



## **Filing Receipt**

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**SOAH DOCKET NO. 473-24-04314 WS  
PUC DOCKET NO. 54940**

<b>APPLICATION OF INTEGRA WATER</b>	<b>§</b>	<b>PUBLIC UTILITY COMMISSION</b>
<b>TEXAS, LLC FOR AUTHORITY TO</b>	<b>§</b>	
<b>CHANGE RATES</b>	<b>§</b>	<b>OF TEXAS</b>

**COMMISSION STAFF'S MEMORANDUM IN SUPPORT OF STIPULATION AND  
SETTLEMENT AGREEMENT AND MOTION TO ADMIT SUPPLEMENTAL  
EVIDENCE**

On May 1, 2023, Integra Water Texas, LLC (Integra) filed an application for authority to change sewer rates under Texas Water Code §§ 13.1871 and 13.18715. Integra Water holds certificate of convenience and necessity numbers 13278 and 21115. On March 7, 2024, Integra, the Staff (Staff) of the Public Utility Commission of Texas, and the Office of Public Utility Counsel (collectively, Signatories) filed a Stipulation and Settlement Agreement (Agreement) which resolves all contested issues in this proceeding. Staff now files the attached memorandum from Jennifer Mayfield of the Rate Regulation Division and Joseph Cooper of the Infrastructure Division, in support of the Signatories' Agreement.

**I. MOTION TO ADMIT SUPPLEMENTAL EVIDENCE**

Staff respectfully requests that its attached memorandum from Jennifer Mayfield of the Rate Regulation Division and Joseph Cooper of the Infrastructure Division, in support of the Signatories' Agreement, be admitted into the record as evidence in this proceeding.

**II. CONCLUSION**

Staff respectfully requests that its attached memorandum be admitted into the record as evidence in this proceeding.

Date: March 13, 2024

Respectfully submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS  
LEGAL DIVISION**

Marisa Lopez Wagley  
Division Director

Ian Groetsch  
Managing Attorney

/s/ Kelsey Daugherty  
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**SOAH DOCKET NO. 473-24-04314 WS  
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**CERTIFICATE OF SERVICE**

I certify that, unless otherwise ordered by the presiding officer, notice of the filing of this document will be provided to all parties of record via electronic mail on March 13, 2024, in accordance with the Second Order Suspending Rules, filed in Project No. 50664.

/s/ Kelsey Daugherty  
Kelsey Daugherty

# *Public Utility Commission of Texas*

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## **Memorandum**

**TO:** Kelsey Daugherty, Attorney  
Legal Division

**FROM:** Jennifer Mayfield, Regulatory Accountant  
Rate Regulation Division  
Joseph Cooper, Engineering Specialist  
Infrastructure Division

**DATE:** March 13, 2024

**SUBJECT:** Docket No. 54940 – *Application of Integra Water Texas, LLC for Authority to Change Rates*

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### **SUMMARY AND RECOMMENDATION**

On May 1, 2023, Integra Water Texas, LLC (Integra), a Class D sewer utility, filed a Class C Rate Change Application (Application) for service provided under sewer Certificate of Convenience and Necessity (CCN) No. 21126.

In its Application, Integra requested the following plant related components and revenue requirement components.

**Table JC-1 (Plant In Service Component<sup>1</sup>)**

<b>Original Cost of Plant</b>	<b>Annual Depreciation</b>	<b>Accumulated Depreciation</b>	<b>Net Plant</b>	<b>DCIAC</b>
\$1,616,109	\$37,207	\$46,451	\$1,569,658	\$1,435,829

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<sup>1</sup> Application at Schedule III-3 Plant In Service.

**Table JM-1 (Integra's Requested Revenue Requirement)**

<b>Description</b>	<b>Revenue Requirement<sup>2</sup></b>
Operating Expenses	\$ 267,983
Depreciation	\$ 37,207
Taxes Other than Income Taxes	\$ 3,459
Federal Income Tax	\$ 1,943
Return on Rate Base	\$ 11,267
Less: Other Revenues	\$ (622)
<b>Total Revenue Requirement</b>	<b>\$ 321,236 (within rounding)</b>

On March 7, 2024, Integra, Staff (Staff) of the Public Utility Commission of Texas (Commission), and the Office of Public Utility Counsel (OPUC) (collectively, the Signatories) filed the Stipulation and Settlement Agreement (the Agreement), which resolves all contested issues in this proceeding. The Parties agreed to capitalize certain operations and maintenance expenses as specified in Exhibit D of the Agreement, since those expenses will not continue to occur on an annual basis but will allow Integra an opportunity to recover those incurred expenses. The Agreement resulted in the finalized plant in service component below and provides for an unspecified reduction to Integra's requested sewer revenue requirement as follows:

