



Control Number: 46245



Item Number: 681

Addendum StartPage: 0

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PUBLIC UTILITY COMMISSION
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OPEN MEETING COVER SHEET

MEETING DATE: May 25, 2018

DATE DELIVERED: May 24, 2018

AGENDA ITEM NO.: 3

CAPTION: Docket No. 46245; SOAH Docket No. 473-17-0119.WS - Application of Double Diamond Utility Company, Inc. for a Water and Sewer Rate/Tariff Change

ACTION REQUESTED: Discussion and possible action with respect to Discussion and possible action, including Final Order

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DeAnn T. Walker
Chairman

Arthur C. D'Andrea
Commissioner



Greg Abbott
Governor

John Paul Urban
Executive Director

Public Utility Commission of Texas

TO: Chairman DeAnn T. Walker
Commissioner Arthur C. D'Andrea

All Parties of Record

FROM: Carlos Carrasco *cc*
Commission Advising

RE: *Application of Double Diamond Utility Company, Inc. for a Water and Sewer Rate/Tariff Change, Docket No. 46245, SOAH Docket No. 473-17-0119.WS, Draft Order*
May 25, 2018 Open Meeting, Item No. 3.

DATE: May 24, 2018

Please find enclosed a draft order filed by Commission Advising in the above-referenced docket. The Commission will consider this draft order at the May 25, 2018 open meeting.

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

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|--------------------------------------|----------|----------------------------------|
| APPLICATION OF DOUBLE | § | PUBLIC UTILITY COMMISSION |
| DIAMOND UTILITY COMPANY, INC. | § | |
| FOR A RATE/TARIFF CHANGE | § | OF TEXAS |

DRAFT ORDER

This Order addresses Double Diamond Utilities Company, Inc.’s application to increase rates for water and sewer service provided to two of its resort developments, The Cliffs in Palo Pinto County, and White Bluff in Hill County. Double Diamond Utilities, an investor-owned utility, filed two rate-filing packages, one for its White Bluff system and one for its system at The Cliffs, each of which includes a rate increase for water and sewer tariffs. Double Diamond Utilities requested revenue requirements of \$568,368 for the White Bluff water system, \$572,068 for the White Bluff sewer system, \$421,488 for The Cliffs water system, and \$313,686 for The Cliffs sewer system, each based on a 2015 calendar year test year.

The State Office of Administrative Hearings (SOAH) administrative law judge (ALJ) issued a proposal for decision recommending a revenue requirement of \$375,150 for the White Bluff water system, \$349,074 for the White Bluff sewer system, \$383,758 for The Cliffs water system, and \$319,791 for The Cliffs sewer system, based on adjustments to expenses, rate base, depreciation, and return on invested capital.

The Commission agrees with the majority of the ALJ’s determinations in the proposal for decision. However, the Commission disagrees with and rejects the ALJ’s conclusions regarding Double Diamond Utilities’ employee-labor expense, other plant maintenance expense, professional services expense, miscellaneous expense, and return on equity. The Commission’s decisions result in a revenue requirement of \$384,197 for the White Bluff water system, \$270,916 for the White Bluff sewer system, \$358,088 for The Cliffs water system, and \$296,018 for The Cliffs sewer system.

Except as discussed in this Order, the Commission adopts the proposal for decision, including findings of fact and conclusions of law. The Commission makes additional changes to findings of fact and conclusions of law to correct citations, spelling, numbering, and punctuation

and for stylistic purposes. In addition, the Commission adds new finding of fact 3A and conclusion of law 1A to more completely describe the applicant.

After the issuance of the proposal for decision, the parties filed exceptions and replies to exceptions, and the ALJ filed response to the exceptions and replies and made clarifications to the proposal for decision. In addition, the Commission heard oral argument at the May 10, 2018 open meeting and instructed Commission Staff to conduct a number run to reflect the Commission's discussion at the open meeting. Accordingly, the Commission adds findings of fact 17A through 17G to address events that transpired after the issuance of the proposal for decision.

I. Discussion

A. Allocation of Employee Salaries

Double Diamond Utilities requested a total of \$171,960 in employee-labor expenses for its White Bluff systems. These amounts reflect the test-year salaries for seven employees. With one exception, the salaries of the employees are allocated evenly between water and sewer, which resulted in expense amounts of \$80,520 for White Bluff water and \$91,440 for White Bluff sewer. Double Diamond Utilities states it allocated the employee salaries in this manner because all employees are cross-trained in both water and sewer operations and work seamlessly between the water and sewer systems.¹ However, Double Diamond Utilities did not provide any evidence supporting how much time each employee spends working on each system.

The ALJ concluded that Double Diamond Utilities met its burden to show that Double Diamond Utilities' allocation as reasonable because employees are trained on both systems and work on both systems.

The Commission's rule regarding allowable expenses states that a utility may only include expenses that are reasonable and necessary to provide service to the ratepayers in its cost of service.² Therefore, the Commission disagrees with the ALJ's conclusion that Double Diamond Utilities met its burden to show that its allocation of employee salaries reflects the actual time each employee spends working on each system. Double Diamond Utilities has not provided any evidence to support how much time each employee spends working on each system. Instead,

¹ Double Diamond Utilities Ex. 8, Rebuttal Testimony of Randy Gracy 4-5 (Oct. 16, 2017).

² 16 Tex. Admin. Code (TAC) § 24.31(b).

Double Diamond Utilities only points to the statement of Mr. Gracy that all employees are cross-trained to work on both utilities. In determining whether an employee's salary is a reasonable and necessary expense related to the provision of utility service, the Commission must ensure that the amount of time an employee spends working on a system and providing service to the ratepayers is reflected in the amount of that employee's salary allocated to the system. Double Diamond Utilities did not meet this burden. Therefore, Double Diamond Utilities' employee salaries should be allocated to White Bluff water or White Bluff sewer based on the type of license held by each employee as recommended by Commission Staff. Except as discussed below, this decision does not change the total amount of Double Diamond Utilities' recoverable employee-salary expenses.

Accordingly, the Commission deletes findings of fact 22 and 25 and adds findings of fact 26A through 26C.

