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SOAH DOCKET NO. 473-17-0067.WS

PUC DOCKET NO. 46247

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PUBLIC UTILITY COMMISSION  
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APPLICATION OF DOUBLE DIAMOND §  
PROPERTY CONSTRUCTION CO DBA §  
ROCK CREEK FOR A WATER §  
RATE/TARIFF CHANGE §

PUBLIC UTILITY COMMISSION  
OF TEXAS

### PRELIMINARY ORDER

On August 1, 2016, Double Diamond Property Construction Co d/b/a Rock Creek filed an application for a water rate/tariff change under Texas Water Code (TWC) § 13.1871. On September 1, 2016, Commission Staff found the application administratively complete and recommended that this matter be referred to the State Office of Administrative Hearings (SOAH) on the Commission's own motion since more than ten percent of Rock Creek's ratepayers protested the rate change.<sup>1</sup> On September 6, 2016, this docket was referred to SOAH. On September 14, 2016, Commission Staff timely filed a list of issues.

Rock Creek states it is a Class B utility.<sup>2</sup> In its application, Rock Creek requests approval of a \$153,485 revenue requirement, effective October 1, 2016.<sup>3</sup> The proposed rate increase affects 76 active connections in the certificated area recently acquired by Rock Creek under water certificate of convenience and necessity number 13235.<sup>4</sup>

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<sup>1</sup> Commission Staff's Recommendation on Administrative Completeness of the Application and Notice at 2 (Sept. 1, 2016).

<sup>2</sup> Application at 55 (Aug. 1, 2016).

<sup>3</sup> *Id.* at 10.

<sup>4</sup> Commission Staff's Recommendation on Administrative Completeness of the Application and Notice at 4.

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### **I. Issues to be Addressed**

The Commission must provide to the ALJ a list of issues or areas to be addressed in any proceeding referred to SOAH.<sup>5</sup> After reviewing the pleadings submitted by the parties, the Commission identifies the following issues that must be addressed in this docket:

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>6</sup>
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>7</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 service?<sup>8</sup>
6. What adjustments, if any, should be made to the utility's proposed test-year data?<sup>9</sup>
7. What is the appropriate debt-to-equity capital structure of the utility?

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<sup>5</sup> Tex. Gov't Code Ann. § 2003.049(e) (West 2016).

<sup>6</sup> TWC § 13.182(a), 13.1871(o); 16 TAC § 24.28(d).

<sup>7</sup> TWC § 13.183(a)(1)-(2); 16 TAC § 24.32(a).

<sup>8</sup> 16 TAC § 24.31.

<sup>9</sup> TWC § 13.185(d)(1); 16 TAC § 24.31(b), (c)(5).

8. What is the appropriate overall rate of return, return on equity, and cost of debt for the utility?
9. What are the reasonable and necessary components of the utility's invested capital?<sup>10</sup>
10. What is the appropriate weighted average cost of capital?
11. 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?
12. 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>11</sup>
  - a. What is the amount, if any, of accumulated depreciation on such property?
13. 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?<sup>12</sup>
14. Does the utility have any debt? If so, what is the cost of that debt?
15. What is the reasonable and necessary working capital allowance for the utility?<sup>13</sup>
16. 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

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<sup>10</sup> 16 TAC § 24.31(c)(2).

<sup>11</sup> TWC § 13.185(b); 16 TAC § 24.31(c)(2)(A)-(B).

<sup>12</sup> TWC § 13.185(b); 16 TAC § 24.31(c)(4).

<sup>13</sup> 16 TAC § 24.31(c)(2)(C).

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>14</sup>

17. 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)?
18. Has the utility financed any of its plant with developer contributions?<sup>15</sup> What is the amount, if any, of accumulated depreciation on that property?
19. Has the utility included any customer contributions or donations in invested capital?<sup>16</sup>
20. What are the utility's reasonable and necessary operations and maintenance expenses?<sup>17</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>18</sup>
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>19</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 charge that amount? What is the amount of any shortage or surplus for the reserve

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<sup>14</sup> TWC § 13.185(i).

