



CLASS B INVESTOR-OWNED UTILITIES
WATER AND/OR SEWER
INSTRUCTIONS FOR
RATE/TARIFF CHANGE APPLICATION
2015

Class B Utilities

Pursuant to Texas Water Code § 13.1871 and 16 Texas Administrative Code Chapter 24

Instructions for Application for a Water or Sewer Rate/Tariff Change

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GENERAL INFORMATION

This application is allowed by Texas Water Code (TWC) § 13.1871 for Class B Utilities. Class A Utilities should use the appropriate instructions and forms for Class A Utilities. Class C Utilities are allowed to file a shortened indexed rate adjustment per TWC § 13.1872 without a hearing, not more than once during a calendar year, EXCEPT that a Class C Utility may not file a TWC § 13.1872 adjustment more than four (4) times between Class B Utility rate proceedings. After the fourth time, a Class C Utility must file a Class B Utility application. Class C Utility may elect to use the Class B Utility application when it is eligible to use the indexed rate adjustment as long as twelve (12) months have passed since the last rate adjustment (except pass-through provisions).

For the Class B Utility rate/tariff change application, completion of the required schedules (which are available on the Public Utility Commission's (PUC) website at www.puc.texas.gov) will assist the utility in the calculation of its new proposed rates. The process consists of a number of relatively complex steps, including performing several calculations to fill out most of the schedules, and the results of some calculations will be entered in multiple places. All required schedules should be completed and included in the utility's filing when the application is submitted.

Please note that all public utilities in Texas are required to use the National Association of Regulatory Utility Commissioners (NARUC) chart of accounts for their books and records pursuant to 16 Tex. Admin Code § 24.72 (TAC). The utility, as a business, should also have a balance sheet and income statement to support its rate filing and to properly manage its business.

DEFINITION OF TERMS AND ACRONYMS

Please refer to the following definitions of terms and acronyms when completing the rate filing package:

ADFIT Accumulated Deferred Federal Income Tax. The amount of income tax deferral, typically reflected on the balance sheet, produced by deferring the payment of federal income taxes by using tax advantageous methods such as accelerated depreciation.

Affiliated Interest or Affiliate

- (A) Any person or corporation owning or holding directly or indirectly 5.0% or more of the voting securities of a utility;
- (B) Any person or corporation in any chain of successive ownership of 5.0% or more of the voting securities of a utility;
- (C) Any corporation 5.0% or more of the voting securities of which is owned or controlled directly or indirectly by a utility;
- (D) Any corporation 5.0% or more of the voting securities of which is owned or controlled directly or indirectly by any person or corporation that owns or controls directly or indirectly 5.0% or more of the voting securities of any utility or by any person or corporation in any chain of successive ownership of 5.0% of those utility securities;

- (E) Any person who is an officer or director of a utility or of any corporation in any chain of successive ownership of 5.0% or more of voting securities of a public utility;
- (F) Any person or corporation that the commission, after notice and hearing, determines actually exercises any substantial influence or control over the policies and actions of a utility or over which a utility exercises such control or that is under common control with a utility, such control being the possession directly or indirectly of the power to direct or cause the direction of the management and policies of another, whether that power is established through ownership or voting of securities or by any other direct or indirect means; or
- (G) Any person or corporation that the commission, after notice and hearing, determines is exercising substantial influence over the policies and action of the utility in conjunction with one or more persons or corporations with which they are related by ownership or blood relationship, or by action in concert, that together they are affiliated within the meaning of this section, even though no one of them alone is so affiliated.

Amortization The gradual extinguishment of an amount in an account by distributing the amount over a fixed period (such as over the life of the asset or liability to which it applies).

Annualize An adjustment to bring a utility's accounts to a 12-month level of activity (e.g., year-end number of customers and revenues, operating expenses, level of investment, etc.).

AWWA American Water Works Association.

Base rate (16 TAC § 24.3(7)) The portion of a consumer's utility bill that is paid for the opportunity of receiving utility service, which does not vary due to changes in utility service consumption patterns.

Block Rates A rate structure set by usage blocks, typically inclining cost for increased usage, which changes the cost per 1,000 gallons as usage increases to the next block.

Class B Utility (16 TAC § 24.3(13)) A public utility that provides retail water or sewer utility service to 500 or more taps or active connections but fewer than 10,000 taps or active connections. If a public utility provides both water and sewer utility service, the number of active water connections determines how the utility is classified.

