

**CHAPTER 24. SUBSTANTIVE RULES APPLICABLE TO WATER AND SEWER SERVICE PROVIDERS.**

**Subchapter B. RATES, RATE-MAKING, AND RATES/TARIFF CHANGES.**

**§24.32. Rate Design.**

- (a) **General.** In fixing the rates of a utility, the commission shall fix its overall revenues at a level which will permit such utility a reasonable opportunity to earn a reasonable return on its invested capital used and useful in rendering service to the public, over and above its reasonable and necessary operating expenses (unless an alternative rate method is used as set forth in §24.34 of this title (relating to Alternative Rate Methods), and preserve the financial integrity of the utility.
- (b) **Conservation.**
- (1) In order to encourage the prudent use of water or promote conservation, water and sewer utilities shall not apply rate structures which offer discounts or encourage increased usage within any customer class.
  - (2) After receiving final authorization from the regulatory authority through a rate change proceeding, a utility may implement a water conservation surcharge using an inclining block rate or other conservation rate structure. A utility may not implement such a rate structure to avoid providing facilities necessary to meet the TCEQ's minimum standards for public drinking water systems. A water conservation rate structure may generate revenues over and above the utility's usual cost of service:
    - (A) to reduce water usage or promote conservation either on a continuing basis or in specified restricted use periods identified in the utility's approved drought contingency plan required by 30 TAC §288.20 (TCEQ rules relating to Drought Contingency Plans for Municipal Uses by Public Water Suppliers) included in its tariff in order to:
      - (i) comply with mandatory reductions directed by a wholesale supplier or underground water district; or
      - (ii) conserve water supplies, maintain acceptable pressure or storage, or other reasons identified in its approved drought contingency plan;
    - (B) to generate additional revenues necessary to provide facilities for maintaining or increasing water supply, treatment, production, or distribution capacity.
  - (3) All additional revenues over and above the utility's usual cost of service collected under paragraph (2) of this subsection:
    - (A) must be accounted for separately and reported to the commission, as requested; and
    - (B) are considered customer contributed capital unless otherwise specified in a commission order.
- (c) **Volume charges.** Charges for additional usage above the base rate shall be based on metered usage over and above any volume included in the base rate rounded up or down as appropriate to the nearest 1,000 gallons or 100 cubic feet, or the fractional portion of the usage.