**Table JC-2 (Plant In Service Component<sup>3</sup>)**

<b>Original Cost of Plant</b>	<b>Annual Depreciation</b>	<b>Accumulated Depreciation</b>	<b>Net Plant</b>	<b>DCIAC</b>
\$1,698,101	\$62,679	\$78,252	\$1,619,849	\$1,435,829

	<u>As Filed</u>	<u>Stipulated Adj.</u>	<u>Stipulated Rev. Req.</u>
Sewer Rev. Req.	\$321,236	(\$97,860)	\$223,376

Joseph Cooper reviewed the invested capital, depreciation, and operation and maintenance components of Integra's Application and Jennifer Mayfield reviewed the accounting and financial aspects of Integra's Application, including its federal income tax and other taxes. Staff believes that the terms of the Agreement are in the public interest. Other members of Staff who reviewed the Application and other filings on the record for Integra's requested rate of return, rate design, and interim rates also support adoption of the Agreement based on their reviews.

The terms of the Agreement include the following components:

- a. **Retail Sewer Rates.** The Signatories agree that Integra should be allowed to implement the retail sewer rates, terms and conditions contained in the tariff

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<sup>2</sup> Application at Schedule I-1 Rev Requirement.

<sup>3</sup> Stipulation and Settlement Agreement at Exhibit D (Mar. 7, 2024).

included as Exhibit B to the Agreement. The Signatories agree that the rates are just and reasonable and are consistent with the public interest.

- b. **Revenue Requirement and Rate Base.** The Signatories agree that Integra's total annual revenue requirement for sewer CCN number 21126 is \$223,376. The Signatories agree that approval of sewer invested capital (Rate Base) of \$202,197, as of December 31, 2022, included as Exhibit C to the Agreement, is reasonable and in the public interest. The Signatories agree that facilities used and useful in providing utility service as of December 31, 2022—as set out in Exhibit D to the Agreement—will be binding in future rate cases for the purposes of determining Integra's total rate base as of December 31, 2022.
- c. **Rate of Return and Capital Structure.** The Signatories agree for Integra to have a ratio of 50% debt to 50% equity for Integra's capital structure, and for Integra to have a 4.60% cost of debt and an 8.50% return on equity. These ratios and percentages result in an overall rate of return of 6.55%.
- d. **Rate Design.** Integra agrees to use its current customer count, as of January 8, 2024, of 258 for its sewer rate design. Integra agrees to maintain the current ratio of revenue recovery between the fixed and variable costs in the sewer rate design.
- e. **Legal Expenses Surcharge.** The Signatories agree that Integra will recover \$18,054 of legal expenses related to corporate functions and PUC Docket Nos. 51683<sup>4</sup> and 55787<sup>5</sup> through a \$2.92 monthly surcharge collected from 258 wastewater customers over two years.
- f. **Rate-Case Expenses.** Integra will not recover any rate-case expenses incurred in connection with this docket in this proceeding and will not seek to recover any rate-case expenses incurred in connection with this docket in a future proceeding.
- g. **Affiliate Expenses.** Integra made payments to Integra Water, LLC during the test year that the Signatories agree were reasonable and necessary, in accordance with Texas Water Code § 13.185(e). Any costs charged to Integra by Integra Water, LLC affecting the cost of service are no higher than prices charged by Integra Water, LLC to its other affiliates or unaffiliated entities for the same item or items.
- h. **Interim Rates.** The Signatories agree to support interim rates, equal to the rates contained in the tariff included as Exhibit B to the Agreement, on an interim basis effective for usage prior to the date of the Commission's final order setting rates in this docket. Interim rates will be subject to refund upon a final rate determination.

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<sup>4</sup> *Application of Integra Water Texas, LLC for a Sewer Certificate of Convenience and Necessity in Bastrop County*, Docket No. 51683, Notice of Approval (Oct. 8, 2021).

<sup>5</sup> *Application of Integra Water Texas, LLC and IW Texas, Corp for Sale, Transfer, or Merger of Facilities and Certificate Rights in Bastrop County*, Docket No. 55787, Order No. 4 - Granting Withdrawal, Dismissing Application, and Closing Docket (Mar. 1, 2024).

- i.     **Effective Date.** The Signatories agree that the rates shown in Exhibit B to the Agreement will be effective on and after the date of a Commission final order setting rates in this docket.

It is Staff's opinion that the implementation of the terms in the Agreement will result in a fair and reasonable outcome for the affected stakeholders in terms of the sewer revenue requirement. Based on Staff's review, the Agreement contains a sewer revenue requirement that lies within a reasonable range given Integra's request and OPUC and Staff's positions, and a fully litigated docket might produce a less favorable outcome for ratepayers and other stakeholders. Approval of the Agreement conserves limited resources compared to litigation of this docket and achieves an acceptable resolution of the issues in this case as a result of negotiations among the Signatories. In Staff's opinion, the Agreement is in the public interest, and Staff recommends that the Commission adopt it in its entirety.