

Control Number: 46438



Item Number: 169

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APPLICATION OF J&S WATER §
COMPANY, LLC FOR A RATE/TARIFF §
CHANGE §

PUBLIC UTILITY COMMISSION
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COMMISSION OF TEXAS

COMMISSION STAFF'S LIST OF ISSUES

Commission Staff (Staff) of the Public Utility Commission of Texas (Commission) files its List of Issues. In support of its List of Issues, Staff states the following:

I. Background

J&S Water Company, LLC (J&S Water) serves less than ten thousand (10,000) connections and thus is a Class B utility under the Texas Water Code.¹ On October 13, 2016, J&S Water initiated this proceeding for Commission approval of a proposed increase in its water rates and sewer rates. J&S Water subsequently filed their application on November 23, 2016, and supplemented that application on January 10 and 18, 2017. J&S Water requests a cumulative increase of \$233,932 or a 28.06% increase in its current revenue requirement for water service and sewer service. J&S Water proposed March 1, 2017 as the effective date.

On January 23, 2017, the Commission Administrative Law Judge issued Order No. 3, which revised J&S Water's proposed effective date of March 1, 2017 to April 1, 2017. Additionally, Order No. 3 suspended the revised effective date of April 1, 2017 by no longer than 265 days.

On January 17, 2017, the Commission referred this proceeding to the State Office of Administrative Hearings. In its Order of Referral, the Commission permitted Staff to file a list of issues to be addressed in this proceeding. Staff presents its List of Issues for the Commission's consideration.²

¹ See Tex. Water Code § 13.002(4-b) (defining a "Class B utility" as "a public utility that provides retail water or sewer utility service through 500 or more taps or connections but fewer than 10,000 taps or connections.").

² The Order of Referral permitted parties to file a list of issues by February 13, 2017. Staff's List of Issues is therefore timely filed.

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II. List of Issues

Staff has identified the following issues that should be considered by the Commission in this proceeding:

1. What is the appropriate methodology to determine just and reasonable water rates and sewer rates for J&S Water?
2. What are the just and reasonable rates for J&S Water that are sufficient, equitable, and consistent in application to each customer class and that are not unreasonably preferential, prejudicial, or discriminatory?³ If not, what water rates and sewer rates are just and reasonable?⁴
3. What revenue requirement will give J&S Water 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 J&S Water's financial integrity?⁵
4. Are J&S Water's proposed revisions to its tariffs and rate schedules appropriate?
5. What is the reasonable and necessary cost of providing service?⁶
6. What adjustments, if any, should be made to J&S Water's proposed test-year data?⁷
7. What is the appropriate debt-to-equity capital structure of J&S Water?
8. What is the appropriate overall rate of return, return on equity, and cost of debt for J&S Water?⁸
9. What are the reasonable and necessary components of J&S Water's invested capital?⁹
10. Is an acquisition adjustment appropriate?¹⁰

³ Tex. Water Code (TWC) § 13.182(a).

⁴ TWC § 13.187(h).

⁵ TWC § 13.183(a)(1)-(2); 16 Tex. Admin. Code (TAC) § 24.32(a).

⁶ 16 TAC § 24.31.

⁷ TWC § 13.185(d)(1); 16 TAC § 24.31(b).

⁸ 16 TAC § 24.31(c)(1).

⁹ 16 TAC § 24.31(c)(2).

¹⁰ 16 TAC § 24.31(d) and (e).

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 service to the public at the time the property was dedicated to public use?¹¹ What is the amount, if any, of accumulated depreciation on such property?
13. Is J&S Water seeking the inclusion of construction work in progress? If so, what is the amount sought and for what facilities? Additionally, has J&S Water proven that the inclusion is necessary to its financial integrity and that major projects under construction have been efficiently and prudently planned and managed?¹²
14. Does J&S Water have any debt? If so, what is the cost of that debt?
15. What is the reasonable and necessary working capital allowance for J&S Water?¹³
16. Does the J&S Water 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 J&S Water 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 J&S Water and its affiliate?¹⁴
17. Has J&S Water 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)?
18. Has J&S Water financed any of its plant with developer contributions?¹⁵ What is the amount, if any, of accumulated depreciation on that property?
19. Has J&S Water included any customer contributions or donations in invested capital?¹⁶

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

¹² TWC § 13.185(b); 16 TAC § 24.31(c)(4).

