

EVALUATION of IMMEDIATE IMPACT PROJECTS for 2005 OPERATING EXPENSE REDUCTION and REVENUE ENHANCEMENT

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ABSTRACT

As a regulated utility, Aqua Texas's approved tariff rates, set by the Texas Commission of Environmental Quality, determine their maximum prices for products and services. The Commission also designates their particular area of service which sets the customer base and limits their ability to increase gross revenue. . Increasing net profits require a reduction in capital and/or operating costs or enhancing existing revenue streams. This project identifies and evaluates three items which can be implemented within a short time frame to have an immediate impact on Aqua Texas's 2005 budget. The three items examined were:

- 1) Quantify and located unaccountable losses in their water distribution systems,
- 2) Examine meter reading procedures for technological improvements, and
- 3) Develop energy purchasing plan to reduce price risk from market volatility.

Unaccountable losses are volumes of water placed into a distribution system and not redelivered as a quantity billed to a customer. This is a simple material balance of the accountable water into a system exceeding the accountable water withdrawn. Statewide, Aqua Texas is projected to have approximately 1 billion gallons of unaccountable (36% of the water reported available for sale). Based on the current sales rates this represents \$1.5 million in potential revenue. The "problem" systems were identified and prioritized based on the magnitude of the quantity involved.

The previous owner of Aqua Texas was part of a joint venture with a metering equipment company. Through that venture new radio transmission equipped meters were installed with the capability of reading meters remotely. The current inventory of equipment is adequate, however new technological improvements have been developed through dual-mode ERT's which allow to multiple types of data transmission. A competitive analysis review indicates Datamatic FIREFLY® AMR to provide additional services not currently available with Aqua Texas's equipment.

Texas has deregulated most electricity sales to industrial users allowing market dynamics to set prices. By understanding market dynamics and identifying viable alternatives there are opportunities to both save money and control energy costs. Historically energy commodity prices have been the most volatile of any traded commodity. It is important to develop a systematic proactive plan for purchasing energy. Currently Aqua Texas has all of its deregulated volumes, 70% or 8.9 million kilo watt hours (kwh), committed to a long-term sales contract through June 2006. A plan for purchasing electricity was recommended beyond that time frame using a mean reversion theory for commodity pricing.