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

APPEAL OF THE RETAIL WATER AND WASTEWATER RATES OF THE LOWER COLORADO RIVER AUTHORITY	§ § § § §	**BEFORE THE STATE OFFICE** **OF** **ADMINISTRATIVE HEARINGS**

CITY OF BEE CAVE'S EXCEPTIONS TO THE PROPOSAL FOR DECISION

The City of Bee Cave ("Bee Cave") hereby files its Exceptions to the Proposal for Decision ("PFD") issued on February 8, 2011.

I. INTRODUCTION

Bee Cave appreciates the ALJ's extensive analysis of this case and support of Bee Cave's major contentions regarding the rates at issue herein: (1) inappropriate use of FY08 and FY10 forecasts to set rates adopted in 2007, (2) inappropriate use of volume as an allocator of indirect and shared costs, and (3) inappropriate inclusion of certain costs in the general ledger. Bee Cave also agrees with the ALJ's reasons for denying LCRA's rate case expenses. In the PFD, the ALJ requests that "parties should, *to the extent they are able*, set out the dollar relationship between [the ALJ's] recommendations, the rates before August 22, 2007, and the interim rates currently in effect."[1] Through these Exceptions, Bee Cave complies with this request. In addition to making adjustments to FY07 actual expenses as requested, Bee Cave requests clarifications to certain findings of fact which will assist the Commission in understanding the case. Next, Bee Cave re-urges the rejection of LCRA's proposed new rates and recommends fixing rates at the same levels at the rates in effect prior to the rate changes at issue herein. Finally, in the event the Commission feels compelled to fix new rates for WTC Water which are higher than the rates in effect prior to the rate increases at issue herein, an action Bee Cave does not recommend, Bee Cave presents a simplified approach identifying assumptions which could be used to establish rates.

[1] PFD, p. 67.

II. CALCULATIONS – DETAILS

Finding of Fact No. 51 states: "In the absence of a reliable budget adopted close in time to the actual rate increase, LCRA's actual FY2007 data should be the starting point for rate setting in this case." In response to the ALJ's requests for additional analysis and based on his proposed findings of fact, Bee Cave has made the following adjustments to the FY07 actual expenses:

- Adjustments to account for the items removed as expenses pursuant to proposed Findings of Fact Nos. 91 through 93.
- Adjustments to allocations of cost pool expenses where each allocation originally made on the basis of volume is changed to an allocation made on direct labor pursuant to proposed Finding of Fact No. 75 and p. 31 of the PFD.[2]
- Removal of Operating Reserves expenses pursuant to proposed Findings of Fact Nos. 106 through 109.
- Downward adjustment of Community Development expenses to reflect the downward adjustment of O&M expenses pursuant to proposed Finding of Fact No. 119.

In performing these calculations, Bee Cave used Exhibit SK-4 and general ledger data as a starting point. As demonstrated in Schedule 1, attached hereto, FY07 adjusted expenditures exceed revenues by only 8.02% for WTC Water. These adjustments are explained in detail below.

A. Specific O&M Expenses

Finding of Fact No. 91 identified particular O&M expenses that should be deleted before calculating the revised WTC Water O&M Expenses using direct labor instead of volumes as the allocator for indirect and shared expenses. Finding of Fact No. 92 states that "the excluded expenses are from various cost pools at various levels of the LCRA organization. They should be allocated to (or rather, from) WTC Water in the manner set out in Ms. Heddin's testimony, without her proposed adjustments for benefits and FICA." Therefore, in making these

[2] Bee Cave notes that all allocations assume that actual costs are allocated on the same pro-rata share as the budgeted costs because actual data is not available to make allocations for FY07.

adjustments, Bee Cave reduced the total expenditures for each cost center to account for the items listed in Finding of Fact No. 91 as appropriate. Schedule 2, attached hereto, outlines each of the adjustments per Finding of Fact No. 91 and arrives at an adjusted cost for each cost center. Bee Cave notes that it did not include Ms. Heddins adjustments for FICA and benefits as directed by the PFD.

B. Change From Relative Volumes Allocator to Direct Labor

Finding of Fact No. 72 identifies direct labor as the appropriate allocator for shared and indirect expenses originally allocated on the basis of relative volume. Ms. Heddin performed this same exercise in her testimony; she did not change allocations that were *not* based on volume to direct labor in her original analysis. Based on this finding, the cost center amounts must be allocated down to the WTC Water System on the basis of WTC Water's share of the relevant cost pool based on direct labor. The pools are allocated as follows:

