAL PROCESS OF HOW AN**
12 **INVESTOR-OWNED UTILITY WOULD ARRIVE AT THE NEED FOR A**
13 **RATE CHANGE?**

14 A. Yes. Though I have never managed such a process for an investor-owned utility, my
15 professional involvement in the field of water utility management has given me a
16 general sense of how such processes occur within an investor-owned utility (IOU).

17 **Q HOW DOES AW'S PROCESS FOR CHANGING ITS RATES COMPARE TO**
18 **THE INTERNAL PROCESS OF AN INVESTOR-OWNED UTILITY?**

19 A. As a municipal utility, AW has afforded its wholesale and retail customers a degree of
20 transparency and engagement in its COS that is unusual among investor-owned
21 utilities. AW's commitment to hearing from its retail and wholesale customers stems
22 from its role as a publicly-owned water utility.

1 **X. BASIS FOR REVENUE REQUIREMENT DETERMINATION; CASH**
2 **NEEDS METHOD AND DEBT SERVICE COVERAGE**

3 **Q. WHAT METHOD DOES AW PROPOSE TO USE TO ESTABLISH**
4 **WHOLESALE WATER AND WASTEWATER RATES IN THIS CASE?**

5 A. AW's COS was determined using the Cash Needs Method, as detailed in American
6 Water Works M1 Manual, Principles of Water Rates, Fees and Charges. In addition to
7 this methodology, AW has utilized a DSC methodology to determine and ensure all
8 customer classes provide sufficient revenue to achieve AW's targeted coverage levels.
9 While the revenue requirements were calculated using the Cash Needs Method, the
10 DSC methodology provides an additional check on the appropriateness of the rates to
11 be set in this case. The Direct Testimony of Joseph Gonzales details the development
12 of the revenue requirements using the Cash Needs Method, and the testimonies of Dan
13 Wilkerson, Dennis Waley, and Richard Giardina support AW's proposed DSC and the
14 revenue requirements sought to be approved in this case.

15 **Q. ARE BOTH THE CASH NEEDS METHOD AND DSC METHOD**
16 **PERMISSIBLE MEANS OF ESTABLISHING A REVENUE REQUIREMENT**
17 **AT THE COMMISSION?**

18 A. Although I am not an attorney, my understanding is that both methods are an acceptable
19 means of substantiating a municipally-owned utility's (MOU) revenue requirement.

20 **Q. WHAT IS THE RELATIONSHIP BETWEEN THE GFT ISSUE LITIGATED**
21 **IN DOCKET NO. 42857 AND THE DSC ANALYSIS PRESENTED IN THIS**
22 **CASE?**

23 A. At the outset, I should explain that AW strongly disagrees with the Commission's
24 decision in Docket No. 42857 that it is not authorized to collect a GFT from its

1 wholesale water and wastewater customers. Mr. Wilkerson discusses the reasons why
2 that decision was wrongly decided in AW's previous case. Among other reasons, a
3 GFT is the equivalent of a return, and as such is comparable, in principle, to amounts
4 collected by an investor-owned utility in both water and electric rates approved by the
5 Commission. Without that return, AW is essentially providing wholesale water and
6 wastewater service at cost, a circumstance that I believe would never be imposed upon
7 an IOU. Moreover, the decision is at odds with state law and extensive Commission
8 precedent authorizing the collection of a GFT.

9 However, while AW does present its reasoning why a GFT is an important and
10 permissible component of AW's water and wastewater rates, it does not propose to set
11 rates on that basis. Instead, AW's proposed revenue requirement is premised upon
12 meeting its cash needs, without the GFT and other coverage related transfers, and
13 achieving a DSC ratio of 1.85 times (x) from each Petitioner, the targeted level
14 established by AW.

15 As Mr. Wilkerson and Mr. Gonzales both testify in this case, under the rates set
16 by the Commission in Docket No. 42857, the Petitioners provided a DSC ratio ranging
17 from 0.74x to 0.84x for water service, and from 1.36x to 1.42x for wastewater service.
18 In contrast, AW's overall DSC ratio for water during the test year was 1.58x for retail
19 water and 1.80x for retail wastewater. Notably, the wholesale water DSC ratios fail
20 the threshold set by AW's adopted Financial Policy, which requires a DSC ratio of
21 1.50x at a minimum and is significantly below the DSC target set by AW at 1.85x.

22 **Q. WHAT IS THE SIGNIFICANCE OF THESE RATIOS?**

23 A. Without the rate increase proposed by AW in its Application, the Petitioners are the
24 beneficiary of a subsidy provided by the rest of AW's retail and wholesale customers.

1 Q. IS A DSC REQUIREMENT OF 1.85x APPROPRIATE?

2 A. Yes. As discussed by AW expert Dennis Waley, a DSC target of 1.85x is modest
3 compared to comparable utilities, and a failure to meet that target is of concern to the
4 credit rating agencies.

5 Q. DO THE RATES PROPOSED BY AW IN THIS CASE BRING AW TO A DSC
6 RATIO OF 1.85X?

7 A. Yes. The rates proposed in this case for each of the wholesale customers ensure a 1.85x
8 debt service coverage for water and wastewater service.

9 XI. OVERVIEW OF ITEMS DISALLOWED BY COMMISSION
10 IN DOCKET NO. 42857 INCLUDED WITHIN
11 WHOLESALE REVENUE REQUIREMENTS
12 BY AUSTIN WATER

13 Q. CAN YOU PROVIDE AN OVERVIEW OF AW'S REASONING BEHIND
14 INCLUDING SPECIFIC REVENUE REQUIREMENTS WHICH IN DOCKET
15 NO. 42857 THE PUC ORDERED TO BE ADJUSTED?

16 A. Yes. As mentioned above, the COS presented in this case reflects the Commission's
17 decisions in Docket No. 42857 in many significant respects. In other areas, however,
18 AW respectfully requests that the Commission consider additional evidence on such
19 issues. Each of these issues is discussed in the following section of my testimony.

20 A. Rate Case Expenses

21 Q. PLEASE EXPLAIN AW'S INTENT TO ADDRESS RATE CASE EXPENSES
22 ARISING FROM THIS CASE.

23 A. As AW has made clear in its Statement of Intent in this proceeding, AW requests that
24 the issue of rate case expenses be severed into a separate proceeding that would

1 conclude after the resolution of this case. In this way, all of AW's rate case expenses
2 can be addressed in that proceeding. In the event, however, the Commission decides
3 to not sever the issue, AW offers the testimony of Mr. Urbantke, as discussed above.
4 Mr. Urbantke's testimony provides support for outside legal fees incurred through
5 March 31, 2019. In addition, consultants Mr. Waley, Mr. Wilkerson and Mr. Giardina
6 support their expenses in their direct testimonies. Total requested expenses reflected
7 on invoices received to date equal \$358,958. Copies of all invoices may be found at
8 Schedule II-E-4.4 of the RFP. AW has not included these expenses in the proposed
9 revenue requirements. If rate case expenses are not severed into another proceeding,
10 AW requests the opportunity to update its rate case expense amount by submitting
11 supplemental testimony or an affidavit, as the conclusion of this proceeding
12 approaches.

13 **B. Reclaimed Water Capital Costs and Expenses**

14 **Q. HOW DID AW PRESENT THE CAPITAL AND EXPENSES OF THE**
15 **RECLAIMED WATER SYSTEM?**

16 A. Yes. Austin Water has included the capital and O&M expenses of the reclaimed water
17 system (a/k/a reuse system) as revenue requirements allocated to all customer classes,
18 including the Petitioners.

19 **Q. WAS THE ISSUE OF THE CAPITAL AND O&M EXPENSES OF THE**
20 **RECLAIMED WATER SYSTEM RAISED IN DOCKET NO. 42857?**

21 A. Yes, the Commission's Order on Rehearing addresses it briefly in Finding of Fact
22 No. 52, stating that the capital costs and O&M costs associated with the Reclaimed
23 Water System were to be disallowed from wholesale revenue requirements as "the city

1 failed to prove that these revenue requirements are reasonable and necessary costs of
2 providing water and wastewater service to petitioners.”

3 **Q. NOTWITHSTANDING THE COMMISSION’S DECISION IN DOCKET NO.**
4 **42857, ARE THE RECLAIMED WATER SYSTEM’S CAPITAL COSTS AND**
5 **EXPENSES COSTS ASSOCIATED WITH THE PROVISION OF WATER**
6 **SERVICE TO AW’S CUSTOMERS?**

7 A. Yes. The reclaimed water system is a cost-effective water source which extends AW’s
8 current water supply portfolio. The reclaimed water system enhances the total amount
9 of water available to all customers, both retail and wholesale. The reclaimed water
10 system is a key component of AW’s recently completed Water Forward 100-year
11 integrated water supply plan. The reclaimed water system will be a critical component
12 for providing and meeting future water supply needs.

13 **Q. DO THE RECLAIMED WATER SYSTEM CAPITAL COSTS AND EXPENSES**
14 **BENEFIT AW’S WHOLESALE CUSTOMERS?**

15 A. The reclaimed water system provides significant benefits to all customer classes of the
16 water system including wholesale customers. These benefits include the extension of
17 AW’s water supply, saving potable drinking water supplies, deferring the need for
18 additional water supplies, deferring the need for the expansion of treatment and
19 distribution facilities, and providing for drought resistant water supplies. In addition,
20 the reclaimed water system also helps prevent future rate increases by helping to delay
21 the LCRA contract trigger, under which AW will have to start paying LCRA for water
22 once the City uses an average of 201,000 acre feet of water during two consecutive
23 years. The reclaimed water system is also a required component of the State mandated

1 water supply planning process, particularly the Region K Plan that covers Austin. The
2 reclaimed water system is a water supply effort that benefits all customer classes.

3 **Q. DOES AW'S COS STUDY ALLOCATE A PORTION OF THE RECLAIMED**
4 **WATER SYSTEM CAPITAL COSTS AND EXPENSES TO THE**
5 **PETITIONERS?**

6 A. Yes, it does.

7 **Q. DOES AW PRESENT FURTHER EVIDENCE REGARDING THE BENEFITS**
8 **OF THE RECLAIMED SYSTEM AND WHY ITS COSTS SHOULD BE**
9 **ALLOCATED TO ALL CUSTOMER CLASSES?**

10 A. Yes. The testimony of Steve Coonan and Richard Giardina provide further detail on
11 the reclaimed water system and why these costs should be allocated to all customer
12 classes.

13 **Q. WHAT DO YOU CONCLUDE REGARDING THE RECLAIMED WATER**
14 **SYSTEM COSTS?**

15 A. Based on my testimony and the more detailed reasons stated in Mr. Coonan's and
16 Mr. Giardina's testimony, the reclaimed water system benefits all customer classes,
17 including wholesale customers. The water supply benefits of the reclaimed water
18 system provide benefits to all customers, regardless of whether a customer is directly
19 connected to the reclaimed system.

1 **C. Swap and Commercial Paper Transaction Costs**

2 **Q. PLEASE DESCRIBE THE ADMINISTRATIVE COSTS ASSOCIATED WITH**
3 **SWAP TRANSACTIONS AND COMMERCIAL PAPER ISSUANCES.**

4 A. These administrative costs are expenses charged to AW by financial institutions who
5 administer our variable to fixed rate bond swap and the issuance and rollovers of our
6 commercial paper program. The swap costs are related to a 2008 issue of variable rate
7 revenue bonds which refunded previously issued revenue bond debt. This refunding
8 resulted in debt service savings for all of AW customers. The variable rate bonds were
9 backed by a fixed interest rate swap agreement. This swap agreement has
10 administrative costs that are included as operating expenses. The commercial paper
11 program costs are related to AW's use of commercial paper as interim short-term
12 financing of capital projects. The commercial paper provides a significantly reduced
13 interest rate, saving AW's customers financing costs. These administrative costs
14 associated with the commercial paper program are included as operating expenses.
15 While these administrative costs are related to our capital financing mechanisms, these
16 expenses are not charged to capital projects specifically.

17 **Q. WAS THE ISSUE OF THE ADMINISTRATIVE COSTS ASSOCIATED WITH**
18 **SWAP TRANSACTIONS AND COMMERCIAL PAPER ISSUANCES RAISED**
19 **IN DOCKET NO. 42857?**

20 A. Yes. The Commission's Order on Rehearing addresses it in Finding of Fact No. 52
21 (the same Finding I cited previously), stating that the City's reclassification of swap
22 and commercial paper administration costs from capital to expense were to be
23 disallowed from wholesale revenue requirements as "the city failed to prove that these

1 revenue requirements are reasonable and necessary costs of providing water and
2 wastewater service to petitioners.”

