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DOCKET NO. 44236

APPLICATION OF CUSTOM WATER § PUBLIC UTILITY COMMISSION
COMPANY, LLC FOR A RATE/TARIFF § OF TEXAS
CHANGE §

RESPONSE TO COMMISSION STAFF'S FIRST REQUEST
FOR INFORMATION TO CUSTOM WATER COMPANY (CUSTOM WATER)
QUESTION NOS. STAFF 1-1 THROUGH STAFF 1-22

Staff 1-2 Reference the filing, page 10. Provide the
calculation, including supporting documentation, of
the claimed 10% return on equity.

Response The rate of return was calculated using the provided
worksheet (see attached). A total score of 9.23 was
obtained. Per the instructions a fair rate could be
requested. Based on the worksheet and the
outstanding amount of debt incurred by the
installation of two new wells and replacement of all
the storage tanks, we believe the rounding up to 10%
is a fair rate and is necessary to maintain financial
support of the water utilities.

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APPENDIX A: RATE OF RETURN WORKSHEET

Step			%
A	Most current Baa Public Utility Bond average		4.73
B	Add 2% - for utilities (include affiliates) with 0-200 OR		
	Add 1.5% - for utilities (include affiliates) with 201-500 connections OR		1.5
	Add 1.0% - for utilities (include affiliates) with 501-1,000 connections		
C	Add 1% if the utility can demonstrate that it has both.		
	1 Debt/equity ratio is greater than 50% (Table IV. D. - Box 2 ÷ Box 3) AND		
	2 No affiliated companies with access to revenues or other funds to support utility operations		
D	Add 1% if the utility can demonstrate that it has at least 1 of the following 3 conditions:		1
	1 unstable population - Weekender/seasonal population a >25% of total customers, OR b. >10% of total customers and do not use seasonal reconnect fee;	✓	
	2 low growth a. less than 5% customer growth over the last three years; OR b. documentation of potential anticipated future customer growth of less than 5% over a three year period, declining population	✓	
	3 aging system: 50% or more depreciated; OR b. low rate base (<\$500/customer)		
E	Add 1% if the utility is a stand alone sewer system with no agreement for. billing and collection OR discontinuance for nonpayment with the water supplier.		
F	Add 1% if the utility can demonstrate that it has at least 3 of the 4 following conditions:		1
	1 Number of complaints: 2 complaints or less per year to TCEQ or PUC for every 200 connections served by system	✓	
	2 No major deficiencies in the most recent PWS inspection report	✓	
	3 No current or prior enforcement actions under current management within a three year period including the test year		
	4 Good faith efforts to solve any current problems	✓	
G	Add 1% if the utility can demonstrate that it has at least 3 of the following 5 conditions		1
	1 well-maintained, up-to-date books and records	✓	
	2 Effective communications and good customer relations (ex. evidence of a community outreach plan funded without utility revenues from customers; program which includes information about utility policies; evidence reflecting cooperation and service within the community AND/OR a semi-annual newsletter.)		
	3 Consistent and timely in meeting reporting requirements (ex. annual reports for last 3 years) and payment of fees	✓	
	4 exhibit fiscal responsibility with respect to rate filings, including completeness, accuracy and frequency	✓	
	5 Less than 15% line loss - (Section VIII of the Application - Page 16 of 41)		
H	Add 1% if the utility can demonstrate that it has at least 4 of the following 5 conditions		
	1 rate structure - any two of the following a. zero gallons included in minimum bill, b. gallonage rate set high enough to encourage conservation (> \$2.00/1000 gal., or c. use of inclining blocks, (i.e. with at least \$1.00 between rate tiers which meets other regulatory requirements for inclining block structures)		
	2 drought contingency plan included in tariff with written evidence of use in years required		
	3 conservation plan including encouragement of the use of water conserving devices, efficient lawn watering, or xeriscaping		
	4 program to educate the customers about the nature of the system, its production and distribution ability, PWS standards, and the need for water conservation		
	5 Line Loss: a. less than or equal to 15% and b. successful program to reduce losses (ex., leak detection & repair) (within a three year period reflecting a 25% or more reduction in line loss since program implementation)		
I	Total Rate of Return %		4.23