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PUC DOCKET NO. 49786
SOAH DOCKET NO. 473-20-4539.WS

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APPLICATION OF CEDRON CREEK	§	PUBLIC UTILITY COMMISSION
RANCH WATER SUPPLY FOR	§	
AUTHORITY TO CHANGE RATES	§	OF TEXAS

PRELIMINARY ORDER

Cedron Creek Ranch Water Supply filed an application to change its water rates. This preliminary order identifies the issues that must be addressed in this docket.

Cedron Creek Ranch is a class D utility applying under Texas Water Code (TWC) § 13.1871 to change its water rates based on a test year ending on December 31, 2018. Cedron Creek Ranch is owned by the Cedron Creek Homeowners Association and provides water service to approximately 112 active connections in Bosque county under certificate of convenience and necessity (CCN) number 11659.¹ On July 24, 2019, Cedron Creek Ranch filed a class B application for its water system, and on September 20, 2019, Cedron Creek Ranch filed a revised application. At the time Cedron Creek Ranch filed its initial application it was a class C utility under TWC § 13.002(4-c) because it provides retail water utility service to fewer than 500 taps or connections. Following amendments to the TWC on September 1, 2019, Cedron Creek Ranch is now a class D utility under TWC § 13.002(4-d). Cedron Creek Ranch seeks a revenue-requirement increase of \$15,388 for retail water service.²

On April 6, 2020, the Commission administrative law judge (ALJ) found the application administratively complete and suspended the effective date of the rate change until December 1, 2020 in accordance with 16 Texas Administrative Code (TAC) § 24.33(a)(2).³ However, the ALJ did not state whether Cedron Creek Ranch's proposed notice was sufficient and requested a supplemental recommendation on the sufficiency of Cedron Creek Ranch's proposed notice from Commission Staff. Commission Staff subsequently recommended that Cedron Creek Ranch's notice be deemed sufficient and on April 15, 2020, the ALJ found Cedron Creek Ranch's

¹ Application at 1, 2, and 9 (Jul. 24, 2019).

² Corrected Application at 12 (Sep. 20, 2019).

³ Order No. 6 (Apr. 6, 2020).

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reissued notice sufficient.⁴ On June 25, 2020, Commission Staff filed a request for referral to the State Office of Administrative Hearings (SOAH) for a hearing on the merits in accordance with 16 TAC § 24.35(c)(1).⁵

In the order of referral to SOAH on August 13, 2020, Cedron Creek Ranch was directed, and Commission Staff and other interested persons were allowed, to file a list of issues to be addressed in the docket and also identify any issues not to be addressed and any threshold legal or policy issues that should be addressed by August 21, 2020. Commission Staff timely filed a list of issues. Cedron Creek Ranch did not file a list of issues.

I. Issues to be Addressed

The Commission must provide to the ALJ a list of issues or areas to be addressed in any proceeding referred to SOAH.⁶ After reviewing the pleadings submitted by the parties, the Commission identifies the following issues that must be addressed in this docket:

Identification

1. What is the legal name and all assumed names, if any, of the utility seeking a rate increase in this proceeding? If the utility has an assumed name, provide a currently valid certificate of assumed names.
2. What is the business form of the utility (e.g., corporation, partnership, sole proprietorship)? What is the charter or authorization number, the date the business was formed, and the dates any changes were made?

Notice

3. Did the utility provide proper notice of the proposed rate change? TWC § 13.1871(b), (c); 16 TAC § 24.27?

⁴ Order No. 7 (Apr. 15, 2020).

⁵ Commission Staff's Request for Referral (Jun. 25, 2020).

⁶ Tex. Gov't Code § 2003.049(e).

Revenue requirement

4. What revenue requirement will give the utility a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses? TWC § 13.183(a)(1); 16 TAC § 24.43(a).
5. Will that revenue requirement preserve the utility's financial integrity? If not, what revenue requirement is required to preserve the utility's financial integrity? TWC § 13.183(a)(2); 16 TAC § 24.43(a).