3 **Q. NOTWITHSTANDING THE COMMISSION’S DECISION IN DOCKET NO.**
4 **42857, ARE THE ADMINISTRATIVE COSTS ASSOCIATED WITH SWAP**
5 **TRANSACTIONS AND COMMERCIAL PAPER ISSUANCES ASSOCIATED**
6 **WITH THE PROVISION OF WATER SERVICE TO AW’S CUSTOMERS?**

7 A. Yes. The Governmental Accounting Standards Board (GASB) in Pronouncement No.
8 65 has required these debt administrative costs to be expensed in the year they were
9 incurred, and not charged to specific projects as assets. These costs are appropriate
10 operations and maintenance costs which should be allocated to all customer classes,
11 including wholesale customers.

12 **Q. DO THE COSTS ASSOCIATED WITH SWAP TRANSACTIONS AND**
13 **COMMERCIAL PAPER ISSUANCES BENEFIT AW’S WHOLESALE**
14 **CUSTOMERS?**

15 A. Yes, they do. The swap bond transaction was a variable-to-fixed rate bond swap
16 derivative, which overall was designed to reduce the total interest cost paid by AW.
17 The commercial paper program is an interim construction financing mechanism which
18 provides AW with significantly lower interest rates during construction and prior to
19 refunding the commercial paper into long-term revenue bonds. Both of these
20 mechanisms reduce the overall debt costs on AW’s capital projects for all customers.
21 The reduced financing costs through these mechanisms benefit all customers, including
22 wholesale customers.

1 Q. DOES AW'S COS STUDY ALLOCATE A PORTION OF SWAP
2 TRANSACTION AND COMMERCIAL PAPER ISSUANCE COSTS TO THE
3 PETITIONERS?

4 A. Yes, it does.

5 Q. WHAT DO YOU CONCLUDE REGARDING THE SWAP AND
6 COMMERCIAL PAPER ISSUANCE COSTS?

7 A. The swap and commercial paper issuance costs are required by GASB accounting
8 standards to be expensed as operating costs as opposed to capitalized under project
9 costs. These costs benefit all customer classes including wholesale customers. These
10 costs are appropriately allocated to all customer classes within AW's COS revenue
11 requirement.

12 **D. Drainage Fee Expense**

13 Q. HOW DID AW PRESENT THE DRAINAGE FEES CHARGED TO AW BY
14 THE CITY'S DRAINAGE UTILITY?

15 A. The drainage fees charged by the City's Drainage Utility have been included in
16 operations and maintenance costs and allocated to all customer classes. These costs
17 are like any other utility costs, such as electric costs. All properties within the City
18 limits are assessed a monthly drainage fee by the City; this fee is based upon the
19 impervious cover of that property and the drainage fee rate. As AW owns properties
20 within the City—such as administrative buildings, plants, service centers, and other
21 buildings—AW is assessed drainage utility fees accordingly. These costs are
22 appropriately allocated to all AW customer classes, including wholesale customers.
23 Mr. Giardina also offers testimony in support of these costs as inclusions in the revenue
24 requirements for all customers: retail and wholesale alike.

1 Q. WAS THE ISSUE OF THE DRAINAGE FEES RAISED IN DOCKET NO.
2 42857?

3 A. Yes. Again, the Commission's Order on Rehearing addressed it briefly in the same
4 finding of fact previously mentioned, Finding of Fact No. 52, stating that drainage fees
5 were to be disallowed from wholesale revenue requirements as "the city failed to prove
6 that these revenue requirements are reasonable and necessary costs of providing water
7 and wastewater service to petitioners."

8 Q. NOTWITHSTANDING THE COMMISSION'S DECISION IN DOCKET NO.
9 42857, ARE THE DRAINAGE FEES AN APPROPRIATE COST ASSOCIATED
10 WITH THE PROVISION OF WATER SERVICE TO AW'S CUSTOMERS?

11 A. Yes. The drainage fees are an assessed fee for all property owners in the City limits.
12 The facilities and buildings owned by AW are critical to providing water service to our
13 customers. The drainage fees collected by the City's Watershed Protection Department
14 protects lives, property and the environment by reducing the impact of flood, erosion,
15 and water pollution. These services, especially flood protection, provide service to AW
16 and its customers.

17 Q. DOES THE DRAINAGE FEES BENEFIT AW'S WHOLESALE CUSTOMERS?

18 A. Yes. The drainage fees and the associated protections of AW's facilities and buildings
19 benefit all customers, including AW's wholesale customers.

20 Q. DOES AW'S COS STUDY ALLOCATE A PORTION OF DRAINAGE FEES TO
21 THE PETITIONERS?

22 A. Yes, it does.

1 **Q. WHAT DO YOU CONCLUDE REGARDING THE DRAINAGE FEES?**

2 A. The drainage fees are costs of doing business within the City of Austin. All businesses,
3 utilities and residents pay drainage fees based on their property, impervious cover, and
4 the rate. AW is required to pay these fees based on our property characteristics, and
5 therefore there are costs associated with providing water service to our customers,
6 including wholesale customers.

7 **E. Revenue Stability Reserve Fund**

8 **Q. HOW DID AW PRESENT THE REVENUE STABILITY RESERVE FUND?**

9 A. The Revenue Stability Reserve Fund has been included in the revenue requirements
10 allocated to wholesale customers receiving water service. The Revenue Stability
11 Reserve Fund is funded through a Revenue Stability Reserve Fund Surcharge, which
12 is charged to all water customers. Austin Water has set the wholesale surcharge at the
13 current retail surcharge of \$0.05 per thousand gallons to maintain the reserve. All water
14 customers, retail and wholesale, would pay the surcharge to maintain the reserve. This
15 surcharge is considered non-rate revenue within the COS water model.

16 **Q. WAS THE ISSUE OF THE REVENUE STABILITY RESERVE FUND RAISED**
17 **IN DOCKET NO. 42857?**

18 A. Yes. As with the preceding issues, the Commission's Order on Rehearing addressed it
19 briefly in Finding of Fact No. 52, including it in the category of issues for which the
20 Commission found that "the city failed to prove that these revenue requirements are
21 reasonable and necessary costs of providing water and wastewater service to
22 petitioners."

1 **Q. NOTWITHSTANDING THE COMMISSION'S DECISION IN DOCKET NO.**
2 **42857, IS THE REVENUE STABILITY RESERVE FUND A COST**
3 **ASSOCIATED WITH THE PROVISION OF WATER SERVICE TO AW'S**
4 **CUSTOMERS?**

5 A. Yes. For this reason, AW has allocated the Revenue Stability Reserve Fund surcharge
6 to all customer classes including wholesale customers.

7 **Q. DOES THE REVENUE STABILITY RESERVE FUND BENEFIT AW'S**
8 **WHOLESALE CUSTOMERS?**

9 A. Yes. The Revenue Stability Reserve Fund is a critical component to AW's cash
10 reserves. Appropriate levels of reserves are important to AW maintaining its current
11 AA bond ratings. This reserve provides stability for water revenues which can be
12 volatile due to weather conditions. In the event of significant budget shortfalls in water
13 service revenue, this reserve can provide a method for AW to offset those revenue
14 losses and avoid or lessen any need to increase water rates to replenish cash reserves.
15 This reserve benefits all water customers, including wholesale customers.

16 **Q. DOES AW'S COS STUDY ALLOCATE A PORTION OF THE REVENUE**
17 **STABILITY RESERVE FUND TO THE PETITIONERS?**

18 A. Yes, it does. The COS water model assumes all customers pay the Revenue Stability
19 Reserve Fund Surcharge. These revenues are considered non-rate revenues and are not
20 recovered through the water service rates.

1 Q. WHAT DO YOU CONCLUDE REGARDING THE REVENUE STABILITY
2 RESERVE FUND?

3 A. The Revenue Stability Reserve Fund presents benefits to all of AW's customers,
4 including its wholesale customers. A portion of these costs are reasonably and
5 appropriately allocated to wholesale customers.

6 F. Reclaimed Water Allocated O&M Expense

7 Q. HOW DID AW PRESENT THE ALLOCATION OF O&M EXPENSES OF THE
8 RECLAIMED WATER UTILITY?

9 A. The O&M expenses for the reclaimed water system are different than the direct O&M
10 and capital costs of the reclaimed system discussed in testimony above. These costs
11 are indirect O&M expenses related to general administrative costs incurred by AW, but
12 have a small component related to the reclaimed water system. For example, as an
13 Assistant Director of AW, I do not specifically charge a portion of my time to the
14 reclaimed water system. However, I do spend a very small part of my time managing
15 issues related to the reclaimed system. These indirect O&M costs of the reclaimed
16 water system are embedded in AW costs. Since AW has included the reclaimed water
17 system costs as a revenue requirement that benefits all customer classes, there is not a
18 need for identification of these additional administrative costs for the reclaimed system,
19 since they are included in AW's revenue requirement. AW witnesses Coonan and
20 Giardina will also provide testimony in support of these costs as inclusions in the
21 revenue requirement for all customers, retail and wholesale alike.

1 **Q. WAS THE ISSUE OF THE ALLOCATION OF O&M EXPENSES TO THE**
2 **RECLAIMED WATER UTILITY RAISED IN DOCKET NO. 42857?**

3 A. Yes. As with the preceding issues, the Commission's Order on Rehearing addressed it
4 briefly in Finding of Fact No. 52, including it in the category of issues for which the
5 Commission found that "the city failed to prove that these revenue requirements are
6 reasonable and necessary costs of providing water and wastewater service to
7 petitioners."

8 **Q. NOTWITHSTANDING THE COMMISSION'S DECISION IN DOCKET NO.**
9 **42857, IS THE ALLOCATION OF O&M EXPENSES TO THE RECLAIMED**
10 **WATER SYSTEM A COST ASSOCIATED WITH THE PROVISION OF**
11 **WATER SERVICE TO AW'S CUSTOMERS?**

12 A. AW has allocated reclaimed water system costs to all customer classes, including
13 wholesale customers.

14 **Q. DOES THE RECLAIMED WATER SYSTEM BENEFIT AW'S WHOLESALE**
15 **CUSTOMERS?**

16 A. Yes. As described in the testimony above regarding the reclaimed water system capital
17 and O&M expenses and in testimony of Steve Coonan, these costs go towards activities
18 that benefit AW's wholesale customers. These additional administrative O&M costs
19 similarly benefitted wholesale customers during the test year.

20 **Q. DOES AW'S COS STUDY ALLOCATE A PORTION OF O&M EXPENSES OF**
21 **THE RECLAIMED WATER SYSTEM TO THE PETITIONERS?**

22 A. Yes, it does.

1 Q. WHAT DO YOU CONCLUDE REGARDING THE ALLOCATION OF O&M
2 EXPENSES OF THE RECLAIMED WATER SYSTEM?

3 A. The reclaimed water system presents benefits to all of AW's customers, including its
4 wholesale customers. A portion of these costs are reasonably and appropriately
5 allocated to wholesale customers.

6 G. Training Costs and Expenses at Former Govalle Wastewater
7 Treatment Plant Site

8 Q. WHAT IS THE GOVALLE WASTEWATER TREATMENT PLANT SITE?

9 A. The Govalle Wastewater Treatment Plant (Govalle) site is a former wastewater
10 treatment facility on the east side of Austin that was decommissioned from service in
11 October of 2006. As I describe further below, while Govalle has not performed
12 wastewater treatment since that time, the Govalle site administrative buildings and
13 other facilities continue to support AW's operations in a number of other ways.

14 Q. WAS THE ISSUE OF AW'S RECOVERY OF GOVALLE'S COSTS RAISED IN
15 DOCKET NO. 42857?

16 A. Yes. The Commission's Order on Rehearing addressed it briefly in Finding of Fact
17 No. 52, quoted above.

18 Q. NOTWITHSTANDING THE COMMISSION'S DECISION IN DOCKET NO.
19 42857, IS THE GOVALLE PLANT STILL USED IN THE PROVISION OF
20 WATER AND WASTEWATER SERVICE TO AW'S CUSTOMERS?

