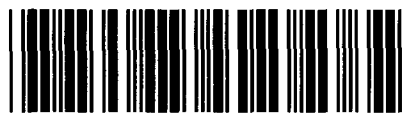




Control Number: 48980



Item Number: 33

Addendum StartPage: 0

APPLICATION OF FRIO CANON
WATER, LLC FOR AUTHORITY TO
CHANGE RATES

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§

PUBLIC UTILITY COMMISSION
OF TEXAS

2019 SEP 13 14:10:55
PUBLIC UTILITY COMMISSION
FILING CLERK

COMMISSION STAFF'S RECOMMENDATION ON FINAL DISPOSITION

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

I. BACKGROUND

On December 14, 2018, Frio Canon Water, LLC (Frio) filed an application for authority to change rates for the Frio Canon Water System.

On June 4, 2019, Order No. 6 was issued, finding the notice sufficient and requiring Staff to file a recommendation on final disposition by September 13, 2019. Therefore, this pleading is timely filed.

II. RECOMMENDATION ON FINAL DISPOSITION

Staff conducted a technical review of the Application under TWC § 13.1872 and 16 TAC § 24.49. Under TWC § 13.1872 and 16 TAC § 24.49, the Commission may adjust the rates of a Class C utility without the need for a hearing. As supported by the attached memorandum of Fred Bednarski of the Commission's Rate Regulation Division (Attachment A), Staff recommends approval of the Application for an increase in water rates for Frio consistent with Staff's recommended rates. Approval of the Application would result in the approval of Staff's proposed rates as detailed in the attached memorandum. Staff has attached compliance tariff pages reflecting the proposed rate adjustment to this pleading (Attachments B). Staff recommends that the Commission provide, as an attachment to the final order, a copy of the attached tariff with an effective date 30 days after the order approving the rates is issued. Pursuant to the procedural schedule in Order No. 6, Staff will work with Applicant to submit a joint proposed notice of approval on or before October 11, 2019.

III. CONCLUSION

Staff respectfully requests the issuance of an order consistent with the above recommendation.

DATED: September 13, 2019

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

Margaret Uhlig Pemberton
Division Director

Karen S. Hubbard
Managing Attorney

A handwritten signature in black ink, appearing to read 'Sarah D. McDaniel', written over a horizontal line.

Sarah D. McDaniel
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P.O. Box 13326
Austin, Texas 78711-3326
(512) 936-7289
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sarah.mcdaniel@puc.texas.gov

DOCKET NO. 48980

CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on September 13, 2019, in accordance with 16 TAC § 22.74.



Sarah D. McDaniel

Attachment A

Public Utility Commission of Texas

Memorandum

TO: Sarah McDaniel, Attorney
Legal Division

THRU: Debi Loockerman, Director, Water Rates Analysis
Rate Regulation Division

FROM: Fred Bednarski III, Financial Analyst
Rate Regulation Division

DATE: September 13, 2019

SUBJECT: *Docket No. 48980; Application of Frio Canon Water, LLC for Authority to Change Rates*

Background

The Commission did not receive complaints from the lesser of 1,000 or 10% of the ratepayers of the utility, and no hearing was requested in this proceeding. Frio Canon Water, LLC (Applicant) currently provides retail water utility service to approximately 16 connections located in the Frio Canon Community.

On June 4, 2019, Order No. 6 found the amended application and proof of revised notice sufficient as well as suspended the rate effective date, June 01, 2019. After correspondence with the Applicant and review of the application and supplemental filings, Staff recommends that the Commission find that Staff's rates comply with the requirements of Texas Water Code (TWC) §§ 13.182, 13.183, and 13.185 and 16 Texas Administrative Code (TAC) § 24.41 for the reasons discussed below.

Staff Recommendation

1. Staff recommends approval of the application with Staff's recommended changes to the tariffed rates below based on Staff's adjustments to the requested revenue requirement. The following tables show the Applicant's requested rates and the rates which produce Staff's revenue requirement.

Frio Canon's Requested Rates ¹		Staff's Recommended Rates	
Meter Size	Minimum charge includes zero (0) gallons	Meter Size	Minimum charge includes zero (0) gallons
5/8" or 3/4"	\$60.98	5/8" or 3/4"	\$65.20
1"	\$152.45	1"	\$163.00
1 ½"	\$304.90	1 ½"	\$326.00
2"	\$487.84	2"	\$521.60
Gallonage Charge \$6.95		Gallonage Charge \$6.95	

¹ Revised Notice of Proposed Rate Change at 5 (Apr. 10, 2019).

The Applicant's requested revenue requirement was \$40,096;² however, the requested and noticed rates by the Applicant generate a revenue of only \$21,957 (15 connections x \$60.98 base rate x 12 months) + (\$6.95 x 1,580 thousand gallons). The difference is \$18,139. The Applicant stated they elected to set a rate at a lower revenue requirement and a higher customer count to minimize rate shock and to provide a more favorable economic environment.³ Staff recommends a revenue requirement of \$35,906, which permits Frio a reasonable opportunity to earn a reasonable return on its invested capital used and useful in rendering service to the public, over and above its reasonable and necessary operating expenses and preserves the financial integrity of the utility pursuant to TWC §13.183 and 16 Texas Administrative Code § 24.43.