Class C Utility (16 TAC § 24.3(14)) A public utility that provides retail water or sewer utility service to fewer than 500 taps or active connections. A Class C utility filing an application pursuant to TWC § 13.1871 shall be subject to all requirements applicable to Class B Utilities filing an application pursuant to TWC § 13.1871. If a public utility provides both water and sewer utility service, the number of active water connections determines how the utility is classified.

Connection *Active Connection:* Water or Sewer connections currently being used to provide retail water or sewer service, or wholesale service.
Inactive Connection: Water or Sewer connections tapped to the applicant's utility and that are not currently receiving service from the utility.
Potential Connection: Total number of active plus inactive connections

- CCN (16 TAC § 24.3(10)) Certificate of Convenience and Necessity. A permit issued by the commission that authorizes and obligates a retail public utility to furnish, make available, render, or extend continuous and adequate retail water or sewer utility service to a specified geographic area.
- COS (16 TAC § 24.31(a)) Cost of Service. Rates are based upon a utility's cost of rendering service. The two basic components of cost of service are allowable expenses and return on invested capital.
- CWIP Construction Work In Progress.
- FIT Federal Income Tax.
- FTE Full-Time Equivalent (employee position). The standard metric for FTE is a position that is equivalent to 40 hours a week.
- Gallage rate/charge The portion of the general rate that is recovered based on gallons of water sold, or gallons of sewage treated for sewer, to the customer, typically measured by 1,000 gallons. Generally associated with variable expenses.
- GPM Gallons per minute.
- General Rate Revenues Generally, a rate or the associated revenues designed to recover the cost of service other than certain costs separately identified and recovered through a pass-through charge or any specific rate such as a surcharge. For water and sewer utilities, general rates typically include the base rate and gallage rate.
- Invested Capital (Rate Base) The total of:
- The original cost, less accumulated depreciation, of utility plant, property, and equipment
 - A working capital allowance, which includes:
 - reasonable inventories of materials and supplies (not previously expensed);
 - reasonable prepayments of operating expenses; and
 - Reasonable allowance up to 1/12th of total annual Operations & Maintenance (O&M) expenses (for Class C Utilities filing the Class B Utility application, the allowance is 1/8th of total annual O&M).
 - Deductions of non-investor-supplied capital items including but not limited to advances for ADFIT, construction, contributions in aid of construction, deferred income tax credits, and customer deposits.
- IOU Investor Owned Utility.
- K&M Known and Measurable. Expenses or changes in assets that are verifiable on the record as to amount and certainty of effectuation. Reasonably certain to occur within 12 months of the end of the test year in a rate case.
- M&S Materials & Supplies.

Multi-Jurisdictional A utility that provides water and/or sewer service in more than one state, country, or separate rate jurisdiction by its own operations, or through an affiliate.

NARUC National Association of Regulatory Utility Commissioners.

Net Book Value The amount of the asset that has not yet been recovered through depreciation. It is the original cost of the asset minus accumulated depreciation. Each year that an asset is used by the utility, the utility recovers a portion of the cost of that asset in the rates through depreciation expense until the full amount of the original cost is recovered.

Normalization The inter-period allocation, such as the spreading of income tax effects of accelerated depreciation deductions, for regulatory ratemaking purposes. Normalization can also include in-period known changes such as elimination of revenue, expense, and rate base effect of nonrecurring events, and normalization of the effect of irregular and infrequent events.

O&M Operations & Maintenance.

OPUC Office of Public Utility Counsel.

PHFU Plant Held for Future Use.

PUC/PUCT Public Utility Commission of Texas.

PURA Public Utility Regulatory Act.

RFP Rate Filing Package.

ROE Return on Equity. A utility's earnings in excess of its operations, maintenance, and interest expenses. Or, equivalently, it is what is left over to invest in the utility or to pay out to its owners. It is most often expressed as a percentage of the equity portion of the utility's capital structure.

Return Return on invested capital. The return on the utility's total capital investment (equity and long-term debt). It is calculated by multiplying the amount of invested capital by the Rate of Return.

ROR Rate of Return. The weighted average of a utility's expected return on equity investment and the cost of debt (interest rates paid on loans for utility plant and equipment) expressed as a percentage.