1. *WTC Water*: These are "direct" costs of the WTC Water system, therefore, these costs are allocated 100% to WTC Water; i.e., they are direct charged to WTC Water.
2. *WTC Operating Center*: These costs are allocated to the WTC Water system utilizing the pro-rata share of WTC Water direct labor to WTC Regional labor, which is 66%, as calculated in Exhibits BC-60 and BC-61.
3. *WTC Region:* These costs are allocated to the WTC Water system utilizing the pro-rata share of WTC Water direct labor to WTC Regional labor, which is 66%, as calculated in Exhibits BC-60 and 61.
4. *Retail:* This cost center is adjusted to accommodate the adjustments required pursuant to Findings of Fact Nos. 91-93; the allocation method is not changed.
5. *WWUS*: These costs are allocated directly from WWUS to WTC Water on the basis of direct labor using a 21% allocation factor as calculated in Exhibits BC-60 and BC-61.
6. *New Business Development:* Per Exhibit SK-20 and Finding of Fact No. 59, New Business Development costs are first allocated to the region based on households and then to the individual systems based on volumes. Therefore, New Business Development is allocated to the WTC Region utilizing the households as shown in Exhibit BC-8 and

then subsequently to WTC Water, within the WTC Region, based on direct labor, a percentage of 66%.

7. *Water Services Business Unit*: These costs are allocated to the WWUS in accordance with the Cost Allocation Manual, and then to WTC Water on the basis of direct labor; utilizing the same process outlined in Exhibit BC-65.
8. *Allocated Net Corporate Residual Costs*: Net Corporate Residual Costs, as described in Exhibit SK-4, consist of two distinct components: (1) Corporate Residual and (2) Capital Credits. As the title of this expense in Exhibit SK-4 acknowledges and as demonstrated in Jack Stowe's testimony,[3] Exhibit SK-4 presents the net of these two numbers. Exhibit SK-19 describes the Capital Credits and the means by which they are allocated; which is *not on the basis of relative volumes*. As a result, the two separate pieces must be addressed differently in terms of allocation; and thus are discussed separately below:
   a. *Corporate Residual:* These costs are allocated to WSBU and subsequently to WWUS as provided in the Cost Allocation Manual. Costs are then allocated from WWUS to WTC Water on the basis of direct labor instead of relative volumes, utilizing the process outlined in Exhibit BC-64.
   b. *Capital Credit*: As provided in Exhibit SK-19, the capital credit is calculated as 3% of capital projects. Because this is not allocated on a volume basis, there is no change to the corporate credit allocation in the analysis.

The revised allocation analysis for each cost center discussed above is presented in Schedule 2, attached hereto.

C. Operations Reserve Expenses

Finding of Fact No. 109 states that "an additional amount for operations reserve is not required." Therefore, the amount has been excluded from FY07 expenses as shown in Schedule 1.

[3] Exhibit JS-9, p.11.

D. Community Development Expense

Finding of Fact No. 122 states that it is reasonable for LCRA to include Community Development in its allowable expenses; however, Finding of Fact No. 119 states that the Community Development expense is estimated as three percent of: total O&M expenses, plus debt service costs, plus operation reserves included in rates, plus times coverage included in the rates, less miscellaneous revenues off setting rate requirements, less LUE reservation charges off setting rate requirements. Because O&M expenses and operation reserves included for FY07 have both decreased, it is, therefore, necessary to re-calculate the Community Development expense so that it reflects a percentage of an accurate expense amount. In order to perform this calculation, it was necessary to subtract from the expenses the "miscellaneous revenues off-setting rate requirements" (*i.e.*, non-rate revenues). The number utilized is the amount of the non-rate revenues identified in Revised Exhibit BC-67.[4] The following table shows the calculation of the revised Community Development expense:

Total O&M Expense	$3,196,786
Debt Service	$4,549,074
Operations Reserve	--
Times Coverage	$1,137,269
Less Non- Rate Revenues	(1,989,264)
Total	$6,893,864
3% of Total = Community Development	**$206,816**

E. Total Expenses for WTC Water for FY07

Based on the adjustments and assumptions outlined above, the total WTC Water system expenses would be approximately $9.09 million, as shown on Schedule 1. Exhibit SK-4 recorded total revenues of $8.4 million for FY07. The variance between the adjusted expenses and the actual revenues recovered by LCRA is approximately $675,000, which represents an approximate variance of 8.02%.

[4] Exhibit BC-67 (Revised), p. 4.

III. OTHER CLARIFICATIONS

In reviewing the proposed order, Bee Cave noted a few provisions which should be modified to reflect the record more accurately. They are discussed below.

A. Finding of Fact No. 49

Bee Cave recommends deleting Finding of Fact No. 49. This finding suggests that it would have been acceptable for LCRA to use an FY08 budget if adopted in 2007. While this might be true in certain circumstances, this finding is mere dicta in this case because this case was not tried on the basis of a FY08 budget adopted in 2007. Other than Exhibit BC-75, a single page document containing a budget comparable in detail to Exhibit SK-4, there is no information in the record to support such a budget. Without any supporting detailed information, it would be impossible to fix rates based on this budget because there is no basis to test the reliability of the budget, insufficient detail to make allocations and no billing determinants. The finding is, therefore, best removed so that it is not mistakenly considered a viable option for setting rates in this case.

