



Control Number: 49189



Item Number: 179

Addendum StartPage: 0

APPLICATION OF THE CITY OF AUSTIN FOR AUTHORITY TO CHANGE THE WATER AND WASTEWATER RATES FOR NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1, NORTHTOWN MUNICIPAL UTILITY DISTRICT, TRAVIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10, AND WELLS BRANCH MUNICIPAL UTILITY DISTRICT IN WILLIAMSON AND TRAVIS COUNTIES

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BEFORE THE STATE OFFICE

OF


ADMINISTRATIVE HEARINGS

COME NOW, North Austin Municipal Utility District No. 1, Northtown Municipal Utility District, Travis County Water Control & Improvement District No. 10, and Wells Branch Municipal Utility District (collectively, the “Districts”) and file these Objections and Responses to the City of Austin d/b/a Austin Water’s First Request for Information to Districts, which were received on November 8, 2019. Pursuant to SOAH Order No. 9, Districts’ responses to discovery requests are due within five calendar days from receipt.¹ Therefore, the Districts’ objections and responses are timely filed. Counsel for Districts and the City of Austin d/b/a Austin Water (“City” or “AWU”) negotiated diligently and in good faith to clarify the requests.

DISTRICTS' OBJECTIONS AND RESPONSES TO
AUSTIN WATER'S FIRST REQUEST FOR INFORMATION

179

Respectfully submitted,

By: 
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ATTORNEYS FOR DISTRICTS

CERTIFICATE OF SERVICE

I hereby certify that I have served or will serve a true and correct copy of the foregoing document via hand delivery, facsimile, electronic mail, overnight mail, U.S. mail and/or Certified Mail Return Receipt Requested to all parties on this the 13th day of November 2019.


John Carlton

**SOAH DOCKET NO. 473-19-6297.WS
PUC DOCKET NO. 49189**

**DISTRICTS' RESPONSES AND OBJECTIONS TO CITY OF AUSTIN D/B/A
AUSTIN WATER'S FIRST REQUEST FOR INFORMATION TO DISTRICTS**

AW 1-1. Please provide the following information for any testifying expert:

- a. All documents, tangible things, reports, models, or data compilations that have been reviewed by the expert in anticipation of the expert's testimony. For the rate filing package filed by Austin Water in this proceeding, do not provide the documents but instead list the portions of the rate filing package (including any updates) reviewed by the witness, including the specific pages reviewed (provide Bates Stamp numbers). For discovery responses that have been provided by Austin Water in this proceeding, do not provide the documents but instead list the discovery response, including the specific pages reviewed by the witness (provide Bates Stamp numbers);
- b. All documents, tangible things, reports, models, or data compilations that have been provided by or for the expert in anticipation of the expert's testimony. For the rate filing package filed by Austin Water in this proceeding, do not provide the documents but instead list the portions of the rate filing package (including any updates) provided to the witness, including the specific pages provided (provide Bates Stamp numbers). For discovery responses that have been provided by Austin Water in this proceeding, do not provide the documents but instead list the discovery response, including the specific pages provided to the witness (provide Bates Stamp numbers); and
- c. The expert's current resume and bibliography.

OBJECTION: a. **The Districts object to this request on the following independent bases: the requests are unduly burdensome because they are unreasonably cumulative or duplicative of prefiled testimony already provided (*Walker v. Packer*, 827 S.W.2d 833, 843 (Tex. 1992)) and information requested is obtainable from other sources (i.e., prefiled testimony) that are more convenient, less burdensome and less expensive (*Brewer & Pritchard, P.C. v. Johnson*, 167 S.W.3d 460, 466 (Tex. App. – Houston [14th Dist.] 2005, pet. denied)). Each expert testifies specifically in his prefiled testimony exactly what he reviewed and relied upon. In Mr. Joyce's case, he has reviewed dozens of City-produced documents (all identified in his testimony and exhibits attached thereto) over multiple years. It would be impossible to cite each specific bates-stamped page of those documents, assuming there is bates-stamping, or return the City's own documents back to the City.**

RESPONSE: **a. Notwithstanding the foregoing and without waiving the objection, the Districts answer as follows: please see responsive information to AWU 1-1(a) attached hereto and p. 9, lines 1-13 of the Direct Testimony of Jay Joyce. Mr. Joyce also reviewed: 1) the native files that accompanied AWU's Rate Filing Package but did not contain Bates numbers; 2) most of AWU's responses to PUC Staff's discovery requests; 3) most of the native files that accompanied AWU's discovery responses but did not contain Bates numbers; and, 4) AWU's errata filing and the accompanying native files that did not contain Bates numbers.**

Mr. Malish reviewed: 1) the Direct Testimony of Stephen J. Coonan and David Anders in this docket; 2) the Direct Testimony of Teresa Lutes in PUC Docket No. 42857; 3) Austin Water Utility Profile and Water Conservation Plan for Municipal and Wholesale Water Use (May 1, 2019); 4) City of Austin Water Audit Reports to the Texas Water Development Board ("TWDB") from 2014 to 2018; 5) TWDB, Water Loss Audit Manual for Texas Utilities, Report 367 (March 2008); 6) Historical Water Purchase and Use records for Northtown Municipal Utility District for fiscal years 2009-2019; 7) Historical Water Purchase and Use records for North Austin Municipal Utility District No. 1 for fiscal years 1995-2019; 8) Historical Water Purchase and Use records for Wells Branch Municipal Utility District for fiscal years 2006-2019; 8) Historical Water Purchase and Use records for Travis County Water Control and Improvement District No. 10 for fiscal years 2005-2019; 9) AWU Website: <https://data.austintexas.gov/Utilities-and-City-Services/Austin-Water-Gallons-of-Water-Pumped-per-Capita/wfm8-s7zc/data>; and, 10) Travis County WCID No 10's Red Bud Pump Station Pressure Readings from January 2014 through September 2019.

OBJECTION: b. The Districts object to this request on the following independent bases: the requests are unduly burdensome because they are unreasonably cumulative or duplicative of prefiled testimony already provided (*Walker v. Packer*, 827 S.W.2d 833, 843 (Tex. 1992)) and information requested is obtainable from other sources (i.e., prefiled testimony) that are more convenient, less burdensome and less expensive (*Brewer & Pritchard, P.C. v. Johnson*, 167 S.W.3d 460, 466 (Tex. App. – Houston [14th Dist.] 2005, pet. denied)). Each expert testifies specifically in his prefiled testimony exactly what he reviewed and relied upon. In Mr. Joyce’s case, he has reviewed dozens of City-produced documents (all identified in his testimony and exhibits attached thereto) over multiple years. It would be impossible to cite each specific date-stamped page of those documents, assuming there is date-stamping, or return the City’s own documents back to the City.

RESPONSE: b. Notwithstanding the foregoing and without waiving the objection, the Districts answer as follows: see Response to AW 1-1(a).

RESPONSE: c. See Direct Testimony of Jay Joyce, Exhibit JJJ-1 at 46-56 and Direct Testimony of David Malish, P.E., Exhibit DM-1 at 17-19.

AW 1-2. If not provided with your direct testimony in this case, please provide, in native format, all workpapers and documents supporting the testimony of each witness filing testimony on your behalf in this proceeding.

OBJECTION: The Districts object to this request on the following independent bases: the requests are unduly burdensome because they are unreasonably cumulative or duplicative of prefiled testimony already provided (*Walker v. Packer*, 827 S.W.2d 833, 843 (Tex. 1992)) and information requested is obtainable from other sources (i.e., prefiled testimony) that are more convenient, less burdensome and less expensive (*Brewer & Pritchard, P.C. v. Johnson*, 167 S.W.3d 460, 466 (Tex. App. – Houston [14th Dist.] 2005, pet. denied)). Each expert testifies specifically in his prefiled testimony exactly what documents support his testimony. In Mr. Joyce's case, his review of dozens of City-produced documents (all identified in his testimony and exhibits attached thereto) over multiple years supports his testimony and producing the City's own documents back to the City would be unduly burdensome and harassing.

RESPONSE: Notwithstanding the foregoing and without waiving the objection, the Districts answer as follows: see Response to AW 1-1(a).

AW 1-3. For each of your testifying experts in this case, please provide (to the extent not provided earlier):

- a. Copies of all prior testimony, articles, speeches, published materials and peer review materials written by the testifying expert, from 2013 to the present.

OBJECTION: a. **The Districts object to this request on the following independent bases: testimony, articles, speeches and other published material on all non-utility cases are not relevant to the subject matter of this docket and the request seeks information that is neither relevant nor reasonably calculated to lead to the discovery of admissible evidence (*K-Mart Corp. v. Sanderson*, 937 S.W.2d 429, 431-32 (Tex. 1996); *see also* Tex. R. Civ. P. 192.3). The request is also overbroad and not properly limited in time, scope or relation to the facts at issue in this proceeding since the requests are for non-utility information over six (6) years. Finally, the request is unduly burdensome because it is unreasonably cumulative or duplicative of prefiled testimony already provided (*Walker v. Packer*, 827 S.W.2d 833, 843 (Tex. 1992)) and information requested is obtainable from other sources (i.e., prefiled testimony) that are more convenient, less burdensome and less expensive (*Brewer & Pritchard, P.C. v. Johnson*, 167 S.W.3d 460, 466 (Tex. App. – Houston [14th Dist.] 2005, pet. denied)).**

RESPONSE: Notwithstanding the foregoing and without waiving the objection, the Districts answer as follows: see Response to AWU 1-3(a) attached. Additionally, Mr. Malish provided testimony in PUC Docket No. 42857 and in SOAH Docket No. 582-16-1492, TCEQ Docket No. 2015-1264-MWD relating to DMS Real Tree, LLC.

AW 1-4. To the extent not provided in workpapers please provide copies of any articles, publications, regulatory decisions (outside of Texas), reference material, and documents cited in testimony or footnotes. If the referenced source is a book, please provide a copy of the relevant section of the book.

OBJECTION: The Districts object to this request on the following independent bases: the request is unduly burdensome because it is unreasonably cumulative or duplicative of prefiled testimony already provided (*Walker v. Packer*, 827 S.W.2d 833, 843 (Tex. 1992)) and information requested is obtainable from other sources (i.e., prefiled testimony) that are more convenient, less burdensome and less expensive (*Brewer & Pritchard, P.C. v. Johnson*, 167 S.W.3d 460, 466 (Tex. App. – Houston [14th Dist.] 2005, pet. denied)). For example, Mr. Joyce’s references to a federal case, the City’s own application, testimony and rate models, and the AWWA M-1 manual are equally obtainable by AWU.

AW 1-5. Refer to the Direct Testimony of Jay Joyce at page 30, line 4. Please provide all calculations that support the ROE figure stated here.

RESPONSE: See Response to AWU 1-5 attached.

AW 1-6. What debt service coverage ratio results from the Districts' recommended disallowances in this case? If the answer is other than 1.25x, explain the reason(s) for the difference.

RESPONSE: The Districts' proposed water revenue requirement for each District incorporates 1.25x coverage. The Districts' proposed wastewater revenue requirement for each District incorporates 1.25x coverage.

Audit Readiness (4) - Property, Plant and Equipment

External Auditors of most manufacturing organisations usually scope in PPE as a risk area during their annual audit due to its materiality. A combination of controls testing and substantive testing is usually adopted when obtaining audit assurance on PPE.

The subject matter for discussion on audit readiness this week is Property, Plant and Equipment (PPE). This item falls within the scope of IAS 16. This standard is applicable in accounting for property, plant and equipment, which it defines as tangible items that:

- Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes
- Are expected to be used during more than one period.

The Standard excludes the following from its scope:

Property, plant and equipment classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;

- Biological assets related to agricultural activity (IAS 41 Agriculture); and
- Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

External Auditors of most manufacturing organisations usually scope in PPE as a risk area during their annual audit due to its materiality. A combination of controls testing and substantive testing is usually adopted when obtaining audit assurance on PPE.

Within the business cycles selected for testing during a particular period, the principal business activities and the sub processes are tested. The objectives for testing the sub processes are:

Acquiring fixed assets

Recorded fixed asset acquisitions represent fixed assets acquired by the organization.

Fixed asset acquisitions are accurately recorded.

Fixed asset acquisitions are recorded in the appropriate period.

All fixed asset acquisitions are recorded.

The recognition criteria for property, plant and equipment are derived from the general principles for asset recognition reflected in the Conceptual Framework for Financial Reporting. An item of property, plant and equipment is to be recognised as an asset if, and only if:

- It is probable that future economic benefits associated with the asset will flow to the entity; and
- The cost of the asset to the entity can be measured reliably.

Depreciating fixed assets

Depreciation charges are valid.

Depreciation charges are accurately calculated and recorded.

All depreciation charges are recorded in the appropriate period.

Depreciation, as defined in IAS 16:6, is the systematic allocation of the depreciable amount of an asset (i.e. the cost of the asset, or other amount substituted for cost, less its residual value) over its useful life. In order to comply with the requirements of IAS 16 relating to depreciation, it is necessary to identify:

The parts (components) of each item of property, plant and equipment that are to be depreciated separately;

- The cost or valuation of each separately depreciable component;
- The estimated residual value of each separately depreciable component;
- The length of time during which each separately depreciable component will be commercially useful to the entity; and
- The most appropriate depreciation method for each separately depreciable component.

Disposing of fixed assets

Recorded fixed asset disposals represent actual disposals.

All fixed asset disposals are recorded.

Fixed asset disposals are accurately calculated and recorded.

Fixed asset disposals are recorded in the appropriate period.

Managing fixed assets

Records of fixed asset maintenance activity are accurately maintained.

Fixed assets are adequately safeguarded.

Fixed asset maintenance records are updated timely.

Fixed assets reflect the existing business circumstances and economic conditions in accordance with the accounting policies being used.

Financial information is not presented in a misleading way and all information that is necessary for fair presentation and compliance with professional standards or legal requirements is disclosed.

Maintaining fixed asset register and/or master file

Only valid changes are made to the fixed asset register and/or master file.

All valid changes to the fixed asset register and/or master file are input and processed.

Changes to the fixed asset register and/or master file are accurate.

Changes to the fixed asset register and/or master file are processed timely.

Fixed asset register and/or master file data remains pertinent.

External Auditors would always request to examine documents to support the assertions that the above objectives are reasonably met. Processes that do not leave a visible trail are tested via observation or re-performance.

Where internal controls are strong, Auditors may reduce the planned level of substantive assurance. This is usually the case and that is why it is desirable for

entities to ensure that internal controls are very in design and also very efficient and effective in operation.

Impairment Review

External Auditors may also be interested in entities impairment review documentation. Entities should refer to the requirements of IAS 36 Impairment of Assets to determine whether an item of property, plant and equipment is impaired. IAS 36 explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises or reverses an impairment loss.

Occasionally, an entity may receive a compensation for impairment or loss. When an asset is impaired, lost or given up, any compensation from third parties is included in profit or loss when the compensation becomes receivable. [IAS 16:65]

Examples of such circumstances include:

Reimbursements by insurance companies after the impairment or loss of items of property, plant and equipment (e.g. due to natural disasters, theft etc.);

Indemnities by governments for items of property, plant and equipment that are expropriated (e.g. compulsory purchase of land to be used for public purposes);

- Compensation related to the involuntary conversion of items of property, plant and equipment (e.g. relocation of facilities from a designated urban area to a non-urban area in accordance with government land policy); and
- Physical replacement in whole or in part of an impaired or lost asset.

The Standard emphasises that impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties, and any subsequent purchase or construction of replacement assets are separate economic events and should be accounted for as such. Netting of transactions is not allowed. The three economic events should be accounted for separately as follows:

In respect of impairment or loss:

- Impairments of items of property, plant and equipment should be recognised in accordance with IAS 36; and
- Derecognition of items of property, plant and equipment retired or disposed of should be determined in accordance with IAS 16;

- Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up should be included in determining profit or loss when it becomes receivable; and
- The cost of items of property, plant and equipment restored, purchased or constructed as replacements should be determined in accordance with IAS 16.

Violation of these rule may result to audit reversals which may taint the competence of the accounting function.

Derecognition

The Auditors may also test the application of the de-recognition policy. IAS 16 requires that the carrying amount of an item of property, plant and equipment should be derecognised:

- On disposal; or
- When no future economic benefits are expected from its use or disposal.

The reality is that certain organizations still include in the carrying amount of their PPE, the value of PPE of on which future economic benefits are reasonably not expected from their use or disposal. Their documentation and available facts do not support this assertion.

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DISTRICTS' RESPONSE TO AWU RFI 1-1(a)

Subchapter E. PLEADINGS AND OTHER DOCUMENTS.

§22.77. Motions.

- (a) **General requirements.** A motion shall be in writing, unless the motion is made on the record at a prehearing conference or hearing. It shall state the relief sought and the specific grounds supporting a grant of relief. If the motion is based upon alleged facts that are not a matter of record, the motion shall be supported by an affidavit. Written motions shall be served on all parties in accordance with §22.74 of this title (relating to Service of Pleadings and Documents).
- (b) **Time for response.** The time for responding to motions is governed by §22.78 of this title (relating to Responsive Pleadings and Emergency Action), unless otherwise provided by the presiding officer, commission rule, or statute.
- (c) **Rulings on motions.** The presiding officer shall serve orders ruling on motions upon all parties, unless the ruling is made on the record in a hearing or prehearing conference open to the public.

