

Bryan W. Shaw, Ph.D., *Chairman*
Buddy Garcia, *Commissioner*
Carlos Rubinstein, *Commissioner*
Mark R. Vickery, P.G., *Executive Director*



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

June 8, 2010

LaDonna Casteñuela
TCEQ Office of Chief Clerk
P.O. Box 13087, MC 105
Austin, Texas 78711-3087

Re: Southern Water Company, SOAH Docket No. 582-09-2069; TCEQ Docket No. 2008-1811-UCR

Dear Ms. Casteñuela:

Attached is the Executive Director's Exceptions to the Proposal for Decision.

Please do not hesitate to contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "B MacLeod".

Brian MacLeod
Environmental Law

cc: Mailing list

THE EXECUTIVE DIRECTOR'S EXCEPTIONS TO THE PROPOSAL FOR DECISION

SOAH DOCKET NOS. 582-09-2068 and 582-09-2069
TCEQ DOCKET NOS. 2008-1830-UCR and 2008-1811-UCR

APPLICATION OF SOUTHERN WATER CORPORATION FOR A WATER AND SEWER RATE/TARIFF CHANGE IN HARRIS COUNTY	§ § § § §	BEFORE THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
APPEAL OF SOUTHERN WATER COMPANY FROM A WATER AND SEWER RATE-MAKING DECISION OF THE CITY OF HOUSTON	§ § § § § §	
(SEWER CCN NO. 20500 WATER CCN NO. 11389)	§ §	

THE EXECUTIVE DIRECTOR'S EXCEPTIONS TO THE PROPOSAL FOR DECISION

COMES NOW the Executive Director of the Texas Commission on Environmental Quality, by and through a representative of the Commission's Environmental Law Division, and files these exceptions to the Administrative Law Judge's proposal for decision.

After reviewing the PFD, the ED agrees with nearly all of the ALJ's recommendations. The ALJ requested the ED to provide recommended rates incorporating all the adjustments in the PFD. The ED has prepared such a rate design and it is attached hereto as exhibit A. However, the ED does except to the PFD in three areas: (1) the allocation for costs of service that could not be attributed directly to water or sewer; (2) the inclusion of dental insurance an allowable expense; and (3) the treatment of the groundwater conservation fee pass through. The ED has attached hereto as exhibit B the ED's recommended rate design that incorporates all of the adjustments included in the PFD except for these three areas where the ED disagrees with the PFD.

The allocation for costs of service that could not be attributed directly to water or sewer should be allocated between the two types of services based on the number of connections for each service rather than the amount of revenue generated by each service

Expenses that can be attributed to water service are used to calculate the revenue requirement for water service. The same approach applies to expenses that are attributable to sewer service. Some expenses (e.g. office supplies) cannot be assigned to either type of service; therefore some rational basis is needed to allocate such expenses between water and sewer. The ALJ allocated costs that could not be attributed directly to water or sewer with a ratio of 63% to sewer and 37% to water. The ALJ used this ratio because it is the same ratio of revenue received by the utility for each type of service. While the applicant and the City of Houston both used this ratio, neither party argued strongly for this method of allocation. The applicant stated that it would accept either the 37/63 split or the 50/50 split (based on the number of connections – in this case there were 1,286 water connections and 1,287 sewer connections) and the City simply used the same allocation that the applicant did without explanation.² While the 37/63 allocation is the same one used in the applicant's last rate case, that rate case was decided in 1986 – 24 years ago. The recent practice of the Commission is to allocate costs that cannot be directly associated with one type of service based on the number of connections.

There are two reasons why an allocation based on the number of connections is superior to one based on the revenue realized from each type of service. The first reason is that allocating based on the revenue ratio will tilt the allocation more toward the cost of sewer service. The utility will usually receive more revenues per sewer customer than per water customer. This is because the revenues received by the utility for a type of service is what the utility collects in rates for that type of service. Rates are based on the costs of providing the service. Providing sewer service involves larger capital expenses and therefore the costs associated with sewer service are typically higher. This case is an example of how sewer service requires more capital expenses, as the ALJ pointed out on page 7 of the PFD. Because the costs are higher than those involved in water service, the rates and resulting revenues for providing sewer service will always be correspondingly higher for sewer service. When the rates for sewer then assume a larger percentage of unassignable costs based on the fact that sewer customers pay a larger percentage of the assignable costs, more revenue will be collected on the sewer side. This leads to sewer customers paying an even higher percentage of the costs of the utility. Therefore, basing

² Page 6 of the PFD and Southern Water Corporation's closing argument at 11

THE EXECUTIVE DIRECTOR'S EXCEPTIONS TO THE PROPOSAL FOR DECISION

rates on the percentage of revenue will lead to an over-allocation of expenses to the sewer customers.

