

Douglas Utility Company
 Company Schedules
 Income Tax Calculation

| | WATER | SEWER | COMBINED (With Rate Increase) |
|--------------------------------------|----------------------|----------------------|--------------------------------------|
| Operating Revenues | 298,036 | 242,048 | 540,085 |
| Total Operations & Maintenance | (266,825) | (221,358) | (488,183) |
| Other taxes (payroll, ad val., etc.) | (3,581) | (3,392) | (6,973) |
| Depreciation and amortization | (8,652) | (6,151) | (14,802) |
| Interest expense | - | - | - |
| Other Revenues | - | - | - |
| Income before income taxes | <u>18,979</u> | <u>11,147</u> | <u>30,126</u> |
| State Franchise (Margin) Tax | <u>1,245</u> | <u>519</u> | <u>1,764</u> |
| Income before Federal Income Taxes | <u><u>17,734</u></u> | <u><u>10,628</u></u> | <u><u>28,362</u></u> |

Federal Income Taxes:

| | | |
|----------------|---------------|--------------|
| 1st Tier @15% | 28,362 | 4,254 |
| 2nd Tier @ 25% | - | - |
| 3rd Tier @ 34% | - | - |
| 4th Tier @ 39% | - | - |
| Total | <u>28,362</u> | <u>4,254</u> |

| | | | |
|--------------------------|-------|-------|-------|
| Total Federal Income Tax | 4,483 | 2,668 | 4,254 |
|--------------------------|-------|-------|-------|

Douglas Utility Company
Company Schedules
Income Tax Calculation

Federal Income Tax Computation

| | <u>WATER</u> | <u>SEWER</u> | <u>COMBINED</u> | | |
|----------------------|--------------|--------------|-----------------|--------|-------|
| RETURN | 25,402 | 15,120 | 40,522 | | |
| INTEREST EXPENSE | - | - | - | | |
| NET TAXABLE INCOME | 25,402 | 15,120 | 40,522 | | |
| FIRST TIER | | | 47,673 | 47,673 | 7,151 |
| | | | - | | |
| | | | - | | |
| SECOND TIER | | | - | - | - |
| | | | - | | |
| | | | - | | |
| THIRD TIER | | | - | - | - |
| | | | - | | |
| | | | - | | |
| FOURTH TIER | | | - | | - |
| | | | | | |
| NET INCOME TAX-TOTAL | | | | | 7,151 |
| NET INCOME TAX-WATER | | | | | 4,483 |
| NET INCOME TAX-SEWER | | | | | 2,668 |

Calculate State Income (Margin) Tax

| | | | |
|--|--------------|------------|--------------|
| Return | 25,402 | 15,120 | 40,522 |
| Operating Expenses | 279,057 | 230,901 | 509,958 |
| Federal Income Tax Calculation (Above) | 4,483 | 2,668 | 7,151 |
| Revenues before margin calculation | 308,942 | 248,689 | 557,631 |
| Cost of Goods Sold | 185,676 | 197,344 | 383,020 |
| Margin before gross up | 123,266 | 51,346 | 174,611 |
| Gross up Margin @ 1% | 124,511 | 51,865 | 176,375 |
| | | | |
| State Income (Margin) Tax | 1,245 | 519 | 1,764 |

Income Taxes Increase

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
Revenue and Regulatory Assessment Report
For PUBLIC UTILITY

UTILITY: DOUGLAS UTILITY COMPANY

ACCOUNT: 11369

| Revenue and Regulatory Assessment Report for the Calendar Year 2012 | |
|---|---------------|
| 1. Enter total revenues from retail water and sewer service in year 2012 | 1. 548,160.20 |
| 2. Enter amount collected OR multiply item 1 by 0.01 | 2. 5,481.60 |
| 3. Late payment penalty: 5% - If paid after January 30th and before March 1st - multiply line 2 by 0.05 10% - If paid after March 1st - multiply line 2 by 0.10 | 3. 0 |
| 4. Late payment interest, 1% per month if paid after March 31st: a. Multiply line 2 by 0.01 = monthly interest due, then b. Multiply monthly interest due by the number of months payment is made after March 31, rounded to the nearest month. | 4. 0 |
| 5. Amount due and payable (Add lines 2, 3, and 4). | 5. 5,481.60 |

Please note if the utility was inactive for more than a month during the year or experienced other circumstances which affected revenues (attach an additional page if necessary):

I declare that the above information is true and correct to the best of my knowledge and belief.