DISTRICTS' RESPONSE TO AWU RFI 1-1(a)

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11. **Workpapers.** Concurrently with the filing of 10 copies and one original (11 sets total) of the RFP, the utility must also separately file with the commission 11 complete sets of workpapers used in the preparation of certain schedules, subject to the provisions of General Instruction No. 13 dealing with voluminous workpapers. The utility shall also concurrently file 11 copies of its entire direct case, including all testimony and exhibits. In addition, one (1) complete set of the same RFP, testimony, exhibits and workpapers shall be delivered to the Office of Public Utility Counsel on the date of filing.
- Workpaper referencing format: For workpapers supporting RFP schedules, the workpaper reference shall always begin with the characters "WP/" followed by the schedule to which the workpaper refers. Specific workpapers shall then be referenced by ascending numbers. The resulting series of workpapers shall have a pyramid structure, with the top workpaper (the workpaper with the least complicated reference, for example WP/I-A) being the workpaper which directly reflects the amounts shown on a particular schedule (in this case, Schedule I-A). The next level down the pyramid (using the A-1 series, this would be WP/I-A/1) would contain information which explains a portion of the top workpaper (in this case, WP/I-A). Each successive level down the pyramid would explain something from the next higher level.
 - Workpaper content: All assumptions, calculations, sources, and data supporting allocation or functionalization of the test year expenses and/or balances shall be included in the workpaper supporting each schedule. In addition, specific numbers which "tie" between the schedule and the workpaper must be referenced on both the workpaper and the schedule.
 - Workpaper location: All workpapers not considered voluminous (See General Instruction No. 12, below) shall be organized and appear in the same order as the schedules they support. Workpapers supporting testimony shall appear behind the testimony they support. For testimony workpapers provided electronically, specific citations to electronic copies shall appear behind the testimony supported.
12. **Electronic files.** All documents created in native electronic format (e.g., Microsoft Word, Microsoft Excel, or similar compatible formats) in the RFP, including testimony and schedules, shall be served upon all intervenors (or representatives for intervenor groups if aligned) in the utility's most recent major rate case in the same native electronic format via CD ROM, flash drive, electronic mail, or similar electronic means on the date of filing. For each witness, testimonies shall be filed in separate electronic files in native Microsoft Word format and may, at the utility's discretion, also be filed for each witness in separate files in PDF format.
13. **Confidentiality.** If the utility claims that requested information is confidential, a statement to that effect shall be included in the filing package in the schedule where the information is requested along with a draft protective order. All information requested in the schedule for which the utility does not claim confidentiality shall be included in the filing package schedule. The utility shall include a signed statement by its attorney that presents, for each schedule for which the utility claims that the requested information is confidential, the claimed reasons that the information should be treated as confidential and that states that

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provided that the utility provides a specific citation (Bates page number, etc.) to where the workpaper can be found in the RFP. In situations where no supporting workpapers exist, a utility shall affirmatively state that there are no workpapers. To the extent that information in the cells of Microsoft Excel workbooks is hard-coded, the company shall provide the source of information for the hard-coded data in narrative format by including detailed explanatory information in "comments" within the cells. **Please note: Filed rate applications that do not include active Microsoft Excel workbooks consistent with the above requirements shall be considered deficient.**

Additionally, in an attached Executive Summary narrative or in the testimony of an overview witness, the utility shall provide a brief history of the utility and affiliates, if any, comparison of the currently approved rate base, rate of return, sales/other revenues, operating expenses by major category (e.g., Operations & Maintenance, depreciation, other taxes, income taxes), and operating income as previously authorized and as proposed with amounts for each item sought in its current request; an explanation of the cost/revenue drivers causing rates to change; and a complete listing of each testifying witness, the general subject matter addressed by the witness, and the volume number and Bates page number on which each witness's testimony begins. The comparisons should be provided using a previously filed rate/tariff change application even if the application resulted in a settlement and there was no evidentiary hearing for the application. If this is the utility's first rate filing and there is no prior rate case by the utility or a prior owner of the utility, then the applicant utility should provide history from the previous owner, if any. The utility may provide Bates page numbering in the alternate format provided in General Instruction No. 16. The utility should also provide this information for the rate structure being proposed in this filing package.

3. For the filing of the RFP, the information reported shall be based on the test year unless otherwise directed by these instructions.
4. **Numbering of Schedules.** All schedules shall be referenced by schedule number and name as indicated in each instruction and shall identify the witness sponsoring the schedule. Suffixes "W" and "S" may be used to separate water and sewer operations, and if a schedule or question applies to both operations, it must be answered for both. If not, indicate that it is not applicable. Each line of each RFP schedule shall be numbered.
5. **The applicant must transparently provide all information on affiliate charges (direct billed) and/or allocations in the cost of service.**
6. Summary schedules and required income statements and balance sheets shall be supported with detailed schedules using the NARUC chart of accounts. For affiliated transactions, detailed schedules shall include information by NARUC account for allocated and direct billed amounts shall be in accordance with the following instructions:

Column (1):	Company total amount subject to allocation or direct billed recorded on GAAP basis before allocations to Texas. Provide a reconciliation and explanations of any amount not tying to the applicant's financial statements or general ledger;
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Instructions for Rate Tariff Change
Class A Water/Sewer Utilities (9/17/15)

<u>AFUDC</u>	Allowance for Funds Used During Construction.
<u>Affiliated</u>	See TWC 13.002(2) (A)-(G) and 16 TAC §24.3(6). "Affiliated interest" or "affiliate".
<u>Allocation</u>	(16 TAC §24.3(8)) "For all retail public utilities, the division of plant, revenues, expenses, taxes, and reserves between municipalities, or between municipalities and unincorporated areas, where such items are used for providing water or sewer utility service in a municipality or for a municipality and unincorporated areas." A non-municipal allocation is the division of plant, revenues, expenses, taxes and reserves between affiliates, jurisdictions, rate regions, business units, functions, or customer classes defined within a retail public utility's operations for all retail public utilities and affiliates.
<u>Amortization</u>	The gradual extinguishment of an amount in an account by distributing the amount over a fixed period (such as over the life of the asset or liability to which it applies).
<u>Annualization</u>	An adjustment to bring a utility's accounts to a 12-month level of activity (<i>e.g., year-end number of active connections and revenues, operating expenses, and level of investment</i>).
<u>AWWA</u>	American Water Works Association.
<u>Base rate</u>	(16 TAC §24.3(11)) The portion of a consumer's utility bill which is paid for the opportunity of receiving utility service, which does not vary due to changes in utility service consumption patterns.
<u>Block Rates</u>	A rate structure set by usage blocks, typically inclining cost for increased usage, which changes the cost per 1,000 gallons as usage increases to the next block.
<u>Board</u>	Texas Water Development Board.
<u>Class A Utility</u>	(16 TAC §24.3(17)): A public utility that provides retail water or sewer utility service to 10,000 or more taps or active connections. If a public utility provides both water and sewer utility service, the number of active water connections determines how the utility is classified.
<u>Connections:</u>	
Active Connection	Water or sewer connections currently being used to provide retail water or sewer service, or wholesale service. <i>A customer is a current recipient of retail water or sewer service, and therefore the number of current customers should equal the number of active connections unless one customer has more than one connection.</i>
Inactive Connection	Water or sewer connections tapped to the applicant's utility and that are not currently receiving service from the utility.
Potential Connection	Total number of active plus inactive connections.

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Instructions for Rate/Tariff Change
Class A Water/Sewer Utilities (9/17/15)

days prior to the proposed effective date. The required notice form is available on the PUC's website. Notice shall meet all the requirements included in the TWC and 16 TAC §24, as appropriate for a Class A Utility.

SECTION II: TEST YEAR DATA

II-A: COST OF SERVICE

Provide water and sewer cost of service summaries. The schedule shows the total cost of providing water and sewer services together, and then separately for water and sewer.

II-A-1: COST OF SERVICE BY WATER/SEWER

Provide a schedule showing the total costs of service using the categories in II-A with the costs listed by NARUC account. The schedule shows the detailed cost of providing water and sewer services together, and then separately for water and sewer. Provide all necessary reconciliations, with explanations, to Schedule II-A-2 to the historical test year income statement.

II-A-2: STATEMENT OF INCOME

1. Provide the utility's comparative operating statements for the historic test year and the immediately preceding calendar year showing increases and decreases between the two periods. These statements should supply detailed explanation of the causes of the major (greater than 15%) variances between the historic test year and preceding year by detailed account number. Limit the explanation to differences of \$5,000 or greater.
2. Prepare an income statement for the test year of the rate proceeding including:

Column 1— Book recorded income statement for the test year.

Column 2— Adjustments to book recorded income statement to annualize and normalize under present rates.

Column 3— Income statement under present rates after adjustments in Col. 2.

Column 4— Adjustments to Column 3 for revenue increase requested.

Column 5— Income statement under proposed rates.

3. The information provided in response to this instruction should be specific to the test year presented in the application. If a utility has separate operating divisions or regions in Texas, an income statement must be shown for each division and/or region, plus an income statement for the utility as a whole. If the utility has affiliate(s) providing water service in Texas, provide an income statement for all affiliates providing water service in Texas. Similarly, if the utility has affiliate(s) providing sewer service in Texas, provide an income statements for all affiliates providing sewer service in Texas. If the utility provides both water and sewer service, then the utility must provide income statements for both and also for its affiliates, if

Provide for detailed account w/ detail in schedule

II-A-1

provide explanation of why AWU did not comply w/ this, in a reg. mt.

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schedule shall present the overall rate of return proposed by the utility on the requested rate base and the resulting total return (capital cost) expressed in dollars. The costs and balances of preferred stock and long-term debt (and short-term debt if included in the utility's capital structure) should correspond with those provided in response to schedules described in items below.

II-C-3: Preferred Stock

Provide schedules detailing the weighted average cost of preferred stock capital based upon the following data for each class and series of preferred stock outstanding according to the balance sheet as of the end of the test year, for the applicant and for any parent or affiliate from which corporate debt or equity is allocated. For each issue, please include:

- a. Description.
- b. Date of Issuance.
- c. Redemption Status (indicate whether or not mandatory redemptions are required).
- d. Annual Dividend Rate (in percent).
- e. Par Value at Issuance.
- f. Premium or (Discount) at Issuance.
- g. Underwriting Fees and Issuance Expenses.
- h. Gain or (Loss) on Redeemed Stock at Issuance.
- i. Original Net Proceeds [(e) + (f) - (g) + (h)].
- j. Net Proceeds as a Percent of Par Value [(i) / (e)].
- k. Par Value Currently Outstanding.
- l. Current Net Proceeds [(k) x (j)].
- m. Issue as a Percent of Total Net Proceeds. (Each issue should be weighted by the current net proceeds to derive the weighted cost of preferred stock.)
- n. Cost of Money [(d) / (j)]. (This will equal the stated dividend rate only if there were no issuance expenses or underwriting costs, discounts or premiums, or gains or losses on redeemed stock. For fixed-rate issues with mandatory redemption, it may be calculated using the yield-to-maturity method.)
- o. Weighted Cost of Preferred Stock by issue is calculated by [(m) x (n)]. (The Weighted Average Cost of Preferred Stock as a class of capital is calculated by summing the (o) data for each issue.)

II-C-4: Long Term Debt

Provide the weighted average cost of long-term debt capital based on the following data for each class and series of long-term debt outstanding according to the balance sheet as of the end of the test period. For capital lease obligations, the cost and balance of debt should be determined in accordance with generally accepted accounting principles. For each debt issue, please include:

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Instructions for Rate/Tariff Change
Class A Water Sewer Utilities (9/17/15)Minimum Rate Filing Application (RFP) Requirements
Class A Water and Sewer Utilities

GENERAL INSTRUCTIONS

The following instructions are applicable to all schedules required in the Water and/or Sewer Class A Investor-Owned Utility (IOU) Cost-of-Service Rate Filing Package (RFP), for areas served by a Class A IOU located outside the corporate boundaries of a municipality, unless the municipality has surrendered jurisdiction to the commission or unless otherwise noted. Utilities providing both water and sewer retail utility service subject to the commission's jurisdiction shall include all regulated functions and non-regulated functions if expenses are allocated, such as wholesale service, or multi-jurisdictional services in each rate case with transparent information on all allocations performed to determine each cost of service, regardless of whether the purpose of the rate filing is to change water rates only, sewer rates only, or to change both water and sewer rates simultaneously with one filing. Utilities that solely provide either water or sewer service and are subject to the commission's jurisdiction need only include schedules reflecting the service provided. Class A Utilities operating inside the corporate boundaries of a municipality should contact the municipality to increase rates inside the corporate boundaries of the municipality.

1. Unless otherwise indicated, the information required in this filing will be taken from the utility's accounts and records as prescribed in the National Association of Regulatory Utility Commissioners (NARUC) chart of accounts. All mentions of the term "NARUC account" refer to the NARUC chart of accounts. Detailed sub-accounts are encouraged in support of reasonable and necessary expenses; provide a chart of accounts if used. A copy of all the most current financial audits for Texas-specific operations and affiliated companies shall be provided in the workpapers to the RFP, if audits are conducted.
2. **Testimony and schedules:** The utility shall provide direct testimony in support of its rate filing request and include the required schedules and workpapers with the application filing. Schedules, relevant data, and supporting workpapers (to the extent that the workpapers have been developed in Microsoft Excel) shall be provided in active format, including active Microsoft Excel workbooks and all linked workbooks with all formulas, cell references, links, etc., intact, functioning, and complete for all tables, figures, and attachments in the testimony except where no such workpapers exist. If a utility does not ordinarily link spreadsheets together, there is no need to do so solely for purposes of the RFP; however, if the utility does link spreadsheets, the utility should provide all the linked files. In the event that providing links to information sources is problematic, utilities should use alternative methods of providing the information, such as including the additional information in narrative form or including reference numbers via the use of "comments" within the spreadsheet cells. All source equations, the means, or the methodology on how any and all calculations were performed must be provided.

The workpapers, workbooks and other information in support of the testimony are not required only if the information is duplicative and provided elsewhere in the filing.

PUBLIC UTILITY COMMISSION OF TEXAS



**CLASS A INVESTOR-OWNED UTILITIES
WATER AND/OR SEWER
RATE FILING PACKAGE
FOR
COST-OF-SERVICE DETERMINATION

2015**

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Instructions for Rate/Tariff Change
Class A Water/Sewer Utilities (9/17/15)

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Minimum Rate Filing Application (RFP) Requirements
Class A Water and Sewer Utilities

GENERAL INSTRUCTIONS

The following instructions are applicable to all schedules required in the Water and/or Sewer Class A Investor-Owned Utility (IOU) Cost-of-Service Rate Filing Package (RFP), for areas served by a Class A IOU located outside the corporate boundaries of a municipality, unless the municipality has surrendered jurisdiction to the commission or unless otherwise noted. Utilities providing both water and sewer retail utility service subject to the commission's jurisdiction shall include all regulated functions and non-regulated functions if expenses are allocated, such as wholesale service, or multi-jurisdictional services in each rate case with transparent information on all allocations performed to determine each cost of service, regardless of whether the purpose of the rate filing is to change water rates only, sewer rates only, or to change both water and sewer rates simultaneously with one filing. Utilities that solely provide either water or sewer service and are subject to the commission's jurisdiction need only include schedules reflecting the service provided. Class A Utilities operating inside the corporate boundaries of a municipality should contact the municipality to increase rates inside the corporate boundaries of the municipality.

1. Unless otherwise indicated, the information required in this filing will be taken from the utility's accounts and records as prescribed in the National Association of Regulatory Utility Commissioners (NARUC) chart of accounts. All mentions of the term "NARUC account" refer to the NARUC chart of accounts. Detailed sub-accounts are encouraged in support of reasonable and necessary expenses; provide a chart of accounts if used. A copy of all the most current financial audits for Texas-specific operations and affiliated companies shall be provided in the workpapers to the RFP, if audits are conducted.
2. **Testimony and schedules:** The utility shall provide direct testimony in support of its rate filing request and include the required schedules and workpapers with the application filing. Schedules, relevant data, and supporting workpapers (to the extent that the workpapers have been developed in Microsoft Excel) shall be provided in active format, including active Microsoft Excel workbooks and all linked workbooks with all formulas, cell references, links, etc., intact, functioning, and complete for all tables, figures, and attachments in the testimony except where no such workpapers exist. If a utility does not ordinarily link spreadsheets together, there is no need to do so solely for purposes of the RFP; however, if the utility does link spreadsheets, the utility should provide all the linked files. In the event that providing links to information sources is problematic, utilities should use alternative methods of providing the information, such as including the additional information in narrative form or including reference numbers via the use of "comments" within the spreadsheet cells. All source equations, the means, or the methodology on how any and all calculations were performed must be provided.

The workpapers, workbooks and other information in support of the testimony are not required only if the information is duplicative and provided elsewhere in the filing.

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provided that the utility provides a specific citation (Bates page number, etc.) to where the workpaper can be found in the RFP. In situations where no supporting workpapers exist, a utility shall affirmatively state that there are no workpapers. To the extent that information in the cells of Microsoft Excel workbooks is hard-coded, the company shall provide the source of information for the hard-coded data in narrative format by including detailed explanatory information in "comments" within the cells. **Please note: Filed rate applications that do not include active Microsoft Excel workbooks consistent with the above requirements shall be considered deficient.**

Additionally, in an attached Executive Summary narrative or in the testimony of an overview witness, the utility shall provide a brief history of the utility and affiliates, if any, comparison of the currently approved rate base, rate of return, sales/other revenues, operating expenses by major category (e.g., Operations & Maintenance, depreciation, other taxes, income taxes), and operating income as previously authorized and as proposed with amounts for each item sought in its current request; an explanation of the cost/revenue drivers causing rates to change; and a complete listing of each testifying witness, the general subject matter addressed by the witness, and the volume number and Bates page number on which each witness's testimony begins. The comparisons should be provided using a previously filed rate/tariff change application even if the application resulted in a settlement and there was no evidentiary hearing for the application. If this is the utility's first rate filing and there is no prior rate case by the utility or a prior owner of the utility, then the applicant utility should provide history from the previous owner, if any. The utility may provide Bates page numbering in the alternate format provided in General Instruction No. 16. The utility should also provide this information for the rate structure being proposed in this filing package.