B. Salaries of Mr. Whitworth and Mr. Keeton

Double Diamond Utilities' requested employee-labor expenses for its White Bluff systems included \$20,800 for the salary of Jerry Whitworth, a utilities backhoe operator, and \$22,880 for the salary of Danny Keeton, an equipment operator. According to Double Diamond Utilities, Mr. Whitworth and Mr. Keeton are experienced backhoe operators that are involved in all tap installations, excavation for installing taps, and clean-up of the work site after the installations, and also perform other duties as needed within the utility department.³

The ALJ concluded that Double Diamond Utilities met its burden to show that Mr. Whitworth's and Mr. Keeton's salaries are reasonable and necessary expenses because they also worked and answered service calls related to both systems. However, the evidence provided gives no explanation of or evidence showing what that work was, how long it took, or what any of the service calls involved.⁴

A utility may only include expenses that are reasonable and necessary to provide service to the ratepayers in its cost of service.⁵ Therefore, the Commission disagrees with the ALJ's determination regarding the salaries of Mr. Whitworth and Mr. Keeton, as Double Diamond Utilities has not met its burden to show that the salaries for the positions held by Mr. Whitworth

³ Rebuttal Testimony of Randy Gracy 4-5 (Oct. 16, 2017).

⁴ PFD at 8-9.

⁵ 16 Tex. Admin. Code (TAC) § 24.31(b).

and Mr. Keeton are a reasonable and necessary expense. The record reflects that Mr. Whitworth and Mr. Keeton only spent a small time installing taps and spent their other remaining time performing other duties as needed. The other duties job description is too vague to determine whether these positions are reasonable and necessary expenses. Double Diamond Utilities did not provide any supporting documentation explaining or detailing what these other duties include. In addition, Double Diamond Utilities failed to provide any evidence related to the types of duties categorized as other duties as needed. For example, Double Diamond Utilities presented no evidence on whether any of these other duties required skill operating a backhoe, why Double Diamond Utilities needs more than one full time backhoe operator, the market-salary rate for a backhoe and equipment operator, or the experience and skill level of these employees. Double Diamond Utilities had a sufficient opportunity to provide a more robust description of the other duties for Mr. Whitworth and Mr. Keeton and failed to do so. Further, the Commission notes that even the ALJ describes the evidence in the record supporting how Mr. Whitworth and Mr. Keeton spend 99% of their time as “scant and non-specific.”⁶ Thus, removing the salaries of Mr. Whitworth and Mr. Keeton from Double Diamond Utilities’ cost of service is warranted because Double Diamond Utilities has not shown that the salaries related to the positions held by these employees are reasonable and necessary to provide service to ratepayers.

Accordingly, the Commission deletes finding of fact 23, modifies finding of fact 26, and adds finding of fact 26D through 26F.

C. Other Plant Maintenance Expenses

Double Diamond Utilities requested a total of \$142,010 in expenses for other plant maintenance at its White Bluff systems. This total included a request of \$79,590.73 for grinder-pump expenses for the White Bluff sewer system.

Double Diamond Utilities asserted that it treats costs related to grinder pumps as recurring annual expenses because these costs recur from year-to-year and are a constant maintenance issue in the operation of the White Bluff sewer system. In support of its position, Double Diamond Utilities provided the testimony of Dr. Victoria Harkins. She testified that each year twenty to thirty grinder pumps are replaced and approximately half of its grinder pumps are repaired, and

⁶ PFD at 8.

concluded that the costs should be treated as recurring annual expenses.⁷ In response to Double Diamond Utilities, Commission Staff argued that Double Diamond Utilities should reclassify all of its grinder-pump expenses as capitalized assets because grinder pumps have a service life of more than one year.

The ALJ determined that Double Diamond Utilities' treatment of grinder pump costs as recurring annual expenses is appropriate because these costs are incurred on an annual basis by Double Diamond Utilities to repair and replace the pumps in the White Bluff sewer system.⁸

The Commission disagrees with the ALJ's determination and instead concludes that Double Diamond Utilities should expense the amounts spent in the test year for all costs incurred to repair grinder pumps for White Bluff sewer and capitalize the amounts spent in the test year to purchase replacement grinder pumps for White Bluff sewer. This approach ensures that the cost of all grinder pumps used to make normal and routine repairs to the utility system are expensed, while the actual replacement of grinder pumps are capitalized in accordance with accounting standards regarding the installation of plant in service. Accordingly, the Commission deletes findings of fact 39 and 41, modifies finding of fact 37, and adds finding of fact 38A.

D. Professional Services

Double Diamond Utilities requested professional services expenses of \$2,907 for obtaining its CCN amendment to provide sewer service at The Cliffs. Although the ALJ noted that a CCN amendment is not a recurring expense, the ALJ concluded that the cost associated with the CCN amendment is reasonable and necessary to provide sewer service to customers at The Cliffs, and recommended that these expenses be recovered through a rate rider.

The Commission disagrees with the ALJ's conclusion to allow recovery of the cost of the CCN amendment for The Cliffs system. The Commission finds that costs associated with CCN amendments are not recurring expenses and should not be recovered from ratepayers. Accordingly, the Commission deletes finding of fact 46 and adds finding of fact 46A to reflect this determination.

⁷ Tr. 484:12-488:25 (Testimony of Victoria Harkins) (Oct. 26, 2017).

⁸ PFD at 16-17.

E. Miscellaneous Expenses

Double Diamond Utilities requested total miscellaneous expenses of \$55,685 for its White Bluff systems and \$41,113 for its systems at The Cliffs. These requested amounts include expenses incurred by Double Diamond Utilities for resort overhead expenses billed from the White Bluff and The Cliffs resorts to the water and sewer systems at White Bluff and The Cliffs. Double Diamond Utilities explained that because the water and sewer systems are located within the resort properties at White Bluff and The Cliffs, the utility uses some of the resort's resources, and is then billed by the resorts for the resources used.⁹ The utility systems are billed a total of 3% of all overhead and general and administrative expenses incurred by each resort. The expenses billed by the resorts to the utility systems include expenses related to the general manager and office manager at the resorts, employee compensation (including commissions and bonuses), payroll expenses, electricity, water and sewer, office space, phones, computers, copiers, uniforms, and small tools.

The ALJ concluded that the resort overhead expenses billed to Double Diamond Utilities' water and sewer systems at White Bluff and The Cliffs are reasonable and necessary to furnish service to Double Diamond Utilities' customers.¹⁰ The ALJ reasoned that although there are costs that appear in both Double Diamond Utilities' cost of service and the resort budget, a 3% portion of the resorts' total overhead expenses is reasonable because Double Diamond Utilities is saving money on office space, supplies, and employees through the assignment of these overhead costs.