Signature _____

Date

1, 8, 2013

Preparer's name _____

Olga Schnur (Office Manager)
 (Please Print)

Phone number

713-783-4553

VIPP Form WC04C5 / TCEQ-20098

DOUGLAS UTILITY COMPANY

7632

TCEQ

Acct #11369

1/8/2013

5,481.60

Wells Fargo - Checkin Acct #11369

5,481.60

Rate of Return Worksheet

| Step | | | % |
|------|--|---|------|
| A | Most current Baa Public Utility Bond average. (Call TCEQ staff at 512/239-4691 to get this number.) | | 5.57 |
| B | Add 2% - for utilities with 200 or less customers | | |
| C | Add 1% if the utility can demonstrate that it has both: | | |
| | 1 Debt/equity ratio is greater than 60% (Table IV. D. - Box ② ÷ Box ③) AND | | |
| | 2 No affiliated companies with access to revenues or other funds to support utility operations | | |
| D | Add 1% if the utility can demonstrate that it has at least 2 of the following 4 conditions: | | |
| | 1 unstable population - Weekender/seasonal population: a. >25% of total customers; OR b. >10% of total customers and do not use seasonal reconnect fee; | | |
| | 2 commercial customers account for more than 15% of revenues | X | |
| | 3 low growth a. less than 5% customer growth over the last three years; OR b. documentation of potential customer growth of less than 5% over the next three years; declining population | X | |
| | 4 aging system a. more than 50% depreciated; OR b. low rate base (<\$500/customer) | X | 1.0 |
| E | Add 1% if the utility is a stand alone sewer system with no agreement for either billing and collection or discontinuance for nonpayment with the water supplier. | | |
| F | Add 1% if the utility can demonstrate that it has at least 3 of the 4 following conditions: | | |
| | 1 Number of complaints 2 complaints or less per year to TCEQ for less than 200 customer system | | |
| | 2 No major deficiencies in the most recent PWS inspection report | | |
| | 3 No current or prior enforcement actions under current management within the last 3 years | | |
| | 4 Good faith efforts to solve any current problems | | |
| G | Add 1% if the utility can demonstrate that it has at least 4 of the following 5 conditions: | | 1.0 |
| | 1 well-maintained, up-to-date books and records | X | |
| | 2 effective communications and good customer relations | X | |
| | 3 consistently timely in meeting reporting requirements (ex. annual reports for last 3 years) and payment of fees | X | |
| | 4 exhibit fiscal responsibility with respect to rate filings, including completeness, accuracy and frequency | X | |
| | 5 Less than 12% unaccounted for water - (Section VIII of the Application - Page 16 of 41) | X | |

| | | | |
|---|---|---|------|
| H | Add 1% if the utility can demonstrate that it has at least 4 of the following 5 conditions: | | 1.0 |
| 1 | rate structure - any two of the following a. zero gallons included in minimum bill b. gallonage rate set high enough to encourage conservation (> \$2.00/1000 gal.) c. use of inclining blocks, i.e. higher use pays higher cost | X | |
| 2 | drought contingency plan included in tariff and enforced (if applicable) | X | |
| 3 | conservation plan including encouragement of the use of water conserving devices, efficient lawn watering, or xeriscaping | X | |
| 4 | program to educate the customers about the nature of the system, its production and distribution ability, PWS standards, and the need for water conservation | | |
| 5 | unaccounted for water a. greater than or equal to 10% and or b. successful program to reduce losses (ex. leak detection & repair) (within last 3 years 25% reduction since program implemented) | X | |
| I | Total Rate of Return % | | 8.57 |