3. For the filing of the RFP, the information reported shall be based on the test year unless otherwise directed by these instructions.
4. **Numbering of Schedules.** All schedules shall be referenced by schedule number and name as indicated in each instruction and shall identify the witness sponsoring the schedule. Suffixes "W" and "S" may be used to separate water and sewer operations, and if a schedule or question applies to both operations, it must be answered for both. If not, indicate that it is not applicable. Each line of each RFP schedule shall be numbered.
5. **The applicant must transparently provide all information on affiliate charges (direct billed) and/or allocations in the cost of service.**
6. Summary schedules and required income statements and balance sheets shall be supported with detailed schedules using the NARUC chart of accounts. For affiliated transactions, detailed schedules shall include information by NARUC account for allocated and direct billed amounts shall be in accordance with the following instructions:

Column (1):	Company total amount subject to allocation or direct billed recorded on GAAP basis before allocations to Texas. Provide a reconciliation and explanations of any amount not tying to the applicant's financial statements or general ledger:
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- Column (2): the adjustments necessary to remove non-regulated or non-utility amounts from column (1) and items prohibited by statute or commission rule with appropriate explanations of allocations, and any adjustments necessary to conform booked amounts to NARUC accounts or otherwise comply with statute or commission rules;
- Column (3): the adjustments for known and measurable changes to the test year or amounts transferred from one NARUC account to another;
- Column (4): Adjusted total before allocation [Column (1) plus or minus Column (2) and (3)];
- Column (5): Name of Allocation factor (add narrative and tables if more than one factor is used);
- Column (6): Allocation of Column (4) to Texas
- Column (7-12): Allocations within Texas to rate regions or other organizational split within the applicant's Texas operations (adjust the column numbers to the number of rate region or organizational split). Totals of these columns should equal amount in Column (4).
- Note a: The utility shall provide workpapers that detail the amounts transferred from one NARUC account to another as a result of any changes in NARUC accounting instructions. Supporting calculations and the basis for each transferred item shall also be included in these workpapers.
- Note b: The utility shall provide workpapers that detail and support the allocations of column (4) to columns (6) through (12). These workpapers shall contain all supporting data and calculations that form the bases for such allocations.
- Note c: Utilities shall provide workpapers that detail the affiliated items included by NARUC account and support the allocation methods used to derive the amounts included. The workpapers shall include the total amount incurred by affiliate that is allocating costs to the utility as well as the amount allocated to the utility and each affiliate shown separately.
- Note d: These instructions refer to the NARUC chart of accounts; however, if the utility has additional sub-accounts or detailed on its books not included in the NARUC chart of accounts, then the utility shall add those accounts, and provide a chart of accounts with the application.
- Note e: Items reported in these schedules shall be developed consistent with the instructions for the same items applicable elsewhere in the RFP.
- Note f: The applicant shall submit all calculations and workpapers in a form that is readily understandable and replicable by all parties in order for them to be able to replicate and determine the appropriateness and accuracy of the calculations.

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7. Reclassifications shall be documented in the appropriate schedules and amounts assigned to the functions as appropriate; additionally, the purpose of and support for reclassifications shall be provided. Reclassified costs shall not be transferred from one account to another. Transfers shall only be used to make accounting adjustments in accordance with NARUC accounting instructions.
8. Adjustments to test year balances shall be made for the removal of items not included in the utility's cost of service by statute or commission rule. Additionally, adjustments shall be made to the test year to remove nonrecurring costs and normalize unusual and/or extraordinary expenditures. Workpapers detailing and explaining the adjustments made shall be provided.
9. **Allocations:** The purpose of a cost allocation process in rate setting is to assign, as much as it is practical, costs to the customers who benefit from or cause those costs to be incurred. All costs must be separated between water and sewer, if both services are provided, and any directly assigned costs and allocations must be clearly documented along with the basis for allocation. Directly assigned and allocated costs must be shown separately for each functional division and by the affiliate passing the cost to the applicant. Allocations may be made to organizational splits within the applicant's organization other than water or sewer. Allocations should follow cost-causation principles.
 - a. All allocations and assignments and related calculations must be supported by workpapers and schedules. Columns may be expanded into multiple columns to individually identify the differing types of adjustments. For multi-jurisdictional utilities, columns or additional schedules and workpapers must be provided to show comparative allocations between jurisdictions with transparent allocation information and justification for amounts allocated to Texas. Utilities shall provide workpapers and explanatory documentation detailing the nature of each adjustment and known and measurable changes.
 - b. Allocation factors shall be identified as to whether they:
 1. were derived using data developed within the applicant's model ("internal").
 2. were weather normalized, or
 3. vary according to the functional, regional, or class revenue requirements.
10. **Customer Class Allocation.** Where multiple customer classes are served by a utility, costs (or revenues, where appropriate) shall be assigned or allocated to the customer classes based on cost-causation principles. In addition to any information necessary to evaluate any proposed customer class creations, consolidations or subdivisions for rate-setting purposes, information must be presented using consistent customer classifications throughout the RFP, with no customer class consolidation or subdivision occurring from the class cost of service phase wherein the cost of service for each class is determined, through the revenue allocation phase wherein each class revenue requirement is proposed, through the rate design phase wherein a set of rates is proposed for each customer class based upon the class revenue requirement.

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11. **Workpapers.** Concurrently with the filing of 10 copies and one original (11 sets total) of the RFP, the utility must also separately file with the commission 11 complete sets of workpapers used in the preparation of certain schedules, subject to the provisions of General Instruction No. 13 dealing with voluminous workpapers. The utility shall also concurrently file 11 copies of its entire direct case, including all testimony and exhibits. In addition, one (1) complete set of the same RFP, testimony, exhibits and workpapers shall be delivered to the Office of Public Utility Counsel on the date of filing.
- a. Workpaper referencing format: For workpapers supporting RFP schedules, the workpaper reference shall always begin with the characters "WP/" followed by the schedule to which the workpaper refers. Specific workpapers shall then be referenced by ascending numbers. The resulting series of workpapers shall have a pyramid structure, with the top workpaper (the workpaper with the least complicated reference, for example WP/I-A) being the workpaper which directly reflects the amounts shown on a particular schedule (in this case, Schedule I-A). The next level down the pyramid (using the A-1 series, this would be WP/I-A/1) would contain information which explains a portion of the top workpaper (in this case, WP/I-A). Each successive level down the pyramid would explain something from the next higher level.
 - b. Workpaper content: All assumptions, calculations, sources, and data supporting allocation or functionalization of the test year expenses and/or balances shall be included in the workpaper supporting each schedule. In addition, specific numbers which "tie" between the schedule and the workpaper must be referenced on both the workpaper and the schedule.
 - c. Workpaper location: All workpapers not considered voluminous (See General Instruction No. 12, below) shall be organized and appear in the same order as the schedules they support. Workpapers supporting testimony shall appear behind the testimony they support. For testimony workpapers provided electronically, specific citations to electronic copies shall appear behind the testimony supported.
12. **Electronic files.** All documents created in native electronic format (e.g., Microsoft Word, Microsoft Excel, or similar compatible formats) in the RFP, including testimony and schedules, shall be served upon all intervenors (or representatives for intervenor groups if aligned) in the utility's most recent major rate case in the same native electronic format via CD ROM, flash drive, electronic mail, or similar electronic means on the date of filing. For each witness, testimonies shall be filed in separate electronic files in native Microsoft Word format and may, at the utility's discretion, also be filed for each witness in separate files in PDF format.
13. **Confidentiality.** If the utility claims that requested information is confidential, a statement to that effect shall be included in the filing package in the schedule where the information is requested along with a draft protective order. All information requested in the schedule for which the utility does not claim confidentiality shall be included in the filing package schedule. The utility shall include a signed statement by its attorney that presents, for each schedule for which the utility claims that the requested information is confidential, the claimed reasons that the information should be treated as confidential and that states that

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the attorney has reviewed the information sufficiently to state in good faith that the information is confidential.

Until a protective order is issued, the utility shall provide the commission or a party granted intervenor status the information claimed to be confidential if the party agrees to be bound by the draft protective order proposed by the utility in its application as if it had been issued. Use of the draft protective order as a confidentiality agreement pending issuance of a protective order does not preclude issuance of a protective order that differs from the draft protective order.

14. **Voluminous material.** For any individual schedule or supporting workpaper that consists of 100 or more pages the information shall be provided on CD, flash drive, or other modern electronic storage medium, or by making the information available to parties via an internet file hosting service. If the volume of the data meets the threshold for the "freight car doctrine" [eight (8) linear feet of documents], the requested material shall be made available at its normal repository on the date of filing. The utility shall provide a schedule detailing all normal repositories and cross-reference all RFP schedules to the information contained in those repositories. For the purpose of this General Instruction, each subpart of each section is a separate schedule (e.g., Schedule I-A, II-B, II-C, etc., are all separate schedules). The utility shall deliver a copy of all voluminous materials not subject to the "freight car doctrine" to both the commission's Legal Division and the Office of Public Utility Counsel on the day of filing the RFP application.
15. **Update.** For all schedules designated required in the instructions with the label "**update required**," the utility shall provide all information subsequent to Test Year end but not previously provided in the RFP. This information shall be filed 45 days after the original date of filing. The update shall include all available information not previously presented and shall be presented in the same format as the rate filing schedule for which the update is required. Updated schedules shall be filed in the same format as that of the original schedules.
16. The utility shall file a comprehensive index that lists each witness's testimony and the location of the corresponding schedules and workpapers by Bates page number within three days of the RFP filing. The index shall also include the schedules to the RFP and related workpapers by Bates page.
17. The applicant shall provide a summary of required schedules that are not applicable and shall include an explanation of why each such schedule is not applicable.

DEFINITION OF TERMS AND ACRONYMS

Please refer to the following definitions of terms and acronyms for the purpose of completing the rate filing package.

<u>A&G</u>	Administrative & General.
<u>ADFIT</u>	Accumulated Deferred Federal Income Tax.

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- a. Description
- b. Date of Issuance
- c. Maturity Date
- d. Interest Rate (Effective interest rate should be used for issues supported by letters of credit.)
- e. Principal Amount at Issuance
- f. Premium or (Discount) at Issuance
- g. Underwriting Fees and Issuance Expenses
- h. Gain or (Loss) on Reacquired Debt at Issuance
- i. Net Proceeds [(e) + (f) - (g) - (h)]
- j. Adjusted Net Proceeds at Issuance [net proceeds at issuance + amortized debt discount, expenses, premiums and unamortized losses]
- k. Adjusted Net Proceeds as a Percent of Par Value [(j) / (e)]
- l. Principal Currently Outstanding (including current maturities)
- m. Adjusted Net Proceeds [(k) x (l)]
- n. Issue as a Percent of Total Net Proceeds. Each issue should be weighted by adjusted net proceeds to derive the weighted cost of debt.
- o. Cost of Debt (this will equal the stated interest rate only if there were no issuance expenses or underwriting costs, discounts or premiums, or gains or losses on reacquired debt):

For variable rate issues, the cost of debt shall reflect the interest rate divided by net proceeds as a percent of par value [(d)/ (k)].

For fixed-rate issues, the cost of debt should reflect the yield-to-maturity based on the interest rate, net proceeds, issuance date and maturity schedule, determined by reference to any generally accepted table of bond yields, or a calculator with appropriate capability.

- p. Weighted Cost of Long-Term Debt is calculated by [(o) x (n)]. The Weighted Average Cost of Long-Term Debt as a class of capital is calculated by summing the (o) data for each issue.

Show the cost of long-term debt in accordance with the previous instructions. If the applicant has a parent or affiliate from which corporate debt or equity is allocated, provide a schedule that clearly presents corporate debt issuances and debt costs for the affiliate and the applicant. All methodologies, assumptions, and calculations used to allocate the debt to the Texas utility should be transparently disclosed.

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II-C-5: Weighted Average Cost of Short-Term Debt

Provide the historical balance(s) of short-term debt and a calculation of the weighted average cost of short-term debt as of the end of the test year. The balance and weighted average cost of short-term debt may be carried forward to the schedules described in Sections II-C-1 and II-C-2 for purposes of calculating the weighted average cost of capital, if the utility believes it is appropriate. This schedule should not include current maturities of long-term debt.

II-C-6: Amortization Schedules for all Short and Long Term Debt

Provide complete amortization schedules for all short and long term debt with monthly payments for principal and interest and summary amounts for each year.

II-C-7: Capital Requirements

Provide a schedule showing estimates of the requirements for and sources of future capital for three fiscal years following the test year. Provide detailed explanations of all assumptions and estimates used. Actual requirements and sources of capital for the most recent fiscal year shall also be provided.

II-C-8: Financial Tests and Ratios

Provide a schedule showing the description and calculation of the financial tests pertaining to the issuance of securities or the maintenance of banking lines of credit. For each class of securities (first mortgage bonds, unsecured debentures, commercial paper, preferred stock, etc.) or line of credit, provide a description of these financial tests (interest coverage, fixed charge coverage, maintenance of shareholders' equity, etc.) and copies of the relevant language contained in the official guiding documents (prospectuses, mortgage agreements, articles of incorporation, credit agreements, etc.). For each financial test, provide a calculation of the relevant financial ratio as of the end of the test year and the most recent fiscal year, including all supporting data. In addition, projections of each financial test shall be provided for three fiscal years assuming full requested rate relief is granted and, separately, assuming no rate relief is granted.

II-C-9: Historical Growth in Earnings, Dividends and Book Value

II-C-9.1: Provide a schedule with the following ratios for the test year and the four preceding fiscal years calculated on a total company basis. The data used to calculate these ratios should be taken from the Company's audited financial statements, for the periods requested.

a. Total Debt as a Percent of Total Capital

Numerator: Notes Payable
 + Long-Term Debt (Incl. Current Maturities & Capital Lease
 Obligation)

Denominator: Notes Payable
 + Long-Term Debt (Incl. Current Maturities & Capital
 Lease Obligation)
 + Preferred Stock
 + Common Equity

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b. Total CWIP as a Percent of Net Plant

Numerator: Total Construction Work In Progress

Denominator: Total Utility Plant
- Accumulated Depreciation and Amortization

c. Construction Expenditures as a Percent of Average Total Capital

Numerator: Cash Construction Expenditures

Denominator: Average of Beginning and Ending Balance of
Total Capital (See Definition of Total Capital Provided for
Ratio No.1.)

d. Pre-Tax Interest Coverage

Numerator: Income from Continuing Operations
+/- Nonrecurring Items (Before Tax)
+ Minority Interest
- Equity AFUDC
+ Income Taxes
- Interest Incurred (See Note 1 below)

Denominator: Interest Incurred

e. Funds from Operations / Total Debt

Numerator: Cash Flow from Operations (Before Working
Capital Changes) [See Note 4]
- Cash Decommissioning

Denominator: Notes Payable
+ Long-Term Debt (Incl. Current Maturities & Capital Lease
Obligation)

f. Fixed Charge Coverage

Numerator: Same as (d)
+ 1/3 of Rental Expenses

Denominator: Interest Incurred
+ 1/3 of Rental Expenses

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g. Fixed Charge Coverage Ratio

Numerator: Same as (d)
+ 1/3 of Rental Expenses

Denominator: Interest Incurred
+ 1/3 of Rental Expenses

h. Funds from Operations Interest Coverage

Numerator: Same as (e)
+ Cash Interest Paid

Denominator: Interest Incurred

i. Net Cash Flow/Capital Outlays

Numerator: Same as (e)
- Preferred Dividends
- Common Dividends

Denominator: Cash Construction Expenditures

j. Cash Coverage of Common Dividends

Numerator: Same as (e)
- Preferred Dividends

Denominator: Common Dividends

k. Return on Average Common Equity

Numerator: Net Income After Preferred Dividends

Denominator: Average of Beginning and Ending Common Equity

NOTES

(1) "Interest Incurred" includes all Interest Charges, and excludes any recognition of Deferred Borrowing Costs or Capitalized Interest.

(2) "Deferred Carrying Costs" include any borrowing costs or equity return deferred under an accounting order or qualified phase-in plan.

(3) "Deferred Expenses" include any expenses deferred under an accounting order or qualified phase-in plan.

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(4) "Cash Flow from Operations" should reflect the amount reported in the Statement of Cash Flows, less Capitalized Interest (if not already subtracted from Net Income in the Statement of Cash Flows).

(5) "Cash Construction Expenditures" should not include any Capitalized Interest. This schedule shall provide historical financial ratios for the test year and the four fiscal years preceding the test year in the same format as the attached example, using the formulas and definitions detailed in the example. Utilities that have subsidiaries, rate regions, or other operating segments should provide ratios on a stand-alone-by-subsiidiary, region (or-segment), and consolidated basis. Supporting calculations for each ratio shall be provided. Additionally, the same ratios shall be projected for the three fiscal years following the test year assuming the full requested rate relief is granted. The projected ratios shall be consistent with and incorporate the capital requirements and acquisition plan from the schedules described in rate-of-return Schedules II-C-1 and II-C-2. The same ratios shall also be provided for the rate year (12 month period following implementation of requested rates) assuming full requested rate relief is granted and, separately, assuming no rate relief is granted. Pro-forma financial statements in sufficient detail to calculate the projected ratios shall be provided along with an explanation of all assumptions used to derive the pro-forma statements.

II-C -9.2: Earnings per Share Calculations

Provide a schedule showing the calculations of the utility's earnings per share (EPS), dividends per share (DPS), and book value per share (BVPS) over the last five fiscal years. Include the details of the historical financial information used as inputs for these calculations. The weighted average number of shares shall be adjusted for stock splits. In addition, average values for ROE and earnings retention shall be provided. The amount of any non-recurring gains or losses shall be provided. A calculation of the year-end market-to-book ratio shall also be provided for each year. If the utility is a wholly owned subsidiary, the information shall be provided for the parent company, and additionally, ROE, earnings retention, and the amount of any non-recurring gains and losses shall be provided for the utility subsidiary.

II-C -10: Rating Agency Reports/Prospectus

Provide a copy of all credit rating analyses or investment reports on the utility and its parent company or national/international affiliate published during the most recent 12-month period and in the possession of the utility. This shall include, but is not limited to, reports by Moody's, Standard & Poor's, and Fitch, Inc. Provide the latest prospectus for the utility and the parent or national/international affiliate. If the applicant is not publicly traded, provide the information using creditor analyses and internal reports.

II-D: OPERATING AND MAINTENANCE EXPENSES

II-D-1: Summary of Adjusted Test Year O&M Expenses

This schedule shall include the utility's requested overall operations and maintenance expenses by NARUC account for the test year. Amounts shall be reported pursuant to the General Instructions. A separate schedule for water and sewer is required, if sewer services are provided, and all

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allocated and direct billed expenses should be presented in accordance with the General Instructions and Allocation instructions. Presentation shall be such that test year amounts and adjustments thereto can be separately determined. All items included shall be referenced to the detailed schedules and/or the appropriate workpapers, computations, and analyses. Any reclassification of expenses shall be made in accordance with General Instructions. Supporting workpapers that fully and clearly explain the allocation and/or functionalization of each account or subaccount shall be included in the workpaper section. The utility shall also include in this schedule the utility's overall operations and maintenance expenses by NARUC account for the prior two calendar years preceding the test year on a water and sewer basis.

II-D-1.1: Historical and Per Book Test Year O&M Expense

Prepare a summary of operating expenses by NARUC operating expense account for the historic test year and the two calendar years preceding the test year for water and/or sewer services.