The Commission's rule regarding allowable expenses states that a utility may only include expenses that are reasonable and necessary to provide service to the ratepayers in its cost of service.¹¹ Therefore, the Commission disagrees with the proposal for decision's recommendation and instead adopts Commission Staff's recommended disallowances of \$8,380 for water and \$6,068 for sewer from White Bluff's requested miscellaneous expenses and \$20,075 for water, and \$18,270 for sewer from The Cliffs requested miscellaneous expenses.¹² The Commission finds that the evidence in the record shows that the amount of resort overhead expenses billed to White Bluff systems and The Cliffs systems includes the cost of items unrelated to the provision

⁹ Workpapers to the Direct Testimony of Emily Sears at 107 (Sept. 22, 2017).

¹⁰ PFD at 25.

¹¹ 16 Tex. Admin. Code (TAC) § 24.31(b).

¹² Staff Ex. 2, Direct Testimony of Emily Sears at 9-10 (Sept. 22, 2017).

of utility service. The amounts billed to Double Diamond Utilities are not based on the Double Diamond Utilities' share of resort expenses that it directly uses; instead, it is an across-the-board charge of 3% of all overhead and general and administrative expenses incurred by the resort. Thus, a reduction in Double Diamond Utilities' requested expense is warranted.

The Commission further concludes expenses paid from Double Diamond Utilities to the resorts are an affiliate transaction under Texas Water Code (TWC) § 13.185(e). The entities that own and operate the resorts are wholly-owned subsidiaries of Double Diamond-Delaware, Inc., and qualify as an affiliate under TWC 13.002(2). Thus, expenses paid from Double Diamond Utilities to the resorts are an affiliate payment under TWC § 13.185(e). TWC § 13.185(e) requires that the Commission find that the price to the utility is no higher than prices charged by the affiliate to others for the same item or class of items to others. No evidence was admitted showing what other entities or persons would pay the resorts for the same class of comparable amenities. Further, there is no evidence to establish the market price for the same class of items provided to the systems. Without these findings, the Commission cannot allow Double Diamond Utilities to recover these expenses.

Accordingly, the Commission deletes findings of fact 61 through 65, finding of fact 67, conclusion of law 6, and adds findings of fact 66A through 66D and conclusions of law 6A through 6E.

F. Federal Income Tax Expense

The White Bluff and The Cliffs systems are both owned and operated by Double Diamond Utilities.¹³ Double Diamond Utilities is a subchapter S corporation, a pass-through entity.¹⁴ Double Diamond-Delaware, Inc., also a subchapter S corporation, is the parent company and sole shareholder of Double Diamond Utilities.¹⁵ R. Mike Ward is the majority shareholder of Double Diamond-Delaware, owner of 94.8% of the shares with an employee stock ownership plan owning 5.2%.¹⁶ Because Double Diamond-Delaware is also a pass-through entity, it is likely that the majority of tax expenses of Double Diamond Utilities are paid at the individual level by Mr. Ward,

¹³ Direct Testimony of Randy Gracy at 6 (Aug. 4, 2017).

¹⁴ Direct Testimony of Debi Loockerman at 3 (Sept. 22, 2017).

¹⁵ *Id.* at Attachment 8, Double Diamond Utilities' Response to Response to Staff RFI 1-34.

¹⁶ Direct Testimony of Nelisa Heddin at 11 (Sept. 8, 2017).

the majority shareholder of Double Diamond-Delaware. However, the record does not reflect what amount of Double Diamond Utilities' tax expense is paid by Mike Ward or the applicable tax rate.

In *Suburban Utility Corporation v. Public Utility Commission of Texas*,¹⁷ the Texas Supreme Court held that Suburban Utility, a subchapter S corporation,¹⁸ "is entitled to a reasonable cost of service allowance for federal income taxes actually paid by its shareholders on [the utility's] taxable income or for taxes it would be required to pay as a conventional corporation, whichever is less."¹⁹ In setting rates, the Commission has considerable discretion to determine the appropriate method and amount of income-tax expense because "[t]he income tax calculation is no different than other elements of utility ratemaking."²⁰ It is reasonable to calculate Double Diamond Utilities' tax expense as if it were a C corporation. This treatment will provide Double Diamond Utilities a reasonable amount for federal income tax expense.

In addition, recent changes to federal income tax law have reduced the income-tax rate for corporations from 35% to 21%.²¹ Therefore, the Commission concludes a federal income tax rate of 21% should be applied for ratemaking purposes. Accordingly, the Commission adds findings of fact 79A through 79H and corresponding ordering paragraphs.

G. Developer Contributions

The ALJ determined that Double Diamond Utilities did not meet its burden to show how much of the original cost of utility assets included in its proposed rate base for White Bluff were contributed by the developer.²² The proposal for decision recommended that the majority of White Bluff's assets should be treated as developer contributions and removed from rate base. However, the ALJ also found that the evidence showed that seven utility assets claimed as part of Double Diamond Utilities' rate base were paid for by Double Diamond Utilities, and the net book value of these assets should remain in Double Diamond Utilities' rate base as invested capital.²³ The

¹⁷ *Suburban Util. Corp. v. Pub. Util. Comm'n*, 652 S.W.2d 358 (Tex. 1983).

¹⁸ See 26 U.S.C. § 1361.

¹⁹ 652 S.W.2d at 364.

²⁰ *Pub. Util. Comm'n v. GTE Sw. Inc.*, 901 S.W.2d 401, 409-411 (Tex. 1995).

²¹ Pub. L. No. 115-97, 131 Stat. 2054 (Dec. 22, 2017). An Act to provide for reconciliation pursuant to titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018.

²² PFD at 49-50.

²³ PFD at 50.

amounts of the assets that should remain in rate base are \$68,355.48 for White Bluff water and \$24,029.64 for White Bluff sewer.²⁴

The Commission agrees with the ALJ's conclusions regarding Double Diamond Utilities' developer-contributed assets. However, the Commission disagrees with the ALJ's determination that the holding *Sunbelt Utilities v. Public Utility Commission*²⁵ is not applicable to this proceeding.

The Commission addressed the treatment of developer-contributed assets in 1977 when a newly formed water and sewer utility, Sunbelt Utilities, filed an application to change its water and sewer rates in Harris County.²⁶ In that case, a development company affiliated with the utility installed the initial utility system and transferred the assets to the utility without charge. The Commission's examiner determined that because the development company recovered the cost of the utility assets through lot sales, the purchasers of the lots should not pay for the utility assets a second time through utility rates.²⁷ Thus, the utility assets paid for by the development company and recovered through lot sales should be excluded from rate base.²⁸ The Commission agreed with the examiner.

