

Control Number: 43078



Item Number: 41

Addendum StartPage: 0

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APPLICATION OF FREMONT WATER §
COMPANY FOR A WATER §
RATE/TARIFF CHANGE IN KERR §
COUNTY (37993-R) §

PUBLIC UTILITY COMMISSION
FILING CLERK
OF TEXAS

COMMISSION STAFF'S LIST OF ISSUES

COMES NOW the Staff (Staff) of the Public Utility Commission of Texas (Commission), representing the public interest, and files this List of Issues.

I. BACKGROUND

On July 25, 2014, Fremont Water Company (Fremont or Applicant) filed an application with the Texas Commission on Environmental Quality (TCEQ) for a rate/tariff change in Kerr County, Texas, with a proposed effective date of September 26, 2014, pursuant to Title 16, TEX. ADMIN. CODE (16 TAC) §§ 24.21 and 24.22. On August 19, 2014, the TCEQ sent the Applicant a notice of deficiency, directing Applicant to complete and revise portions of its customer notice. Because the Applicant had to re-notice its customers, the effective date of the rate/tariff change was changed to October 31, 2014, at least 60 days following the date the completed application was mailed or delivered to customers, in accordance with TEX. ADMIN. CODE (TAC) § 291.22(a).

On September 1, 2014, the Public Utility Commission (Commission) began the economic regulation of water and sewer utilities and this case was transferred to the Commission.¹ On September 10, 2014, the Applicant submitted documentation in response to the notice of deficiency sent by TCEQ. On October 28, 2014, Commission Staff recommended the amended application and proposed notice be found administratively complete. Thereafter, on November 20, 2014, the Administrative Law Judge (ALJ) issued Order No. 5 deeming the amended application and notice for a rate/tariff change administratively complete. Order No. 5 set January 31, 2015 as the proposed effective date of the proposed rate change and May 1, 2015 as the deadline for ratepayers, any affected municipality, and Commission Staff to protest the proposed rates and request a hearing.

On May 1, 2015, Commission Staff requested the ALJ refer the case to the State Office of Administrative Hearings (SOAH) because, as of May 1, 2015, the Commission had received

¹ Texas Water Code §§ 13.041, 13.042, 13.181-.192 (West 2008 & Supp. 2014).

41

protests from over 10% of the ratepayers of the utility over whose rates the commission has original jurisdiction. In addition, Staff found that it was in the public interest to request a hearing on its own motion pursuant to 16 TAC § 24.28(1). Subsequently, on May 7, 2015, this proceeding was referred to SOAH and the Order of Referral required the interested parties to file with the Commission a list of issues to be addressed in this docket by May 21, 2015. Therefore, this List of Issues is timely filed.

II. LIST OF ISSUES TO BE ADDRESSED

Staff has identified the following issues to be addressed:

1. Did the petitions for review of the rate change filed by the ratepayers follow the requirements of 16 TAC § 24.27?
2. What are the just and reasonable rates for the utility 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?
3. What revenue requirement will give the utility 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 pursuant to TWC § 13.183(a) and 16 TAC § 24.32(a)?
4. What is the reasonable and necessary cost of providing water service calculated in accordance with 16 TAC § 24.31?
5. What adjustments, if any, should be made to the utility's proposed test-year data pursuant to TWC § 13.185(d)(1) and 16 TAC § 24.31(b)?
6. What is the appropriate debt-to-equity capital structure of the utility?
7. What is the appropriate overall rate of return, return on equity, and cost of debt for the utility pursuant to 16 TAC § 24.31(c)(1)?

8. What are the reasonable and necessary components of the utility's invested capital pursuant to 16 TAC § 24.31(c)(2)?
9. What is the original cost of the property used and useful in providing water service to the public at the time the property was dedicated to public use pursuant to TWC § 13.185(b) and 16 TAC § 24.31(c)(2)(A) and (B)?
10. Does the utility have any water and 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 16 TAC § 24.31(c)(2)(B)(i).
11. Has the utility financed any of its plant with developer contributions?
12. Has the utility included any customer contributions or donations in invested capital?
13. What is the amount, if any, of accumulated depreciation on that property?
14. Is the utility 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 16 TAC § 24.31(c)(3)(B).
15. What is the reasonable and necessary working capital allowance for the utility pursuant to 16 TAC § 24.31(c)(2)(C)?
16. Does the utility have any debt, and, if so, what is the cost of that debt?
17. What are the utility's reasonable and necessary operations and maintenance expenses pursuant to 16 TAC § 24.31(b)(1)(A)?
18. What are the utility's reasonable and necessary administrative and general expenses?

19. 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 16 TAC § 24.31(b)(1)(B).
20. What is the reasonable and necessary amount for assessment and taxes, other than federal income taxes? 16 TAC § 24.31(b)(1)(C).
21. What is the reasonable and necessary amount for the utility's federal income tax expense? 16 TAC § 24.31(b)(1)(D), and, if applicable, TWC § 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).
22. Is the utility seeking rates for both water and sewer service? If so, is the revenue requirement properly allocated between water and sewer services?
23. What is the appropriate allocation of the revenue requirement among rate classes?
24. What is the appropriate rate design for each rate class?
25. What are the utility's reasonable and necessary expenses incurred in this rate proceeding?
26. If a refund or surcharge results from this proceeding, how and over what period of time should that be made? TWC § 13.187.
27. Has the utility 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? 16 TAC § 24.29.
28. What is the appropriate effective date of the rates fixed by the Commission in this proceeding pursuant TWC § 13.187?

Dated: May 21, 2015

Respectfully Submitted,

Margaret Uhlig Pemberton
Division Director-Legal Division

Shelah J. Cisneros
Managing Attorney-Legal Division

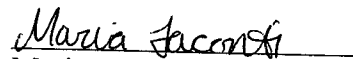


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CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on 21st of May, 2015 in accordance with P.U.C. Procedural Rule 22.74.



Maria Faconti