Test Year (16 TAC § 24.3(55)) The most recent 12-month period, beginning on the first day of a calendar or fiscal year quarter, for which [representative] operating data for a retail public utility are available. [A utility rate filing must be based on a test year that ended less than 12 months before the date on which the utility made the rate filing.]

TWC Texas Water Code.

ATTACHMENTS REQUIRED FOR SUFFICIENCY

- Income statement and balance sheet (per books) for the test year for Texas utility operations. If the utility provides both water and sewer service, then the information provided should include information for both water and sewer service, separately stated and totaled, regardless if the application is for only a water rate change or only a sewer rate change or for both.
- If the applicant is affiliated with another entity, provide the most recent annual income statement, statement of cash flow, and balance sheet for the affiliated entity(ies).
- All required schedules and supporting workpapers for a rate change. The schedules are available on the PUC website at www.puc.texas.gov. There are specific instructions included in the schedules that the utility will need to follow.
- If the utility’s tariff includes a pass-through clause or a surcharge, please provide a reconciliation of revenues collected for the pass-through clause or surcharge, and expenses paid related to the pass-through clause or surcharge for the test year.
- If the utility’s cost of service includes any affiliated transactions (affiliates as defined in TWC § 13.002 (2)), the utility must list them separately and provide evidence that meets the affiliate transaction requirements in TWC § 13.185(e) and (f). Provide a schedule that includes direct assignment costs, allocated costs and any other changes between affiliates with a summary by account.
- Complete the utility’s proposed notice using the PUC-approved form available on the PUC website at www.puc.texas.gov.
- Complete the affidavit attesting to the correctness of the application using the PUC-approved form available on the PUC’s website at www.puc.texas.gov.

ALL BLANK SPACES FOR INFORMATION MUST BE ADDRESSED: If a particular item does not apply to you, then you need to be sure to enter “N/A” in that space.

Utility Name:	This is the name by which the customers know the utility.
CCN Number(s):	List all CCN numbers subject to this application (include both water and sewer CCNs).
Address of Utility:	The mailing address of the utility
Phone Number:	The telephone number of the utility
Contact Person:	The name of the person that the PUC can contact with questions about the application.
Phone:	The telephone number of the Contact Person.
Email address:	The email address of the Contact Person.
PUC Class Size:	Choose either Class B, or Class C. Refer to definitions above
Increase (Decrease)	Amount, in dollars, of requested rate change and percentage of current rate. From Schedule I-1, lines 34 and 35.
Describe Ownership:	Investor owned, individual, partnership, corporation* etc.

***If the utility is a corporation, be sure to attach a copy of evidence that the corporation has**

paid its Texas gross margins tax. In addition, if the utility is a corporation, please provide a list of the officers' names and titles of the corporation.

CLASS B RATE/TARIFF CHANGE APPLICATION SCHEDULES

The application contains schedules for the calculation of rates for one type of utility service (water or sewer).

- While the instructions that follow relate to only one set of schedules, you can follow them for each type of utility service that you are providing.
- Remember that, if applicable, costs should be directly assigned to water and sewer functions. In the event that direct assignment is not possible, allocate expenses between water and sewer as accurately as possible, using cost-causation principles.
- Complete a set of operational information for each type of utility service provided. For instance, if the utility provides water and sewer service, but is only requesting a change for water service, the utility will also need to complete a set of operational information for sewer service.

SCHEDULE I: REVENUES AND REVENUE REQUIREMENT

- Complete this section using the instructions on each schedule.

I-1: Revenue Requirement and Revenues

This schedule will complete the utility's summarization of revenue requirement after all schedules except the rate design are completed.

1. Follow the instructions within the spreadsheet and complete the historical test year column (D) first. Historical data should be consistent with the applicant's annual reports and financial statements. Provide explanations and calculations for any inconsistencies.
2. Complete Schedules I-3 through I-4, and the schedules in Sections II through VI using the following instructions and those in the spreadsheets.
3. Complete Schedule I-1.
4. Complete Section VI Rate Design.

SCHEDULE II: OPERATIONS AND EXPENSES

Complete this section using the instructions on each schedule.

