



Pursuant to Texas Water Code §13.187 and PUC Substantive Rules Chapter 24
Instructions for Application for a Water or Wastewater Rate/Tariff Change

Table of Contents

GENERAL INFORMATION	2
DEFINITIONS.....	2
BEFORE YOU BEGIN <i>You will need to collect the following information to be able to fill out the application...</i>	3
ATTACHMENTS NEEDED TO YOUR APPLICATION	4
INSTRUCTIONS	4
SECTION IA - GENERAL INFORMATION.....	4
SECTION IB - MISCELLANEOUS INFORMATION.....	5
SECTION II: OPERATIONAL INFORMATION	5
SECTION III. PLANT & EQUIPMENT INFORMATION	5
SECTION IV. LONG TERM DEBT & EQUITY INFORMATION	9
SECTION V. INCOME TAX CALCULATION.....	11
SECTION VI. UTILITY INCOME & EXPENSE INFORMATION.....	11
SECTION IV. LONG TERM DEBT & EQUITY INFORMATION	12
SECTION V. INCOME TAX CALCULATION.....	12
SECTION VII - CUSTOMER INFORMATION	14
SECTION VIII - PRODUCTION & CONSUMPTION INFORMATION.....	15
TABLE VIII - SEWER.....	15
SECTION IX - RATE DESIGN.....	15
SECTION X - ALTERNATE METHOD OF RATE DESIGN.....	18
AFFIDAVIT.....	18
NOTICE OF PROPOSED RATE CHANGE	19
BILLING COMPARISON:	19
APPENDIX A: RATE OF RETURN WORKSHEET.....	21

GENERAL INFORMATION

Recently, jurisdiction over the economic regulation of water and wastewater utilities transferred from the Texas Commission on Environmental Quality (TCEQ) to the Public Utility Commission (PUC). This application requires information that is substantially similar to what was previously required by the TCEQ. HOWEVER, the filing and review process may be significantly different at the PUC. Please carefully review any modified procedural requirements.

Determining what to charge for **rates** and filling out this application are both complicated processes. You will begin with certain calculations and enter the results in different tables. It will take several calculations to fill out most of the tables.

DEFINITIONS

- **Test year.** Typically, the most recent 12 month period for which you have complete financial and operating information. It can be any 12 month period that ends less than 1 year prior to the month in which you file this application. You may find it easier to use the last calendar year since you probably have all the information available to prepare your tax return.

For instance, if you expect to file the application on May 15, 2001, then the test year can start on May 1, 1999, or later

- Invested capital ("Rate Base"). This includes the sum of:
 - the original cost, less accumulated depreciation, of utility plant, property, and equipment
 - a working capital allowance, which includes
 - reasonable inventories of materials and supplies
 - reasonable prepayments of operating expenses
 - reasonable allowance up to 1/8 of total annual operations and maintenance expenses
- **Known and Measurable.** You are allowed to recover reasonable and necessary expenses incurred during the test year. Certain expenses may have increased during the year, so the 12 months of test year expenses would be less than if you had paid the new expense for the whole 12 month period. Additionally, you may know that a certain expense is going to increase in the near future. If you know what the amount the expense is going to increase, then you can adjust your test year expenses to include the additional amount. You cannot include the increase if you simply think that something is going to increase.
- Some examples of allowable increases are:
 - electric rates went up during the test year

- you hired a new employee during the test year or gave your employees a raise you have received notice that your chemical expenses will be going up
- you have received a written notice from your landlord that your office rent will increase
- Some examples of increases that would not be allowed are
 - You are thinking about hiring an extra employee
 - You have heard that your rent might be increased in a couple of months
- Net Book Value. Each year that an asset is used by the utility, you recover a portion of the cost of that asset in the rates through depreciation expense. Net book value is the amount of the asset that has not yet been recovered through depreciation. It is the original cost of the asset minus accumulated depreciation.
- Rate of return. This is a percentage that represents the weighted average of your expected return on your equity investment and interest rates paid on loans for utility plant and equipment.
- Return on invested capital (“Return”). This represents an owner’s profit (return) on the equity investment in utility plant and equipment used to provide utility service and the interest on loans to pay for plant and equipment. It is calculated by multiplying the amount of invested capital by the Rate of Return.

BEFORE YOU BEGIN

You will need to collect the following information to be able to fill out the application.

If you provide both water and wastewater utility service, you need to make sure that the following information is accurately allocated between each. As an example, if you have one operator who takes care of both the water and wastewater plants, you should allocate their salary between both.

- Total amount of money received from your customers. Separate it into the amount of money received for utility service and the amount of money for late fees, reconnect fees, tap fees, or any other fees. This information will also need to be divided between water and wastewater if you provide both types of utility service.
- Customer/Meter information. Total number of customers at the beginning and at the end of the test year and respective meter sizes.
- Water consumption records. Determine how many gallons were pumped and how many gallons were billed to your customers. Most systems have some unaccounted for water (e.g., line loss) between the treatment plant and the customers’ meters so it is likely that you will pump more gallons than you will bill to the customers.
- Wastewater treatment records. Determine the total number of gallons treated. Customer wastewater charges are usually calculated by using the customers average winter month’s water usage, e.g., December, January, and February.
 - Plant & Equipment records. You should have original invoices for each item. If the value of your facilities has been determined in a prior rate application, you may use those numbers. This information will be used for several calculations. **It is important to maintain good records for each item of plant and equipment and that you always keep these records. It is likely that you will need this information for this and all future rate applications. If you do not have this information, please**

contact PUC staff to discuss other options.

