

**TOWN OF ADDISON, TEXAS**

**RESOLUTION NO. R10-011**

**A RESOLUTION OF THE CITY COUNCIL OF THE TOWN OF ADDISON, TEXAS APPROVING A NEW MEMORANDUM OF AGREEMENT FOR WHOLESALE TREATED WATER BETWEEN THE TOWN AND THE CITY OF DALLAS; AUTHORIZING THE CITY MANAGER TO EXECUTE THE AGREEMENT; PROVIDING AN EFFECTIVE DATE.**

**WHEREAS**, the Town of Addison, Texas (the "City") is one of 23 governmental entities that obtain treated water from the City of Dallas through the Dallas Water Utilities department ("Dallas"); and

**WHEREAS**, wholesale treated water prices are calculated pursuant to a rate-setting methodology established in a 1979 Memorandum of Agreement ("1979 MOA") entered into by Dallas and its wholesale treated water customers to settle a wholesale treated water rate dispute, the 1979 MOA being attached to all of Dallas' wholesale treated water contracts as an exhibit; and

**WHEREAS**, the City has a 30-year water supply contract with Dallas that expires on January 6, 2012, and the 1979 MOA has provided the rate-setting methodology for that contract, but the 1979 MOA expired on December 17, 2009; and

**WHEREAS**, the City and Dallas, together with representatives of other wholesale treated water customers, have negotiated and reached a consensus on a new agreement providing for a rate-setting methodology to replace the 1979 MOA (such new agreement being the "2010 MOA"), a true and correct copy of which is attached hereto as Exhibit A, and approval of the 2010 MOA is in the best interests of the City.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE TOWN OF ADDISON:**

Section 1. The above and foregoing recitals are true and correct and are incorporated herein and made a part hereof.

Section 2. The 2010 MOA, a true and correct copy of which is attached hereto as Exhibit A, is hereby approved. The City Manager is authorized to execute the 2010 MOA on behalf of the City.

Section 3. This Resolution shall take effect upon its passage and approval.

**PASSED AND APPROVED** by the City Council of the Town of Addison, Texas this the 22nd day of June, 2010.

  
\_\_\_\_\_  
Joe Chow, Mayor

ATTEST:

By:   
\_\_\_\_\_  
Lea Dunn, City Secretary

APPROVED TO FORM:

By:   
\_\_\_\_\_  
John Hill, City Attorney

**EXHIBIT A  
TO RESOLUTION NO. \_\_\_\_\_**

*{Attach copy of 2010 MOA}*

**Memorandum of Agreement (MOA)  
for  
Wholesale Treated Water**

Preamble: The 1979 MOA settled a rate dispute lawsuit between Dallas and its Wholesale Treated Water Customers regarding the wholesale treated water rate-setting methodology ("rate-setting methodology"), and as such has served the rate-setting methodology process well over the past 30 years. This amended agreement recognizes that changes to the rate-setting methodology have occurred over this timeframe, and incorporates consensus changes between Dallas and its Wholesale Treated Water Customers, and as such will serve to govern the rate-setting methodology for the next 30 years.

1. Purpose: Dallas is a regional water provider currently providing treated water service to Wholesale Treated Water Customers located within Dallas' established service area in North Central Texas. The purpose of this agreement is to establish the rate-setting methodology and formalize the mutual expectations of Dallas and its Wholesale Treated Water Customers with respect to rate-setting methodology. This rate-setting methodology will provide the basis for determining wholesale treated water rates after its effective date.
2. Applicability: This agreement is subject to all applicable orders, laws and regulations of the City of Dallas, State of Texas and the United States. If any state or federal governmental agency having jurisdiction disapproves any material part of this agreement during the term, the agreement is subject to cancellation by any party and renegotiation by Dallas and its Wholesale Treated Water Customers.
3. Water System Policy: Dallas operates a water system to provide a regulatory compliant, safe and reliable water supply, adequate for the current water use and future growth of Dallas and its Wholesale Treated Water Customers, and to avoid subsidization of any class of customers.
4. Definitions: A glossary which defines applicable cost of service terms is located in Appendix A of this MOA. Cost of service terms may be added, or the definition of an existing term amended, from time to time, without the necessity of amending this MOA. Additions and amendments will be reflected in the appendices attached to the annual cost of service studies.
6. Responsibilities:
  - a. Dallas is responsible for planning, financing, constructing, operating and maintaining the water supply system to the extent permitted by available water revenues, for developing cost of service information to support wholesale rate changes, and for informing Wholesale Treated Water Customers of wholesale rate changes and other pertinent utility information.

- b. Wholesale Treated Water Customers are responsible for keeping Dallas informed concerning their projected water supply needs and operating requirements for planning, managing and maintaining their retail systems to promote water conservation and efficient system operation, and for paying adequate rates to Dallas to cover the costs incurred by Dallas in providing service to them.