B. Finding of Fact No. 64

Bee Cave recommends clarifying this finding to explain why the jump in costs appeared to occur between FY04 and FY05 as described in Finding of Fact No. 66, although LCRA did not officially implement the volume-based allocation until FY06. The reason for the jump appearing to happen in FY05 is that, in the rate study, the numbers listed for FY05 reflected a retroactive application of the volume-based allocation for comparison purposes.[5] Bee Cave, therefore, suggests modifying Finding of Fact. No. 64 as follows:

> LCRA's use of relative volume as the primary allocator for shared and indirect costs began in FY 2006, <u>but was retroactively applied to FY 2005 in the rate study.</u>

[5] Tr. Vol. 8, 1616/11-1618/8.

IV. REJECTION OF PROPOSED NEW RATES; FIXING RATES AT PRIOR LEVELS

The ALJ cites Tex. Wat. Code §13.043(e) for support of the proposition that the Commission must set rates even when the retail public utility has failed to meet its burden of proof:[6] "In an appeal under Subsection (b) of this section, the commission shall hear the appeal de novo and shall fix in its final order the rates the governing body should have fixed in the action from which the appeal was taken."

It is completely appropriate, however, for the Commission to reject LCRA's rate increases in this case and fix the resulting rates at the level of the rates in effect prior to the rate increase. The LCRA Board, itself, should have rejected the rates proposed by LCRA staff because the LCRA Board was not provided with appropriate supporting data for the proposed rates. The Board was provided highly speculative FY10 projections as a basis for setting rates. The LCRA Board never saw FY07 actual data at the level of the WTC Water System.[7] The LCRA Board members had no way to perform a meaningful review of the proposed rates based on the information they were provided. Further, LCRA went so far as to claim that FY07 actual data from its general ledger was irrelevant to this case, stating, "[t]he costs and expenses incurred in FY 2007 are *wholly irrelevant* to this proceeding as they were not the basis for the rates that Protestants have opposed."[8] Based on the forecasted FY10 rates and insufficient supporting information provided to the Board, the correct action for the LCRA Board would have been to reject the higher proposed rates and fix rates at the current levels. Since the LCRA Board failed to do so, the Commission should fix in its final order the rates the governing body should have fixed in the action from which the appeal was taken, *i.e.,* fix the rates at the same level as the prior rates.

The ALJ also points out that *Application of Double Diamond Utilities, Inc. to Change Rates,*[9] a case referenced by Bee Cave, is not germane to this case because (1) DDU is an

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[6] PFD, p.20.
[7] Tr. Vol. 1, 122/20-23 and 195/8-22; Tr. Vol. 2, 226/20-25; Tr. Vol. 5, 900/8-11, 902/9-21, 964/9-16 and 964/24 – 965/7.
[8] LCRA's Objections to Protestants' Direct Testimony, p.8.
[9] SOAH Docket No. 582-08-0698, TCEQ Docket No. 2007-17087-UCR (PFD issued June 15, 2009, Order issued Nov. 13, 2009).

investor owned utility ("IOU") and (2) appellants did not request rates below the pre-existing rates.[10]

With respect to the first point, while the statutory provisions are not identical, in either case, the Commission is required to fix just and reasonable rates. The Water Code provides for IOUs, "[i]f . . . the proposed rates . . . are unreasonable or in violation of the law, the regulatory authority shall determine . . . and . . . fix the rates."[11] The Water Code provides for entities like LCRA, the Commission "shall fix in its final order the rates the governing body should have fixed in the action from which the appeal was taken."[12] The Commission's role is, therefore, to *fix* just and reasonable rates for either type of entity.

As discussed in more detail below, much of the data needed to set appropriate new rates for WTC Water is missing from the record. If the evidence is not available to establish increased rates, then the appropriate solution is to fix the rates at the level of the prior rates in effect, which were the prior "just and reasonable" rates. The Double Diamond case and the LCRA case are strikingly similar in their lack of data in the record needed to establish just and reasonable rates. In both cases, the only possible just and reasonable rates to be found are the prior rates. Further, the appeal of North San Saba Water Supply Corporation's rates,[13] referenced in Bee Cave's closing arguments, involved an appeal under the same provision as the appeal of LCRA's rates. In this case, the ALJ acknowledged that there was some evidence that North San Saba Water Supply Corporation's expenses had increased; however, because the information available was incomplete and suspect, the ALJ still recommended upholding the appeal and reinstating the prior rates.[14]

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[10] PFD, p. 20.
[11] Tex. Wat. Code §13.187(h).
[12] Tex. Wat. Code §13.043(e).
[13] See the *Proposal for Decision*, Application of North San Saba Water Supply Corporation to Change its Water Rates under Certificate of Convenience and Necessity No. 11227 in San Saba County, TCEQ Docket No. 2008-1481-UCR; SOAH Docket No. 582-09-0660 (March 25, 2010). This PFD is available at SOAH's website at http://www.soah.state.tx.us/pfdsearch/pfds/582%5C09%5C582-09-0660-pfd1.pdf. The PFD was adopted with minor corrections on June 2, 2010.
[14] *Id.*, pp. 7-8.