- **Debt/Loan information.** Obtain loan payment schedules from your bank which show the interest rate on the loan, the outstanding balance, and the amount of interest and principal as of the end of the test year.
- **Personal money invested.** Total all of the money that you have personally invested in or loaned to the utility over the years which has not been reimbursed.

ATTACHMENTS NEEDED TO YOUR APPLICATION

- **Income statement and balance sheet (per books)** for the test year for Texas utility operations. Please provide these documents as an attachment to the application.
- Please provide an attachment to the application **reconciling book net income to the** Table VI.A, column Column ①. Provide an adequate description of all reconciling items. If your company provides water and sewer, the reconciliation may be combined.
- If your utility provides wholesale water service in addition to retail, please provide, as an attachment, a **wholesale cost of service.**
- If your utility tariff includes a pass through clause or a surcharge, please provide a reconciliation of revenues collected for the pass through clause or surcharge, and expense paid related to the pass through clause or surcharge for the Test Year.
- **Expense receipts, invoices, and check stubs for the Test Year.** Separate these expenses into the categories listed in **Table VI. A.** and total them for the year. You cannot include more than 12 months of items such as electricity, rent, salaries, etc. If you provide both water and wastewater service, you will also need to allocate (separate) the expenses to water, wastewater, or both.

INSTRUCTIONS

★ ★ Throughout the application, all spaces for information must be addressed. If the particular item does not apply to you, then you need to be sure to enter “N/A” in that space ★ ★

SECTION IA - GENERAL INFORMATION

- Applicant - This is the legal name of the corporation, partnership, or individual that owns the utility. It should be the same as the legal name on your CCN.
- Utility Name - This is the name by which the customers know the utility.
- Legal form of Applicant - Check the box that describes the legal form of the utility.
- Utility address - The address where you receive your mail.
- County(ies) where services are provided - List each county where you have customers subject to this application.
- CCN Number - List all CCN numbers subject to this application (include both water and wastewater CCNs).
- Contact Person - The name of the person that PUC can contact with questions about the application.
- Telephone number - The telephone number of the Contact Person.
- Fax Number - The fax number of the Contact Person.
- Position held - The position of the Contact person.
- Address - The address of the Contact Person.

NOTE: If the utility is a corporation, be sure to attach a copy of corporation's "Certificate of Account Status" (regarding the payment of franchise taxes) from the State Comptroller's Office. See the application for the

address where you can request this information. Note that you can also obtain an electronic copy at the web address listed in the application.

SECTION IB - MISCELLANEOUS INFORMATION

The information requested in this section is self-explanatory.

★ NOTE ★

- The application contains schedules for the calculation of rates for both water and wastewater.
- Each section contains the same tables with a few minor differences.
- You will need to complete a set of information for each type of service you provide to your customers.
- While the instructions that follow only relate to one set of schedules, you can follow them for each type of service that you are providing.
- The instructions will note where there are differences between water and wastewater schedules.
- Remember that, if applicable, you should allocate expenses between water and wastewater as accurately as possible.

SECTION II: OPERATIONAL INFORMATION

- Complete one of the tables in this section for each employee of the utility. Attach extra sheets if necessary.
- Name - in the first table list the manager's (or owner's name if he routinely provides services to the utility). In subsequent boxes list the other employees of the utility.
- The last table on the page is to be used for any contract labor services used by the utility.
- Relationship to owner. Some examples would be:
 - Self
 - Spouse
 - Son/Daughter/Son-in-law
 - None
- Short job description - provide a summary of the major tasks performed for the utility by each employee.
- Approximate number of hours per week this person works for the company - This should be hours worked only for the utility. Do not include any hours that may be worked for other companies which the owner may own or operate.
- Salary - Provide the dollar amount paid to the employee in the test year and then mark the space which describes how often the employee is paid.

SECTION III. PLANT & EQUIPMENT INFORMATION

Round all cents to the nearest whole dollar. Round all percentages to two decimal places.

A. Customer Contributions - Table III. A.

If any of the items included in your plant and equipment were 100% financed with customer contributions, assessments, surcharges, extension fees, etc., you may not include depreciation or return on those items in your revenue requirement, and you should not include them in **Table III. B.** However, if those customer contributions did **not** cover the entire cost of the asset, you may include

the excess amount which the utility paid for. Please list below all items that were funded either all or in part by customer contributions and indicate the amount that the customers contributed for each item.

- Column [A] - List all of the items of plant and equipment that have been funded all or in part by Customer Contributions (e.g., meters paid for by tap fee, line extension paid for by customer).
- Column [B] - List the date each specific item was placed in service.
- Column [C] - Enter the total cost of each item (regardless of how much was paid for by customers contributions and/or the utility).
- Column [D] - Enter the amount of each item that was paid for with customer contributions. In most cases, this will be the same as the number in Column [C]. However, it is possible that the item may cost more or less than the customer contribution amount.
- Column [E] - Subtract the amount in Column [D] from the amount in Column [C] and enter the result here. If the amount in this column is greater than zero for any specific item, enter those items in the appropriate category in Table III. B.

B. Original Cost and Depreciation Schedule - Table III. B.

The lines in this Table are located far enough apart that you can enter two items per each row. If you need more room, you may make a separate Table. PUC will accept your own Table as long as it has the same information as **Table III.B.** The instructions will be for listing only one item, and you should repeat the instructions for each item that you are adding to the Table. The instructions can be used to set up your own Table as long as it contains the same columns.