2. Staff recommends that the Commission approve an effective date of the rates 30 days after the order approving the rates is issued.
3. The Applicant requested \$5,000 in rate-case expense, which was included in the cost of service, and later provided support for an additional \$4,729 in rate-case expenses. Staff removed the amount from the cost of service because a Class D utility may file for a five percent rate adjustment in the future which would cause an over-recovery of rate-case expenses. Staff recommends the Commission approve recovery of rate-case expenses of \$9,729⁴ with a surcharge of \$10.13 per connection for five years, based on 16 connections.

Revenue Requirement

	Test Year Total	Company Adjustments To Test Year	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
	(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
REVENUE REQUIREMENT					
Operations and Maintenance	\$ 18,757	\$ (1,104)	\$ 17,653	\$ (1,749)	\$ 15,904
Depreciation and Amortization Expense	\$ 6,022	\$ -	\$ 6,022	\$ 30	\$ 6,052
Taxes Other Than Income	\$ -	\$ -	\$ -	\$ 98	\$ 98
Federal Income Taxes	\$ -	\$ -	\$ -	\$ 2,040	\$ 2,040
Return on Invested Capital	\$ (16,004)	\$ 32,425	\$ 16,421	\$ (4,558)	\$ 11,863
TOTAL	\$ 8,775	\$ 31,321	\$ 40,096	\$ (4,139)	\$ 35,956
Other Revenues - Taps, Recon, late fee, Etc	\$ (2,050)	\$ -	\$ (2,050)	\$ 2,000	\$ (50)
Revenue Requirement Used to Set Rates	\$ 6,725	\$ 31,321	\$ 38,046	\$ (2,139)	\$ 35,906

Staff recommends that a revenue requirement of \$35,906, produced by Staff's proposed rates, be found reasonable and necessary for Applicant's operations. Staff believes that the revenue requested by the Applicant is lower than the result of a fully-litigated proceeding and does not meet the requirements of the Texas Water Code. The Applicant requested a total revenue requirement of \$40,096⁵ in its Application Schedule I-1; however Frio's noticed rates only generate revenue of \$29,271 based on the Applicant's proposed higher connections of 20⁶ and usage of 2,107,000 gallons,⁷ which is significantly lower than Staff's recommended revenue requirement based on a 2018 test year. The proposed higher connection count is inconsistent with the actual connection count of 16 2018 historical year.

² Application at 6, Schedule I-1 (Dec. 14, 2018).

³ Letter to Ms. McDaniel at 2 (Sep. 6, 2019).

⁴ Response to Staff RFA at Attachment Staff RFA I-1 (Aug. 16, 2019)

⁵ Application at 6, Schedule I-1.

⁶ *Id.* at 8, lines 6 and 9.

⁷ *Id.* at 11, line 4, column C.

After a review of Applicant's 2018 expenses⁸ and system water usage and connections,⁹ Staff decided to base its revenue requirement and rates on a 2018 test year since it contains Frio's most current information. The information from 2018 was provided to verify known and measurable changes and Staff decided to use the most current information available to set a rate that will support the financial integrity of the utility.

Staff's revenue requirement is comprised of allowable expenses and a return on invested capital pursuant to 16 TAC §§ 24.41(b) and (c), respectively. Staff's total adjustments to the revenue requirement of \$2,139 decreased the Applicant's proposed revenue requirement of \$35,956. The revenue requirement was then adjusted by other revenues of \$50 resulting in \$35,906 for Staff's rate design purposes.

The Applicant provided financial information for 2018 which was used by Staff to adjust expenses to known and measurable amounts to set a more accurate rate beginning after Commission approval, and to protect the financial integrity of the Applicant. Staff reduced operation and maintenance (O&M) expenses by (\$1,749), which was confirmed as a known and measurable change by reviewing the 2018 O&M general ledger amounts, specifically for the materials expenses. Depreciation expense was increased by \$30 due to reclassification of some assets and to match the year ending December 31, 2018. Taxes other than income were increased by \$98 due to review of the 2018 general ledger. Federal Income Tax Expense was increased by \$2,040 based on Staff's calculation of federal income tax. Other revenues were decreased due to tap fees of \$2,000, which were reclassified to customer contributions in aid of construction. These expenditures are accounted for in Staff's utility plant in service adjustments.

Return on Invested Capital

TWC §§ 13.183, 13.184 and 16 TAC § 24.41(c)(1) require that the return be reasonably sufficient to preserve the financial integrity of the utility. The Applicant proposed a rate of return of 10%. Staff recommends a rate of return of 7.08%, which generates return on \$11,863 of invested capital based on a total invested capital (rate base) of \$167,554. This amount consists of Staff's plant in service amount of \$227,631 less accumulated depreciation of \$61,554 for a working capital allowance of \$1,988, and a reduction to rate base for contribution in aid of construction amount of \$500 resulting from the reclassification of tap fees. Staff additionally recommends the Commission find that the overall return produced by the Applicant's proposed rates meets the requirements of TWC §§ 13.183, 13.184, and 16 TAC § 24.41(c)(1).

Rate Design

TWC § 13.182 requires that rates be just and reasonable and that they are sufficient, equitable, and consistent with respect to each class of customers. Furthermore, 16 TAC § 24.43 prohibits rate structures that discourage conservation by encouraging increased water usage and requires that charges in excess of the base rate be charged per 1,000 gallons of usage.

Staff used a revenue requirement adjusted by other revenues of \$35,906, 16 connections, and total gallons billed of 3,364,780¹⁰ to determine the rates. Staff believes that Staff's proposed rates satisfy the requirements of TWC § 13.182.