21 A. Yes, it is. Since the decommissioning of the Govalle Plant, buildings located at the site
22 are used by AW for various treatment support functions, emergency wastewater flow
23 diversion, and for storage of treatment plant and infrastructure assets. The
24 administrative and other buildings on the Govalle property are also used to provide

1 training to AW's pipeline and treatment staff. This training includes classroom
2 instruction, confined space training, respiratory training, and other training needs. The
3 clarification basins on the site provide emergency storage for wastewater influent
4 headed toward the South Austin Regional Wastewater Treatment Plant. Govalle was
5 used in these capacities during the test year presented in this case, and through the
6 current time.

7 **Q. DOES AW'S COS STUDY ALLOCATE A PORTION OF GOVALLE'S SITE**
8 **COSTS TO THE PETITIONERS?**

9 A. Yes, it does.

10 **Q. DOES THE UTILIZATION OF THE GOVALLE SITE BENEFIT AW'S**
11 **WHOLESALE CUSTOMERS?**

12 A. Yes. All customers benefit from the activities conducted at Govalle. The facilities'
13 use as a training and backup effluent storage site provides benefits to the AW system
14 as a whole. While it no longer treats wastewater, the site is not idle, and remains in use
15 to provide service to AW's customers—a different use than before it was
16 decommissioned, but an important use nonetheless.

17 **Q. WHAT DO YOU CONCLUDE REGARDING THE GOVALLE SITE?**

18 A. As a facility that assists in AW's provision of service to the Petitioners, its costs should
19 be allocated to customers and recovered through rates as proposed in AW's COS Study.

1 **H. Berl Handcox, Sr. Water Plant**

2 **Q. HOW DOES AW PRESENT COSTS ASSOCIATED WITH THE BERL L.**
3 **HANDCOX, SR. WATER PLANT (FORMERLY WTP4)?**

4 A. As AW's newest water treatment plant, the Berl L. Handcox, Sr. Water Treatment Plant
5 (Handcox WTP) has been online since November 2014, including during the test year
6 presented in this case. Since going online, the Handcox WTP has continued to treat
7 water and deliver it to AW's customers. AW operates its water treatment and
8 distribution system as an integrated system. The Handcox WTP provides reliable water
9 service to our existing and future water customers, including our wholesale customers.

10 **Q. WAS THE ISSUE OF THE HANDCOX WTP RAISED IN DOCKET NO. 42857?**

11 A. Yes. The Commission's Order on Rehearing denied recovery related to this plant in
12 Finding of Fact No. 52, quoted above.

13 **Q. NOTWITHSTANDING THE COMMISSION'S DECISION IN DOCKET NO.**
14 **42857, IS THE HANDCOX WTP USED IN THE PROVISION OF WATER**
15 **SERVICE TO AW'S CUSTOMERS?**

16 A. Yes. The Handcox WTP is a critical component of providing water service to all of
17 AW's customers. During the previous proceedings in Docket No. 42857, the Handcox
18 WTP was still under construction and was not yet used and useful. Since November
19 2014, the Handcox plant has continuously been used and useful to AW's water system.

20 **Q. DOES THE UTILIZATION OF THE HANDCOX WTP BENEFIT AW'S**
21 **WHOLESALE CUSTOMERS?**

22 A. Yes, it does. The Handcox WTP benefits all AW water customers, including AW's
23 wholesale customers. There are significant benefits of Handcox WTP including

1 supporting an enhanced integrated regional system, regulatory compliance, additional
2 treatment capacity, enhanced water supply diversity, enhanced water supply reliability,
3 enhanced raw water quality, LCRA contract supply utilization, system elevation
4 efficiencies, enhanced operational flexibility, and reduction of greenhouse gas
5 emissions. As is the case for AW's capital investment in its water system generally,
6 the Handcox WTP is a component of a comprehensive water utility system that
7 transports and treats water, and all customers benefit from that comprehensive system.
8 All of these benefits are provided to both retail and wholesale customers.

9 **Q. DOES AW'S COS STUDY ALLOCATE A PORTION OF HANDCOX WTP'S**
10 **COSTS TO THE PETITIONERS?**

11 A. Yes, it does.

12 **Q. WHAT DO YOU CONCLUDE REGARDING THE COSTS FOR THE**
13 **HANDCOX WTP?**

14 A. The Handcox WTP costs benefit all customer classes including wholesale customers,
15 and therefore a portion of the O&M and capital costs associated with the plant have
16 been properly allocated to wholesale customers.

17 **I. Green Choice Energy**

18 **Q. PLEASE EXPLAIN AW'S USE OF GREEN CHOICE ELECTRICITY FROM**
19 **AUSTIN ENERGY.**

20 A. In 2015, the City of Austin adopted a Community Climate Action Plan which contains
21 a component that provides for all City-owned buildings to be powered by 100%
22 renewable energy. AW currently pays for electric usage based on the Austin Energy
23 Commercial Energizer rate. This electric rate schedule is based on 100% renewable

1 energy sources of wind and solar. The City's decision for AW to purchase 100%
2 renewable energy as part of the Climate Action Plan is a valid operating cost for AW.
3 These efforts towards climate protection benefit all customer classes.

4 **Q. WAS THE ISSUE OF GREEN CHOICE ELECTRICITY FROM AUSTIN**
5 **ENERGY RAISED IN DOCKET NO. 42857?**

6 A. Yes. The Commission addressed it in Finding of Fact No. 52 in its Order on Rehearing,
7 stating that the costs associated with Green Choice electricity (in addition to other costs
8 detailed elsewhere in this testimony) were disallowed from wholesale revenue
9 requirements as "the city failed to prove that these revenue requirements are reasonable
10 and necessary costs of providing water and wastewater service to petitioners."

11 **Q. NOTWITHSTANDING THE COMMISSION'S DECISION IN DOCKET NO.**
12 **42857, ARE THE GREEN CHOICE ENERGY COSTS USED IN THE**
13 **PROVISION OF WATER SERVICE TO AW'S CUSTOMERS?**

14 A. Yes. Energy costs are a critical component of any water system operation. The use of
15 100% renewable energy is an important part of the City's Climate Action Plan. The
16 efforts towards climate protection benefit all customer classes including wholesale
17 customers.

18 **Q. DOES AW'S COS STUDY ALLOCATE A PORTION OF GREEN CHOICE**
19 **ENERGY COSTS TO THE PETITIONERS?**

20 A. Yes, it does.

1 **Q. WHAT DO YOU CONCLUDE REGARDING THE GREEN CHOICE ENERGY**
2 **COSTS?**

3 A. The cost of 100% renewable energy for AW operations benefits all customer classes
4 and is a component of the City's Climate Action Plan. The reduced greenhouse gas
5 emissions from using 100% renewable energy provides long-term benefits to AW's
6 customers.

7 **XII. OVERVIEW OF ITEMS DISALLOWED BY COMMISSION**
8 **IN DOCKET NO. 42857 NOT INCLUDED**
9 **WITHIN WHOLESALE REVENUE**
10 **REQUIREMENTS BY AUSTIN WATER**

11 **Q. CAN YOU PROVIDE AN OVERVIEW OF ITEMS DISALLOWED BY THE**
12 **COMMISSION THAT AW DID NOT INCLUDE WITHIN THE PROPOSED**
13 **WHOLESALE REVENUE REQUIREMENTS?**

14 A. Yes. As mentioned above, in Docket No. 42857 the Commission disallowed certain
15 items that AW did not include in the wholesale COS. These items are depreciation
16 expense, costs connected to the Green Water Treatment Plant and Barton Springs
17 Aquifer Conservation District, and the utility-wide contingency. They are detailed
18 individually in the testimony below.

19 **Q. HOW DID AW PRESENT THE GENERAL FUND TRANSFER?**

20 A. The COS presented in this case does not include GFT, and therefore does not include
21 any allocation of GFT to the Petitioners. Additionally, AW does not include revenue
22 requirement for any of the capital transfers that would normally be funded out of debt
23 coverage dollars. These capital transfers, which are not included as a revenue
24 requirement, are transfers to water and wastewater capital projects for cash funding.

1 **Q. ARE THE GFT OR OTHER COVERAGE- RELATED TRANSFERS ISSUES**
2 **IN THIS CASE?**

3 A. No. The GFT is not a part of the basis for the revenue requirements proposed in this
4 case. Austin Water has proposed the use of the debt service coverage method to recover
5 sufficient revenue to ensure a 1.85x coverage level from all customer classes.

6 **Q. DOES AW PRESENT FURTHER TESTIMONY RELATED TO THE USE OF**
7 **DSC TO ESTABLISH AW'S WHOLESALE RATES?**

8 A. Yes. In addition to my own testimony and that of Dennis Waley, the testimony of Dan
9 Wilkerson provides information on the appropriate use of DSC to develop the revenue
10 requirement for wholesale customers.

11 **Q. WHAT DO YOU CONCLUDE REGARDING THE GFT?**

12 A. AW has decided to not include a GFT in its revenue requirement. AW does include a
13 debt service coverage amount to ensure that all customer classes contribute sufficient
14 revenue to achieve the appropriate DSC target. If AW's proposed revenue requirement
15 is approved, the wholesale customers would not be responsible for a specific GFT
16 amount, but only the amount sufficient to produce the appropriate level of DSC.

17 **Q. DID AW INCLUDE ANY COSTS ASSOCIATED WITH DEPRECIATION**
18 **WITHIN ITS WHOLESALE REVENUE REQUIREMENT PRESENTED IN**
19 **THIS CASE?**

20 A. No. AW does not include any depreciation expense within the wholesale revenue
21 requirement. Because AW is a municipal utility that uses the cash flow method and
22 DSC method to quantify its revenue requirement, depreciation expense is not included
23 in AW's rates.

1 **Q. WAS THE ISSUE OF DEPRECIATION RAISED IN DOCKET NO. 42857?**

2 A. Yes. The Commission's Order on Rehearing addresses it briefly in Finding of Fact
3 No. 52, stating that the capital costs associated with depreciated Plant were to be
4 disallowed from wholesale revenue requirements as "the city failed to prove that these
5 revenue requirements are reasonable and necessary costs of providing water and
6 wastewater service to petitioners."

7 **Q. WAS THE ISSUE OF THE GREEN WATER TREATMENT PLANT CAPITAL**
8 **COSTS RAISED IN DOCKET NO. 42857?**

9 A. Yes. As with other issues, the Commission's Order on Rehearing addresses it in
10 Finding of Fact No. 52, stating that the costs associated with the Green Water
11 Treatment Plant were to be disallowed from wholesale revenue requirements.

12 **Q. DID AW INCLUDE ANY COSTS ASSOCIATED WITH THE GREEN WATER**
13 **TREATMENT PLANT CAPITAL COSTS WITHIN ITS WHOLESALE**
14 **REVENUE REQUIREMENT PRESENTED IN THIS CASE?**

15 A. No. AW does not include any costs associated with the Green Water Plant within the
16 wholesale revenue requirement.

17 **Q. WAS THE ISSUE OF COSTS ASSOCIATED WITH THE BARTON SPRINGS/**
18 **EDWARDS AQUIFER CONSERVATION DISTRICT RAISED IN DOCKET**
19 **NO. 42857?**

20 A. Yes. The Commission's Order on Rehearing addressed it briefly, and disallowed this
21 item in Finding of Fact No. 52, quoted above.

1 Q. DID AW INCLUDE ANY COSTS ASSOCIATED WITH THE BARTON
2 SPRINGS / EDWARDS AQUIFER CONSERVATION DISTRICT WITHIN ITS
3 WHOLESALE REVENUE REQUIREMENT PRESENTED IN THIS CASE?

4 A. No. AW does not include any costs associated with the Barton Springs / Edwards
5 Aquifer Conservation District within the wholesale revenue requirement.

6 Q. WAS THE ISSUE OF UTILITY-WIDE CONTINGENCY RAISED IN DOCKET
7 NO. 42857?

8 A. Yes. The Commission's Order on Rehearing addressed in Finding of Fact No. 52,
9 stating that the costs associated with the utility-wide contingency were to be disallowed
10 from wholesale revenue requirements as "the city failed to prove that these revenue
11 requirements are reasonable and necessary costs of providing water and wastewater
12 service to petitioners."

13 Q. DID AW INCLUDE ANY COSTS ASSOCIATED WITH THE UTILITY-WIDE
14 CONTINGENCY WITHIN ITS WHOLESALE REVENUE REQUIREMENT
15 PRESENTED IN THIS CASE?

16 A. No. AW does not include any costs associated with the utility-wide contingency within
17 the wholesale revenue requirement.