On page 7 of the PFD the ALJ reasons that because the allowable expenses and the value of the depreciable assets both weigh more heavily toward sewer service, that the unassignable costs should also be weighed more heavily toward the sewer service in order to avoid having the sewer customers pay an even higher portion of the costs associated with both types of service. Under further analysis, this explanation is faulty. In this case, the reason why the allowable expenses and the value of depreciable assets are more heavily weighed toward sewer service is that more of those costs are directly attributable to sewer service. It does not follow that unassignable costs must compensate for this by weighing unassignable costs at the same rate as those costs that are assignable to one service or another. For example, the fact that a wastewater treatment plant costs more than a well does not mean that envelopes and postage put on those envelopes mailed to water customers costs more than those sent to sewer customers.

The second reason for the advantage of basing allocation on the number of connections is that, all other things being equal, the demand on the utilities resources is directly related to the number of customers. Consider, for example, postage and stationary expense. If one type of service has more connections, then it will require more letters and more postage for that type of service. However, the ratio of revenues between the two types of service should have no effect on postage and stationary expenses. Similarly, if salaried staff has to respond to billing inquiries, they will spend more time responding to billing inquiries from the type of service that has more customers.

The PFD correctly notes that because nearly all water customers are also sewer customers in this case, the allocation between water and sewer won't make much difference for these customers because they will pay both bills anyway. However, a practice of allocating based on the revenue received for each type of service could create inequities in other cases. Therefore, the method of allocation should be based on the number of connections instead of the revenues received.

Dental Insurance should be included as an allowable expense

The ALJ found that employee health insurance can be a reasonable and necessary expense for an investor owned utility, that life insurance premiums should be disallowed, that the insurance expense for the employees families should be disallowed, and that dental insurance for the employees should be disallowed. The ED agrees with all of these deductions except for the exclusion of dental insurance.

The PFD reasons that while employer-paid health insurance is a relatively common benefit, employer-paid dental insurance is not.³ The Commission has not made a practice of routinely excluding dental insurance for employees and should not create a precedent to routinely deny dental coverage. The City of Houston's position was to deny all health insurance coverage, or, in the alternative, to consider two examples of other utility cases that had a lower cost per employee for health insurance and to use them as a benchmark. Interestingly, one of the two cases cited by the City of Houston included dental insurance for all of the employees.⁴ No example of a case denying dental insurance was offered.

The groundwater conservation fee pass through should not be considered as part of a standard rate application but instead should be dealt with through the rules applying to pass through clauses after such a clause has been inserted in the tariff.

The PFD and the applicant refer to the pass through under the title of "purchased water."⁵ This label is a bit misleading because no water is being purchased by the applicant. The applicant is charged a fee set annually by Houston because the Harris Galveston Subsidence District requires utilities to convert to surface water from groundwater. Houston is constructing the infrastructure necessary to bring surface water to the applicant and charges the applicant a fee per thousand gallons until the infrastructure is complete.⁶ The applicant has a pass through clause

³ Page 29 of the PFD

⁴ Page 290 of the transcript, lines 1 through 21

⁵ Pages 14 and 38 of the PFD. Page 4, line 9 of the prefiled testimony of John Martin (Applicant's exhibit 3)

⁶ Page 4, lines 10-18 of the prefiled testimony of John Martin (Applicant's exhibit 3)

in its tariff that allows it to pass this per gallon charge directly through to its customers.⁷ Pass through clauses are provided for in 30 TAC § 291.21(h).⁸

The PFD correctly noted that “all parties seem to agree that Southern’s purchased water expense should be offset by an equal amount of income,”⁹ but the solution in the PFD creates unnecessary confusion by adopting an inaccurate paradigm for rate cases brought by utilities that have pass through clauses in their tariffs.

The approaches of the applicant, Houston, and the ALJ all misinterpret how pass through clauses work. The applicant’s approach tallied up the total it paid to Houston for the groundwater conservation fee and listed it as an expense and then added the amounts it received from customers through the pass through as “other revenues.” The applicant then wanted to include in its allowable expenses the difference between the two. The approach taken by the ALJ and Houston were the same. Both understood that the pass through should catch all of the expenses related to the groundwater conservation fee and simply added to the “other revenues” whatever was necessary to make the difference between the amount paid to Houston and the amount collected from customers to equal zero. The ED’s approach was to eliminate all references to the pass through (both as an expense and as other revenue) from the application, because the pass through is a separate portion of how fees are collected from the customers that has its own rules regarding adjustments and accountability that is separate from a general, standard rate case that would be filed under 30 TAC § 291.25.

