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**TCEQ DOCKET NOS. 2004-1671-UCR and 2004-1120-UCR**

**SOAH DOCKET NOS. 582-05-2771 and 582-05-2770**

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| **APPLICATION BY AQUA UTILITIES, INC. AND AQUASOURCE DEVELOPMENT COMPANY d/b/a AQUA TEXAS, INC., TO CHANGE THEIR WATER AND SEWER TARIFFS AND RATES IN VARIOUS COUNTIES, AND APPEAL OF RATE-MAKING ACTIONS OF VARIOUS MUNICIPALITIES DENYING REQUESTED CHANGES TO WATER AND SEWER TARIFFS AND RATES** | §<br>§<br>§<br>§<br>§<br>§<br>§<br>§<br>§<br>§<br>§ | **BEFORE THE STATE OFFICE**<br><br>**OF**<br><br>**ADMINISTRATIVE HEARINGS** |

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## AQUA TEXAS' EXCEPTIONS TO THE PROPOSAL FOR DECISION

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TO THE HONORABLE COMMISSIONERS OF THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY:

Aqua Utilities, Inc. and Aqua Development, Inc., d/b/a Aqua Texas, Inc. ("Aqua Texas"), respectfully submit these Exceptions to the Administrative Law Judges' ("ALJs") Proposal for Decision ("PFD") and in support thereof would show the following:

## I. SUMMARY OF EXCEPTIONS

Aqua Texas respectfully excepts to the following conclusions reached by the ALJs in the PFD:

1. Aqua Texas respectfully submits that: 1) the deferred expenses incurred in implementing the TCEQ Executive Director ("ED")-approved phased rates should be given rate base treatment; and, 2) phased rates should be used in this case to recover the deferred expenses. PFD at 55, 57.

2. If Aqua Texas is denied rate base treatment of its regulatory asset, it is entitled to

interest on its deferred expense regulatory asset through the completion of its deferred expense recovery through a surcharge. PFD at 58.

3. The ED's rate setting data and accounting methodology should not be used as the basis for setting rates. Aqua Texas' NARUC methodology is both expressly provided for in the TCEQ's rules and is a superior methodology. However, if the ED's data and methodology is to be used, certain errors within it must be addressed. Specifically, certain rate base data (*e.g.*, exclusion of working capital allowance) must be corrected. PFD at 58-59.

4. Aqua Texas is entitled is entitled to recover its municipal reimbursements as rate case expenses and Aqua Texas' rate case expenses should not be reduced to reflect settled customers. PFD at 75, 77.

5. The ALJs careful analysis correctly concluded that Aqua Texas satisfied the requirements of TEX. WATER CODE § 13.145 ("Section 13.145"). PFD at 45. As Aqua Texas has consistently contended, however, that provision is not applicable to its Rate Change Application seeking multiple regional tariffs and not a single tariff. PFD at 20.

## II. AQUA TEXAS' EXCEPTIONS

### A. Aqua Texas should be allowed phased rates and rate base treatment of the resulting regulatory asset.

Aqua Texas respectfully excepts to the ALJ's conclusions that: 1) "phased rates should not be used in this case;" and, 2) Aqua Texas should not be allowed rate base treatment of its deferred expense regulatory asset. PFD at 57, 55. Aqua Texas implemented its phased-in rate proposal with TCEQ approval. *See*, AT-60 (correspondence from Michael D. Cowan to Robert L. Laughman, dated July 14, 2004). And while this may be "the first instance in which a regulatory asset . . . has been requested for inclusion in a proceeding before the TCEQ," it is appropriate and customary

accounting practice in utility ratemaking. PFD at 55. Taken together, phased rates and the creation regulatory assets mitigate rate shock for customers that would otherwise result from single-step, unphased rate increases. Tr. 111, ln. 10 – 23 (Hugus – Aug. 21, 2006). It is for that reason that the TCEQ's rules authorize "phased, stepped, or multi-year approach[es] to setting and implementing rates," such as the phased-in rates Aqua Texas proposed. 30 TEX. ADMIN. CODE § 291.34(c).

**1. Aqua Texas should be allowed phased rates.**

Aqua Texas' Rate Application included alternative rate proposals for each of Aqua Texas' seven tariff regions. First, Aqua Texas proposed un-phased (single-step) rate increases for each tariff region. *See, e.g.*, AT-1 (Southwest Region Water - Proposed Water Rates and Fees, AT 103252). Second, in the alternative, Aqua Texas proposed phased-in rate increases for each region over a four year period (2004 – 2007). *Id.* The TCEQ's rules authorize "phased, stepped, or multi-year approach[es] to setting and implementing rates," such as the phased-in rates Aqua Texas proposed. 30 TEX. ADMIN. CODE § 291.34(c). The purpose of Aqua Texas' proposed four-year phase-in was to mitigate rate shock for Aqua Texas' customers that would have resulted from a single unphased rate increase. Tr. 111, ln. 10 – 23 (Hugus – Aug. 21, 2006).

Aqua Texas sought and received the authorization of the TCEQ to both: 1) phase in its rates; and, 2) carry out the necessarily accompanying expense Deferral/Recovery Plan. *See* Aqua Texas' Closing Argument at 49 - 51; AT-59 (correspondence from Robert L. Laughman to Glenn Shankle, dated July 7, 2004); AT-60 (correspondence from Michael D. Cowan to Robert L. Laughman, dated July 14, 2004); AT-81 (Deferral/Recovery Plan). Aqua Texas acted in reliance on that authorization as explained at length in Aqua Texas' Closing Argument. Aqua Texas' Closing Argument at 49-51. It has followed the phased rate plan approved by the ED since July 2004, and has capitalized

appropriate expenses to match its revenues to receipts consistent with Statement of Financial Accounting Standards No 71 ("FAS No. 71").

The principal concern voiced by the ALJs, and the basis for their conclusion that "phased rates should not be used in this case" is a concern for overcollection of revenues. PFD at 56-57. Specifically, the ALJs were concerned that "Aqua Texas' final phased rates are higher than what they would have been if simple, unphased rates were used," and for that reason, there is "the potential opportunity for Aqua Texas to have excess recovery over a period of time." *Id.* at 56. As a practical matter, the likelihood of such an over recovery is not significant, as the ALJs implicitly recognized. PFD at 56 (stating that "the possibility of an excess recovery may not be significant."). Aqua Texas respectfully submits that any concern regarding overcollection is mitigated for at least three practical reasons.

First, like the items that may comprise working capital allowance under the TCEQ's rules, the value of Aqua Texas' regulatory asset will be "trued-up" on the filing of its next rate application. In other words, only the trued-up remaining value of the deferred expense regulatory asset will be included in rate base in the next rate change application.

Second, the TCEQ exercises continuing oversight of utilities under Chapter 13 and is authorized to prevent overcollections. Under Chapter 13, the TCEQ supervises "the business of every water and sewer utility within its jurisdiction and may do all things, whether specifically designated in this chapter or implied in this chapter, necessary and convenient to the exercise of this power and jurisdiction." TEX. WATER CODE § 13.041(a). The TCEQ exercises its authority, in part, by requiring every utility under its jurisdiction to file an annual Water and Sewer Utility Annual Report by April 1 of each year. 30 TEX. ADMIN. CODE § 291.73. Those reports to the TCEQ detail

several items including "information on receipts and disbursements of revenues" by the utility in the prior year. 30 TEX. ADMIN. CODE § 291.73(b)(5). Thus, in the unlikely event that Aqua Texas reported revenues that are overcollecting, the TCEQ will be informed of that fact and may act accordingly.

Third and finally, whether by inclusion in rate base or recovery through a surcharge (as described below), Aqua Texas' deferred expenses will not be fully amortized prior to 2011. It is a practical certainty that Aqua Texas will present one or more rate applications to the TCEQ prior to the full recovery of its deferred expenses. As was made plain during the hearing, Aqua Texas has continued to make significant capital improvements since the 2003 test year. Thus, it is not the case that Aqua Texas' higher phased rates will "continue indefinitely into the future" as a practical matter. PFD at 56.

The mere threat of overcollection, which the ALJs found "may not be significant," should not justify the abandonment of Aqua Texas' phased rate plan and Expense Deferral/Recovery Plan. If that rationale is followed, the TCEQ might never authorize "phased, stepped, or multi-year approach[es] to setting and implementing rates," as authorized by 30 TEX. ADMIN. CODE § 291.34(c). That would render the rule surplussage, and would deny consumers the protective effects of phased rates that mitigate rate shock.

**2. Aqua Texas' regulatory asset should be allowed rate base treatment.**

Aqua Texas implemented its phased-in rate proposal with TCEQ approval. *See*, AT-60 (correspondence from Michael D. Cowan to Robert L. Laughman, dated July 14, 2004). A necessary consequence of phased rates is significant undercollection in the early phases of a phase-in plan, *i.e.* when rates charged are significantly below rates justified on a cost of service basis. Tr. 112, ln. 17

– 113, ln. 1 (Hugus – Aug. 21, 2006). That undercollection was addressed by Aqua Texas through the use of deferred asset accounting, which allows a utility to pay expenses unrecovered through rates as they come due, and then capitalize those expenses as an element of rate base to be recovered through future revenues during the later phases of a phase-in plan.

