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Thomas J. Gleeson
Chairman
Kathleen Jackson
Commissioner
Courtney K. Hjaltman
Commissioner



Greg Abbott
Governor
Connie Corona
Executive Director

Public Utility Commission of Texas

TO: Chairman Thomas J. Gleeson
Commissioner Kathleen Jackson
Commissioner Courtney K. Hjaltman

All Parties of Record

FROM: Krishna de la Cruz
Commission Advising

RE: *Application of CSWR-Texas Utility Operating Company, LLC for Authority to Change Rates*, Docket No. 57386, Draft Preliminary Order, March 13, 2025
Open Meeting, Item No. 12.

DATE: March 11, 2025

Please find enclosed the draft preliminary order filed by Commission Advising in the above-referenced docket. The Commission will consider this draft preliminary order at the March 13, 2025 open meeting. Parties shall not file responses or comments addressing this draft preliminary order.

Any modifications to the draft preliminary order that are proposed by one or more Commissioners will be filed simultaneously prior to the consideration of the matter at the March 13, 2025 open meeting.

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DOCKET NO. 57386

APPLICATION OF CSWR-TEXAS	§	PUBLIC UTILITY COMMISSION
UTILITY OPERATING COMPANY,	§	
LLC FOR AUTHORITY TO CHANGE	§	OF TEXAS
RATES	§	

DRAFT PRELIMINARY ORDER

CSWR-Texas Utility Operating Company, LLC filed an application to change its water and sewer rates. This preliminary order identifies the issues that must be addressed in this proceeding.

CSWR-Texas is a CSWR-affiliated utility operating company in the State of Texas.¹ CSWR-Texas is applying to change its water and sewer rates based on a test year ending on September 30, 2024.² CSWR-Texas provides service to 9,484 water connections under water certificate of convenience and necessity (CCN) No. 13290 and to 3,208 sewer connections under sewer CCN No. 21120 in portions of the following counties across Texas: Angelina, Aransas, Austin, Bandera, Bexar, Brazoria, Burleson, Burnet, Calhoun, Camp, Dallas, Denton, Ellis, Erath, Gillespie, Guadalupe, Harris, Hays, Hidalgo, Hood, Hunt, Jackson, Kerr, Limestone, Llano, Lubbock, McCulloch, Medina, Montague, Montgomery, Navarro, Orange, Palo Pinto, Parker, Polk, Robertson, Sabine, San Augustine, Tarrant, Uvalde, Victoria, Wilson, Wise, and Wood.³ CSWR-Texas seeks a \$5.7-million increase in annual water revenues and a \$1.3-million increase in annual sewer revenues.⁴ CSWR-Texas also seeks to unify the terms of service and consolidate rates statewide in order to simplify its in-state operations and regulatory obligations.⁵

¹ Application of CSWR-Texas Utility Operating Company, LLC for Authority to Change Rates at 4 (Dec. 30, 2024).

² *Id.* at 7.

³ *Id.* at 6 and 81.

⁴ *Id.* at 92–93.

⁵ *Id.* at 93.

CSWR-Texas filed its application on December 30, 2024. To date, the Commission administrative law judge (ALJ) has granted motions to intervene in Order Nos. 2, 3, 5, 6, and 8.⁶

On January 30, 2025, Commission Staff filed a request to refer this proceeding to the State Office of Administrative Hearings (SOAH). On February 3, 2025, in Order No. 4, the Commission ALJ found CSWR-Texas' application administratively complete and notice sufficient and suspended the proposed effective date for all proposed rates until July 3, 2025, or until an interim rate is requested and approved.

CSWR-Texas was directed, and Commission Staff and other interested persons were allowed, by February 24, 2025, to file a list of issues to be addressed, identify any issues not to be addressed in the docket, and identify any threshold legal or policy issues that should be addressed. CSWR-Texas and Commission Staff each timely filed 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.⁷ After reviewing the pleadings submitted by the parties, the Commission identifies the following issues that must be addressed in this docket.

To the extent applicable, the following issues should be addressed as to water service and sewer service separately.