All the information needed to complete the table should be readily available to the utility. The information developed in this table will be used in other tables throughout the application. The instructions that follow this table will tell you where to transfer the information. **You can include plant and equipment paid for by DEVELOPER contributions in the depreciation schedule, but you cannot include plant and equipment paid for by CUSTOMER contributions**

- Column [A] - Item - This is a brief description of the utility item. The general classes of plant and equipment that are used in operating a utility are listed in the table.
- Column [B] - Date of installation - This is the date that the item was actually installed and operational in providing utility service. You cannot begin to depreciate the item until it is being used by and is useful to the utility in providing utility service.
- Column [C] - Service Life - This column is further divided into two, separate columns. The first column marked with * shows the number of years that PUC expects a properly maintained item will last. Your experience may show that the item does not last as long as estimated by the PUC. If that is the case, then enter the life that you expect the item to last, based on your actual experience in the column marked with * ***NOTE: You will be required to provide documentation and an explanation when using different service lives.**
- Column [D] - Original cost when installed - This is the amount that you paid for the item when it was installed. If you have the records, you may also add the cost of installing the item. As was noted above, the invoices and receipts that you have for each item should be kept for an indefinite period of time as they are used in future rate cases.

Depreciation

- Column [E] - Annual - This number is determined by dividing the Original cost when installed

(Column [D]) by the Service Life in Column [C] * or Column [C] * *. Remember that the service life can be either the one listed or the one that you have entered based on your actual experience. NOTE: Land is not depreciated.

- In order to determine how much annual depreciation to include in your cost of service, please perform the following calculation and answer the following questions:
 - Determine the length of time in service by subtracting the date of installation in Column [B] from the date at the end of your test year. Enter the number of years in the column with the heading “Yrs”, the number of months in the column with the heading “Mos”, and the number of days in the column with the heading “Days”.

	End of test year	12/31/2001
<i>minus</i>	Date of installation	<u>06/15/1995</u>
<i>equals</i>	Length of time in service	6 years 6 months 15 days

- Compare the length of time each item is in service (as determined above) with the service life for the asset in Column [C]. Then calculate the amount of annual depreciation based on the answer to the following 3 questions:

- (a) Is the service life equal to or less than the length of time in service determined above? If yes, then record \$0 (zero) in the column for annual depreciation.

	End of test year	12/31/2001
<i>minus</i>	Date of installation	<u>06/15/1995</u>
<i>equals</i>	Length of time in service	6 years 6 months 15 days

	Original cost	\$10,000
	Service life	5 years

Enter 0 for annual depreciation.

- (b) Is the service life more than a year longer than the length of time in service determined above? If yes, then divide the original cost by the service life and enter that amount in the column for annual depreciation.

	End of test year	12/31/2001
<i>minus</i>	Date of installation	<u>06/15/1995</u>
<i>equals</i>	Length of time in service	6 years 6 months 15 days

	Original cost	\$10,000
	Service life	5 years

Enter \$1,000 for annual depreciation. (\$10,000/10 yrs)

- (c) Is the service life greater than the length of time in service determined above but less than a year greater? If yes, then enter the result of the following calculation in the column for annual depreciation:

$$\frac{365 - [(\# \text{ of months} \times 30) + \text{number of days}]}{365} \times \frac{\text{Original cost}}{\text{Service life}}$$

minus End of test year 12/31/2001
 Date of installation 06/15/1995
equals Length of time in service 9 years 6 months 15 days

Original cost \$10,000
 Service life 10 years

$$\frac{365 - [(6 \times 30) + 15]}{365} \times \$10,000 = ??$$

$$\frac{365 - [195]}{365} \times \$1,000 = ??$$

$$\frac{170 \times \$1,000 = \$466 \text{ (rounded to nearest dollar)}}{365}$$

Enter \$6,530 in Column [F] as the amount of accumulated depreciation

Column [F] - Accumulated - This is also the number that you will calculate based on other information in the Table.

- o Refer to the length of time in service for each item to determine how much accumulated depreciation to list in this column.
 - a. If the calculated length of time in service is greater than or equal to the service life of the asset, then you should have entered \$0 in the annual depreciation column and enter the total cost of the asset in the accumulated depreciation column.
 - b. However, if the calculated length of time in service is less than the service life, then you must determine the amount of accumulated depreciation to put in this column. To do so, multiply the number of years, months, and days calculated above by the annual depreciation calculated in the Column [E].
 Note: It is easier to convert the calculated amount into the number of days and then use the following formula to determine the amount of accumulated depreciation.

$$\frac{\text{Number of days}}{365} \times \frac{\text{Original Cost}}{\text{Service life}} = \text{Accumulated depreciation}$$

minus End of test year 12/31/2001
equals Date of installation 06/15/1995
 Length of time in service 6 years 6 months 15 days

Original cost	\$10,000
Service life	10 years

6 years x 365 days/year =	2,190 days
6 months x 30 days/mo =	180 days
	<u>15 days</u>
	2,385 days

<u>2,385 days</u> x <u>\$10,000</u> =??
365 days 10
6.53 x \$1,000 = \$6,530

Enter \$6,530 in Column [F] as the amount of accumulated depreciation

NOTE: Never enter an amount in this column greater than the amount in Column [D] - Original Cost when Installed. If you calculate an amount that is greater than the original cost, enter the original cost.