The ALJs concluded in their PFD that Aqua Texas should not be allowed rate base treatment of the regulatory asset resulting from its rate phase-in and expense Deferral/Recovery Plan. PFD at 55. Aqua Texas respectfully submits that the ALJ's conclusion — based on a concern for the "potential for abuse" in the use of deferred expense accounting — is inconsistent with FAS No. 71 and the TCEQ's approval of the expense Deferral/Recovery Plan in this case. *See* AT-59, AT-60. Moreover, while Aqua Texas concedes that unscrupulous utilities could in theory abuse the process, the facts in this case show otherwise. Aqua Texas is a professionally-run utility that was genuinely concerned about reducing rate shock to its customers and implemented phased rates to reduce that shock. Not allowing Aqua Texas to earn a return on its multi-million dollar deferral would cause significant financial harm and, as a practical matter, will prevent utilities from phasing in rates to prevent rate shock to customers.

As correctly noted by the ALJs, "[t]he regulatory asset created by Aqua Texas in this case is <u>not</u> the difference between the amount it was entitled to start charging customers and the amount it actually did charge customers." PFD at 54 (emphasis in original). It is, instead, the amount of the deferrals authorized by the approved Deferral/Recovery Plan. Aqua Texas deferred expenses according to that approved plan with the reasonable expectation that the resulting regulatory asset would be included in rate base, as established by FAS No. 71. <u>Attachment A</u>. The value of that regulatory asset as of July 31, 2006 was $11,453,00.00. *See* AT-81. The value of the deferral varies

over time, as the Deferral/Recovery Plan is implemented.[1] *Id.* The actual value of Aqua Texas' paid expenses that were not covered by then in-effect rates are properly includable as rate base in this proceeding.

Thus, Aqua Texas respectfully submits that its deferred expense regulatory asset should be included in rate base, rather than providing for recovery through a surcharge. PFD at 54-55. The exclusion of an over $11 million dollar asset from rate base would have a significant, negative effect on Aqua Texas' revenue. Aqua Texas respectfully contends that the ALJs conclusion is incorrect for at least four independent reasons.

First, the inclusion of a deferred expense regulatory asset in rate base in this case is not analogous to situations evidencing a "potential for abuse," but is instead analogous to the working capital allowance of "up to one-eighth of total annual operations and maintenance expense" in rate base under the TCEQ's rules. *See* 30 TEX. ADMIN. CODE § 291.31(c)(2)(B)(iii). *See* Aqua Texas' Closing Argument at 55. Working capital allowance is not a "physical" plant asset, but its inclusion in rate base is warranted by the fact that every utility must maintain sufficient working capital to permit the efficient operation of the utility. *Id.* For the same reason that the Commission authorizes a return as a matter of course on working capital allowance, it should include Aqua Texas' deferred expense regulatory asset in rate base and authorize a return on that asset. *Id.*

Second, the TCEQ's rules authorize inclusion of regulatory assets in rate base. *See* Aqua Texas' Closing Argument at 55-56. As a "Class A" utility, Aqua Texas may and does keep its

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[1] In order to arrive at a single, logical value for that asset, Aqua Texas analyzed the accumulated deferral over its entire seven year life cycle. Tr. 984, ln. 8 – 22 (Hugus – Aug. 28, 2006). The average value of the deferral during the seven year term of the Deferral/Recovery Plan is $8,000.000.00. It was that average value that Aqua Texas included in rate base in its Application. AT-1 (Combined Water and Sewer Rate Base Summary, AT 103167).

internal accounting according to the "uniform system of accounts as adopted and amended by the National Association of Regulatory Utility Commissioners [NARUC] for Class A utilities." 30 TEX. ADMIN. CODE § 291.72.(2)(a); Tr. 966, ln. 20 – 21 (Hugus – Aug. 28, 2006). Among the balance sheet (*i.e.*, asset) accounts the NARUC chart of accounts establishes is Account No. 186.3, titled "Regulatory Assets." Attachment B. Accordingly, the TCEQ's rules authorize the inclusion of regulatory assets in rate base.

Third, as discussed in Aqua Texas' Closing Argument, Texas case authorities support rate base treatment for and returns on regulatory assets. *See* Aqua Texas' Closing Argument at 57-61. The inclusion of regulatory assets in rate base is not novel. *Id.* Texas cases construing statutory language practically identical to Water Code Chapter 13 have approved the practice. *Id.*

Fourth, the evidence on this issue was clear and uncontroverted. Aqua Texas presented the ALJs uncontroverted evidence concerning Aqua Texas' request for the expense Deferral/Recovery Plan, the TCEQ's approval of that plan and finally the nature and amount of deferred expenses associated with its phased-in rates. AT-1 (Combined Water and Sewer Rate Base Summary, AT 103167); AT-59; AT-60; AT-81 (Deferral/Recovery Plan); Tr. 143, ln. 9 – 151, ln. 1 (Hugus – Aug. 21, 2006); Tr. 978, ln. 2 – 992, ln. 8 (Hugus – Aug. 28, 2006). No party to this proceeding presented evidence that controverted either the amount or appropriateness of including Aqua Texas' deferred expenses as an item of rate base. In fact, both the Protestants' and ED's witnesses supported that treatment. The Protestants' witness Mr. Jay Joyce conceded that deferred expenses "become[] an asset for the utility that's then put into rate base," and that such practice is customary in the utility industry. Tr. 644, ln. 3 – 19 (Joyce – Aug. 24, 2006). Similarly, the ED's accounting witness, Ms. Elsie Pascua, agreed that regulatory assets "become[] part of [a utility's] invested capital." Tr. 722,

ln. 9 – 17 (Pascua – Aug. 24, 2006). The ED further acknowledged the appropriateness of rate base treatment for Aqua Texas' deferred expense regulatory asset in its closing arguments to the ALJs. There, the ED affirmed that "the recovery of deferred revenue is allowed under the Texas Water Code and TCEQ's rules." ED's Closing Argument at 24. As Aqua Texas understands the ED's position, it is only because the ED concluded that Aqua Texas' rates did not yield an undercollection of revenues that it did not ultimately recommend rate base treatment. But, as the ALJs properly concluded, the ED's rate calculations relied on a flawed methodology by excluding settled systems and using deferred revenues rather than deferred expenses as the basis for the calculation. With those corrections made, it logically follows that the ED would support inclusion of a regulatory asset in rate base. No party presented evidence disputing that Aqua Texas' deferred expenses should be included as an item of rate base. Based on the evidence, Aqua Texas respectfully submits that its deferred expense regulatory asset should be included as an item of rate base, upon which Aqua Texas should be allowed the rate of return otherwise approved by the ALJs.

**B. Aqua Texas should be allowed to recover the full expense deferrals authorized in the Deferral/Recovery Plan.**

For the reasons stated above, Aqua Texas respectfully submits that the regulatory asset created by its rate phase-in and expense Deferral/Recovery Plan should be included in rate base and recovered through phased rates, rather than recovered through a surcharge with (or without) interest. PFD at 57-58. If the Commission is inclined to authorize Aqua Texas' recovery of its deferrals through a surcharge, however, two key issues must be addressed: 1) the appropriate value of that asset on which to base the surcharge; and 2) the appropriate rate of interest to be applied.

### 1. The value of Aqua Texas' regulatory asset is the amount of deferrals authorized in the Deferral/Recovery Plan.

The ALJs correctly recognize that the value of Aqua Texas' regulatory asset to be recovered is "not the difference between the amount it was entitled to start charging customers and the amount it actually did charge customers" from July 2004 to the present. PFD at 54. That amount, equal to "deferred revenues," does not equal the value of the expense deferrals authorized by the Expense Deferral/Recovery Plan. AT-59 (correspondence from Robert L. Laughman to Glenn Shankle, dated July 7, 2004); AT-60 (correspondence from Michael D. Cowan to Robert L. Laughman, dated July 14, 2004); AT-81 (Deferral/Recovery Plan). The deferrals authorized by that plan must form the basis for the calculation of any surcharge to recover the value of that asset. *See* AT-81.

The ALJs made their observation that the value of that regulatory asset is "not the difference between the amount it was entitled to start charging customers and the amount it actually did charge customers" to distinguish the surcharge recovery approach offered by Aqua Texas from that proposed by the ED in closing arguments. PFD at 54. In its Closing Argument, the ED confused the expense deferrals authorized by the Deferral/Recovery Plan with the effect of Aqua Texas' rate phase-in plan (*i.e.* unrealized revenue owing to the phase-in of rates). Instead of focusing on the expenses deferred, the ED focused on "the difference between [the] phased rates and the final approved rate," equaling the "revenue the utility could have generated from charging its final rate from the beginning." ED's Closing Argument at 23, 25. That undercollected revenue, which Aqua Texas "could have generated from charging its final rate from the beginning" is ***always and presumptively recoverable*** by a utility in any proceeding. *Id.* at 23; TEX. WATER CODE §§ 13.043(a), 13.187(m). Thus, the ED's analysis begins with an incorrect first step, and on whole ignores the figures that actually underlie Aqua Texas' deferred expenses as reflected in the Deferral/Recovery

Plan.