Applicant

1. What is the legal name and all assumed names, if any, of the utility 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?
3. What is the proper legal name of the utility that currently holds CCN number 13290? In answering this issue, please address the following items.

⁶ Order No. 2 (Jan 21, 2025); Order No. 3 (Jan. 27, 2024); Order No. 5 (Feb. 4, 2024); Order No. 6 (Feb. 6, 2025); Order No. 8 (Feb. 19, 2025).

⁷ Tex. Gov't Code § 2003.049(e).

- a. Identify the entity or entities that own the equipment and facilities used to provide water service under CCN number 13290.
 - b. Identify the entity or entities that operate the equipment and facilities used to provide water service under CCN number 13290. In answering this question, please identify the entity or entities that employ the individuals who perform the day-to-day operations of the utility.
4. If a combination of entities constitutes the entity seeking the water rate change, which entities should be joined in this proceeding?⁸
 5. What is the proper legal name of the utility that currently holds CCN number 21120? In answering this issue, please address the following items.
 - a. Identify the entity or entities that own the equipment and facilities used to provide sewer service under CCN number 21120.
 - b. Identify the entity or entities that operate the equipment and facilities used to provide sewer service under CCN number 21120. In answering this question, please identify the entity or entities that employ the individuals who perform the day-to-day operations of the utility.
 6. If a combination of entities constitutes the utility seeking the sewer rate change, which entities should be joined in this proceeding?⁹
 7. Did the utility seeking the rate increase file its annual report most recently due for filing?¹⁰

Notice

8. Did the utility provide proper notice of the proposed rate change that complies with the applicable rules and statutes?¹¹

Revenue Requirement

9. 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

⁸ 16 TAC § 22.104(a).

⁹ 16 TAC § 22.104(a).

¹⁰ TWC § 13.136; 16 TAC § 24.129.

¹¹ TWC § 13.1871(b); 16 TAC § 24.27.

reasonable and necessary operating expenses while preserving the utility's financial integrity?¹²

10. Does the revenue requirement properly offset from the utility's cost of service any revenue that is properly recognized for ratemaking purposes?
11. What is the appropriate portion of this revenue requirement that should be used to design the utility's water rates?
12. What is the appropriate portion of this revenue requirement that should be used to design the utility's sewer rates?

Cost of Service

13. What is the utility's cost of service for providing water service based on its test year? What is the utility's cost of service for providing sewer service based on its test year?
14. What adjustments, if any, should be made to the utility's proposed test-year data?¹³
15. Are any water or sewer systems included in this proceeding subject to a sale, transfer, or merger application that has not been approved? If so, is it appropriate to include those systems in the utility's cost of service in this proceeding?

Allowable Expenses

16. What are the reasonable and necessary allowable expenses calculated in accordance with the applicable statutes and Commission rules?¹⁴
17. What is the utility's reasonable and necessary operations and maintenance expense?
18. What is the utility's reasonable and necessary depreciation expense?
 - a. For each class of property, what are the proper and adequate depreciation rates and methods of depreciation, including service lives and salvage values?

¹² TWC § 13.183(a)(1)–(2); 16 TAC § 24.43(a).

¹³ TWC § 13.185(d)(1); 16 TAC §§ 24.41(b) and (c)(5).

¹⁴ TWC §§ 13.183(a)(1) and 13.185; 16 TAC § 24.41(b).