18 **XIII. RATE FILING PACKAGE SCHEDULES SUPPORTED**

19 Q. DO YOU SUPPORT ANY SCHEDULES IN THE UPDATED COST STUDY?

20 A. I do. While the entirety of the RFP was completed under my supervision and with my
21 input as Assistant Director of Financial Services, I sponsor the schedules contained in
22 the RFP as listed in my Attachment DAA-3 to this testimony:

1 **Q. WHAT AW WITNESSES SPONSOR THE OTHER PORTIONS OF THE RFP?**

2 A. The entirety of the RFP is supported by at least one AW witness. The Index of
3 Schedules, included as the first schedule following testimony, provides a complete
4 listing of all schedules, associated workpapers, and sponsoring witness.

5 **Q. DID AW ENCOUNTER ANY DIFFICULTY IN USING THE COMMISSION'S**
6 **RFP?**

7 A. Yes. The PUC's website does not include a RFP for a utility like AW, suited for the
8 context of this case. Specifically, AW is a MOU that calculated its revenue requirement
9 using methods that are permissible for MOUs, and was required to initiate this
10 proceeding by a prior Commission order. Though I am not a lawyer, my understanding
11 is that AW's obligation to file this proceeding arises out of its prior case, and that AW
12 is not subject to Commission jurisdiction over its rates generally. Furthermore, this
13 case addresses wholesale water rates to four wholesale water customers only. No
14 available RFP addressed this unusual overlap of factors, and the existing RFPs all
15 sought substantial amounts of data that had no bearing on AW's case.

16 **Q. HOW DID AW RESOLVE THIS PROBLEM?**

17 A. Prior to the filing of this case, counsel for AW consulted with Commission Staff to
18 discuss how Staff would prefer AW to present its case, and specifically asked what
19 RFP, if any, it should use to initiate this proceeding. Staff advised AW that the RFP
20 for Class A investor-owned utilities should be used for this filing.

21 **Q. WHAT DOES THIS MEAN FOR THIS CASE?**

22 A. The RFP submitted with AW's Application is an imperfect fit for this matter. As a
23 municipal utility serving wholesale customers, large portions of the RFP requesting

1 data relating to return, capital structure, federal income taxation, rate base, depreciation,
2 rate design for retail customers, and other items have been left blank. AW and its
3 consultants have, however, endeavored to respond to the RFP to the fullest extent
4 possible.

5 **Q. DID AW ENCOUNTER ANY OTHER ISSUES IN USING THE IOU RFP FOR**
6 **THIS CASE?**

7 A. Yes. AW does not use the NARUC chart of accounts for its own accounting, and
8 therefore does not use it in this case. The City's financial system, which is used by
9 AW, is not based on the NARUC chart of accounts. Since only the wholesale and
10 outside city customers, which are a very small percentage of our customer base, are
11 subject to the jurisdiction of the Commission, the City and AW have not adopted the
12 NARUC chart of accounts. However, AW does have a similar chart of accounts that
13 provides significant detail of our expenses. AW's chart of accounts provides a level of
14 detail which is consistent with the NARUC system. In the testimony of Joseph
15 Gonzales, a listing of AW's chart of accounts and descriptions of each is included as
16 an attachment.

17 **XIV. CONCLUSION**

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 A. Yes.

David A. Anders
Assistant Director, Financial Services
Austin Water

Experience Overview:

- Over 30 years of progressive professional financial experience with the Austin Water including management of multiple diverse responsibilities including over 24 years of direct staff oversight, supervision, coaching, and evaluation.
- As Austin Water's Chief Financial Officer, provide financial guidance and direction to all program areas of the Austin Water. Responsible for ensuring adequate financial controls are installed throughout the organization.
- Assistant Director of Financial Services for Austin Water, which manages Financial Management, Budget & Accounting, Customer Services, and Supply Chain Management divisions.
- Manage development of Utility's operating budget and capital budget, fund summary, five year financial forecasts, system-wide rate forecasts, revenue forecasts, debt service forecasts, coordination with Utility's Director, Executive Management, and Budget Office, and preparation of Utility presentations to Council and Commission.
- Manage Utility's system-wide rate forecast development, cost of service rate model updates, customer class rate design proposals, customer demand characteristics analysis and reporting, and cost of service analysis of fees and charges.
- Executive Sponsor of Utility's cost of service rate studies, request for proposal development, cost of service methodology development and analysis, management of the customer class public involvement committee and process, and review and approve consultant deliverables and payments.
- Manage coordination and participate with City's Financial Advisors and Treasury Office to issue over \$3.5 billion in revenue bonds in 21 refunding and new money revenue bond issues, prepare and make presentations to Rating Agencies to provide Utility information, maintain debt service schedules on revenue bonds and other debt instruments, develop revenue bond and commercial paper issuance timing recommendations, and member of City's Investment Committee.
- Participation on negotiations with LCRA to secure 100-year water rights for the Austin Water, and participation on the Finance Review Committee of the LCRA's Brushy Creek Regional Wastewater System.

Experience Detail:

January 2016
to Present

City of Austin, Austin Water***Assistant Director, Financial Services***

Manage, plan, direct, and evaluate the tasks and responsibilities for all divisions within the Financial Services program area including Financial Management, Budget & Accounting, Customer Services, and Supply Chain Management.

- As the Austin Water's Chief Financial Officer, provide financial guidance and direction to all program areas of the Austin Water.
- Provide management direction for the Financial Management Division responsibilities including short and long-term financial planning and forecasting, revenue forecasting, system-wide rate development, cost of service customer class rate development, capital spending plan development, capital budgeting and accounting, debt and cash management, rating agency communication, fleet management, facility management, and fixed asset management.
- Provide management direction for the Budget & Accounting Division responsibilities including development of the Utility's business plan, development and monitoring of the operating budget, financial monitoring and accounting, performance measure reporting, purchasing and contract management, accounts payable processes, and central stores functions.
- Provide management direction for the Customer Services Division responsibilities including retail and wholesale customer service, billing adjustments, taps and connections sales, revenue recovery efforts, and billing system coordination and conversion processes.
- Provide management direction for the Supply Chain Management Division responsibilities including procurement and contract management, inventory management and warehouse operations, and fleet management.

July 2007
to January 2016

City of Austin, Austin Water***Assistant Director, Finance and Business Services***

Manage, plan, direct, and evaluate the tasks and responsibilities for all divisions within the Finance and Business Services program area including Financial Management, Budget & Accounting, Customer Services, Information Technology Services, Safety and Technical Training, Facilities Management, and Security Management.

- As the Austin Water's Chief Financial Officer, provide financial guidance and direction to all program areas of the Austin Water.

- Provide management direction for the Financial Management Division responsibilities including short and long-term financial planning and forecasting, revenue forecasting, system-wide rate development, cost of service customer class rate development, capital spending plan development, capital budgeting and accounting, debt and cash management, rating agency communication, fleet management, facility management, and fixed asset management.
- Provide management direction for the Budget & Accounting Division responsibilities including development of the Utility's business plan, development and monitoring of the operating budget, financial monitoring and accounting, performance measure reporting, purchasing and contract management, accounts payable processes, and central stores functions.
- Provide management direction for the Customer Services Division responsibilities including retail and wholesale customer service, billing adjustments, taps and connections sales, revenue recovery efforts, and billing system coordination and conversion processes.
- Provide management direction for the Information Technology Services Division responsibilities including system maintenance and monitoring, system development, application support, network development and maintenance, application integration services, web services, and IT project management.
- Provide management direction for the Safety and Technical Training Division responsibilities including development and conducting employee training, TCEQ certification training, collision and injury avoidance training, monitoring safety programs, and CDL drug and alcohol testing program.
- Provide management direction and oversight to the Facility Management Division responsibilities over all Utility facilities including maintenance and repairs, preventive maintenance, remodeling construction projects, space planning and utilization, janitorial service, and facility emergency and safety training.
- Provide management direction and oversight to the Security Management Division responsibilities over all Utility facilities including contract guard services, security operation center management, security access system installation and maintenance, and facility security and workplace violence training.

January 2000
to July 2007

City of Austin, Austin Water

Manager, Utilities Finance

Manage, plan, direct, and evaluate the tasks and responsibilities for all sections within the Financial Management Division including CIP Budgeting and Accounting, Financial Reporting, Financial Planning and Analysis, Rates and Charges, Debt Management, Fleet Management, Facilities Management, and Finance information technology support staff.

- Provide management direction, technical guidance, and evaluation of tasks and responsibilities of the CIP Budgeting, Accounting, and Financial Reporting section of the division including Utility CIP budget development, CIP budget monitoring, accounting and reporting, short and long-term financial management strategies, financial reporting, capital financing requirements, debt management, Rating Agency presentations, and cash management.
- Provide management direction, technical guidance, and evaluation of tasks and responsibilities of the Rates, Analysis, and Asset Management section including completion of operating budget fund summary financial forecasts, service revenue forecasts, development of cost of service strategies and techniques, development of customer class rate design methodologies and proposals, development of private lateral financing and grant programs, performance of cost of service reviews of Utility fees and charges, long-range financial planning and forecasting, financial feasibility analysis for system projects, acquisitions, and annexations, cost benefit analysis, fixed asset management, accounts receivable functions, miscellaneous billings, and damage claim invoice processing.
- Provide management direction, technical guidance, and evaluation of tasks and responsibilities of the Fleet Management staff including budget development, acquisition coordination, fleet replacement reviews, monitor and report on fleet maintenance costs, coordinate with Fleet Services on new vehicle specification development, fleet inventory management, fleet database management, and project management of the Fleet Utilization Study.
- Provide management direction, technical guidance, and evaluation of tasks and responsibilities of the Facility Management section including facility maintenance and repairs, safety system inspections, project management of construction and rehabilitation projects, manage service contracts, and act as project manager for facility renovation and construction projects.
- Provide management direction, technical guidance, and evaluation of tasks and responsibilities of the information technology support staff including development and management of the Consumer Services Billing Adjustment System, central stores bar code system, CIS query development and reporting, division website management, financial management information system development, and fixed asset and fleet database support.

November 1999
to January 2000

City of Austin, Water and Wastewater Utility
Acting Manager, Utilities Finance

On an Acting basis, manage, plan, direct, and evaluate the tasks and responsibilities for all sections within the Financial Management Division including Financial Planning and Analysis, Rates and Charges, CIP Budgeting and Accounting, Debt Management, Fleet Management, Facilities Management, and Finance information technology support staff.

July 1995
to November 1999

City of Austin, Water and Wastewater Utility
Rates and Charges Manager

Manage, plan, direct, and evaluate tasks and responsibilities of the Rates and Charges section including completion of operating budget fund summary financial forecasts, cost of service updates, rate design methodologies and proposals, financial analyses, projections, and reporting, and debt management.

Operating Budget:

- Manage, plan, direct, and evaluate the completion of the annual operating budget fund summary short and long-term financial forecasts and system-wide water and wastewater rate projections including compilation, analysis, and review of revenue forecasts, operating budget costs, debt service costs, and other budget requirements.
- Coordinate with Budget and Accounting Division in submittal of annual operating budget fund summary to the Budget Office staff including responses to requests for information.
- Manage and direct the completion of 10 year water and wastewater service revenue projections.
- Develop and present operating budget fund summary information briefings to Utility management, City management, Boards and Commissions, Council members, and customer class representatives.

Cost of Service and Rate Design:

- Manage, plan, direct, and evaluate the completion of Utility's annual water and wastewater cost of service rate updates including development of revenue requirements, cost allocations, rate design strategies and proposals, and Utility management proposals and recommendations.
- Manage completion of Utility cost of service rate study including project management, scope development, consultant direction, contract compliance, payment authorizations, staff coordination, responses to requests for information, coordination of public involvement activities, and acceptance and review of project deliverables.
- Develop and present cost of service, rate design, and rate impact information briefings to Utility management, City management, Boards and Commissions, Council members, and customer class representatives.
- Manage completion of cost of service analyses of the Utility's miscellaneous fees and charges including recommendations and coordination with Budget Office staff to incorporate into Utility's proposed fee schedule.

Financial / Rate Analysis and Reporting:

- Manage, plan, direct, and evaluate development of complex financial spreadsheet models using varying assumptions and financial conditions to analyze financial impacts of short and long-term financial management strategies and decisions, and review annual financial statements and reports.
- Perform reviews and analyses of financial and accounting conditions of the Utility including development of financial and accounting recommendations, reports, and summaries.
- Completion of water and wastewater rate impact analyses of annexations, various City and Utility policies, proposed Utility projects, and long term water supply agreements.