6. Rate-Setting Methodology for Wholesale Treated Water:

- a. Revenue requirements are to be determined on a utility basis, at original cost, including construction work in progress.
- b. Dallas is to receive a rate of return on rate base equal to embedded interest rate on water revenue bonds, commercial paper and other debt instruments plus 1.5 percent, which is agreed to be an adequate return to cover its costs and risks and as compensation for ownership and management responsibilities.
- c. All existing and future water supplies and associated facilities are to be included in a common water rate base. Wholesale Treated Water Customers, as a class, shall pay their proportionate share of costs for water supply, including that portion held for future use. For the 2010 cost of service study, wholesale treated water customers shall be allocated a percentage of total reservoir costs based on a 10-year future use percentage calculated using a 24-year linear regression. This percentage shall be increased or decreased in direct proportion to future changes in actual usage in conjunction with the cost of service studies. (Dallas will pay the balance of water supply costs which are not allocated to Wholesale Treated Water Customers under the cost of service allocation.) Allocation of costs other than water supply costs, including but not limited to operations and maintenance costs, shall be based on current use.
- d. Direct reuse of treated wastewater effluent is an Inside Dallas only cost and will be allocated to Inside Dallas customers only. Indirect reuse of treated wastewater effluent for lake augmentation will be included as a cost and as a benefit common-to-all.
- e. There will be a two part wholesale treated water rate (volume and demand), with allocation of costs in rate design so as to encourage conservation and efficient operation of the water systems of Dallas and its Wholesale Treated Water Customers.
- f. At the end of ten years from the Effective Date of the MOA, and each ten years thereafter, the City of Dallas or a majority of the Wholesale Treated Water Customers who are parties to this agreement may request a review of the above rate-setting methodology; and if so, the methodology shall be subject to renegotiation.

7. Wholesale Treated Water Rates: After the effective date of this MOA, Dallas will prepare a cost of service study to support wholesale treated water rates and allocations, and will submit it to the Wholesale Treated Water Customers to review and accept prior to submission to the Dallas City Council. Except as noted herein, the cost of service rate-setting principles will adhere to the 2009 cost of service study, including changes that have been identified and implemented since that date.
8. Effective Date: This MOA is effective as of December 17, 2009.
9. Term: The term of this MOA is thirty (30) years from its effective date, or until December 16, 2039, and for such additional periods as the parties may mutually agree upon.
10. Approved changes: Changes in the rate-setting methodology or other conditions may be made by mutual agreement of all parties at any time.
11. Individual contracts: This MOA is considered a replacement of and supersedes the 1979 MOA and shall automatically be incorporated and become a part of all existing wholesale treated water contracts without any further action or approval on the part of the City or of the Wholesale Treated Water Customers. Rate-setting methodology for individual contracts for wholesale treated water service between Dallas and its Wholesale Treated Water Customers will be consistent with this MOA. Dallas and its Wholesale Treated Water Customers will honor their existing water service contracts until such time as the contracts are amended or superseded by a new contract. Contracts for new Wholesale Treated Water Customers will be consistent with this MOA.
12. Recognition of MOA Participants: The MOA renegotiation process took place over many months during 2009 and 2010 and involved a number of meetings to discuss possible changes, revisions, and alternatives to the existing MOA. To that end, the City of Dallas would like to thank the individuals listed below for their outstanding input and contributions in the MOA update and renegotiation process, without whose help this revised document would not have been possible. Participants are listed in attached Appendix B.
13. Authorization to Act: By their signatures below, the representatives of Dallas and the Wholesale Treated Water Customers state that they are authorized to enter into this MOA. Dallas and the Wholesale Treated Water Customers will each provide documentation that this MOA has been authorized by its respective governing body.
14. Counterparts: This MOA may be executed in any number of counterparts, each of which shall be deemed an original and constitute one and the same instrument.

EXECUTED as of the 1<sup>st</sup> day of June, 2010, on behalf of Dallas by its City Manager, duly authorized by Resolution No. 10-1231, adopted on the 12<sup>th</sup> day of May, 2010 and approved as to form by its City Attorney.

APPROVED AS TO FORM:  
THOMAS P. PERKINS, JR.  
City Attorney

CITY OF DALLAS  
MARY K. SUHM  
City Manager

BY [Signature]  
Assistant City Attorney  
Submitted to City Attorney

BY [Signature]  
Assistant City Manager

EXECUTED as of the 22nd day of JUNE, 2010, on behalf of the Town of Addison by its City Manager, duly authorized by Resolution No. R10-011, adopted on the 22nd day of June, 2010, and approved as to form by its City Attorney.

TOWN OF ADDISON

By: Ron Whitehead  
Ron Whitehead, City Manager

ATTEST:

APPROVED AS TO FORM:

By: Lee Dunn  
Lee Dunn, City Secretary

By: John Hill  
John Hill, City Attorney



## APPENDIX A GLOSSARY OF TERMS

**Allocation** - The apportioning of the common-to-all cost of service.

**Common-To-All** - Facilities, and their associated cost, that are dedicated to providing treated water service to both Dallas and Wholesale Treated Water Customers.