II-D-1.2: Adjustments to Test Year-separate for Water/Sewer

An explanation for each adjustment appearing on the utility's adjustment schedule shall be made. Each adjustment shall include references to the appropriate testimony and the detailed supporting workpapers which present computations, analyses, and justification for the requested adjustments. The adjustment shall be provided by NARUC account and identify the sponsoring witness(es). In addition, the adjustment shall reference the specific line on the adjustment schedule to which the adjustment applies. A short justification of the cause of the requested increase or decrease in expense shall also be provided, if not provided in the referenced testimony. For adjustments to NARUC accounts that contain amounts that are subdivided in the RFP into separate line items for purposes of functionalization or allocation, adjustments shall be presented similarly subdivided into the separate line items. The following format shall be used:

Category of Expense (e.g., O&M)

Description	Schedule II-A-1 Reference	Workpaper Reference	Amount	Sponsoring Witness
Expense amount, as adjusted by NARUC Account			\$	
Less: Amount per books (test year) by NARUC Account			-	
Adjustment by NARUC Account			\$	

Justification for requested adjustments:

Provide a narrative explanation of all adjustments, including the application of the expense ratios or percentages. Describe the source(s) of the expense ratios (percentages) and provide the calculations.

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11-D-2: Bad Debt Expense: Provide a detailed explanation with calculations on how bad debts are recorded as an expense. Show the expense by region, water, and sewer functions and other customer class as appropriate. Provide calculations for provision for bad debts and the basis for the provision. Provide bad debt expense accrued for two years prior to the test year by customer class and water/sewer.

11-D-3. Advertising, Contributions, & Dues

11-D-3.1: Advertising: Submit details of expenditures for advertising (national, institutional and local media). Provide a schedule of advertising expense by media categories for the historic test year and the prior two comparable years with respect to providing water and/or sewer service regarding:

- a. Public health and safety.
- b. Conservation of water.
- c. Explanation of billing practices, rates, rules and regulations.
 - c. Provision of factual and objective data programs in educational institutions.
- e. Other advertising programs.
- f. Total advertising expense.

11-D-3.2: Contribution and Donation Expense: Prepare a detailed schedule for the historic test year showing types of contribution and donation expenses paid for by the utility, including amount, payee, and type of organization.

11-D-3.3: Industry Organization Membership Dues: Provide the level of payments made to industry organizations by NARUC account included in the cost of service along with a description of each payee organization. Provide the dollar amount attributable to lobbying. If no dollar amount is available or identifiable, provide a statement from the organization paid that states what percent of its member payments are used for lobbying.

11-D-3.4: Business/Economic Membership Dues: Prepare a detailed schedule for the historic test year showing industry organization memberships paid for by the utility and the cost thereof.

11-D-3.5: Professional Membership Dues: Prepare a detailed schedule for the historic test year showing industry organization memberships paid for by the utility and the cost thereof.

11-D-3.6: Social Organizations: Provide a detailed schedule for the historic test year showing types of social and service organization memberships paid for by the utility and the cost thereof.

11-D-4: Summary of Outside Services Employed: Prepare a detailed schedule for the historic test year showing a breakdown by the expenditures associated with outside services paid for by the utility and the cost thereof (by NARUC account). Include the purpose of such services, the payee, amount paid and whether or not the services are continuing in nature.

11-D-5: Summary of Research and Development Expenditures: Prepare a detailed schedule for the historic test year showing research and development expenditures paid for by the utility and the cost thereof.

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II-D-6: Rents and Leases: Describe costs relative to leasing equipment, computer rentals, and office space, including terms and conditions of the lease for the purpose of providing water and/or sewer service. Explain the method of calculating monthly or annual payments. If allocated from the parent utility, provide the method of allocation, total amount incurred, amount allocated to the utility and each other affiliate shown separately with all calculations for the test year provided and related information required in the General Instructions and instructions for affiliates and allocations.

II-D-7: Purchased Water/Sewer: Furnish the name of each supplier, gallonage purchased, and expense recorded for water purchased and/or sewer service purchased as recorded in Water Purchased for Resale or Purchased Sewer Treatment, for the historic test year and two preceding years. Provide similar information for any purchased sewer treatment services. Provide copies of all purchased water or sewer treatment contracts, and/or wholesale contracts.

II-D-8: Storm Damage: Provide calculations (or best estimates) of the cost resulting from storm damage to water and/or sewer facilities and/or equipment.

II-D-9: Payroll, Capitalized vs. Expenses: Provide a schedule of all salaries, wages, and contract labor including total expense, amounts capitalized, and amounts expensed for the test year and two years prior by NARUC Account. The schedule shall show total expense incurred and percent capitalized (45 day update required).

II-D-9.1: Payroll Detail: Submit detailed computation of adjustments to operating expenses and capitalized expenditures for salary, wage and fringe benefit increases including pension and OPEB benefits (separate for union and non-union merit, progression, promotion and general) granted during the historic test year, one calendar year prior to the test year beginning date, and during the 12 months subsequent to the historic test year for water and/or sewer services. (update required) Show the information in total and divided into operating and capitalized expenditures. Provide data for each of the above requested periods showing:

- a. Actual payroll expense (regular, overtime and other separately) by water/sewer and/or other organizational split with totals provided.
- b. Actual payroll expense (regular, overtime and other separately) by month.
- c. Date, percentage increase and annual amount of each general payroll increase during the historic test year and adjusted test year.
- d. Dates and annual amounts of merit increases or management salary adjustments.
- e. Total annual payroll increases in the historic and adjusted test years.
- f. Proof that the actual payroll plus the increases equal the payroll expense claimed in the supporting data by categories of expenses.

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- g. Detailed list of employee benefits and incentive compensation and cost thereof separately for union and nonunion personnel. Specific benefits for executives and officers should be included, and costs thereof, including OPEB benefits.

II-D-9.2: Pension and OPEB benefits: Support the annualized pension and other post-employment benefits (OPEB) cost figures by providing the following:

- a. State whether these figures include any unfunded pension costs and/or OPEB costs. Explain.
- b. Provide the two most recent actuarial studies for both pension expense and postretirement benefits other than pensions (OPEBs), including the report(s) relied on for the utility's requested OPEB expense. Provide a reconciliation between the OPEB cost reflected in the OPEB actuarial report(s) and the Company's requested OPEB expense.
- c. Provide the OPEB cost, OPEB expense, and OPEB funding payments for each OPEB plan by NARUC account.
- d. Update required for (iii) above if actuarial information or actual payments for OPEBs change subsequent to the test year end.
- e. Identify the actual or adjusted amounts contributed to SFAS No. 106 funds for the historic and adjusted test years. Identify the actual or adjusted dates and amounts of the contributions.
- f. Explain the funding options or plans that are being used for SFAS No. 106 costs. Identify the portion of costs which are eligible for tax preferred funding.
- g. State whether the utility is studying or anticipating any changes to its postretirement benefits offered to employees as a result of SFAS No. 106 or for other reasons. If yes, provide the study and explain the anticipated change.
- h. State whether the historic test year expenses reflect any accruals for postemployment benefits. If yes, provide complete details including supporting documentation, assumptions, and funding mechanisms.
- i. Identify the total pension expense understatement of accounting standards for the historic test year and the portion charged to operation and maintenance (O & M). Include an analysis showing the contribution to the pension plan and the amount deferred or expensed for each of the past two calendar years and the historic test year. Also provide any estimates for the adjusted year.

II-D-9.3: Other Payroll Information

- a. Submit a schedule showing any deferred income and consultant fee, paid to both corporate officers and employees in historic and adjusted test years.

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- b. Provide the number of employees by water/sewer and organizational split as follows: average total number for each of the past five years; number of employees at the end of each month of the test year and two previous years. Shared employees may be split by percentage for water/sewer, or organizational split.
- c. Explain how the utility accounts for vacation pay for book and ratemaking purposes. Provide amounts for total vacation pay actually paid, accrued, and expensed for the test year and preceding two calendar years by NARUC account.
- d. Provide a copy of all incentive compensation and bonus plans and provide the level of related bonus/incentive payments included in the cost of service. Provide information for the preceding two calendar years and any changes since the last rate case. Identify test year expense amounts and adjusted test year amounts for all incentive compensation and bonus plans based on financial measures by NARUC account.
- e. Provide the most recent insurance premiums for each type of insurance coverage, both employee benefit and those purchased for the utility, reflected in the utility's filing (by NARUC account). If available, provide estimated premiums for the subsequent calendar year.
- f. Indicate whether any employee positions have been eliminated since the commencement of the historic test year or are expected to be eliminated during the adjusted test year (update required).

II-D-10: Regulatory Expense: For water and/or sewer services, submit a schedule showing a breakdown of regulatory expenditures associated with outside services employed (by NARUC account), regulatory commission expenses, expenses relating to rate cases, and miscellaneous general expenses, for the historic test year and prior two calendar years. This schedule shall detail the various expenses charged to NARUC Account 667 during the test year by function, the Company adjustments to the test year amounts, and the Company request for each item. Allocated and/or affiliated expenses must be shown separately. This information shall be provided in the following format:

<u>Description</u>	<u>Docket No.</u>	<u>Test Year Amount by Region</u>	<u>Company Adjustment by Region</u>	<u>Company Request by Region</u>
CCN		\$ _____	\$ _____	\$ _____
Sale, Transfer, Merger		_____	_____	_____
Rate Application		_____	_____	_____
.		_____	_____	_____
.		_____	_____	_____
.		_____	_____	_____
Total		\$ _____	\$ _____	\$ _____

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Each of the Certificate of Convenience and Necessity; Sale, Transfer, Merger; and rate applications, etc. shall be detailed separately. The amortization expense of prior rate applications charged to this NARUC account shall also be detailed separately.

II-E. DEPRECIATION AND TAXES

II-E-1: DEPRECIATION EXPENSE:

This schedule shall show the utility's overall depreciation expense for the test year for utility plant and shall be based on commission-approved depreciation rates or an updated depreciation study. If a utility does not have commission-approved depreciation rates, depreciation shall be calculated based on the rates approved by the utility's governing body. Documentation supporting the approval of the depreciation rates used shall be provided. Utility plant depreciation rates and depreciation expense shall be shown by NARUC Account, allocated and/or functionalized pursuant to General Instructions. All adjustments appearing on this schedule shall be referenced to detailed workpapers, computations, and analyses. Presentation shall be such that amounts can be readily determined and all costs to be included in each function shall be referenced to the detailed schedules and/or the appropriate workpapers, computations and analyses. Supporting workpapers that fully and clearly explain the functionalization of each account or subaccount shall be included in the workpaper section, and any functionalization factors shall be referenced to the appropriate factors. Differences between the requested depreciation expense as presented in this schedule, the depreciation study, and any other schedule provided in the RFP with regard to depreciation shall be reconciled and the reconciliation shall include supporting workpapers.

If any of the following questions under this section have been previously answered, please note in your response. It is not necessary to provide responses to questions previously answered.

II-E-1.1: Description Methods: Provide a description of the depreciation methods used to calculate annual depreciation amounts and depreciation reserves, together with a discussion of the factors that were considered in arriving at estimates of service life and dispersion by account.

II-E-1.2: Changes in Depreciation Methods: Supply a comprehensive statement of any changes made in method of depreciation.

II-E-1.3: Field Inspections: Provide dates of all field inspections and facilities visited by the TCEQ.

II-E-1.4: Depreciation Studies: Provide a complete copy of depreciation studies used. Any depreciation study and all information provided with regard to the calculation of depreciation and rate base meet the specific requirements of 16 TAC §24.31(c)(2). All of the information required in this rule must be provided.

- a. Set forth, in exhibit form, charts depicting the original and estimated survivor curves and a tabular presentation of the original life table plotted on the chart for each account where the retirement rate method of analysis is utilized.

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- b. Provide the surviving original cost at historic test year-end by vintage by account and include applicable depreciation reserves and accruals. These calculations should be provided for plant in service as well as other categories of plant, including contributions in aid of construction and customers' advances for construction.
- c. Provide a comparison of the calculated depreciation reserve used for ratemaking purposes verses the book reserve by account at the end of the test year, if they differ and provide all explanations for the differences.
- d. Supply a schedule by account and depreciable group showing the survivor curve and annual accrual rate estimated to be appropriate:
 - (i) For the purposes of this filing.
 - (ii) For the purposes of the most recent rate increase filing prior to the current proceedings.
- e. Provide an exhibit showing gross salvage, cost of removal, and net salvage for the 5 most recent calendar or fiscal years by account.

Provide all adjusting journal entries, including explanations for changes to the depreciation reserve account for the past five years.

II-E-2: Taxes Other Than Federal Income Taxes

This schedule shall show the amount of other taxes, excluding federal income taxes, assessed on or paid for by the utility for the test year, pursuant to General Instructions. Also provide a schedule of state and federal taxes other than income taxes at per book, at present rates, and at proposed rates. Each type of tax should be listed individually (e.g., SUTA, FUTA, FICA, sales tax, Texas Margins, etc.). Supporting workpapers that fully and clearly explain the allocation of each account or subaccount shall be included in the workpaper section, and any allocation factors shall be referenced to the appropriate factors. All adjustments shall be fully and clearly explained in supporting workpapers. Workpapers shall include tax returns and extension requests for all periods during and subsequent to the test year. If the applicant files with an affiliate in a consolidated return, provide a copy of the affiliate's return which includes the applicant's operations. **Update required as applicable.**

Note: To the extent that separated business entities of the utility are legally responsible for payment of specific revenue-related taxes, these taxes will be directly assigned to these entities.

Note: To the extent taxes other than income taxes apply to incentive compensation payments, those amounts shall be separately identified by tax type, directly incurred, and allocated by affiliate.

II-E-2.1: Ad Valorem Taxes

This schedule shall present the amount of ad valorem taxes assessed by taxing authority, discounts received, and penalties paid by function for the test year and preceding two calendar years. The

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schedule shall include the expense recorded per books and actual payments made to taxing authorities for the year in question, and a reconciliation, if necessary. For purposes of calculating property tax expense, the Company shall provide any CWIP and/or obsolescence factors applied to its plant in service balance. Those factors shall be provided for the test year and the prior two calendar years.

- a. If payments for ad valorem taxes were made to a taxing jurisdiction subsequent to the test year, the Company shall provide the amount and indicate the date of payment for the test year and two years prior.
- b. Expenses should clearly be indicated as to amounts actually paid to taxing authorities in the test year and two years prior. Reconcile the actual amounts paid to accrued tax expense recognized in the financial statements. The applicant shall report the total gross and net book values upon which such taxes were assessed by taxing authority, and paid for two years prior to the test year. In addition, the applicant shall report the gross book plant balances reduced by plant that is not subject to ad valorem taxes at the beginning of each of those years presented, as well as the plant balances on which the associated ad valorem taxes were assessed.
- c. The Company shall confirm whether CWIP is subject to ad valorem tax and at what percent. Also, the Company shall provide the amount of property taxes expensed and the amount capitalized for the test year.
- d. The Company shall indicate whether it pays taxes on plant leased to others and whether or not it is reimbursed for these taxes.
- e. The Company shall indicate whether its ad valorem taxes include taxes on investment deemed imprudent by the commission and identify the amount of taxes and the associated plant balance.
- f. The Company shall indicate whether its ad valorem taxes include taxes on property that is not used and useful in providing utility service and identify the amount of taxes and the associated plant balance by NARUC account.
- g. The Company shall provide the following for ad valorem taxes:
 1. Total taxes paid for the three calendar years prior to the test year by state;
 2. The accounting distribution of taxes paid for the three calendar years prior to the test year (expense, capital, and other by NARUC account);
 3. The total gross and net book values upon which such taxes were assessed and paid for the three years prior to the test year. The company shall distinguish by component as applicable (plant in service, materials and supplies, CWIP, etc.);
 4. Property taxes charged the applicant's operational accounts for each monthly of the test year by NARUC account;
 5. The effective ad valorem tax rate for the years provided in (2) above.

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II-E-3: Federal Income Tax Calculation All of the following federal income tax related schedules are to be filed by water and sewer function.

Federal Income Taxes shall be calculated using the return method for the test year, allocated pursuant to General Instructions. Supporting explanations and calculations shall be referenced to this schedule, and if not found elsewhere in the RFP, shall be provided as workpapers to this schedule. Supporting workpapers that fully and clearly explain the allocation of each account or subaccount shall be included in the workpaper section, and any allocation factors shall be referenced.

II-E-3.1: Reconciliation of Test Year Book Net Income to Taxable Net Income

This schedule shall include a complete reconciliation of book net income and taxable net income for the test period and for the most recent year for which a tax return was filed in the same format as required by the Federal Internal Revenue Service. A complete explanation of all items in the reconciliation shall be included. A copy of the workpapers containing supporting calculations for each item in the reconciliation shall be filed in the voluminous room concurrent with the filing of the RFP and shall be referenced to this schedule. If the claimed tax allowances do not take into consideration all items appearing in the reconciliation for the most recent tax return, the reasons therefor shall be submitted.

II-E-3.2: Reconciliation of Timing Differences

This schedule shall include a reconciliation detailing those timing differences and other items that would produce federal income taxes at a rate differing from the statutory rate book net income for the test period. A complete explanation of all items in the reconciliation shall be included. Supporting calculations for each item in the reconciliation shall be filed in workpapers to the RFP and shall be referenced to this schedule.

II-E-3.3: Plant Adjustments

This schedule shall provide the following information for any new assets by water and sewer functions (purchased or constructed since the company's last complete rate case) and any requested adjustment to test year thereto:

- a. Tax in-service date.
- b. Tax basis.
- c. All applicable forms of tax depreciation method, class, etc.
- d. Amount of all applicable forms of tax depreciation for the test year and amounts projected for the subsequent two years.
- e. Amount of ADFIT as of test year end.

II-E-3.4: Consolidation/Affiliate Tax Allocation

This schedule shall provide a detailed explanation of the accounting for affiliate tax allocation. This schedule shall include a discussion of events that give rise to affiliate payments and receipts, journal entries used to record the various events, and the rationale for the accounting treatment. A

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copy of all affiliate tax allocation agreements in effect for the test year or anticipated changes subsequent to the test year shall be filed in workpapers to the RFP and referenced to this schedule.