Known and Measurable changes. A utility is allowed to recover reasonable and necessary expenses incurred during the test year. Certain expenses may have increased or decreased during the year, so the 12 months of test year expenses would be different from the amount you would

have paid for the new level of expenses for the whole 12-month period. Additionally, the utility may know that a certain expense will be changing in the near future. If you know the amount the expense will be changing, then you can adjust your test year expenses to include the change. You cannot include a change if you simply *think* that something will change. Known and measurable changes in expenses should be recorded if they occur, but it is possible that none have occurred. If the applicant has no known and measurable changes, simply put N/A on the appropriate schedule.

Some examples of allowable changes are:

- Electric rates went up or down during the test year.
- You hired a new employee during the test year or gave your employees a raise.
- You received notice that your chemical expenses will be going up by a specified amount.
- You received a written notice from your landlord that your office rent will increase by a specified amount.
- Your property tax is decreasing because the legislature passed a law that limits property taxes.

Some examples of increases that would not be allowed are:

- You are thinking about hiring an extra employee.
- You have heard that your rent might be increased in a couple of months.
- Projected inflation.

SCHEDULE III: RETURN, RATE BASE/PLANT & EQUIPMENT INFORMATION

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

III-1: REQUESTED RETURN

Fill in the schedule using your financial information.

Determining an appropriate ROE percentage

As part of the cost that the utility passes on to its customers, a utility's ROE must be authorized by the PUC. Other factors may be considered in establishing a lower ROE including, but not limited to, the utility company's access to capital markets, whether the utility company is an affiliate or division of a larger corporate entity, and other company-specific business and financial risk factors. Return percentages should be calculated at a combined level and then applied to the rate-base amounts for water and sewer to produce the return dollars that the utility is requesting to include in the water and sewer costs of service.

A utility may use either of two methods for determining the ROE percentage that it will request in its rate application:

- The first method is to start with the interest rate corresponding to the most recent Moody's Baa bond rating for public utilities (this information is posted on the PUC website). Add a 6% risk premium if the utility is a Class B Utility and a 7% risk premium if the utility is a Class C utility. If the Moody's rate is greater than 6%, the maximum ROE that a Class B Utility may request without written testimony is 12%, and the maximum ROE that a Class C Utility may request without written testimony is 13%. This method will be presumed reasonable if no other party provides opposing testimony. However, if parties to the case do not reach a settlement agreement, there is no presumed reasonable ROR. Additionally, in specific cases, unusual or extraordinary circumstances may cause the PUC staff to recommend a lower or higher ROE.
- The second method that a utility may use as the basis for its ROE request is the submission of written testimony and other credible evidence that develops and supports the reasonableness and necessity of the requested ROE. In some cases, the utility's requested ROE (as well as its requested overall rate of return on invested capital) may be considered as part of a hearing in which an administrative law judge will evaluate the testimony and other evidence presented by the utility as well as that of other interested parties and write a recommendation to the PUC.

Requested Return on Rate Base

- Equity in the utility - This is the amount that is determined to be equity portion of the investment in plant in service. The number is calculated using the net plant in service and subtracting the outstanding debt used to pay for the plant. Enter that amount in line 4, Column C.
- This is the equity rate of return that was determined above. Enter that amount in line 4, Column E.

Note: If the utility is requesting a *hypothetical* capital structure for the determination of overall rate of return, enter the requested capital-structure percentages for equity and debt in lines 4 and 5 of Column C.

III-2: RATE BASE SUMMARY

Fill in this table using the information from III-3 through III-9.

III-3: UTILITY PLANT - ORIGINAL COST AND DEPRECIATION SCHEDULE

Provide a Schedule III-3 for each public water system and a summary Schedule III-3 for the applicant including all utility plant in service. If more room is needed, you may add lines or make a separate table. The PUC will accept your own schedules as long as it has the same information as Schedule III-3. Schedule III-3(a) (required) reconciles the utility's current plant balances to the previous case filed. The instructions are for listing only one item, and you should repeat the instructions for each item added to the table. The instructions can be used to set up your own table as long as it contains the same columns. See the "Attachments Required for Sufficiency" section above.

All the information needed to complete the table should be readily available to the utility. The information developed in this table will be used in other tables throughout the application. The instructions that follow this table will tell you where to transfer the information. The utility can include plant and equipment paid for by DEVELOPER contributions in the depreciation schedule, but the utility cannot include plant and equipment paid for by CUSTOMER contributions. Furthermore, when calculating the return on net invested capital, developer and customer contributions must be removed.