With respect to the second point, it is clear that the Appellants' recommended revenue requirements as provided in Ms. Heddin's and Mr. Rauschuber's testimonies, were *lower* than the revenues taken in under the prior rates. Had either of their recommended revenue requirements been used to derive rates, it is, therefore, likely that the resulting rates would have been lower that the prior rates. Even with the recommendations made pursuant to the PFD, it is impossible to say whether the resulting rates would be higher or lower than the prior rates due to missing information needed translate a revenue requirement into rates. The resulting rates depend heavily on the billing determinants, which are unavailable for FY07. Indeed, the Appellants did not recommend in their direct cases to establish lower rates, because, as explained above, the information needed to do so was not available to them. Additionally, the Double Diamond case makes it clear that the Commission practice is not to adopt rates lower than the prior rates in cases where the evidentiary record has significant gaps. The corollary to this preference, however, is that evidentiary gaps make it just as difficult to set rates any higher than the prior rates.

Additionally, as Bee Cave explained in its Closing Argument and further explained in its Reply, failure to use a historic test year as a basis for setting rates is reason enough to reject LCRA's rate increases in their entirety. The ALJ's analysis clearly reaches the same conclusion regarding use of a far future test year on a factual basis; however, the legal basis for rejecting such a concept is available as well. As Bee Cave explained in its Closing Argument and Reply:

- LCRA has the burden of proof in this case.[15]
- LCRA's rates must be just and reasonable.[16]
- Rates must be based on a cost of service. [17]
- A cost of service must be based on a test period. [18]
- The Texas Legislature expressly defined "test year" for ret\ail public utilities such as LCRA as a historic 12 month period. [19]

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[15] 30 TAC §291.12.
[16] Tex. Water Code §13.043(j).
[17] LCRA recognizes this in its Closing Argument, p. 5. Moreover, the proposal for decision expressly notes that it is axiomatic that rates must reflect costs. PFD at 19.
[18] *Suburban Util Corp v. PUC*, 652 S.W.2d 358, 362(Tex. 1983). If it is axiomatic that rates must reflect cost, it is also axiomatic that costs must be determined over an appropriate time period.

- The Texas legislature has twice considered and rejected the use of a projected test year and instead chosen to continue to define test year as a historic test year.[20]
- All words in a statute should be interpreted to have meaning.[21]
- Texas Courts have utilized a definition alone in a statute as source of a requirement.[22]

While a formal rate study may not necessarily have been required for North San Saba Water Supply Corporation as the ALJ noted,[23] this conclusion does not mean that retail public utilities get a free pass on using a historical test year as a basis for setting rates.[24] Regardless of how informal its analysis is, a retail public must base its rates on a historic test year as required by statute. To do otherwise would invalidate a portion of the Water Code and allow utilities to set untestable rates with no reliable basis in historical data. Given that the Water Code prevents the Commission from considering information after the date of adoption of the new rates, if revenue requirements and rates are not set on the basis of historical data, appellants would have no means to check the reliability of the revenue requirements and resulting rates. Clearly, the legislature could not have intended this result, which would have made an appeal of such rates meaningless.

LCRA, after a warning by its own consultant as to the problems with its selection of a FY10 forecast to set rates,[25] chose to put all of its eggs in one basket by defending its use of

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[19] Texas Water Code §13.002(21). See also Attachment C from Bee Cave's Closing Brief.

[20] Jack Hopper, *A Legislative History of the Texas Public Utility Regulatory Act of 1975*, 28 Baylor L. Rev. 777, 792 (1976), excerpt attached as Attachment B to Bee Cave's Closing Argument.

[21] *State v. Shumake*, 199 S.W.3d 279, 287 citing *Continental Cas. Ins. Co. v. Functional Restoration Assoc.*, 19 S.W.3d 393, 402 (Tex.2000) (emphasis added). The proposal for decision concludes that the legislature knowingly added the term "retail public utility" to the definition of test year (PFD at 14.) but did not thereafter expressly require a retail public utility to use a historic test year in setting its rates. This interpretation would render the legislature's knowing decision to define test year for retail public utilities to be a meaningless act, contrary to basic rules of statutory construction.

[22] *Chevron Corp. v. Redmon*, 745 S.W. 2nd 314, 316 (Tex. 1987).

[23] PFD, pp. 17-18.

[24] Regardless of Bee Cave's legal position as it relates to LCRA, the ALJ's statements in Conclusions of Law 9 and 10 are too broad. The term "retail public utility" by definition includes "utilities" (investor-owned utilities). Conclusions of Law 9 and 10 appear to hold that even investor-owned utilities are free to use future budgets to set rates. Bee Cave assumes that this is not the ALJ's intended result and suggests that if the ALJ keeps these conclusions that he modify them to clarify that they are limited to retail public utilities that are not also public utilities.

