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Public Utility Commission of Texas

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Memorandum

PUBLIC UTILITY COMMISSION
FILING CLERK

TO: Chairman DeAnn Walker
Commissioner Arthur D'Andrea
Commissioner Shelly Botkin

FROM: Tammy Benter, Water Utility Regulation Division
Debi Loockerman, Water Utility Regulation Division
Margaret Pemberton, Legal Division

DATE: August 23, 2018

SUBJECT: Open Meeting, August 30, 2018 – **Agenda Item #26**
Project No. 47945: *Proceeding to Investigate and Address the Effects of Tax Cuts and Jobs Act of 2017 on the Rates of Texas Investor-owned Utility Companies*

Water and Sewer Investor Owned Utilities

History

On February 13, 2018, the Public Utility Commission (Commission) issued an Amended Order Related to Changes in Federal Income Tax Rates (Amended Accounting Order) directing Commission Staff (Staff) to review each investor-owned utility (IOU) in Texas, with input from interested stakeholders, on a case-by-case basis, as discussed in the order. The Amended Accounting Order directed Staff to focus on Class A and larger Class B water and sewer IOUs. The Amended Accounting Order also asked Staff to take a sample of the Class C and smaller Class B IOUs to determine the effect of the new tax law, and report the findings back to the Commission. The Amended Accounting Order indicated that the purpose of the review is 1) to determine the appropriate mechanism to adjust an IOU's rates to reflect the changes under the newly enacted federal tax law (Tax Cuts and Jobs Act of 2017 or TCJA) and 2) to report Staff's findings regarding Class C and smaller Class B water and sewer IOUs. The Commission Amended Accounting Order asked for the review to be conducted within six months of the signing of the order.

This memo responds to the Commission's directives and provides information regarding the Staff's review to determine if further action is required regarding the TCJA.

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Executive Summary

Class A Water and Sewer IOUs

All Class A water and sewer IOUs filed requests for approval of a tax refund rider in response to the Commission's Amended Accounting Order. A summary of the filings and status of each filing is included in Chart A at the end of this memo.

Large Class B Water and Sewer IOUs

Staff reviewed information provided on 2016 and 2015 annual financial reports filed with the Commission and determined that a general category of "large" Class B¹ water and sewer IOUs could be based on number of connections between 2,000 and 10,000 with annual gross revenues between \$1.4 million and \$7.4 million. Eight IOUs fell into this category. Staff estimated that the maximum average refund per connection for these eight IOUs would be \$6.53 per connection per month with a total (maximum), combined annual refund of approximately \$2.45 million. The eight IOU's estimated total, combined number of water and sewer connections is 27,976 and 3,299, respectively. The actual refunds would most likely be lower because of specific information that would be provided by each company in its filing, if such filings were required. A listing of the eight IOUs, the estimated maximum refund per connection, and the annual effects of the tax change on revenue requirements are contained in Chart B at the end of this memo.

Staff has not approached the eight large Class B water and sewer IOUs regarding tax rider filings. Staff seeks direction from the Commission on whether or not to consider, for each specific utility, the benefits of recommending the initiation a rate case proceeding, or in the alternative, require a filing from the eight large Class B water and sewer IOUs to reflect the impact of the changes under the newly enacted federal tax law.

Smaller Class B and All C Water and Sewer IOUs

Using the annual reports filed by small Class B (less than 2,000 connections) and all Class C water and sewer IOUs, Staff sampled sixteen IOUs randomly with the exception of 52 IOUs in this group who reported net losses and were excluded from the sample base. Staff estimates that the average

¹ There is no definition of "Large Class B" utility in the Texas Water Code or 16 TAC Chapter 24.

maximum refund for the sample group is \$2.72 per connection per month with a total, maximum annual refund amount of \$342,978. The estimated total number of water and sewer connections is 8,352 and 2,161, respectively, for the sixteen IOUs included in the sample.

Staff seeks direction from the Commission on whether or not to consider, for each specific utility, the benefits of recommending the initiation a rate case proceeding, or in the alternative, require a filing from each small Class B and each Class C water and sewer IOU to reflect the impact of the changes under the newly enacted federal tax law.

Chart A
Summary of Class A Tax Rider Filings

Company	Docket	Date filed	Status
Aqua-Texas, Inc., Aqua Utilities, Inc., Aqua Development, Inc. dba Aqua Texas	48197	3/22/18	Staff recommended approval of the requested rider, joint motion to admit evidence, proposed notice of approval and the tariff were filed by parties on August 20, 2018.
Monarch Utilities, SWWC dba Water Services	48329	5/1/18	Negotiations on the rider have resulted in a settlement; settlement documents and a proposed notice of approval are due on August 24, 2018.
Quadvest LP	48323	4/30/18	Negotiations on the rider have ensued and the deadline to request a hearing or final recommendation was extended to August 29, 2018.
SJWTX dba Canyon Lake Water Service	48245	4/9/18	A joint proposed notice of approval for the requested rider has been issued and evidence was admitted on August 8, 2018.
Southern Utilities Company	48451	6/8/18	Staff recommended approval of the requested rider; a joint motion to admit evidence was filed by the parties on August 17, 2018.

Chart B
Estimated Refunds caused by TCJA on Large Class B Water and Sewer IOUs
(Based on information from the utilities' annual reports)

Company	Water Connections	Sewer Connections	Company total maximum potential annual refund (estimated)	Maximum potential refund per connection per month (estimated)
MSEC Enterprises	5,102	7	\$451,006	\$7.36
Corix Utilities Texas Inc.	4,793	848	\$756,471	\$11.18
Hilco United Services	3,655	0	\$130,539	\$2.98
Crystal Springs Water	3,402	1,385	\$168,527	\$2.93
T & W Water Service	3,224	0	\$172,244	\$4.45
Algonquin Water Resources of Texas	2,877	1,059	\$439,600	\$9.31
Woodland Hills Water	2,575	0	\$101,961	\$3.30
Concho Rural Water	2,348	0	\$231,271	\$8.21