In the PFD, the ALJ's adopt the surcharge recovery model Aqua Texas proposed in its Closing Arguments and response to Order No. 48. PFD at 57 (stating that "Aqua Texas' brief recognizes how [surcharge recovery] can be implemented and, in fact, that is the approach recommended by the ALJs."); *see also* Aqua Texas' Response to Closing Arguments at 17-20; Aqua Texas Response to Order No. 48. The basic premises of Aqua Texas' proposed surcharge model are that the surcharge should: 1) be a statewide surcharge, applied on a per-connection basis; and 2) allow for recovery of the full expense deferral authorized by the TCEQ with interest. *Id.* at 17-19.

The Deferral/Recovery Plan details the actual expenses the ED authorized Aqua Texas to defer. *See* AT-59, AT-81. Those expenses included depreciation, taxes and purchased power. *Id.* The deferred expenses must be applied on a per-connection basis, *i.e.* per water or per sewer connection, to reflect that the deferred expenses like taxes and power cannot be segregated to just water or wastewater service. In calculating the outstanding balance to be recovered through the surcharge, the Commission should allow for recovery of the full deferral authorized by the TCEQ.

When Aqua Texas presented its original Deferral/Recovery Plan to the TCEQ, it did so on the assumption that it would recover 100% of the increased revenue it sought in the Application, $11,920,000 annually. *See* "Schedule 1, Aqua Texas expense deferral/(recovery) summary," AT-59. The TCEQ authorized deferrals on that 100% basis. *See* AT-60. Aqua Texas' decision to phase-in its rates not only impacted its regulatory accounting procedures but also its annual public accounting. For its audited public accounting purposes, Aqua Texas was more conservative as is typical of publically reporting utilities. As reflected in AT-81, Aqua Texas actually booked deferrals based on a more conservative assumption that it would recover 90% of the total revenue increase sought

($11,920,000 annually). *Compare* AT-81, Line E ("Customer billing-increase without expense (deferral)/recovery") totaling $10,766,000 annually *to* AT-59, Line E ("Customer billing - increase without expense (deferral)/recovery") totaling $11,920,000 annually. However, that decision by Aqua Texas does not mean that it did not incur and actually pay ***all of the expenses*** that came due in the early years of its phased in rate increase, even though those expenses were not covered by the then-noticed rates. Instead, it only ***deferred recognition*** of a smaller proportion of those expenses for recovery in later years. It immediately recognized the effects of the remaining expenses that it did not defer, even though those expenses could not be covered by the then in-effect rates.

If Aqua Texas is to recover its deferred expenses through a surcharge, it should be allowed to recover 100% of the expenses it incurred and could have deferred according to the plan approved by the TCEQ. *See* AT-59; AT-60. A table reflecting the total deferral amounts based on a 100% recovery of Aqua Texas requested revenue requirement is Attachment C to this brief. A surcharge should take the remaining value of the regulatory asset reflected on Attachment C for the month the surcharge begins, and divide that value on a per connection basis over the surcharge period. As explained below, the values reflected on Attachment C reflect accrued interest. The Commission should authorize the recovery of that interest, and should also authorize the recovery of interest over the surcharge period at the same rate. Only if Aqua Texas is allowed to recover both the interest accruing on its deferrals since the inception of its plan as well as interest during the period of surcharge recovery will it be made whole and recover the full time value of the expenses it paid and deferred according to the approved Deferral/Recovery Plan.

**2. Aqua Texas must be allowed a reasonable rate of return on its deferrals.**

The ALJs correctly characterize the nature of Aqua Texas' expense deferrals in the PFD.

PFD at 54. In it, they note that "[e]ssentially, Aqua Texas made a loan to its customers . . . to keep their rates low." *Id.* Notwithstanding that characterization, the ALJs rejected Aqua Texas' inclusion of interest on the deferrals at the rate of 8.44%, the rate of return otherwise approved by the ALJs. PFD at 58. The ALJs stated that "the rate of return should not be the basis for interest calculations on the deferred expense regulatory asset." *Id.* The ALJs further recommend that "[i]f the Commission declines to allow interest on the recovery of rate case expenses," then "interest should not be allowed on recovery of the deferred expense regulatory asset." PFD at 58. These statements wrongly conflate rate case expenses with deferred expenses, and if followed, would result in Aqua Texas not being made whole for the loan it made to its customers through expense deferrals.

Aqua Texas extended its own capital to cover the revenue shortfall generated during the early years of the phase-in period. That fact was recognized by the ALJs characterization of Aqua Texas' expense deferrals as "a loan to its customers." *Id.* In order to be made whole and realize the time value of the money that made up that loan, Aqua Texas must be allowed to: 1) recover interest on the deferrals prior to a surcharge being implemented; and 2) recover interest during the period of surcharge recovery. Aqua Texas respectfully submits that the interest rate should be 8.44%, which is the rate of return approved by the ALJs. If Aqua Texas' deferred expenses were afforded proper rate base treatment, Aqua Texas would be entitled to its requested 8.44% rate of return with respect to the asset. If Aqua Texas is to recover its capital through a surcharge, it should also be entitled to an equivalent 8.44% return. Alternatively, the Commission should apply a 6% interest rate, which is consistent with the rate proposed by the ED following the hearing on the merits. To altogether deny Aqua Texas interest, though, would deprive Aqua Texas of the time value of money associated with its multi-million dollar expense deferral, and would be inconsistent with the ED's approval of

the Deferral/Recovery Plan. AT-59, AT-60.

The ALJs' conflation of deferred expenses and rate case expenses for purposes of interest recovery is inappropriate. Aqua Texas' deferred expenses, as the ALJs correctly state, reflect " a loan to its customers." PFD at 54. Rate case expenses are not such a loan, but instead post-test year non-recurring expenses that a utility may recover in a rate case proceeding. Denying Aqua Texas interest recovery on its loan to its customers in the form of deferred expenses would result in Aqua Texas not being made whole. The Commissioners should not tie interest recovery on deferred expenses to such a recovery on rate case expenses, and should authorize Aqua Texas to recover the full value of its deferred expenses with an appropriate interest rate from the inception of the deferrals to their full recovery through a per-connection surcharge.

Equitable reasons also support allowing Aqua Texas to recover interest associated with its expense deferrals. Aqua Texas elected to use phased rates to protect its customers from rate shock. If Aqua Texas is denied rate base treatment of its deferred expenses, it should, at a minimum, be entitled to the time value of the loan it made to its customers to protect them from a substantial single-step rate increase. Denying interest recovery penalizes Aqua Texas for its efforts to protect its customers. As a practical matter, if the Commission denied interest recovery on Aqua Texas' deferred expenses, it will effectively eliminate the use of phased rates in the future by Aqua Texas and other large, sophisticated utilities. That result, which injures both utilities and customers, is inconsistent with the authorization for phased rates in the TCEQ's rules and undermines the Commission's flexibility in addressing significant rate increases. 30 TEX. ADMIN. CODE § 291.34(c).

### C. The ED's rate setting data contains significant errors.

The ALJs adopt both the ED's accounting methodology and rate base and other rate setting

data in the PFD. PFD at 58-59. As a "Class A" utility, Aqua Texas keeps its internal accounting according to the "uniform system of accounts as adopted and amended by the National Association of Regulatory Utility Commissioners for Class A utilities," as authorized by TCEQ rule. 30 TEX. ADMIN. CODE § 291.72.(2)(a); Tr. 966, ln. 20 – 21 (Hugus–Aug. 28, 2006). The TCEQ's rules adopt and incorporate by reference the NARUC chart of accounts. *Id.* By using the NARUC chart of accounts, "information takes on a different character or different organization," but is the same information, "just formatted or laid out differently than that which [is] used for . . . smaller utilities." *Id.* at 967, l. 4 – 8. Aqua Texas "prepared and filed [its] case under NARUC accounting standards." *Id.*, ln. 11 – 12.

The methodology used by ED in this case differs somewhat from that prescribed by NARUC. Although the ED's method is well suited to rate cases involving relatively small utilities, the NARUC accounting method is superior in cases of large investor-owned utilities, a fact recognized by the TCEQ's rules. Aqua Texas respectfully suggests that the Commissioners should rely on the NARUC-formatted accounting data presented by Aqua Texas in support of its rates, as opposed to that proposed by the ED and accepted by the ALJs in the PFD.

If the Commission is inclined to rely on the accounting methodology and data presented by the ED and adopted by the ALJs, it should address the errors it contains. In the PFD, the ALJs correctly identify "a discrepancy of approximately $2.8 million between the ED's proposed rate base and that proposed by Aqua Texas." PFD at 59. The ALJs more specifically identify the discrepancy as amounting to $2,807,205 of rate base. *Id.*, n. 153. Of that discrepancy, $2,077,154 is attributable to the ED's failure to include Aqua Texas' working capital allowance of "one-eighth of total annual operations and maintenance expense" in rate base. *See* 30 TEX. ADMIN. CODE § 291.31(c)(2)(B)(iii).

A table incorporating the rate setting data proposed by the ED and adopted by the ALJs is Attachment DC to these Exceptions. Attachment D incorporates all of the ED's and ALJ's cost of service and rate base data, but includes the wrongly omitted working capital allowance. It reflects the addition of working capital allowance for each region, new subtotals for rate base by region, a total corrected rate base of $105,936,003 and a total corrected revenue requirement of $36,456,649. Again, the only change made by Attachment D is the addition of the erroneously omitted working capital allowance. Aqua Texas is entitled to that working capital allowance pursuant to the TCEQ's rules, and no parties have disputed its appropriateness in this proceeding. This omission from the ED's and ALJ's rate setting data is likely the result of oversight, as evidenced by the inclusion of working capital allowance in the ED's prefiled testimony. *See* ED-A, Exhibits ED-EP-3, 7, 11, 15, 19, 23, 27 (Pascua Prefiled). If the Commissioners do adopt the ED's and ALJ's proposed rate setting data, rate base should be increased by $2,077,154 to account for Aqua Texas' entitlement to working capital allowance. *See* Attachment D.

