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APPLICATION OF SUNSET WATER
LLC FOR A RATE/TARIFF CHANGE

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PUBLIC UTILITY COMMISSION
FILING CLERK
OF TEXAS

PRELIMINARY ORDER

On June 16, 2015, Sunset Water, LLC filed an application for a rate and tariff change with the Commission. On September 2, 2015, Commission Staff recommended that this docket be referred to the State Office of Administrative Hearings (SOAH) for a hearing on Sunset Water's application. On September 10, 2015, the Commission referred this matter to SOAH. On September 24, 2015, Commission Staff timely filed a proposed list of issues.

Sunset Water serves about 46 customers in Moore County.¹ In its application, Sunset Water provides a billing comparison that shows that under its proposed rate increase, the cost of 10,000 gallons of water per customer would increase from \$28.25 per month to \$115.48 per month and the charge for 30,000 gallons would increase from \$57.25 per month to \$192.48 per month.² The base rate for a 5/8-in residential meter will increase from \$13.75 per month to \$76.98.³ Additionally, the gallonage charge and tap fee will also increase.⁴

¹ Application at 14.

² *Id.* at 33.

³ *Id.* at 34.

⁴ *Id.*

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.⁵ After reviewing the pleadings submitted by the parties, the Commission identifies the following issues that must be addressed in this docket:

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. § 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? 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? 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? 16 TAC § 24.31(c)(1).
8. What are the reasonable and necessary components of the utility's invested capital? 16 TAC § 24.31(c)(2).

⁵ Tex. Gov't Code Ann. § 2003.049(e) (West 2008 & Supp 2014).

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? 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 acquired any water or sewer property from an affiliate? If so, do the payments for that property meet requirements of TWC § 13.185(e)?
12. Has the utility financed any of its plant with developer contributions?
13. Has the utility included any customer contributions or donations in invested capital?
14. What is the amount, if any, of accumulated depreciation on that property?
15. 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).
16. What is the reasonable and necessary working capital allowance for the utility? 16 TAC § 24.31(c)(2)(C).
17. Does the utility have any debt, and, if so, what is the cost of that debt?
18. What are the utility's reasonable and necessary operations and maintenance expenses? 16 TAC § 24.31(b)(1)(A).
19. What are the utility's reasonable and necessary administrative and general expenses?

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

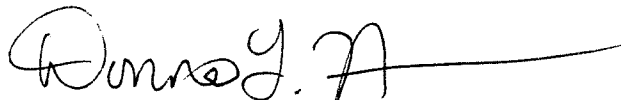
This list of issues is not intended to be exhaustive. The parties and the ALJ are free to raise and address any issues relevant in this docket that they deem necessary, subject to any limitations imposed by the ALJ or by the Commission in future orders issued in this docket. The Commission reserves the 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 8th day of October 2015.

PUBLIC UTILITY COMMISSION OF TEXAS



DONNA L. NELSON, CHAIRMAN



KENNETH W. ANDERSON, JR., COMMISSIONER



BRANDY MARTY MARQUEZ, COMMISSIONER