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P.U.C. DOCKET NO. 46104  
SOAH DOCKET NO. 473-17-3798.WS

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APPLICATION OF SHORE-TECH, INC. DBA L&M WATER DEVELOPMENT COMPANY FOR A RATE/TARIFF CHANGE	§ § § §	PUBLIC UTILITY COMMISSION OF TEXAS FILING CLERK
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**COMMISSION STAFF'S PROPOSED LIST OF ISSUES**

**COMES NOW** the Commission Staff (Staff) of the Public Utility Commission of Texas (Commission), representing the public interest, and files this Proposed List of Issues. In support thereof, Staff shows the following:

**I. BACKGROUND**

On June 28, 2016, Shore-Tech, Inc. d/b/a L&M Water Development Company (Shore-Tech) filed an application with the Commission for a rate/tariff change pursuant to 16 Tex. Admin. Code §§ 24.21 – 24.36 (TAC). Shore-Tech seeks a rate increase for its public water system (PWS) #1010145 in Galveston County, Texas.

On April 26, 2017, the Commission issued an Order of Referral referring the matter to the State Office of Administrative Hearings (SOAH) for a hearing on the merits. The Order of Referral also included a deadline of May 3, 2017 by which Staff may file a proposed list of issues to be addressed in the docket. Therefore, this pleading is timely filed.

**II. PROPOSED LIST OF ISSUES**

Staff has identified the following issues to be addressed:<sup>1</sup>

1. What is the appropriate methodology to determine just and reasonable rates in this docket?
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?<sup>2</sup>

<sup>1</sup> Staff based this list of issues on the Preliminary Order filed in Docket 45720. Staff believes that the issues in that docket address the same issues present in this docket.

<sup>2</sup> 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 utility's financial integrity?<sup>3</sup>
4. Are the utility's proposed revisions to its tariffs and rate schedules, if any, appropriate?
5. What is the reasonable and necessary cost of providing water service?<sup>4</sup>
6. What adjustments, if any, should be made to the utility's proposed test-year data?<sup>5</sup>
7. What is the appropriate debt-to-equity capital structure of the utility?
8. What is the appropriate overall rate of return, return on equity, and cost of debt for the utility?<sup>6</sup>
9. What are the reasonable and necessary components of the utility's invested capital?<sup>7</sup>
10. What is the amount for an allowance for funds used during construction, if any, that is being transferred to invested capital in this proceeding? If such amounts are being transferred, for what facilities and at what rate did the allowance for funds used during construction accrue?
11. 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?<sup>8</sup> What is the amount, if any, of the accumulated depreciation on such property?
12. 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

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<sup>3</sup> TWC § 13.183(a); 16 TAC § 24.32(a).

<sup>4</sup> 16 TAC § 24.31.

<sup>5</sup> TWC § 13.185(d)(1); 16 TAC § 24.31(b), (c)(5).

<sup>6</sup> 16 TAC § 24.31(c)(1).

<sup>7</sup> 16 TAC § 24.31(c)(2).

<sup>8</sup> TWC § 13.185(b); TWC § 24.31(c)(2)(A)-(B).

inclusion is necessary to the financial integrity of the utility and that major projects under construction have been efficiently and prudently planned and managed?<sup>9</sup>

13. Does the utility have any debt? If so, what is the cost of that debt?
14. What is the reasonable and necessary working capital allowance for the utility?<sup>10</sup>
15. Does the utility have any water 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?<sup>11</sup>
16. Has the utility acquired any water property from an affiliate? If so, do the payments for that property meet the requirements of TWC § 13.185(e)?
17. Has the utility financed any of its plant with developer contributions?<sup>12</sup> What is the amount, if any, of accumulated depreciation on that property?
18. Has the utility included any customer contributions or donations in invested capital?<sup>13</sup>
19. Are the utility's proposed *pro forma* rate-base and expense adjustments consistent with the requirements of 16 TAC § 24.31?
20. What are the utility's reasonable and necessary operations and maintenance expenses?<sup>14</sup>
21. What are the utility's reasonable and necessary administrative and general expenses?
22. What is the reasonable and necessary amount for the utility's advertising expense, contributions, and donations?<sup>15</sup>

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<sup>9</sup> TWC § 13.185(b); 16 TAC § 24.31(c)(4).

<sup>10</sup> 16 TAC § 24.31(c)(2)(C).

<sup>11</sup> TWC § 13.185(i).

<sup>12</sup> TWC § 13.185(j); 16 TAC § 24.31(b)(1)(B).

<sup>13</sup> TWC § 13.185(j); 16 TAC §§ 24.31(c)(2)(B)(v).

<sup>14</sup> 16 TAC § 24.31(b)(1)(A).

<sup>15</sup> 16 TAC § 24.31(b)(1)(F).