**Construction Work in Progress (CWIP)** - The utility's investment in facilities under construction but not yet dedicated to service.

**Demand Costs** - Costs associated with providing facilities to meet peak rates of use, or demand, placed on the system by the customers.

**Depreciation** - The wearing out or loss in service value of property used in utility operations.

**Depreciation Rate** - The rate of loss in service value, based on the expected service life of property.

**Depreciation Reserve** - The accumulated amount of the loss in service value of property.

**Direct Reuse** - The use of treated wastewater effluent from Dallas' wastewater treatment plants for non-drinking water purposes within the boundaries of the City of Dallas.

**Embedded Interest Rate** - Annual interest expense expressed as a percentage of average debt.

**Indirect Reuse** - The use of treated wastewater effluent from Dallas' wastewater treatment plants for raw water supply augmentation purposes.

**Inside Dallas** - The group of retail treated water service customers, comprised of residential, commercial and industrial customers served by Dallas Water Utilities.

**Interest Expense** - Payment made for the use of borrowed funds.

**Materials & Supplies** - Assets in inventory which are required to meet current obligations and service responsibilities of the utility.

**Maximum Day Demand** - The maximum demand placed on the system over a 24-hour period.

**Maximum Hour Demand** - The maximum demand placed on the system over a 60-minute period on the system's maximum day.

**MGD** - Million gallons per day flow rate.

**Operating Expenses** - Operation and maintenance charges incurred in operating a utility.

**APPENDIX A  
GLOSSARY OF TERMS  
(PAGE 2 OF 2)**

**Original Cost** - The amount of investment in facilities when first put into service.

**Rate Base** - Total investment dedicated to providing utility service.

**Rate of Return** - The percentage of return authorized to be earned on an investment (e.g. a rate base).

**Reservoir Capacity** - The amount of water available from a reservoir.

**Reservoir Costs** - Costs incurred in acquiring and maintaining an untreated water supply system.

**ROFC** - Rate of flow controller. A device limiting instantaneous flow rate to a specific amount. Instantaneous flow rate for rate setting purposes is a per day setting.

**Standby Service** - Connection to wholesale treated water customer which is not normally used, excluding bypass lines which are required by Dallas Water Utilities as a part of an active metering facility.

**Test Period (or Test Year)** - Selected to be representative of the period of time over which the new rates are expected to be in effect.

**Treated Water** - Raw water that has passed the purification process.

**Unaccounted for Water** - Water produced but not billed to customers that result from metering inaccuracies, system leakage, and miscellaneous unmetered uses.

**Volume Costs** - Costs that tend to vary directly with the amount of water produced and sold.

**Water Supplies and Associated Facilities** - Dallas' water supply system, including, but not limited to, all reservoirs, indirect reuse water, and all system infrastructure.

**Wholesale Cost of Service** - The sum total of: (1) operating expense, (2) depreciation expense, and (3) return on investment. Depreciation expense and rate of return are on the original cost of investment less accumulated depreciation, capitalized interest and contributed capital.

**Wholesale Treated Water Customers** - The group of water customers of the City of Dallas which currently have a wholesale treated water contract with Dallas.

**Working Capital** - Assets (funds) which are required to meet current obligations and service responsibilities of the utility.

## APPENDIX B

### MOA WORKING GROUP

<b>Addison:</b>	Randy Moravec Lauren Clark
<b>Carrollton:</b>	Bob Scott Lori Iwanicki David Gaines
<b>Cedar Hill:</b>	Ruth Antebi-Gulen
<b>The Colony:</b>	Tod Maurina
<b>Coppell:</b>	Chad Beach Kim Tichen
<b>Dallas Fort Worth Airport:</b>	Jerry Dennis
<b>Dallas County W.C.&amp;I.D. #6:</b>	Robert Rodriguez Red Taylor William Freeman
<b>Denton:</b>	Tim Fisher
<b>DeSoto:</b>	Isom Cameron Tom Johnson
<b>Duncanville:</b>	Frank Trando Richard Summorlin Dennis Schwartz
<b>Farmers Branch:</b>	Charles Cox Mark Pavageaux
<b>Flower Mound:</b>	Chuck Springer Kenneth Parr
<b>Glenn Heights:</b>	Judy Bell
<b>Grand Prairie:</b>	Ron McCuller Doug Cury
<b>Grapevine:</b>	Ramana Chinnakotla Kent Conkle
<b>Irving:</b>	Aimee Kaslik David Cardenas
<b>Lewisville:</b>	Carole Bassinger

**Red Oak:**

Charles Brewer

**Richardson:**

Kent Pfeil  
Keith Dagen

**University Park:**

Kent Austin

**Upper Trinity Regional Water District:**

Tom Taylor  
Larry Patterson

**Dallas:**

Jo M. (Jody) Puckett  
Bobby Praytor  
Charles Stringer  
Terry Lowery  
Denis Qualfs  
Jacqueline Culton  
Tonia Barrix  
Melissa Paschall-Thompson  
Erica Robinson  
Maria Salazar