Conclusion

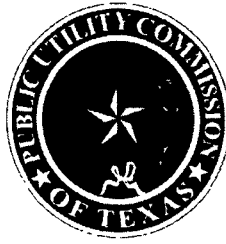
Staff recommends that the proposed rates and surcharges are just and reasonable and based on a cost of service that is necessary to provide water service to the customers and should be approved.

⁸ Responses to Staff's RFI and Requested Discovery, Response to Staff 1-1 at Attachment Staff 1-1 (Jun. 14, 2019).

⁹ Letter to Ms. McDaniel at 12 (Sep. 6, 2019).

¹⁰ *Id.*

Attachment B



WATER UTILITY TARIFF
Docket Number: 48980

Frio Canon Water Company, LLC.
(Utility Name)

4019 Spicewood Springs Rd.
(Business Address)

Austin, Texas 78759
(City, State, Zip Code)

(512) 346-8554
(Area Code/Telephone)

This tariff is effective for utility operations under the following Certificate of Convenience and Necessity:

13145

This tariff is effective in the following county:

Real

This tariff is effective in the following cities or unincorporated towns (if any):

None

This tariff is effective in the following subdivisions and/or public water systems:

Frio Canon Community: PWS ID#193023

TABLE OF CONTENTS

The above utility lists the following sections of its tariff (if additional pages are needed for a section, all pages should be numbered consecutively):

SECTION 1.0 -- RATE SCHEDULE.....	2
SECTION 2.0 -- SERVICE RULES AND POLICIES	3
SECTION 3.0 -- EXTENSION POLICY.....	11

APPENDIX A -- DROUGHT CONTINGENCY PLAN

APPENDIX B -- APPLICATION FOR SERVICE

SECTION 1.0 -- RATE SCHEDULE

Section 1.01 - Rates

<u>Meter Size</u>	<u>Monthly Minimum Charge</u>	<u>Gallage Charge</u>
5/8" or 3/4"	<u>\$65.20</u> (including 0 gallons)	<u>\$6.95</u> (per 1,000 gallons)
1"	<u>\$163.00</u> (including 0 gallons)	
1 1/2"	<u>\$326.00</u> (including 0 gallons)	
2"	<u>\$521.60</u> (including 0 gallons)	

Rate Case Expense Surcharge.....\$10.93 per system connection
 Ending at the earlier of 60 months or when the total of \$9,729 has been collected. This surcharge
 will pay for the reasonable and necessary rate case expense properly incurred by the Applicant.
Docket No. 48980

FORM OF PAYMENT: The utility will accept the following forms of payment:

Cash X, Check X, Money Order X, Credit Card X, Other (specify) _____
 THE UTILITY MAY REQUIRE EXACT CHANGE FOR PAYMENTS AND MAY REFUSE TO ACCEPT
 PAYMENTS MADE USING MORE THAN \$1.00 IN SMALL COINS. A WRITTEN RECEIPT WILL BE GIVEN
 FOR CASH PAYMENTS.

REGULATORY ASSESSMENT.....1.0%
 PUC RULES REQUIRE THE UTILITY TO COLLECT A FEE OF ONE PERCENT OF THE RETAIL MONTHLY
 BILL AND TO REMIT THE FEE TO THE TCEQ.

Section 1.02 - Miscellaneous Fees

TAP FEE.....\$500.00
 TAP FEE COVERS THE UTILITY'S COSTS FOR MATERIALS AND LABOR TO INSTALL A STANDARD
 RESIDENTIAL 5/8" or 3/4" METER. AN ADDITIONAL FEE TO COVER UNIQUE COSTS IS PERMITTED IF
 LISTED ON THIS TARIFF

TAP FEE (Unique costs)Actual Cost
 FOR EXAMPLE, A ROAD BORE FOR CUSTOMERS OUTSIDE OF SUBDIVISIONS OR RESIDENTIAL
 AREAS.

TAP FEE (Large meter)Actual Cost
 TAP FEE IS THE UTILITY'S ACTUAL COST FOR MATERIALS AND LABOR FOR METER SIZE INSTALLED

METER RELOCATION FEE Actual Relocation Cost, Not to Exceed Tap Fee
 THIS FEE MAY BE CHARGED IF A CUSTOMER REQUESTS THAT AN EXISTING METER BE RELOCATED.

METER TEST FEE\$25.00
 THIS FEE WHICH SHOULD REFLECT THE UTILITY'S COST MAY BE CHARGED IF A CUSTOMER
 REQUESTS A SECOND METER TEST WITHIN A TWO-YEAR PERIOD AND THE TEST INDICATES THAT
 THE METER IS RECORDING ACCURATELY. THE FEE MAY NOT EXCEED \$25

SECTION 1.0 -- RATE SCHEDULE (Continued)

RECONNECTION FEE

THE RECONNECT FEE MUST BE PAID BEFORE SERVICE CAN BE RESTORED TO A CUSTOMER WHO HAS BEEN DISCONNECTED FOR THE FOLLOWING REASONS (OR OTHER REASONS LISTED UNDER SECTION 2.0 OF THIS TARIFF):

- a) Nonpayment of bill (Maximum \$25.00).....\$25.00
- b) Customer's request that service be disconnected.....\$50.00

TRANSFER FEE\$35.00

THE TRANSFER FEE WILL BE CHARGED FOR CHANGING AN ACCOUNT NAME AT THE SAME SERVICE LOCATION WHEN THE SERVICE IS NOT DISCONNECTED

LATE CHARGE (EITHER \$5.00 OR 10% OF THE BILL) 10%.