II-E-3.5: ADFIT

This schedule shall provide test year end book balances, requested adjustments to these balances, and the resulting adjusted balances by function for accumulated tax deferrals. This schedule shall also show the monthly book balances of accumulated tax deferrals by function for each of the 12 months of the test year. This schedule shall also include the additions and reductions for the test year. Each expense category giving rise to the tax deferrals shall be segregated. In addition, please provide an explanation of any changes in the Company's accounting for deferred federal income taxes. For example, if the Company has changed its method of calculating the entry to liberalized depreciation, it shall provide the old methodology, the new methodology, and the rationale for the change.

II-E-3.6: ADFIT – Description of Timing Differences

This schedule shall include a description of the nature of each timing difference listed in Schedule II-E-3.5. Also, the remaining life of each timing difference as of test year end shall be disclosed if available.

II-E-3.7: Adjustments to ADFIT

This schedule shall provide supporting explanations and detailed calculations for each adjustment to the test year end balances in Schedule II-E-3.5. Each resulting adjustment shall be referenced back to Schedule II-E-3.5.

II-E-3.8: ADFIT and ITC – Plant Adjustments & Allocations

This schedule shall provide the accumulated deferred tax balances (by timing difference) and the accumulated ITC balances (by subaccount) at test year end related to additions to new plant in service by function since the Company's last filing and any plant adjustments to the test year end requested by the Company. Supporting calculations and explanations shall be filed in workpapers to the RFP and shall be referenced to this schedule.

II-E-3.9: Analysis of ITCs

This schedule shall present an analysis of the investment tax credits adjustment.

II-E-3.10: ITC Utilized

This schedule shall provide an analysis of investment tax credits utilized for tax return purposes. The amounts should be shown by vintage year, if available, as adjusted for any recapture or IRS audit adjustment. If the total amount of investment tax credits utilized (net of any recaptures or audit adjustments imposed) differs from the gross amortizable base appearing on Schedule II-E-3.9, a reconciliation supporting such difference shall also be provided as an attachment to this schedule.

II-E-3.11: ITC Generated But Not Utilized

This schedule shall be presented in the same format as Schedule II-E-3.10 and shall detail investment tax credits generated but not utilized along with any explanation of why such credits have not been utilized.

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II-E-3.12: ITC Utilized – Stand Alone Basis

This schedule shall be filed by those utilities filing a consolidated tax return. This schedule shall provide an analysis of investment tax credits utilized for tax return purposes as though the Company had filed its tax returns on a stand-alone basis for electric operations only. To the extent records permit, the amounts should be shown as qualified progress expenditures (QPEs) and "other" by vintage year, as adjusted for any recapture or IRS audit adjustment. If the total amount of investment tax credits utilized (net of any recaptures or audit adjustments imposed) differs from the gross amortizable base appearing on Schedule II-E-3.9, a reconciliation supporting such difference shall also be provided as an attachment to this schedule.

II-E-3.13: ITC Election

This schedule shall detail any and all elections made by the Company with regard to investment tax credits.

II-E-3.14: NARUC Account 255

This schedule shall provide the NARUC account 255 balance (together with all subaccounts) at test year end.

II-E-3.15: Analysis of Additional Depreciation Requested

This schedule shall provide a detailed calculation of the requested adjustment to return for additional depreciation.

II-E-3.16: Amortization of Protected and Unprotected Excess Deferred Taxes

This schedule shall summarize the Company's requested amortization of unprotected and protected excess deferred taxes. Included in this schedule will be an explanation of the methodologies used.

II-E-3.17: Analysis of Excess Deferred Taxes by Timing Difference

This schedule shall provide the excess in Schedule II-E-3.17 by timing difference. This schedule shall also provide the unamortized balance of excess deferred taxes at test year end by timing difference. The detailed calculation of the requested amortization for each timing difference shall be filed in workpapers to the RFP and shall be referenced to this schedule.

II-E-3.18: Effects of Post Test Year Adjustment

If applicable, this schedule shall list and explain all effects on FIT and ADFIT of the Company's requested post-test-year adjustment to plant. Detailed supporting calculations shall be filed in workpapers to the RFP and referenced to the listed effects.

II-E-3.19: List of FIT Testimony

This schedule shall provide a listing by witness and page number of all testimony filed supporting FIT and ADFIT. The Company shall include in its workpapers to the RFP the most recent tax return filed.

II-E-3.20: History of Tax Normalization

This schedule shall describe the Company's history of tax normalization. The history shall show which book and tax timing differences are normalized, when the differences first arose, when first

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normalized, and the method of normalization. This schedule shall also give details of all timing differences previously flowed through.

II-E-3.21: Tax Elections, IRS Audit Status and Private Letter Rulings

This schedule shall provide the following:

- a. A listing of all tax elections made since the previous test year filed.
- b. The Company's IRS audit status.
- c. A list of private letter rulings received from the IRS which affect the federal income taxes of the Company or its parent, if any, since the Company's last rate filing. The Company shall include a copy of the rulings and requests in the workpapers to the RFP. This schedule shall also provide the status of any pending requests from the Company or its parent.
- d. Any FIN 48 tracker information shall also be provided in this schedule.

II-F-3.22: Method of Accounting for ADFIT Related to NOL Carryforward

This schedule shall provide a complete description of the Company's method of accounting for ADFIT related to net operating loss (NOL) carryforwards. The description shall include generic journal entries. This schedule shall also provide an explanation and calculations to support any ADFIT (debit) on the books at test year end related to NOL carry forwards.

II-E-3.23: Federal Tax Returns: Provide a copy of the Corporate Federal Tax Returns on which the utility's operations are reported, and supporting schedules for the preceding 2 years.

II-F-4: Other Expenses: This schedule shall show all items not classified elsewhere, functionalized on the same basis as the underlying expense and consistent with General Instructions. All items shall be identified on an item by item basis and supporting workpapers shall be provided. Supporting workpapers that fully and clearly explain the functionalization of each account or subaccount shall be included in the workpaper section, and any allocation or functionalization factors shall be referenced to the appropriate factors used for functionalization or allocation.

II-F-4.1: Deferred Expenses from Prior Dockets

This schedule shall include information concerning all amortization expense by rate region either included in test year or requested in this application. This schedule shall include, but is not limited to, amortization related to items such as accounting order deferrals, phase-in deferrals, recovery of cost of abandoned plants, deferred litigation expenses, deferred rate case expenses, and capital leases. This schedule shall not include amortization of debt expense, discount or premium. The following information shall be shown separately for each item within a category, with subtotals for each category (i.e., list each abandoned plant separately; list rate case expenses separately for each originating docket; list accounting order deferrals separately by unit, etc.):

1. Authorizing docket (if none, so state).
2. Original amount to be amortized.

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3. Deferred period of 2. above.
4. Amortization period.
5. Date amortization began.
6. Total amortization taken by the beginning of the year.
7. Amortization expense include in test year.
8. Amortization expense included in requested cost of service.
9. Unamortized amount as of the end of the test year.

Note A: For any items listed that do not have an authorizing docket, provide the following information in addition to items 1 through 9 above: (1) a detailed schedule of the costs to be amortized, including month incurred, payee, description, and amount; (2) a detailed explanation of the rationale for deferring such costs rather than expensing when incurred (including specific references to applicable regulatory and accounting principles); (3) a statement of whether GAAP allows such costs to be deferred rather than expensed when incurred in the absence of regulatory commission order allowing deferral for rate-making purposes; (4) if the utility has concluded that GAAP allows such costs to be deferred in the absence of a regulatory commission order, a statement of whether the utility's independent accountants agree with the utility's interpretation of GAAP.

Note B: If the costs related to any item listed on this schedule are included in Plant in Service, so state and indicate the NARUC account to which the costs were booked.

Note C: All amortization booked during test year or requested in this application shall be shown on this schedule. Amortization amounts shown on this schedule must be excluded from depreciation expenses reported on Schedule D.

II-F-4.2: Below the Line Expenses

This schedule shall present a complete detailed analysis of all expenses charged "below the line" by water and sewer, if applicable, and separated by rate region or other organizational split used by the utility for the test year. Verification of the elimination of such amounts from the filing shall be provided in the workpapers.

II-F-4.3: Nonrecurring or Extraordinary Expenses

This schedule shall present a complete detailed analysis of all nonrecurring, unusual and/or extraordinary expenses by water and sewer, if applicable, and separated by rate region or other organizational split used by the utility for the test year and not removed from the cost of service pursuant to the General Instructions.

II-F-4.4: Rate Case Expenses

For purposes of this schedule, rate case expenses are any expenses which have been, or will be incurred pursuant to this rate application. Information concerning all requested rate case expenses shall be provided by rate district and water/sewer, if applicable, in the following format:

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Instructions for Rate/Tariff Change
Class A Water Sewer Utilities (9/17/15)

	<u>Total Company</u>	<u>Total by Rate Region</u>
Consultant Expenses:		
Accounting	\$ _____	\$ _____
Engineering	\$ _____	\$ _____
Legal	\$ _____	\$ _____
Other	\$ _____	\$ _____
Sub-Total Consultant Exp.	\$ _____	\$ _____
Company Expenses:		
Employee	\$ _____	\$ _____
Other	\$ _____	\$ _____
Sub-Total Company Exp.	\$ _____	\$ _____
Total Request	\$ _____	\$ _____

The utility shall record rate case expenses in such a manner as to provide information on actual rate case expenses in the above format.

Supply detailed invoices of incurred rate case expense, including supporting data for outside services rendered for water and/or sewer services. Provide the items comprising the rate case expense claim (include the actual billings or invoices in support of each kind of rate case expense) and the items comprising the actual expenses of the prior rate cases. Invoices should include number of hours billed, hourly rate, and services performed for each block of time billed, and the name of the person providing the service. Include a detailed list of travel, entertainment, meals expense included in rate case expense specifically by item with an attached invoice, and summarized by type of expense.

II-F-4.5: Extraordinary Property Losses: List extraordinary property losses as a separate item, not included in operating expenses or depreciation and amortization for water and/or sewer services. Sufficient supporting data must be provided, such as explanation and breakdown of costs.

II-F-4.6: Expenses Previously Denied by the Commission

This schedule shall identify requests for expenses that have previously been denied by the commission. The amount of each expense requested shall be presented along with the itemization of related case processing expenses.

II-F-5: Other Revenue Items (credit)

This schedule shall show all other revenue credits, regionalized on the same basis as the underlying expense and consistent with the General Instructions. Supporting documentation shall be provided.

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Instructions for Rate Tariff Change
Class A Water/Sewer Utilities (9/17/15)

II-F: ALLOCATION

II-F: ALLOCATION FACTORS

Provide a list of Allocation Factors and associated data which shall include the following information for every factor used to assign costs claimed in the RFP:

- a. The designation of the allocation factor used in allocation of any expense in the RFP;
- b. The narrative description of the allocation factor if code designation is used;
- c. The relative (decimal representations of percentages) amounts constituting the allocation factors. For external allocation methods, separate schedules should be provided which show the development of the numerator and denominator of class allocation factors, including any formulas. For internal allocation methods, a clear reference should be made to the source data within the cost of service which is used to develop the numerator and denominator.
- d. The absolute amounts constituting the factors.
- e. A description of enumeration of the cost items which are subject to the allocation factor. If a cost item or NARUC account is subject to multiple allocation factors, the allocation factors shall be shown separately, and the percentages of the account or items subject to each factor shall be identified.
- f. An explanation of the rationale for applying the selected allocation method to the types of cost items or accounts set out in e.
- g. Provide all supporting documentation used to derive the allocation factors.
- h. If the RFP relies upon allocation or classification factors which are developed from special studies, such as direct assignment analysis or studies of equipment usage, the methodology shall be fully described within the RFP, and complete copies of the studies and accompanying input data shall be included within the RFP.

II-G: HISTORIC OPERATING REVENUE/BILLING DETERMINANTS

II-G: Summary of Historic Operating Revenues: For each classification of connections, including meter size, and for customers' penalties and miscellaneous water, sewer revenues and total revenues:

- a. Historical revenues per the utilities books.
- b. Annualizing and normalizing adjustments to arrive at adjusted operating revenues for ratemaking.
- c. Historical Revenues as adjusted by the utility.
- d. Historical Revenues as requested by the utility (if different than adjusted);

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Class A Water/Sewer Utilities (9/17/15)

any. Provide all of the income statement required in this section in the same manner as is requested in Instruction No. 2 of this section.

4. Provide rate of return on net invested capital under:
 - a. Historical Present rates (previously approved rates at the time of filing);
 - b. Present rates--annualized and normalized;
 - c. Proposed rates.

II-A-3: BALANCE SHEET

1. Provide a comparative balance sheet as of the end of the test year and the preceding calendar year-end. ✓
2. Provide a detail of other physical property, investments in affiliated companies and other investments. ✓
WP II-A-3.2
3. Provide the amounts and purpose of special cash accounts as of the end of the test year.
II-A-3.3
4. Describe the nature and amounts of notes receivable, accounts receivable from associated companies, and any other receivables, other than customers' accounts, greater than 15% of the total. Limit the explanation to amounts greater than \$10,000.
5. Provide the amount of accumulated reserve for uncollectible accounts, method and rate of accrual, amounts accrued and amounts written-off in each of the last three years.
6. Provide a list of prepayments and give an explanation of special prepayments.
7. Break down and explain in detail any significant items, greater than 15% of the total, in the current assets account listed on the balance sheet. Limit the explanation to amounts greater than \$10,000.
8. Explain in detail, including the amount and purpose, the deferred asset accounts that currently operate to affect or will at a later date affect the operating account supplying:
 - a. Origin of these accounts.
 - b. Probable changes to this account in the near future.
 - c. Amortization of these accounts currently charged to operations or to be charged in the near future.
9. Explain the nature of accounts payable to associated companies. Provide a breakdown by category.

II-A-3.3 Special Cash Accounts
II-A-3.2 Physical Assets in RFP
to show total on
Balance Sheet A-3

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Instructions for Rate Tariff Change
Class A Water/Sewer Utilities (9/17/15)

10. Provide breakdown and explanation of other deferred credits as to their origin and disposition policy, for example, amortization.
11. Provide an explanation and method of funding of any reserves, other than depreciation appearing on historic balance sheet.
12. Provide an analysis of unappropriated retained earnings for the historic test year and two preceding years.
13. Describe the purpose of any advances made by the utility to its parent corporation or by the parent corporation to the utility, and describe all terms and conditions associated with such advances, including an estimate of future advances or repayments that are expected to occur.

II-B: RATE BASE

II-B: Rate Base by Region and/or Division, and/or Water/Sewer

The schedule shall summarize the utility's overall requested rate base as of the end of the test year as a total for Texas and separated into the regions, divisions, and water and sewer functions and customer classes, if applicable to the utility. Presentation shall be such that test year amounts and adjustments thereto can be separately determined. All items included shall be referenced to the detailed schedules and/or the appropriate workpapers, computations, and analyses.

II-B-1: Original Cost of Utility Plant for Water/Sewer

This schedule shall summarize the amounts of utility plant by NARUC accounts 101-102 and 301-348 as of the end of the test year, by region and water/sewer pursuant to the General Instructions. This schedule shall tie to the book balances at the end of the test year and totals shall tie to Schedule II-B. Supporting workpapers that fully and clearly explain the regional allocations and water and sewer allocations of each account or subaccount shall be included in the workpaper section.

1. For each plant addition to cost the greater of \$20,000 or 0.5% of current rate base, included in the adjusted test year, please provide:
 - a. Description of the project.
 - b. Original budgeted cost broken down by allowance for funds used during construction (AFUDC) and non-AFUDC components.
 - c. Current budgeted cost broken down by AFUDC and non-AFUDC components.
 - d. Reason for change in budgeted cost.
 - e. Original estimated date of completion and in service.
 - f. Current estimated date of completion and in service.
 - g. Reason for change in completion date.
 - h. Anticipated retirement related to the plant addition.
 - i. Starting date of project.
 - j. Amount expended to date.

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Instructions for Rate Tariff Change
Class A Water Sewer Utilities (9/17/15)

- k. Percent of project currently complete.
 - l. The depreciation rate applicable.
 - m. Identify which projects are due to a Texas Commission on Environmental Quality (or predecessor agency) or Federal Environmental Protection Agency (EPA) requirement.
2. Explain how the adjusted test year plant balances were calculated if they include any post test year projects and provide supporting workpapers and documentation.
3. If all of the assets used in the plant-in-service claim are not used exclusively by the water and/or sewer utility, provide the estimated percentage that each shared asset is used by other entities.
4. If all plant included in rate base is not currently being used in providing water or sewer service, provide a schedule that presents those plant items which are not, and indicate the corresponding amounts and account numbers. Further, provide a detailed narrative explaining the reason why such plant is not being used and the anticipated future disposition of the plant.
5. Provide an affidavit from an engineer licensed in the state of Texas stating that all non-retired assets for which original costs are claimed as a part of rate base by the Applicant are currently used and useful in providing utility service as of the affidavit date. The affidavit shall be executed no earlier than three months prior to the RFP filing date.

II-B-2: Construction Work in Progress for Water/Sewer

This schedule shall show the amount of Construction Work in Progress (CWIP) requested in cost of service, by region and functionalized to water and sewer pursuant to the General Instructions. Supporting workpapers that fully and clearly explain the allocations of each account or subaccount shall be included in the workpaper section.

If a claim is made for construction work in progress, include, in the form of an exhibit, the summary page from all work orders, amount expended at the end of the historic and adjusted test year and anticipated in-service dates. Indicate if any of the construction work in progress will result in insurance recoveries, reimbursements, or retirements of existing facilities. Describe in exact detail the necessity of each project claimed if not detailed on the summary page from the work order. Include final completion dates and estimated total amounts to be spent on each project. This exhibit should be updated at the conclusion of these proceedings. Also provide a narrative justification for requesting the inclusion of CWIP prior to the plant becoming used and useful.

II-B-2-1: Cancelled Construction Projects

Provide a schedule reflecting any cancelled construction projects for the test year and two years prior to the beginning of the test year. Update this schedule 45 days after filing the rate case. Please indicate where the project was included in a cost of service for which a rate case was filed, and indicate the docket number or TCEQ rate/tariff change application number, of the specific rate/tariff change application filed. If the utility has included any costs associated with canceled construction projects or obsolete inventory in requested rates, separately identify the items by

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Instructions for Rate Tariff Change
Class A Water/Sewer Utilities (9/17/15)

NARUC account, provide the related amounts and explain the reason for the cancellation or obsolescence for water and/or sewer projects and inventory.