FIXED ASSETS - WATER

Douglas Utility Depreciation Schedule by Category For the 6 Months Ended 06/30/12

| Asset No. | Asset Description | Date Acquired | Method | Life | Sold? | Cost | Accum Depr 01/01/12 | Current Depreciation | Accum Depr 06/30/12 |
|--|---|---------------|---------|-------|-------|--------------|------------------------|-------------------------|------------------------|
| Land | | | | | | | | | |
| 38 | Access Road | 07/01/05 | ST LINE | 30/00 | N | 8,975.00 | 1,945.83 | 148.77 | 2,094.60 |
| 39 | Land | 07/01/77 | LAND | 00/00 | N | 99,142.00 | 0.00 | 0.00 | 0.00 |
| | Total for (Land) | | | | | 108,117.00 | 1,945.83 | 148.77 | 2,094.60 |
| Structures | | | | | | | | | |
| 36 | Chlorine / Blower Room | 07/01/99 | ST LINE | 30/00 | N | 5,760.00 | 2,400.79 | 95.48 | 2,496.27 |
| | Total for (Structures) | | | | | 5,760.00 | 2,400.79 | 95.48 | 2,496.27 |
| Electrical | | | | | | | | | |
| 42 | Control Room Lights | 07/01/11 | ST LINE | 20/00 | N | 2,523.00 | 63.59 | 62.73 | 126.32 |
| 43 | High Level Alarm | 07/01/11 | ST LINE | 10/00 | N | 532.00 | 26.82 | 26.45 | 53.27 |
| | Total for (Electrical) | | | | | 3,055.00 | 90.41 | 89.18 | 179.59 |
| Fencing & Gates | | | | | | | | | |
| 40 | Fencing | 07/01/06 | ST LINE | 30/00 | N | 952.00 | 174.65 | 15.78 | 190.43 |
| | Total for (Fencing & Gates) | | | | | 952.00 | 174.65 | 15.78 | 190.43 |
| Chlorinators | | | | | | | | | |
| 34 | Chlorinator & Scales | 07/01/08 | ST LINE | 20/00 | N | 5,991.00 | 1,049.24 | 148.96 | 1,198.20 |
| 45 | Chlorine Scale | 07/01/11 | ST LINE | 10/00 | N | 1,904.00 | 95.98 | 94.68 | 190.66 |
| 50 | SCBA Unit | 05/16/11 | ST LINE | 10/00 | N | 1,846.00 | 116.32 | 91.80 | 208.12 |
| | Total for (Chlorinators) | | | | | 9,741.00 | 1,261.54 | 335.44 | 1,596.98 |
| Meters | | | | | | | | | |
| 37 | Meter Flow Chart | 07/01/99 | ST LINE | 20/00 | N | 2,050.00 | 1,281.67 | 50.97 | 1,332.64 |
| | Total for (Meters) | | | | | 2,050.00 | 1,281.67 | 50.97 | 1,332.64 |
| Collection System | | | | | | | | | |
| 29 | 3,925 ft - 8" Line | 07/01/61 | ST LINE | 50/00 | N | 29,946.00 | 29,946.00 | 0.00 | 29,946.00 |
| 30 | 140 ft - 10" Line | 07/01/61 | ST LINE | 50/00 | N | 1,373.00 | 1,373.00 | 0.00 | 1,373.00 |
| 31 | 2,585 ft - 6" Line | 07/01/61 | ST LINE | 50/00 | N | 16,553.00 | 16,553.00 | 0.00 | 16,553.00 |
| 32 | 980 ft - 8" Line | 07/01/61 | ST LINE | 50/00 | N | 7,477.00 | 7,477.00 | 0.00 | 7,477.00 |
| | Total for (Collection System) | | | | | 55,349.00 | 55,349.00 | 0.00 | 55,349.00 |
| Wastewater Treatment & Disposal Equip | | | | | | | | | |
| 33 | Wastewater Treatment Plant | 07/01/86 | ST LINE | 25/00 | N | 1,102,074.00 | 1,102,074.00 | 0.00 | 1,102,074.00 |
| 35 | 10hp Lift Pump | 07/01/00 | ST LINE | 30/00 | N | 5,790.00 | 2,220.03 | 95.97 | 2,316.00 |
| 41 | Lift Pump | 07/01/11 | ST LINE | 20/00 | N | 3,751.00 | 94.55 | 93.26 | 187.81 |
| 44 | Processed Water System | 07/01/11 | ST LINE | 25/00 | N | 3,500.00 | 70.58 | 69.62 | 140.20 |
| 53 | Rebuild Blower #2 | 04/11/12 | ST LINE | 30/00 | N | 6,410.00 | 0.00 | 47.29 | 47.29 |
| | Total for (Wastewater Treatment & Disposal Equip) | | | | | 1,121,525.00 | 1,104,459.16 | 306.14 | 1,104,765.30 |
| | Client Subtotal Before Sales | | | | | 1,306,549.00 | 1,166,963.05 | 1,041.76 | 1,168,004.81 |
| | Less Assets Sold | | | | | 0.00 | | | 0.00 |
| | Total | | | | | 1,306,549.00 | 1,166,963.05 | 1,041.76 | 1,168,004.81 |