PUC RULES ALLOW A ONE-TIME PENALTY TO BE CHARGED ON DELINQUENT BILLS. A LATE CHARGE MAY NOT BE APPLIED TO ANY BALANCE TO WHICH THE PENALTY WAS APPLIED IN A PREVIOUS BILLING.

RETURNED CHECK CHARGE\$25.00

RETURNED CHECK CHARGES MUST BE BASED ON THE UTILITY'S DOCUMENTABLE COST.

CUSTOMER DEPOSIT RESIDENTIAL (Maximum \$50).....\$50.00

COMMERCIAL & NON-RESIDENTIAL DEPOSIT... ..1/6TH OF ESTIMATED ANNUAL BILL

GOVERNMENTAL TESTING, INSPECTION AND COSTS SURCHARGE

WHEN AUTHORIZED IN WRITING BY PUC AND AFTER NOTICE TO CUSTOMERS, THE UTILITY MAY INCREASE RATES TO RECOVER INCREASED COSTS FOR INSPECTION FEES AND WATER TESTING. [16 TAC § 24.25(b)(2)(G)]

LINE EXTENSION AND CONSTRUCTION CHARGES:

REFER TO SECTION 3.0--EXTENSION POLICY FOR TERMS, CONDITIONS, AND CHARGES WHEN NEW CONSTRUCTION IS NECESSARY TO PROVIDE SERVICE.

SECTION 2.0 - SERVICE RULES AND POLICIES

The utility will have the most current Public Utility Commission of Texas (PUC or commission rules relating to Water and Wastewater Utility regulations, available at its office for reference purposes. The Rules and this tariff shall be available for public inspection and reproduction at a reasonable cost. The latest Rules or commission approved changes to the Rules supersede any rules or requirements in this tariff.

Section 2.01 - Application for Water Service

All applications for service will be made on the utility's standard application or contract form. (attached in the Appendix to this tariff), will be signed by the applicant, any required fees (deposits, reconnect, tap, extension fees, etc. as applicable) will be paid and easements, if required, will be granted before service is provided by the utility. A separate application or contract will be made for each service location.

Section 2.02 - Refusal of Service

The utility may decline to serve an applicant until the applicant has complied with the regulations of the regulatory agencies (state and municipal regulations) and for the reasons outlined in the PUC Rules. In the event that the utility refuses to serve an applicant, the utility will inform the applicant in writing of the basis of its refusal. The utility is also required to inform the applicant that a complaint may be filed with the Commission.

Section 2.03 - Fees and Charges & Easements Required Before Service Can Be Connected

(A) Customer Deposits

If a residential applicant cannot establish credit to the satisfaction of the utility, the applicant may be required to pay a deposit as provided for in Section 1.02 - Miscellaneous Fees of this tariff. The utility will keep records of the deposit and credit interest in accordance with PUC Rules.

Residential applicants 65 years of age or older may not be required to pay deposits unless the applicant has an outstanding account balance with the utility or another water or sewer utility which accrued within the last two years.

Nonresidential applicants who cannot establish credit to the satisfaction of the utility may be required to make a deposit that does not exceed an amount equivalent to one-sixth of the estimated annual billings.

Refund of deposit - If service is not connected, or after disconnection of service, the utility will promptly refund the customer's deposit plus accrued interest or the balance, if any, in excess of the unpaid bills for service furnished. The utility may refund the deposit at any time prior to termination of utility service but must refund the deposit plus interest for any customer who has paid 18 consecutive billings without being delinquent.

SECTION 2.0 - SERVICE RULES AND POLICIES (Continued)

(B) Tap or Reconnect Fees

A new customer requesting service at a location where service has not previously been provided must pay a tap fee as provided in Section 1. A customer requesting service where service has previously been provided must pay a reconnect fee as provided in Section 1. Any applicant or existing customer required to pay for any costs not specifically set forth in the rate schedule pages of this tariff shall be given a written explanation of such costs prior to request for payment and/or commencement of construction. If the applicant or existing customer does not believe that these costs are reasonable or necessary, the applicant or existing customer shall be informed of their right to appeal such costs to the PUC or such other regulatory authority having jurisdiction over the utility's rates in that portion of the utility's service area in which the applicant's or existing customer's property(ies) is located.

Fees in addition to the regular tap fee may be charged to cover unique costs not normally incurred as permitted by 16 TAC § 24.163(a)(1)(C) if they are listed on this approved tariff. For example, a road bore for customers outside a subdivision or residential area could be considered a unique cost.

(C) Easement Requirement

Where recorded public utility easements on the service applicant's property do not exist or public road right-of-way easements are not available to access the applicant's property, the Utility may require the applicant to provide it with a permanent recorded public utility easement on and across the applicant's real property sufficient to provide service to that applicant. Such easement(s) shall not be used for the construction of production, storage, transmission or pressure facilities unless they are needed for adequate service to that applicant.

Section 2.04 - Utility Response to Applications for Service

After the applicant has met all the requirements, conditions and regulations for service, the utility will install tap, meter and utility cut-off valve and/or take all necessary actions to initiate service. The utility will serve each qualified applicant for service within 5 working days unless line extensions or new facilities are required. If construction is required to fill the order and if it cannot be completed within 30 days, the utility will provide the applicant with a written explanation of the construction required and an expected date of service.