The approximately $700,000 remaining rate base discrepancy identified in the PFD reflects disagreements over various other items excluded from rate base. *See* Aqua Texas' Response to Order No. 48; Aqua Texas' Closing Argument at 41-44. Those items were not addressed by the ALJs. Aqua Texas excepts to and disputes the exclusion of those rate base items. Those excluded rate base items are not, however, reflected on Attachment C. Instead, Aqua Texas re-urges and incorporates herein the discussion found in Aqua Texas' Response to Order No. 48 and its Closing Argument at 41-44.

**D. Rate Case Expenses.**

The ALJs have recommended disallowance of a number of items of Aqua Texas' rate case

expenses, totaling $230,688.97. PFD at 68-76. Of those disallowances, Aqua Texas objects only to the ALJ's proposals to: 1) disallow Aqua Texas' recovery of its municipal reimbursements totaling $109,986.62; 2) reduce rate case expenses for settled customers; and, 3) tax all transcription costs associated with the hearings in this matter to Aqua Texas.

### 1. Municipal Reimbursements

The ALJs propose that the Commission should disallow recovery by Aqua Texas of its municipal reimbursements as rate case expense. PFD at 74-75. Although they correctly recognize that Aqua Texas is entitled to recover those expenses as a general matter under TEX. WATER CODE § 13.084, the ALJs suggest that "those costs should [have been] recouped in the proceeding in which they were incurred." PFD at 75. In other words, the ALJs contend that those expenses should have been recovered by Aqua Texas in the separately docketed appeals Aqua Texas perfected from each municipalities' initial rate making decisions.

Aqua Texas respectfully disagrees with the ALJs conclusion that municipal reimbursements should be disallowed, because each of Aqua Texas' municipal appeals was joined to and consolidated into a single proceeding by the ALJs in their Order Number 1. In that Order, the ALJs found it "appropriate to consolidate [all pending] matters into one proceeding," and ordered the consolidation of all pending dockets, including Aqua Texas' municipal appeals. The municipal reimbursements Aqua Texas seeks to recover are associated with that consolidated proceeding. The fact that those reimbursements exceed $100,000.00 is directly related to the fact that many municipalities raised complaints concerning Section 13.145, and filed extensive briefing both at SOAH in the consolidated proceeding and before the Commissioners when the issue was presented

via certified questions.[2] The application of Section 13.145 in this case has been "[t]he most significant issue in this matter" as acknowledged by the ALJs, and has remained at issue throughout this proceeding. PFD at 13. Thus, it would be inappropriate to disallow Aqua Texas from recovering its municipal reimbursements which are overwhelmingly associated with that issue.

Pursuant to TEX. WATER CODE § 13.084, Aqua Texas "shall be allowed to recover" its municipal reimbursement expenses "through its rates with interest during the period of recovery." Aqua Texas respectfully requests that the Commission authorize it to recover those expenses along with its other rate case expenses approved by the ALJs in this proceeding.

**2. Reduction of rate case expenses for settled customers.**

The ALJs also propose that Aqua Texas' total rate case expenses should be reduced by a proportion equal to the number of non-settling customers divided by the number of total customers served. PFD at 77. The ALJs base this recommendation on the belief that "[i]f Aqua Texas has, through settlement, agreed not to recover rate case expenses from certain customers, then that loss must be borne by it." PFD at 77. Aqua Texas respectfully submits that reduction of rate case expenses in the fashion recommended by the ALJs is not appropriate.

In its briefing, the ED contended that, for ratemaking purposes, Aqua Texas' allowable expenses and rate base should be reduced to reflect settled systems. PFD at 45. The ALJs correctly recognized that "[f]or purposes of determining rates" it was inappropriate to "reduce the amount of allowed expenses and used and useful assets on a pro-rata share for customers who [] settled" during

---

[2] *See, e.g.*, Woodcreek's, Wimberley's and Houston's Brief Relating to Certified Questions (filed July 8, 2005); Ingram's Brief Relating to Certified Questions (filed July 8, 2005); Woodcreek's, Wimberley's and Houston's Reply Brief Relating to Certified Questions (filed July 29, 2005); Ingram's Brief in Response to Aqua Texas' Brief to the Commission Relating to the Certified Questions (filed July 29, 2005).

this case. PFD at 45. The ALJs reached that conclusion because: 1) the settlements in question are not in evidence; and 2) removing settled systems "cuts against the regionalization that is at the heart of this case." PFD at 46. For those same reasons, the Commission should decline to make any adjustments to rate case expenses based on Aqua Texas' settlements with settled Protestants.

As the ALJs recognized, Aqua Texas's settlements with various settled Protestants are not in evidence. PFD at 46. There is, therefore, no evidentiary basis on which to make the proposed reductions to rate case expenses. If those settlements were in evidence, however, they would reflect that each settling party acknowledged that Aqua Texas' incurred rate case expenses were legitimate, and that Aqua Texas did not compromise its right to seek recovery of any rate case expenses from non-settling Protestants. While Aqua Texas may have agreed to forego collection from the settling parties, it did not waive the recovery of those expenses. Moreover, Aqua Texas' agreement to forego collection of those expenses is a matter of contract, and must be enforced consistent with contract law, not by the Commission through its final order.

Additionally, the ALJs finding that removal of settled systems for ratemaking is contrary to the "regionalization that is at the heart of this case," is equally applicable to rate case expenses. PFD at 46. In the PFD, the ALJs declined to specifically allocate rate case expenses to the remaining Protestants who necessitated a hearing. PFD at 76. They found that the "benefit of the [remaining] Protestants' challenge" was "designed to benefit all customers." PFD at 76. In the same fashion, Aqua Texas' rate case expenses should be equally distributed and not proportionately reduced. To do so would run contrary to the principle of regionalization "that is at the heart of this case." PFD at 46.

### 3. Transcription costs in this proceeding should be allocated in part to the remaining Protestants.

In the PFD the ALJs state that "Aqua Texas has not submitted a request for allocation of the transcription costs" associated with this hearing to other participants in this case. Aqua Texas did, however, specifically request that appropriate expenses associated with this proceeding be allocated to the Protestants who necessitated a more than week-long hearing in this matter. *See* Aqua Texas' Motion to Allocate Rate Case Expenses. Pursuant to that motion and 30 TEX. ADMIN. CODE § 80.23(d), the Commission should order that the transcription costs be appropriately apportioned between Aqua Texas and the remaining Protestants.

### 4. Rate case expenses accruing after the close of evidence.

Aqua Texas has specifically requested recovery of rate case expenses accruing between February 19, 2007 (the final evidentiary hearing in this matter concerning rate case expenses) and the issuance of a final order by the Commission. *See* AT-I at 4, ln. 12 – 15 (Terrill Prefiled); Tr. 1293, ln. 15 – 1294, ln. 5 (Terrill – Aug. 21, 2006). The PFD does not account for that request, and Aqua Texas renews that request to the Commission. Recovery of rate case expenses accruing after the close of evidence is consistent with the Water Code and should be allowed. *See* TEX. WATER CODE §§ 13.043(e), 13.084, 13.185(d).

## E. Section 13.145 should not be applied in this case.

The ALJ's, after thorough and careful analysis, correctly conclude that Aqua Texas satisfied the requirements of Section 13.145 in this proceeding. PFD at 45. Their analysis is correct in every respect, and appropriately reconciles the mandate for regionalization with Section 13.145's requirements. Aqua Texas, however, respectfully disagrees with the ALJ's conclusion that Section 13.145 should be applied on the facts of this case, because Aqua Texas' Rate Application does not

seek a "single tariff" but instead seven regional tariffs, and Section 13.145 therefore has no application to it. Aqua Texas re-urges and incorporates herein the discussion found in Aqua Texas' Closing Argument at 15-23.