II-B-3: Accumulated Depreciation by Water/Sewer

This schedule shall include the accumulated provisions for depreciation detailed by primary account classification as of the end of the test year, by region, division, and water and sewer function pursuant to the General Instructions, and the corresponding surplus or deficiency between the book and theoretical depreciation reserve as derived in the most recent depreciation study. A description of the methods and procedures followed in booking depreciation shall be included in this schedule. Provide a sworn affidavit from the preparer of the depreciation study and the applicant that the depreciation study and all information provided with regard to the calculation of depreciation and rate base meet the specific requirements of 16 TAC§24.31(c)(2). All of the information required in this rule must be provided.

II-B-4: Plant Held for Future

This schedule shall show the amount of Plant Held for Future Use (PIFU) requested in cost of service, by region, division, and water or sewer function. Provide supporting workpapers that fully and clearly explain allocations.

If a claim is made for plant held for future use, supply the following:

- a. A brief description of the plant or land site and its original cost.
- b. Expected date of use for each item claimed.
- c. Explanation as to why it is necessary to acquire each item in advance of its date of use.
- d. Date when each item was acquired.
- e. Date when each item was placed in the plant held for future use account.

Explain in detail by statement or exhibit the appropriateness of claiming any additional items, not previously mentioned, in the measures of value.

II-B-5: Accumulated Provision Balances

This schedule shall show the balances for beginning and end of the test year of each accumulated provision account (i.e., injuries and damages, property insurance, etc.), by region, division, and water and sewer (if applicable) operations.

II-B-6: Materials and Supplies

This schedule shall show the monthly book balances of Materials and Supplies (M&S) for each month of the test year and the month immediately preceding the test year, by region, division, and water and sewer function. This schedule shall also show the 13-month average balance of M&S by function. Additionally, functionalized monthly balances for each month subsequent to the end of the test year shall be shown. An update to this schedule is required 45 days after the initial filing date. Supporting workpapers that fully and clearly explain the major categories of materials and supplies shall be provided.

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Instructions for Rate/Tariff Change
Class A Water/Sewer Utilities (9/17/15)

- a. Provide the method of inventory valuation was used to develop the claim for materials and supplies.
- b. If applicable, provide the model used to calculate needed material and supply levels. Supply an illustrative example of how the monthly balances are derived.

II-B-7: Working Capital by region, division, and water/sewer as applicable

The applicant is required to follow **16 TAC §24.31(c)(2)(C)(iii)** when claiming working capital and providing supporting information for working capital. Provide schedules and data in support of the following working capital items (45 day update required):

- a. Prepayments—list and identify all items (see II-B-8).
- b. Federal Income Tax accrued or prepaid.
- c. Texas Margins Tax accrued or prepaid.
- d. Texas Property Tax accrued or prepaid.
- e. Payroll taxes accrued or prepaid.
- f. Other taxes as appropriate.
- g. Any adjustments related to the above items for ratemaking purposes. Supply an exhibit supporting the claim for cash working capital requirement based on the lead-lag method.
- h. Provide a schedule that shows the total amount of Cash Working Capital included in each component of the rate base as of the end of the test year, allocated on the same basis as the underlying expense. The amount to be included and information provided shall be in accordance with **16 TAC §24.31(c)(2)(C)(iii)**. This schedule shall show the calculated lead days, lag days, and net lag days by expense category. Supporting workpapers that fully and clearly explain the allocation of each account or subaccount shall be included in the workpaper section, and any allocation or functionalization factors shall be referenced. A detailed explanation shall be provided for the existence of a large positive Cash Working Capital balance (greater than one percent of the requested revenue requirement). If less than five years have passed since the time period examined in the utility's most recently approved lead-lag study, then the utility may use the previously commission approved lead-lag study in the current development provided no significant or material changes have occurred since the development of the lead-lag study. The lead-lag study shall be representative of the test year leads and lags. If a new lead-lag study is provided, it may end the quarter prior to the test year end or the most recent calendar quarter.
- i. Indicate if amortized expenses have been removed from the lead-lag study. If so, please provide documentation showing such removal. If not, provide a list of such amortization expenses included.

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Instructions for Rate/Lariff Change
Class A Water Sewer Utilities (9/17/15)

- j. Identify the funds availability arrangements or terms which the utility has with its banks with respect to deposits of customer checks. For example, explain if the utility has "same day" or "next day" access to funds deposited.

II-B-8: Prepayments

Provide schedules, as necessary, and all workpapers and supporting documents showing the derivation and justification for balances included in prepayments, and a historical balance for prepayments for the test year and two years prior to the test year.

II-B-9: Storm Damage and Extraordinary Property Loss

Provide schedules, as necessary, and all workpapers and supporting documents showing the derivation and justification for balances included for storm damage and extraordinary property loss. Provide the annual expense for two calendar years prior to the test year. Submit detailed calculations of the cost resulting from storm damage to water and/or sewer facilities and/or equipment.

II-B-10: Other Rate Base Items

Provide schedules as necessary, and all workpapers and supporting documentation showing the derivation of the balances of contributions in aid of construction, customer advances for construction, utility service line and customer deposits for the adjusted test year.

II-B-11: Regulatory Assets

Provide a schedule for all regulatory assets and related accumulation accounts, such as accumulated amortization, as necessary. Provide documentation of prior commission approval, or a request for approval and justification for the approval as necessary.

II-C. RATE OF RETURN AND FINANCIAL INFORMATION

II-C-1: Rate of Return Calculation

Provide a summary schedule showing the rate of return on invested capital as a total and weighted between total debt and total equity, along with any pro-forma adjustments. If a hypothetical capital structure is used, include a schedule for the actual and hypothetical structures. Provide all documentation and reasoning behind the schedule used to calculate rate of return. For utilities with water and sewer service, indicate whether the rate of return is calculated overall, or separately for water and sewer operations and the justification for the method.

The utility shall include in its filing the submission of written testimony and other credible evidence that develops and supports the reasonableness and necessity of the requested return on stockholders' equity (ROE).

II-C-2: Weighted Average Cost of Capital

Provide a schedule showing the utility's requested overall rate of return as a weighted average of each class of capital based upon the utility's capitalization at the end of the test year along with any pro-forma adjustments. The cost of the utility's debt capital, preferred stock capital, requested ROE, and the component amounts of each class of capital shall be presented. In addition, this

Presented by Jay Joyce
Expergy
June 2019



CONTACT

DEEP SPACE COMMUNICATION
FROM THE PUBLIC
UTILITY COMMISSION



AGENDA:

Finding + Navigating
the PUC Galaxy

1. Round Rock MUDs
2. Austin MUDs

How two groups of Districts
found their way to the PUC

1

Round Rock MUDs

2013

2015

2017

Round Rock MUDs 2013

2013



Round Rock

2013 Rate Study

Participating Districts

- Paloma Lake MUD No. 1
- Paloma Lake MUD No. 2
- Vista Oaks MUD
- Walsh Ranch MUD
- Williamson County MUD No. 10
- Williamson County MUD No. 11

2013



Round Rock

2013 Rate Study

Requested Increases for Participating Districts

Service	Current effective rate (per 1000 gallons)	Proposed effective rate (per 1000 gallons)	Percent increase
Water	\$2.89	\$3.53	22%
Wastewater	\$3.90	\$4.66	19%

2013



Round Rock

2013 Rate Study

Major Issues

- Inflation Factors
- General Fund Transfer
- Peaking Factors
- Wastewater Inflow + Infiltration

-
- Credit for Impact Fee
 - Allocation of Non-Rate Revenues

2013



Round Rock

2013 Rate Study

Resolution:

Round Rock CANCELLED AND REVERSED
Rate Increases due to lack of documentation to
support rate increases

2013



Round Rock MUDs 2015



Round Rock

2015 Rate Study

Participating Districts

- Paloma Lake MUD No. 1
- Paloma Lake MUD No. 2
- Vista Oaks MUD
- Walsh Ranch MUD
- Williamson County MUD No. 10
- Williamson County MUD No. 11



Round Rock

2015 Rate Study

Requested Increases for Participating Districts

Service	Current effective rate (per 1000 gallons)	Proposed effective rate (per 1000 gallons)	Percent increase
Water	\$2.97	\$4.14	39%
Wastewater	\$3.90	\$4.19	7%



Round Rock

2015 Rate Study

Major Issues

- Inflation Factors
 - General Fund Transfer
 - Peaking Factors
 - Inflow + Infiltration
-
- Wastewater Strength Differential
 - Contingency
 - Volume Projections



Round Rock

2015 Rate Study

Resolution:

Settlement

- Reduced Wastewater Increase from 7% to 1%
- Reduced Water Effective Rate from \$4.14/1000 to \$3.93/1000 (39% increase reduced to 32%)



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Round Rock MUDs 2017



Round Rock

2017 Rate Study

Participating Districts

- Paloma Lake MUD No. 1
- Paloma Lake MUD No. 2
- Vista Oaks MUD
- Williamson County MUD No. 10
- Williamson County MUD No. 11



Round Rock

2017 Rate Study

Requested Increases for Participating Districts

Service	Current effective rate (per 1000 gallons)	Proposed effective rate (per 1000 gallons)	Percent increase
Water	\$3.73	\$4.25	14%
Wastewater	\$3.90	\$3.90	0%



Round Rock

2017 Rate Study

Resolution

On appeal at PUC



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2 Austin MUDs

2013
2018



Austin MUDs 2013



Austin

2013 Rate Study

Petitioners

- North Austin MUD #1
- Northtown MUD
- Wells Branch MUD
- Water District 10



Austin

2013 Rate Study

Timeline

- September 2012 – Austin City Council adopts Rate Ordinance increasing wholesale rates effective February 2013, October 2013, and October 2014
- April 2013 – Petitioners file PUC Petition appealing City's Water rate making action
- December 2013 – Petitioners file appeal at the PUC of City's Wastewater rate making action
- February 2015 – Hearing on the merits
- July 2016 – ALJs issue Proposal for Decision
- January 2016 – Commission issues Final Order on Rehearing requiring Austin to issue refunds



Austin

2013 Rate Study

Refunds and Annual Savings

COA billed Petitioners approx.	\$41 million
Revised charges using PUC rates	<u>\$30 million</u>
Refunds/Credits to Petitioners for Past Overcharges – approx.	<u>\$11 million</u>

Savings since 2016 of approx. \$3+ million/year



Austin

2013 Rate Study

Major Issues where PUC agreed with Petitioners

- No General Fund Transfer (\$34 million)
- No Reclaimed Water System costs (\$6 million)
- No Green Water Treatment Plant (\$12 million)
- No Revenue Stability Reserve Fund (\$5 million)
- No Govalle WWTP (\$12 million)
- No Green Choice Electricity (\$12 million)
- City must share net proceeds of sale of Green WTP to developers (\$34 million net)



Austin MUDs 2018



Austin

2018 Rate Study

Timeline

- PUC Final Order in 2013 Rate Case required Austin to file an application for rate increases at PUC in order to change Petitioner's rates
- April 2019 – Austin files rate increase application at PUC
- May 2019 – Commission rules that Austin's rate application is administratively incomplete; Austin revises application to address issues
- June 2019 – Commission finds that Austin's application is administratively complete



Austin

2018 Rate Study

Requested Increases

Service	Current Revenues	Proposed Revenues	Percent increase
Water	\$6.2 million	\$10.0 million	61%
Wastewater	\$4.0 million	\$4.5 million	13%



Austin

2018 Rate Study

A Few Obvious Issues*

- Reclaimed Water System Costs
- Revenue Stability Reserve Fund
- Govalle WWTP Costs
- Green Power Costs

** These are some of the disallowed costs that Austin is requesting. This is not a complete list, just some examples*



RED FLAGS



**PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-3(a)**

Questions?

Contact Information

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The Texas Water Conservation Series

WATER RATES & CONSERVATION

By Jay Joyce
President
Expergy

March 2015

DISTS086



Agenda

- Influences on Water Conservation
 - Non-Price Influences
 - Price-Related Influences
- Conservation Based Pricing
 - Types of Conservation Based Rate Structures
 - Keys to Successful Conservation Based Pricing
 - Considerations for Developing Conservation Programs

Non-Price Influences on Water Consumption

- Weather
- Demographic factors
- Housing vintage
- Water-using appliances in the home
- Seasonal behavior patterns
- Lot size, housing footprint on lot
- Significant water features
- Behavioral responses

Price-Related Influences on Water Consumption

- Price Elasticity
- Seasonal Elasticity Differences
- Every Utility should Study and Compare

Conservation Based Pricing

- Conservation Based Pricing - the use of rate structures that discourage the inefficient use or waste of water.

Types of Conservation Based Rate Structures:

1. Inclining block rate structure
2. Seasonal rates
3. Marginal cost pricing
4. Drought pricing
5. Standby rates

Rate Structures

1. Inclining Block Rate Structure

Rates in which the unit rate increases as the quantity increases

0 – 3,000	\$2.50/1,000 gallons
3,001 – 10,000	\$3.25/1,000 gallons
10,001 – above	\$4.25/1,000 gallons

- First block typically covers normal health and sanitary needs
- Different rates may be established for different customer classes
- Magnitude of change between blocks
- Number of blocks

Rate Structures

2. Seasonal Rates

Goal: To reduce peak use, or to charge appropriate customers for such use.

Two Approaches:

- On Peak/Off-Peak (a specific rate for summer and winter)
- Excess Use Approach (consumption above a certain level is charged a higher rate)



EXPERGY
Generating Solutions

Rate Structures

2. Seasonal Rates (cont'd)

Especially useful for utilities with:

- Variation in seasonal demand
- Capacity constraints
- Variation in number of customers

Calculating seasonal rates (two approaches):

- Quantify cost of providing service during peak months
- Quantify cost savings (O&M and capital) that are saved by deferring these costs due to conservation



EXPERGY
Generating Solutions

Rate Structures

3. Marginal Cost Pricing

Marginal cost pricing is a forward-looking process, involving forecasts of future costs and future use

- For this reason, it is not widely used

Two approaches:

- Avoided cost approach
- Average incremental cost approach

Rate Structures

4. Drought Pricing

Goal: To achieve a targeted reduction in sales proportional to the severity of the drought.

Types of Drought Pricing:

- General rate surcharge (example: all rates have a 20% surcharge)
- Individual rate surcharge (example: 20% surcharge for all usage greater than 80% of the customer's average usage for the past year)
- Class-Based rate surcharge (example: same as the Individual rate surcharge except based on customer class' average usage for the past year)

Rate Structures

5. Standby Rates

Goal: To provide backup water service during an emergency to protect against interruption in the primary source of water

- Conservation should be a part of any standby agreement
- The provider may want to make sure the customer has a proactive conservation program

Keys to Successful Conservation Based Pricing

- Customers must be educated
- Billing software must be capable of monitoring customer usage

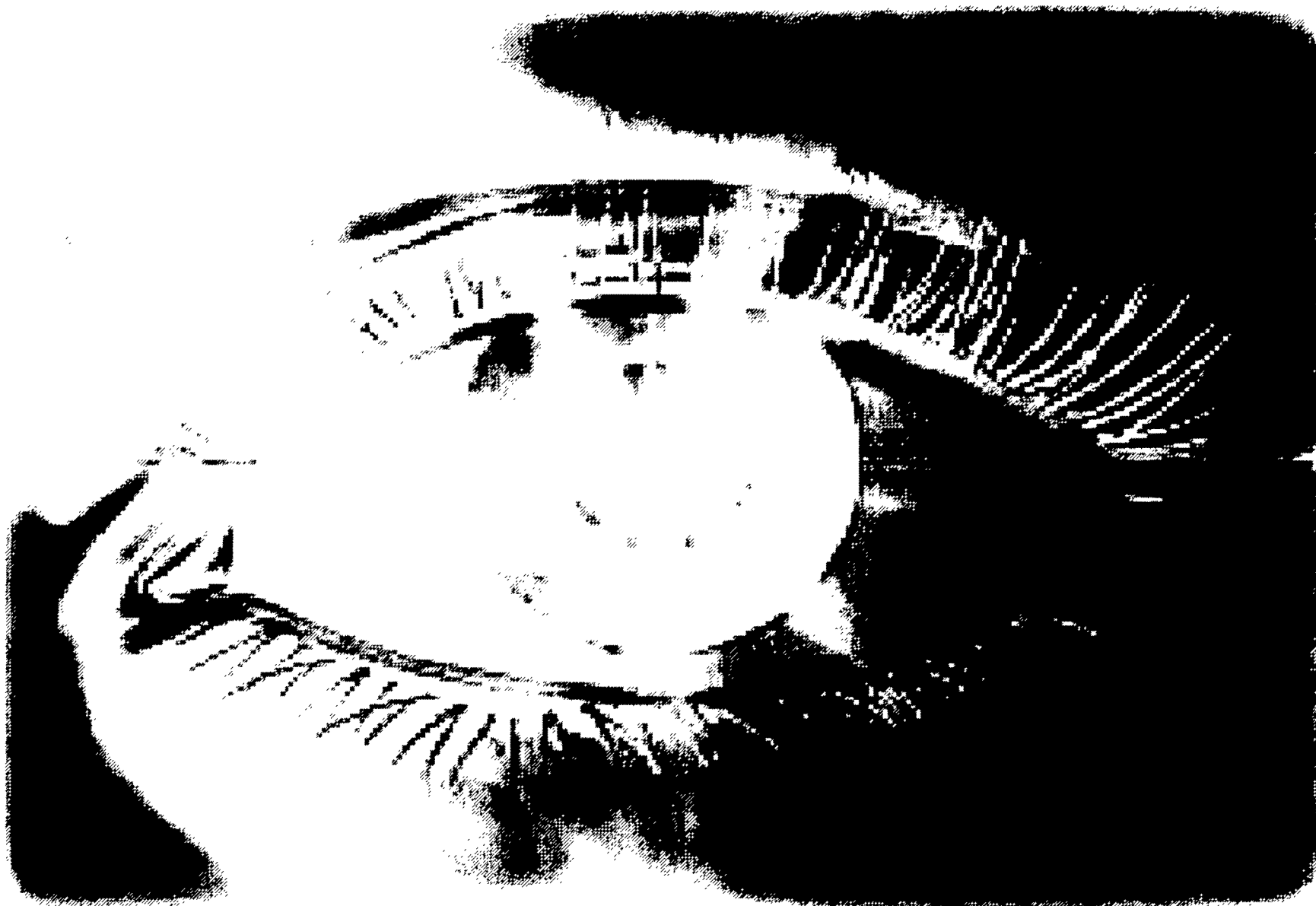
Considerations

- All Rate Structures Present Challenges
- Clearly Define Goals
 - Drought: reduce overall water usage, reduce peak usage
 - Ongoing: increase efficiency, reduce quantity of wasted water
- Consider What the Customer Really Wants and Notices
- Water Use per Customer Declining Regardless of Individual Utility Actions
- Caveats