- Column [G] –Net Plant- This is the amount of the item remaining that has not been depreciated and is calculated by subtracting the accumulated depreciation (Column [F]) from the original cost when installed (Column [D]).
- After completing all of the lines for each item of plant and equipment using the instructions above, add the sum of columns together and place that total in the box at the bottom of each column.
 - Enter the amount in this box (Column [E], Total Annual Depreciation) in **Table VI. A., Line [O], Column 1**
 - Enter the amount in this box (Column F, Total Accumulated Depreciation) in **Table IV. E., Line [A]**

C. Developer Contributions - Table III. C.

List any items of plant or equipment that you listed in **Table III. B.** that were paid for all or in part by developer contributions. If only paid for in part by developer contributions, enter only the part that was funded by developer contributions. Enter the total Net Book Value from this table in **Table IV. E., Line [E]**. If you have none, be sure to enter “N/A” on any line in the Table.

SECTION IV. LONG TERM DEBT & EQUITY INFORMATION

You should try to separate the debt and equity information into the amounts applicable for water and for wastewater. If your records do not show the separation, you may enter the combined debt and equity information in both tables. Please note that you may be required to allocate the information between water and wastewater.

- A.** Enter the total dollar amount that you have invested into the utility, which has not been reimbursed to you by utility funds. Also enter this amount in the Table IV. D., Box 8.

- B.** This represents the amount of interest you believe should be paid for the money you invested in the utility, **OR** use the Rate of Return Worksheet which is attached to the Instructions to calculate the rate of return.
- enter the percentage that you determine in **Table IV. D., Box 8, OR**
 - use an interest rate you think is fair and reasonable. Be prepared to provide documentation and information of why you believe this amount is fair and reasonable if requested.

Note: If your application is contested, the staff will compute your return based on the Rate of Return Worksheet

- C.** The questions here are self-explanatory.
- D.** Rate of Return - **Table IV. D.**
You will need the information that you got from your bank or lender regarding the interest, principal, and balances of the debts owed by the utility.

Part 1 - Debt - For each loan enter the following information:

- Column [A] - Name of lender/bank
- Column [B] - Date of issue - enter the date that you actually took out the loan
- Column [C] - Date of maturity - enter the date that the loan will be paid off
- Column [D] - Original amount of loan - enter how much you originally borrowed
- Column [E] - Balance due at the end of the test year, even though the application may be filed at a date later than the end of the test year
- Column [F] - Interest Rate - enter the interest rate that your bank/lender is charging you for each of the loans listed
- Column [G] - Weighted Average - You will return to complete this column after you have completed the next section of the table
- Box 1 - enter the total of all the original amounts of your loans
- Box 2 - Enter the total balance outstanding on all of your loans at the end of the test year
- Box 6- You will come back to this later

Part 2 - Equity

- Box 3 Equity in the utility - This is the amount that you determined to be your equity in the utility and listed in **Section IV. A.** above. Enter that amount in this box.
- Box 4- This is the equity return that you determined in **Section IV. B.** above. Enter that amount in this box.
- Box 5= Box 2 + Box 3

Column [G]

- For each individual line in this column you will use the following calculation
 - " Divide the balance of each individual loan by the amount in **Box 5**
 - " Multiply this amount by 100 and then multiply that number by the percentage in column [F]
 - " Enter the amount for that line in Column [G]
 - " Repeat these calculations for each loan and for the equity amount
- Box 6 - This is the total weighted average percentages for debt in column [G] - Enter this amount in **Table V., Line [C]**

- Box **6** - This is the calculated weighted average percentage for your equity. It is calculated by Box **3**. Box **5** * Box **4**
- Box **8** = Box **6** + Box **7**
- This is the Rate of Return that you will use in calculating the amount of return (interest) that you will include in the revenue requirement.
- Enter this amount in **Table IV. E., Line [G]**
-

E. Invested Capital & Return - Table IV. E.

You will not complete the entire table at this time. The following instructions need to be completed now. Later instructions will indicate when you should return to this table.

- Line [A] - Enter the amount from **Table III. B., Box 2**
- Line [B] - Will be completed later
- Line [C] - If you have invested money to have extra supplies and parts on hand, you can enter the cost of those items in this table and earn return on them. Calculate the cost of any extra items that you have on hand and enter the amount on this line.
- Line [D] - Will be completed later
- Line [E] - Enter the amount of Developer Contributions from **Table III. C., Box 1**
- Line [F] - Will be completed later
- Line [G] - Enter the Rate of Return from **Table IV. D., Box 8**
- Line [H] - Will be completed later

SECTION V. INCOME TAX CALCULATION

Table V. - This table will be completed after you have completed the next section.

SECTION VI. UTILITY INCOME & EXPENSE INFORMATION

A. Revenue requirement - Table VI - You should have already separated and totaled your test year expenses into the categories listed in this table.

- You will complete Columns **2, 3 and 4** at this time for all lines except Lines [P] - Federal Income Tax and [Q] - Return. Then, enter the subtotals from Line [L] in previous tables. Once the previous tables are completed, use information in those tables to complete Lines [P] and [Q] and the rest of this table.
 - Column **1** - Enter your test year expenses in this column for each of the lines/categories listed (except Lines [P] and [Q])
 - Column **2**- If you have any known and measurable changes for the test year expenses, enter the amount of the increase or decrease in this column. See the definition of “Known and Measurable” earlier in the instructions. Be sure that you are entering only the difference (just the amount of the increase or decrease) incurred in the test year.
 - Column **3** - For each line, add the amounts in Column **1** and Column **2** and put the total in Column **3** (except Lines [P] and [Q])
 - Line [L] - Subtotal
 - Total Columns **1** and **2** and enter the total in this line.