**Respectfully submitted,**

**HAZEN & TERRILL, P.C.**

By: _____

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**ATTORNEYS FOR AQUA UTILITIES, INC. AND AQUA DEVELOPMENT, INC. d/b/a AQUA TEXAS, INC.**

## CERTIFICATE OF SERVICE

I hereby certify that on July 24, 2007, a true and complete copy of the foregoing was sent to the following by the indicated method:

| **Parties** | **Representative / Address** | |
|---|---|---|
| STATE OFFICE ADMINISTRATIVE HEARINGS | Craig R. Bennett<br>Travis Vickery<br>Administrative Law Judges<br>State Office of Admin. Hearings<br>300 West 15th Street Suite 502<br>Austin, TX 78701 | *via fax:* 475-4994 |
| SOAH Docket Clerk | Docket Clerk<br>State Office of Admin. Hearings<br>300 West 15th Street, Suite 502<br>Austin, TX 78701 | *via fax:* 475-4994 |
| TCEQ Chief Clerk | Office of the Chief Clerk, TCEQ<br>12100 Park 35 Circle<br>Bldg. F/1, Room 1104<br>Austin, Texas 78753 | *via fax:* 239-3311<br>*and hand delivery* |
| TCEQ Executive Director | Todd Galiga<br>Executive Director, TCEQ<br>MC-175<br>P.O. Box 13087<br>Austin, TX 78711-3087 | *via fax*: 239-0606 |
| Office of Public Interest Counsel of TCEQ | Scott Humphrey<br>TCEQ, OPIC<br>MC-103<br>P.O. Box 13087<br>Austin, TX 78711-3087 | *via fax*: 239-6377 |
| Estates of Shady Hollow HOA; Comanche Cliffs HOA; Kerr and Kendall Counties Falling Water POA; The Reserve at Falling Water POA; Cypress Springs Estates POA; Kendall Pointe POA; Onion Creek Meadows POA | Sheridan Gilkerson<br>Jackson Sjoberg McCarthy & Wilson L.L.P.<br>711 West 7th St.<br>Austin Texas 78701 | *via fax*: 225-5565 |
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| Parties | Representative / Address | |
|---|---|---|
| Southeast Region Homeowners Group (CIA of Shadow Bay; Cedar Point HOA; Lake Conroe Village HOA; Brentwood Residents; Port Adventure HOA; Lake Livingston Village HOA; and numerous individual customers | Gayle Pierce<br>14188 Shadow Bay Dr.<br>Willis, TX 77318-7405 | *via e-mail:*<br>MGPierceRV@msn.com |
| | Sheridan Gilkerson<br>Jackson Sjoberg McCarthy & Wilson L.L.P.<br>711 West 7th St.<br>Austin Texas 78701 | *via fax:* 225-5565 |
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Paul M. Terrill, III

# ATTACHMENT A

# Statement of Financial Accounting Standards No. 71

FAS71 Status Page
FAS71 Summary

## Accounting for the Effects of Certain Types of Regulation

December 1982

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

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# FAS 71: Accounting for the Effects of Certain Types of Regulation

## FAS 71 Summary

This Statement provides guidance in preparing general purpose financial statements for most public utilities. Certain other companies with regulated operations that meet specified criteria are also covered.

In general, the type of regulation covered by this Statement permits rates (prices) to be set at levels intended to recover the estimated costs of providing regulated services or products, including the cost of capital (interest costs and a provision for earnings on shareholders' investments).

For a number of reasons, revenues intended to cover some costs are provided either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, this Statement requires companies to capitalize those costs. If current recovery is provided for costs that are expected to be incurred in the future, this Statement requires companies to recognize those current receipts as liabilities.

This Statement also requires recognition, as costs of assets and increases in net income, of two types of allowable costs that include amounts not usually accepted as costs in the present accounting framework for nonregulated enterprises, as follows:

- If rates are based on allowable costs that include an allowance for the cost of funds used during construction (consisting of an equity component and a debt component), the company should capitalize and increase net income by the amount used for rate-making purposes—instead of capitalizing interest in accordance with FASB Statement No. 34, *Capitalization of Interest Cost.*
- If rates are based on allowable costs that include reasonable intercompany profits, the company should not eliminate those intercompany profits in its financial statements.

Pending completion of the Board's current project on accounting for income taxes, this Statement continues current practices of most utilities with respect to accounting for deferred income taxes. Accordingly, if the current income tax benefits (or costs) of timing differences are passed through to customers in current prices and it is probable that any resulting income taxes

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payable in future years will be recovered through future rates, the company should not record deferred income taxes resulting from those timing differences. However, the company should disclose the cumulative net amounts of timing differences for which deferred taxes have not been recorded.

This Statement may require that a cost be accounted for in a different manner from that required by another authoritative pronouncement. In that case, this Statement is to be followed because it reflects the economic effects of the rate-making process—effects not considered in other authoritative pronouncements. All other provisions of that other authoritative pronouncement apply to the regulated enterprise.

This Statement clarifies the application of certain other authoritative pronouncements, which is expected to result in at least two changes in general-purpose financial statements of certain public utilities. First, expected refunds of revenue collected in prior years will be charged to income in the period in which those refunds are first recognized. Second, leases will be classified (as capital or operating leases) in accordance with FASB Statement No. 13, *Accounting for Leases,* as amended. Because Statement 13 has not been applied by some utilities in the past, this Statement provides a four-year transition period before retroactive application of lease capitalization is required. Statement 13 provided a similar transition period for unregulated enterprises.

## INTRODUCTION

1. Regulation of an enterprise's prices (hereinafter referred to as *rates*) is sometimes based on the enterprise's costs. Regulators use a variety of mechanisms to estimate a regulated enterprise's allowable costs,[1] and they allow the enterprise to charge rates that are intended to produce revenue approximately equal to those allowable costs. Specific costs that are allowable for rate-making purposes result in revenue approximately equal to the costs.

2. In most cases, allowable costs are used as a means of estimating costs of the period during which the rates will be in effect, and there is no intent to permit recovery of specific prior costs. The process is a way of setting prices—the results of the process are reported in general-purpose financial statements in accordance with the same accounting principles that are used by unregulated enterprises.

3. Regulators sometimes include costs in allowable costs in a period other than the period in which the costs would be charged to expense by an unregulated enterprise. That procedure can create assets (future cash inflows that will result from the rate-making process), reduce assets (reductions of future cash inflows that will result from the rate-making process), or create liabilities (future cash outflows that will result from the rate-making process) for the regulated enterprise. For general-purpose financial reporting, an incurred cost for which a regulator permits recovery in a future period is accounted for like an incurred cost that is reimbursable under a cost-reimbursement-type contract.

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4. Accounting requirements that are not directly related to the economic effects of rate actions may be imposed on regulated businesses by orders of regulatory authorities and occasionally by court decisions or statutes. This does not necessarily mean that those accounting requirements conform with generally accepted accounting principles. For example, a regulatory authority may order an enterprise to capitalize [2] and amortize a cost that would be charged to income currently by an unregulated enterprise. Unless capitalization of that cost is appropriate under this Statement, generally accepted accounting principles require the regulated enterprise to charge the cost to income currently.

## STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

### Scope

5. This Statement applies to general-purpose external financial statements of an enterprise that has regulated operations that meet all of the following criteria:

a. The enterprise's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.[3]
b. The regulated rates are designed to recover the specific enterprise's costs of providing the regulated services or products.
c. In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs.

6. If some of an enterprise's operations are regulated and meet the criteria of paragraph 5, this Statement shall be applied to only that portion of the enterprise's operations.

7. Authoritative accounting pronouncements that apply to enterprises in general also apply to regulated enterprises. However, enterprises subject to this Statement shall apply it instead of any conflicting provisions of standards in other authoritative pronouncements.[4]

8. This Statement does not apply to accounting for price controls that are imposed by governmental action in times of emergency, high inflation, or other unusual conditions. Nor does it cover accounting for contracts in general. However, if the terms of a contract between an enterprise and its customer are subject to regulation and the criteria of paragraph 5 are met with

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respect to that contract, this Statement shall apply.

## General Standards of Accounting for the Effects of Regulation

9. Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An enterprise shall capitalize all or part of an incurred cost [5] that would otherwise be charged to expense if both of the following criteria are met:

a. It is probable [6] that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

10. Rate actions of a regulator can reduce or eliminate the value of an asset. If a regulator excludes all or part of a cost from allowable costs and it is not probable that the cost will be included as an allowable cost in a future period, the cost cannot be expected to result in future revenue through the rate-making process. Accordingly, the carrying amount of any related asset shall be reduced to the extent that the asset has been impaired. Whether the asset has been impaired shall be judged the same as for enterprises in general.

11. Rate actions of a regulator can impose a liability on a regulated enterprise. Such liabilities are usually obligations to the enterprise's customers. The following are the usual ways in which liabilities can be imposed and the resulting accounting:

a. A regulator may require refunds to customers.[7] Refunds that meet the criteria of paragraph 8 (accrual of loss contingencies) of FASB Statement No. 5, *Accounting for Contingencies,* shall be recorded as liabilities and as reductions of revenue or as expenses of the regulated enterprise.
b. A regulator can provide current rates intended to recover costs that are expected to be incurred in the future with the understanding that if those costs are not incurred future rates will be reduced by corresponding amounts. If current rates are intended to recover such costs and the regulator requires the enterprise to remain accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose,[8] the enterprise shall not recognize as revenues amounts charged pursuant to such rates. Those amounts shall be recognized as liabilities and taken to income only when the associated costs are incurred.
c. A regulator can require that a gain or other reduction of net allowable costs be given to customers over future periods. That would be accomplished, for rate-making purposes, by

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amortizing the gain or other reduction of net allowable costs over those future periods and reducing rates to reduce revenues in approximately the amount of the amortization. If a gain or other reduction of net allowable costs is to be amortized over future periods for rate-making purposes, the regulated enterprise shall not recognize that gain or other reduction of net allowable costs in income of the current period. Instead, it shall record it as a liability for future reductions of charges to customers that are expected to result.

12. Actions of a regulator can eliminate a liability only if the liability was imposed by actions of the regulator.

13. Appendix B illustrates the application of the general standards of accounting for the effects of regulation.

## Specific Standards Derived from the General Standards

14. The following specific standards are derived from the general standards in paragraphs 9-12. The specific standards shall not be used as guidance for other applications of those general standards.