Except for good cause where service has previously been provided, service will be reconnected within one working day after the applicant has met the requirements for reconnection.

Section 2.05 - Customer Responsibility

The customer will be responsible for furnishing and laying the necessary customer service pipe from the meter location to the place of consumption. Customers will not be allowed to use the utility's cutoff valve on the utility's side of the meter. Existing customers may install cutoff valves on their side of the meter and are encouraged to do so. All new customers must install and maintain a cutoff valve on their side of the meter.

SECTION 2.0 - SERVICE RULES AND POLICIES (Continued)

No direct connection between a public water supply system and any potential source of contamination or between a public water supply system and a private water source (ex. private well) will be allowed. A customer shall not connect, or allow any other person or party to connect, onto any water lines on his premises.

Section 2.06 - Customer Service Inspections

Applicants for new service connections or facilities which have undergone extensive plumbing modifications are required to furnish the utility a completed customer service inspection certificate. The inspection certificate shall certify that the establishment is in compliance with the Texas Commission on Environmental Quality (TCEQ) Rules and Regulations for Public Water Systems, Section 290.46(j). The Utility is not required to perform these inspections for the applicant/customer, but will assist the applicant/customer in locating and obtaining the services of a certified inspector.

Section 2.07 - Back Flow Prevention Devices

No water connection shall be allowed to any residence or establishment where an actual or potential contamination hazard exists unless the public water facilities are protected from contamination by either an approved air gap, backflow prevention assembly, or other approved device. The type of device or backflow prevention assembly required shall be determined by the specific potential hazard identified in Title 30 Texas Administrative Code (TAC) § 290.47(f) Appendix F, Assessment of Hazards and Selection of Assemblies of the TCEQ Rules and Regulations for Public Water Systems.

The use of a backflow prevention assembly at the service connection shall be considered as additional backflow protection and shall not negate the use of backflow protection on internal hazards as outlined and enforced by local plumbing codes. When a customer service inspection certificate indicates that an adequate internal cross-connection control program is in effect, backflow protection at the water service entrance or meter is not required.

At any residence or establishment where it has been determined by a customer service inspection, that there is no actual or potential contamination hazard, as referenced in 30 TAC § 290.47(f) Appendix F, Assessment of Hazards and Selection of Assemblies of the TCEQ Rules and Regulations for Public Water Systems, then a backflow prevention assembly or device is not required. Outside hose bibs do require, at a minimum, the installation and maintenance of a working atmospheric vacuum breaker.

All backflow prevention assemblies or devices shall be tested upon installation by a TCEQ certified backflow prevention assembly tester and certified to be operating within specifications. Backflow prevention assemblies which are installed to provide protection against health hazards must also be tested and certified to be operating within specifications at least annually by a certified backflow prevention assembly tester.

SECTION 2.0 - SERVICE RULES AND POLICIES (Continued)

If the utility determines that a backflow prevention assembly or device is required, the utility will provide the customer or applicant with a list of TCEQ certified backflow prevention assembly testers. The customer will be responsible for the cost of installation and testing, if any, of backflow prevention assembly or device. The customer should contact several qualified installers to compare prices before installation. The customer must pay for any required maintenance and annual testing and must furnish a copy of the test results demonstrating that the assembly is functioning properly to the utility within 30 days after the anniversary date of the installation unless a different date is agreed upon.

Section 2.08 - Access to Customer's Premises

The utility will have the right of access to the customer's premises at all reasonable times for the purpose of installing, testing, inspecting or repairing water mains or other equipment used in connection with its provision of water service, or for the purpose of removing its property and disconnecting lines, and for all other purposes necessary to the operation of the utility system including inspecting the customer's plumbing for code, plumbing or tariff violations. The customer shall allow the utility and its personnel access to the customer's property to conduct any water quality tests or inspections required by law. Unless necessary to respond to equipment failure, leak or other condition creating an immediate threat to public health and safety or the continued provision of adequate utility service to others, such entry upon the customer's property shall be during normal business hours and the utility personnel will attempt to notify the customer that they will be working on the customer's property. The customer may require any utility representative, employee, contractor, or agent seeking to make such entry identify themselves, their affiliation with the utility, and the purpose of their entry.

All customers or service applicants shall provide access to meters and utility cutoff valves at all times reasonably necessary to conduct ordinary utility business and after normal business hours as needed to protect and preserve the integrity of the public drinking water supply.

Section 2.09 - Meter Requirements, Readings, and Testing

One meter is required for each residential, commercial, or industrial connection. All water sold by the utility will be billed based on meter measurements. The utility will provide, install, own and maintain meters to measure amounts of water consumed by its customers.

Meters will be read at monthly intervals and as nearly as possible on the corresponding day of each monthly meter reading period unless otherwise authorized by the Commission.

Meter tests. The utility will, upon the request of a customer, and, if the customer so desires, in his or her presence or in that of his or her authorized representative, make without charge a test of the accuracy of the customer's meter. If the customer asks to observe the test, the test will be made during the utility's normal working hours at a time convenient to the customer. Whenever possible, the test will be made on the customer's premises, but may, at the utility's discretion, be made at the utility's testing facility.

SECTION 2.0 - SERVICE RULES AND POLICIES (Continued)

If within a period of two years the customer requests a new test, the utility will make the test, but if the meter is found to be within the accuracy standards established by the American Water Works Association, the utility will charge the customer a fee which reflects the cost to test the meter up to a maximum \$25 for a residential customer. Following the completion of any requested test, the utility will promptly advise the customer of the date of removal of the meter, the date of the test, the result of the test, and who made the test.