The practice of putting a pass through clause in a tariff is designed to set up a system where the pass through is separated from the general rate application process set up under section 291.25. Under section 291.21(h) a pass through is inserted in a tariff in a separate rate proceeding that only deals with the pass through.¹⁰ The general concept of a pass through is that the utility is recovering, dollar for dollar, a charge (usually a gallonage charge) by passing through the exact amount it pays to its customers. Because the amounts charged to the utility for

⁷ Page 3 and 4 of the applicant’s current tariff, which is attached to the applicant’s exhibit 1 (the errata application) shows the pass through under the title “Groundwater Reduction Plan Fee.”

⁸ The section is entitled “Purchased Water or Sewage Treatment Provision,” which may explain the use of the misnomer for passing through this groundwater conservation fee. However, the rule contemplates all water usage fees. See 30 TAC § 291.21(h)(4)(B).

⁹ Page 16 and 38 of the PFD. (Note: the reference to “all parties” presumably excludes the applicant)

¹⁰ 30 TAC § 291.21(h)(2)

the amount it passes through can change at different intervals, the utility should not be saddled with having to present an entire rate case every time the amount it passes through changes. Therefore, only the ED can refer any change in the pass through rate to hearing. However, the ED and the customers must be notified of any increase in the pass through before the customers can be charged for the increase.¹¹

The paradigm set up in the pass through clause situation is one in which the customers get to have direct input through requesting a contested case hearing when the pass through clause is first proposed to be inserted into the tariff. After that insertion, the customers will be informed of all increases, but only the ED can send the case to hearing. The pass through clause is dealt with outside of the standard section 291.25 rate application process. The rule itself clarifies that any changes in the pass through should not be made in the normal section 291.25 rate application process. The rule provides that once the pass through provision is approved, "any revision of a utility's billings to its customers to allow for the recovery of additional costs under the provision may be made only upon issuing notice as required by paragraph (4) of this subsection."¹² Subparagraph four lays out how notice of a change in a pass through is given. These notice rules apply only to pass through clauses and not to general rate applications.¹³ Additionally, if the utility believes that the pass through clause calculations are inaccurate and therefore need to be revised to recover the correct amount of revenues, the proper avenue is to file an application to change the pass through clause. Specifically, the rule provides as follows: "This provision must be approved by the commission in a rate proceeding. A proposed change in the method of calculation of the provision must be approved in a rate proceeding."¹⁴

The PFD reasons that the pass through should be included as an expense item and a revenue item to give a complete financial picture of the utility, and that if the expense and income do not completely offset each other, an amount needs to be added to the "other revenues"

¹¹ 30 TAC § 291.21(h)(3)

¹² *Id.*

¹³ Those notice provisions for a standard rate case are found in 30 TAC § 291.22

¹⁴ 30 TAC § 291.21(h)(2)

category to ensure that the difference between the two equals zero.¹⁵ However, the inclusion of the pass through is unnecessary to complete the financial picture of the utility. The pass through gives the utility no extra costs and also gives the utility no extra revenue. The utility collects the fees and then simply forwards them on to its provider. The pass through has a net effect on the financial picture of the utility of zero. Therefore, the pass through should not be part of the general rate application. Pass through clauses are meant to operate independently of the general rate process and adding them into the calculation of a standard rate case and then to make adjustments that assure the impact of the inclusion equals zero overcomplicates the application and is not consistent with the scheme of how pass through provisions of tariffs are meant to operate.

DISCUSSION REGARDING REFUNDS OR SURCHARGES

The Commission practice has been to allow the customers to recover overpayments made to the utility when the final rate is lower than the proposed rate that the utility had been collecting and to allow surcharges by the utility when the final rate is higher than the proposed rate that the utility has been collecting. The utility represented in its exceptions to the PFD¹⁶ that it never collected the proposed rate, but instead charged the rate ordered by the City when it exercised original jurisdiction over this rate case. The City's rate decision is attached to Southern Water Corporation's appeal petition.¹⁷ The rates for sewer and water included in the City's rate decision ordinance are lower than the rates recommended by the ALJ and the ED. Therefore, no refunds appear to be in order. Additionally, there is insufficient evidence in the record to calculate the amount of any under-collections by the applicant and therefore no support to a finding of an amount the utility may surcharge to collect any possible under-collection.