### Allowance for Funds Used during Construction

15. In some cases, a regulator requires an enterprise subject to its authority to capitalize, as part of the cost of plant and equipment, the cost of financing construction as financed partially by borrowings and partially by equity. A computed interest cost and a designated cost of equity funds are capitalized, and net income for the current period is increased by a corresponding amount. After the construction is completed, the resulting capitalized cost is the basis for depreciation and unrecovered investment for rate-making purposes. In such cases, the amounts capitalized for rate-making purposes as part of the cost of acquiring the assets shall be capitalized for financial reporting purposes instead of the amount of interest that would be capitalized in accordance with FASB Statement No. 34, *Capitalization of Interest Cost.*[9] The income statement shall include an item of other income, a reduction of interest expense, or both, in a manner that indicates the basis for the amount capitalized.

### Intercompany Profit [10]

16. Profit on sales to regulated affiliates shall not be eliminated in general-purpose financial statements [11] if both of the following criteria are met:

a. The sales price is reasonable.
b. It is probable that, through the rate-making process, future revenue approximately equal to the sales price will result from the regulated affiliate's use of the products.

17. The sales price usually shall be considered reasonable if the price is accepted or not challenged by the regulator that governs the regulated affiliate. Otherwise, reasonableness shall

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be considered in light of the circumstances. For example, reasonableness might be judged by the return on investment earned by the manufacturing or construction operations or by a comparison of the transfer prices with prices available from other sources.

## Other Specific Standards

### Accounting for Income Taxes

18. Items of revenue and expense are sometimes taxable or deductible in periods other than the periods in which those items are recognized for financial reporting purposes. In some cases, a regulator does not include the income tax effect of certain transactions in allowable costs in the period in which the transactions are reported but includes income taxes related to those transactions in allowable costs in the period in which the taxes become payable. In such cases, if it is probable that income taxes payable in future years because of net reversal of timing differences will be recovered through rates based on taxes payable at that time, the enterprise shall record neither the deferred income taxes [12] that result from those timing differences nor the related asset (the probable future benefits that will result from payment of the taxes). However, the enterprise shall disclose the cumulative net amount of income tax timing differences for which deferred income taxes have not been provided. That disclosure supplements the requirements of paragraph 63 of Opinion 11 for disclosure of operating loss carryforwards, significant amounts of other unused deductions or credits, and reasons for significant variations in the customary relationships between income tax expense and pretax accounting income. Except as provided in this paragraph, regulated enterprises shall apply the requirements of Opinion 11.

### Other Disclosure

19. For refunds that are recognized in a period other than the period in which the related revenue was recognized and that have a material effect on net income, the enterprise shall disclose the effect on net income and indicate the years in which the related revenue was recognized. Such effect may be disclosed by including it, net of related income taxes, as a line item in the income statement. However, that item shall not be presented as an extraordinary item.

20. In some cases, a regulator may permit an enterprise to include a cost that would be charged to expense by an unregulated enterprise as an allowable cost over a period of time by amortizing that cost for rate-making purposes, but the regulator does not include the unrecovered amount in the rate base. That procedure does not provide a return on investment during the recovery period. If recovery of such major costs is provided without a return on investment during the recovery period, the enterprise shall disclose the remaining amounts of such assets and the remaining recovery period applicable to them.

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## Amendments to Existing Pronouncements

21. Appendix A lists the amendments to existing pronouncements that result from this Statement.

## Effective Date and Transition

22. This Statement shall be effective for fiscal years beginning after December 15, 1983. Earlier application is encouraged. Accounting changes adopted to conform to the provisions of this Statement shall be applied retroactively, except that:

a. Previously issued financial statements shall not be restated for changes in accounting for refunds.
b. Leases for which the inception [13] is after December 31, 1982 shall be classified in accordance with FASB Statement No. 13, *Accounting for Leases,* in financial statements commencing with initial application of this Statement. Leases for which the inception of the lease is before January 1, 1983 may be classified as they would have been classified before this Statement was issued until fiscal years beginning after December 15, 1986. Commencing no later than the first fiscal year beginning after December 15, 1986, those leases shall be retroactively classified in accordance with Statement 13 as amended.

23. If leases are not retroactively classified in accordance with Statement 13 in financial statements for fiscal years beginning after December 15, 1983 and before December 15, 1986 as permitted by paragraph 22(b), lessees shall disclose the amounts of additional capitalized leased assets and lease obligations that would be included in each balance sheet presented if Statement 13 had been applied retroactively.

24. In the year that this Statement is first applied, the financial statements shall disclose the nature of any restatement and its effect on income before extraordinary items, net income, and related per-share amounts [14] for each year restated. If retroactive restatement of all years presented is not practicable, the financial statements shall be restated for as many consecutive years as is practicable, and the cumulative effect of applying this Statement shall be included in determining net income of the earliest year restated (not necessarily the earliest year presented). If it is not practicable to restate any prior year, the cumulative effect shall be included in net income in the year in which this Statement is first applied. (See paragraph 20 of APB Opinion No. 20, *Accounting Changes.*) The effect on income before extraordinary items, net income, and related per-share amounts [15] of applying this Statement in a year in which the cumulative effect is included in determining that year's net income shall be disclosed for that year.

| The provisions of this Statement need not be applied to immaterial items. |
|---|

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# ATTACHMENT B

# UNIFORM SYSTEM OF ACCOUNTS FOR CLASS A WATER UTILITIES

1996

NATIONAL ASSOCIATION OF
REGULATORY UTILITY COMMISSIONERS

1101 Vermont Avenue NW
Washington, D.C. 20005
USA
Tel: (202) 898-2200
Fax: (202) 898-2213
www.naruc.org

$25.00

NATIONAL ASSOCIATION
OF
REGULATORY UTILITY
COMMISSIONERS

# 1996
# Uniform System of Accounts
# For
# Class A
# Water Utilities

Pursuant to action by the National Association of Regulatory Utility Commissioners, this System of Accounts is recommended to the Commissions represented in the membership of this Association for consideration and for adoption in their respective jurisdictions with such modifications only as they may deem necessary in the public interest.

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BALANCE SHEET ACCOUNTS

184 Clearing Accounts

A. This caption shall include undistributed balances in clearing accounts at the date of the balance sheet. Balances in clearing accounts shall be substantially cleared not later than the end of the accounting year unless items held therein relate to a future period.

B. Use of the following subaccounts is recommended. This list is intended to be representative but not exhaustive.

184.1 Building Service Expenses--Clearing
184.2 Electronic Data Processing Expenses--Clearing
184.3 Laboratory Expenses--Clearing
184.4 Payroll--Clearing
184.5 Shop Expenses--Clearing
184.6 Tools and Work Equipment Expenses--Clearing
184.7 Transportation Expenses--Clearing
184.8 Charges by Associated Companies--Clearing

185. Temporary Facilities

This account shall include amounts shown by work orders for plant installed for temporary use in utility service for periods of less than one year. Such work orders shall be charged with the cost of temporary facilities and credited with payments received from customers and net salvage realized on removal of the temporary facilities. Any net credit or debit resulting shall be cleared to account 472 - Miscellaneous Service Revenues.

186. Miscellaneous Deferred Debits

A. This account shall include all debits not elsewhere provided for, such as miscellaneous work in progress, losses on disposition of property net of income taxes, deferred by authorization of the Commission, unusual or extraordinary expenses and regulatory assets resulting from rate making actions, not included in other accounts, which are in process of amortization, and items the proper final disposition of which is uncertain.

B. The records supporting the entries to this account shall be so kept that the utility can furnish full information as to each deferred debit, including justification for inclusion of such amounts in this account.

C. The following subaccounts shall be maintained as a minimum unless otherwise authorized by the Commission. The utility may add additional subaccounts, if desired (such as deferred tank painting expense).

186.1 Deferred Rate Case Expense
186.2 Other Deferred Debits
186.3 Regulatory Assets

186.1 Deferred Rate Case Expense

This account shall include all deferred debits associated with the cost of conducting rate cases before the commission.

186.2 Other Deferred Debits

This account shall include all deferred debits not properly includable in any other subaccount of account 186.

186.3 Regulatory Assets

A. This account shall include the amounts of regulatory-created assets, not included in other accounts, resulting from the ratemaking actions of regulatory agencies. (See Definition 27.)

B. The amounts included in this account are to be established by those charges which would have been included in net income determination in the current period under the general requirements of the Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services. When specific identification of the particular source of a regulatory asset cannot be made, such as in plant phase-ins, rate moderation plans or rate levelization plans, Account 407.5 - Amortization of Regulatory Liabilities shall be credited. The amounts recorded in this account are generally to be charged, concurrently with the recording of the amount in rates, to the same account that would have been charged if included in income when incurred, except all regulatory assets established through the use of Account 407.5 shall be charged to Account 407.4 - Amortization of Regulatory Assets, concurrent with the recovery of the amounts in rates.

C. If rate recovery of all or part of an amount included in this account is disallowed, the disallowed amount shall be charged to Account 426 - Miscellaneous Nonutility Expenses, or Account 434 - Extraordinary Deductions, in the year of the disallowance.

