

February 11, 2015

Ms. Jennifer McKnight  
District Manager  
Trophy Club Municipal Utility District  
100 Municipal Drive  
Trophy Club, TX 76262

**Subject: TCMUD Winter Averaging Wastewater Billing**

Dear Ms. McKnight:

Based on the recent conversations I've had with you and members of the Trophy Club MUD Board, it is my understanding that there has been citizen concern over how the District currently bills for wastewater service. Historically, the District has determined billed sewer volumes based on actual water usage up to a certain cap for Residential accounts, with no cap on Commercial accounts. Prior to the Rate Study completed by our firm, this cap was 12,000 gallons. As part of the Rate Study, we presented and the Board approved an option adjusting this Residential cap to 18,000 gallons.

The method currently used by the District to determine billed wastewater volumes is one method recognized within the industry and is the primary method utilized to bill sewer service by other District's within the State of Texas. In utilizing this methodology, the District's expressed primary rate goal is to continue to achieve water conservation pricing through both water and wastewater rates. Another billing method recognized within the industry is to bill wastewater based on an average of water use during the winter months, otherwise referred to as winter average billing. This method is not considered a water conservation pricing method and was not therefore considered. Concerned citizens have advocated that the District Board change from its current method of billing so as to utilize the winter average billing method.

Both methods of billing carry their own strengths and weaknesses and can be utilized to achieve desired pricing goals and objectives of the District. However, as I have discussed with you, should the Board desire to employ winter average billing, I would caution an immediate and abrupt change to this method. Such a change should only be accomplished over time with commensurate adjustments to the unit rates charged to customers.

Regardless of the billing method chosen, the District must receive sufficient revenues to cover its costs. When comparing the two billing methods, the overall volumes billed under the current method are greater than the volumes that would be billed when utilizing winter average billing. The overall revenue needed from customers does not change under winter averaging, but the District will experience a potentially substantial reduction in volumes from changing to this method. To compensate, the unit rate charged to customers must be increased in order to still recover the same level of revenue over a reduced amount of volumes.

As an example, the Table below assumes a utility requires \$1,000,000 in revenues from customers. If the utility were to switch from billing based on water use to winter average billing, the anticipated billed volumes would decrease approximately 20%. Because of this reduction in volumes, the unit rates charged to customers would need to increase by 25% to generate the same level of revenue over the reduced

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volumes billed. Please note that this is presented for example purposes only. The actual impact to the District's effective sewer rate may be greater or less than the values presented below.

	<u>Current Method</u>	<u>Winter Average</u>	<u>% Change</u>
Needed Revenues	\$1,000,000	\$1,000,000	0.00%
Billed Volumes (kgal)	500,000	400,000	(20.00%)
Effective Rate Charged for Service	\$ 2.00	\$ 2.50	25.00%

To accomplish a billing change as proposed, the District would need to likely adjust both its minimum or base charge for service as well as the volumetric charge. The customer impact of this change is that those who use more water would ultimately see reductions in their overall sewer bill while those that use less water would see an increase in their sewer bill. Depending on the differential in volumes under the two methods, this change in monthly charges could be significant. Further, given that lower volume users often represent customers living on fixed incomes, the change in monthly bills could result in significant "rate shock" to customers who could least absorb this impact.

The billing method used by the District should ultimately reflect the policy goals and objectives as outlined by the District's Board Members. Should the District desire to examine winter average billing further, we are more than happy to assist in the process. However, as previously stated, it is my professional opinion that any change should be performed gradually over time by lowering the Residential cap on billed sewer volumes and making commensurate increases to the unit rates charged to customers so as to ensure sufficient revenue is received by the District.

I appreciate the opportunity to discuss this issue with you and stand ready to answer any questions or concerns you, your Staff, and/or the District Board members have regarding this letter.

Very Truly Yours,

**NewGen Strategies & Solutions**



Chris Ekrut

Director, Environmental Practice