Section 2.10 - Billing

(A) Regular Billing

Bills from the utility will be mailed monthly unless otherwise authorized by the Commission. The due date of bills for utility service will be at least sixteen (16) days from the date of issuance. The postmark on the bill or, if there is no postmark on the bill, the recorded date of mailing by the utility will constitute proof of the date of issuance. Payment for utility service is delinquent if full payment, including late fees and the regulatory assessment, is not received at the utility or the utility's authorized payment agency by 5:00 p.m. on the due date. If the due date falls on a holiday or weekend, the due date for payment purposes will be the next workday after the due date.

(B) Late Fees

A late penalty of either \$5.00 or 10.0% will be charged on bills received after the due date. The penalty on delinquent bills will not be applied to any balance to which the penalty was applied in a previous billing. The utility must maintain a record of the date of mailing to charge the late penalty.

(C) Information on Bill

Each bill will provide all information required by the PUC Rules. For each of the systems it operates, the utility will maintain and note on the monthly bill a local or toll-free telephone number (or numbers) to which customers can direct questions about their utility service.

(D) Prorated Bills

If service is interrupted or seriously impaired for 24 consecutive hours or more, the utility will prorate the monthly base bill in proportion to the time service was not available to reflect this loss of service.

Section 2.11 - Payments

All payments for utility service shall be delivered or mailed to the utility's business office. If the business office fails to receive payment prior to the time of noticed disconnection for non-payment of a delinquent account, service will be terminated as scheduled. Utility service crews shall not be allowed to collect payments on customer accounts in the field.

Payment of an account by any means that has been dishonored and returned by the payor or payee's bank, shall be deemed to be delinquent. All returned payments must be redeemed with cash or valid money order. If a customer has two returned payments within a twelve month period, the customer shall be required to pay a deposit if one has not already been paid.

SECTION 2.0 - SERVICE RULES AND POLICIES (Continued)

Section 2.12 - Service Disconnection

(A) With Notice

Utility service may be disconnected if the bill has not been paid in full by the date listed on the termination notice. The termination date must be at least 10 days after the notice is mailed or hand delivered.

The utility is encouraged to offer a deferred payment plan to a customer who cannot pay an outstanding bill in full and is willing to pay the balance in reasonable installments. However, a customer's utility service may be disconnected if a bill has not been paid or a deferred payment agreement entered into within 26 days from the date of issuance of a bill and if proper notice of termination has been given.

Notice of termination must be a separate mailing or hand delivery in accordance with the PUC Rules.

(B) Without Notice

Utility service may also be disconnected without notice for reasons as described in the PUC Rules.

Section 2.13 - Reconnection of Service

Utility personnel must be available during normal business hours to accept payments on the day service is disconnected and the following day unless service was disconnected at the customer's request or due to a hazardous condition.

Service will be reconnected within 24 hours after the past due bill, reconnect fees and any other outstanding charges are paid or the conditions which caused service to be disconnected are corrected.

Section 2.14 - Service Interruptions

The utility will make all reasonable efforts to prevent interruptions of service. If interruptions occur, the utility will re-establish service within the shortest possible time. Except for momentary interruptions due to automatic equipment operations, the utility will keep a complete record of all interruptions, both emergency and scheduled and will notify the Commission in writing of any service interruptions affecting the entire system or any major division of the system lasting more than four hours. The notice will explain the cause of the interruptions.

SECTION 2.0 - SERVICE RULES AND POLICIES (Continued)

Section 2.15 - Quality of Service

The utility will plan, furnish, and maintain production, treatment, storage, transmission, and distribution facilities of sufficient size and capacity to provide a continuous and adequate supply of water for all reasonable consumer uses. Unless otherwise authorized by the TCEQ, the utility will maintain facilities as described in the TCEQ Rules and Regulations for Public Water Systems.

Section 2.16 - Customer Complaints and Disputes

If a customer or applicant for service lodges a complaint, the utility will promptly make a suitable investigation and advise the complainant of the results. Service will not be disconnected pending completion of the investigation. If the complainant is dissatisfied with the utility's response, the utility must advise the complainant that he has recourse through the PUC complaint process. Pending resolution of a complaint, the commission may require continuation or restoration of service.

The utility will maintain a record of all complaints which shows the name and address of the complainant, the date and nature of the complaint and the adjustment or disposition thereof, for a period of two years after the final settlement of the complaint.

In the event of a dispute between a customer and a utility regarding any bill for utility service, the utility will conduct an investigation and report the results to the customer. If the dispute is not resolved, the utility will inform the customer that a complaint may be filed with the commission.

Section 2.17 - Customer Liability

Customer shall be liable for any damage or injury to utility-owned property shown to be caused by the customer.

SECTION 3.0 - EXTENSION POLICY

Section 3.01 - Standard Extension Requirements

Line Extension and Construction Charges: No contribution in aid of construction may be required of any customer except as provided for in this approved extension policy.

The Utility is not required to extend service to any applicant outside of its certified service area and will only do so under terms and conditions mutually agreeable to the Utility and the applicant, in compliance with TCEQ rules and policies, and upon extension of the Utility's certified service area boundaries by the TCEQ.

The applicant for service will be given an itemized statement of the costs, options such as rebates to the customer, sharing of construction costs between the utility and the customer, or sharing of costs between the customer and other applicants prior to beginning construction.