RATE CASE EXPENSES

The ED agrees with the ALJ's determination that the reasonable rate case expenses are \$51,579.36. This amount should be recovered from the customers as a surcharge of \$0.84 per

¹⁵ Page 16 of the PFD

¹⁶ Pages 6-8 of Southern Water Corporation's exceptions to the PFD.

¹⁷ The appeal petition was admitted into evidence as Exhibit ED-D

month until the rate case expense has been recovered.

CONCLUSION

The ED has attached as exhibit A the rate design that reflects all the adjustments recommended by the ALJ in the PFD. The water rate in exhibit A includes a base rate of \$11.34 for customers using the standard residential meter, with a gallonage charge of \$1.60 for each thousand gallons. The sewer rate in exhibit A includes a base rate of \$28.00 with a gallonage charge of \$2.75 for each thousand gallons.

The ED has also attached as exhibit B the rate design that reflects all the adjustments recommended by the ED. The water rate in exhibit B includes a base rate of \$14.47 for customers using the standard residential meter, with a gallonage charge of \$1.60 for each thousand gallons. The sewer rate in exhibit B includes a base rate of \$24.50 with a gallonage charge of \$2.75 for each thousand gallons.

The total revenue requirements under both recommendations are very similar because the only difference in the cost of service is the inclusion of dental insurance, which totaled to \$1470 per year. However, the allocation between water and sewer changed the relative water and sewer rates. The other change recommended by the ED (excluding the pass through from inclusion in the standard rate application) does not affect the rate, but keeps the treatment of the pass through consistent with the regulatory scheme.

The changes to the PFD requested by the ED will require revision of the following findings of fact:

Findings of fact 16, 17, and 18 need to be deleted and findings of fact 16, 17, and 18 should be substituted for them and read as follows:

16. All costs of service, composed of allowable expenses and return on invested capital, are allocated to water service if the cost of service is incurred in the provision of water service.

17. All costs of service, composed of allowable expenses and return on invested capital, are

THE EXECUTIVE DIRECTOR'S EXCEPTIONS TO THE PROPOSAL FOR DECISION

allocated to sewer service if the cost of service is incurred in the provision of water service

18. For those costs of service that cannot be directly attributed to water or sewer service shall be allocated to each service based on the number of connections receiving such service. In this case, such allocation is 50% to each type of service.

Finding of fact 19 needs to be reworded as follows:

19. Applicant's reasonable and necessary salary and wage expenses are \$293,688, allocated \$146,844 to water and \$146,844 to sewer.

Finding of fact 27 needs to be reworded as follows:

19. Applicant's contract labor expenses incurred during the test year were reasonable and necessary and should be allocated \$2,200 to water service and \$2,200 to sewer service.

Findings of fact 31 through 34 should be deleted in their entirety. The following finding of fact should be substituted for them:

31. The expense paid to the City of Houston is included in a pass through clause that exists in the Applicant's tariff.

The remaining findings of fact must be renumbered to reflect that findings 32, 33, and 34 were removed and not replaced. The remaining recommended changes do not reflect this change in numbering, but follow the original numbering in the PFD.

Finding of fact 45 needs to be reworded as follows:

THE EXECUTIVE DIRECTOR'S EXCEPTIONS TO THE PROPOSAL FOR DECISION

45. Total utility expense \$100,635, allocated \$50,318 to water service and \$50,317 to sewer service.

Finding of fact 46 needs to be reworded as follows:

46. Applicant's reasonable and necessary annual repair, maintenance, and supply expense total \$7,604, allocated \$3,802 to water service and \$3,802 to sewer service.

Finding of fact 49 needs to be reworded as follows:

49. Applicant's reasonable and necessary salary, annual office expenses total \$19,994, allocated \$9,997 to water service and \$9,997 to sewer service.

Finding of fact 52 needs to be reworded as follows:

52. Applicant's reasonable and necessary annual accounting and legal expense total \$18,888, allocated \$9,444 to water service and \$9,444 to sewer service.

Finding of fact 56 needs to be reworded as follows:

56. Only \$57,778 of Applicant's health insurance expense for employees is reasonable and necessary.

Finding of fact 58 needs to be replaced with the following two findings of fact:

THE EXECUTIVE DIRECTOR'S EXCEPTIONS TO THE PROPOSAL FOR DECISION

58. Only \$1,470 of Applicant's dental insurance expense for employees is reasonable and necessary.

59. Applicant's dental insurance expense of \$2,134 for employee family members is not a reasonable and necessary expense of service.