[25] "If the authority were to be confronted with a water or sewer rate challenge, it would be required by the TCEQ to present a cost of service study based on a 'test year' or a historical year for which actual utility costs are known and

FY10 to the point of calling actual FY07 general ledger irrelevant.[26] LCRA, therefore, failed in its burden of proof. LRCA, a very sophisticated entity, has spent close to a million dollars in legal fees defending this unsupportable rate-setting approach. Rewarding such an approach by adopting new higher rates is not supported by the evidentiary record. LCRA will not be economically harmed by failing to achieve a rate increase. For FY07, LCRA had budgeted $68.3 million in surplus revenues.[27] That type of excess will more than cover any shortfall in LCRA's WTC Water revenues, if such a shortfall even really exists, in addition to funding LCRA's rate case expenses from this appeal.

In choosing to put all of its eggs in the FY10 basket, LCRA failed to put in the record many pieces of data needed to establish appropriate rates. This information includes:

A. Actual retail and wholesale water consumption, by customer class and meter size by month for FY07. This data is necessary to:
    1. Derive peaking factors for retail and wholesale customers to be utilized to allocate extra capacity costs, and
    2. Allocate base costs of service between retail and wholesale customers and between customer classes.
B. Actual retail and wholesale water customer count, by customer class and meter size by month for FY07. This data is necessary to:
    1. Allocate customer costs of service between retail and wholesale customers and between customer classes, and
    2. Design base rate/minimum bill for retail and wholesale customers.
C. Actual consumption data, for retail and wholesale customers by customer class, by rate tier, by month for FY07. This data is necessary to design tiered rates for each customer class.
D. Actual retail and wholesale plant in service cost data. This data is necessary to allocate debt service and times coverage costs between retail and wholesale customers.

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are supported by audited cost figures." *West Travis County Water and Wastewater Costs of Service and Rate Study, Rimrock Consulting (2006)* Exhibit SZ-7 at p.3.

[26] LCRA's Objections to Protestants' Direct Testimony, p.8

[27] Exhibit SK-2, p.12.

E. Actual water produced at the plant, including average day and maximum day production data, by month for FY2007. This data is necessary to:
    1. Identify and allocate costs of lost and unaccounted for water between retail and wholesale customers, and
    2. Functionalize costs between base costs of service and extra capacity costs of service.

In light of LCRA's burden of proof and this lack of information, Bee Cave strongly recommends fixing at the levels of the prior rates. In the alternative, if the Commission feels compelled to set new higher rates in this case, a possible option would be to increase all prior WTC Water rates equally using an 8.02% increase. This does not result in rates developed through standard rate-making procedures, but it would allow for some sort of rates to be set. The following assumptions must be made in order to accept rates fixed through this approach:

1. The rates that were in effect prior to August 22, 2007 were allocated between retail and wholesale customers and between customer classes in an identical manner to the way they would be allocated using FY07 actual data and that the costs in those rates were allocated among customers in a just and reasonable manner.
2. Increases in costs of 8.02% are evenly dispersed between base costs of service, extra capacity costs of service, and customer costs of service; thereby resulting in increased cost allocations between retail and wholesale customers and customer classes being evenly dispersed.
3. Increases in capital costs are dispersed between retail and wholesale customers consistent with prior years.
4. Customer demands and peaking patterns in FY07 were identical in nature to those patterns utilized to determine the previous rates.

With these assumptions in mind, Bee Cave presents possible resulting rates in Schedule 3, attached hereto. These rates obviously do not have the accuracy of rates established using all actual FY07 data, but they would allow the possibility of fixing new rates based on assumed and estimated information. Because the ALJ requested that "parties should, to the extent they are able, set out the dollar relationship between [the ALJ's] recommendations, the rates before

August 22, 2007, and the interim rates currently in effect,"[28] Bee Cave provides the attached Schedule 4. This schedule provides an analysis of the impacts of the stages of LCRA's rate increases, as compared to the prior stage and the prior rates. Stage 2 represents the current interim rates in effect pending the final outcome of this case.

Notwithstanding the foregoing, due to LCRA's failure to meet its burden of proof in this case, Bee Cave strongly recommends fixing rates at the levels of prior rate in effect.

V. CONCLUSION

Based on Bee Cave's calculations using the limited data available to it and assumptions outlined above, Bee Cave has determined the resulting adjusted expenses of $9.09 million for FY07 are only about 8 percent above the revenues collected by LCRA under the prior rates ($8.4 million). The ALJ has determined that LCRA should have used actual data for FY07 in order to set its rates; however, the record is devoid of many data points needed to derive rates based on this fiscal year. The burden of proof in this case belongs to LCRA, and LCRA failed to meet that burden. WTC Water rates should, therefore, be fixed at the level in effect prior to Aug 22, 2007, and refunds should be ordered. If, however, the commission wishes to fix higher rates despite LCRA's failure to meet its burden of proof, Bee Cave recommends employing the analysis described above.