Debt Management:

- Review and analyze the Utility's outstanding debt including revenue bonds, commercial paper, contract revenue bonds, assumed water district bonds, contractual obligations, and certificates of participation.
- Provide management assistance, evaluation, and development of analysis and recommendations for Utility revenue bond issuance timings and revenue bond defeasance opportunities through coordination with City's financial advisors and Treasurer, Rating Agency presentations, analysis of financial conditions to determine needs and available funds for debt defeasance, develop defeasance sources of funds and multiyear debt service reduction targets, and analysis of financial and rate impacts of various timing options.

March 1988
To July 1995

City of Austin, Water and Wastewater Utility
Financial Analyst II and III

- Coordinate completion of the annual operating budget fund summary short and long-term financial forecasts and system-wide water and wastewater rate projections including compilation, analysis, and review of revenue forecasts, operating budget costs, debt service costs, and other budget requirements.
- Coordinate completion of Utility's annual water and wastewater cost of service rate updates including development of revenue requirements, cost allocations, rate design strategies and proposals, and Utility management proposals and recommendations.

- Provide management assistance, evaluation, analysis and recommendations for Utility revenue bond issuance timings and revenue bond defeasance opportunities through coordination with City's financial advisors and Treasurer, analysis of financial conditions to determine needs and available funds for debt defeasance, develop defeasance sources of funds and multiyear debt service reduction targets, and analysis of financial and rate impacts of various timing options and maintain debt service schedules.

March 1984
to March 1988

**Les Price Construction
Construction Estimator**

- Completion of construction estimates and bid proposals for general contractor specializing in remodeling and fire damage reconstruction.
- Manage and direct project construction including scheduling, subcontractor management, financial monitoring and reporting, job cost analysis, and customer relations.

Education:

1974 – 1978

Anderson High School Austin, Texas - Diploma

1978 – 1982

University of Texas at Austin

Bachelor of Business Administration Degree – General, Finance

Computer:

Windows: Window 2016

Microsoft: Office 365, Excel, Word, PowerPoint, Outlook

References:

Available upon request

Publications / Presentations:

Texas Section American Water Works Association Annual Conference, 2009, Co-Author and Presenter, "Effectively Managing Conflicting Interest in a Cost of Service Study"

Central Texas Water Conservation Symposium 2012, Drop by Dropless: Managing Your Resources Through a Drought, Featured Speaker, Joint Committee on Austin Water's Financial Plan

American Water Works Association, Utility Management Conference 2013, Co-Author, "A Financial Sustainability Plan: Austin's Answer to the Revenue Stability Challenge"

Texas Municipal Utilities Association Conference 2015, Presenter, "The Effect of Utility Rate Design on Water Conservation and Drought Restrictions"

Water and Wastewater CFO Forum 2016, Presenter, "Austin's Drought: Impacts and Response"

American Water Works Association, Utility Management Conference 2018, Co-Author, "Austin Water 2017 Cost of Service Study: Keeping Austin Weird"

RESOLUTION NO. 20110217-030

WHEREAS, a municipal utility district ("MUD") created by the TCEQ or the Legislature with the City's express consent and approval can be used to meet community needs by funding public improvements or services; and

WHEREAS, the creation of MUDs may affect the City's ability to implement the City's Comprehensive Plan; and

WHEREAS, the City can benefit if the owners of property in the MUD pay their fair share for improvements and services funded through a MUD; and

WHEREAS, a MUD that finances public infrastructure benefits developers by allowing them to reduce their debt to private lenders by using public financing to pay the cost of infrastructure for development; and

WHEREAS, those requesting creation of such a MUD should demonstrate that it confers an extraordinary benefit not only to the properties within the MUD, but also to the community in general and to the City; and

WHEREAS, in 1984 the City Council adopted Resolution No. 840202-37 setting out the City's policy with respect to petitions for the City's consent to the creation of MUDs; and

WHEREAS, this Resolution No. 20110217-030 outlines current issues for the City Council to consider in determining whether to establish a MUD and is not intended to limit the authority of the City Council to consider or approve any particular request; **NOW, THEREFORE**,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:

The City Council resolves that the following are established as its policy and criteria for considering requests to create MUDs to fund public infrastructure, municipal services, or both in association with development projects:

1. The MUD must demonstrate that the City would benefit more from creation of a MUD than from use of the standard City development process or other types of districts.
2. The City's objective in creating the MUD should be to promote superior development, with attention to the Comprehensive Plan.
3. The City's basic requirements for creation of a MUD should be that:
 - All developments supported by a MUD must comply with the City's Planned Unit Development ("PUD") Green Building Program, regardless of whether the development receives PUD zoning;
 - The development supported by the MUD provides extraordinary public benefits (such as extension or enhancement of infrastructure, affordable housing, environmental improvement, public transportation facilities, and open space);
 - It is in the City's preferred growth area (currently designated as "Desired Development Zone");
 - It is accompanied by consent and other applicable agreements;

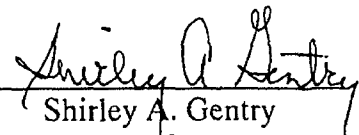
- The development that it supports meets or exceeds the intent of the development standards of the City Code;
 - It is financially self-sustaining and its ad valorem tax rate will approximate or be greater than the City's rate;
 - It will use City design criteria for water, wastewater, drainage, and public safety infrastructure;
 - It will be created only if the water, wastewater, and reclaimed water provider is the City.
 - It will require the developer(s) to contribute a portion of infrastructure without reimbursement by the MUD or the City;
 - It will not impair the City's future annexation of the MUD or adjacent property, or impose costs not mutually agreed upon; and
 - It must be located entirely within the City's extraterritorial jurisdiction.
4. Whether development supported by the MUD provides sufficient public benefits should be determined by weighing the value of the benefits to the community, and to property in the MUD, against the costs to the City, including delayed annexation.
5. In considering whether a MUD provides sufficient public benefits, Council will consider benefits including but not limited to:

- Land use controls (including land plans) that otherwise would not be available in the City's ETJ;
 - Amenities that would not typically accompany a development with conventional financing;
 - Connectivity with other existing City infrastructure;
 - The potential for City capital improvement program funds to be redirected to other high priority needs by financing capital infrastructure with alternative MUD financing and by the application of post-annexation surcharges;
 - School and public safety sites, and transportation infrastructure, sufficient to meet development needs; and
 - A MUD organizational structure, and policies and procedures, that promote timely dissolution of the MUD and which fully meets the basic requirements for the City for creation of a MUD.
6. As a basis for approving the issuance of MUD bonds, Council should consider criteria including but not limited to the following:
- Evidence that the value of the property within the MUD will be significantly increased by construction of the public improvements by the MUD, as determined by the City.
 - If development occurs in phases, development must be sustainable by the proposed bonding capacity, bond phasing, and development approvals.

- The MUD must be in compliance with all terms and conditions of development and consent agreements.
 - The term of the MUD bonds should be limited to 25 years.
7. If an applicant for consent to creation of a MUD chooses to challenge either the City's determination of whether to consent to a MUD, or the lawfulness of the conditions imposed by the City in consenting to a MUD, the City will pursue the following course of action:
- The applicant's request before the Texas Commission on Environmental Quality (TCEQ) for the creation of the MUD shall be challenged.
 - If the City is not successful before the TCEQ, the City will pursue all available legal remedies to enforce its decision, including appeal of the decision of the TCEQ.
8. City Resolution No. 840202-37 is superseded by this Resolution No. 20110217-030.

APPROVED: February 17, 2011

ATTEST:


Shirley A. Gentry
City Clerk

List of Schedules Sponsored

Schedule I	Notice of Intent to Change Rates
Schedule II-C-10	Rating Agency Report/Prospectus
Schedule II-E-1.3 (W)	Field Inspections and Facilities Visited - Water
Schedule II-E-1.3 (WW)	Field Inspections and Facilities Visited – Wastewater
Schedule II-E-4.4	Rate Case Expenses
Schedule II-E-4.5	Extraordinary Property Losses
Schedule II-E-4.6	Expenses Previously Denied by Commission
Schedule II-E-5	Other Revenue Items (credit)
Schedule V-5	Corporate History
Schedule VI-1.a	Compliance with TCEQ Rules – Violations
Schedule VI-1.b	Consumer Confidence Reports
Schedule VI-1.c	Water Pressure Problems
Schedule VI-1.d	Discharge Violations
Schedule VI-2	Customer Complaint Policy
Schedule VI-3	Customer Complaint Records
Schedule VI-4	Water Conservation
Schedule VI-5	Meter Replacement Policy

DOCKET NO. 49189

APPLICATION OF THE CITY OF	§	BEFORE THE
AUSTIN DBA AUSTIN WATER	§	
FOR AUTHORITY TO CHANGE	§	PUBLIC UTILITY COMMISSION
WATER AND WASTEWATER	§	
RATES	§	OF TEXAS



**DIRECT TESTIMONY
OF
JOSEPH H. GONZALES**

**ON BEHALF OF THE CITY OF AUSTIN
D/B/A AUSTIN WATER**

APRIL 2019

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ATTACHMENTS

JHG-1	Resume
JHG-2	List of Schedules Sponsored
JHG-3	City of Austin Chart of Accounts
JHG-4	Excerpts from the AWWA M1 Manual of Water Supply Practices (Seventh Edition 2017)
JHG-5	Excerpt from the WEF Manual of Practice No. 27, <i>Financing and Charges for Wastewater Systems</i> (2004)
JHG-6	Excerpt from the AWWA M6 Manual of Water Supply Practices (Fifth Edition 2012)

1 **I. INTRODUCTION**

2 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Joseph H. Gonzales. My business address is 625 East 10th Street, Suite
4 800, Austin, Texas 78701.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?**

6 A. I am employed by the City of Austin (City) as a Financial Manager III for Austin Water
7 (AW).

8 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

9 A. I am testifying on behalf of the City doing business as AW.

10 **Q. DID YOU PREPARE THIS TESTIMONY?**

11 A. Yes. This testimony was prepared by me or under my direct supervision.

12 **Q. WOULD YOU PLEASE CLARIFY YOUR REFERENCES TO THE CITY AND**
13 **AW?**

14 A. Yes. AW is a municipally-owned water and wastewater utility, owned by the City of
15 Austin, a home-rule city. When I refer to AW, I am referring to the utility, which is a
16 department functioning within the City.

17 **Q. PLEASE GIVE YOUR EDUCATIONAL BACKGROUND AND**
18 **PROFESSIONAL EXPERIENCE.**

19 A. I am a Certified Public Accountant with a Bachelor of Business Administration degree
20 in Accounting from the University of Texas. I have over 20 years of finance and
21 accounting experience. My professional experience includes 17 years of experience
22 preparing and overseeing the preparation of various cost allocation plans, including

1 water and wastewater cost of service allocation plans, support services cost allocation
2 plans, and Office of Management Budget (OMB) A87 indirect cost allocation plans.

3 I joined AW in July 2015 as the Division Manager over the Financial
4 Management division. My responsibilities include management oversight of the
5 financial planning, cost allocation, and rate setting processes for AW. In addition, I
6 oversee capital budgeting and debt management functions for AW. I am also
7 responsible for various project management duties such as the 2017 Cost of Service
8 update process.

9 Prior to my current role with AW, I served as Assistant Director of Finance for
10 the City of Cedar Park (Cedar Park) for two years, then as Finance Director for almost
11 three years from 2010 to 2015. My responsibilities included management of Cedar
12 Park's annual budget and financial reporting processes for all of Cedar Park's
13 departments, including water, wastewater and solid waste utilities. I was also
14 responsible for all treasury activities, including investment of city funds and planning
15 and coordinating Cedar Park's debt transactions. In addition, I served on the operating
16 committee that manages Brushy Creek Regional Utility Authority water treatment
17 plant, which is jointly owned by the cities of Cedar Park, Leander and Round Rock.

18 Before joining the Cedar Park staff, I was a Corporate Accounting Manager in
19 the City of Austin Controller's Office from 2004 to 2010. In this role, I coordinated
20 the preparation and production of the City's Comprehensive Annual Financial Report.
21 In addition, I provided financial system and accounting support to City departmental
22 finance staff. I was also responsible for the preparation of the City's annual support
23 services cost allocation plan (full cost) and the City's OMB Cost Allocation Plan,

1 developed in accordance with the federal OMB Circular A-122, which provides
2 specific guidelines for costs eligible to be charged to federal grant awards.