In 1979, the *Sunbelt Utilities* case came before the Supreme Court of Texas.²⁹ The court stated that the principal question in that case was "whether the Commission properly excluded the developer's cost of the utility system from the rate base because the rate payers had already paid for this system as part of the purchase price of their lots."³⁰ The court concluded that "the costs were properly excluded as contributions in aid of construction."³¹

²⁴ Direct Testimony of Nelisa Heddin at 19-20, Tables NDH-1 (White Bluff water) and NDH-2 (White Bluff sewer) (Sept. 8, 2017).

²⁵ *Petition of Sunbelt Utilities for Authority to Change Rates*, Docket No. 804, 3 P.U.C. Bull. 1167 (Feb. 22, 1978); *Examiner's Report, Petition of Sunbelt Utilities for Authority to Change Rates*, Docket No. 804, 3 P.U.C. Bull. 1167 (Mar. 22, 1978); *Sunbelt Utilities v. Public Utility Commission*, 589 S.W.2d 392 (Tex. 1979).

²⁶ *Petition of Sunbelt Utilities for Authority to Change Rates*, Docket No. 804, 3 P.U.C. Bull. 1167 (Feb. 22, 1978).

²⁷ *Examiner's Report, Petition of Sunbelt Utilities for Authority to Change Rates*, Docket No. 804, 3 P.U.C. Bull. 1167 (Mar. 22, 1978).

²⁸ *Id.*

²⁹ *Sunbelt Utilities v. Public Utility Commission*, 589 S.W.2d 392 (Tex. 1979).

³⁰ *Id.* at 392.

³¹ *Id.*

In this proceeding, Double Diamond Utilities provided a copy of a form real estate sales contract used to sell property in the White Bluff subdivision to purchasers.³² In response to an RFI, Double Diamond Utilities admitted that it is a true and correct copy of a form real estate sales contract used to sell property in the White Bluff subdivision to purchasers.³³

The contract is between the purchaser and the seller, identified in the contract as Double Diamond, Inc., and outlines the terms and conditions related to the sale of lots within White Bluff. Item number 9 in these contracts states that the seller, Double Diamond Inc., will be responsible for providing and completing the central water system and central sewer system. The contract also states that Double Diamond Utilities, the applicant and utility in this proceeding, will be responsible for maintaining the systems.

Thus, based on the language in the contract, the Commission concludes that Double Diamond, Inc. was the party responsible for constructing, providing, and completing the water and sewer systems. But, the Commission agrees with the ALJ's finding that Double Diamond Utilities did not meet its burden. The Commission also concludes that it is appropriate to exclude the costs related to the initial infrastructure of the White Bluff systems from Double Diamond Utilities' rate base because Double Diamond Utilities did not fund the initial infrastructure of the White Bluff systems.

Accordingly, the Commission adds findings of fact 100A through 100D and conclusion of law 8A to reflect its determination regarding the applicability of *Sunbelt Utilities* to this proceeding. In addition, the Commission deletes conclusion of law 7 as moot.

H. Used and Useful

Because the Commission agrees with the ALJ's conclusion regarding Double Diamond Utilities' developer-contributed assets, and that almost all of the cost of the distribution and collection pipes at White Bluff should be removed from rate base, the Commission concludes that the question of whether the entirety of the pipes are used and useful is moot. Accordingly, the Commission deletes findings of fact 103 through 107.

³² White Bluff Subdivision Sale Contract, WBRG-1G, Direct Testimony of Nelisa Heddin at 90 (Sept. 8, 2017).

³³ Double Diamond Utilities' response to WBRG 3-12 (Jul. 12, 2017).

I. Return on Equity

The ALJ recommended that the Commission approve a 9.84% return on equity for Double Diamond Utilities. The ALJ determined Double Diamond Utilities' use of four different analysis to calculate a return on equity for Double Diamond Utilities was more persuasive than the analysis performed by Commission Staff, who used only the discounted cash flow analysis and capital asset pricing model.

The Commission disagrees with the ALJ's conclusion and instead adopts Commission Staff's recommended return on equity of 8.79%. The discounted cash flow model is widely accepted by the regulatory industry and the Commission, and is often used to calculate the appropriate return on equity for a utility. Accordingly, the Commission deletes findings of fact 113 and 119, modifies findings of fact 110 through 112, 114, and 126, and modifies conclusion of law 10.

The Commission adopts the following findings of fact and conclusions of law:

II. Findings of Fact

General and Procedural Findings

1. Double Diamond Utilities is an investor-owned company that provides water and sewer utility service to several communities in North Texas through facilities and equipment it operates.
2. Double Diamond Utilities provides water and sewer utility service to The Cliffs development in Palo Pinto County and White Bluff development in Hill County under water certificate of convenience and necessity (CCN) number 12087 and sewer CCN number 20705.
3. Double Diamond Utilities has approximately 640 water customers and 567 sewer customers in White Bluff and approximately 287 water customers and 239 sewer customers in The Cliffs.
- 3A. Double Diamond Utilities has four existing tariffs, one for each of the water and sewer systems at White Bluff and The Cliffs.
4. White Bluff is a resort and residential development with amenities such as a golf course, marina, hotel, restaurant, conference center, spa, and swimming pools.

5. The White Bluff water system obtains its water supply from four wells in the Trinity aquifer, which is regulated by the Prairielands Groundwater Conservation District.
6. The Cliffs is a resort and residential development with amenities similar to those at White Bluff. The Cliffs water system obtains its water supply from Lake Possum Kingdom.
7. Double Diamond Utilities is a wholly-owned subsidiary of Double Diamond-Delaware, Inc.
8. On August 1, 2016, Double Diamond Utilities filed two rate-filing packages, one for White Bluff and one for The Cliffs. Each rate-filing package requested a rate increase and related tariff changes for water and sewer rates.
9. The application uses a test year of January 1, 2015 through December 31, 2015.
10. Double Diamond Utilities mailed notice of the proposed rate change to all of its customers in White Bluff and The Cliffs on or about August 10, 2016.
11. Between August 10, 2016, and September 1, 2016, more than 10% of Double Diamond Utilities' ratepayers in White Bluff and The Cliffs filed timely protests to the rate changes proposed by the application.
12. The application was found to be administratively complete on September 7, 2016.
13. On September 8, 2016, the Commission referred this docket to the State Office of Administrative Hearings (SOAH) for a contested case hearing.
14. On October 7, 2016, the Commission issued its preliminary order, identifying 41 issues to be addressed in this proceeding.
15. On October 18, 2016, a SOAH administrative law judge (ALJ) convened a prehearing conference in Austin, Texas. The following appeared and were admitted as the parties in this case: Double Diamond Utilities; the White Bluff Ratepayers Group; The Cliffs Utility Committee and Commission Staff.
16. By agreement between the parties, a SOAH order set the effective date for the proposed rate changes as April 1, 2018, and set February 21, 2018, as the relate-back date for purposes of determining refunds or surcharges.

