



Control Number: 47912



Item Number: 79

Addendum StartPage: 0

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



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

§
§
§
§
§

PUBLIC UTILITY COMMISSION

OF TEXAS

**COMMISSION STAFF'S FINAL RECOMMENDATION AND UNOPPOSED REQUEST
FOR EXTENSION**

COMES NOW the Staff (Staff) of the Public Utility Commission of Texas (Commission), representing the public interest, and files this Final Recommendation. In support thereof, Staff shows the following:

I. BACKGROUND

On December 28, 2017, ratepayers (Ratepayers) of South Central Calhoun County Water Control and Improvement District No. 1 (the District)) filed a petition appealing the change in retail water rates by WCID No. 1, effective on November 1, 2017. The appeal was filed pursuant to Texas Water Code (TWC) § 13.043(b).

Through mediation, Staff and the District reached a settlement agreement that was filed on September 21, 2018 and considered by the Commission at the April 18, 2019 open meeting. At the meeting, the Commissioners discussed a memorandum filed by Commissioner Botkin raising concerns about whether the record contained evidence sufficient to support the inclusion of \$62,533 for the District's anticipated expenses for repairs in the settled revenue requirement. The Commission voted to remand the proceeding to the Office of Policy and Docket Management and requested either the supplementation of the record, additional briefing on the existing record, or an amended agreement that addressed the Commission's concerns regarding the \$62,533.

On October 11, 2019, the District filed supplemental briefing and the supplemental direct testimonies of Scott Mason, P.E., Tamera Atkins, and Natasha Martin. In Order No. 10 issued on May 22, 2020, Staff was directed to file a final recommendation and joint proposed order by June 1, 2020. Therefore, this pleading is timely filed.

II. STAFF RECOMMENDATION

Staff recommends amending the settlement revenue requirement downward from \$162,775 to \$108,059.50. Relying on reasonable ratemaking methodologies, the Commission's May 3, 2019 Order stated that the amounts included in the District's rates must have been known with a reasonable degree of certainty at the time the District voted to increase its rates and must be likely to recur each year or on a normalized basis.¹ The Commission also acknowledged that it must use a rate setting methodology that preserves the financial integrity of the District and must "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 expenses that make up the \$62,533 of anticipated repairs that are the subject of the Order are related to the following assets: clarifier, chlorinator, Ebara grinder pump, two lift station pumps, lift station control board, and drying field sludge removal.³ The Order provided some guidance regarding options for amending the settlement revenue requirement, including normalizing a nonrecurring expense over an asset's service life and including the normalized amount in the revenue requirement and recovering one-time, non-recurring expenses through a surcharge.⁴ Below is a summary of the evidence in the record, as supplemented by the District on October 11, 2019, related to each asset included in the \$62,533 of expenses along with Staff's recommendation regarding recovery of that asset.

Clarifier

The District's sewer plant is 27 years old and is fully depreciated.⁵ The District received proposals for the cost of replacing the clarifier in 2012 (\$21,995) and 2018 (\$28,867).⁶ There was also an estimate from 2015 that was known to the Board when it voted to increase rates.

¹ Order at 1-2 (May 3, 2019).

² *Id.* at 1.

³ South Central Calhoun County Water Control and Improvement District No. 1's Supplemental Briefing Per Order No. 4 and May 3 Order at 5 (Oct. 11, 2019) (District's Supp. Brief).

⁴ *Id.* at 3.

⁵ Supplemental Direct Testimony of Scott P. Mason, P.E. at 4-5 (Oct. 11, 2019) (Mason Supp.).

⁶ Supplemental Direct Testimony of Tamera Atkins at Exhibit 45 (Oct. 11, 2019) (Atkins Supp.); South Central Calhoun Water Control Improvement District No. 1's Response to Commission Staff's Third Request for Information at Staff 3-1 (Feb. 6, 2020) (District Response to 3rd RFI); Supplemental Direct Testimony of Alan Gino Aguirre at Exhibit 38 (Sep. 21, 2018) (Aguirre Supp.).

