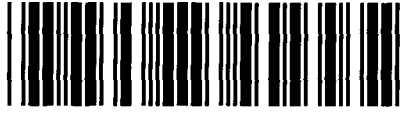


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DOCKET NO. 46553

APPLICATION OF CARROLL WATER §
COMPANY, INC. FOR AUTHORITY TO §
CHANGE RATES §

RECEIVED
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OF TEXAS

STAFF'S ATTACHMENT TO SUPPLEMENTAL COMMENTS ON ADMINISTRATIVE COMPLETENESS

Comes now the Staff ("Staff") of the Public Utility Commission of Texas ("Commission"), representing the public interest, and files this memorandum, which was referenced as an attached memorandum, but was inadvertently not filed as an attachment, to the Staff's Supplemental Comments on Administrative Completeness filed on February 3, 2017.

Dated: February 10, 2017

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

Margaret Uhlig Pemberton
Division Director

Stephen Mack
Managing Attorney

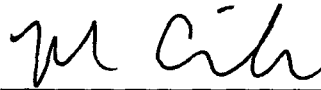


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DOCKET NO. 46553
CERTIFICATE OF SERVICE

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



Michael Crnich

Public Utility Commission of Texas

Memorandum

TO: Michael Crnich, Attorney
Legal Division

THRU: Debi Loockerman, Financial Manager
Water Utility Regulation

FROM: Fred Bednarski III, Financial Examiner
Greg Charles, Staff Engineer
Water Utility Regulation

DATE: February 03, 2017

SUBJECT: *Docket No. 46553, Application of Carroll Water Company, Inc. for Authority to Change Rates*

On November 8, 2016, Carroll Water Company Inc., (Carroll Water or Applicant), water Certificate of Convenience and Necessity (CCN) No. 11543, filed an application with the Public Utility Commission of Texas (Commission) for a water rate/tariff change in Ellis County, Texas. An administrative review of this application is now being made pursuant to Texas Water Code §§ 13.1871 (TWC) and 16 Tex. Admin. Code §§ 24.8 and 24.22 (TAC). Carroll Water currently provides retail water utility service through public water system (PWS) #0700064 (Spanish Grant), #0700058 (Emerald Forest), #0700063 (Grande Casa Ranchitos), #0700057 (Lakeview Ranchettes Estates), and #07000056 (Red Oak Community Water Service) to approximately 554 connections.

On January 26 and 30, 2017, Carroll Water supplemented their application. Staff has reviewed the supplemental filings and found the application contains several material errors and inconsistencies. The Applicant did not request return on equity on Schedule III-1, which affects the total cost of service on Schedule I-1. Furthermore, the Applicant included apparent capital expenditures as part of administrative and general expenses. Specifically, the Applicant capitalized payroll expenses of \$88,568 on Schedule II-6. However, payroll expense in Schedule I-1 was not reduced by the same amount and it is not clear whether or not the Applicant capitalized these payroll expenses into Schedule III-3. If adjustments are made to the cost of service because of these errors, it is likely that the requested increase will not be supportable because the Applicant did not request return.

The application reflects significant increases in expenses from prior years, specifically for Materials, Professional Services, and Regulatory Commission expense, but no explanation or calculations were provided for known and measurable changes, as required by the application instructions. Some of the capital expenses for materials included in operations and maintenance expenses on Schedule I-1 were identified to be included on the Depreciation Schedule III-3 for the Grand Casa System, which causes duplicate recovery in the cost of service. Staff additionally found expenses from Schedule IV(a) and Schedule IV(b) were not carried forward to line 27 on Schedule I-1 of the application.

Public Utility Commission of Texas

Memorandum

Because of the extensive nature of the deficiencies, Staff recommends that the Commission dismiss the application. Alternatively, if the Commission decides to allow the Applicant additional time to supplement or amend its application, Staff advises the Commission that the corrections to the application are extensive and may require more time than typically allowed for a completed rate application to be supplemented to meet sufficiency requirements. If the Commission finds that the application is insufficient and allows time for supplementation, Staff recommends that the Commission order the Applicant to supplement the application as follows:

1. Ensure all capitalized expenses are not included as part of administrative and general expenses, and capitalized on the Depreciation Schedules by amending Schedules II-6, II-7, and III-3 as appropriate.
2. Provide an application with a revised test year for the "most recent 12-month period, beginning on the first day of a calendar or fiscal year quarter, for which operating data is available." The proposed test year ends on 2/29/16, which indicates that the Applicant filed a test year inconsistent with the definition of a test year in 16 TAC § 24.3(71).
3. Provide explanations for expenditures that increase significantly from prior years and all known and measureable changes as applicable on Schedules II-7, II-15, and II-18.
4. Per the instructions on Schedule II-6(a), attach a brief summary of the utility's capitalization policy and explain any changes in capitalization rates of more than 5% per year as applicable.
5. Provide gallonage billing data for all tiers based on the test year.
6. Amend the depreciation expense claimed on Schedule I-1 to accurately reflect the supporting depreciation schedules submitted for Schedules III-3.
7. Provide Microsoft Excel version of Schedules III-3.
8. Confirm service lives on the depreciation Schedules III-3 are accurate.
9. Provide a copy of Carroll Water's most recently approved tariff.
10. Provide a revised draft notice based on the new schedules with accurate billing comparisons and miscellaneous fees based on the current tariff including tap fee, reconnect fee per customer request, transfer fee, and meter test fee.
11. Carry forward all expenses from Schedule IV(a) and Schedule IV(b) to line 27 of Schedule I-1, ensuring that the appropriate references tie to one another between schedules.
12. Complete Schedules III-1 and all supporting schedules to ensure the Applicant has the opportunity to earn a reasonable return amount based on its investments.
13. Once changes are made to all the supporting schedules, the Applicant should update and recalculate Schedule I-1 with the new amounts. Specifically, the Applicant should ensure rows for columns D and E contain the accurate amount based on the appropriate supporting schedule, and that each row in column F contains the correct amount.