3 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?**

4 A. Yes, I am a member of the American Water Works Association (AWWA) and the
5 Government Finance Officers Association.

6 **Q. PLEASE DESCRIBE YOUR CURRENT ROLE AT AW.**

7 A. I am currently a Financial Manager III with AW. In this role, I manage the Rates and
8 Charges group and the Financial Planning group within the Financial Management
9 division of AW.

10 **Q. PLEASE DESCRIBE YOUR JOB DUTIES AND RESPONSIBILITIES.**

11 A. My role is to provide management oversight of the financial planning, cost allocation,
12 and rate setting processes for AW. I am also responsible for project management duties
13 related to AW's Cost of Service (COS) update process. In addition, I oversee the
14 capital budgeting, debt management and long-term financial planning functions for
15 AW.

16 **Q. ARE YOU SPONSORING ANY SCHEDULES IN CONNECTION WITH YOUR**
17 **TESTIMONY?**

18 A. Yes. I am sponsoring the schedules listed in Attachment JHG-2.

19 **II. PURPOSE OF TESTIMONY**

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 A. In my testimony, I will address:

- 22
 - An overview of AW's recent COS update;

- 1 • AW's overall revenue requirement based on Test Year 2018 adjusted for known
- 2 and measurable changes;
- 3 • How AW addressed each of the fourteen disallowed items from Docket No. 42857
- 4 and how those items are handled in AW's COS models;
- 5 • AW's key financial metrics and the impact of those metrics on the utility's COS;
- 6 • AW'S operations and maintenance costs;
- 7 • AW's cost allocation methodology;
- 8 • AW's rate design;
- 9 • The consumption levels of each of the four wholesale customers; and
- 10 • AW's proposed rates.

11 **III. OVERVIEW OF COST OF SERVICE STUDY**

12 **Q. PLEASE BRIEFLY PROVIDE AN OVERVIEW OF AW.**

13 A. AW is a municipal utility providing water, wastewater, and reclaimed water service to
14 the City and surrounding areas. AW provides service to approximately one million
15 residents in a service area that spans 544 square miles and serves a diverse customer
16 base including residential, commercial, industrial, and a number of wholesale
17 customers. AW, which operates as an Enterprise Fund, is a department of the City and
18 employs 1,170 people.

19 **Q. DID AW HIRE AN OUTSIDE CONSULTANT TO DESIGN AND CONDUCT**
20 **THE COS STUDY?**

21 A. Yes. In 2016, AW engaged Raftelis Financial Consultants, Inc. (Raftelis) to conduct a
22 comprehensive COS study of AW's water and wastewater operations and update the
23 COS models AW uses to allocate costs to each customer class. AW staff annually
24 updates its water and wastewater COS models to analyze the proportionate share of

1 system costs that should be allocated to each customer class, which is then used to
2 determine the budget year's rates for each class. The City operates on a fiscal year
3 (FY) that runs from October 1st to September 30th; i.e. "FY 2018" refers to the 12
4 months ending September 30, 2018. The Raftelis Team conducted a comprehensive
5 COS study during 2016 and 2017 (2017 COS Study). The 2017 COS Study included
6 the development of new water and wastewater COS models and the review of key
7 assumptions and parameters involved in the COS process. The work performed by the
8 Raftelis Team included a comparison of AW's previous COS model developed for the
9 2008 COS study, with the updated model and methodology using a 2017 budget test
10 year to provide a clear understanding of how modifications to the COS process and
11 methodologies may impact different customer classes.

12 **Q. WHO IS PROVIDING TESTIMONY REGARDING THE METHODOLOGY**
13 **AND ASSUMPTIONS USED IN DEVELOPING AND CONDUCTING THE**
14 **COS STUDY?**

15 A. Richard D. Giardina, C.P.A., the Executive Vice President of Raftelis, is providing
16 testimony describing the methodology, assumptions, and process Raftelis used in
17 developing and conducting the COS study.

18 **Q. WHAT WERE AW'S OBJECTIVES IN CONDUCTING THE COS STUDY?**

19 A. This study began in September 2016 with the primary objectives of:
20 • Updating the COS analysis and assessing the customer class COS compared to
21 existing class COS.
22 • Developing new COS models and supporting information that clearly and
23 concisely illustrate the budget, COS, and rate results.
24 • Establishing a process with supporting schedules that succinctly and
25 transparently identifies costs that are shared by retail and wholesale customers

1 and those that are borne solely by retail customers, and the subsequent
2 determination of rates for retail and wholesale classes both for this study and
3 future rate adjustments.

- 4 • Engaging AW's customer base by convening retail customer public
5 involvement and wholesale involvement committees (PIC and WIC,
6 respectively) to discuss COS and rate issues and challenges faced by the utility
7 and the community.

8 **Q. PLEASE PROVIDE AN OVERVIEW OF AW'S COS MODELS.**

9 A. Raftelis delivered separate COS models for AW's water and wastewater operations in
10 2017. These models are set up in a linear fashion to step through the cost allocation
11 process of compiling revenue requirements, functionalizing costs, allocating those
12 costs to AW's various customer classes, then developing rates in accordance with
13 AW's rate design objectives. Since the models were delivered, AW continued to work
14 with Raftelis to update the models to address specific customer questions, including
15 how the debt service coverage is incorporated into the model. AW expects to update
16 the current model versions on an annual basis with current revenue requirement and
17 user characteristic data to make recommended rate changes when necessary, until a
18 new COS study is conducted and new models are developed.

19 The process of allocating revenue requirements and setting rates for wholesale
20 customers is relatively simple given the uniform water and wastewater rate structures
21 for wholesale customers. Much of the model complexity is due to the complex retail
22 rate structures described in Sections IV and V of my testimony. Retail specific tabs
23 which do not impact the wholesale cost allocation and rate setting process are identified
24 as "Retail" in the tab name.

1 The water and wastewater models are set up in similar manners, beginning with
2 a model hierarchy tab, which provides a listing of tabs within the model and links to
3 each tab. The worksheet tabs are color coded to indicate the section of the worksheet
4 hierarchy. The worksheet names are numbered and coordinate with individual table
5 names. Input data sources are indicated below table headers.

6 The first set of tabs provide summary revenue requirement (water and
7 wastewater tab 1) and outside city adjustment (water and wastewater tab 1A)
8 information. The next set of tabs (water tabs 2-16, wastewater tabs 2-14) provide
9 existing rate and revenue information followed by customer demand and units of
10 service information (water tabs 17-28, wastewater tabs 15-17).

11 The majority of tabs within the models focus on the allocation of revenue
12 requirements to AW's customers. Revenue requirements are split up into four cost
13 types: Operations and Maintenance (O&M) (water tabs 29-46, wastewater tabs 18-35),
14 Other Costs (water tabs 47-58, wastewater tabs 36-47), Revenue Allocated Costs
15 (water tabs 59-70, wastewater tabs 48-59), and Capital Costs (water tabs 71-88,
16 wastewater tabs 60-77). Revenue requirement totals by customer class are calculated
17 for water in tabs 89-93 and for wastewater in tabs 78-82 prior to calculating class debt
18 service coverage revenue requirements (water tab 94, wastewater tab 83). Final
19 allocated costs by customer class, inclusive of debt service coverage revenue
20 requirements, are calculated on water tab 95 and wastewater tab 84. The next set of
21 model tabs are used to calculate rates sufficient to recover the calculated revenue
22 requirements beginning with Fixed Customer Charges (water tabs 96-99, wastewater
23 tabs 85-86) followed by the Volumetric Rate Setting Process (water tabs 100-108,
24 wastewater tabs 87-95) to recover the remaining requirements. The remaining tabs

1 (water tabs 109-115, wastewater tabs 96-101) summarize and reconcile revenues at
2 proposed rates.

3 The models include functionality to adjust wholesale revenue requirements as
4 necessary for costs that AW has agreed to allocate as retail-only costs. Tab 1A in both
5 models summarizes the proposed treatment of costs previously disallowed in Docket
6 No. 42857. Adjustments for these costs reduce wholesale O&M and/or capital cost
7 revenue requirements (water tabs 35-39, wastewater tabs 24-28). In addition, non-rate
8 revenues are allocated to AW's customers as reductions of O&M and capital costs
9 (water O&M tabs 40-45, wastewater tabs 29-34).

10 AW allocates a few special cost items as Other Costs. These costs include debt
11 service related to long-term water rights (joint costs) and watershed land purchases to
12 protect water quality (retail only). In addition, a portion of retail Community Benefit
13 Charges (CBC) earmarked for Customer Assistance Programs (CAP), including a
14 plumbing repair program, are added back as residential CAP revenue requirements.
15 Wholesale customers do not contribute to CBC funding and program costs are directly
16 funded by retail CBC revenues.

17 Functioning Excel versions of each COS model and all supporting source files
18 will be provided in native format on flash drives to the Commission in accordance with
19 the RFP requirements contemporaneously with the filing of this Application.

20 **IV. REVENUE REQUIREMENTS**

21 **Q. WHICH TEST YEAR DID AW USE IN ITS COS MODEL?**

22 A. AW used the most recent fiscal year end of September 30, 2018 as the test year for this
23 filing. AW used preliminary FY 2018 results as a historical actual test year adjusted
24 for known and measurable changes. Please note that final operating results for FY

1 2018 were available after the completion of the City's annual audit in early March
2 2019, however historical actual data reflects unaudited numbers as of December 2018.
3 AW will provide a 45-day update for RFP sections II-A-2 and II-A-3 to reflect final
4 audited numbers.

5 The test year revenue requirement reflects the total amount of rate revenue that
6 must be collected from AW ratepayers during the fiscal year. A summary of the test
7 year FY 2018 water and wastewater utility revenue requirement is shown in the Cash
8 Basis Fund Summary (Table 1-1) in the water and wastewater COS models.

9 The annual test year revenue requirement for AW's water and wastewater
10 utilities includes O&M costs, capital costs for debt service used to pay for capital
11 improvement program expenditures, and cash funded debt service requirements.

12 **Q. DOES AW USE A CASH BASIS REVENUE REQUIREMENT**
13 **METHODOLOGY?**

14 A. Yes. As discussed in the Direct Testimony of Richard Giardina, AW determines the
15 annual test year revenue requirement for its water and wastewater utilities using a cash
16 basis revenue requirement methodology. The test year revenue requirement reflects
17 the total amount of rate revenue that must be collected from AW ratepayers during the
18 fiscal year.

19 **Q. DOES AW USE THE NARUC CHART OF ACCOUNTS TO ACCOUNT FOR**
20 **TRANSACTIONS POSTED TO ITS FINANCIAL SYSTEM?**

21 A. No, the City's financial system, which is used by AW, is not based on the NARUC
22 chart of accounts. Since only the wholesale and outside city customers, which are a
23 very small percentage of our customer base, are subject to the jurisdiction of the Public
24 Utility Commission of Texas (Commission or PUC), AW has not adopted the NARUC

1 chart of accounts. However, AW's chart of accounts provides a level of detail
2 consistent with the NARUC system. Please see Attachment JHG-3, which is a chart of
3 account listing for a description of accounts used by AW.

4 **Q. DOES AW'S REVENUE REQUIREMENT INCLUDE THE KNOWN AND**
5 **MEASURABLE CHANGES FOR ITS O&M EXPENSES?**

6 A. Yes. The adjusted test year, including known and measurable changes, is
7 representative of revenue requirements during the period that new rates will be
8 effective. All known and measurable changes are reflected in Schedule II.D.1.2 and
9 discussed more fully in Section IV below. A summary of the adjusted test year revenue
10 requirements for AW are shown in Table 1 below.