This estimate included a broader scope of work than the 2012 estimate, but the Board took action on the less expensive proposal to save the District funds.⁷

A replacement of the clarifier would not be a recurring expense, and the cost of replacing the clarifier was not included in the District's 2018 budget.⁸ Based on the service and repair schedules employed by the District, this cost could recur on a periodic basis of approximately seven years, which is the service life shown in the District's depreciation schedule.⁹ The clarifier is one of the assets that will require annual service.¹⁰ The District estimates that it will cost \$4,160 annually to maintain/repair the clarifier but has not indicated whether this information was available to the Board at the time it approved the rates subject to this appeal.¹¹

The District has indicated that the rate-case expenses associated with this appeal resulted in a budget deficit of \$58,688 at the end of 2018.¹² Due to the additional rate-case expenses, the District could not afford to make all of the repairs and replacements on the \$62,533 list.¹³ Currently, the District plans to rehabilitate the clarifier in 2020.¹⁴ In addition, the District has indicated that "[t]he Board wants to secure a rate study before doing another increase but may implement a small increase just based on recurring operating costs and anticipated repairs, before we can get a study done."¹⁵

Staff recommends that the District did not know the cost of replacing the clarifier with a reasonable degree of certainty at the time it voted to increase its rates. Staff further recommends that the record does not reflect that this cost is likely to recur each year. Therefore, Staff recommends that the \$21,995 for the clarifier should be deducted from the settled revenue requirement of \$162,774. Should the District vote to increase rates before completing a rate

⁷ District's Supp. Brief at 5-6.

⁸ Atkins Supp. at Exhibit 45.

⁹ Mason Supp. at 6, Exhibit No. 41.

¹⁰ *Id.*

¹¹ District Response to 3rd RFI at Staff 3-5.

¹² Atkins Supp. at 6.

¹³ *Id.* at 6-7.

¹⁴ District's Response to 3rd RFI at Staff 3-1.

¹⁵ Atkins Supp. at 7.

study, Staff would recommend that the increase recover a normalized amount for the cost of the clarifier that reflects its seven year service life.¹⁶

Chlorinator

The District received proposals for the cost of replacing the chlorinator in 2016 (\$6,281) and 2019 (\$23,777).¹⁷ A replacement of the chlorinator would not be a recurring expense, and the cost of replacing the chlorinator was included in the District's 2018 budget.¹⁸ Based on the service and repair schedules employed by the District, this cost could recur on a periodic basis of approximately 7 years.¹⁹ The chlorinator is one of the assets that will require annual service.²⁰ The District estimates that it will cost \$1,400 annually to maintain/repair the chlorinator but has not indicated whether this information was available to the Board at the time it approved the rates subject to this appeal.²¹ The chlorinator was replaced in 2019.²²

The District knew that the chlorinator needed to be replaced at the time it voted to adopt the rates at issue in this case. The amount for the chlorinator included in the revenue requirement agreed to by the parties is the \$6,281. This amount should be removed from the rates because replacing the chlorinator is not recurring expense. The District has now replaced the chlorinator at a cost of \$23,777. To preserve the District's financial integrity, Staff recommends that the District recover the cost of replacing the chlorinator via a monthly surcharge of \$3.36 per main connection²³ collected for a period of 24 months.

¹⁶ Staff acknowledges that the Commission does not have original jurisdiction over any future rate increase approved by the District. However, should a future rate increase result in another appeal, Staff would recommend that the District set rates that recover its costs in a manner that is consistent with reasonable rate making methodologies.

¹⁷ Atkins Supp. at Exhibit No. 45; District Response to 3rd RFI at Staff 3-1; Aguirre Supp. at Exhibit No. 38.

¹⁸ Atkins Supp. at Exhibit No. 45.

¹⁹ Mason Supp. at 6, Exhibit No. 41.

²⁰ Mason Supp. at 6.

²¹ District Response to 3rd RFI at Staff 3-5.

²² *Id.* at Staff 3-1.