17. The hearing on the merits convened on October 24, 2017, and concluded on October 26, 2017. The parties filed initial briefs on November 22, 2017, and reply briefs on December 15, 2017, which is when the record closed.
- 17A. On February 13, 2018, the SOAH ALJ issued the proposal for decision.
- 17B. Double Diamond Utilities, Commission Staff, the White Bluff Ratepayers Group, and The Cliffs Utility Committee filed exceptions to the proposal for decision on March 28, 2018.
- 17C. Double Diamond Utilities, Commission Staff, and the White Bluff Ratepayers Group filed replies to exceptions on April 12, 2018.
- 17D. On May 1, 2018, Double Diamond Utilities filed a request for oral argument, which the Commission granted.
- 17E. On May 2, 2018, the SOAH ALJ filed a response to the exceptions and replies and made clarifications to the proposal for decision.
- 17F. The Commission heard oral argument at the May 10, 2018 open meeting.
- 17G. At the May 10, 2018 open meeting, the Commission instructed Commission Staff to conduct a number run to reflect the Commission's discussion at the open meeting.

Revenue Requirement

Operation and Maintenance (O&M) Expenses

Other Revenues

18. Double Diamond Utilities received \$3,600 in revenue from Nextlink that should be added to White Bluff water's other revenues.

Other Volume-Related Expenses

19. Double Diamond Utilities included \$830 of White Bluff water expenses in the other volume-related expense account that were actually fixed expenses belonging in the other plant maintenance account.
20. A \$1,148 expense for chlorine gas cylinders should be added to the other volume-related expense account for White Bluff water.

21. Double Diamond Utilities included \$530 of White Bluff sewer expenses in the other volume-related expenses account that were actually fixed expenses belonging in the other plant maintenance account.

Employee Labor

22. [DELETED]
23. [DELETED]
24. Double Diamond Utilities employees Clovis Wilhelm, Jody Bledsoe, and Dwayne Cota worked on both the water and sewer systems and responded to service calls on both systems during the test year.
25. [DELETED]
26. The salaries of Clovis Wilhelm, Jody Bledsoe, and Dwayne Cota were reasonable and necessary for Double Diamond Utilities to provide water and sewer services to its customers.
- 26A. Double Diamond Utilities failed to provide any evidence of the actual time each employee spends working on each system.
- 26B. In determining whether an employee salary is reasonable and necessary, the amount of time an employee spends working on a system and providing service to the ratepayers is reflected in the amount of that employee's salary allocated to the system.
- 26C. Double Diamond Utilities' employee salaries should be allocated to White Bluff water or White Bluff sewer based on the type of license held by each employee.
- 26D. The record reflects that Mr. Whitworth and Mr. Keeton only spent a small time installing taps and spent their other remaining time performing other duties as needed.
- 26E. Double Diamond Utilities did not provided any supporting documentation explaining or detailing what these other duties include.
- 26F. Removing the salaries of Mr. Whitworth and Mr. Keeton from Double Diamond Utilities' cost of service is warranted because Double Diamond Utilities has not shown that the positions held by Mr. Whitworth and Mr. Keeton are a reasonable and necessary expense.

Contract Work

27. Todd Dilworth, the White Bluff utility manager for Double Diamond Utilities, is on call at all times to respond to service calls at the White Bluff water and sewer systems.
28. It is reasonable to have Mr. Dilworth on call at all times in case issues arise that affect service, and it is a reasonable expense to allow Mr. Dilworth to have a mobile phone with cell service so that there can be effective and efficient communication regarding any such issues.
29. Double Diamond Utilities' phone allowance of \$900 for 12 months for Mr. Dilworth is a reasonable and necessary expense incurred to provide water and sewer services at White Bluff.
30. A total of \$890 for White Bluff water and \$790 for White Bluff sewer in general and administrative expenses attributable to security at the White Bluff resort should be reallocated from miscellaneous expenses to contract work as intercompany labor transfers.

Transportation

31. Mr. Dilworth and another employee have Double Diamond Utilities vehicles that they can use to respond at any time to a service call at White Bluff.
32. Mr. Dilworth drives one of the trucks to and from work daily, and the other truck is used by the Double Diamond Utilities employee assigned to be on call to drive to and from work during such assignment.
33. Mr. Dilworth and the on-call Double Diamond Utilities employee do not use the trucks for any personal reasons. Although they use the trucks to drive to and from work, this use is reasonable and necessary so that they can respond to a service call from home if such a call is made.
34. The fuel costs incurred by Double Diamond Utilities for Mr. Dilworth and the other employee driving to and from work in company trucks while on-call are not purely commuter miles and are reasonable and necessary expenses incurred by Double Diamond Utilities in providing service at White Bluff.

35. A vehicle lease expense (\$2,912 for both water and sewer) and a tool box expense for White Bluff of \$850 should be removed from transportation expenses and added to the depreciation schedule.

Other Plant Maintenance

36. Grinder pumps are part of the White Bluff wastewater system and installed at each service location in the White Bluff system.
37. There are significant, typical, and recurring maintenance, repair, and replacement costs associated with the grinder pumps in the White Bluff sewer system.
38. Approximately 20 to 30 grinder pumps are replaced and approximately half of the pumps are repaired every year in the White Bluff sewer system.
- 38A. It is appropriate for Double Diamond Utilities to expense the amounts spent in the test year for all grinder-pump repairs for White Bluff sewer and capitalize the amounts spent in the test year to purchase replacement grinder pumps for White Bluff sewer.
39. [DELETED]
40. The \$709 included in the trial balance for the White Bluff water system reflects costs incurred in the operation and maintenance of the water system at White Bluff and is appropriately included as other plant maintenance expense.
41. [DELETED]
42. The invoice from Industrial Electric Repair and Sales referencing “Rewind 3 Phase,” “machine work on pump,” and pump repair, and reflecting charges for bearings and a pump seal pertains to repairs, and the costs reflected in this invoice are appropriately designated as other plant maintenance expenses.
43. The invoice from Wallace Controls & Electric referring to a call regarding a well not running and reflecting a burned-out motor protector and service wire and a motor protector replacement pertains to repairs, and the costs reflected in this invoice are appropriately designated as other plant maintenance expenses.