11 Table 1 - AW Adjusted Test Year Revenue Requirement

	Water	Wastewater	Total
O&M	\$122,916,759	\$106,570,746	\$229,487,505
Other Costs	13,015,245	1,269,078	14,284,323
Capital Costs	86,592,831	80,478,510	167,071,341
DSC Requirement	83,672,407	69,785,777	153,458,184
Direct Retail Allocation	(2,270,910)	(1,269,078)	(3,539,988)
Total Revenue Requirement	\$303,926,332	\$256,835,033	\$560,761,365

12 A. **Wholesale Customer Adjustments**

13 **Q. DID AW MAKE ADJUSTMENTS TO THE REVENUE REQUIREMENT FOR**
14 **THE WHOLESALE CUSTOMERS IMPACTED BY THIS FILING BASED ON**
15 **THE COMMISSION'S ORDER ON REHEARING IN DOCKET NO. 42857?**

16 A. Yes. As discussed in the Direct Testimony of David Anders, Docket No. 42857 was
17 an appeal by four Districts—North Austin Municipal Utility District No. 1, Northtown
18 Municipal Utility District, Travis County Water Control and Improvement District
19 No. 10, and Wells Branch Municipal Utility District (Petitioners) —of the previous rate

1 increase implemented by AW. The Order on Rehearing approved AW's rates for the
2 Petitioners, subject to a number of adjustments.

3 **Q. DID AW AGREE WITH THE COMMISSION'S ORDER ON REHEARING IN**
4 **DOCKET NO. 42857 THAT A NUMBER OF SPECIFIC REVENUE**
5 **REQUIREMENTS SHOULD NOT BE ALLOCATED TO THE PETITIONERS**
6 **IN THAT DOCKET?**

7 A. Yes. During Docket No. 42857, AW and the Petitioners in that docket agreed that a
8 number of specific revenue requirements should not be allocated to any of those
9 Petitioners. Since both AW and the Petitioners agreed these items should not be
10 included for those Petitioners, the Administrative Law Judge's (ALJ) Proposal for
11 Decision and the Order on Rehearing assumed these costs would be eliminated from
12 revenue requirements for those Petitioners.

13 A listing of the AW agreed-upon items to not include in the Petitioners' and
14 outside city revenue requirements is shown below:

- 15 1. Land Management Division
- 16 2. Balcones Canyonland Preserve
- 17 3. Reicher Ranch
- 18 4. Bad Debt Expense
- 19 5. Accounts Receivable Leak Adjustment
- 20 6. Public Improvement District
- 21 7. Chief Sustainability Officer
- 22 8. 311 System Support
- 23 9. Radio Communications Fund
- 24 10. AFD Transfer for Hazmat Prevention
- 25 11. AFD Transfer for Homeland Security
- 26 12. Lobbyists-Legislature
- 27 13. One-Stop Shop
- 28 14. City Hall Water Feature-Capital Costs

- 1 15. Reicher Ranch-Capital Costs
2 16. Austin Youth River Watch¹

3 After review and public involvement process during the 2017 COS Study, the
4 AW Executive Team recommended these agreed-upon items should not be allocated to
5 the wholesale customers, including the Petitioners.

6 **1. City Reviewed Items of PUC Revenue Requirement**
7 **Disallowances for Wholesale Customers**

8 **Q. CAN YOU PROVIDE AN OVERVIEW OF DISALLOWANCES IN THE**
9 **COMMISSION'S ORDER ON REHEARING IN DOCKET NO. 42857 THAT**
10 **AW INCLUDED WITHIN THE PROPOSED WHOLESALE REVENUE**
11 **REQUIREMENTS?**

12 A. Yes. In Docket No. 42857, the Commission issued an Order on Rehearing which
13 included a list of required revenue requirement adjustments and the ordered water and
14 wastewater rates for the Petitioners in that case.

15 The Commission identified 14 revenue requirement items which should be
16 adjusted or eliminated from the AW revenue requirements for the Petitioners because
17 the City failed to prove that these requirements were reasonable and necessary costs of
18 providing water and wastewater services to the Petitioners. The Order on Rehearing
19 ordered water and wastewater rates with these revenue requirements removed for the
20 Petitioners.

21 As described in the Direct Testimony of Richard Giardina, AW conducted the
22 2017 COS Study which concluded in November 2017. As part of the COS Study
23 review, AW conducted over 25 retail and wholesale customer involvement meetings to

¹ *Petition of North Austin Municipal Utility District No. 1, Northtown Municipal Utility District, Travis County Water Control and Improvement District No. 10, and Wells Branch Municipal Utility District from the Ratemaking Actions of the City of Austin and Request for Interim Rates in Williamson and Travis Counties, Docket No. 42857, Proposal for Decision at 32 (July 10, 2015) (PFD).*

1 discuss specific water and wastewater cost allocation issues. Throughout this process,
2 AW provided detailed information on each of the revenue requirement adjustments
3 ordered by the PUC. AW's rate consultant, Raftelis, reviewed each of the revenue
4 requirement items and provided recommendations on whether AW should include any
5 of these items in its revenue requirements for wholesale customers. Additionally, AW
6 received input from all of the retail and wholesale customer participants in the
7 involvement committee meetings regarding the allocation of these revenue
8 requirements to wholesale customers.

9 Based on AW's consultant recommendations and the input from the retail and
10 wholesale customers during the 2017 COS Study, AW's Executive Team made
11 recommendations on whether any of the individual 14 revenue requirements were
12 reasonable and necessary costs of providing water and wastewater service to the four
13 wholesale customers impacted by this filing and other wholesale customers. AW
14 included the following items disallowed in Docket No. 42857 within the proposed
15 wholesale revenue requirements:

16 **Rate Case Expenses**

17 Rate case expenses are generally expenses associated with legal, rate consultant
18 and expert costs related to a regulatory proceeding. The PUC rules and precedent
19 provide for the recovery of valid rate case expenses.

20 In this proceeding each of the outside consultants have included testimony
21 supporting their rate case expenses incurred to date. Additionally, Mr. Tab Urbantke's
22 testimony provides support for outside legal costs. None of the requested rate case
23 expenses were included in the test year revenue requirements.

1 **Reclaimed Water System Costs**

2 As further discussed in the Direct Testimonies of David Anders, Steve Coonan
3 and Richard Giardina, reclaimed water is an important component of AW's water
4 resource planning and water supply management. As such, all water customers,
5 including customers not connected to the reclaimed system, benefit from the reclaimed
6 system since it extends AW's available water supply. All reclaimed operating and
7 capital costs are accounted for in a separate Reclaimed Operating Fund. However,
8 revenue requirements for the adjusted test year include a \$4 million transfer from AW
9 to the Reclaimed Utility to fund a portion of reclaimed operations and debt service not
10 covered by reclaimed revenues. A portion of the costs associated with the operating
11 transfer to the Reclaimed Utility have been allocated to wholesale customers.

12 **Swap and Commercial Paper Administrative Costs**

13 As discussed in the Direct Testimony of David Anders, it is appropriate for all
14 customer classes, both retail and wholesale, to be allocated a portion of swap and
15 commercial paper administrative debt issuance costs since all customers benefit from
16 lower borrowing costs as a result of AW's swap and commercial paper program.
17 Adjusted test year revenue requirements include \$268,536 of costs associated with
18 swap and commercial paper administrative costs. A portion of these costs have been
19 allocated to wholesale customers.

20 **Drainage Utility Fees**

21 The City of Austin Watershed Protection Department protects lives, property,
22 and the environment of the community by reducing the impact of flood, erosion, and
23 water pollution. The Watershed Protection Department is primarily funded by the
24 drainage charge that is included on customer utility bills.

1 All properties within the City, including residential, multifamily, and
2 commercial properties are assessed the drainage charge. This charge is calculated
3 individually for each property, based on the amount and percent of impervious cover.
4 Less impervious cover means a lower drainage charge.

5 AW owns numerous properties and facilities within the City. Each of these
6 properties are assessed a drainage fee based upon the specific properties' amount and
7 percent of impervious cover as prescribed in the calculation methodology applied to all
8 properties within the City. The drainage fee for AW properties is a valid operating cost
9 which should be recovered from all customer classes.

10 Based on AW's consultant recommendation and the input from the retail and
11 wholesale customers during the 2017 COS Study, the AW Executive Team
12 recommended the allocation of the Drainage Utility Fees to all customer classes
13 including wholesale customers. Test year revenue requirements include drainage
14 charges of \$150,234 for water and \$163,116 for wastewater.

15 **Water Revenue Stability Fund**

16 As discussed in the Direct Testimony of David Anders, reserves are a critical
17 feature in any water utility financial plan. Protecting the financial integrity of a utility
18 through the use of reserves is a standard practice of utilities which benefits all customer
19 classes.² In addition, cash reserves are one of many key financial benchmarks reviewed
20 by rating agencies in assessing credit worthiness in issuing revenue bonds. Strong
21 reserves also contribute to stronger credit ratings, thus reducing financing costs in the
22 issuance of debt. All customer classes benefit from the reserves and therefore should
23 be allocated these costs. AW created the Reserve Fund in February 2013 with the

² Attachment JHG-4, American Water Works Association, M1 Manual of Water Supply Practices, *Principles of Water Rates, Fees, and Charges*, 154 (7th ed. 2017).

1 implementation of the Water Revenue Stability Reserve Fund Surcharge, a volumetric
2 charge per 1,000 gallons charged to all customer classes.

3 Water Revenue Stability Reserve Fund Policies:

- 4 • Target funding level is 120 days of budgeted operating requirements;
- 5 • The Water Reserve Fund goal of achieving 120 days will be no later than five
6 years;
- 7 • If funds from the Water Reserve Funds are used in any year, target level will be
8 replenished in no later than five years;
- 9 • Sources of funding for the Water Reserve Fund may include a Water Reserve
10 Fund volumetric surcharge charged to all customer classes, operating reserves
11 in excess of 60 days of operation, and any available net water service revenue
12 after meeting all obligations of AW;
- 13 • City Council must approve all Water Reserve Fund utilization of funds through
14 a separate action during the year;
- 15 • The Water Reserve Fund shall only be used to offset a current year water service
16 revenue shortfall where actual water service revenue is less than budgeted levels
17 by 10 percent or greater;
- 18 • Maximum use of the Water Reserve Fund in any one year is 50 percent of the
19 existing balance at the time of the request; and
- 20 • When target levels of 120 days of operating requirements are met, any Water
21 Reserve Fund Surcharge shall be reduced to levels sufficient only to maintain
22 the goal of 120 days of operating requirements.

23 AW recommends the allocation of the Water Revenue Stability Reserve Fund
24 costs to all customer classes including wholesale customers. During FY 2018, the
25 Water Reserve Fund balance reached the target level of 120 days of water operating
26 requirements. However, as O&M expense grows, continuation of the surcharge is
27 necessary to maintain the targeted levels. AW currently charges a surcharge of \$0.05
28 per 1,000 gallons consumption for retail customers. AW is proposing a rate of \$0.05

1 per 1,000 gallons for the Petitioners to maintain 120 days of funding in the Reserve
2 Fund.

3 **Reclaimed Water O&M Expenses**

4 As discussed in the Direct Testimony of David Anders, indirect O&M costs
5 related to the reclaimed water system are imbedded in AW's total costs. Since the
6 reclaimed system benefits all customer classes, AW has not separately identified
7 administrative costs for the reclaimed system and has included these costs in AW's
8 revenue requirement.

9 **Govalle Wastewater Treatment Plant Costs**

10 The Govalle Wastewater Treatment Plant (Govalle) is located along the
11 Colorado River on U.S. Hwy 183 South. Govalle was decommissioned as a working
12 wastewater plant in October 2006. As discussed in the Direct Testimony of David
13 Anders, since decommissioning, the buildings located at the former wastewater plant
14 are used by AW for various treatment support functions, emergency wastewater flow
15 diversion, and for storage of treatment plant and infrastructure assets. In addition, the
16 Govalle buildings and site continue to be used as training facilities for AW's pipeline
17 and treatment staff. Various training staff office out of the Govalle administrative
18 building. Training for treatment and pipeline staff, including confined space entry
19 training, equipment maintenance training, backhoe training, and various other training
20 for AW staff, is held at Govalle.

21 The current use of Govalle as described above benefits all customers of AW.
22 These costs should be allocated to all customer classes; as such AW recommends the
23 allocation of Govalle costs to all customer classes, including wholesale customers.
24 Adjusted test year revenue requirements for wastewater include \$409,996 of O&M
25 costs associated with the administrative functions at Govalle.

1 **Handcox Water Treatment Plant Costs**

2 The Berl Handcox Water Treatment Plant (WTP) (formerly referred to as WTP
3 No. 4), is the newest of three water treatment plants in the City's water system. The
4 construction of the Handcox WTP was initiated in 2009 and was completed when the
5 plant went online in November 2014. The 50 million gallons daily (MGD) plant serves
6 primarily into the north and northwest portions of AW's system within the City's
7 Desired Development Zone (DDZ). With the Handcox WTP online, the water system
8 efficiency for serving customers throughout our system has been enhanced. The
9 Handcox WTP is currently a critical part of AW's integrated water system and will
10 continue to be so well into the future.