¹³ 16 TAC § 24.31(c)(4).

¹⁴ TWC § 13.185(i).

¹⁵ TWC § 13.185(j); 16 TAC § 24.31(b)(1)(B).

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

20. Are J&S Water's proposed pro forma rate-base and expense adjustments consistent with the requirements of 16 TAC § 24.31?
21. What are J&S Water's reasonable and necessary operations and maintenance expenses?¹⁷
22. What are J&S Water's reasonable and necessary administrative and general expenses?
23. What is the reasonable and necessary amount for J&S Water's advertising expense, contributions, and donations?¹⁸
24. 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?¹⁹
25. If J&S Water 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 appropriate to charge 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?
26. Has J&S Water made any payments to affiliates?
 - a. For affiliate transactions that affect the cost of service, are these transactions reasonable and necessary?²⁰
 - b. For affiliate transaction that affect 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?²¹
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?²²

¹⁷ 16 TAC § 24.31(b)(1)(A).

¹⁸ 16 TAC § 24.31(b)(1)(F).

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

²⁰ TWC § 13.185(e).

²¹ *Id.*

²² TWC § 13.185(j); 16 TAC § 24.31(b)(1)(B).

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 J&S Water, 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?²³
30. What is the reasonable and necessary amount for J&S Water's federal income tax expense?²⁴
 - a. Is J&S Water a member of an affiliated group that is eligible to file a consolidated income tax return?²⁵
 - b. If so, have income taxes been computed as though a consolidated return had been filed and J&S Water realized its fair share of the savings resulting from the consolidated return?²⁶
 - c. If not, has J&S Water demonstrated that it was reasonable not to consolidate returns?²⁷
31. What is the reasonable and necessary amount of J&S Water'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 J&S Water's rate base?
32. What regulatory assets are appropriately included in J&S Water's rate base? If such assets are included in rate base, what is the appropriate treatment of such assets?
33. Is J&S Water 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?

²³ 16 TAC § 24.31(b)(1)(C).

²⁴ TWC § 13.185(f); 16 TAC § 24.31(b)(1)(D).

²⁵ TWC § 13.185(f).

²⁶ *Id.*

²⁷ *Id.*

34. What is the appropriate allocation of the revenue requirement among rate classes?
35. What is the appropriate rate design for each rate class?²⁸
36. What are J&S Water's expenses incurred in this rate proceeding that are just, reasonable, necessary, and in the public interest? Does that amount include any anticipated expenses to appeal this docket? Should J&S Water be able to recover its reasonable and necessary rate-case expenses from ratepayers? If so, how should such expenses, if any, be recovered by J&S Water?
37. To the extent that there are any intervening cities, what are the intervening cities' reasonable rate-case expenses?²⁹
38. If a refund or surcharge results from this proceeding, how and over what period of time should that be made?³⁰
39. Has J&S Water 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?
40. What is the appropriate effective date of the rates fixed by the Commission in this proceeding?³¹

III. Conclusion

Staff requests that its list of issues be among the issues that will be considered by the Commission in this proceeding.

²⁸ 16 TAC § 24.32.

²⁹ TWC § 13.084.

³⁰ TWC § 13.1871.

³¹ *Id.*


Date: February 10, 2017

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF
TEXAS LEGAL DIVISION**

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**PUC DOCKET NO. 46438
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CERTIFICATE OF SERVICE

I certify that a copy of this document was served on all parties of record on February 10, 2017, in accordance with 16 TAC § 22.74.



Sam Chang