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GDS Associates, Inc.
Engineers and Consultants

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Charles Loy
Principal

February 26, 2013

Ms. Carol Zieben, Owner
Douglas Utility Company
32 E Rivercrest Drive
Houston, TX 77042

Re: **Douglas Utility Company Trending**

Dear Ms. Zieben:

GDS was asked to provide asset trending for Douglas Utility Company. Douglas Utility Company provided a test year end date of 06/30/12. Douglas Utility Company also provided an inventory list of assets with install dates and replacement cost values. We used this information in our GDS Asset Valuation Model to compute useful life, years in service at test year end date, trended original cost, annual depreciation expense, total accumulated depreciation, and net book value at test year end date for each asset. Because we were only provided with a year for install date for each asset, we made the assumption that all assets were installed at mid-year on July 1 of the year of installation.

A trending study is a computational methodology used to develop a reliable value of utility plant for different times. If the value of an item is known at any point in time, trending indices can be used to estimate its value at any other point in time. One normally begins a trending study with a replacement cost of an item for a point in time and, with trending indices from that point in time and from the time the item was installed, computes a value at the time of installation, a substitute for the original cost of the item. The purpose of this trending study is to provide Douglas Utility Company with a computation of the value of the original cost for existing plant so that the original cost can be depreciated to the net plant value for the end of the test year.

A trending study is based on two key items, the replacement cost and construction cost indices. The replacement cost is the current price for installing the same item new and is a purchase price or contractor's price for an item based upon materials, equipment, and labor used. Construction price indices are maintained by various organizations that monitor construction pricing over time. For the construction industry as a whole, ENR (formerly Engineering News Record) maintains both a construction cost index and a building cost index. For the utility industry, Electric, Gas and Water, the Handy Whitman Index maintains indices based upon capital items using a utility chart of accounts. Government agencies, such as the U.S. Bureau of Reclamation also maintain construction cost indices. Each of these indices provides an index number for different times. If one knows the cost of an item at any point in time, construction

Ms. Carol Zieben
February 26, 2013
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cost indices can be used to reliably estimate the cost at another point in time. Thus, current costs can be used to estimate original cost using an index value for the date of installation.