187. Research and Development Expenditures

A. This account shall include the cost of all expenditures coming within the meaning of Definition 29 of the Uniform System of

# ATTACHMENT C

Regulatory Asset - Deferred Expense

| | 12/31/2006 Balance per Books | 8.44% Interest | 5 Cumulative Interest | |
|---|---|---|---|---|
| Aug-04 | (745) | (5.24) | (5.240) | (750.240) |
| Sep-04 | (1,490) | (10.52) | (15.76) | (1,505.756) |
| Oct-04 | (2,235) | (15.83) | (31.59) | (2,266.587) |
| Nov-04 | (2,980) | (21.18) | (52.77) | (3,032.768) |
| Dec-04 | (3,725) | (26.57) | (79.34) | (3,804.338) |
| Jan-05 | (4,470) | (32.00) | (111.34) | (4,581.335) |
| Feb-05 | (5,215) | (37.46) | (148.80) | (5,363.797) |
| Mar-05 | (5,960) | (42.97) | (191.76) | (6,151.763) |
| Apr-05 | (6,705) | (48.51) | (240.27) | (6,945.270) |
| May-05 | (7,450) | (54.09) | (294.36) | (7,744.358) |
| Jun-05 | (8,195) | (59.71) | (354.07) | (8,549.067) |
| Jul-05 | (8,942) | (65.38) | (419.45) | (9,361.449) |
| Aug-05 | (9,252) | (68.02) | (487.47) | (9,739.471) |
| Sep-05 | (9,562) | (70.68) | (558.15) | (10,120.153) |
| Oct-05 | (9,872) | (73.36) | (631.51) | (10,503.511) |
| Nov-05 | (10,182) | (76.06) | (707.57) | (10,889.566) |
| Dec-05 | (10,492) | (78.77) | (786.34) | (11,278.337) |
| Jan-06 | (10,802) | (81.50) | (867.84) | (11,669.841) |
| Feb-06 | (11,112) | (84.26) | (952.10) | (12,064.100) |
| Mar-06 | (11,422) | (87.03) | (1,039.13) | (12,461.131) |
| Apr-06 | (11,732) | (89.82) | (1,128.95) | (12,860.954) |
| May-06 | (12,042) | (92.64) | (1,221.59) | (13,263.590) |
| Jun-06 | (12,352) | (95.47) | (1,317.06) | (13,669.058) |
| Jul-06 | (12,667) | (98.35) | (1,415.41) | (14,082.412) |
| Aug-06 | (12,605) | (98.61) | (1,514.02) | (14,119.022) |
| Sep-06 | (12,543) | (98.87) | (1,612.89) | (14,155.890) |
| Oct-06 | (12,481) | (99.13) | (1,712.02) | (14,193.017) |
| Nov-06 | (12,419) | (99.39) | (1,811.41) | (14,230.405) |
| Dec-06 | (12,357) | (99.65) | (1,911.06) | (14,268.056) |
| Jan-07 | (12,295) | (99.92) | (2,010.97) | (14,305.972) |
| Feb-07 | (12,233) | (100.18) | (2,111.15) | (14,344.155) |
| Mar-07 | (12,171) | (100.45) | (2,211.61) | (14,382.606) |
| Apr-07 | (12,109) | (100.72) | (2,312.33) | (14,421.328) |
| May-07 | (12,047) | (100.99) | (2,413.32) | (14,460.322) |
| Jun-07 | (11,985) | (101.27) | (2,514.59) | (14,499.590) |
| Jul-07 | (11,921) | (101.53) | (2,616.12) | (14,537.120) |

| Payment | Interest | Period (Years) |
|---|---|---|
| (297,831.08) | 8.44% | 5.00 |

| | Period | Balance | Payment | Interest | Balance Reduction | Ending Balance |
|---|---|---|---|---|---|---|
| 1 | Aug-07 | 14,537,120.19 | (297,831.08) | (102,244.41) | (195,586.67) | 14,341,533.53 |
| 2 | Sep-07 | 14,341,533.53 | (297,831.08) | (100,868.79) | (196,962.29) | 14,144,571.24 |
| 3 | Oct-07 | 14,144,571.24 | (297,831.08) | (99,483.48) | (198,347.59) | 13,946,223.64 |
| 4 | Nov-07 | 13,946,223.64 | (297,831.08) | (98,088.44) | (199,742.64) | 13,746,481.01 |
| 5 | Dec-07 | 13,746,481.01 | (297,831.08) | (96,683.58) | (201,147.49) | 13,545,333.51 |
| 6 | Jan-08 | 13,545,333.51 | (297,831.08) | (95,268.85) | (202,562.23) | 13,342,771.28 |
| 7 | Feb-08 | 13,342,771.28 | (297,831.08) | (93,844.16) | (203,986.92) | 13,138,784.36 |
| 8 | Mar-08 | 13,138,784.36 | (297,831.08) | (92,409.45) | (205,421.63) | 12,933,362.73 |
| 9 | Apr-08 | 12,933,362.73 | (297,831.08) | (90,964.65) | (206,866.43) | 12,726,496.31 |
| 10 | May-08 | 12,726,496.31 | (297,831.08) | (89,509.69) | (208,321.39) | 12,518,174.92 |
| 11 | Jun-08 | 12,518,174.92 | (297,831.08) | (88,044.50) | (209,786.58) | 12,308,388.34 |
| 12 | Jul-08 | 12,308,388.34 | (297,831.08) | (86,569.00) | (211,262.08) | 12,097,126.26 |
| 13 | Aug-08 | 12,097,126.26 | (297,831.08) | (85,083.12) | (212,747.96) | 11,884,378.30 |
| 14 | Sep-08 | 11,884,378.30 | (297,831.08) | (83,586.79) | (214,244.28) | 11,670,134.02 |
| 15 | Oct-08 | 11,670,134.02 | (297,831.08) | (82,079.94) | (215,751.14) | 11,454,382.88 |
| 16 | Nov-08 | 11,454,382.88 | (297,831.08) | (80,562.49) | (217,268.58) | 11,237,114.30 |
| 17 | Dec-08 | 11,237,114.30 | (297,831.08) | (79,034.37) | (218,796.71) | 11,018,317.59 |
| 18 | Jan-09 | 11,018,317.59 | (297,831.08) | (77,495.50) | (220,335.58) | 10,797,982.01 |
| 19 | Feb-09 | 10,797,982.01 | (297,831.08) | (75,945.81) | (221,885.27) | 10,576,096.74 |
| 20 | Mar-09 | 10,576,096.74 | (297,831.08) | (74,385.21) | (223,445.86) | 10,352,650.88 |
| 21 | Apr-09 | 10,352,650.88 | (297,831.08) | (72,813.64) | (225,017.43) | 10,127,633.45 |
| 22 | May-09 | 10,127,633.45 | (297,831.08) | (71,231.02) | (226,600.06) | 9,901,033.39 |
| 23 | Jun-09 | 9,901,033.39 | (297,831.08) | (69,637.27) | (228,193.81) | 9,672,839.58 |
| 24 | Jul-09 | 9,672,839.58 | (297,831.08) | (68,032.31) | (229,798.77) | 9,443,040.81 |
| 25 | Aug-09 | 9,443,040.81 | (297,831.08) | (66,416.05) | (231,415.02) | 9,211,625.78 |
| 26 | Sep-09 | 9,211,625.78 | (297,831.08) | (64,788.43) | (233,042.64) | 8,978,583.14 |
| 27 | Oct-09 | 8,978,583.14 | (297,831.08) | (63,149.37) | (234,681.71) | 8,743,901.43 |
| 28 | Nov-09 | 8,743,901.43 | (297,831.08) | (61,498.77) | (236,332.30) | 8,507,569.13 |
| 29 | Dec-09 | 8,507,569.13 | (297,831.08) | (59,836.57) | (237,994.51) | 8,269,574.62 |
| 30 | Jan-10 | 8,269,574.62 | (297,831.08) | (58,162.67) | (239,668.40) | 8,029,906.22 |
| 31 | Feb-10 | 8,029,906.22 | (297,831.08) | (56,477.01) | (241,354.07) | 7,788,552.15 |
| 32 | Mar-10 | 7,788,552.15 | (297,831.08) | (54,779.48) | (243,051.59) | 7,545,500.55 |
| 33 | Apr-10 | 7,545,500.55 | (297,831.08) | (53,070.02) | (244,761.06) | 7,300,739.49 |
| 34 | May-10 | 7,300,739.49 | (297,831.08) | (51,348.53) | (246,482.54) | 7,054,256.95 |
| 35 | Jun-10 | 7,054,256.95 | (297,831.08) | (49,614.94) | (248,216.14) | 6,806,040.81 |
| 36 | Jul-10 | 6,806,040.81 | (297,831.08) | (47,869.15) | (249,961.92) | 6,556,078.89 |
| 37 | Aug-10 | 6,556,078.89 | (297,831.08) | (46,111.09) | (251,719.99) | 6,304,358.90 |
| 38 | Sep-10 | 6,304,358.90 | (297,831.08) | (44,340.66) | (253,490.42) | 6,050,868.48 |
| 39 | Oct-10 | 6,050,868.48 | (297,831.08) | (42,557.77) | (255,273.30) | 5,795,595.18 |
| 40 | Nov-10 | 5,795,595.18 | (297,831.08) | (40,762.35) | (257,068.72) | 5,538,526.45 |
| 41 | Dec-10 | 5,538,526.45 | (297,831.08) | (38,954.30) | (258,876.77) | 5,279,649.68 |
| 42 | Jan-11 | 5,279,649.68 | (297,831.08) | (37,133.54) | (260,697.54) | 5,018,952.14 |
| 43 | Feb-11 | 5,018,952.14 | (297,831.08) | (35,299.96) | (262,531.11) | 4,756,421.02 |
| 44 | Mar-11 | 4,756,421.02 | (297,831.08) | (33,453.49) | (264,377.58) | 4,492,043.44 |
| 45 | Apr-11 | 4,492,043.44 | (297,831.08) | (31,594.04) | (266,237.04) | 4,225,806.40 |
| 46 | May-11 | 4,225,806.40 | (297,831.08) | (29,721.51) | (268,109.57) | 3,957,696.83 |
| 47 | Jun-11 | 3,957,696.83 | (297,831.08) | (27,835.80) | (269,995.28) | 3,687,701.55 |
| 48 | Jul-11 | 3,687,701.55 | (297,831.08) | (25,936.83) | (271,894.24) | 3,415,807.31 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 49 | Aug-11 | 3,415,807.31 | (297,831.08) | (24,024.51) | (273,806.57) | 3,142,000.74 |
| 50 | Sep-11 | 3,142,000.74 | (297,831.08) | (22,098.74) | (275,732.34) | 2,866,268.40 |
| 51 | Oct-11 | 2,866,268.40 | (297,831.08) | (20,159.42) | (277,671.66) | 2,588,596.74 |
| 52 | Nov-11 | 2,588,596.74 | (297,831.08) | (18,206.46) | (279,624.61) | 2,308,972.13 |
| 53 | Dec-11 | 2,308,972.13 | (297,831.08) | (16,239.77) | (281,591.31) | 2,027,380.82 |
| 54 | Jan-12 | 2,027,380.82 | (297,831.08) | (14,259.25) | (283,571.83) | 1,743,808.99 |
| 55 | Feb-12 | 1,743,808.99 | (297,831.08) | (12,264.79) | (285,566.29) | 1,458,242.70 |
| 56 | Mar-12 | 1,458,242.70 | (297,831.08) | (10,256.31) | (287,574.77) | 1,170,667.93 |
| 57 | Apr-12 | 1,170,667.93 | (297,831.08) | (8,233.70) | (289,597.38) | 881,070.55 |
| 58 | May-12 | 881,070.55 | (297,831.08) | (6,196.86) | (291,634.21) | 589,436.34 |
| 59 | Jun-12 | 589,436.34 | (297,831.08) | (4,145.70) | (293,685.38) | 295,750.96 |
| 60 | Jul-12 | 295,750.96 | (297,831.08) | (2,080.12) | (295,750.96) | (0.00) |
| | | | (17,869,864.66) | (3,332,744.47) | (14,537,120.19) | |