Professional Services

44. The cost of renewing Double Diamond Utilities' wastewater permit for White Bluff, which Double Diamond Utilities has historically incurred approximately every three years, should be allowed to be recovered in equal parts in Double Diamond Utilities' rates over three years.
45. The cost incurred by Double Diamond Utilities to obtain a CCN amendment for The Cliffs during the test year was not a typical or recurring cost, and it is difficult if not impossible to determine when or how often such a cost will be incurred.
46. [DELETED]
- 46A. Double Diamond Utilities' cost associated with its CCN amendment for The Cliffs system is not a recurring expense and should not be recovered from ratepayers.
47. Double Diamond Utilities did not incur any cost to obtain a CCN amendment for White Bluff during the test year, and the costs of such amendment reflected in the White Bluff professional services account should be removed.

Insurance

48. The premiums paid by Double Diamond Utilities for worker's compensation insurance (\$1,444 for water and \$373 for sewer) are not recoverable insurance expenses.
49. Some portion of the premium paid by Double Diamond Utilities for an umbrella insurance policy is attributable to insurance coverage that is incurred as part of providing service and maintaining plant.
50. The amount of the umbrella premium attributable to coverage for providing utility service and maintaining plant does not correlate to the base premium for such coverage.
51. Double Diamond Utilities failed to prove the cost of the umbrella coverage that relates to Double Diamond Utilities' provision of water and sewer utility service.

Salaries

52. Seven employees worked for the White Bluff systems at some point during the test year, however, not all seven employees worked the entire test year.

53. The seven employees who worked for the White Bluff utility systems during the test year earned and were paid \$151,074 in salary during the test year; they did not earn and were not paid their full yearly salaries.
54. As of August 4, 2017, and October 24, 2017, there were only four employees working for the White Bluff systems.
55. Employee salaries totaling \$151,074 are reasonable and necessary expenses for Double Diamond Utilities to provide services through the White Bluff systems.

Regulatory Fees

56. The Prairieland Groundwater District fees paid by Double Diamond Utilities for White Bluff should not be included in Double Diamond Utilities' revenue requirement, but should be included as a pass-through provision in Double Diamond Utilities' tariff.
57. Double Diamond Utilities' expenses related to water tests that occur every three years should be normalized such that Double Diamond Utilities recovers one-third of the expenses every year.

Miscellaneous Expenses

58. Equipment lease fees of \$19,728 for White Bluff water and \$20,148 for White Bluff sewer associated with automatic meter reading and the 50,000 gallon wastewater treatment plant should be removed from the miscellaneous expense accounts.
59. Sewer tap fee expenses of \$500 should be removed from the White Bluff sewer miscellaneous expense account.
60. The water and sewer systems are located within the resort properties at White Bluff and The Cliffs, and Double Diamond Utilities uses some of the resort's resources and allocates for those resort resources used.
61. [DELETED]
62. [DELETED]
63. [DELETED]
64. [DELETED]
65. [DELETED]

66. The resorts incur and pay costs for overhead and general and administrative expenses, and 3% of those costs are then expensed to Double Diamond Utilities.
- 66A. The amounts billed to Double Diamond Utilities are not based on the Double Diamond Utilities' share of resort expenses that it directly uses; instead, it is an across-the-board charge of 3% of all overhead and general and administrative expenses incurred by the resort.
- 66B. The entities that own and operate the resorts are wholly-owned subsidiaries of Double Diamond-Delaware, Inc.
- 66C. No evidence was admitted showing what other entities or persons would pay the resorts for the same class of comparable amenities.
- 66D. No evidence was admitted establishing the market price for the same class of items provided to the systems.
67. [DELETED]

Depreciation

68. The \$80 expense for a "Truck Bed Mat" should be removed from the White Bluff sewer depreciation schedule.

Use of Trending Study to Determine Original Cost

69. Double Diamond Utilities retained Dr. Victoria Harkins to perform an analysis of the utility assets at White Bluff and The Cliffs and determine the original cost of such assets.
70. To perform her analysis, Dr. Harkins looked only at invoices provided to her by Double Diamond Utilities for the utility assets and did not review any balance sheets or general ledgers.
71. The invoices reviewed by Dr. Harkins for purposes of determining the original cost of utility assets did not reflect the entirety of the pipe work for the White Bluff and The Cliffs systems.
72. Dr. Harkins performed a trending study to establish the original cost for certain of White Bluff's and The Cliffs's assets for which no invoice was available.

73. Double Diamond Utilities' Chief Financial Officer understood that the costs of Double Diamond Utilities' utility infrastructure would have been recorded in a balance sheet based on invoices for such expenses.
74. It is unclear whether historical records exist (or existed at the time the applications were prepared) showing the original construction costs for the collection and distribution lines at White Bluff and The Cliffs.
75. Construction of the collection and distribution lines at the White Bluff development began around 1990. Construction was ongoing through 2007 or 2008.
76. Dr. Harkins's use in her trending study of January 1, 1996, as an installation date for the pipe work was reasonable and appropriate.
77. Any gain in original cost from using 1996 as the installation date was corrected by installation performed up to ten years after that date and beyond, at which time the cost would have been even greater.

Fully Depreciated Assets

78. All assets that have fully depreciated should be removed from Double Diamond Utilities' White Bluff depreciation schedules, as set forth in Tables NDH-14, NDH-15, NDH-16, and NDH-17 of the direct testimony of the White Bluff Ratepayers Group witness Nelisa Heddin.

Taxes

Federal Income Tax Expense

79. Treating White Bluff and The Cliffs as separate entities when calculating federal income tax expense is not appropriate.
- 79A. The White Bluff and The Cliffs systems are both owned and operated by Double Diamond Utilities. Double Diamond Utilities is a subchapter S corporation, a pass-through entity.
- 79B. Double Diamond-Delaware, Inc., is a subchapter S corporation.
- 79C. Double Diamond-Delaware, Inc. is the parent company and sole shareholder of Double Diamond Utilities.

- 79D. R. Mike Ward is the majority shareholder of Double Diamond-Delaware, owner of 94.8% of the shares with an employee stock ownership plan owning 5.2%.
- 79E. Because Double Diamond-Delaware is also a subchapter S corporation, it is likely that the majority of tax expenses of Double Diamond Utilities are paid at the individual level by Mr. Ward, the majority shareholder of Double Diamond-Delaware.
- 79F. The record does not reflect what amount of Double Diamond Utilities' tax expense is paid by Mr. Ward or the applicable tax rate.
- 79G. It is appropriate to treat Double Diamond Utilities as a C corporation for the purpose of determining its federal income tax expense.
- 79H. Double Diamond Utilities' applicable federal income tax rate is 21% for ratemaking purposes.