<sup>15</sup> TWC § 13.185(j), 16 TAC § 24.31(b)(1)(B).

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

<sup>17</sup> 16 TAC § 24.31(b)(1)(A).

<sup>18</sup> 16 TAC § 24.31(b)(1)(F).

<sup>19</sup> TWC § 13.185(h)(3); 16 TAC § 24.31(b)(2)(I).

- account, and what actions, if any, should be taken to return the reserve account to the approved target amount?
25. What are the utility's reasonable and necessary expenses, if any, for pension and other post-employment benefits?
26. 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>20</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>21</sup>
27. 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>22</sup>
28. 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?
29. What is the reasonable and necessary amount, if any, for assessment and taxes other than federal income taxes?<sup>23</sup>

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<sup>20</sup> TWC § 13.185(e).

<sup>21</sup> *Id.*

<sup>22</sup> TWC § 13.185(j); 16 TAC § 24.31(b)(1)(B).

<sup>23</sup> 16 TAC § 24.31(b)(1)(C).

30. What is the reasonable and necessary amount for the utility's federal income tax expense?<sup>24</sup>
- a. Is the utility a member of an affiliated group that is eligible to file a consolidated income tax return?<sup>25</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>26</sup>
  - c. If not, has the utility demonstrated that it was reasonable not to consolidate returns?<sup>27</sup>
31. 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?
32. What is the reasonable and necessary amount for municipal franchise fees, if any, to be included in rates?
33. 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 assets?
34. 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?

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<sup>24</sup> 16 TAC § 24.31(b)(1)(D); TWC § 13.185(f).

<sup>25</sup> TWC § 13.185(f).

<sup>26</sup> *Id.*

<sup>27</sup> *Id.*

35. What is the appropriate allocation of the revenue requirement among rate classes?
36. What is the appropriate rate design for each rate class?<sup>28</sup>
  - a. What is the appropriate fixed charge?
  - b. What is the appropriate volumetric charge?
37. In establishing the proposed rate increase, did the utility allocate costs and revenues among its customers 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?
38. 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?
39. What are the utility's expenses incurred in this rate proceeding that are just, reasonable, necessary, and in the public interest?<sup>29</sup> 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? If so, how should such expenses, if any, be recovered by the utility?
40. If a refund or surcharge results from this proceeding, how and over what period of time should that be made?<sup>30</sup>

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<sup>28</sup> 16 TAC § 24.32.

<sup>29</sup> 16 TAC § 24.33.

<sup>30</sup> TWC § 13.1871.



41. 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>31</sup>
42. What is the appropriate effective date of the rates fixed by the Commission in this proceeding?<sup>32</sup>

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 Texas Government Code Annotated § 2003.049(e).

#### **IV. Effect of Preliminary Order**

The Commission's discussion and conclusions in this Order regarding issues that are not to be addressed should be considered dispositive of those matters. Questions, if any, regarding issues that are not to be addressed may be certified to the Commission for clarification if the SOAH ALJ determines that such clarification is necessary. As to all other issues, 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 the non-dispositive rulings of 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.

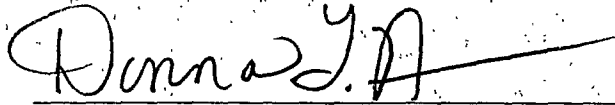
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<sup>31</sup> 16 TAC § 24.29.

<sup>32</sup> TWC § 13.1871.

SIGNED AT AUSTIN, TEXAS the 23<sup>rd</sup> day of September 2016.

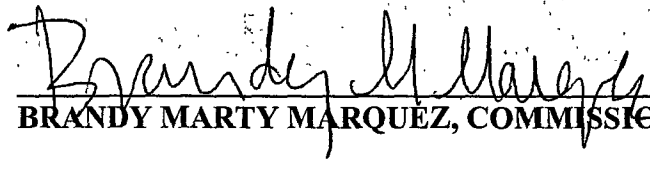
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