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

Depreciation

In order to determine how much annual depreciation to include in your cost of service, please perform the following calculations and answer the following questions:

- o Determine the length of time in service by subtracting the date of installation in Column [B] from the date at the end of your test year. Enter the number of years in the column with the heading “Yrs”, the number of months in the column with the heading “Mos”, and the number of days in the column with the heading “Days”.

Example:

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

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

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

Example (continued):

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

Original cost	\$10,000
Service life	5 years

➔ Enter “0” for annual depreciation.

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

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

Original cost	\$10,000
Service life	10 years

Example

(continued):

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

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

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

	End of test year	12/31/2001
<i>minus</i>	Date of installation	<u>06/15/1992</u>
<i>equals</i>	Length of time in service	9 years 6 months 15 days

Original cost	\$10,000
Service life	10 years

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

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

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

→ Enter \$466 for annual depreciation.

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

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

Example
 (continued):

$$\text{Number of days} \times \text{Original Cost} = \text{Accumulated depreciation}$$

	End of test year	12/31/2001
<i>minus</i>	Date of installation	<u>06/15/1995</u>
<i>equals</i>	Length of time in service	6 years 6 months 15 days
	Original cost	\$10,000
	Service life	10 years
	6 years x 365 days/year = 2,190 days	
	6 months x 30 days/mo = 180 days	

$$\frac{15 \text{ days}}{2,385 \text{ days}}$$

$$\frac{2,385 \text{ days} \times \$10,000}{365 \text{ days} \quad 10}$$

$$= 6.53 \times \$1,000 = \$6,534$$

→ Enter \$6,534 in Column [F] as the amount of accumulated depreciation

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

Column [G]	Net Plant
This is the amount of the item remaining that has not been depreciated and is calculated by subtracting the accumulated depreciation (Column [F]) from the original cost when installed (Column [D]).	

- After completing all of the lines for each item of plant and equipment using the instructions above, add the sum of columns together and place that total in the box at the bottom of each column.
 - Enter the amount in this box (Column [E], Total Annual Depreciation) in **Table VI. A., Line [O], Column 1**
 - Enter the amount in this box (Column F, Total Accumulated Depreciation) in **Table IV. E., Line [A]**

III-4: CONSTRUCTION WORK IN PROGRESS (CWIP): Complete if the utility maintains these accounts. Do not include this amount in your rate base unless the utility provides testimony meeting the requirements of P.U.C. SUBST. R. 24.31(c)(3)(B).

Materials and supplies: Include the un-expensed or capitalized portion of materials and supplies on your balance sheet.

Prepayments: Include amounts, such as annual insurance, that the utility has prepaid for good reason, such as a discount. Prepayments must be reasonable.

III-5: CASH WORKING CAPITAL: For Class B Utilities, one-twelfth of O&M expense (excluding amounts charged to O&M expense for materials, supplies, expenses recovered through a pass through provision or charges other than base rate and gallonage charges, and prepayments) will be considered a reasonable allowance for cash working capital. For purposes of working capital calculations, O&M expense does not include depreciation, other taxes, or federal income taxes. A lead-lag study is not required of Class B Utilities to claim allowed cash working capital. If a utility can show it is reasonable to pay for a lead-lag study that determines a different amount for Cash Working Capital, and the utility uses the study and the amount determined, testimony supporting the study, the study and all supporting workpapers must be presented with the application.

For Class C Utilities, one-eighth of O&M expense (excluding amounts charged to O&M expense for materials, supplies, expenses recovered through a pass-through provision or through charges other than base rate and gallonage charges, and prepayments) will be considered a reasonable allowance for cash working capital. For purposes of working capital calculations, O&M expense does not include depreciation, other taxes, or federal income taxes.

III-6: NOTES PAYABLE (LONG TERM DEBT) & EQUITY INFORMATION

Enter the water and sewer combined debt and equity information in both water and sewer tables. The calculated rate of return should be the same for water and sewer, and should be based on combined water and sewer information. The utility's debt and equity for return purposes relate to water and sewer system assets only and should not include short term debt unless it is used to finance system assets. Do not include personal debt.

Where a utility is part of an affiliated interest or organization, the commission may consider and apply a hypothetical capital structure for the utility.