- Divide the amount in Column 3 Box 7 by 8 and enter the result in **Table IV. E., Line [B]**

- Line [R] - Subtotal - You will complete this line later after you have entered amounts in Lines [P] and [Q]
- Line [S] - Enter the total of other income (revenues) such as tap fees and late fees in this line. Do not include revenues from sale of water or for treatment of wastewater. Follow the instructions for Columns 1, 2 and 3 above.
- You will now complete **Table IV. E. and Table V.**

Go back to:

SECTION IV. LONG TERM DEBT & EQUITY INFORMATION

A. Table IV. E.

- Line [B] - Divide the amount in **Table VI. A., Line [L], Box 7** by 8 and enter the result in this line.
- Line [D] - Add Lines [A], [B], and [C] and enter the total here
- Line [F] - Subtract Line [E] from Line [D] and enter the result here
- Follow the instructions in the application for Line [H] and if the amount is greater than zero, enter the amount in **Table V., Line [A] and Table VI. A., Line [Q]. Column 2**

Go back to:

SECTION V. INCOME TAX CALCULATION

A. Table V.

- Line [A] - Return - Enter the amount from **Table IV. E., Line [H]**
- Line [B] - Invested Capital - Enter the amount from **Table IV. E., Line [F]**
- Line [C] - Weighted Cost of Debt Capital - Enter the percentage from **Table IV. D., Box 6**
- Line [D] - Interest - Multiply the amount on Line [B] by the amount on Line [C] and enter the result on this line
- Line [E] - Taxable income
- Subtract Line [D] from Line [A]
- this is the amount taxable income that can be used to calculate income tax that you can include in the Revenue Requirement.
- Line [F] - Income Tax
- Just like an IRS Income Tax Table, the amount of income tax that you can include in your revenue requirement can be found in a Table attached to the application (Application Appendix A). Look up the amount of taxable income from Line [E] above in that table and then enter the tax from the table on this line.
- Now you can complete **Table VI. A.**

Go to: SECTION VI. UTILITY INCOME & EXPENSE INFORMATION

A. Revenue Requirement - **Table VI. A. – Columns 1, 2 and 3**

- Line [P], Income Tax, Column 2- Enter the amount from **Table V. Line [F]**
- Line [Q], Return, Column 2- Enter the amount from **Table IV. E., Line [H]**

- Line [R], Add Lines [L] through [Q] in Columns **1, 2, and 3** and enter the totals
- Line [T], Subtract Line [S] from Line [R] and enter the amount here for Columns **1, 2, and 3**. Also enter these amounts in the same columns on Line [U]. The reason for this will be explained in the next section.
- Line [T], Box **8** - Enter this amount in **Table X. A., Line [D]**

B. Revenue Requirement - Table VI. A. – 1, 2, and 3

This portion of the table is designed to allow you to calculate the rates that you will charge to your customers in order to recover your proposed Revenue Requirement. Rate design is not an exact science so you may need to make an adjustment for the characteristics of your utility.

The expenses that you incurred during the test year are both fixed and variable in nature. Fixed expenses are those that will occur whether or not you pump any water. Some examples are office rent, accounting, and insurance. Variable expenses are those that change with the amount of water being pumped. Some examples are repairs and maintenance, pump electricity, and chemicals. There are some expenses that can have both fixed and variable components. Examples of these are salaries (some of the salaries are for office staff who work all year round and some are for operator salaries) and payroll taxes which are directly related to the salary expense.

- Column **5** - This column contains a suggested percentage for the fixed portion of each type of expense. They are percentages which may be representative of an average utility. However, note that they are only suggestions and that you may change the listed percentage to one that more realistically represents your utility's mix of fixed and variable expenses.

NOTE: You may also choose to use a single percentage ratio for your total revenue requirement. We will accept a simple ration of 67% for fixed expenses and 33% for variable costs. If you choose to use this ratio, then you can skip to Line [U] below

- Column **5** - Fixed Costs - Multiply the amount in Column **3** by the percentage in Column **4**, divide by 100, and enter the result in this Column
- Column **6**- Variable Costs - Subtract the amount in Column **3** from the amount in Column **5** and enter the result in this column
- Line [L] - enter the sum of Line [A] through Line [K] for Columns **5 and 6**
- Line [R] - enter the sum of Line [L] through Line [Q] for Columns **5 and 6**
- Line [T] - In Columns **5 and 6**, subtract the amount on Line [S] from the amount on Line [R] and enter the amount on this line
- Line [T] Box **9** - Enter the amount in this box in **Table IX. B., Line [A]**
- Line [T] Box **10**- Enter the amount in this box in **Table IX. A., Line [A]**
- Line [U] – Column **5** - Fixed Costs - Multiply the amount in Column **3** by 67% in Column **6**, divide by 100, and enter the result in this column.
- Line [U] – Column **6** - Variable Costs - Subtract the amount in Column **3** from the amount

in Column 5 and enter the result in this column

- Line [U] Box 9 - Enter the amount in this box in **Table IX. B., Line [A]**
- Line [U] Box 10 - Enter the amount in this box in **Table IX. A., Line [A]**

C. Section VI. B.

If you have listed anything in **Table VI. A., Column 2**, you will need to provide a justification in this space for the increase or decrease. If there is a hearing or the staff makes written requests, these changes in cost must be supported by invoices (such as invoices showing an increase in electricity) or by some other form of documentation. You can refer to the “Known and Measurable” definition to provide reasons why it is appropriate to include these increases or decreases.