- b. Does this expense item contain any amounts related to property provided by explicit customer agreements or funded by customer contributions in aid of construction? If so, what are those amounts?
 - c. Does this expense item contain any amounts related to property contributed by a developer or a governmental entity? If so, what are those amounts?
19. What is the utility's reasonable and necessary expense for franchise fees, assessments, and taxes other than federal income taxes?
20. What is the reasonable and necessary amount for the utility's federal income tax expense?¹⁵
- a. Did the utility include an allowed expense in the utility's rates or an investment in its rate base for which there is a related income tax benefit? If so, has the related income tax benefit of the allowed expense or investment been included in the computation of income tax expense to reduce rates?¹⁶
 - b. Is the utility a member of a consolidated group that files a consolidated income tax return?¹⁷
 - i. If so, have income taxes been computed as though a consolidated return had been filed and the utility had realized its fair share of the savings resulting from the consolidated return?¹⁸
 - ii. If not, has the utility demonstrated that it was reasonable not to consolidate returns?¹⁹
21. Are any tax savings derived from liberalized depreciation and amortization, investment tax credits, or similar methods? If so, are such tax savings apportioned equitably between customers and the utility, and are the interests of present and future customers equitably balanced?
22. What is the reasonable and necessary amount for the utility's professional or trade association expense?

¹⁵ 16 TAC § 24.41(b)(1)(D).

¹⁶ TWC § 13.185(f).

¹⁷ *Id.*

¹⁸ TWC § 13.185(f).

¹⁹ TWC § 13.185(t).

23. What is the reasonable and necessary amount for the utility's advertising expenses, contributions, and donations?
24. If the utility has a self-insurance plan approved by the Commission or other regulatory authority, what is the approved target amount for the reserve account, and is it appropriate to change that amount? What is the amount of any shortage or surplus for the reserve account, and what actions, if any, should be taken to return the reserve account to the approved target amount?
25. What are the utility's reasonable and necessary expenses, if any, for pension and other post-employment benefits?
26. Are any requested expenses not allowed?²⁰

Capital Structure

27. Does the utility have any debt? If so, what is the cost of that debt?
28. What is the appropriate debt-to-equity capital structure for the utility for the purpose of setting rates?²¹
29. What is the appropriate overall rate of return (weighted cost of capital), including return on equity and cost of debt for the utility?²²

Rate Base

30. What is the utility's rate base, and what is the appropriate rate of return on the utility's rate base?²³
31. What are the reasonable and necessary components of the utility's rate base?²⁴
32. What is the original cost of the property used and useful in providing service to the public at the time the property was dedicated to public use?²⁵

²⁰ 16 TAC § 24.41(b)(2).

²¹ 16 TAC § 24.41(c).

²² 16 TAC § 24.41(c)(1)(B).

²³ TWC §§ 13.183(a)(1), 13.184(a)–(b), 13.185(a)–(c); 16 TAC § 24.41(c)–(g).

²⁴ 16 TAC § 24.41(c).

²⁵ TWC § 13.185(b); 16 TAC § 24.41(c)(2)(A)–(B).

33. What is the amount, if any, of accumulated depreciation on such property and the resulting net cost?
34. What is the amount for an allowance for funds used during construction, if any, that is being transferred to invested capital in this proceeding? If such amounts are being transferred, for what facilities and when was each facility placed into service? At what rate did the allowance for funds used during construction accrue?
35. Is the utility seeking inclusion of construction work in progress? 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?²⁶
36. What is the reasonable and necessary working capital allowance for the utility?²⁷
37. Does the utility have any utility property that was acquired from an affiliate or a developer before September 1, 1976? If so, has such property been included by the utility in its rate base, and has it been included in all ratemaking formulas at the actual cost of the property rather than the price set between the entities?²⁸
38. Has the utility financed any of its plant with developer contributions? What is the amount, if any, of accumulated depreciation on that property?²⁹
39. Has the utility included any customer contributions or donations in invested capital? If so, what is the amount of those customer contributions or donations?
40. What is the reasonable and necessary amount of the utility's accumulated reserve for deferred federal income taxes, excess 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? What other items should be deducted from the utility's rate base?

²⁶ 16 TAC § 24.41(c)(4).

²⁷ 16 TAC § 24.41(c)(2)(C).

²⁸ TWC § 13.185(i).

²⁹ TWC §§ 13.183(b), 13.185(b) TWC § 13.185(e), (i)–(j); 16 TAC § 24.41(b)–(c).

41. 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?
42. What regulatory liabilities, if any, are appropriately included in the utility's rate base? If such liabilities are included in rate base, what is the appropriate treatment of such liabilities?

