



Control Number: 52002



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June 9, 2021

Mr. Kim Cole
CPR Water Supply Company, LLC.
100 Avenue A
Palestine, Texas 75801

RE: Docket No. 52002: A Study to Determine a Water Rate Structure for the Application of CPR Water Supply Company, LLC. to Obtain a Water Certificate of Convenience and Necessity (CCN) in Smith County

Dear Mr. Cole:

B & D Environmental, Inc. was retained to perform a study to determine a water rate structure that will support the revenue requirement for the water utility system of the requested service area of CPR Water Supply Company, LLC. (Utility). This rate study was conducted using mainly financial and operational cost data provided from the utility. This utility is applying for a new water CCN and does not have a previous operational cost history. Some operational cost is based on the operational cost from other utilities owned by the utility's proposed certified operator. But a number of assumptions were still required to determine a revenue requirement necessary to support the cost of water service for this system. In the future this utility should consider filing a Rate/Tariff Change Application based on a more detailed analysis of the utilities cost of service for its water service once provided service to its customer base.

Based on available information, a current revenue requirement was determined for providing water service to the utility's customer. The calculation of the current revenue requirements for water can be found in **Attachment 1** of this study. Customer rates for water service that will generate the revenue required to provide service were then calculated. These calculations are also included in Attachment 1. These rates are compared to the rates proposed to be charge to customers by the utility in Table 1.

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Table 1: Comparison of Proposed Rates to Revenue Requirement Rates

Service	Gallonge Charge	Monthly Base Rate	Revenue Requirement Rates
Water	\$ 3.50 per 1,000 gallons first 6,000 gallons	\$45.00	\$54.43
	\$ 4.40 per 1,000 gallons thereafter		

Rate designed with zero gallons included in the base rate

In conclusion, CPR Water Supply Company, LLC.'s current rate structure for water service will under recover the funds necessary to meet the utility's current revenue requirements for water service. The utility will be required to submit a Rate/Tariff Chang Application within 18 months of approval of its CCN application. Based on this study, the utility will need to adjust its current rate structure to allow it to recover the revenues necessary to cover its cost of service. Therefore, the current rate structures and proposed tariff of CPR Water Supply Company, LLC. are supported and should be approved for the utility as a part of this water CCN application.

Should you have any questions regarding this rate study, please contact me at (512) 917-7541.

Sincerely,



Bret W. Fenner, P.E.
B & D Environmental, Inc.

ATTACHMENT 1

CPR Water Supply Company, LLC

Water Rate Design Study

Projections

Meter Equivalents:

<u>Meter Size</u>	<u>Total Meters</u>	<u>Equivalent Factor</u>	<u>Meter Equivalents</u>
5/8" - 3/4"	150	1	150
1"	0	2.5	0
1 1/2"	0	5	0
2"	0	8	0
3"	0	15	0
4"	0	20	0
Total Meter Equivalents:	150		150

2020 Actual Total Gallons Sold: 12,600,000

Actual 2020 Water Revenues:

Water Cost of Service:

General Expenses	\$	1,500	
Operational Expenses	\$	58,350	
Interest Expenses	\$	1,515	
Subtotal:			\$ 61,365
Property Taxes	\$	0	
Income Taxes	\$	11,634	
Annual Depreciation	\$	15,300	
Return On Investment	\$	55,400	
Subtotal:			\$ 82,334
Total Water Revenue Requirement:			\$ 143,699

Water Rate Structure:

Gallage Rate: (\$3.50 per 1,000 gallons first 6,000 gallons - \$4.40 per 1,000 gallons thereafter)

Gallage Units (first 6,000 gallons) 10,800,000 Gals. ÷ 1000 = 10,800 x \$3.50 = \$37,800

Gallage Units (Next 1,000 gallons) 1,800,000 Gals. ÷ 1000 = 1,800 x \$4.40 = \$7,920

Variable Cost Total Calculation: \$37,800 + \$7,920 = \$45,720

Monthly Base Rate:

Fixed Cost Calculation: \$143,699 - \$45,720 = \$97,979

Base Rate Calculation: \$97,979 ÷ 150 meter equivalents ÷ 12 months = \$54.43

<u>Meter Size</u>	<u>Equivalent Factor</u>	<u>Base Rate/Meter Size</u>
5/8" - 3/4"	1	\$ 54.43

CPR Water Supply Company, LLC

Water Depreciation Schedule						
Test Period Ends:		31-Dec-20				
Utility Plant Cost	Installation Date	Original Cost	Average Service Life	Annual Deprec. Expense	Total Accum. Deprec.	Net Book Value
Water Equipment	31-Dec-20	\$615,000	50	\$12,300	\$0	\$615,000
Distribution System	31-Dec-20	\$150,000	50	\$3,000	\$0	\$150,000
Utility Plant Totals:		\$765,000		\$15,300	\$0	\$765,000

Return & Income Tax Calculation	
Net Book Value	\$ 765,000
Working Capital	\$ 7,671
	<u>\$ 772,671</u>
Return on Investment:	\$ 55,400
Income Tax:	\$ 11,634

Notes:

Note 1. Cost of water utility system from engineering estimates

Note 2 Gallonage based on estimated 7,000 gallons monthly usage per customer

Note 3. Return on Invested capital - BAA Bond Rating (November , 2020) 3 17% plus 4% = 7 17%

Note 4 Income Tax. [Retrun (\$54,851) less Interest Expense (\$1,515)] x 21% Corp. tax rate = \$11,200

Note 5. No property tax expense was included as water plant is located on leased property