

COURTNEY & ASSOCIATES

Public Utility Consultants

1016 North Blanchard Street, Suite A

P.O. Box 676 • Findlay, Ohio 45839

Tel (419) 425-2719

Fax (419) 425-2118

August 30, 2012

City of Napoleon, Ohio
Attn: Mr. Gregory J. Heath
255 West Riverview Avenue
P. O. Box 151
Napoleon, Ohio 43545-0151

Subject: Proposal to Prepare an Update of the 2011 Water
Rate and Cost fo Service Study for Napoleon, Ohio

Dear Mr. Heath:

In response to your request, we are pleased to submit this proposal to prepare an update of the 2011 Water Rate and Cost of Service Study (2011 Study) for the City of Napoleon, Ohio (City) (2012 Update). Set forth below is an outline of the scope of services to be provided in connection with the 2012 Update and our proposed fee for providing those services.

Scope of Services

In summary, the 2012 Update will consist of achieving the following assignments:

1. Acquisition, review and verification of 2011 and 2012 historical billing, operating and financial data for the Water Department;
2. Updating the four year projection of water revenue requirements and water revenues at current rates;
3. Updating the class cost-of-service analysis to identify, to the extent practical, the cost of serving each customer class;
4. Development of proposed water rates designed to recover the projected revenue requirements, as needed; and
5. Comparison of the proposed rates to existing rates.

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The final results of the 2012 Update, along with our recommendations, will be summarized in a written report (Final Report) and presented to the City for consideration. It is anticipated that the 2012 Update will utilize the computer models for analyzing and projecting operating and financial data and for rate calculations that were developed for the 2011 Study. These computer models will be provided in spreadsheet format (Excel) and can be utilized by the City's staff in future water rate analyses.

As outlined below, we propose that the 2012 Update be performed in five (5) phases in order to facilitate involvement and input from the City's designated representatives with respect to our evaluations and recommendations. The proposed phases are categorized as follows:

- (1) Data Acquisition and Verification
- (2) Revenue Requirements
- (3) Cost of Service
- (4) Rate Design
- (5) Final Report

Data Acquisition and Verification

The purpose of this phase of the 2012 Update will be to acquire and verify the basic data necessary for the 2012 Update. In order to ensure the proper interpretation and incorporation of the basic data into our detailed analyses, we would perform the following tasks:

- (1) Identify basic data needs for the 2012 Update;
- (2) Review data needs and available data with City staff; and
- (3) Perform certain analyses in order to verify the accuracy of the data acquired.

We anticipate this phase will be completed approximately two (2) weeks following your authorization to proceed.

Revenue Requirements

This phase will include a review and analysis of the 2011 revenue requirements for the Water Department. Based on that review, as well as a review of the current budget and input from the City's staff and other source documents relating to future operating, debt service and capital improvement needs, we will update the four (4) year projection of future revenue requirements. This projection will establish the anticipated expenses as well as the target revenues to be provided by future rates. We anticipate completing this phase and reviewing the results with the City staff approximately thirty

(30) days following completion of the Data Acquisition and Verification phase.

Cost of Service

This phase will consist of updating the class cost-of-service analysis to determine, to the extent practicable, the cost of serving each of the various customer classes. This analysis will involve an allocation of the projected revenue requirements utilizing the Base-Extra Capacity methodology set forth in the American Water Works Association M1 Water Rate Manual.

The cost-of-service results will be compared to the revenue distribution at current rates in order to determine the distribution of future revenue adjustments. We anticipate that the cost-of-service results would be reviewed with the City staff in conjunction with the review of the results for the Revenue Requirements phase.

Rate Design

The purpose of this phase is to evaluate and develop pricing methods and structures which will result in equitable rates and ensure that recognition is given to the cost of providing service to the various customer classes and customers within each class, and that proper price signals are sent to consumers. This phase will also include a review of existing wholesale water service agreements and development of a wholesale (resale) water rate applicable to sales to adjacent communities and water districts.

We anticipate the Rate Design phase will be completed and presented to the City staff approximately thirty (30) days following completion of the Revenue Requirements and Cost of Service phases.

Final Report

The results of our 2012 Update, incorporating comments and input from the City staff, will be presented in the Final Report. In addition to the Final Report, we will also provide copies of the revised computer models, which can be used to analyze operating and financial data. These models will be provided in spreadsheet format (Excel) and will include historical and projected sales/revenues, power supply requirements/costs, revenue requirements, operating results and the cost of service model. These models can be updated periodically to assess the need for future rate adjustments.

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We anticipate presenting the Final Report approximately four (4) months following authorization to proceed. This estimate assumes timely response to requests for data and receipt of comments from the City staff.

Compensation

We propose that the services set forth above be provided on a time and expense basis for a not-to-exceed fee of \$12,500. Invoices would be rendered at the end of each month for time expended at standard billing rates, plus all out-of-pocket expenses associated with providing the services. Our fee includes three (3) trips to Napoleon and providing ten (10) copies of the Final Report. Should additional trips or additional copies of the Final Report be requested, those services would be provided on a time and expense basis billed at our standard billing rate.

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We appreciate the opportunity to assist the City of Napoleon in this important matter and we are available to discuss this proposal with you or to provide any supplementary information you may require.

Respectfully submitted,



John T. Courtney