

**CITIZENS' WATER ADVISORY COMMITTEE  
(CWAC)  
Finance Subcommittee**



Thursday, September 16, 2021, 2:00 p.m.

Virtual Meeting via MS Teams

## **Legal Action Report and Meeting Minutes**

### **1. Roll Call**

The meeting was called to order by Finance Subcommittee Chair Steven Washburn at 10:02 a.m. Those present and absent were:

#### **Members Present:**

Steven Washburn, Chair	Representative, City Manager
Mark Taylor	Representative, City Manager
Rory Juneman	Representative, City Manager

#### **Members Absent:**

Mark Stratton	Representative, City Manager
George White	Representative, Ward 4

### **2. Announcements** – (taken out of order) None

### **3. Review of July 28, 2021, Legal Action Report and Meeting Minutes** – Member Juneman moved to approve the minutes; Member Taylor seconded the motion. Discussion: None. The motion was approved on a voice vote of 3-0.

### **4. Cost of Service Preliminary Finding** – Chair Washburn opened the discussion. Prior to the presentation members debated the policy decisions, and the analysis for determining revenue requirements. Deb Galardi and Harold Smith, Rate Consultants for the City of Tucson provided information relating to Outside City Differential Analysis. Those items reviewed and discussed were:

- a. Background
  - i. Tucson City Council approved assessing differential rates to customers located in unincorporated Pima County (Outside City Customers).
  - ii. Approved Differentials:
  - iii. Policy decision that Outside City Customers are to be treated as “non-owners” for rate setting purposes.
  - iv. GRG/Raftelis performed Phase 1 Outside City Differential Analysis.
- b. Phase 1 Outside Differential Analysis
  - i. Revenue requirements for entire Tucson Water system determined using the Utility Approach.
  - ii. Revenue requirements allocated between Outside City Customers and the rest of Tucson Water’s customers based on demand.

## Citizens' Water Advisory Committee (CWAC) Finance Subcommittee

### Legal Action Report and Minutes

September 16, 2021

- iii. Range of differentials determined by comparing allocated revenue requirements to revenue under existing rates.
- c. PHASE 2 OVERVIEW
  - i. Utility Basis with Differential Rates of Return Approach
    - 1. Hybrid approach included in M-1 Manual.
    - 2. Uses a differential rate of return to recognize utility ownership status.
  - ii. System-wide revenue requirements determined using the Cash-Needs Approach:
  - iii. Cash-Needs revenue requirements recast as Utility Approach revenue requirements:
- d. Cash Revenue Requirements
  - i. Cash-needs
  - ii. Utility Basis
- e. Imputed Rate of Return
  - i. Imputed Rate of Return on Rate Base
    - 1. The rate of return on rate base required to generate a return that when combined with O&M Expenses and Depreciation results in Utility Basis revenue requirements equal to the Cash-Needs revenue requirements.
- f. Cost-of-Service Analysis
- g. Cost Allocation Factors
- h. Cost-of-Service Results
- i. Range of Rate of Return Differentials
  - i. Differential Outside / Inside Rates of Return a policy decision
    - 1. Key considerations: Relative cost structures (e.g., utility tax), risks (not confined to potential GO debt remedy), regulatory practice/ legal precedent, etc.
    - 2. Policy decision reflects judgments regarding implications of ownership status
- j. Range of Outside-City Rate Differentials
  - i. Outside City Differential = Outside City Unit Cost/Inside City Unit Cost
    - 1. Unit Cost = (Allocated cost + return on rate base) / usage
  - ii. Results reflect an array of assumptions, policy decisions and outcomes:
    - 1. Cost allocations follows TW past practices informed by extensive stakeholder engagement.
    - 2. Reflect key considerations (e.g., ownership, risk) and AWWA guidance.
    - 3. TW cost-based differential of 5% with no ROR differential
      - a. Peaking factor and distribution system cost differences

Members were provided an opportunity to make inquiries and clarify information throughout the presentation. Members were provided an opportunity to have an open discussion. Chair Washburn intends to write a memorandum on the specific details of the discussion. No action was taken on this item.

#### 5. Call to the Audience – None

#### 6. Future Agenda Items and Meeting Times –

Oct meeting changed to 1-3

#### 7. Adjournment – The meeting was adjourned at 4:02 p.m.