Rates and tariff

6. What are the just and reasonable rates for the utility that recover the utility's revenue requirement? Are the rates sufficient, equitable, and consistent in application to each customer class? Are the rates unreasonably preferential, prejudicial, or discriminatory? TWC § 13.182.
7. Are the utility's proposed revisions to its tariffs and rate schedules appropriate?
8. What is the appropriate effective date of the rates fixed by the Commission in this proceeding? TWC § 13.1871.
9. If a refund or surcharge results from this proceeding, how and over what period of time should the refund or surcharge be made? TWC § 13.1871.

Cost of service

10. What is the reasonable and necessary cost of providing service? 16 TAC § 24.41.

Allowable expenses

11. What are the utility's allowable expenses for the test year? What known and measurable changes to the test year expenses are appropriate? 16 TAC § 24.41(b).
 - a. What are the utility's reasonable and necessary operations and maintenance expenses? 16 TAC § 24.41(b)(1)(A).
 - b. What is the reasonable and necessary depreciation expense? Does this expense use appropriate depreciation rates, service lives, salvage values, and methods of depreciation? TWC § 13.185(j); 16 TAC § 24.41(b)(1)(B)?
 - i. Does this expense include any amount for property provided by explicit customer agreements or customer contributions? If so, what is that amount?

- ii. Does this expense include any amount for property provided by a developer or government entity? If so, what is the amount?
 - c. What is the reasonable and necessary amount, if any, for assessment and taxes other than federal income taxes? How much of this amount, if any, is for municipal franchise fees? 16 TAC § 24.41(b)(1)(C).
 - d. What is the reasonable and necessary amount for the utility's federal income tax expense? TWC § 13.185(f); 16 TAC § 24.41(b)(1)(D).
 - e. What is the reasonable and necessary amount for the utility's advertising expense, contributions, and donations? 16 TAC § 24.41(b)(1)(F).
 - f. Has the utility included any expenses that are not allowed? 16 TAC § 24.41(b)(2).
12. Has the utility made any payments to affiliates for allowable expenses? If so, are those payments reasonable and necessary, including whether the costs of the affiliate were properly assigned to the utility? What are the costs to the affiliate of each item or class of items in question, and is the price for each transaction no higher than prices charged by the supplying affiliate to its other affiliates or divisions for the same item or items, or to unaffiliated persons or corporations? TWC § 13.185(e)?

Rate base

13. What is the appropriate rate of return for the utility? 16 TAC § 24.41(c)(1).
14. What is the appropriate rate base for the utility?
- a. What is the appropriate amount to include in the utility's rate base for property used and useful in providing water service to the public?
 - i. What is the original cost of the property used and useful in providing water service to the public at the time the property was dedicated to public? TWC § 13.185(b); 16 TAC § 24.41(c)(2)(A), (B).
 - ii. Has any water-utility property that was acquired from an affiliate or a developer before September 1, 1976 been included in the utility's rate base? If so, was the property appropriately included at the actual cost of the property rather than the price set between the entities? TWC § 13.185(i).

- iii. Has the utility improperly included any property funded under customer agreements or by customer contributions? If so, what is the amount? 16 TAC § 24.41(c)(2)(B)(iv).
 - iv. What is the amount, if any, of accumulated depreciation on such property? 16 TAC § 24.41(c)(2)(B)(iii).
 - v. If the utility financed any of its property with developer contributions under, what is the amount, if any, of accumulated depreciation on that property?
 - vi. Is the utility requesting inclusion in rate base property acquired from an affiliate? If so, is payment to the affiliate reasonable and necessary? What are the costs to the affiliate of each item or class of items in question, and is the price for each transaction no higher than prices charged by the supplying affiliate to its other affiliates or divisions for the same item or items, or to unaffiliated persons or corporations? TWC §13.185(e).
 - vii. Is the utility requesting inclusion in rate base property acquired or constructed since its last rate case? If so, please identify such property.
 - viii. Is the utility requesting inclusion in rate base of any intangible property? If so, has the utility demonstrated such property may be included in rate base? 16 TAC § 24.41(f).
- b. What is the reasonable and necessary working capital allowance for the utility? 16 TAC § 24.41(c)(2)(C).
 - c. What is the reasonable and necessary amount of the utility's accumulated reserve for deferred federal income taxes, unamortized investment tax credits, contingency reserves, property insurance reserves, contributions in aid of construction, customer deposits, and other sources of cost-free capital? 16 TAC § 24.41(c)(3).
 - i. Have these amounts been appropriately deducted from the utility's rate base?
 - ii. What other items, if any, should be deducted from the utility's rate base?
 - d. Has the utility requested the inclusion of construction work in progress in rate base? If so, what is the amount sought and for what facilities? Additionally, has the utility proven that the inclusion is necessary to the financial integrity of the utility and that major projects