SECTION VII - CUSTOMER INFORMATION

A. Table VII

You will use this table to list the number of customers, either metered or non-metered, that you had at both the beginning and at the end of the 12 month test year. You will also need to list the number of different meter sizes that you have on your system. You will use this information to calculate your proposed rates.

- Lines [A], [B], and [C] - If you have any non-metered connections, then complete the following lines. If you don't have any, put -0- in each of the boxes. If you do have unmetered connections, use the following instructions for all three lines
 - Column 1 - List the number of connections that you had at the beginning of the test year
 - Column 2 - List the number of connections that you had at the end of the test year
- Lines [D] through [J]
 - Column 1 - List the number of connections for each meter size that you had at the beginning of the test year
 - Column 2 - List the number of connections for each meter size that you had at the end of the test year
 - All Lines
 - Column 4 - Meter equivalents. Each size meter allows a certain amount of water to go through the meter when the customer is using water. The bigger the meter, the more water that can go through. This column lists a conversion factor to make the larger meters equivalent to a 5/8" x 3/4" meter.

Note that there is no conversion factor for the “Other” sized meters. If you have a meter larger than the ones listed, contact the PUC

- Column 4 - Multiply the number in Column 2, by the factor in Column 3. This column is designed to calculate the number of 5/8 "x 3/4" meters or their equivalents that you have on your system.
- Line [K] - Total the number of meters listed in Columns 1, 2 and 3.

- Box 5- Transfer this number to
 - Table IX. B., Line [B] AND
 - Table X. A., Line [F]

If you have a mixture of metered and unmetered connections, you cannot charge metered rates until all of your connections are metered. If this is the case, list all of your meters in the unmetered section of this table. If you are planning to meter all of your connections and are proposing a metered rate to use when all of your connections are metered, then you will need to calculate a rate based on the total unmetered connections and a rate for the metered connections after you have converted all of your connections. This table assumes that you have either metered or unmetered connections. Contact the PUC and ask to speak to someone that processes rate change applications for more information or if you have questions.

SECTION VIII - PRODUCTION & CONSUMPTION INFORMATION

A. Table VIII - Water

- Line [A] - Enter the total number of gallons pumped by using your master meter readings for the test year
- Line [B] - List the total number of gallons that you purchased from another source for sale to your customers (if any) during the test year.
- Line [C] - Enter the sum of **Line [A] + Line [B]**
- Line [D] - Enter the total number of gallons that you billed to your customers during the test year. Also enter this amount in **Table IX. A., Line [B]**.
- Line [E] - Calculate the amount of system water loss that you had during the test year by using the formula in the table. If you have excessive water system losses greater than 15%, this may be an indication that you have several unidentified leaks or meters that are reading incorrectly. If you used the Rate of Return Calculation Worksheet to determine your rate of return, you will need this information to support some of the criteria for adding points to the base rate of return. Additionally, if your water system loss is too high, you may not be able to pass on to your customers the costs of producing that much water. Customer should not be charged for water lost to improper repairs and maintenance.
- Source of the purchased water - Enter the name of the provider.

TABLE VIII - SEWER

- Line [A] - Enter the total number of gallons treated by using your master meter readings for the test year
- Line [B] - List the total number of gallons treated by another source for sale to your customers (if any) during the test year.
- Line [C] - Enter the sum of line [A] + Line [B]. Also enter this amount in **Table IX. A., Line [B]**.
- Source of the purchased treatment - Enter the name of the provider.

SECTION IX - RATE DESIGN

A. VARIABLE RATE CALCULATIONS

Variable expenses are those that are tied to production. For instance, the more water that you pump, the higher your electric bills will be. Therefore, these expenses are tied to a rate that depends on the

number of gallons that your customers consume.

Table IX. A. - The instructions for this table are included with the table in the application; however, be sure that you enter the correct number of gallons in Lines [B] and [C].

- Line [A] - Enter the total variable cost portion of your revenue requirement from **Table VI. A., Line [T], Box 10 or Line [U], Box 10**
- Line [B] - This is the total number of gallons that your customers used. From **Table VIII, Line [B]**
- Line [C] - Your rate structure usually has a charge for the number of 1,000 gallons. The number in this box should be the same as the number in Line [B], but with the decimal point moved to the left 3 places. Also enter this amount in **Table X. A., Line [B]**.

For instance, your customers consumed a total of 4,562,123 gallons. You would have billed them for approximately 4,562 units of 1,000 gallons.

B. BASE RATE CALCULATIONS

The Base Rate is designed to recover your fixed costs - those costs that you will have each month regardless of how many gallons you produce or bill to your much your customers.

Table IX. B.

- **Column 1**
 - Line [A] - Enter the total fixed costs portion of your Revenue Requirement from **Table VI. A., Line [T], Box 10 or Line [U], Box 10**
 - Line [B] - Enter the total meter equivalents at the end of your test year - From **Table VII., Line [K], Box 5**
 - Line [C] - Divide Line [A] by Line [B] and then divide that amount by 12 months. This is the monthly base rate per meter equivalent that will recover the fixed portion of your Revenue Requirement. In order to determine how much you will charge to each meter size, you will complete the following lines.

