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APPLICATION OF MOORELAND § BEFORE THE STATE OFFICE
WATER COMPANY FOR A WATER OR § PUBLIC UTILITY COMMISSION
WASTEWATER RATE/TARIFF CHANGE § FILING CLERK
OF ADMINISTRATIVE HEARINGS

COMMISSION STAFF'S MEMORANDUM IN SUPPORT OF STIPULATION

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest, and files this Memorandum in Support of Stipulation and would show the following:

I. BACKGROUND

On January 16, 2015, Mooreland Water Company (Mooreland) filed an application for a rate/tariff change needed in order to finance repairs, system upgrades required by regulation, increased energy cost, increased chemical cost, increased laboratory fees, and regulatory fees incurred since the last rate increase in 1997. Mooreland reported an annual revenue increase of \$20,833.00 and proposed an effective date of January 15, 2015.

On September 16, 2015, the Commission referred this case to the State Office of Administrative Hearings (SOAH) for processing. On November 12, 2015, the Administrative Law Judge (ALJ) convened a prehearing conference in this docket during which it was determined there was jurisdiction over the case, parties were admitted and the case was abated to allow for ongoing settlement discussions. The only parties admitted in the proceeding were Staff and Mooreland. The Joint Parties have since reached an agreement on the requested rate increase and file this Joint Notice on or before January 12, 2016, as directed in SOAH Order No. 2.

II. STAFF RECOMMENDATION

Staff recommends approval of the settlement agreement as supported by the attached memorandum of Emily Sears and Heidi Graham of the Commission's Water Utility Regulation Division. Specifically, Staff recommends that the rate of return of 7.75% and components be

found to meet the requirements of 16 Tex. Admin. Code § 24.31(c)(1) (TAC). Staff recommends approval of the requested rates, as follows:

<u>Meter Size</u>	<u>Minimum Charge (includes 0 gallons)</u>	<u>Gallage Rate</u>
5/8 or 3/4 inch	\$35.11	\$3.00 per 1,000 gallons

Monthly Base Rates	
Meter Size	Rate
5/8 or 3/4 inch	\$35.11
Gallage Charge	
\$3.00 per 1,000 gallons	

Tap Fee	\$350.00
Reconnect Fee:	
Non-payment (Maximum - \$25)	\$25.00
Customer's Request	\$25.00
Transfer Fee	\$25.00
Late Charge	\$5.00
Returned Check Charge	\$20.00
Customer Deposit	\$50.00
Meter Test Fee	\$25.00

III. CONCLUSION

Staff recommends that the Commission approve the agreed rates and terms as proposed and set out in the attached memorandum.

Dated: January 12, 2016

Respectfully Submitted,

Margaret Uhlig Pemberton
Division Director-Legal Division

Karen S. Hubbard
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 January 12, 2016 in accordance with 16 TAC § 22.74.



Ralph J. Daigneault

Public Utility Commission of Texas

Memorandum

TO: Ralph Daigneault, Attorney
Legal Division

THRU: Tammy Benter, Director
Debi Loockerman, Rates Team Lead
Water Utility Regulation Division

FROM: Emily Sears, Financial Analyst
Heidi Graham, Staff Engineer
Water Utility Regulation Division

DATE: January 12, 2016

SUBJECT: *Docket No. 44331; Application of Mooreland Water Company for a Water or Wastewater Rate/Tariff change*

Staff Recommendation

On January 16, 2015, Mooreland Water Company (Applicant), Certificate of Convenience and Necessity (CCN) No. 11603, filed an application with the Public Utility Commission of Texas (PUC) for a water rate/tariff change in Hood County, Texas. This application was accepted for filing on March 13, 2015, and the proposed rate change took effect on May 14, 2015. The PUC received only 1 protest letter, which is under ten percent of the Applicant's customers during the statutory comment period. The Applicant serves 132 connections.

After review of the application, Staff recommends that the Commission find that the rate change with Staff's revisions complies with the requirements of Tex. Water Code § 13.182, 13.183, 13.185 (TWC) and 16 Tex. Admin. Code § 24.31 (TAC) for the reasons discussed below.

Revenue Requirement

Applicant requests a total revenue requirement of \$91,396, which appears to be comprised of expenses permitted pursuant to 16 TAC § 24.31(b) and a return on invested capital pursuant to 16 TAC § 24.31(c). However, per Staff, the rates requested generate a total revenue of approximately \$77,133.