PROMOTING WATER CONSERVATION THROUGH RATES

By Jay Joyce
Expergy
June 2013

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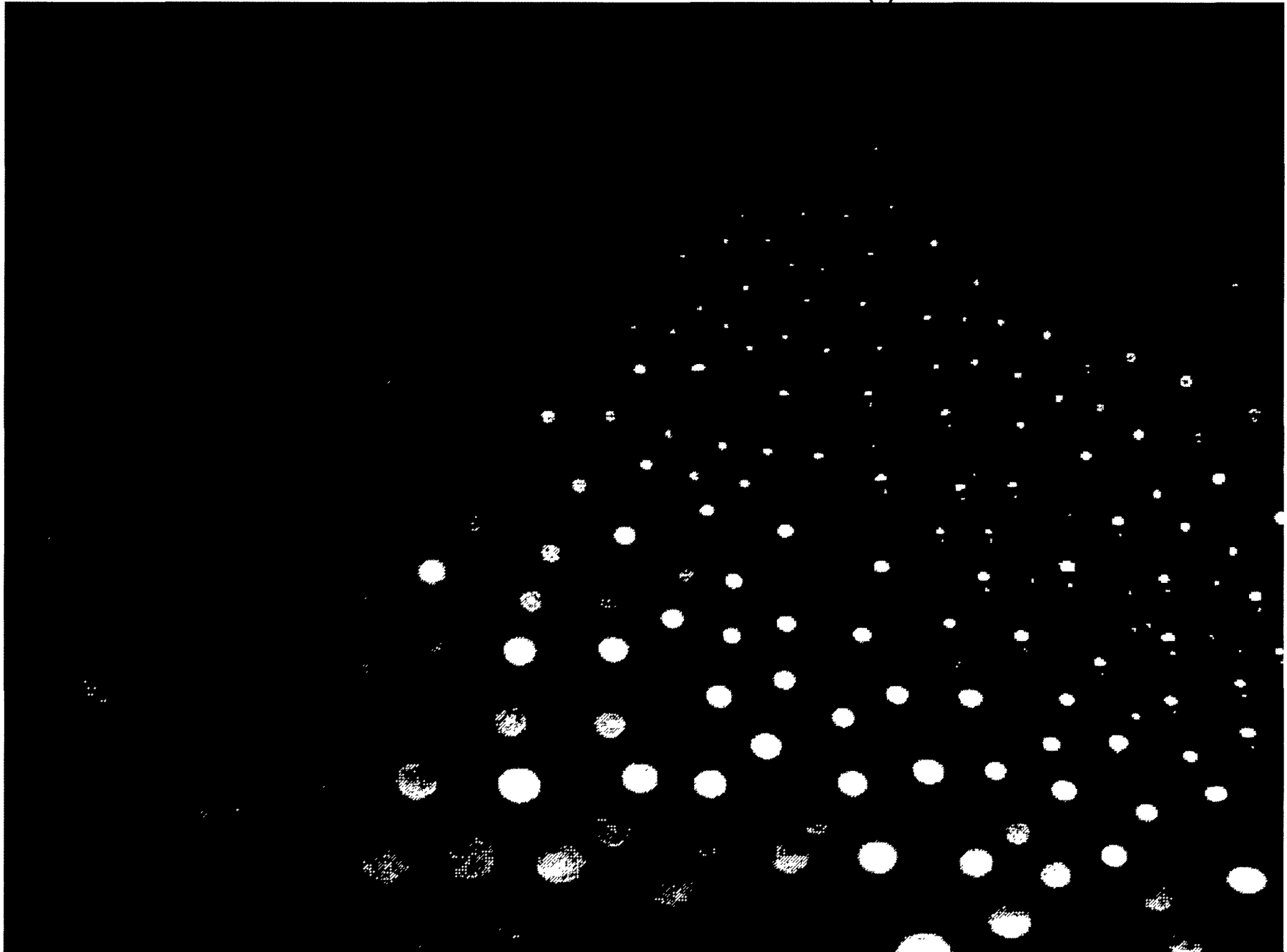
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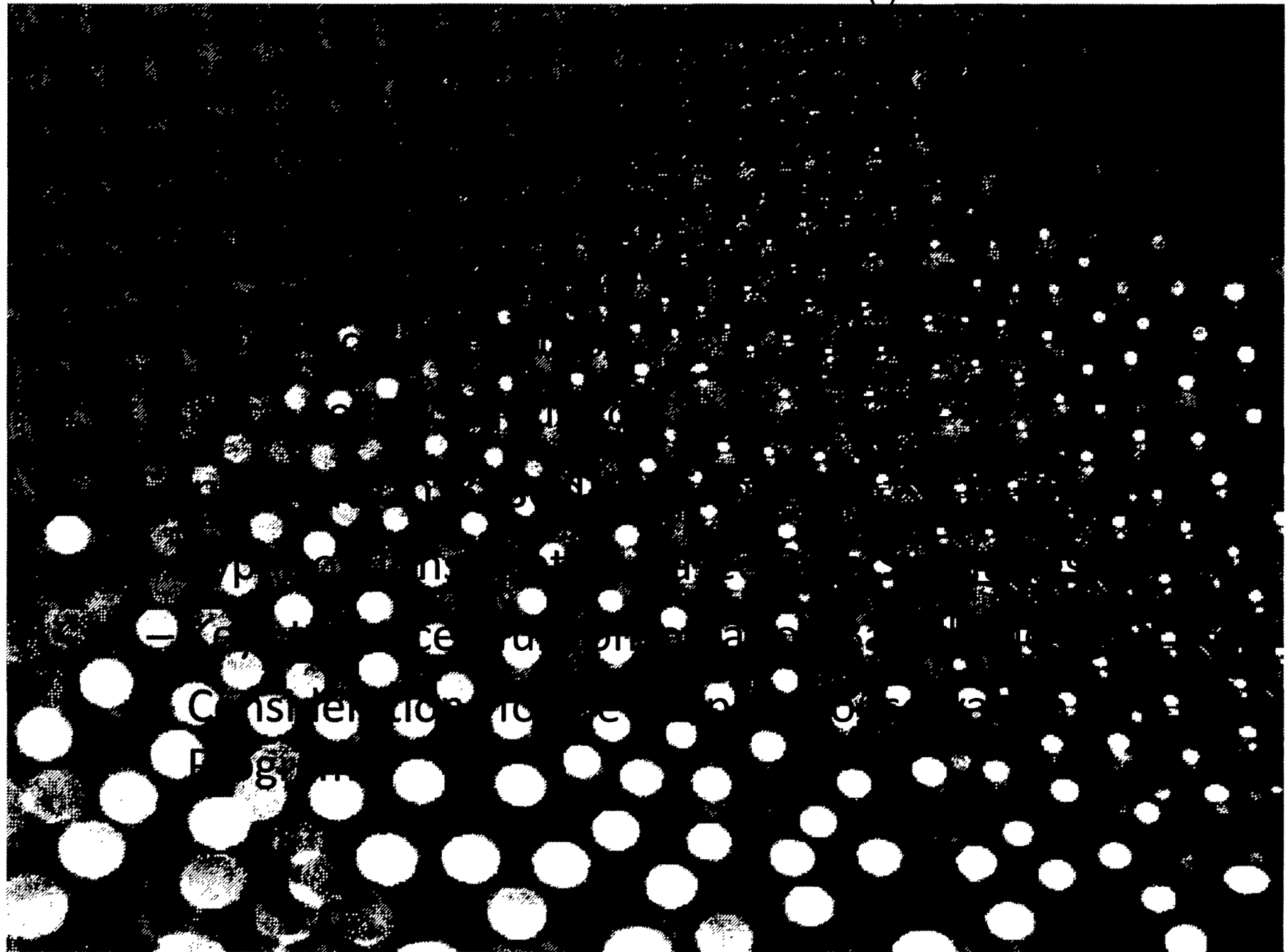
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PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-3(a)

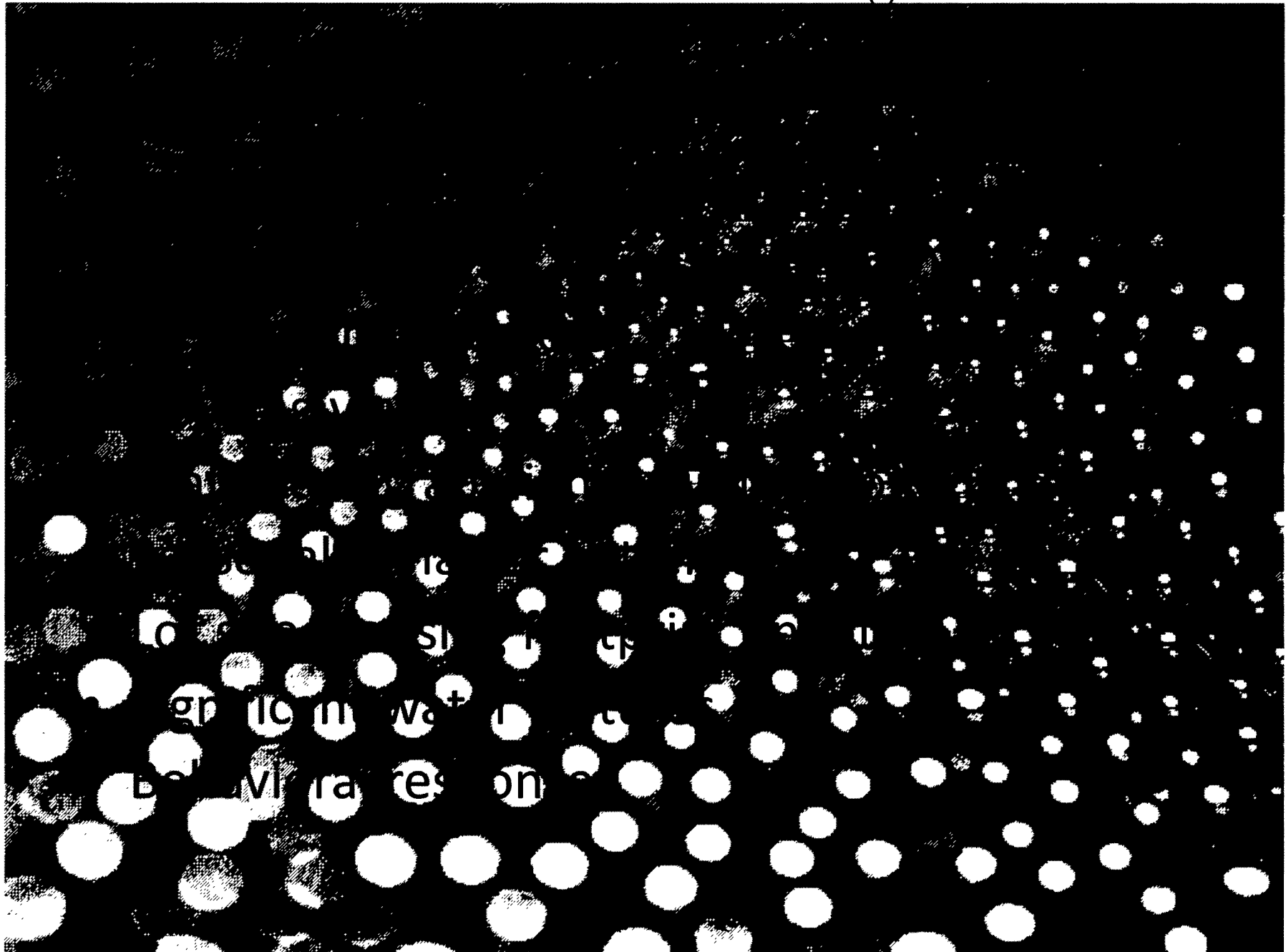


DISTS104

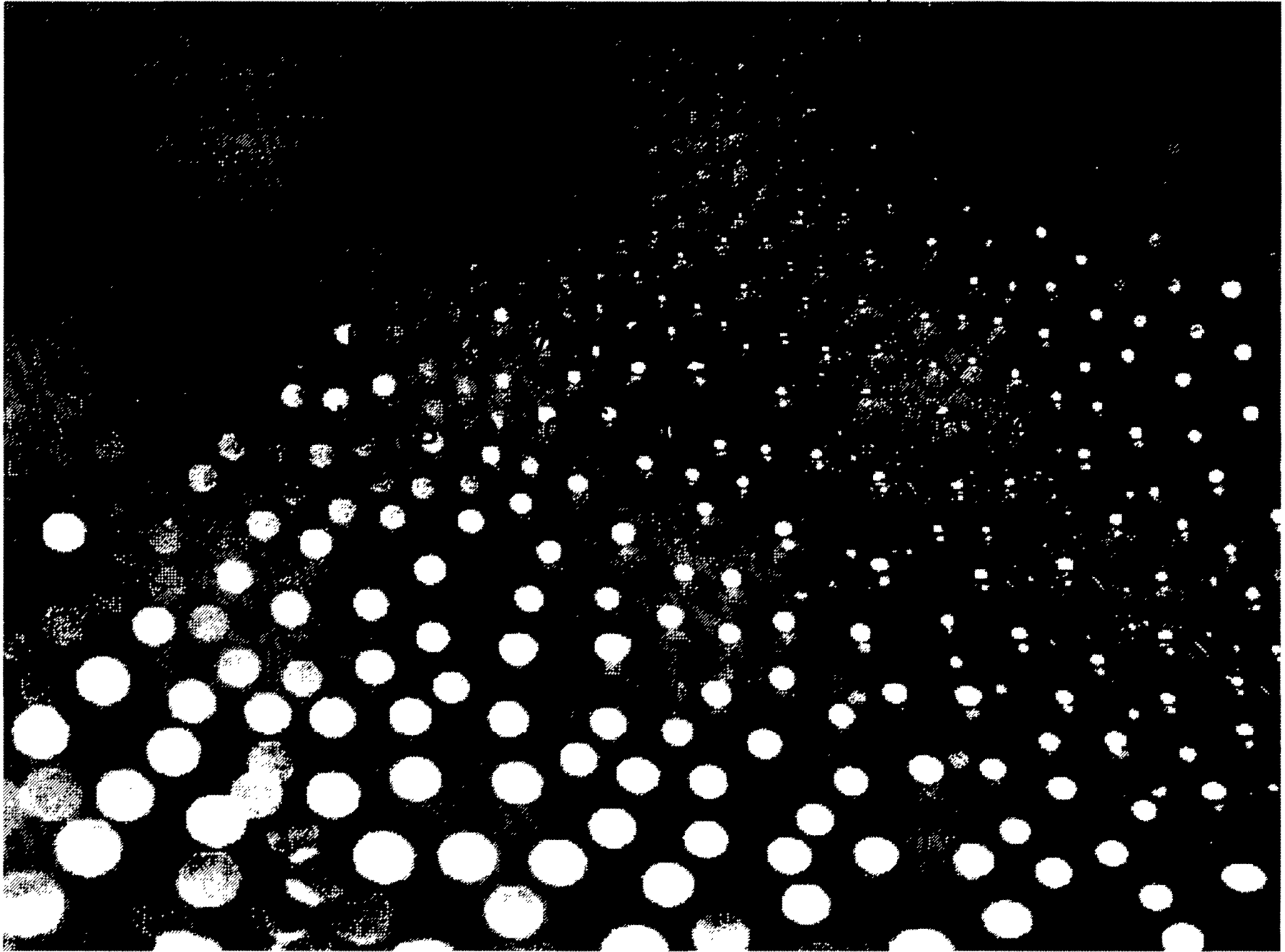
PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-3(a)



PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-3(a)

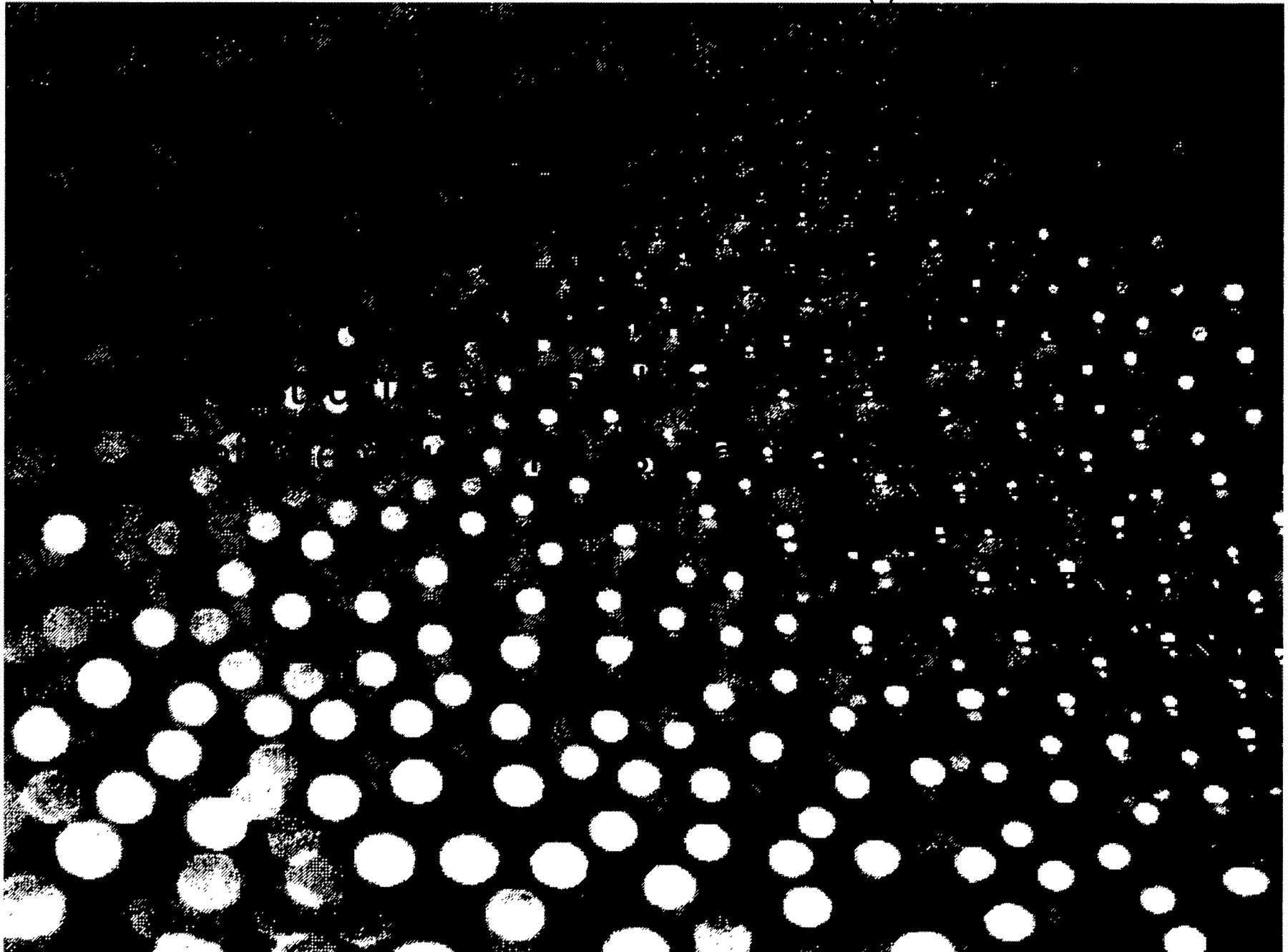


PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-3(a)