Finding of fact 60 needs to be reworded as follows:

60. Applicant's reasonable and necessary annual insurance expenses are \$99,839, allocated \$49,920 to water service and \$49,919 to sewer service.

Finding of fact 61 needs to be reworded as follows:

61. Applicant's reasonable and necessary annual miscellaneous expenses are \$22,697, allocated \$11,484 to water service and \$11,483 to sewer service.

Finding of fact 63 needs to be reworded as follows:

63. After correcting Applicant's depreciation expense by removing one well that has been plugged and is not used or useful and by renaming some assets, combining assets, and moving some assets from the water schedule to the sewer schedule. Applicant's reasonable and necessary depreciation expense totals \$122,425, allocated \$ 56,581.46 to water service and \$65,843.91 to sewer service.

Finding of fact 64 and 65 need to be deleted and the following finding of fact substituted for them:

THE EXECUTIVE DIRECTOR'S EXCEPTIONS TO THE PROPOSAL FOR DECISION

64. Applicant's reasonable and necessary taxes other than federal income taxes total \$63,622 allocated \$31,812 to water service and \$31,810 to sewer service.

Finding of fact 66 needs to be reworded as follows:

66. Applicant's reasonable and necessary annual federal income taxes total \$95,351 allocated \$21,000 to water service and \$74,826 to sewer service.

Finding of fact 68 needs to be deleted.

Finding of fact 71 needs to be reworded as follows:

71. Applicant's annual other revenues total \$92,148 allocated \$75,804 to water service and \$16,344 to sewer service.

Finding of fact 95 and 96 need to be deleted and the following finding of fact substituted for it:

95. The state of the record is insufficient to determine whether refunds or surcharges are necessary to make up for any over or under payments.

Conclusion of law numbers 12 and 13 need to be deleted.

Adjudicating paragraph numbers 4 and 5 need to be deleted.

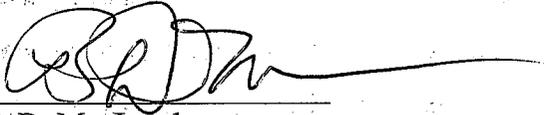
THE EXECUTIVE DIRECTOR'S EXCEPTIONS TO THE PROPOSAL FOR DECISION

WHEREFORE, PREMISES CONSIDERED, the ED requests that its exceptions to the PFD be found to have merit and that the Commission issue an order reflecting those exceptions.

Respectfully Submitted,

TEXAS COMMISSION ON
ENVIRONMENTAL QUALITY

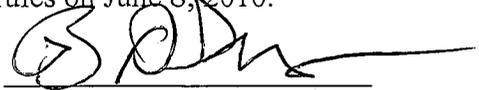
Robert Martinez, Director
Environmental Law Division

By 
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Staff Attorney

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CERTIFICATE OF SERVICE

This is to certify that all parties on the attached Mailing List have been sent a copy of the foregoing document in accordance with TCEQ and SOAH rules on June 8, 2010.



Brian D. MacLeod
Staff Attorney
Environmental Law Division

Mailing List
Southern Water Company
SOAH DOCKET NO. 582-09-2069
TCEQ DOCKET NO. 2008-1811-UCR

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TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET # 36069-R- Water **UTILITY:** Southern Water Corporation
 Printed on: 8-Jun-10 time: 10:15 AM

REVENUE REQUIREMENT

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$108,665.00	50	\$54,332.50	50	\$54,332.50
CONTRACT SERVICES	\$1,628.00	90	\$1,465.20	10	\$162.80
PURCHASED SERVICE	\$65,353.00	0	\$0.00	100	\$65,353.00
CHEMICALS AND TREATMENT	\$11,046.00	0	\$0.00	100	\$11,046.00
UTILITIES	\$37,235.00	0	\$0.00	100	\$37,235.00
REPAIRS AND MAINTENANCE	\$2,813.00	50	\$1,406.50	50	\$1,406.50
OFFICE EXPENSE	\$7,398.00	50	\$3,699.00	50	\$3,699.00
ACCOUNTING & LEGAL	\$6,989.00	100	\$6,989.00	0	\$0.00
INSURANCE	\$36,397.00	100	\$36,397.00	0	\$0.00
RATE CASE EXPENSE	\$0.00	100	\$0.00	0	\$0.00
MISCELLANEOUS	\$8,498.00	100	\$8,498.00	0	\$0.00
DEPRECIATION & AMORTIZATION	\$52,504.13	100	\$52,504.13	0	\$0.00
TAXES OTHER THAN INCOME	\$23,371.00	100	\$23,371.00	0	\$0.00
			\$0.00	100	\$0.00
			\$0.00	100	\$0.00
SUB-TOTAL (LESS FIT & RETURN)	361,897		\$188,662		\$173,235
% OF TOTAL (FIXED + VARIABLE)		0.52		0.48	
FEDERAL INCOME TAXES	21,000		10,948		10,053
RETURN	75,324		39,268		36,056
LESS OTHER REVENUES	-75,150		-39,177		-35,973
TOTAL	\$383,071		\$199,701		\$183,371