²³ $(23,777 / 24) / 295 = 3.358$.

Ebara Grinder Pump

The District received proposals for the cost of replacing the Ebara grinder pump in 2013 (\$6,433) and 2019 (\$6,107).²⁴ A replacement of the Ebara grinder pump would not be a recurring expense, and the cost of replacing this asset was not included in the District's 2018 budget.²⁵ Based on the service and repair schedules employed by the District, this cost could recur on a periodic basis of approximately 7 years, which is the service life shown in the District's depreciation schedule.²⁶ The Ebara grinder pump is one of the assets that will require annual service.²⁷ The District estimates that it will cost \$1,640 annually to maintain/repair the Ebara grinder pump but has not indicated whether this information was available to the Board at the time it approved the rates subject to this appeal.²⁸ The Ebara grinder pump was replaced in 2019.²⁹

The revenue requirement agreed to by the parties in this case was \$162,775.³⁰ The District has acknowledged that included in this amount is the \$62,533 in anticipated expenses that have raised questions.³¹ The rates agreed to by the parties generate revenues of only \$153,240.³² Therefore, Staff recommends that the \$6,433 for the Ebara grinder pump can be deducted from the \$162,775 revenue requirement agreed to by the parties without affecting the agreed upon rates.

Lift Station Pumps

The District received a proposal for the cost of replacing two lift station pumps in 2017 (\$16,512 or \$8,256 per pump).³³ Replacing the lift station pumps would not be a recurring

²⁴ Atkins Supp. at Exhibit No. 45; District Response to 3rd RFI at Staff 3-1.

²⁵ Atkins Supp. at Exhibit No. 45.

²⁶ Mason Supp. at 6, Exhibit No. 41.

²⁷ Mason Supp. at 6.

²⁸ District Response to 3rd RFI at Staff 3-5.

²⁹ *Id.* at Staff 3-1.

³⁰ Testimony of Heidi Graham in Support of the Stipulation, Attachment HG-3 (Sep. 21, 2018).

³¹ Supplemental Direct Testimony of Alan Gino Aguirre at 6 (Sep. 21, 2018).

³² *Id.*

³³ Atkins Supp. at Exhibit No. 4.

expense, and the cost of replacing these pumps was included in the District's 2018 budget.³⁴ Based on the service and repair schedules employed by the District, the cost of replacing the pumps could recur on a periodic basis of approximately 7 years.³⁵ The lift pumps are assets that will require annual service.³⁶ The District estimates that it will cost \$2,080 annually to maintain/repair the two lift station pumps but has not indicated whether this information was available to the Board at the time it approved the rates subject to this appeal.³⁷

Staff recommends that the District knew the cost of repairing the two lift station pumps with a reasonable degree of certainty at the time it voted to increase its rates. Staff further recommends that the record does not reflect that this cost is likely to recur each year. Therefore, Staff recommends that the District recover this amount normalized over seven years or \$2,259 per year.³⁸

Lift Station Control Board

The District received a proposal for the cost of repairing the lift station control board in 2017 (\$352.50).³⁹ Repairing the control board would not be a recurring expense, and the cost of this repair was included in the District's 2018 budget.⁴⁰ The District paid \$352.50 for the cost of this repair in November 2017.⁴¹

Staff recommends that the District knew the cost of repairing the lift station control board with a reasonable degree of certainty at the time it voted to increase its rates. Staff further recommends that the record does not reflect that this cost is likely to recur each year. Therefore, Staff recommends that the District recover this cost via monthly surcharge of \$0.05 per main connection⁴² collected for a period of 24 months.

³⁴ Atkins Supp. at Exhibit No. 45.

³⁵ Mason Supp. at 6.

³⁶ Mason Supp. at 6.

³⁷ District Response to 3rd RFI at Staff 3-5.

³⁸ $16,512/7 = 2,258.857$.

³⁹ Atkins Supp. at Exhibit No. 45; District Response to 3rd RFI at Staff 3-4.

⁴⁰ Atkins Supp. at Exhibit No. 45.

