



Control Number: 47912



Item Number: 53

Addendum StartPage: 0

PUC DOCKET NO. 47912
SOAH DOCKET NO. 473-18-2475 WS

RECEIVED

RATEPAYERS' APPEAL OF THE §
DECISION BY SOUTH CENTRAL §
CALHOUN COUNTY WATER §
CONTROL AND IMPROVEMENT §
DISTRICT NO. 1 TO CHANGE RATES §

2019 MAY -3 PM 1:36
PUBLIC UTILITY COMMISSION
PUBLIC UTILITY COMMISSION
FILING CLERK
OF TEXAS

ORDER

The Commission remands this proceeding to the Office of Policy and Docket Management to allow the parties an opportunity to provide additional information to address the Commission's concerns regarding the \$62,533 that South Central Calhoun County Water Control and Improvement District No. 1 included in its revenue requirement for anticipated repairs or replacements.

Consistent with the Commission's discussion at the April 18, 2019 open meeting and Commissioner Botkin's April 17, 2019 memo, the Commission is concerned that there is not enough evidence in the record to support including the \$62,533 in anticipated repairs in the district's rates. While the Texas Water Code (TWC) is clear to exclude entities such as the district from certain ratemaking requirements,¹ it also makes clear that, in an appeal under TWC § 13.043(b), the Commission is required to hear the appeal de novo and fix the rates the district should have fixed, considering only information that was available to the district at the time the rate increase was made.² The rates must also be just and reasonable; not unreasonably preferential, prejudicial, or discriminatory; and sufficient, equitable, and consistent in application to each class of customer.³ The Commission is also required to use a methodology that preserves the financial integrity of the district.⁴ To that end, based on reasonable ratemaking methodologies, the Commission finds that the amounts to be included in rates must be known with a reasonable degree

¹ Texas Water Code (TWC) § 13.181(a).

² TWC § 13.043(e).

³ TWC § 13.043(j).

⁴ *Id.*

of certainty, and the amounts must be apt to prevail in the future, i.e. likely to recur each year or on a normalized basis for costs that recur on a periodic basis.

The current record does not demonstrate that the district knew the questioned repair expenses with a reasonable degree of certainty when it voted to increase its rates on September 15, 2017. The president of the board of directors of the district provided testimony to describe what the district included in the \$62,533 in anticipated repairs.⁵ The list includes a clarifier replacement for \$21,955, but this amount is based on a proposal from 2012. The list also includes a chlorinator replacement for \$6,281, but this amount is based on a 2016 estimate. This testimony is not sufficient for the Commission to include these costs as known costs that the district would incur. If there is other information, such as updated amounts, an updated calculation based on inflation, or something similar, to show the district knew these expenses at the time it voted to increase its rates, then the record should be updated to include such information.

The list of anticipated repairs also includes a drying field sludge removal for \$11,000, but the testimony states that the district had received no proposals for this anticipated maintenance before it voted to increase rates. Based on the current record, it is uncertain how this amount was known when the board voted to increase its rates. However, if the board had knowledge of this amount when it voted to increase rates, that information should be added to the record.

Additionally, the list of anticipated repairs also includes \$352.50 for work by an electrician, and the testimony states that the work was conducted after the board voted to increase rates. The record is unclear how the board knew this amount at the time it voted to increase the district's rates. If this amount was known to the district before it adopted the increase in rates, then the record should be updated to include such information.

The Commission also requires that the amounts included in the revenue requirement should reflect costs likely to recur in the future. A general ratemaking principle is that rates are set for an indefinite period into the future based on the costs of service in a test year that are likely to continue into the future.⁶ In this proceeding, there is no indication that all of the \$62,533 will recur beyond the one-time payment for each of the anticipated repairs. It is not a reasonable ratemaking

⁵ Supplemental Direct Testimony of Alan Gino Aguirre at Ex. 26 at 1.

⁶ See, e.g. *Suburban Utility Corporation v. Public Utility Commission*, 652 S.W.2d 358, 366 (Tex. 1983).

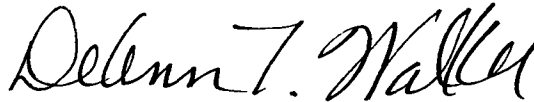
methodology to include the full amount of \$62,533 in rates that the district will charge continuously going forward if the \$62,533 includes only one-time, non-recurring expenses.

The record seems to indicate that at least one of the repairs, the \$21,995 needed to replace a clarifier, should have a useful life of at least seven years,⁷ and the clarifier may need to be replaced regularly after that amount of time. This expense may be a proper cost if normalized. If the parties can show that repairs are likely to recur each year or can be normalized at an annual amount, then the record should be supplemented to include this information. If an expense is a one-time, non-recurring expense, then the parties may look into modifying the settlement in order to recover such costs through a surcharge.

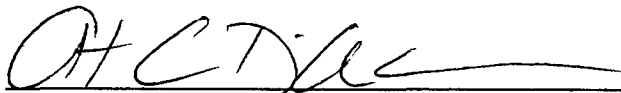
The parties should either supplement the record, provide additional briefing on the existing record, or file an amended agreement to address the Commission's concerns discussed above.

Signed at Austin, Texas the 3rd day of May 2019.

PUBLIC UTILITY COMMISSION OF TEXAS



DEANN T. WALKER, CHAIRMAN



ARTHUR C. D'ANDREA, COMMISSIONER



SHELLY BOTKIN, COMMISSIONER

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⁷ District's Response to Staff Request for Information 2-9.

