FY15 Rate Study Assumptions

- Used FY15 Adopted CUS expense budget
- Used the FY13 Volume case for revenue updated with the average annual volume decline
- CUS continues to experience declining volume sales:
  - Ever increasing urban density – housing with no outside gardens
  - Passive conservation with low flow plumbing and fixtures, plus low water consumption appliances
  - Customers learned water use lessons during drought
- Used existing debt service + that associated with ~$370M CIP less pay-go of $65M
- Minimum Debt Coverage at 1.3 times
Combined Utility System Current Trends
Customer Sales Volume & Acct. Growth

Total Billed Water Consumption
**Single Family** in 1,000 Gallons

Total Billed Water Consumption
**Multi-Family** in 1,000 Gallons

Total Billed Water Consumption
**Commercial** in 1,000 Gallons

CUS FY05 to FY14 Account Growth
- Single Family: 9.95%
- Multi Family: 6.92%
- Commercial: 5.65%

CUS FY10 to FY14 SF Customer Usage
<table>
<thead>
<tr>
<th>Year</th>
<th>Average (GPM)</th>
<th>Mode (GPM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>6,321</td>
<td>3,000</td>
</tr>
<tr>
<td>2011</td>
<td>6,408</td>
<td>3,000</td>
</tr>
<tr>
<td>2012</td>
<td>6,372</td>
<td>1,000</td>
</tr>
<tr>
<td>2013</td>
<td>5,649</td>
<td>1,000</td>
</tr>
<tr>
<td>2014</td>
<td>5,402</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Public Works & Engineering Department “People Working Everywhere”
CUS Annual Debt Service Projected (in $ Millions) Payments - New Debt Issuance Through 2030

Debt restructured in FY04, causing this inclining debt service.
Rate Study Base Case – Water & WWO Cost of Service (COS)

- Cost of service for Water - Treated & Untreated
  OVERALL WATER COST OF SERVICE 3.3%

- Cost of service for Wastewater Treatment
  OVERALL WASTEWATER COST OF SERVICE 5.5%
FY16 Budget

- Revenues – projected to increase 3% ($30.026 million)

- Most significant expense increases:
  - Debt Service – 3.9% ($16.9 million)
  - Pension –10.5% ($2.7 million)
  - Other equipment services – 29.8% ($4.7 million) – wastewater pump repairs
  - Capital Expenditures – 25% ($4.2) – ageing fleet, vehicles for expanded wastewater work related to EPA.
Combined Rate Study Base Case

- Total based upon the CUS Rate Study Cost of Service rate adjustment is: 4.4%
  - Using the indexes
    - Houston’s Regional 2014 CPI of 2.8%
  PLUS
    - US Census Houston Population YOY increase 1.6% (2012 vs. 2013)

PWE implemented an automatic increase across all water and wastewater customer classes of 4.4% on April 1, 2015
Financial Impact of EPA on FY16 Budget

- Additional Wastewater O&M $38.0 Million
  - WW System Evaluation
  - Enhanced sewer cleaning
  - System and restaurant inspections
  - Additional SSO rapid response Inspectors
  - Public outreach and education

- Goal to reduce SSO’s - addressing 80-90% of cause

- The CUS will use available CUS cash to pay for this increased O&M in FY16 and FY17.
CUS Reserves

- In recent years, CUS has held > 500 days operating cash in reserve.
- Discussions with financial advisors on working with rating agencies – could we reduce necessary reserves without impacting ratings.
- Moody’s issued updated financial rating methodology.
- Moody’s indicated for AAA rating in the reserves category, Utilities’ should maintain minimum cash reserves of 250 days of operating cash.
- Given the CUS’s debt load, and Houston’s risks associated with hurricanes, we are targeting 300 days of operating cash.
- Using FY14 year end balance, the CUS holds $105 million above the 300 days of operating cash.
- Use portion of reserves for EPA expenses to minimize increases.