# ATTACHMENT D

## AQUA TEXAS RESPONSE TO PFD'S PROPOSED RATE-SETTING DATA (ALL REGIONS)

| Ln No. | | | NORTH Water | NORTH Wastewater | SOUTHEAST Water | SOUTHEAST Wastewater | SOUTHWEST Water | SOUTHWEST Wastewater | TOTAL Water | TOTAL Wastewater | TOTAL Combined |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *COST OF SERVICE* | | | | | | | | | | |
| 1 | Salaries and Wages (1) | | $1,461,349 | $87,511 | $1,220,685 | $471,011 | $1,377,130 | $190,482 | $4,059,164 | $749,004 | $4,808,168 |
| 2 | Contract Labor (1) | | $607,711 | $28,102 | $537,787 | $500,717 | $589,831 | $132,351 | $1,735,329 | $661,170 | $2,396,499 |
| 3 | Purchased Sewer Service (1) | | | $35,064 | | $611,064 | | $132,209 | $0 | $778,337 | $778,337 |
| 4 | Purchased Water (1) | | $251,863 | $0 | $131,276 | $0 | $326,676 | $0 | $709,815 | $0 | $709,815 |
| 5 | Chemicals for Treatment (1) | | $121,365 | $11,546 | $138,312 | $41,639 | $63,065 | $39,759 | $322,742 | $92,944 | $415,686 |
| 6 | Utilities (electricity) (1) | | $828,722 | $71,527 | $533,070 | $521,412 | $423,436 | $127,036 | $1,785,228 | $719,975 | $2,505,203 |
| 7 | Repairs/maint/supplies (1) | | $242,371 | $8,031 | $189,272 | $30,031 | $200,583 | $20,036 | $632,226 | $58,098 | $690,324 |
| 8 | Office Expense (1) | | $242,380 | $0 | $180,248 | $0 | ($31,066) | $0 | $391,562 | $0 | $391,562 |
| 9 | Accounting & Legal fees (1) | | $96,845 | $4,284 | $96,619 | $39,687 | $138,037 | $26,853 | $331,501 | $70,824 | $402,325 |
| 10 | Insurance (1) | | $30,801 | $2,462 | $33,167 | $22,520 | $215,684 | $43,323 | $279,652 | $68,305 | $347,957 |
| 11 | Miscellaneous (1) | | $837,533 | $54,082 | $716,548 | $368,288 | $991,911 | $202,994 | $2,545,992 | $625,364 | $3,171,356 |
| | Other Taxes: | | | | | | | | | | |
| 12 | Payroll Taxes | | $106,286 (2) | $5,679 (3) | $105,839 (4) | $52,897 (5) | $69,327 (6) | $14,142 (7) | $281,453 | $72,718 | $354,170 |
| 13 | Property and other taxes | | $173,938 (2) | $5,710 (3) | $988,868 (4) | $70,514 (5) | $327,922 (6) | $25,264 (7) | $1,490,728 | $101,488 | $1,592,216 |
| 14 | Annual Depreciation (9) | | $1,439,811 | $103,626 | $1,153,116 | $1,045,227 | $975,053 | $272,529 | $3,567,980 | $1,421,382 | $4,989,362 |
| 15 | Return (1) | 8.440% | $2,686,548 | $158,989 | $2,026,756 | $1,652,572 | $1,924,232 | $491,902 | $6,637,536 | $2,303,463 | $8,940,999 |
| 16 | Income Taxes (8) | 34.00% | $1,383,979 | $74,190 | $1,044,086 | $851,325 | $991,271 | $253,404 | $3,419,337 | $1,178,919 | $4,598,256 |
| 17 | Less: Other Revenues | | ($212,751) (2) | ($2,532) (3) | ($234,174) (4) | ($24,594) (5) | ($138,707) (6) | ($6,182) (7) | ($585,632) | ($33,308) | ($618,940) |
| 18 | **Total Revenue Requirement** | | $10,298,752 | $648,270 | $8,861,475 | $6,254,310 | $8,444,385 | $1,966,102 | $27,604,612 | $8,868,683 | $36,473,294 |
| | *RATE BASE* | | | | | | | | | | |
| 19 | Utility Plant at Original Cost (9) | | $46,834,952 | $3,370,987 | $37,687,126 | $31,712,676 | $34,292,501 | $8,663,259 | $118,814,579 | $43,746,922 | $162,561,501 |
| 20 | Less: Reserve for Depreciation (9) | | ($11,150,810) | ($607,024) | ($8,416,959) | ($9,334,921) | ($9,747,444) | ($1,861,848) | ($29,315,213) | ($11,803,793) | ($41,119,006) |
| 21 | Net Plant | | $35,684,142 | $2,763,963 | $29,270,167 | $22,377,755 | $24,545,057 | $6,801,411 | $89,499,366 | $31,943,129 | $121,442,495 |
| | *Working Capital:* | | | | | | | | | | |
| 22 | 12.5% of the Summation of Lines 1 thru 11 above | | $590,118 | $37,826 | $472,123 | $325,796 | $536,911 | $114,380 | $1,599,151 | $478,003 | $2,077,154 |
| 23 | Average of Deferred Expenses | | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| 24 | Contributions in Aid (10) | | ($4,443,125) | ($918,032) | ($5,728,595) | ($3,123,315) | ($2,283,011) | ($1,087,568) | ($12,454,731) | ($5,128,915) | ($17,583,646) |
| 25 | **Total Rate Base** | | $31,831,135 | $1,883,757 | $24,013,695 | $19,580,236 | $22,798,957 | $5,828,223 | $78,643,786 | $27,292,217 | $105,936,003 |

*FOOTNOTES:*

*(1) Amounts from Proposal For Decision, Partial Revenue Requirement Sheets, PFD at 80-82*

*(2) Amounts from ED's response to Order 48 - ED Data Sheet EP-5, Column (c)*

*(3) Amounts from ED's response to Order 48 - ED Data Sheet EP-6, Column (c)*

*(4) Amounts from ED's response to Order 48 - ED Data Sheet EP-3, Column (c)*

*(5) Amounts from ED's response to Order 48 - ED Data Sheet EP-4, Column (c)*

*(6) Amounts from ED's response to Order 48 - ED Data Sheet EP-1, Column (c)*

*(7) Amounts from ED's response to Order 48 - ED Data Sheet EP-2, Column (c)*

*(8) Income Tax calculation reflects methodology applied in the ED's response to Order 48, ED Data Sheets EP-1 thru EP-6*

*(9) Amounts from ED's response to Order 48 - ED Data Sheet KA-1, "After Prefile" lines*

*(10) Amounts from ED's response to Order 48 - ED Data Sheet KA-1, "After Prefile" lines, "Net Book Value" column minus "Staff Verified Original Cost" column*