Section 3.02 - Costs Utilities Shall Bear

Within its certified area, the utility will pay the cost of the first 200 feet of any water main or distribution line necessary to extend service to an individual residential customer within a platted subdivision.

However, if the residential customer requesting service purchased the property after the developer was notified in writing of the need to provide facilities to the utility, the utility may charge for the first 200 feet. The utility must also be able to document that the developer of the subdivision refused to provide facilities compatible with the utility's facilities in accordance with the utility's approved extension policy after receiving a written request from the utility.

Residential customers will be charged the equivalent of the costs of extending service to their property from the nearest transmission or distribution line even if that line does not have adequate capacity to serve the customer. However, if the customer places unique, non-standard service demands upon the system, the customer may be charged the additional cost of extending service to and throughout their property, including the cost of all necessary transmission and storage facilities necessary to meet the service demands anticipated to be created by that property.

Unless an exception is granted by the PUC's Executive Director, the residential service applicant shall not be required to pay for costs of main extensions greater than 2" in diameter for water distribution and pressure wastewater collection lines and 6" in diameter for gravity wastewater lines.

Exceptions may be granted by the PUC Executive Director if:

- adequate service cannot be provided to the applicant using the maximum line sizes listed due to distance or elevation, in which case, it shall be the utility's burden to justify that a larger diameter pipe is required for adequate service;

SECTION 3.0 - EXTENSION POLICY (Continued)

- or larger minimum line sizes are required under subdivision platting requirements or building codes of municipalities within whose corporate limits or extraterritorial jurisdiction the point of use is located; or the residential service applicant is located outside the CCN service area.

If an exception is granted, the Utility shall establish a proportional cost plan for the specific extension or a rebate plan which may be limited to seven years to return the portion of the applicant's costs for oversizing as new customers are added to ensure that future applicants for service on the line pay at least as much as the initial service applicant.

For purposes of determining the costs that service applicants shall pay, commercial customers with service demands greater than residential customer demands in the certified area, industrial, and wholesale customers shall be treated as developers. A service applicant requesting a one inch meter for a lawn sprinkler system to service a residential lot is not considered nonstandard service.

If an applicant requires service other than the standard service provided by the utility, such applicant will be required to pay all expenses incurred by the utility in excess of the expenses that would be incurred in providing the standard service and connection beyond 200 feet and throughout his property including the cost of all necessary transmission facilities.

The utility will bear the full cost of any over-sizing of water mains necessary to serve other customers in the immediate area. The individual residential customer shall not be charged for any additional production, storage, or treatment facilities. Contributions in aid of construction may not be required of individual residential customers for production, storage, treatment or transmission facilities unless otherwise approved by the Commission under this specific extension policy.

Section 3.03 - Contributions in Aid of Construction

Developers may be required to provide contributions in aid of construction in amounts sufficient to furnish the development with all facilities necessary to provide for reasonable local demand requirements and to comply with TCEQ minimum design criteria for facilities used in the production, transmission, pumping, or treatment of water or TCEQ minimum requirements. For purposes of this subsection, a developer is one who subdivides or requests more than two meters on a piece of property. Commercial, industrial, and wholesale customers will be treated as developers.

Any applicant who places unique or non-standard service demands on the system may be required to provide contributions in aid of construction for the actual costs of any additional facilities required to maintain compliance with the TCEQ minimum design criteria for water production, treatment, pumping, storage and transmission.

SECTION 3.0 - EXTENSION POLICY (Continued)

Any service extension to a subdivision (recorded or unrecorded) may be subject to the provisions and restrictions of 16 TAC §. 24.163(d). When a developer wishes to extend the system to prepare to service multiple new connections, the charge shall be the cost of such extension, plus a pro-rata charge for facilities which must be committed to such extension compliant with the TCEQ minimum design criteria. As provided by 16 TAC § 24.161(e)(3), for purposes of this section, commercial, industrial, and wholesale customers shall be treated as developers.

A utility may only charge a developer standby fees for unrecovered costs of facilities committed to a developer's property under the following circumstances:

- Under a contract and only in accordance with the terms of the contract; or
- if service is not being provided to a lot or lots within two years after installation of facilities necessary to provide service to the lots has been completed and if the standby fees are included on the utility's approved tariff after a rate change application has been filed. The fees cannot be billed to the developer or collected until the standby fees have been approved by the commission or executive director.
- For purposes of this section, a manufactured housing rental community can only be charged standby fees under a contract or if the utility installs the facilities necessary to provide individually metered service to each of the rental lots or spaces in the community.

Section 3.04 - Appealing Connection Costs

The imposition of additional extension costs or charges as provided by Sections 3.0 - Extension Policy of this tariff shall be subject to appeal as provided in this tariff, PUC rules, or the rules of such other regulatory authority as may have jurisdiction over the utility's rates and services. Any applicant required to pay for any costs not specifically set forth in the rate schedule pages of this tariff shall be given a written explanation of such costs prior to payment and/or commencement of construction. If the applicant does not believe that these costs are reasonable or necessary, the applicant shall be informed of the right to appeal such costs to the PUC or such other regulatory authority having jurisdiction over the utility's rates in that portion of the utility's service area in which the applicant's property(ies) is located.