11 The Commission's Order on Rehearing in Docket No. 42857 disallowed WTP4
12 costs.³ In the Proposal for Decision, the ALJ concluded that the Handcox WTP was
13 not in service during Fiscal Year 2013, which was the test year for the Petitioners' rate
14 challenge.⁴ Since the Handcox WTP was not placed in service until November 2014,
15 the Handcox WTP costs were excluded from revenue requirements when setting rates
16 for the Petitioners for 2013.⁵

17 However, as further discussed in the Direct Testimony of David Anders, since
18 the Handcox WTP is currently online and in use, these costs were considered during
19 the City's COS Study for inclusion in any future rates for all customers. The plant,
20 which is an integrated part of our central water system, is used and useful for providing
21 service, particularly to the north and northwest areas of the system, both inside and

³ Docket No. 42857, Order on Rehearing, Finding of Fact No. 52 (Jan. 14, 2016).

⁴ Docket No. 42857, PFD at 44-45.

⁵ *Id.*

1 outside the City. Adjusted test year revenue requirements for water includes
2 \$4,477,377 of O&M costs and \$1,378,219 of capital costs.

3 **Green Power Costs**

4 The City adopted a Community Climate Action Plan in 2015 which contains a
5 component of the City of Austin Climate Action Plan. The City of Austin Climate
6 Action Plan provides for all City-owned buildings to be powered by 100 percent
7 renewable energy.

8 AW currently pays for electric use based on the Austin Energy (AE)
9 Commercial Energizer rate of \$0.03645/kWh, which replaces the Power Supply
10 Adjustment (PSA) charge of \$0.02895. This electric rate schedule is based on 100
11 percent renewable energy sources of wind and solar. The Council's decision for the
12 City and AW to purchase 100 percent renewable energy sources as a part of the Climate
13 Action plan is a valid operating cost for AW. These climate protection efforts benefit
14 all customer classes.

15 As further discussed in the Direct Testimony of David Anders, AW
16 recommends the allocation of the Green Power costs to all customer classes, including
17 wholesale customers. Adjusted test year revenue requirements include incremental
18 costs related to Green Choice electricity of \$1,112,865 for water and \$773,780 for
19 wastewater.

20 **2. City Excluded Items of PUC Revenue Requirement**
21 **Disallowances for Wholesale Customers**

22 **Q. WERE THERE ADJUSTMENTS IN THE COMMISSION'S ORDER ON**
23 **REHEARING IN DOCKET NO. 42857 THAT AW EXCLUDED FROM THE**
24 **PROPOSED WHOLESALE REVENUE REQUIREMENTS?**

1 A. Yes. In Docket No. 42857, the Commission issued an Order on Rehearing which
2 included a list of revenue requirement disallowances and water and wastewater rates
3 for the Petitioners. In the proposed wholesale revenue requirements, AW has excluded
4 several of the Commission-ordered disallowances from Docket No. 42857. These
5 items are addressed below.

6 **General Fund Transfer**

7 It is permissible for Municipally-Owned Utilities (MOUs), including AW, to
8 transfer a certain percentage of revenues to their municipal governing body. The
9 General Fund Transfer for MOUs is similar to costs that Investor-Owned Utilities
10 (IOUs) would incur. IOUs would generally pay franchise fees, taxes, dividends to
11 stockholders, return on investment, and similar expenses. These fees for IOUs are
12 recovered from all utility customers including wholesale customers. Similarly for
13 MOUs, the General Fund Transfer is recovered from all utility customers including
14 wholesale customers.

15 While a General Fund Transfer should be recovered from all customers, it has
16 not included the General Fund Transfer in its adjusted revenue requirements for this
17 filing. Instead, AW proposes a revenue requirement based on meeting its cash needs
18 which includes a debt service coverage (DSC) revenue requirement of 1.85 from each
19 customer class. The DSC treatment is further discussed in the Direct Testimonies of
20 David Anders, Dan Wilkerson, Dennis Waley, and Richard Giardina.

21 **Depreciation**

22 AW used the cash flow method of determining revenue requirements, as such
23 depreciation is only used to arrive at net book value for AW's assets. Net book value
24 is used as an allocation factor to functional AW's capital costs. However, AW does
25 not include depreciation expense within the wholesale revenue requirement.

1 **Green Water Treatment Plant Costs**

2 The Green WTP was located in downtown Austin and decommissioned in
3 September 2008. As discussed in the Direct Testimony of David Anders, AW
4 recommended the COS allocation of Green WTP costs would be to retail customer
5 classes only and no costs associated with Green WTP would be allocated to wholesale
6 customers. There are no costs related to Green WTP in the adjusted test year revenue
7 requirements.

8 **Barton Springs – Edwards Aquifer Conservation District Costs**

9 As discussed in the Direct Testimony of David Anders, AW recommends the
10 COS allocation of Barton Springs / Edwards Aquifer Conservation District costs would
11 be to retail customer classes only. Adjusted test year revenue requirements for water
12 include \$958,889 of costs associated with Barton Springs / Edwards Aquifer
13 Conservation. These costs are not allocated to wholesale customers.

14 **Utility-Wide Contingency Costs**

15 As part of the regular proposed budget development process, AW typically
16 includes a Utility-Wide Contingency budget line item and associated cost. The
17 Utility-Wide Contingency line item provides funds for unidentified contingency costs
18 that might occur during the budget year. These unidentified costs could range from
19 unexpected emergency repairs, legal services, payments due to liability claims, and
20 other unexpected costs. These costs were lumped together without any specific
21 identification.

22 These unidentified costs were inconsistent with AW's decisions on using an
23 actual cost test year, adjusted for known and measurable changes. To the extent AW
24 has specific needs that can be identified and justified, these costs will be removed from

1 any Utility-Wide contingency costs and any remaining unidentified contingency costs
2 will be allocated to retail only customer classes.

3 Adjusted test revenue requirements include \$68,941 of water contingency costs
4 and \$68,234 of wastewater contingency costs. These costs have been allocated directly
5 to retail customers and no costs associated with Utility-Wide Contingency costs have
6 been allocated to wholesale customers.

7 **B. Operations and Maintenance Expenses**

8 **Q. PLEASE DESCRIBE AW'S O&M EXPENSES.**

9 A. O&M expenses reflect all the costs required to operate and maintain the systems that
10 are used to provide utility services, such as providing efficient and reliable water and
11 wastewater services to customers, providing excellent customer service, and all
12 maintenance and repair of utility assets. AW incurs O&M expenses for each of the
13 following six programs:

14 **1. Operations**

15 The purpose of the Operations program is to provide O&M services to the
16 City's water and wastewater pipeline infrastructure systems and treatment plants which
17 provide drinking water and treat wastewater into effluent and bio-solids to ensure that
18 AW's customers have safe, clean, reliable, and affordable drinking water and that the
19 environment and public health are protected. The program area consolidates the former
20 Treatment and Pipeline Operations program areas starting in Fiscal Year 2017-18.

21 The Operations program includes all O&M costs for water treatment plants,
22 pump stations and reservoirs, lift stations and remote facilities, process engineering,
23 laboratory services, electrical services, instrumentation and control, distribution system

1 maintenance, water meter operations, construction and rehab services, collection
2 system services, management services, and administrative support. Costs include
3 personnel, contracts and services, commodities, and Non-Capital Improvement
4 Program (CIP) capitals.

5 **2. Support Services**

6 The purpose of departmental support services is to deliver best-in-class
7 products and services to the employees of AW and other City stakeholders, and to
8 ensure that AW is effectively managed and achieves its stated mission and goals. The
9 support services activity encompasses human resources services, legal services,
10 internal audit, Office of the Director, financial management, facility management,
11 budget and accounting, supply chain management, information technology, security
12 management, safety and technical training, and consumer services. Costs include
13 personnel, contracts and services, commodities, and Non-CIP capitals.

14 **3. Environmental Affairs and Conservation**

15 The Environmental Affairs and Conservation program provides the necessary
16 engineering, management, administrative, regulatory, and technical support services
17 essential for AW to meet several requirements including: community needs, regulatory
18 requirements for drinking water and wastewater effluent and bio-solids management,
19 wildland preservation, and water conservation reuse to protect the environment. All of
20 these needs must be met while maximizing efforts to delay building new capital
21 treatment facilities and incurring related costs.

22 The Environmental Affairs and Conservation program includes all O&M costs
23 for environmental and regulatory services, water conservation, wildland conservation,

1 special services, and public affairs. Costs include personnel, contracts and services,
2 commodities, and Non-CIP capitals.

3 **4. Other Utility Program Requirements**

4 The purpose of the Other Utility Program Requirements program is to account
5 for AW's department-wide expenditures such as bad debt, commercial paper
6 administrative expenses, legal services and claims, fire/extended coverage insurance,
7 funding for unforeseen and emergency events, and other miscellaneous contractual
8 services to ensure the appropriate level of financial reporting.

9 **5. Engineering Services**

10 Engineering Services provide effective engineering, program/project
11 management, project delivery, and technical support services that encompass AW's
12 treatment facilities, water distribution system, and wastewater collection infrastructure
13 systems. Each of these assets are expected to deliver reliable and safe water and
14 wastewater services to customers while meeting regulatory requirements and
15 conserving our resources for future generations.

16 The Engineering Services program includes all O&M costs for facility
17 engineering, distribution system engineering, and engineering design and construction
18 standards. Costs include personnel, contracts and services, commodities, and Non-CIP
19 capitals.

20 **6. Water Resources Management**

21 The Water Resources Management program provides engineering, technical,
22 management, enforcement, and administrative services in order to reduce water leaks
23 and reduce wastewater overflows, safely convey wastewater from customers to the

1 treatment plants, and continuously deliver safe and adequate supplies of drinking water
2 from the treatment plants to customers.

3 The Water Resources Management program includes all O&M costs associated
4 with engineering, technical, management, and administrative services to infrastructure
5 field operations, maintenance, support programs, and wholesale customers. Activities
6 are comprised of systems planning, infrastructure management, and utility
7 development services. Costs include personnel, contracts and services, commodities,
8 and Non-CIP capitals.

9 7. Other Requirements/Support Services

10 AW's revenue requirement also includes costs related to billing and customer
11 support functions provided by AE, the City's municipally-owned electric utility. AE
12 uses an internal cost allocation plan to equitably allocate these costs to user
13 departments. Other requirements also include accrued payroll costs to set aside funding
14 for years with an extra pay period and other direct interdepartmental charges for service
15 provided.

16 In addition to internal support service functions described above, AW receives
17 shared services for various City support functions. These shared services reduce
18 overall costs to AW customers by sharing both the costs and the benefits of these
19 services provided by the City. The City uses internal Cost Allocation Plans to equitably
20 allocate costs to user departments for these functions.

1 **C. Transfers**

2 **Q. PLEASE PROVIDE A LISTING OF AW'S TRANSFERS.**

3 **A.** In addition to the General Fund Transfer described above in Section IV.B (though not
4 included in the proposed revenue requirements), AW makes the following transfers for
5 services provided by other departments or to transfer monies between AW funds.

6 **1. Transfers to Cash Financing of Capital Projects**

7 AW finances its Capital Projects through a combination of cash, referred to as
8 pay-as-you-go financing which is equity contribution from current revenues, and debt.
9 A short-term financing mechanism of commercial paper is used for interim financing
10 which is then converted to long-term 30 year revenue bonds for assets with useful lives
11 of 30 years or greater.

12 AW manages annual debt service requirements through regular reviews of
13 outstanding bond issues with City Treasury Office and AW's financial consultants,
14 Public Financial Management, to identify refinancing opportunities meeting savings
15 parameters set in AW's financial policies. In addition, AW adjusts the magnitude of
16 its CIP spending plan as well the level of cash financing of capital projects to achieve
17 target debt service requirement targets.

18 Based on AW's consultant recommendation and the input from the retail and
19 wholesale customers during the 2017 COS Study, the AW Executive Team
20 recommended a cash financing of capital projects target of 50 percent to reduce the
21 amount of new bond issues and annual debt service costs.

22 **2. Transfers to the Reclaimed Water Fund**

23 The Reclaimed Water Fund allows AW to provide water for non-potable
24 purposes to its customers without incurring raw water treatment costs. In addition,