APPLICANT'S REQUESTED RATES	
Minimum bill:	2,000 gallons
(includes	
5/8 x 3/4"	\$16.58
3/4"	23.28
1"	36.66
1-1/2"	70.12
2"	110.27
3"	203.95
4"	
6"	
Gallorage rate:	\$1.60 /1,000 gallons
Rev. Reques'd:	\$472,436
Rev. Gen'd :	\$417,113

RATE CALCULATION

Calculating a flat rate? y

GALLONAGE CHARGE
 Variable Cost/Test Year Gallons/1,000 =====>

\$1.62 /TH.GAL.

MINIMUM BILL
 Fixed Cost/12/Connection Equivalents =====>

\$11.34 /MO.
 \$14.57 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$1.60 /TH.GAL.
YIELDS	\$11.45 /MO. 14.65 /MO. incl. min. gallons
ANNUAL REVENUE GENERATED:	\$383,071

REVENUE GENERATED SUMMARY:

Connection Size	# of Connections	Minimum Bill			Rev./Year
		Min. Bill	Including Gals	Rev./Month	
5/8x3/4"	1255	11.45	\$14.65	\$18,383	\$220,591
3/4"	0	17.17	20.37	0	0
1"	9	28.62	31.82	286	3,436
1-1/2"	0	57.24	60.44	0	0
2"	20	91.58	94.78	1,896	22,747
3"	2	171.71	174.91	350	4,198
4"	0	286.19	289.39	0	0
6"	0	572.37	575.57	0	0

TOTAL MINIMUM CHARGES=> \$250,972
 GALLONAGE CHARGES=> 82,562 @ \$1.60 /1,000 G 132,099
 TOTAL REVENUE GENERATED=> \$383,071

EXHIBIT A, page 1, The PFD's water rate design

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET # 36070-R- Sewer UTILITY: Southern Water Corporation

Printed on: 8-Jun-10 time: 10:18 AM

version: 20070403

REVENUE REQUIREMENT

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$185,023.00	50	\$92,511.50	50	\$92,511.50
CONTRACT SERVICES	\$2,772.00	90	\$2,494.80	10	\$277.20
PURCHASED SERVICE	\$0.00	0	\$0.00	100	\$0.00
CHEMICALS AND TREATMENT	\$38,180.00	0	\$0.00	100	\$38,180.00
UTILITIES	\$63,400.00	0	\$0.00	100	\$63,400.00
REPAIRS AND MAINTENANCE	\$4,791.00	50	\$2,395.50	50	\$2,395.50
OFFICE EXPENSE	\$12,596.00	50	\$6,298.00	50	\$6,298.00
ACCOUNTING & LEGAL	\$11,899.00	100	\$11,899.00	0	\$0.00
INSURANCE	\$61,972.00	100	\$61,972.00	0	\$0.00
RATE CASE EXPENSE	\$0.00	100	\$0.00	0	\$0.00
MISCELLANEOUS	\$14,469.00	100	\$14,469.00	0	\$0.00
DEPRECIATION & AMORTIZATION	\$69,921.24	100	\$69,921.24	0	\$0.00
TAXES OTHER THAN INCOME	\$40,251.00	100	\$40,251.00	0	\$0.00
SUB-TOTAL (LESS FIT & RETURN)					
	505,274		\$302,212		\$203,062
% OF TOTAL (FIXED + VARIABLE)					
		0.60		0.40	
FEDERAL INCOME TAXES					
	74,826		44,754		30,071
RETURN					
	159,984		95,689		64,295
LESS OTHER REVENUES					
	-16,998		-10,167		-6,831
TOTAL					
	\$723,086		\$432,489		\$290,598

APPLICANT'S REQUESTED RATES	
Minimum bill: (includes 2,000 gallons)	
5/8 x 3/4"	\$33.95
3/4"	\$33.95
1"	\$33.95
1-1/2"	\$33.95
2"	\$33.95
3"	\$33.95
4"	\$33.95
6"	\$33.95
Gallage rate: \$2.75 /1,000 gallons	
Rev. Reqes'd:	\$817,416
Rev. Gen'd :	\$801,947

RATE CALCULATION

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

Calculating a flat rate? y

\$2.20 /TH.GAL.

MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$28.00 /MO.
\$32.41 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$2.75 /TH.GAL.
YIELDS	\$23.34 /MO. 28.84 /MO. incl. min. gallons
ANNUAL REVENUE GENERATED:	\$723,086

REVENUE GENERATED SUMMARY:

Connection Size	# of Connections	Minimum Bill			Rev./Year
		Min. Bill	Including Gals	Rev./Month	
5/8x3/4"	1257	23.34	\$28.84	\$36,257	\$435,079
3/4"	0	23.34	28.84	0	0
1"	9	23.34	28.84	260	3,115
1-1/2"	0	23.34	28.84	0	0
2"	19	23.34	28.84	548	6,576
3"	2	23.34	28.84	58	692
4"	0	23.34	28.84	0	0
6"	0	23.34	28.84	0	0

TOTAL MINIMUM CHARGES=> \$445,463
 GALLONAGE CHARGES=> 100,954 @ \$2.75 /1,000 G/ 277,624
 TOTAL REVENUE GENERATED=> \$723,086

EXHIBIT A, page 2, The PFD's sewer rate design

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET # 36069-R- Water UTILITY: Southern Water Corporation
 Printed on: 2-Jun-10 time: 9:03 AM

REVENUE REQUIREMENT

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$146,844.00	50	\$73,422.00	50	\$73,422.00
CONTRACT SERVICES	\$2,200.00	90	\$1,980.00	10	\$220.00
PURCHASED SERVICE	\$65,353.00	0	\$0.00	100	\$65,353.00
CHEMICALS AND TREATMENT	\$11,046.00	0	\$0.00	100	\$11,046.00
UTILITIES	\$50,318.00	0	\$0.00	100	\$50,318.00
REPAIRS AND MAINTENANCE	\$3,802.00	50	\$1,901.00	50	\$1,901.00
OFFICE EXPENSE	\$9,997.00	50	\$4,998.50	50	\$4,998.50
ACCOUNTING & LEGAL	\$9,444.00	100	\$9,444.00	0	\$0.00
INSURANCE	\$49,920.00	100	\$49,920.00	0	\$0.00
RATE CASE EXPENSE	\$0.00	100	\$0.00	0	\$0.00
MISCELLANEOUS	\$11,484.00	100	\$11,484.00	0	\$0.00
DEPRECIATION & AMORTIZATION	\$56,581.46	100	\$56,581.46	0	\$0.00
TAXES OTHER THAN INCOME	\$31,812.00	100	\$31,812.00	0	\$0.00
			\$0.00	100	\$0.00
			\$0.00	100	\$0.00
SUB-TOTAL (LESS FIT & RETURN)	448,801		\$241,543		\$207,259
% OF TOTAL (FIXED + VARIABLE)		0.54		0.46	
FEDERAL INCOME TAXES	22,414		12,063		10,351
RETURN	78,007		41,983		36,024
LESS OTHER REVENUES	-75,804		-40,797		-35,007
TOTAL	\$473,419		\$254,792		\$218,627

APPLICANT'S REQUESTED RATES	
Minimum bill:	2,000 gallons
(includes	2,000 gallons)
5/8 x 3/4"	\$16.58
3/4"	23.28
1"	36.66
1-1/2"	70.12
2"	110.27
3"	203.95
4"	
6"	
Gallorage rate:	\$1.60 /1,000 gallons
Rev. Reqes'd:	\$472,436
Rev. Gen'd :	\$417,113

RATE CALCULATION

GALLONAGE CHARGE
 Variable Cost/Test Year Gallons/1,000 =====>

Calculating a flat rate? y

\$1.93 /TH.GAL.