under construction have been efficiently and prudently planned and managed? 16 TAC § 24.41(c)(4).

15. Is the utility proposing any post-test-year adjustments to rate base? 16 TAC § 24.41(c)(5).
- Is the adjustment known and measurable?
 - Is the plant properly recorded in National Association of Regulatory Utility Commissioners' uniform system of accounts, account number 101 or 102?
 - Is the addition at least 10% of the requested rate base?
 - Have all attendant impacts been accounted for in calculating the utility's cost of service?
16. Has the utility properly accounted for any positive or negative acquisition adjustment? 16 TAC § 24.41(d), (e).
17. Does the utility have any debt? If so, what is the cost of that debt?
18. What is the appropriate debt-to-equity capital structure of the utility?
19. What regulatory assets, if any, are appropriately included in the utility's rate base? If such assets are included in rate base, what is the appropriate treatment of such assets?

Allocation

20. For shared services utilized by both the homeowners association and the utility, were the utility costs and revenues properly identified and allocated?
21. What is the appropriate allocation of costs and revenues among the utility's rate classes?
22. What is the appropriate rate design for each rate class? Do the rates properly reflect fixed and variable costs? 16 TAC § 24.43.
23. In designing rates, should the utility use the current number of connections as of the date of the application as opposed to using the number of connections at the end of the test year?

Rate-case expenses

24. What are the utility's expenses incurred in this rate proceeding that are just, reasonable, necessary, and in the public interest? Does that amount include any prospective rate-case expenses to be incurred after the Commission's final order? Should the utility be able to

recover its reasonable and necessary rate-case expenses from ratepayers? If so, how should such expenses, if any, be recovered by the utility? 16 TAC § 24.44.

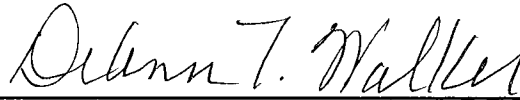
This list of issues is not intended to be exhaustive. The parties and the ALJ are free to raise and address any issues relevant in this docket that they deem necessary, subject to any limitations imposed by the ALJ, or by the Commission in future orders issued in this docket. The Commission may identify and provide to the ALJ in the future any additional issues or areas that must be addressed, as permitted under Tex. Gov't Code Ann. § 2003.049(e).

II. Effect of Preliminary Order

This Order is preliminary in nature and is entered without prejudice to any party expressing views contrary to this Order before the SOAH ALJ at hearing. The SOAH ALJ, upon his or her own motion or upon the motion of any party, may deviate from this Order when circumstances dictate that it is reasonable to do so. Any ruling by the SOAH ALJ that deviates from this Order may be appealed to the Commission. The Commission will not address whether this Order should be modified except upon its own motion or the appeal of a SOAH ALJ's order. Furthermore, this Order is not subject to motions for rehearing or reconsideration.

Signed at Austin, Texas the 10th day of September 2020.

PUBLIC UTILITY COMMISSION OF TEXAS



DEANN T. WALKER, CHAIRMAN



ARTHUR C. D'ANDREA, COMMISSIONER



SHELLY BOTKIN, COMMISSIONER