The GDS Asset Valuation Model uses three indices of construction costs to estimate trended original cost: (1) Handy Whitman Index of Water Utility Construction Costs for the South Central Region (Region 4); (2) the ENR (formerly Engineering News Record) Index of Building Cost and Construction Cost Trends; and (3) the Bureau of Reclamation Construction Cost Trends. The Handy Whitman Index was the primary reference source used for this trending because utility regulators and the industry routinely accept it. The Handy Whitman Index is commonly used in Texas ratemaking dockets. The Handy Whitman Index has been reporting values since 1912. The Handy Whitman Index has reported values on January 1 and July 1 for each year since 1973 and reported annual values before 1973. The Handy Whitman indices are designed to estimate reproduction and original costs. For sewage treatment plants, we use the Building Cost Index of ENR, as we have found it to be the most suitable alternative when the Handy Whitman Index is not applicable. We prefer the ENR Building Cost Index to the ENR Construction Cost Index because we believe it is based upon features more accurately applied to sewage treatment plants and because it has a slightly lower inflation rate. The ENR Building Cost Index has been reported since 1915 and currently reports monthly values. We also use the U.S. Bureau of Reclamation Construction Cost Trends Index because it covers land costs, electrical equipment, and other specialized items not covered by the Handy Whitman Index and the ENR Building Cost Index. The U.S. Bureau of Reclamation Index has been reported quarterly since 1940. We have used the most appropriate index for each inventory item and used the index value for the nearest reported date.

Service lives and depreciation rates were determined using recommended service lives from TCEQ. These rates were used to compute the annual depreciation expense and the total accumulated depreciation on the purchased assets. Depreciation was computed and subtracted from the trended value of original cost to determine net book value.

The attached reports included the trended value of assets for the Water Treatment Plants # 1 and 2 as well as the Sewer Treatment Plant at Douglas Utility Company. We believe that our computations have produced appropriate values for net book value.

Sincerely,



Chuck Loy

Summary
Company: Douglas Utility Company
Subd Name: Water Treatment Plants # 1 & 2

