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APPLICATION OF NITSCH & SON §  
UTILITY COMPANY, INC. FOR A §  
RATE/TARIFF CHANGE §

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PUBLIC UTILITY COMMISSION  
OF TEXAS  
PUBLIC UTILITY COMMISSION  
FILING CLERK

**COMMISSION STAFF'S MEMO IN SUPPORT OF STIPULATION AND SETTLEMENT AGREEMENT**

Comes Now Staff (Staff) of the Public Utility Commission of Texas (Commission), representing the public interest, and files this Memo in Support of Stipulation and Settlement Agreement.

Dated: May 9, 2017

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS  
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 May 9, 2017,  
in accordance with 16 TAC § 22.74.



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Michael Crnich

# Public Utility Commission of Texas

## Memorandum

**TO:** Mike Crnich, Attorney  
Legal Division

**THRU:** Tammy Benter, Director  
Debi Loockerman, Rates Manager  
Heidi Graham, Technical Manager  
Water Utility Regulation

**FROM:** Fred Bednarski, Financial Examiner  
Elisabeth English, Staff Engineer  
Water Utility Regulation Division

**DATE:** May 9, 2017

**SUBJECT:** **Docket No. 46069;** *Application of Nitsch & Son Utility Company, Inc. for a Rate/Tariff Change*

### Background

On June 16, 2016, Nitsch & Son Utility Company (Nitsch or Applicant), water certificate of convenience and necessity (CCN) No. 11124 and sewer CCN No. 20446, filed an application with the Public Utility Commission of Texas (Commission) for a water and sewer rate/tariff change in Harris County, Texas. Nitsch currently provides retail water and wastewater utility service with one public water system (PWS) No. 1010145, serving approximately 719 connections and one wastewater system holding water quality permit No. WQ 10419-001, serving approximately 730 connections. Nitsch proposed an increase in water base rates from \$18.35 to \$22.78 and an increase in sewer base rates from \$26.00 to \$34.44. Additionally, Nitsch proposed to implement an increase in the City of Houston ground water reduction plan (HGRP) fee included in the approved tariff from \$0.82 to \$1.04 and a surcharge for rate case expenses of \$0.65 per customer per month for three years. This application was filed pursuant to the Texas Water Code § 13.187 (TWC), and 16 Tex. Admin. Code § 24 (TAC).

### Staff Recommendation

#### Revenue Requirement

Applicant requested a total water revenue requirement of \$356,401 and sewer revenue requirement of \$444,022, which appear to be generally 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, based on review of the application, information provided in the Applicant's responses to discovery, and discussions with Nitsch, Staff found adjustments that would be recommended in the event that an evidentiary hearing were held. Staff reviewed the application, responses to requests for information, and all filings of the Applicant, including a general ledger for the test year.

Staff made reasonable adjustments to the cost of service and is satisfied that agreed-upon revenue requirements of \$326,268 for water and \$424,524 for sewer are within the reasonable range of

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revenue requirements that would result from an evidentiary hearing on the merits. Furthermore, the settlement avoids additional future rate-case expenses which would be incurred due to an evidentiary hearing. Staff believes these revenue requirements will enable Nitsch to generate sufficient revenues to cover operational and maintenance costs as well as generate a reasonable return on invested capital used and useful in providing water and sewer service.

Staff additionally recommends a surcharge of \$1.00 for 36 months to recover a reasonable amount of rate-case expenses pursuant to 16 TAC § 24.33 and approval of the HGRP fee increase of \$0.22 to \$1.04 per 1,000 gallon pursuant to 16 TAC § 24.21. The HGRP fee increase was approved by the City of Houston effective November 20, 2016. For these reasons, Staff believes that approval of the settlement stipulation is in the public interest.

### 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 on metered usage in terms of 1,000 gallons.

Staff reviewed the proposed rate design in the application. Staff used the reported number of gallons billed and the approximate number of customers. The stipulated rates generate revenues to recover the agreed-upon revenue requirements of \$326,268 for water and \$424,524 for sewer. The agreed-upon rates are reasonable with respect to each customer. The following are the agreed-upon rates:

### Water

<u>Meter Size</u>	<u>Monthly Minimum Charge</u>	<u>Gallonage Charge</u>
5/8" or 5/8"x 3/4"	\$20.00 (Includes 0 gallons)	\$2.00 per 1,000 gallons for all usage
3/4"	\$30.00	
1"	\$50.00	
1½"	\$100.00	
2"	\$160.00	*\$1.04 per 1000 gallons GRP fee
3"	\$300.00	(adjusted per formula),
4"	\$500.00	
6"	\$600.00	

\*This City of Houston GRP fees rate change effective April 1, 2016, from \$.82 to \$1.04 (contract price is 30%)

Surcharge for rate case expense of \$1.00 per month for 36 months.

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### Sewer

<u>Meter Size</u>	<u>Monthly Minimum Charge</u>	<u>Gallage Charge</u>
5/8" or 5/8"x 3/4"	\$27.50 (Includes 0 gallons)	\$3.95 per 1,000 gallons for all usage
3/4"	\$27.50	
1"	\$27.50	
1½"	\$27.50	
2"	\$27.50	
3"	\$27.50	
4"	\$27.50	
6"	\$27.50	

Residential charges based on average monthly water usage for months November, December, and January. Commercial charges based on actual monthly water usage.

Surcharge for rate case expense of \$1.00 per month for 36 months.

### Conclusion

Based on this review, Staff recommends that the Commission:

1. Find that the stipulation is in the public interest;
2. Approve the requested rates included in the tariffs attached to the Joint Motion to Admit Evidence and Remand and the Unanimous Stipulation and Settlement Agreement filed on April 26, 2017; and
3. Provide a copy of the tariffs attached to the Joint Motion to Admit Evidence and Remand and the Unanimous Stipulation and Settlement Agreement filed on April 26, 2017, to the Applicant.