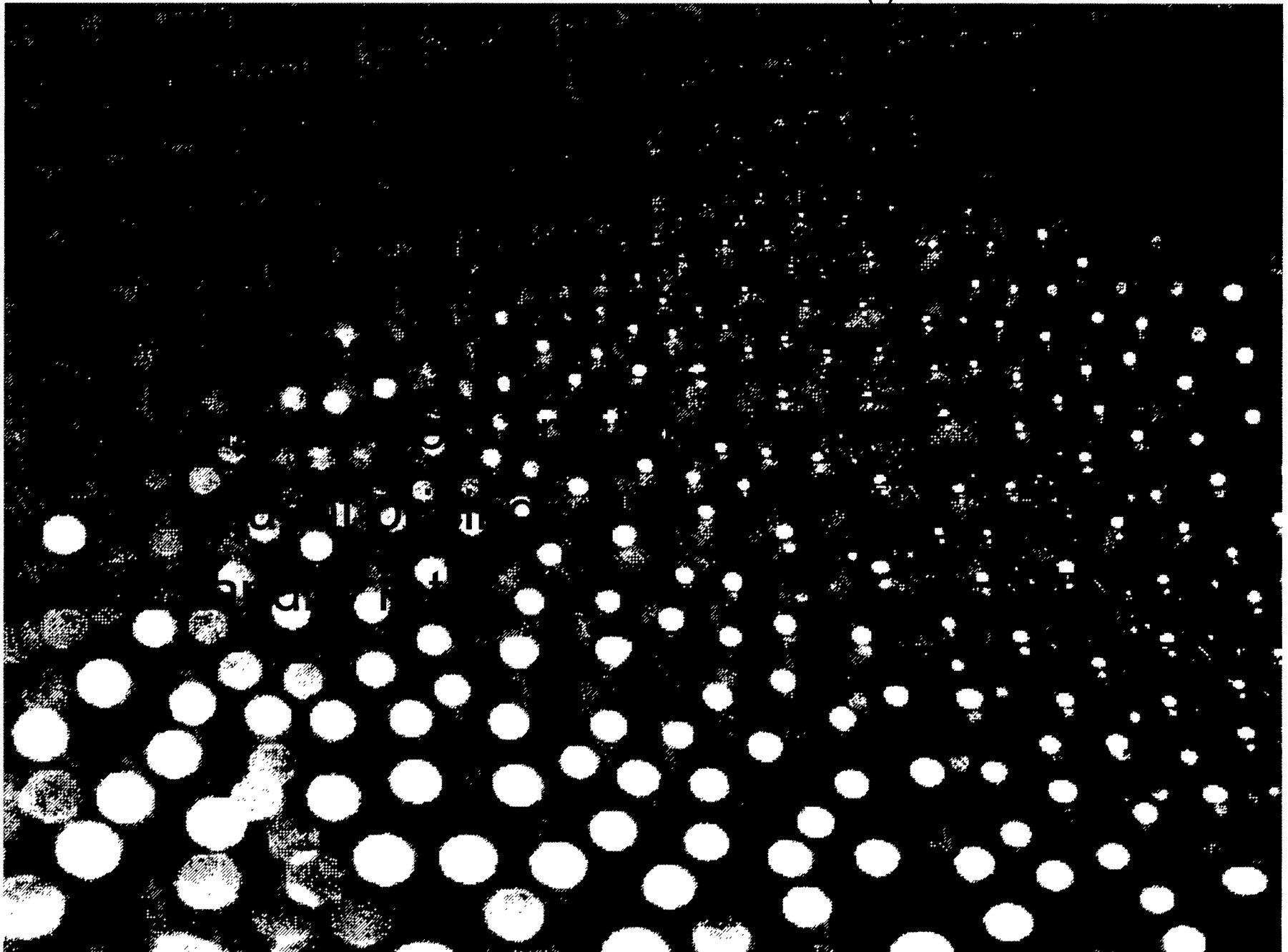
DISTS107

PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-3(a)



DISTS108

PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-3(a)



DISTS109

PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-3(a)

1.

PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-3(a)

2.

PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-3(a)

2.

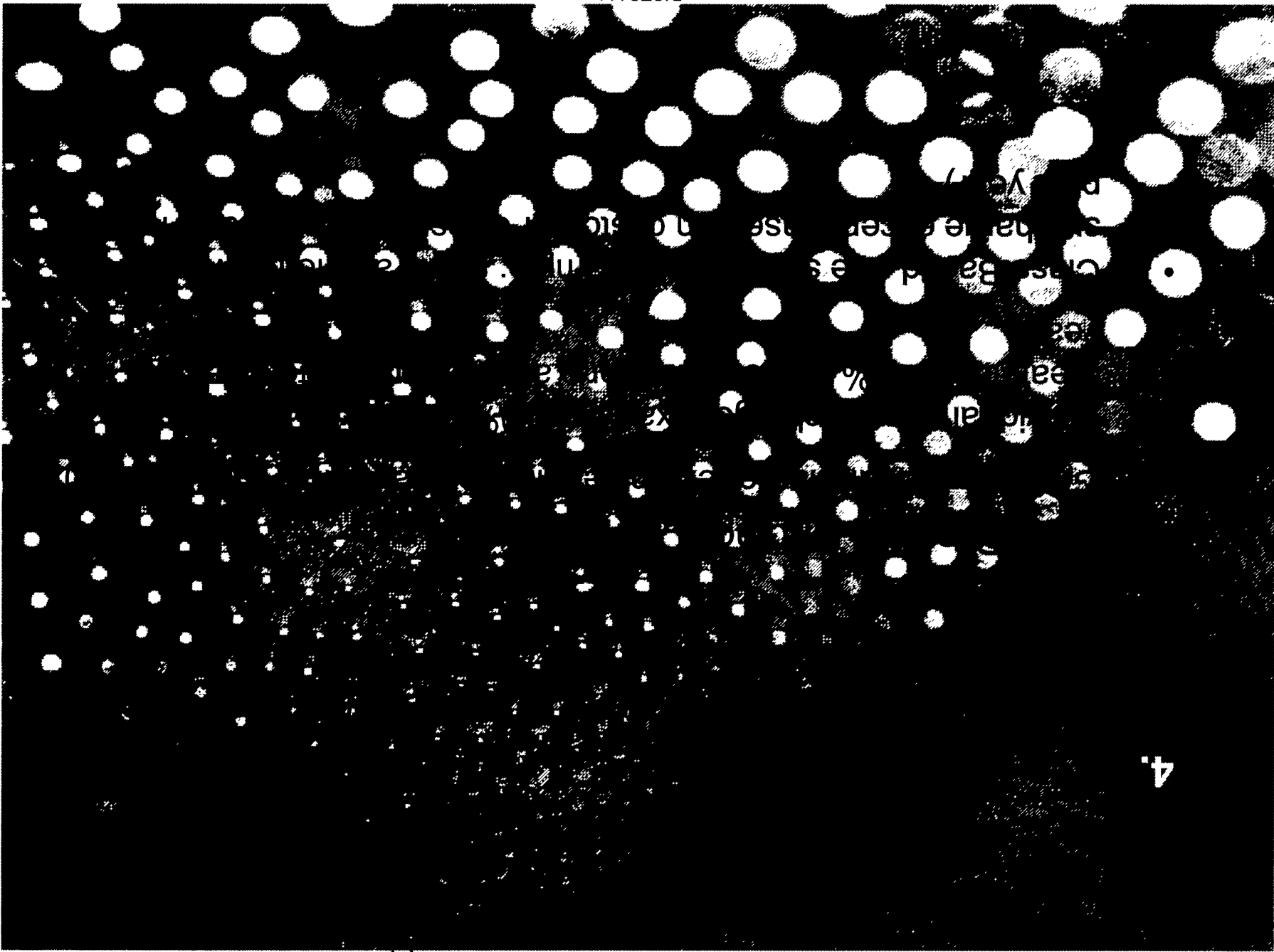
• quantity of set

• cos savings

PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-3(a)

3.

As a result of the
Average

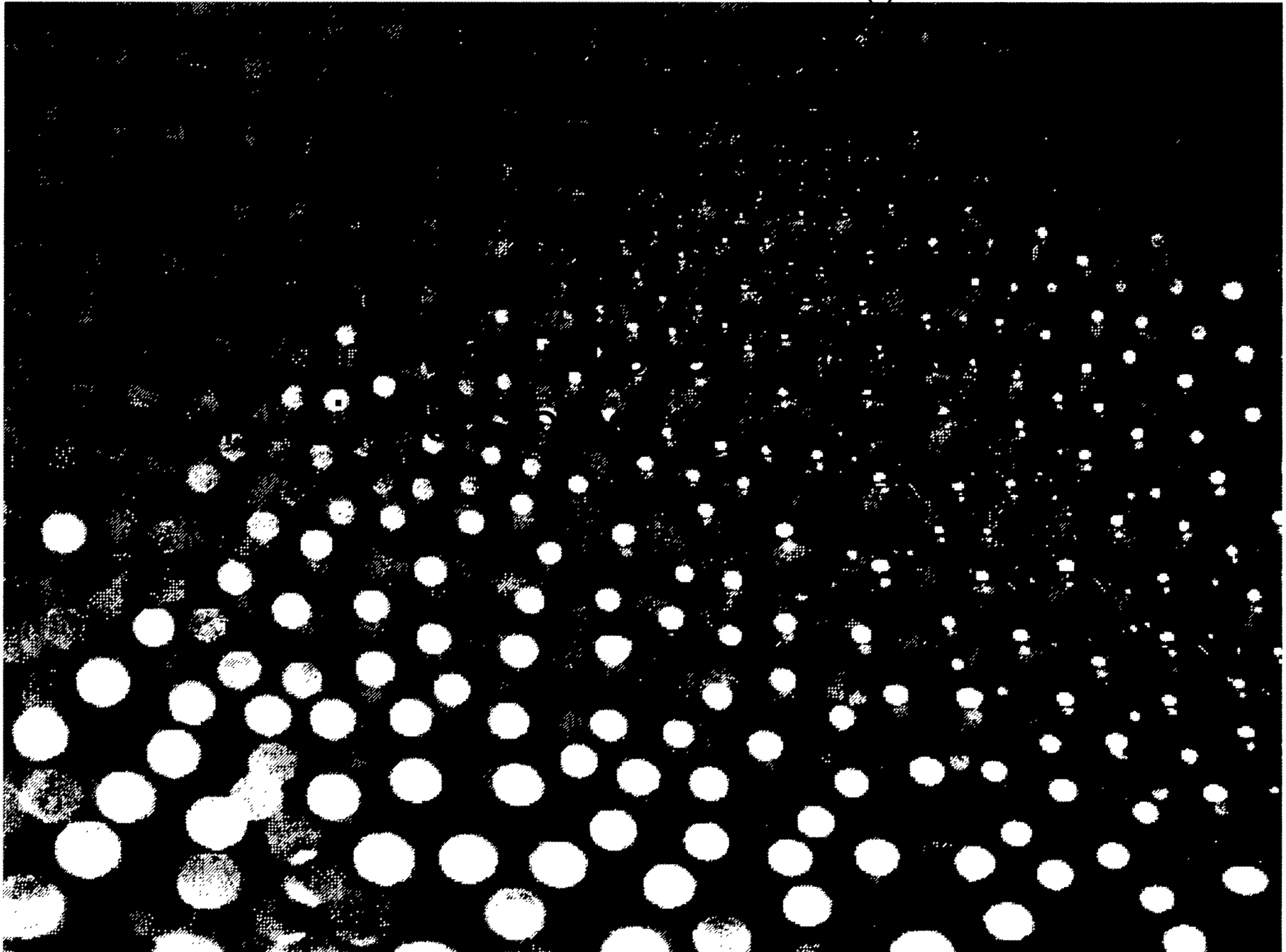


PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-3(a)

5.

The provider has the right to
provide the service in a safe and
secure environment.

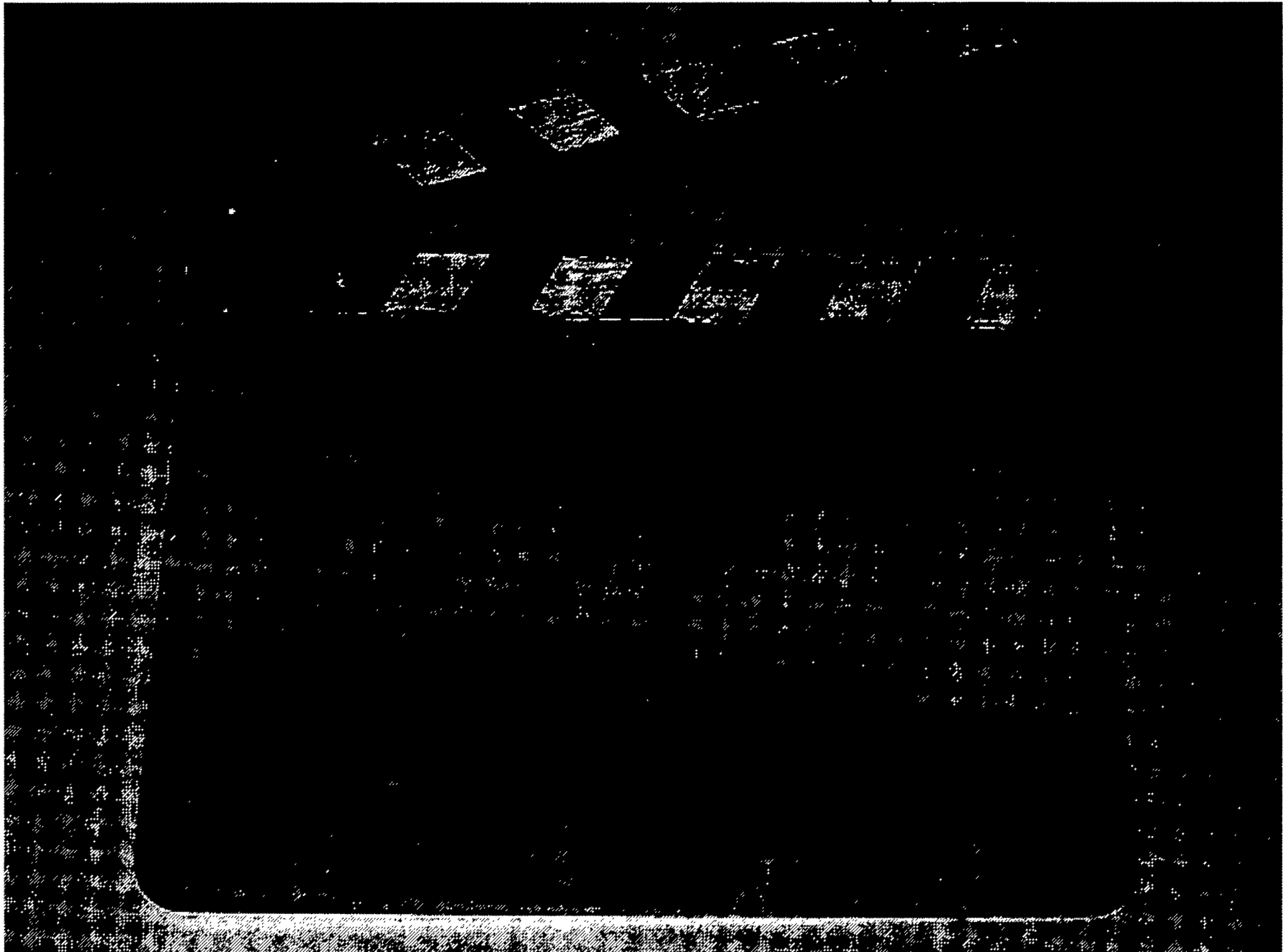
PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-3(a)



DISTS116

Questions?

PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-3(a)



DISTS119

**PUC DOCKET NO. 49189
DISTRICTS' RESPONSE TO AWU RFI 1-5**

AWU Requested Return on Equity

Line	Description	Water		Wastewater		Combined
1	AWU Requested Invested Capital, net	\$1,622,682,064	(a)	\$1,284,160,144	(f)	\$2,906,842,208
2	AWU Requested Long-Term Debt	\$1,356,962,330	(b)	\$1,002,700,200	(g)	\$2,359,662,530
3	Imputed "Equity" Requested by AWU	\$265,719,734	(c)	\$281,459,944	(c)	\$547,179,678
4	AWU Requested "Return on Equity" (DSC)	\$83,522,116	(d)	\$69,785,777	(h)	\$153,307,893
5	AWU Requested Return on Equity	31%	(e)	25%	(e)	28%

Notes:

- (a) AW Water COS Model Docket 49189 Errata Filing, Table 72-1
- (b) WP/II-A-3, line 32
- (c) Line 1 - Line 2
- (d) AW Water COS Model Docket 49189 Errata Filing, Table 94-1, Col 8
- (e) Line 4 / Line 3
- (f) AW Wastewater COS Model Docket 49189, Table 61-1
- (g) WP/II-A-3, line 32
- (h) AW Wastewater COS Model Docket 49189, Table 83-1, Col 6