Capitalization

43. What is the utility's capitalization policy?
44. Is the utility's capitalization policy appropriate?

Affiliates

45. Does the utility have any affiliates?
46. Have any payments to affiliates been included in allowable expenses or in rate base? If so, please address the following:
- a. Was the payment for each expense item reasonable and necessary?
 - b. What were the costs to the affiliate of each item or class of items in question?
 - c. Was the price to the utility for each item or class of items no higher than prices charged by the supplying affiliate to its other affiliates or divisions or unaffiliated entities for the same item or items?
 - d. If the payment to the utility is for an allocated expense, was the method used to allocate costs attributable to the utility and its affiliates appropriate to ensure just and reasonable rates?³⁰

Allocation and Rate Design

47. What is the appropriate allocation of costs and revenues among the utility's rate classes for water service and for sewer service?
48. What is the appropriate rate design for water service and for sewer service for each rate class?³¹
49. In designing rates, should the utility use the current number of connections as of the date of the application or the number of connections at the end of the test year?

³⁰ TWC §§ 13.002(2), 13.185(c); 16 TAC § 24.3(3).

³¹ 16 TAC § 24.43.

50. What is the utility's number of connections at the end of the test year?
51. What is the utility's number of connections at the time its application for a rate change was filed?

Rates

52. What are the just and reasonable rates that are sufficient, equitable, and consistent in application to each customer class and that are not unreasonably preferential, prejudicial, or discriminatory? Do these rates recover the utility's revenue requirement for each type of service?³²
53. Are the fees proposed by the utility appropriate?³³
54. What is the appropriate effective date of the rates to be approved or fixed by the Commission in this proceeding?³⁴
55. Is it practicable to consolidate the rates by region with a consolidated tariff and rate design for more than one system?³⁵
56. Should multi-step rates be established for any water or sewer systems that will be under a consolidated rate schedule?³⁶

Tariffs

57. Are the utility's proposed revisions to its tariff and rate schedules appropriate?
58. For the proposed tariff, does the tariff include and identify all applicable systems?

Interim Rates

59. Did the utility request interim rates? If so, has the utility met the requirements for interim rates? If so, what are the appropriate levels of the interim rates?³⁷

³² TWC §§ 13.182, 13.1871(o); 16 TAC § 24.35(d).

³³ 16 TAC §§ 24.163 and 24.165.

³⁴ TWC § 13.1871(b), (c)–(h); 16 TAC §§ 24.25(h), 24.33.

³⁵ 16 TAC § 24.25(k).

³⁶ TWC § 13.183(c); 16 TAC § 24.75(b).

³⁷ 16 TAC § 24.37.

60. If a refund or surcharge results from this proceeding, how and over what period of time should the refund or surcharge be made?³⁸

Rate-Case Expenses

61. Does the utility have a surcharge in effect for prior rate-case expenses set in Docket No. 54565?³⁹ If so, has the utility included language in its proposed tariff that appropriately and accurately addresses the rate-case expense surcharge set in Docket No. 54565?

62. 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?⁴⁰

63. How should rate-case expenses be allocated between customers?

System Improvement Charge Baseline

64. Are the cost-of-service baselines established in this proceeding appropriate to use to calculate and establish system improvement charges in the future?⁴¹

Compliance With Previous Orders

65. Did the utility comply with the Commission's order in Docket No. 54565?

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 Texas Government Code § 2003.049(e).

³⁸ TWC § 13.1871(u); 16 TAC § 24.35(c).

³⁹ *Application of CSWR-Texas Utility Operating Company, LLC for Authority to Change Rates*, Docket No. 54565, Order, Ordering Paragraph No. 8 (Jul. 13, 2024).

⁴⁰ 16 TAC § 24.44.

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 _____ day of _____ 2025.

PUBLIC UTILITY COMMISSION OF TEXAS

THOMAS J. GLEESON, CHAIRMAN

KATHLEEN JACKSON, COMMISSIONER

COURTNEY K. HJLATMAN, COMMISSIONER

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