[28] PFD, p. 67.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on this the 28th day of February, 2011, a true and correct copy of the foregoing document was served by facsimile or email with a follow-up by U.S. Mail:

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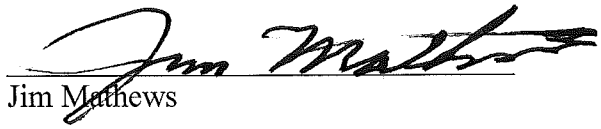

Jim Mathews

Schedule 1 - Adjusted Cost Center Expenditures - WTC Water

	FY07 Actual per SK-4	Adjustments Required by PFD	Resulting Adjusted FY07 Expenditures	Description and Explanation of Adjustment
O&M Expenses				
Labor - Operations	$ 342,552			
Labor - Engneering/Planning/Safety	82,689			
Labor - Customer Service/Regional Mgt.	23			
Labor - Professional	51,303			
Labor - Supervision	-			
Labor - Other	5,828			
Sub-total - Direct Labor	$ 482,395	$ (19,726)	$ 462,669	Adjusted based on Findings of Fact 91-93. Results of BC-24. Adjustments to FICA benefits and FICA are not made per the PFD.
Materials and Supplies	$ 210,879		$ 210,879	
Chemicals	121,497		121,497	
Transportation	5,737		5,737	
Outside Services	73,692	(31,005)	42,687	Adjusted based on Findings of Fact 91-93: BC-25 Rate and Financial Analysis - Other Expenditures, Per BC-32 Real Estate Acquisition, and Legislative Advocacy
Outside Legal Services	-		-	
Sludge Disposal	-		-	
Property Acquisition/Leases/Rentals	22,607		22,607	
Computer Hardware and Software	-		-	
Employee Training Expense	-		-	
Employee Business Expense	667		667	
Property Insurance	-		-	
Other Insurance/Benefits	-		-	
Utilities - Water, Sewer, Natural Gas	-		-	
Utilities - Electric	765,293		765,293	
Utilities - Telephone	11,594		11,594	
Employee Recruiting	-		-	
Raw Water - Use Fee	-	525,093	525,093	Added Raw Water Expense from General Ledger per BC-53. This item was not included in SK-4, although it is an actual cost.
Raw Water - Reservation Fee	228,459		228,459	
Treated Water Purchases	-		-	
Capacity Charge	-		-	
Environmental Regulatory Fees	3,208		3,208	
Internal LCRA Service Charges	7,321		7,321	
Internal Water Services/Corp Support Charges	-		-	
Other Expenses	21,080	(16,460)	4,620	Adjusted based on Finding of Fact No. 91: BC-35b "Develop the Water/Wastewater B" - Other Interest
Sub-total - Direct O&M	$ 1,954,429	$ 457,902	$ 2,412,331	
Allocated Operating Center	$ 162,123	(1,518)	$ 160,605	Per Schedule 2
Allocated Regional	146,148	(33,266)	112,882	Per Schedule 2
Allocated Customer Service	362,951	(73,868)	289,083	Per Schedule 2
Allocated Water & Wastewater Common	1,460,736	(798,777)	661,959	Per Schedule 2
Allocated Water Services Overhead	1,122,659	(804,532)	318,127	Per Schedule 2
Allocated Water Services New Business Development	184,206	(41,718)	142,488	Per Schedule 2
Allocated Net Residual Corporate	508,065	(1,408,755)	(900,690)	Per Schedule 2
Subtotal - Shared and Indirect O&M	$ 3,946,888		$ 784,454	
Total O&M Expense	$ 5,901,317		$ 3,196,786	
Debt Service	$ 4,549,074		$ 4,549,074	
Operations Reserve	$ 179,997	$ (179,997)	$ -	Removed per Finding of Fact No. 109.
Times Coverage @ 1.25	$ 1,137,269		$ 1,137,269	
Community Development	$ 298,333	(91,517)	$ 206,816	Recalculated based on calculation described in Finding of Fact No. 119.
Total Expense	**$ 12,065,990**		**$ 9,089,944**	
Non-Rate Revenues			1,989,264	Utilized for the calculation of community development as described in Finding of Fact No. 119. Obtained from Revised Exhibit BC-67.
Total Actual Revenues (Excluding Impact Fees)			**$ 8,414,847**	Per SK-4
Deviation Between Actual Revenues Received and Total Expense			**$ (675,097)**	Calculated as difference between total expense and actual revenues received per SK-4.
Percent Variance			**-8.02%**	