Complete the lines only if you actually have a customer with a meter that size:

- Line [D] - You will use this line for all unmetered connections or your **5/8" x 3/4"** meters. Enter the amount from Line [C].
- Line [E] - If you have any **1"** meters, multiply the amount in Line [C] by **2.5** & enter result.
- Line [F] - If you have any **1½"** meters, multiply the amount in Line [C] by **5.0** & enter result.
- Line [G] - If you have any **2"** meters, multiply the amount in Line [C] by **8.0** & enter result.
- Line [H] - If you have any **3"** meters, multiply the amount in Line [C] by **15.0** & enter result.
- Line [I] - If you have any **4"** meters, multiply the amount in Line [C] by **20.0** & enter result.
- Line [J] - if you have meters not listed above, contact the PUC.

If you want to include the cost of a number of gallons in the base rate, then you will need to complete Columns 2, 3, 4, and 5 and use the following instructions. Leave them blank if you are not including the cost of any gallons in the base rate.

- **Column 2** - Enter the number of 1,000 gallon units that you want to include in the base rate in Lines [D], [E], [F], [G], [H], [I], and [J] IF you have any meters of that size.

NOTE: As an example and in order for the calculations in this table to work, if you want to add 2,000 gallons to the base rate, you would have to enter the number 2 in this column. If you want to add 3,000 gallons, you would enter the number 3

- **Column 3** - Enter the amount from **Table IX. A., Line [D]** on all lines where you have a customer with a meter of that size.
- **Column 4** - Multiply the number in **Column 2** by the amount in **Column 3** and enter the result on all lines where you have a customer with a meter of that size.
- **Column 5** - On all lines where you have a customer with a meter of that size, add the amounts in **Column 1** and **Column 4** and enter the result.

■ ■ ■ ■ ■

At this point, you have made all of the necessary calculations and have established the rates that you could propose to your customers. If you are satisfied with the rates that you have calculated, then you can skip **Section X** and complete the rest of the application.

However, you may have calculated a rate that you think will not be acceptable to your customers or that they may encourage excessive water usage. You now have 3 choices:

1. Go ahead with the rates that you calculated. If you chose this option, skip the next section and go straight to the Affidavit, the Notice, and the Tariff pages.
2. Change the rates, but choose not to recover your full Revenue Requirement through the rates. If you chose this option, set the rates at level different from the ones that you have just calculated. These rates will usually be lower than the ones calculated.
3. Change the rates, but still attempt to recover your Revenue Requirement through the rates. If you chose this option, go to **Section X - Alternate Method of Rate Design**.

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SECTION X - ALTERNATE METHOD OF RATE DESIGN

This method assumes that you want to change the charge per 1,000 gallons. If you increase this charge, then the calculated base rate will decrease. And if you decrease this charge, the calculated base rate will increase.

A. Table X. A.

- Line [A] - Enter the rate per 1,000 gallons that you believe is reasonable and appropriate.
- Line [B] - Enter the amount that you determined in **Table IX. A., Line [C]**.
- Line [C] - Multiply Line [A] times Line [B] and enter the result here. This is the amount of your Revenue Requirement that will be recovered through the gallonage charge.
- Line [D] - Enter the total Revenue Requirement from **Table VI. A., Line [T] Box 8**.
- Line [E] - Subtract the amount on Line [C] from the amount on Line [D]. This is the amount of your revenue requirement that will need to be recovered through a base charge.
- Line [F] - Enter the number of meter equivalents that you have from **Table VII, Line [K], Box 5**.
- Line [G] - Divide the amount on Line [E] by the number of meter equivalents on Line [F] and then divide that result by 12 months. This is the base rate for fixed expenses per meter equivalent per month. Enter the amount in **Table X. B., Line [A], Column 1**.

B. Table X. B.

- Line [A] – Column 1 Enter the amount from **Table X. A. Line [G]**.
- For the rest of the table, follow the instructions for **Table IX. B.** above except that you will multiply the meter equivalents by the amount on **Table X. B., Line [A] rather than Table IX. B., Line [C]**.

■ ■ ■ ■ ■

Now you are ready to complete the rest of the application.

■ ■ ■ ■ ■

C. Separate VS. Consolidated Tariffs

- If you have multiple systems, you may elect to apply to consolidate your tariff and rate design for more than one system if the systems included in the tariff are similar in terms of facilities, quality of service, and cost of service. The tariff must also provide for rates that promote water conservation for single-family residences and landscape irrigation. To use the consolidated tariff approach, you must provide additional information to demonstrate how the systems are similar and how they promote conservation if consolidate.

AFFIDAVIT

- Enter the name of the person who will be signing the affidavit in the first blank.
- Enter the relationship of the person signing the affidavit to the utility. See the affidavit for examples.
- Enter the method that you used to deliver the Notice of Proposed Rate Change to your customers - by mail, e-mail (if you have the customer's email address available) or by hand delivery.
- Enter the date that you delivered the notice to your customers.
- You must sign the affidavit in the presence of a Notary Public.
- Note: If the person signing the affidavit is someone other than the examples listed, you must attach a properly verified Power of Attorney document for the affidavit to be accepted.

NOTICE OF PROPOSED RATE CHANGE

Page 1

- Enter the name of the company and the company's CCN Number on the first blank line.
- Enter the names of the subdivisions or systems affected by the rate change on the next blank line.
- Enter the Company address and phone number as indicated.
- Annual Revenue Increase - This amount is determined by taking the Total Revenue.
- Requirement from **Table VI. A. Box 8** and subtracting all of the revenues that you received from your customers during the test year.
- Date Customer Notice Mailed, E-mailed and/or provided by Hand Delivered, if appropriate (E-mailed notice may only be provided if you have a current, verifiable email contact from the customer).
- Date of last rate change - list the effective date of your last rate change.
- Date Meters Typically Read - Enter the appropriate date.