Utility Asset Valuation
Water Treatment Plants # 1 & 2

| Item No. | Account Name | Asset Description | Unit | Approx. Quantity | Unit Price | Replacement Cost | Date Installed | Useful Life | Years in Service at Test Year End Date 6/30/2012 | Actual or Trended Original Cost | Annual Depreciation Expense | Total Accumulated Depreciation | Net Book Value at Test Year End Date 6/30/2012 |
|----------|---|--|------|------------------|------------|------------------|----------------|-------------|--|---------------------------------|-----------------------------|--------------------------------|--|
| 1 | 304.0 Structures & Improvements - Bldgs - (Masonry, Metal, or Wood) and Fencing | Plant 2: Pump House | EA | 1 | | \$5,000.00 | 07/01/80 | 30 | 32.0 | \$2,095.44 | \$69.85 | \$2,095.44 | \$0.00 |
| 2 | 307.0 Wells | Plant 2: 6" Water Well (60gpm) | EA | 1 | | \$56,000.00 | 07/01/80 | 50 | 32.0 | \$28,000.00 | \$560.00 | \$17,918.47 | \$10,081.53 |
| 3 | 307.0 Wells | Plant 2: 6" Water Well (170gpm) | EA | 1 | | \$56,000.00 | 07/01/80 | 50 | 32.0 | \$28,000.00 | \$560.00 | \$17,918.47 | \$10,081.53 |
| 4 | 311.0 Booster pumps: 7 1/2 HP or greater | Plant 2: Booster pumps, 25hp, Qty 2 | EA | 2 | | \$3,900.00 | 07/01/80 | 30 | 32.0 | \$1,105.00 | \$36.83 | \$1,105.00 | \$0.00 |
| 5 | 320.0 Chlorinators and Water Treatment Equipment | Plant 2: Chlorinator (Superior), Qty 2 | EA | 2 | | \$2,500.00 | 07/01/08 | 10 | 4.0 | \$2,080.21 | \$208.02 | \$831.51 | \$1,248.70 |
| 6 | 320.0 Chlorinators and Water Treatment Equipment | Plant 1: 2 Superior Chlorine Regulator | EA | 2 | | \$1,700.00 | 07/01/08 | 20 | 4.0 | \$1,414.54 | \$70.73 | \$282.71 | \$1,131.83 |
| 7 | 320.0 Chlorinators and Water Treatment Equipment | Plant 2: Chlorinator Seals, Qty 2 | EA | 2 | | \$1,700.00 | 07/01/08 | 10 | 4.0 | \$1,414.54 | \$141.45 | \$565.43 | \$849.11 |
| 8 | 330.0 Pressure Tanks | Plant 1: Pressure Tank, 9,000 gal | EA | 1 | | \$32,168.00 | 07/01/85 | 50 | 27.0 | \$7,242.86 | \$144.86 | \$3,910.85 | \$3,332.01 |
| 9 | 330.0 Pressure Tanks | Plant 2: Pressure Tank, 10,000 gal | EA | 1 | | \$35,743.00 | 07/01/08 | 50 | 4.0 | \$32,460.94 | \$649.22 | \$2,595.10 | \$29,865.84 |
| 10 | 330.0 Ground Storage Tanks | Plant 1: GST (bolted galvanized), 3,000 bbl | EA | 1 | | \$94,500.00 | 07/01/85 | 50 | 27.0 | \$17,222.38 | \$344.45 | \$9,299.38 | \$7,923.00 |
| 11 | 330.0 Ground Storage Tanks | Plant 2: GST (bolted galvanized), 1,500 bbl, Qty 2 | EA | 2 | | \$94,500.00 | 07/01/80 | 50 | 32.0 | \$20,345.61 | \$406.91 | \$13,020.08 | \$7,525.53 |
| 12 | 331.0 Distribution System | 8" Cast Iron Pipe, 2,355' (\$22.00 per foot) | FT | 2,355 | \$22.00 | \$51,810.00 | 07/01/61 | 50 | 51.0 | \$6,724.09 | \$134.48 | \$6,724.09 | \$0.00 |
| 13 | 331.0 Distribution System | 8" A/C Pipe, 1,570' (\$22.00 per foot) | FT | 1,570 | \$22.00 | \$34,540.00 | 07/01/61 | 50 | 51.0 | \$9,411.44 | \$188.23 | \$9,411.44 | \$0.00 |
| 14 | 331.0 Distribution System | 2" Steel Pipe, 2,970' (\$11.50 per foot) | FT | 2,970 | \$11.50 | \$34,155.00 | 07/01/61 | 50 | 51.0 | \$3,738.67 | \$74.77 | \$3,738.67 | \$0.00 |
| 15 | 331.0 Distribution System | 4" A/C Pipe, 620' (\$14.50 per foot) | FT | 620 | \$14.50 | \$8,990.00 | 07/01/61 | 50 | 51.0 | \$2,449.59 | \$48.99 | \$2,449.59 | \$0.00 |
| 16 | 331.0 Distribution System | 4" A/C Pipe, 1,450' (\$14.50 per foot) | FT | 1,450 | \$14.50 | \$21,025.00 | 07/01/11 | 50 | 1.0 | \$19,764.65 | \$395.29 | \$395.02 | \$19,369.62 |
| 17 | 331.0 Distribution System | 2" Steel Pipe, 230' (\$11.50 per foot) | FT | 930 | \$11.50 | \$10,695.00 | 07/01/61 | 50 | 51.0 | \$1,170.70 | \$23.41 | \$1,170.70 | \$0.00 |
| 18 | 334.0 Meters | Plant 1: Well Meter, 4" Sensus | EA | 1 | | \$2,225.00 | 07/01/83 | 20 | 29.0 | \$982.47 | \$49.12 | \$982.47 | \$0.00 |
| 19 | 334.0 Meters | Plant 2: Well Meter, 3" | EA | 1 | | \$1,465.00 | 07/01/10 | 20 | 2.0 | \$1,348.13 | \$67.41 | \$134.72 | \$1,213.41 |
| 20 | 335.0 Fire Hydrants | Fire Hydrants, Qty 9 (\$3,800 each) | EA | 9 | \$3,800.00 | \$34,200.00 | 07/01/61 | 40 | 51.0 | \$2,829.32 | \$70.73 | \$2,829.32 | \$0.00 |
| | TOTAL - WATER TREATMENT PLANTS # 1 & 2 | | | | | \$582,816.00 | | | | \$189,800.57 | \$4,244.76 | \$97,378.45 | \$92,422.12 |