Schedule 2 - Adjusted Cost Center Expenditures

	WTC Water (6)	WTC Operating Center	WTC Region	Retail	WWUS	New Business Development	Water Services Business Unit	Corporate Services Business Unit Residual Allocated to Corporate Costs (Per JS-9)	Corporate Services Business Unit Residual Allocated Corporate CIP Credit (1)	Total Adjustments Required by PFD
Total FY2007 Cost Per General Ledger	$ 6,426,410	$ 242,588	$ 171,910	$ 873,537	$ 3,468,143	$ 390,363	$ 5,408,124	$ 33,336,941	$ (1,028,993)	
Adjustments Per Findings of Fact 91-93										
Per BC-24 Rate and Financial Analysis Salaries and Benefits	(19,726)		(1,378)	-	-	(1,307)	(92,021)			(114,432)
Per BC-25 Rate and Financial Analysis - Other Expenditures	(18,536)		(28)	-	-	-	(385)			(18,948)
Per BC-51 Legal Services - Salaries	-		-	-	-	-	(15,294)			(15,294)
Per BC-26 Legal Services - Other Expenses (7)	-		-	-	(7,862)	-	(12,100)			(19,962)
Per BC-27 Damages From O&M Injuries	-		-	-	(51,958)	-	(10,867)			(62,825)
Per BC-28 Employee Service awards and Deferred Compensation	-		-	(3,032)	(135,105)	-	(148,486)			(286,624)
Per BC-29 Equipment and Software	-		-	(115,841)	(13,655)	-	(65,748)			(195,244)
Per BC-30 First Night Austin/Texas Parks & Wildlife Department	-		-	-	-	-	(22,500)			(22,500)
Per BC-31 "Practicing Perfection"	-		-	-	(34,550)	-	-			(34,550)
Per BC-32 Real Estate Acquisition	(2,400)		-	-	(254)	-	-			(2,654)
Per BC-51 Strategic Planning -- Salaries	-		-	-	-	-	(357,900)			(357,900)
Per BC-33 Strategic Planning -- Other Expenses	-		-	-	-	-	(12,703)			(12,703)
Per BC-34 Executive Oversight - Other Interest	-		-	-	-	-	(10,896)			(10,896)
Per BC-35 Miscellaneous	-		-	(18,389)	(22,421)	-	-			(40,810)
Per BC-35b "Develop the Water/Wastewater B" - Other Interest	(16,460)		-	-	-	-	-			(16,460)
Legislative Advocy	(10,069)									(10,069)
Remove Allocated Cost Centers For Re-Allocation	(3,946,887)	-	-	-	-	-				
Subtotal Adjustments	$ (4,014,078)	$ -	$ (1,406)	$ (137,262)	$ (265,804)	$ (1,307)	$ (748,900)	$ -	$ -	
Adjusted Total Cost	$ 2,412,332	$ 242,588	$ 170,504	$ 736,274	$ 3,202,339	$ 389,056	$ 4,659,223	$ 33,336,941	$ (1,028,993)	
Allocation Factor to Allocate to WSBU (2)	n/a	n/a	n/a	n/a	n/a	100%	100%	13%	n/a	
Allocation to WSBU	n/a	n/a	n/a	n/a	n/a	$ 389,056	$ 4,659,223	$ 4,386,367	n/a	
Allocation Factor to Allocate to WWUS (3)	n/a	n/a	n/a	n/a	100%	81%	33%	14%	n/a	
Allocation to WWUS	n/a	n/a	n/a	n/a	$ 3,202,339	$ 314,240	$ 1,538,994	$ 620,686	n/a	
Allocation Factor to Allocate to WTC Region (4)	n/a	100%	100%	n/a	n/a	68%	n/a	n/a	n/a	
Allocation to WTC Region	n/a	$ 242,588	$ 170,504	n/a	n/a	$ 215,223	n/a	n/a	n/a	
Allocation Factor to Allocate to WTC Water (5)	100%	66%	66%	39%	21%	66%	21%	21%	100%	
Allocation to WTC Water	$ 2,412,332	$ 160,605	$ 112,882	$ 289,083	$ 661,959	$ 142,488	$ 318,127	$ 128,303	$ (1,028,993)	

Notes:

(1) CIP credit was obtained from the General Ledger as illustrated in Exhibit BC-53

(2) CSBU allocation to WSBU was determined by applying budgeted allocation ratio to actual cost data

(3) WSBU allocation to WWUS was determined by applying budgeted allocation ratio to actual cost data

(4) New Business Development costs allocated from WWUS to WTC Region based on percentage of households within the WTC Region, obtained from Exhibit BC-8

(5) WTC Water allocation factors obtained from Exhibit BC-60

(6) Highlighted totals in this column represent combined direct/indirect/shared costs for WTC Water taken directly from the General Ledger. They are: $6.4M for total costs (incl. raw water), $3.9M removed, and $4.0M subtotal adjustments

(7) Total Legal Services adjustments differed from the amount citied by the ALJ due to an addition error on BC-26.