Other Assessments and Taxes

80. The sales and title taxes for the 2014 Ford truck are included in the asset depreciation schedule and therefore should be removed from taxes.

Return on Invested Capital

Original Cost of Plant In Service

81. The correct original cost of a "75,000 gallon gst, field erect with pad" and "75,000 gallon gan, field erect mth pad" is \$16,565, and the water depreciation schedule for The Cliffs system should be revised accordingly.
82. The original cost of the "TK Crossbed Toolbox" set forth on the White Bluff sewer depreciation schedule should be revised to \$850 to remove an \$80 expense for a truck bed mat that was also included in White Bluff's cost of service.

Cash Working Capital

83. A reasonable cash working capital allowance for the White Bluff utility system is 1/12 of the system's operation and maintenance expenses.
84. Double Diamond Utilities maintains cash balances for both White Bluff and The Cliffs systems under one CCN, filed one annual report for both developments, and filed a single rate case for both developments.

85. Both the White Bluff and The Cliffs systems are operated and maintained by Double Diamond Utilities and have access to the same capital.
86. A reasonable cash working capital allowance for The Cliffs utility system is 1/12 of the system's operation and maintenance expenses.

Developer Contributions

87. In determining the original cost of used and useful utility plant, property, and equipment for purposes of calculating its rate base, Double Diamond Utilities used an asset list prepared jointly by Double Diamond Utilities' President Randy Gracy and Double Diamond Utilities witness Dr. Harkins, which identifies certain assets that were considered 80% developer-contributed. The 80% portion of the cost of those assets was removed from Double Diamond Utilities' rate-base calculation.
88. There is no contemporaneous accounting or other documentation showing that the assets on the asset list prepared by Mr. Gracy and Dr. Harkins were 80% developer-contributed.
89. Until December 1996, when Double Diamond Utilities was created, Double Diamond, Inc., another wholly-owned subsidiary of Double Diamond-Delaware, was the developer and the utility company at White Bluff and contracted for the construction of the original infrastructure of the White Bluff utility systems.
90. Before December 1996, most of the utility infrastructure was paid for by Double Diamond, Inc.
91. In 1997, Double Diamond Properties Construction Co., also created in December 1996 as a wholly-owned subsidiary of Double Diamond-Delaware, began paying for most of the utility infrastructure.
92. Approximately 61% of the water system assets and 60% of the sewer system assets included in Double Diamond Utilities' requested rate base for White Bluff were constructed before December 1996.
93. Most of the White Bluff assets included in Double Diamond Utilities' requested rate base for White Bluff that were constructed after December 1996 were paid for by Double Diamond Properties Construction Co.

94. In December 1997, Double Diamond Utilities filed an application to change rates at White Bluff, The Cliffs, and Oakwood, another development that it serves. In that filing, there were no contributions in aid of construction identified.
95. In August 2007, Double Diamond Utilities filed an application to change water rates at White Bluff, The Cliffs, and the Retreat, another development that it serves. The application was amended in December 2007, but neither the August 2007 nor the December 2007 amendment indicated that a portion of Double Diamond Utilities' assets included in rate base was developer contributed.
96. In October 2008, Double Diamond Utilities filed another rate change application for the water systems at White Bluff, The Cliffs, and the Retreat, which identified the amount of developer contributions as approximately \$1.9 million.
97. In February 2009, Double Diamond Utilities filed another rate change application for the water systems at White Bluff, The Cliffs, and the Retreat, and the application indicated a total of \$1,119,399 in developer contributions for the three systems.
98. There were some contributions made by the White Bluff developer to the investment made in utility plant, property, and equipment used to service ratepayers of the White Bluff water and sewer utility systems. It cannot be determined from the evidence the amount of such contributions.
99. Double Diamond Utilities is in the best position to access and discover the evidence necessary to differentiate between plant, equipment, and property contributed by the developer and that invested by Double Diamond Utilities.
100. The net book value of the utility assets claimed as part of Double Diamond Utilities' rate base and paid for by Double Diamond Utilities are properly included in Double Diamond Utilities' invested capital.
- 100A. Double Diamond Utilities provided a true and correct copy of a form real estate sales contract used to sell property in the White Bluff subdivision to purchasers. The contract is between the purchaser and the seller, identified in the contract as Double Diamond, Inc., and outlines the terms and conditions related to the sale of lots within White Bluff.

- 100B. Item number 9 in these contracts outlines that the seller, Double Diamond Inc., will be responsible for providing and completing the central water system and central sewer system.
- 100C. The contract then states that Double Diamond Utilities, the applicant and utility in this proceeding, will be responsible for maintaining the systems. Thus, based on the language in the contract, Double Diamond, Inc. was the party responsible for constructing, providing, and completing the water and sewer systems.
- 100D. It is appropriate to exclude the costs related to the initial infrastructure of the White Bluff systems from the rate base because Double Diamond Utilities did not fund the initial infrastructure of the White Bluff systems.

Property Not Belonging to Double Diamond Utilities

101. Tract 2 in White Bluff was conveyed by Double Diamond, Inc. to the White Bluff Property Owners Association in December 1995, as well as certain facilities included on such tract, including a water well, the water plant, and the water storage tank.
102. Double Diamond Utilities' request for the net book value of Tract 2 and the facilities on Tract 2 of \$88,565 and annual depreciation of \$2,060 to be included in its rate base should be denied.

Used and Useful

103. [DELETED]
104. [DELETED]
105. [DELETED]
106. [DELETED]
107. [DELETED]

Accumulated Deferred Federal Income Tax (ADFIT)

108. There is no accounting evidence that Double Diamond Utilities incurred a net operating loss or documentary proof in the record that Double Diamond Utilities did not defer payment of federal income taxes because of a net operating loss.

109. The estimate of the effect of the alleged net operating loss carryover on the ADFIT calculated by Commission Staff witness Debi Loockerman was unsupported.

