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SOAH DOCKET NO. 473-15-1177

PUC DOCKET NO. 42940

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APPLICATION OF NORTH ORANGE §
WATER & SEWER LLC D/B/A §
COUNTRY SQUIRE WATER & SEWER §
FOR A RATE/TARIFF CHANGE §
(37820-R, 37821-R) §

OF TEXAS

PRELIMINARY ORDER

On December 30, 2013, the Texas Commission on Environmental Quality (TCEQ) received applications from North Orange Water & Sewer L.L.C. d/b/a Country Squire Water and Sewer to increase its water and sewer rates and change its tariffs. On February 27, 2014, TCEQ accepted for filing North Orange's applications.

On September 1, 2014, the Public Utility Commission of Texas began the economic regulation of water and sewer utilities, and jurisdiction over these cases transferred to the Commission.¹ On October 22, 2014, Commission Staff recommended referral to the State Office of Administrative Hearings (SOAH) because the Commission received protests from over 10% of the utility's ratepayers over whose rates the Commission has original jurisdiction. Staff also found it to be in the public interest to request a hearing on its own motion.²

On October 23, 2014, North Orange's separate applications to amend its water rates and its sewer rates were consolidated into this proceeding.³

North Orange serves approximately 250 customers in Orange county.⁴ North Orange requests a \$55,154 increase to its annual revenue requirement.⁵ North Orange provided a billing

¹ Act of May 13, 2013, 83rd Leg., R.S., ch. 170 (HB 1600), § 2.96, 2013 Tex. Gen. Laws 725, 730; Act of May 13, 2013, 83rd Leg., R.S., ch. 171 (SB 567), § 96, 2013 Tex. Gen. Laws 772.

² Commission Staff's request to refer the application to the State Office of Administrative Hearings (SOAH) at 1 (Oct. 22, 2014).

³ Order Consolidating Proceedings (Oct. 23, 2014).

⁴ North Orange's Application at 5, 15 (Dec. 30, 2014) (filed in this docket on Sep. 11, 2014, item 1).

comparison that shows that under its proposed rate increase, the cost of 10,000 gallons of water for a residential customer would increase from \$45.79 per month to \$63.54 per month.⁶ North Orange stated that under its proposed rate increase, the cost of 10,000 gallons of sewer service for a residential customer would increase from \$60.26 per month to \$68.65 per month.⁷

On November 13, 2014, the Commission referred this matter to SOAH and directed North Orange and allowed Commission Staff and any other interested party to file a list of issues to be addressed in the docket by December 1.⁸ A list of issues was timely filed by Commission Staff.

I. Issues to be Addressed

The Commission must provide to the administrative law judge a list of issues or areas to be addressed in any proceeding referred to SOAH.⁹ After reviewing the pleadings submitted by the parties, the Commission identifies the following issues that must be addressed in this docket:

1. What are the just and reasonable rates for North Orange that are sufficient, equitable, and consistent in application to each customer class and that are not unreasonably preferential, prejudicial, or discriminatory as required by Tex. Water Code Ann. (TWC) § 13.182?
2. What revenue requirement will give North Orange a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses while preserving the financial integrity of the utility? TWC § 13.183(a) and P.U.C. SUBST. R. 24.32(a), 16 TAC § 24.32(a)

⁵ Application at 34.

⁶ *Id.*

⁷ *Id.*

⁸ Order of Referral at 2 (Nov. 13, 2014).

⁹ Tex. Gov't Code Ann. § 2003.049(e) (West 2008 & Supp. 2014).

3. What is the reasonable and necessary cost of providing water and sewer service calculated in accordance with P.U.C. SUBST. R. 24.31, 16 TAC § 24.31?
4. What adjustments, if any, should be made to North Orange's proposed test-year data? TWC § 13.185(d)(1) and P.U.C. SUBST. R. 24.31(b), 16 TAC § 24.31(b)
5. What is the appropriate debt-to-equity capital structure of North Orange?
6. What is the appropriate overall rate of return, return on equity, and cost of debt for North Orange? P.U.C. SUBST. R. 24.31(c)(1), 16 TAC § 24.31(c)(1)
7. What are the reasonable and necessary components of North Orange's invested capital? P.U.C. SUBST. R. 24.31(c)(2), 16 TAC § 24.31(c)(2)
8. What is the original cost of the property used and useful in providing water or sewer service to the public at the time the property was dedicated to public use? TWC § 13.185(b) and P.U.C. SUBST. R. 24.31(c)(2)(A) and (B), 16 TAC § 24.31(c)(2)(A) and (B)
9. Does North Orange have any water or sewer property that was acquired from an affiliate or a developer before September 1, 1976? If so, has such property been included by the utility in its rate base and has it been included in all ratemaking formulas at the actual cost of the property rather than the price set between the entities? TWC § 13.185(b) and P.U.C. SUBST. R. 24.31(c)(2)(B)(i), 16 TAC § 24.31(c)(2)(B)(i)
10. Has North Orange financed any of its plant with developer contributions?
11. Has North Orange included any customer contributions or donations in invested capital?
12. What is the amount, if any, of accumulated depreciation on that property?
13. Is North Orange seeking the inclusion of construction work in progress? If so, what is the amount sought and for what facilities? Additionally, has the utility proven that the inclusion is necessary to the financial integrity of the utility and that major projects under construction have been efficiently and prudently planned and managed? TWC § 13.185(b) and P.U.C. SUBST. R. 24.31(c)(3)(B), 16 TAC § 24.31(c)(3)(B)