Section 3.05 - Applying for Service

The Utility will provide a written service application form to the applicant for each request for service received by the Utility's business offices. A separate application shall be required for each potential service location if more than one service connection is desired by any individual applicant. Service application forms will be available at the Utility's business office during normal weekday business hours. Service applications will be sent by prepaid first class United States mail to the address provided by the applicant upon request. Completed applications should be returned by hand delivery in case there are questions which might delay fulfilling the service request. Completed service applications may be submitted by mail if hand delivery is not possible.

SECTION 3.0 - EXTENSION POLICY (Continued)

Where a new tap or service connection is required, the service applicant shall be required to submit a written service application and request that a tap be made. The tap request must be accompanied with a diagram, map, plat, or written metes and bounds description of precisely where the applicant desires each tap or service connection is to be made and, if necessary, where the meter is to be installed, along the applicant's property line. The actual point of connection and meter installation must be readily accessible to Utility personnel for inspection, servicing, and meter reading while being reasonably secure from damage by vehicles and mowers. If the Utility has more than one main adjacent to the service applicant's property, the tap or service connection will be made to the Utility's nearest service main with adequate capacity to service the applicant's full potential service demand. Beyond the initial 200 feet, the customer shall bear only the equivalent cost of extending from the nearest main. If the tap or service connection cannot be made at the applicant's desired location, it will be made at another location mutually acceptable to the applicant and the Utility. If no agreement on location can be made, the applicant may refer the matter to the PUC for resolution.

Section 3.06 - Qualified Service Applicant

A "qualified service applicant" is an applicant who has: (1) met all of the Utility's requirements for service contained in this tariff, PUC rules and/or PUC order, (2) has made payment or made arrangement for payment of tap fees, (3) has provided all necessary easements and rights-of-way necessary to provide service to the requested location, (4) delivered an executed customer service inspection certificate to the Utility, if applicable, and (5) has executed a customer service application for each location to which service is being requested.

The Utility shall serve each qualified service applicant within its certificated service area as soon as practical after receiving a completed service application. All service requests will be fulfilled within the time limits prescribed by PUC rules once the applicant has met all conditions precedent to achieving "qualified service applicant" status. If a service request cannot be fulfilled within the required period, the applicant shall be notified in writing of the delay, its cause and the anticipated date that service will be available. The PUC service dates shall not become applicable until the service applicant has met all conditions precedent to becoming a qualified service applicant as defined by PUC rules.

Section 3.07 - Developer Requirements

As a condition of service to a new subdivision, the Utility shall require a developer (as defined by PUC rule) to provide permanent recorded public utility easements as a condition of service to any location within the developer's property.

APPENDIX A -- DROUGHT CONTINGENCY PLAN
(Utility must attach TCEQ-Approved Plan)

APPENDIX B – APPLICATION FOR SERVICE SERVICE AGREEMENT

I. PURPOSE. The FRIO CAÑON WATER COMPANY, LLC., is responsible for protecting the drinking water supply from contamination or pollution which could result from improper private water distribution system construction or configuration. The purpose of this service agreement is to notify each customer of the restrictions which are in place to provide this protection. The utility enforces these restrictions to ensure the public health and welfare. Each customer must sign this agreement before the FRIO CAÑON WATER COMPANY, LLC. will begin service. In addition, when service to an existing connection has been suspended or terminated, the water system will not re-establish service unless it has a signed copy of this agreement.

II. RESTRICTIONS. The following unacceptable practices are prohibited by State regulations.

A. No direct connection between the public drinking water supply and a potential source of contamination is permitted. Potential sources of contamination shall be isolated from the public water system by an air-gap or an appropriate backflow prevention device.

B. No cross-connection between the public drinking water supply and a private water system is permitted. These potential threats to the public drinking water supply shall be eliminated at the service connection by the installation of an air-gap or a reduced pressure-zone backflow prevention device.

C. No connection which allows water to be returned to the public drinking water supply is permitted.

D. No pipe or pipe fitting which contains more than 8.0% lead may be used for the installation or repair of plumbing at any connection which provides water for human use.

E. No solder or flux which contains more than 0.2% lead can be used for the installation or repair of plumbing at any connection which provides water for human use.

III. SERVICE AGREEMENT. The following are the terms of the service agreement between the FRIO CAÑON WATER COMPANY, LLC. (the Water System) and NAME OF CUSTOMER (the Customer).

A. The Water System will maintain a copy of this agreement as long as the Customer and/or the premises is connected to the Water System.

B. The Customer shall allow his property to be inspected for possible cross-connections and other potential contamination hazards. These inspections shall be conducted by the Water System or its designated agent prior to initiating new water service; when there is reason to believe that cross-connections or other potential contamination hazards exist; or after any major changes to the private water distribution facilities. The inspections shall be conducted during the Water System's normal business hours.

C. The Water System shall notify the Customer in writing of any cross-connection or other potential contamination hazard which has been identified during the initial inspection or the periodic reinspection.

D. The Customer shall immediately remove or adequately isolate any potential cross-connections or other potential contamination hazards on his premises.

E. The Customer shall, at his expense, properly install, test, and maintain any backflow prevention device required by the Water System. Copies of all testing and maintenance records shall be provided to the Water System.

IV. ENFORCEMENT. If the Customer fails to comply with the terms of the Service Agreement, the Water System shall, at its option, either terminate service or properly install, test, and maintain an appropriate backflow prevention device at the service connection. Any expenses associated with the enforcement of this agreement shall be billed to the Customer.

CUSTOMER'S SIGNATURE: _____

DATE: _____
