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PUC DOCKET NO. 46245
SOAH DOCKET NO. 473-17-0119.WS

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APPLICATION OF DOUBLE
DIAMOND UTILITY COMPANY,
INC. FOR WATER AND SEWER
RATE/TARIFF CHANGE

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PUBLIC UTILITY COMMISSION
PUBLIC UTILITY COMMISSION
FILING CLERK
OF TEXAS

COMMISSION STAFF'S PROPOSED LIST OF ISSUES

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest and files this List of Issues in response to the Order of Referral.

I. BACKGROUND

On August 1, 2016, Double Diamond Utility Company, Inc. (DDU) applied for a Class B rate/tariff change pursuant to Tex. Water Code § 13.1871 (TWC) and 16 Tex. Admin. Code § 24.21-26. Specifically, DDU asked for a rate/tariff change for sewer Certificate of Convenience and Necessity (CCN) No. 20705 and water CCN No. 12087 for The Cliffs and White Bluff systems.

On September 1, 2016, Staff filed its Recommendation on Administrative Completeness and recommended that the application be found administratively complete and accepted for filing. Staff also recommended that the matter be referred to the State Office of Administrative Hearings (SOAH) for an evidentiary hearing because Staff had received protests from more than ten percent of affected ratepayers.¹ On September 8, 2016, the Commission issued an Order of Referral, referring this docket to SOAH. The Order allowed Staff to file with the Commission a list of issues to be addressed in the docket by September 16, 2016.

II. PROPOSED LIST OF ISSUES

Staff has identified the following issues in this proceeding:

1. What is the appropriate methodology to determine just and reasonable rates in this docket?

¹ See Tex. Water Code § 13.1871(i) (TWC); 16 Tex. Admin. Code § 24.28(c)(2) (TAC).

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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 unreasonable preferential, prejudicial, or discriminatory?²
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 its financial integrity?³
4. Are the utility's proposed revisions to its tariffs and rate schedules appropriate?
5. What is the reasonable and necessary cost of providing water service?⁴
6. What adjustments, if any, should be made to the utility's proposed test-year data?⁵
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?⁶
9. What are the reasonable and necessary components of the utility's invested capital?⁷
10. What is the appropriate weighted average cost of capital?
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?⁸
 - a. 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 inclusion is necessary to the financial integrity of the utility and that major projects under construction have been efficiently and prudently planned and managed?⁹

² See TWC §§ 13.182(a), 13.1871(o); 16 TAC § 24.28(d).

³ TWC § 13.183(a)(1)-(2); 16 TAC § 24.32(a).

⁴ 16 TAC § 24.31.

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

⁶ 16 TAC § 24.31(c)(1).

⁷ *Id.* § 24.31(c)(2).

⁸ TWC § 13.185(b); 16 TAC § 24.31(c)(2)(A)-(B).

⁹ TWC § 13.185(b); 16 TAC § 24.31(c)(4).

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?¹⁰
15. 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?¹¹
16. Has the utility acquired any water or sewer 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 contribution?¹²
18. Has the utility included any customer contributions or donations in invested capital?¹³ What is the amount, if any, of accumulated depreciation on that property?
19. What are the utility's reasonable and necessary operations and maintenance expense?¹⁴
20. What are the utility's reasonable and necessary administrative and general expenses?
21. What is the reasonable and necessary amount for utility's advertising expense, contributions, and donations?¹⁵
22. 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 for the approved plan, and what actions, if any, should be taken to return the reserve account to the approved target amount?
23. What are the utility's reasonable and necessary expenses, if any, for pension and other post-employment benefits?
24. Are any expenses, including but not limited to, executive salaries, advertising expenses, legal expenses, penalties and interest on overdue taxes, criminal penalties

¹⁰ 16 TAC § 24.31(c)(2)(C).

¹¹ TWC § 13.185(i).

¹² *Id.* at 13.185(j); 16 TAC § 24.31(b)(1)(B).

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

¹⁴ 16 TAC § 24.31(b)(1)(A).

¹⁵ *Id.* at § 24.31(b)(1)(F).

or fines, and civil penalties or fines, unreasonable, unnecessary, or not in the public interest?¹⁶

25. 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?¹⁷
26. 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?
27. What is the reasonable and necessary amount, if any, for assessment and taxes other than federal income taxes?¹⁸
28. What is the reasonable and necessary amount for the utility's federal income tax expense?¹⁹
 - a. Is the utility a member of an affiliated group that is eligible to file a consolidated income tax return?²⁰
 - 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?²¹
 - c. If not, has the utility demonstrated that it was reasonable not to consolidate returns?²²
29. 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 DDU's rate base?
30. What is the reasonable and necessary amount for municipal franchise fees, if any, to be included in rates?

¹⁶ TWC § 13.185(h)(3); 16 TAC § 24.31(b)(2)(I).

¹⁷ TWC § 13.185(j); 16 TAC § 24.31(b)(1)(B).

¹⁸ 16 TAC § 24.31(b)(1)(C).

¹⁹ TWC § 13.185(f); 16 TAC § 24.31(b)(1)(D).

²⁰ TWC § 13.185(f).

²¹ *Id.*

²² *Id.*

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 such regulatory assets?
32. Is the utility seeking rates for both water and sewer service? If so, is the revenue requirement 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 class?²³
 - a. What is the appropriate fixed charge?
 - b. What is the appropriate volumetric charge?
35. In establishing the proposed rate increase, did the utility allocate costs and revenues among its customer classes consistent with ratemaking principles?
 - a. What is the appropriate allocation of costs to the utility's customer classes?
 - b. What is the appropriate allocation of revenues to the utility's customer classes?
36. Has the utility made any payments to affiliates?
 - a. For affiliate transactions that affect the cost of service, are these transactions reasonable and necessary?²⁴
 - 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?²⁵
37. What are the utility's expenses incurred in this rate proceeding that are just, reasonable, and in the public interest?²⁶ Does that amount include any anticipated 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? Is so, how should such expenses, if any, be recovered by the utility?

²³ 16 TAC § 24.32.

²⁴ TWC § 13.185(e).

²⁵ *Id.*

²⁶ 16 TAC § 24.33.

38. If a refund or surcharge results from this proceeding, how and over what period of time should that be made?²⁷
39. 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?²⁸
40. What is the appropriate effective date of the rates fixed by the Commission in this proceeding?²⁹
41. Is it reasonable and appropriate for the utility to use the current number of connections as of the date of the application as opposed to using test year end connections in designing rates?

III. ISSUES NOT TO BE ADDRESSED

Staff has not identified any issues not to be addressed.

IV. CONCLUSION

Staff respectfully requests that the identified issues be considered by the Commission in this proceeding.

²⁷ TWC § 13.1871.

²⁸ 16 TAC § 24.29.

²⁹ TWC § 13.1871.

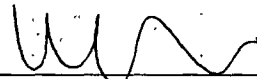
Date: September 16, 2016

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

Respectfully Submitted,

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CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on September 16, 2016, in accordance with 16 TAC § 22.74.



Vera Dygert