MINIMUM BILL
 Fixed Cost/12/Connection Equivalents =====>

\$14.47 /MO.
 \$18.32 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$1.60 /TH.GAL.
YIELDS	\$16.58 /MO. 19.78 /MO. incl. min. gallons
ANNUAL REVENUE GENERATED:	\$473,419

REVENUE GENERATED SUMMARY:

Connection Size	# of Connections	Minimum Bill			Rev./Year
		Min. Bill	Including Gals	Rev./Month	
5/8x3/4"	1255	16.58	\$19.78	\$24,821	\$297,855
3/4"	0	24.87	28.07	0	0
1"	9	41.44	44.64	402	4,822
1-1/2"	0	82.89	86.09	0	0
2"	20	132.62	135.82	2,716	32,598
3"	2	248.67	251.87	504	6,045
4"	0	414.45	417.65	0	0
6"	0	828.90	832.10	0	0

TOTAL MINIMUM CHARGES=> \$341,320
 GALLONAGE CHARGES=> 82,562 @ \$1.60 /1,000 G/ 132,099
 TOTAL REVENUE GENERATED=> \$473,419

EXHIBIT B, page 1, The ED's recommended water rate design

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET # 36070-R- Sewer UTILITY: Southern Water Corporation

Printed on: 2-Jun-10 time: 9:04 AM

version: 20070403

REVENUE REQUIREMENT

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$146,844.00	50	\$73,422.00	50	\$73,422.00
CONTRACT SERVICES	\$2,200.00	90	\$1,980.00	10	\$220.00
PURCHASED SERVICE	\$0.00	0	\$0.00	100	\$0.00
CHEMICALS AND TREATMENT	\$38,180.00	0	\$0.00	100	\$38,180.00
UTILITIES	\$50,317.00	0	\$0.00	100	\$50,317.00
REPAIRS AND MAINTENANCE	\$3,802.00	50	\$1,901.00	50	\$1,901.00
OFFICE EXPENSE	\$9,997.00	50	\$4,998.50	50	\$4,998.50
ACCOUNTING & LEGAL	\$9,444.00	100	\$9,444.00	0	\$0.00
INSURANCE	\$49,919.00	100	\$49,919.00	0	\$0.00
RATE CASE EXPENSE	\$0.00	100	\$0.00	0	\$0.00
MISCELLANEOUS	\$11,483.00	100	\$11,483.00	0	\$0.00
DEPRECIATION & AMORTIZATION	\$65,843.91	100	\$65,843.91	0	\$0.00
TAXES OTHER THAN INCOME	\$31,810.00	100	\$31,810.00	0	\$0.00
<hr/>					
SUB-TOTAL (LESS FIT & RETURN)	419,840		\$250,801		\$169,039
% OF TOTAL (FIXED + VARIABLE)		0.60		0.40	
FEDERAL INCOME TAXES	72,937		43,571		29,366
RETURN	157,030		93,806		63,224
LESS OTHER REVENUES	-16,344		-9,763		-6,581
TOTAL	\$633,463		\$378,414		\$255,049

APPLICANT'S REQUESTED RATES	
Minimum bill:	
(includes	2,000 gallons)
<hr/>	
5/8 x 3/4"	\$33.95
3/4"	\$33.95
1"	\$33.95
1-1/2"	\$33.95
2"	\$33.95
3"	\$33.95
4"	33.95
6"	
<hr/>	
Gallorage rate:	
	\$2.75 /1,000 gallons
<hr/>	
Rev. Reques'd:	\$817,416
Rev. Gen'd :	\$801,947

RATE CALCULATION

Calculating a flat rate? y

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

\$1.93 /TH.GAL.

MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$24.50 /MO.
\$28.37 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$2.75 /TH.GAL.
<hr/>	
YIELDS	\$17.54 /MO.
	23.04 /MO. incl. min. gallons
ANNUAL REVENUE GENERATED:	\$633,463

REVENUE GENERATED SUMMARY:

Connection Size	# of Connections	Minimum Bill			Rev./Year
		Min. Bill	Including Gals	Rev./Month	
5/8x3/4"	1257	17.54	\$23.04	\$28,962	\$347,545
3/4"	0	17.54	23.04	0	0
1"	9	17.54	23.04	207	2,488
1-1/2"	0	17.54	23.04	0	0
2"	19	17.54	23.04	438	5,253
3"	2	17.54	23.04	46	553
4"	0	17.54	23.04	0	0
6"	0	17.54	23.04	0	0

TOTAL MINIMUM CHARGES=> \$355,840
 GALLONAGE CHARGES=> 100,954 @ \$2.75 /1,000 G/ 277,624
 TOTAL REVENUE GENERATED=> \$633,463

EXHIBIT B, page 2, The ED's recommended sewer rate design