If the application continued through the evidentiary process, Staff would propose an adjusted revenue requirement which includes an operations and maintenance expense of \$73,461, depreciation expense of \$5,139, other taxes of \$2,043, federal income taxes of \$915, and a return of \$7,457, for a total revenue requirement of \$89,015. If the case was completely litigated, Staff may have had other adjustments if further discovery had been conducted. However, Staff is satisfied that the Applicant's recommended rates are reasonable and necessary to provide water service, and reasonably cover the level of the cost of service.

Specifically, 16 TAC § 24.31(b) permits a utility to include in its cost of service the following general categories of expenses: operations and maintenance, depreciation, assessments and taxes other than income taxes, federal income taxes on a normalized basis, reasonable expenditures for ordinary advertising, contributions, and donations, and funds expended in support of membership in professional or trade organizations. Staff has evaluated the application, and the review has been limited to the factual statements presented in the application and additional information received from the applicant. The Applicant appears to have requested recovery of allowable expenses.

Plant in Service

The Applicant claims an original cost total of \$74,769, accumulated depreciation of \$11,215 and the total net book value of existing facilities to be \$63,354. The Applicant calculates this net book value by depreciating the original cost of facilities, as required by 16 TAC § 24.31(c)(2). Based on the assets that the Applicant included in the depreciation schedule in Table III-B and additional information provided by the applicant, Staff calculated an original cost total of \$171,361 and accumulated depreciation total of \$84,322. Using these values, the resulting Staff recommended net plant in service value is \$87,039.

Return on Invested Capital

The Applicant proposes a rate of return of 7.75%, based on one debt issuance with an interest rate of 7.75%. 16 TAC § 24.31(c)(1) requires that the return should be reasonably sufficient to assure confidence in the financial soundness of the utility and that the Commission shall consider the efforts and achievements of the utility in the conservation of resources and the quality of the utility's services. Staff believes that the rate of return of 7.75% and components meet the requirements of 16 TAC § 24.31(c)(1).

In addition, Applicant's requested rate base includes \$76,982 in working capital allowance. Staff calculated the working cash allowance by multiplying the total operations and maintenance expenses of \$73,461 by 0.125 (1/8) equaling \$9,183, as permitted by 16 TAC § 24.31(c)(2)(B)(iii). Staff's rate base calculation is net plant of \$87,039 plus working cash of \$9,183 equals \$96,221. Staff recommends a return of \$7,457, which is rate base of \$96,221 multiplied by rate of return of 7.75%.

Rate Design

TWC § 13.182 requires that rates be just and reasonable and that they are sufficient, equitable, and consistent with respect to each class of customers. Further, 16 TAC § 24.32 prohibits rate structures that discourage conservation by encouraging increased water usage and requires that charges in excess of the base rate be assessed in terms of 1,000 gallons.

Staff reviewed the proposed rate design indicated in Section IX and X of the application. Using the reported number of 11,924,993 gallons billed to customers and 132 customers indicated in the application, the resulting rates calculated by the Applicant were a minimum charge of \$35.11 per month and \$3.00 per 1,000 gallons. The revenue requirement produced by Mooreland's proposed rate and reported gallons used is within Staff's reasonable range given the information provided. However, the proposed rates could potentially generate more or less than Staff's recommended revenue requirement of \$89,015, if future water used changed. All additional revenues, generated by a rate, over and above the utility's usual cost of service, must meet the accounting requirements of P.U.C. SUBST. R. 24.32(b)(3)(A-C). This rule requires the applicant to separately account for and report to the Commission, if requested, all additional revenues, generated by a conservation

rate, over and above the utility's usual cost of service. In addition, the additional revenues will be considered to be customer contributed capital and may only be used in a manner approved by the Commission. In Staff's opinion, Mooreland's proposed rates satisfy the Commission's conservation criteria and are reasonable with respect to each customer. The following rates are recommended:

<u>Meter Size</u>	<u>Minimum Charge (includes 0 gallons)</u>	<u>Gallage Rate</u>
5/8 or 3/4 inch	\$35.11	\$3.00 per 1,000 gallons

Conclusion

Based on this review, Staff recommends approval of the requested rates.