Rate of Return

Return on Equity

110. A reasonable return on equity for Double Diamond Utilities, based on a discounted cash flow analysis employed with the capital asset pricing model is 8.79%.
111. A return on equity of 8.79% is reasonably sufficient to assure confidence in Double Diamond Utilities' financial soundness and will be adequate to maintain and support its credit and allow it to raise necessary capital.
112. A return on equity of 8.79% will not yield more than a fair return on Double Diamond Utilities' invested capital.
113. [DELETED]
114. A small stock risk premium on top of Double Diamond Utilities' return on equity is not warranted.
115. Approximately 40% of the unaccounted for water noted in the applications is water loss due to brine discharge after water from the lake goes through a reverse osmosis plant, and thousands of gallons a day used to backwash sand filters.
116. Additional water is used to regularly flush out the lines at White Bluff and The Cliffs and is therefore unaccounted for.
117. Double Diamond Utilities employs various methods at The Cliffs to track down leaks, and Double Diamond Utilities has responded to and repaired, discovered, and reported leaks in a reasonable manner.
118. The utility crew at The Cliffs is instructed to respond to reports of leaks as quickly as possible and make the necessary repairs. Some leaks can be fixed in a few hours, and most leaks are repaired the same day or the day after they are reported.
119. [DELETED]

Cost of Debt

120. A 4.91% cost of debt, which is Double Diamond-Delaware's overall weighted average cost of debt as of December 31, 2015, is an appropriate cost of Double Diamond Utilities' debt.

Capital Structure

121. Double Diamond Utilities took out a \$3 million loan secured by White Bluff utility assets, the proceeds of which Double Diamond-Delaware used to make capital improvements and for other purposes. Double Diamond-Delaware guaranteed repayment of the debt.

122. It is unclear exactly how the \$3 million proceeds of the loan were accounted for.

123. Double Diamond, Inc. has been making the payments on the loan; if Double Diamond, Inc. did not make those payments and there was a default, the bank would look to Double Diamond-Delaware as guarantor, and not Double Diamond Utilities, for payment.

124. The \$3 million loan is not related to Double Diamond Utilities' debt financing and therefore cannot serve as the basis for the capital structure recommended by the White Bluff Ratepayers Group.

125. The appropriate capital structure for Double Diamond Utilities is 47.27% debt and 52.73% equity, which is representative of the capital structure of other companies in the water utility industry and reflects an efficient use of capital.

Overall Rate of Return

126. Double Diamond Utilities' overall rate of return should be set as follows:

| Component | Ratio | Cost Rate | Weighted Cost Rate |
|------------------|--------------|------------------|---------------------------|
| Debt | 47.27% | 4.91% | 2.32% |
| Equity | 52.73% | 8.79% | 4.63% |
| Overall | | | 6.95% |

Rate Design

127. The rate structures set forth in attachment C to the proposal for decision will recover Double Diamond Utilities' revenue requirements for White Bluff water and White Bluff sewer.

128. The rate structures set forth in attachment D to the proposal for decision will recover Double Diamond Utilities' revenue requirement for The Cliffs water and The Cliffs sewer.

III. Conclusions of Law

1. Double Diamond Utilities is a utility and a public utility as defined in Texas Water Code (TWC) § 13.002(23), and a retail public utility as defined in TWC § 13.002(19).
- 1A. Double Diamond Utilities is a class B utility as defined in TWC § 13.002(4-b).
2. The Commission has jurisdiction over the applications under TWC §§ 13.041, 13.043(b), 13.181–.185, 13.1871, and 13.1872.
3. All required notices of the applications and the contested case hearing were given as required by law in TWC § 13.1871 and Administrative Procedure Act³⁴ §§ 2001.051–.052.
4. The ALJ conducted a contested case hearing and proposed a decision on the applications under the authority of chapter 2003 of the Texas Government Code and chapter 13 of the TWC.
5. Double Diamond Utilities bears the burden of proof that its proposed rates are just and reasonable under TWC § 13.184(c).
6. [DELETED]
- 6A. A utility may only include expenses that are reasonable and necessary to provide service to the ratepayers in its cost of service.
- 6B. The entities that own and operate the resorts are wholly-owned subsidiaries of Double Diamond-Delaware, Inc., and qualify as an affiliate under TWC 13.002(2).
- 6C. The 3% charge of overhead and general and administrative expenses from the White Bluff and The Cliffs resorts to Double Diamond Utilities constitute an affiliate transaction under TWC § 13.185(e).
- 6D. Expenses paid from Double Diamond Utilities to the resorts are an affiliate payment as under TWC § 13.185(e).

³⁴ Tex. Gov't Code Ann. §§ 2001.051-.052 (West 2016).

- 6E. Based on the evidence admitted, the Commission cannot find that the price to the utility is no higher than prices charged by the affiliate to others for the same item or class of items to others under TWC § 13.185(e) and these costs must be excluded.
7. [DELETED]
8. Double Diamond Utilities failed to meet its burden to show how much of the original cost of the utility assets included in its proposed rate base for White Bluff were contributed by the developer under TWC § 13.184(c).
- 8A. It is appropriate to exclude the costs related to the initial infrastructure of the White Bluff systems from the rate base because the ratepayers had already paid for these systems as part of the purchase price of their lots.
9. In compliance with TWC § 13.183, and based on the findings of fact and conclusions of law, Double Diamond Utilities' overall revenues approved in this case permit Double Diamond Utilities a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public over and above its reasonable and necessary operating expenses.
10. An overall rate of return of 6.95% will permit Double Diamond Utilities a reasonable opportunity to earn a reasonable return on its invested capital in accordance with TWC § 13.184.
11. The rates approved in this case are based on original cost, less depreciation, of property used and useful to Double Diamond Utilities' provision of service in accordance with TWC § 13.185
12. The rates approved in this case are just and reasonable, comply with the ratemaking provisions in TWC chapter 13, and are not unreasonably discriminatory, preferential, or prejudicial.
13. The increase in revenue that would have been generated by Double Diamond Utilities' proposed rates should be calculated using the proposed rates from the amended applications, which were those upon which a contested hearing was held under 16 TAC § 24.33(b).

IV. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders:

1. The Commission adopts the proposal for decision, including findings of fact and conclusions of law, except as discussed in this Order.
2. Double Diamond Utilities' application for a rate increase at White Bluff and The Cliffs is approved, as amended by the proposal for decision and this Order.
3. Double Diamond Utilities shall record its excess accumulated deferred federal income tax in a regulatory liability account for return to customers in Double Diamond Utilities' next base-rate case.
4. Within 10 days of the issuance of this Order, Double Diamond Utilities shall file with the Commission's Docket Clerk a copy of its tariff with the approved rates.
5. All other motions and any other requests for general or specific relief, if not expressly granted, are denied.

Signed at Austin, Texas the _____ day of May 2018.

PUBLIC UTILITY COMMISSION OF TEXAS

DEANN T. WALKER, CHAIRMAN

ARTHUR C. D'ANDREA, COMMISSIONER