Schedule 3 - Revised Rates Based on Required Adjustments per PFD

Water	Rates Prior to August 22, 2007	Adjusted Rates	Percent Increase
Minimum Bill	$ 27.50	$ 29.71	8%
Volumetric Rate			
0-10,000 Gallons	$ 2.80	$ 3.02	8%
10,001-20,000 Gallons	$ 3.50	$ 3.78	8%
20,001-25,000 Gallons	$ 3.50	$ 3.78	8%
25,001-50,000 Gallons	$ 5.75	$ 6.21	8%
Above 50,001 Gallons	$ 6.50	$ 7.02	8%
Sample Bills			
5,000 Gallons Usage	$ 41.50	$ 44.83	8%
10,000 Gallons Usage	$ 55.50	$ 59.95	8%
25,000 Gallons Usage	$ 108.00	$ 116.66	8%
50,000 Gallons	$ 251.75	$ 271.95	8%
100,000 Gallons	$ 576.75	$ 623.02	8%

Schedule 4 - Rate Increase Analysis

Phase 1 Increase

Water	Rates Prior to August 22, 2007	Effective October 1, 2007	Percent Increase
Minimum Bill	$ 27.50	$ 30.00	9%
Volumetric Rate			
0-10,000 Gallons	$ 2.80	$ 3.30	18%
10,001-20,000 Gallons	$ 3.50	$ 4.10	17%
20,001-25,000 Gallons	$ 3.50	$ 4.60	31%
25,001-50,000 Gallons	$ 5.75	$ 6.70	17%
Above 50,001 Gallons	$ 6.50	$ 8.50	31%
Sample Bills			
5,000 Gallons Usage	$ 41.50	$ 46.50	12%
10,000 Gallons Usage	$ 55.50	$ 63.00	14%
25,000 Gallons Usage	$ 108.00	$ 127.00	18%
50,000 Gallons	$ 251.75	$ 294.50	17%
100,000 Gallons	$ 576.75	$ 719.50	25%

Phase 2 Increase

Water	Effective October 1, 2007	Effective October 1, 2008	Phase 2 Percent Increase Compared to Phase 1	Phase 2 Percent Increase Compared to Rates Prior to August 22, 2007
Minimum Bill	$ 30.00	$ 31.65	6%	15%
Volumetric Rate				
0-10,000 Gallons	$ 3.30	$ 3.80	15%	36%
10,001-20,000 Gallons	$ 4.10	$ 5.00	22%	43%
20,001-25,000 Gallons	$ 4.60	$ 6.00	30%	71%
25,001-50,000 Gallons	$ 6.70	$ 8.10	21%	41%
Above 50,001 Gallons	$ 8.50	$ 10.20	20%	57%
Sample Bills				
5,000 Gallons Usage	$ 46.50	$ 50.65	9%	22%
10,000 Gallons Usage	$ 63.00	$ 69.65	11%	25%
25,000 Gallons Usage	$ 127.00	$ 149.65	18%	39%
50,000 Gallons	$ 294.50	$ 352.15	20%	40%
100,000 Gallons	$ 719.50	$ 862.15	20%	49%

Phase 3 Increase

Water	Effective October 1, 2008	Effective October 1, 2009	Phase 3 Percent Increase Compared to Phase 2	Phase 3 Percent Increase Compared to Rates Prior to August 22, 2007
Minimum Bill	$ 31.65	$ 31.65	0%	15%
Volumetric Rate				
0-10,000 Gallons	$ 3.80	$ 5.10	34%	82%
10,001-20,000 Gallons	$ 5.00	$ 6.30	26%	80%
20,001-25,000 Gallons	$ 6.00	$ 8.60	43%	146%
25,001-50,000 Gallons	$ 8.10	$ 10.30	27%	79%
Above 50,001 Gallons	$ 10.20	$ 13.00	27%	100%
Sample Bills				
5,000 Gallons Usage	$ 50.65	$ 57.15	13%	38%
10,000 Gallons Usage	$ 69.65	$ 82.65	19%	49%
25,000 Gallons Usage	$ 149.65	$ 188.65	26%	75%
50,000 Gallons	$ 352.15	$ 446.15	27%	77%
100,000 Gallons	$ 862.15	$ 1,096.15	27%	90%

Cumulative Total Increase

Water	Rates Prior to August 22, 2007	Effective October 1, 2009	Percent Increase
Minimum Bill	$ 27.50	$ 31.65	15%
Volumetric Rate			
0-10,000 Gallons	$ 2.80	$ 5.10	82%
10,001-20,000 Gallons	$ 3.50	$ 6.30	80%
20,001-25,000 Gallons	$ 3.50	$ 8.60	146%
25,001-50,000 Gallons	$ 5.75	$ 10.30	79%
Above 50,001 Gallons	$ 6.50	$ 13.00	100%
Sample Bills			
5,000 Gallons Usage	$ 41.50	$ 57.15	38%
10,000 Gallons Usage	$ 55.50	$ 82.65	49%
25,000 Gallons Usage	$ 108.00	$ 188.65	75%
50,000 Gallons	$ 251.75	$ 446.15	77%
100,000 Gallons	$ 576.75	$ 1,096.15	90%