14. What is the reasonable and necessary working capital allowance for North Orange?
P.U.C. SUBST. R. 24.31(c)(2)(C), 16 TAC § 24.31(c)(2)(C)
15. Does North Orange have any debt, and, if so, what is the cost of that debt?
16. What are North Orange's reasonable and necessary operations and maintenance expenses? P.U.C. SUBST. R. 24.31(b)(1)(A), 16 TAC § 24.31(b)(1)(A)
17. What are North Orange's reasonable and necessary administrative and general expenses?
18. What is the reasonable and necessary depreciation expense? For each class of property, what are the proper and adequate depreciation rates (including service lives and salvage values) and methods for depreciation? TWC §13.185(j) and P.U.C. SUBST. R. 24.31(b)(1)(B), 16 TAC § 24.31(b)(1)(B)
19. What is the reasonable and necessary amount for assessment and taxes, other than federal income taxes? P.U.C. SUBST. R. 24.31(b)(1)(C), 16 TAC § 24.31(b)(1)(C)
20. What is the reasonable and necessary amount for North Orange's federal income tax expense? P.U.C. SUBST. R. 24.31(b)(1)(D), 16 TAC § 24.31(b)(1)(D) and, if applicable, Tex. Water Code Ann. § 13.185(f)
 - a. Is the utility a member of an affiliated group that is eligible to file a consolidated income tax return? TWC § 13.185(f)
 - b. If so, have income taxes been computed as though a consolidated return had been filed and the utility realized its fair share of the savings resulting from the consolidated return? TWC § 13.185(f)
 - c. If not, has the utility demonstrated that it was reasonable not to consolidate returns? TWC § 13.185(f)
21. Is North Orange's revenue requirement properly allocated between water and sewer services?
22. What is the appropriate allocation of the revenue requirement among rate classes?

23. What is the appropriate rate design for each rate class?
24. What are North Orange's reasonable and necessary expenses incurred in this rate proceeding?
25. If a refund or surcharge results from this proceeding, how and over what period of time should that be made? TWC § 13.187
26. Has North Orange met the requirements for a request for interim relief in the form of interim rates? If so, what are the appropriate levels of the interim rates? P.U.C. SUBST. R. 24.29, 16 TAC § 24.29
27. What is the appropriate effective date of the rates fixed by the Commission in this proceeding? TWC § 13.187

This list of issues is not intended to be exhaustive. The parties and the ALJ are free to raise and address any issues relevant in this docket that they deem necessary, subject to any limitations imposed by the ALJ or by the Commission in future orders issued in this docket. The Commission reserves the right to identify and provide to the ALJ in the future any additional issues or areas that must be addressed, as permitted under Tex. Gov't Code Ann. § 2003.049(e).

II. Effect of Preliminary Order

This Order is preliminary in nature and is entered without prejudice to any party expressing views contrary to this Order before the SOAH ALJ at hearing. The SOAH ALJ, upon his or her own motion or upon the motion of any party, may deviate from this Order when circumstances dictate that it is reasonable to do so. Any ruling by the SOAH ALJ that deviates from this Order may be appealed to the Commission. The Commission will not address whether this Order should be modified except upon its own motion or the appeal of a SOAH ALJ's order. Furthermore, this Order is not subject to motions for rehearing or reconsideration.

SIGNED AT AUSTIN, TEXAS the 18th day of December 2014.

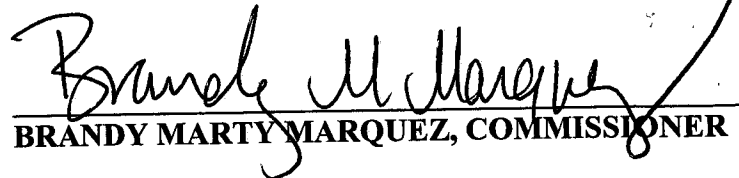
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