III-6: Debt: For each loan enter the following information:

- Column [A] - Name of lender/bank.
- Column [B] - Date of issue - enter the date that you actually took out the loan.
- Column [C] - Date of maturity - enter the date that the loan will be paid off.
- Column [D] - Original amount of loan - enter how much you originally borrowed.
- Column [E] - Balance due at the end of the test year, even though the application may be filed at a date later than the end of the test year.
- Column [F] - Interest Rate - enter the interest rate that your bank/lender is charging you for each of the loans listed.
- Column [G] - Weighted Average -Return to complete this column after completing the next section of the table.

If a utility company's debt has been allocated from an affiliated entity, the allocation factors and the methodology used to allocate the debt must be provided.

III-7: ACCUMULATED DEPRECIATION

This schedule reconciles current accounts to previous accounts, and should tie to the utility's balance sheet.

III-8: CONTRIBUTIONS IN AID OF CONSTRUCTION AND ADVANCES

If any of the items included in utility plant and equipment were 100% financed with customer contributions, assessments, surcharges, extension fees, etc., the utility may not include depreciation or return on those items in the revenue requirement, and the utility should not include them in **Table III**. However, if those customer contributions did **not** cover the entire cost of the asset, the utility may include the excess amount that the utility paid for. Please list below all items that were funded either all or in part by customer contributions and indicate the amount that the customers contributed for each item.

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

List any items of plant or equipment that you listed in **Schedule III-3** that were paid for all or in part by developer contributions. If only paid for in part by developer contributions, enter only the part that was funded by developer contributions. Enter the total Net Book Value from this table in **Schedule III-2**. If you have none, be sure to enter "N/A" on any line in the table.

III-9: DEFERRED FEDERAL INCOME TAXES/TAX CREDITS

Complete this schedule using balance sheet information recorded in accordance with GAAP. If the utility includes normalized federal income tax in its rate calculations which is different from the actual tax paid, the utility must track deferred federal income tax. Class C Utilities are exempt and may ignore deferred taxes and tax credits, unless the Class C utility is an affiliate of a Class B or A utility.

SCHEDULE IV: TAXES OTHER THAN INCOME

- IV(a):** Complete Schedule IV(a) for property and payroll taxes. The schedule allows for calculations if the utility proposes known and measurable changes to payroll taxes and property taxes. Use your test year property tax bills for the known and measurable calculation. Use wages expense for the ADJUSTED total payroll in the test year to complete this schedule. If wages were capitalized, payroll taxes should be allocated between expense and capital costs in the same ratio as payroll was allocated. Attach a schedule showing the allocation calculations.
- IV(b):** Revenue related taxes and expenses are those that change as the gross revenue of the utility changes. Examples are Texas franchise tax and bad debt expense. This schedule allows the “gross up” of these expenses. Obtain copies of the utility’s franchise tax report to complete this schedule.

SCHEDULE V: CALCULATION OF FEDERAL INCOME TAXES

- V:** PUCT allows utilities to include normalized federal income tax in the cost of service. The federal income tax calculation is based on the utility’s return dollars. The schedule includes a “gross up of taxes to allow for the cost of service to include changes in taxes due to the changes in proposed revenues.

SCHEDULE VI: RATE DESIGN

Complete this schedule using the internal instructions.

A. BASE RATE (FIXED) CALCULATIONS

The Base Rate is designed to recover your fixed costs—those costs that you will have each month regardless of how many gallons you produce or bill to your much your customers. The schedule allows for a flexible allocation between the fixed (base rate) and the variable (gallage rate). Typically, all variable costs are included in the gallage rate and fixed costs in the base (fixed) rate and the PUC expects this treatment unless other valid concerns, such as conservation, influence how the utility divides cost recovery between base rate and gallage charges. If the applicant uses another allocation method, all work papers and calculations supporting the alternative rate design must be included in the rate application.

B. VARIABLE RATE CALCULATIONS

Variable expenses are those that are tied to production. For instance, the more water pumped, the higher the utility’s electric bills will be. Therefore, these expenses are tied to a rate that depends on the number of gallons that customers consume. Rate structures usually have a charge for the number of 1,000 gallons. If the utility has a tiered gallage rate, such as an inclining block rate, the applicant must provide workpapers and calculations showing usage and revenue recovery in each tier for the test year and adjusted test year, if a known and measurable change to gallage is made.