⁴¹ District Response to 3rd RFI at Staff 3-5.

⁴² $(352.50 / 24) / 295 = 0.049$.

Drying Field (Sludge Removal)

The sludge removal for the drying field is an annually recurring expense and can occur more than once a year depending on how much sewage is treated.⁴³ The \$11,000 estimate included in the \$62,533 was based on informal estimates provided to the District in 2017 for a larger project.⁴⁴ In 2018, the District spent \$5,652.41 for sludge removal.⁴⁵

Staff recommends that the record reflects that the drying field sludge removal is a recurring expense. However, the evidence shows that the amount of this expense was not known with a reasonable amount of certainty at the time the District voted to increase the rates, and Staff could not find any invoices in the record supporting the \$11,000 estimate budgeted by the District and included in the settled revenue requirement. To preserve the financial integrity of the District, Staff recommends that the settled revenue requirement include \$5,600 for this expense rather \$11,000.

Based on Staff's analysis, the settlement revenue requirement of \$162,775 should be reduced by \$54,715.50 as follows:

	Amount in Settled Revenue Requirement	Staff Recommendation
Clarifier	\$21,995	\$0
Chlorinator	\$6,281	\$0*
Ebara Grinder Pump	\$6,433	\$0
Lift Station Pumps	\$16,512	\$2,259
Lift Station Control Board	\$352.50	\$0*
Drying Field Sludge Removal	\$11,000	\$5,600
	\$62,573.50	\$7,859

*Staff recommends recovering these items via a monthly surcharge.

Therefore, Staff recommends a settled revenue requirement of \$108,059.50. Staff further recommends the approval of a surcharge of \$3.41 per main connection⁴⁶ collected for a period of 24 months. Finally, Staff asserts that this recommendation is consistent with the Commission's Order because it endeavors to preserve the financial integrity of the District while ensuring that

⁴³ Mason Supp. at 6.

⁴⁴ Atkins Supp. at 4-5, 8; District Response to 3rd RFI at Staff 3-4.

⁴⁵ Atkins Supp. at Exhibit No. 45.

⁴⁶ $3.36 + 0.05 = 3.41$.

one-time, non-recurring expenses are recovered in accordance with reasonable ratemaking methodologies.

III. UNOPPOSED REQUEST FOR EXTENSION

Pursuant to 16 Texas Administrative Code (TAC) § 22.4(b), Staff may request that the time allowed for filing any documents be extended for good cause. Staff is working with the District and the ratepayers' representative to prepare an amended stipulation and settlement agreement, including a revised rate design and revenue proof, and a supplemental motion to admit evidence and joint proposed order. The parties need additional time to finalize these documents. Therefore, Staff requests an extension of the deadline to file a supplemental motion to admit evidence and joint proposed order, and the supporting settlement documents, to June 15, 2020. Staff has spoken with a representative for each party both of whom indicated that the District and the ratepayers are unopposed to this request.

IV. CONCLUSION

Based on the analysis presented above, Staff respectfully recommends an amended settlement revenue requirement of \$108,059.50 and a surcharge in the amount of \$3.41 per main connection for a period not to exceed 24 months. Staff also requests the entry of an order establishing a deadline of June 15, 2020 for the parties to file an amended stipulation and settlement agreement, including a revised rate design and revenue proof, and a supplemental motion to admit evidence and joint proposed order.

Dated: June 1, 2020

Respectfully submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

Rachelle Nicolette Robles
Division Director

Eleanor D'Ambrosio
Managing Attorney

/s/ John Harrison
John Harrison
State Bar No. 24097806
1701 N. Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326
(512) 936-7277
(512) 936-7268 (facsimile)
John.Harrison@puc.texas.gov

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

CERTIFICATE OF SERVICE

I certify that, unless otherwise ordered by the presiding officer, notice of the filing of this document was provided to all parties of record via electronic mail on June 1, 2020 in accordance with the Order Suspending Rules, issued in Project No. 50664.

/s/ John Harrison
John Harrison