23. Are any expenses, including but not limited to, executive salaries, advertising expenses, legal expenses, penalties and interest on overdue taxes, criminal penalties or fines, and civil penalties or fines, unreasonable, unnecessary, or not in the public interest?<sup>16</sup>
24. If the utility has a self-insurance plan approved by the Commission or other regulatory authority, what is the approved target amount for the reserve account and is it appropriate to change that amount? What is the amount of any shortage or surplus for the reserve account, and what actions, if any, should be taken to return the reserve account to the approved target amount?
25. Has the utility made any payments to affiliates?
- a. For affiliate transactions that affect the cost of service, are these transactions reasonable and necessary?<sup>17</sup>
  - b. For all affiliated transactions affecting the cost of service, what are the costs to the affiliate of each item or class of items in question, and is the price for each transaction no higher than prices charged by the supplying affiliate to its other affiliates or divisions for the same item or items, or to unaffiliated persons or corporations?<sup>18</sup>
26. 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 of depreciation?<sup>19</sup>
27. Are any tax savings derived from liberalized depreciation and amortization, investment tax credits, or similar methods? If so, are such tax savings apportioned equitably between customers and the utility, and are the interests of present and future customers equitably balanced?
28. What is the reasonable and necessary amount, if any, for assessment and taxes other than federal income taxes?<sup>20</sup>

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<sup>16</sup> 16 TAC § 24.31(b)(1)(F).

<sup>17</sup> TWC § 13.185(e).

<sup>18</sup> *Id.*

<sup>19</sup> TWC § 13.185(j); 16 TAC § 24.31(b)(1)(B).

<sup>20</sup> 16 TAC § 24.31(b)(1)(C).

29. What is the reasonable and necessary amount for the utility's federal income tax expense?<sup>21</sup>
- a. Is the utility a member of an affiliated group that is eligible to file a consolidated income tax return?<sup>22</sup>
  - 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?<sup>23</sup>
  - c. If not, has the utility demonstrated that it was reasonable not to consolidate returns?<sup>24</sup>
30. What is the reasonable and necessary amount of the utility's accumulated reserve for deferred federal income taxes, unamortized investment tax credits, contingency reserves, property insurance reserves, contributions in aid of construction, customer deposits, and other sources of cost-free capital? What other items should be deducted from the utility's rate base?
31. What regulatory assets are appropriately included in the utility's rate base? If such assets are included in rate base, what is the appropriate treatment of them?
32. Is the utility seeking rates for both water and sewer service? If so, is each component of cost of service (each allowable expense and all return on invested capital) properly allocated between water and sewer services?
33. What is the appropriate allocation of the revenue requirement among rate classes?
34. What is the appropriate rate design for each rate class?<sup>25</sup>
35. What are the utility's expenses incurred in this rate proceeding that are just, reasonable, necessary, and in the public interest?<sup>26</sup> Does that amount include any anticipated

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<sup>21</sup> 16 TAC § 24.31(b)(1)(D); TWC § 13.185(f).

<sup>22</sup> TWC § 13.185(f).

<sup>23</sup> *Id.*

<sup>24</sup> *Id.*

<sup>25</sup> 16 TAC § 24.32.

<sup>26</sup> 16 TAC § 24.33.

expenses to appeal this docket that are just, reasonable, necessary, and in the public interest? Should the utility be able to recover its reasonable and necessary rate-case expenses from ratepayers? If so, how should such expenses, if any, be recovered by the utility?

36. What are intervening cities' reasonable rate-case expenses?<sup>27</sup>
37. If a refund or surcharge results from this proceeding, how and over what period of time should that be made?<sup>28</sup>
38. 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?<sup>29</sup>
39. What is the appropriate effective date of the rates fixed by the Commission in this proceeding?<sup>30</sup>

### **III. LIST OF ISSUES NOT TO BE ADDRESSED**

At this time, Staff has not identified any issues not to be addressed.

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<sup>27</sup> TWC § 13.048.

<sup>28</sup> TWC § 13.1871.

<sup>29</sup> 16 TAC § 24.29.

<sup>30</sup> TWC § 13.1871.

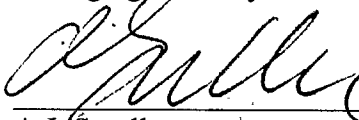
Dated: May 3, 2017

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS  
LEGAL DIVISION**

Margaret Uhlig Pemberton  
Division Director

Stephen Mack  
Managing Attorney

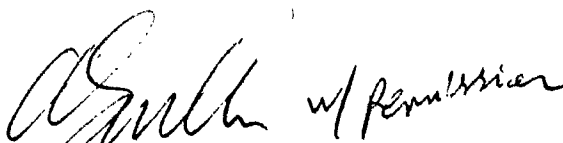


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**CERTIFICATE OF SERVICE**

I, Matthew Arth, staff attorney for the Public Utility Commission of Texas, certify that a copy of this document will be served on all parties of record on May 3, 2017 in accordance with the requirements of 16 TAC § 22.74.

  
Matthew A. Arth