EFFECTIVE DATE OF PROPOSED INCREASE:

- The effective date must be at least 60 days after the Notice of Proposed Rate Change is delivered to your customers and a copy of the notice and this application are delivered to PUC.
- The effective date must be the first day of a billing cycle, which should correspond to the date that meters are typically read.

BILLING COMPARISON:

- For water, you must provide a billing comparison between the existing rates and your proposed rates at a consumption level of 10,000 gallons and a consumption level of 30,000 gallons. Calculate the monthly bill for each consumption level at both the existing and proposed rates and insert those amounts in the spaces provided.
- For sewer, you must provide a billing comparison between the existing rates and your proposed rates at a consumption level of 10,000 gallons unless you are charging a flat rate for sewer. Calculate the monthly bill for both the existing and proposed rates and insert those amounts in the spaces provided.

Pages 2 & 3, Note that there is a separate page for water and for wastewater.

- Current Rates - Complete this side of the page with the rates and miscellaneous fees that you are currently charging.
- Proposed Rates - Complete this side of the page with the rates and miscellaneous fees that you are proposing to charge.

Note: If you have a significant number of seasonal customers (more than 10%), you should consider a seasonal reconnect fee.

SECTION 1.0 - RATE SCHEDULE

This is the rate page that will become a part of your tariff when the rates are approved. Complete all of the requested information with your proposed rates.

Note that there is a separate page for water and for wastewater

CONGRATULATIONS!!!!

YOU HAVE COMPLETED THE APPLICATION.

Your next steps:

- Provide notice to your customers by mail, e-mail and/or by hand delivery, if appropriate. (E-mail notice may only be provided if you have a current, verifiable email contact from the customer).

Be sure to mail, e-mail and/or hand deliver the notice at least 63 days before the effective date to be sure it is delivered to the customers at least 60 days before the effective date.

At the same time that you mail notice to your customers, mail 10 copies, including the original of the following (per PUC PROC. R. §22.71(c)(1)):

- The fully completed application;
- NOTICE OF PROPOSED RATE CHANGE; and any other letter sent to customers;
- Notarized Affidavit on the form in the application;
- A new tariff page (water and sewer will be separate);
- A copy of the most recent TCEQ field inspection report letter;
- **No required filing fee**

Mail the complete application and corresponding documents with all required copies to:

Filing Clerk
Public Utility Commission of Texas
1701 North Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

APPENDIX A: RATE OF RETURN WORKSHEET

Step			■	%
A	Most current Baa Public Utility Bond average.			
B	Add 2% - for utilities (include affiliates) with 0-200 OR			
	Add 1.5% - for utilities (include affiliates) with 201-500 connections OR			
	Add 1.0% - for utilities (include affiliates) with 501-1,000 connections			
C	Add 1% if the utility can demonstrate that it has both:			
	1	Debt/equity ratio is greater than 50% (Table IV. D. - Box 2 ÷ Box 3) AND		
	2	No affiliated companies with access to revenues or other funds to support utility operations		
D	Add 1% if the utility can demonstrate that it has at least 1 of the following 3 conditions:			
	1	unstable population - Weekender/seasonal population: a. >25% of total customers; OR b. >10% of total customers and do not use seasonal reconnect fee;		
	2	low growth a. less than 5% customer growth over the last three years; OR b. documentation of potential anticipated future customer growth of less than 5% over a three year period; declining population		
	3	aging system: 50% or more depreciated; OR b. low rate base (<\$500/customer)		
E	Add 1% if the utility is a stand alone sewer system with no agreement for: billing and collection OR discontinuance for nonpayment with the water supplier.			
F	Add 1% if the utility can demonstrate that it has at least 3 of the 4 following conditions:			
	1	Number of complaints: 2 complaints or less per year to TCEQ or PUC for every 200 connections served by system		
	2	No major deficiencies in the most recent PWS inspection report		
	3	No current or prior enforcement actions under current management within a three year period including the test year		
	4	Good faith efforts to solve any current problems		
G	Add 1% if the utility can demonstrate that it has at least 3 of the following 5 conditions:			
	1	well-maintained, up-to-date books and records		
	2	Effective communications and good customer relations (ex: evidence of a community outreach plan funded without utility revenues from customers; program which includes information about utility policies; evidence reflecting cooperation and service within the community AND/OR a semi-annual newsletter.)		
	3	Consistent and timely in meeting reporting requirements (ex: annual reports for last 3 years) and payment of fees		
	4	exhibit fiscal responsibility with respect to rate filings, including completeness, accuracy and frequency		
	5	Less than 15% line loss - (Section VIII of the Application - Page 16 of 41)		
H	Add 1% if the utility can demonstrate that it has at least 4 of the following 5 conditions:			
	1	rate structure - any two of the following a. zero gallons included in minimum bill; b. gallonage rate set high enough to encourage conservation (> \$2.00/1000 gal.; or c. use of inclining blocks, (i.e. with at least \$1.00 between rate tiers which meets other regulatory requirements for inclining block structures)		
	2	drought contingency plan included in tariff with written evidence of use in years required		
	3	conservation plan including encouragement of the use of water conserving devices, efficient lawn watering, or xeriscaping		
	4	program to educate the customers about the nature of the system, its production and distribution ability, PWS standards, and the need for water conservation		
	5	Line Loss: a. less than or equal to 15% and b. successful program to reduce losses (ex., leak detection & repair) (within a three year period reflecting a 25% or more reduction in line loss since program implementation)		
I	Total Rate of Return %			