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FIXED ASSETS - SEWER

Douglas Utility Depreciation Schedule by Category For the 6 Months Ended 06/30/12

| Asset No. | Asset Description | Date Acquired | Method | Life | Sold? | Cost | Accum Depr 01/01/12 | Current Depreciation | Accum Depr 06/30/12 |
|--------------------------------|-------------------------------------|---------------|---------|-------|-------|-----------|---------------------|----------------------|---------------------|
| Land | | | | | | | | | |
| 1 | Land | 07/01/77 | LAND | 00/00 | N | 16,267.00 | 0.00 | 0.00 | 0.00 |
| | Total for (Land) | | | | | 16,267.00 | 0.00 | 0.00 | 0.00 |
| Service Equipment | | | | | | | | | |
| 46 | Air Compressor | 11/01/10 | ST LINE | 10/00 | N | 943.00 | 110.06 | 46.89 | 156.95 |
| | Total for (Service Equipment) | | | | | 943.00 | 110.06 | 46.89 | 156.95 |
| Wells (with pump) Plant | | | | | | | | | |
| 3 | 6" Water Well (60gpm) | 07/01/80 | ST LINE | 50/00 | N | 28,000.00 | 17,641.53 | 278.47 | 17,920.00 |
| 4 | 6" Water Well (170gpm) | 07/01/80 | ST LINE | 50/00 | N | 28,000.00 | 17,641.53 | 278.47 | 17,920.00 |
| | Total for (Wells (with pump) Plant) | | | | | 56,000.00 | 35,283.06 | 556.94 | 35,840.00 |
| Structures | | | | | | | | | |
| 2 | Pump House | 07/01/80 | ST LINE | 30/00 | N | 2,095.00 | 2,095.00 | 0.00 | 2,095.00 |
| 24 | Pump House | 07/01/99 | ST LINE | 30/00 | N | 8,400.00 | 3,501.15 | 139.23 | 3,640.38 |
| 25 | Chlorine Cylinder Storage | 07/01/99 | ST LINE | 30/00 | N | 2,496.00 | 1,040.34 | 41.37 | 1,081.71 |
| 51 | Rebuilt Chlorine Buildings | 01/27/12 | ST LINE | 30/00 | N | 3,168.00 | 0.00 | 45.01 | 45.01 |
| | Total for (Structures) | | | | | 16,159.00 | 6,636.49 | 225.61 | 6,862.10 |
| Booster Pumps | | | | | | | | | |
| 5 | 2 - Booster Pumps - 7 1/2hp | 07/01/80 | ST LINE | 30/00 | N | 1,105.00 | 1,105.00 | 0.00 | 1,105.00 |
| 22 | Booster Pump - 7 1/2 hp | 07/01/00 | ST LINE | 30/00 | N | 1,735.00 | 665.20 | 28.76 | 693.96 |
| 23 | Booster Pump - 7 1/2 hp | 07/01/04 | ST LINE | 30/00 | N | 2,510.00 | 627.75 | 41.61 | 669.36 |
| | Total for (Booster Pumps) | | | | | 5,350.00 | 2,397.95 | 70.37 | 2,468.32 |
| Electrical | | | | | | | | | |
| 26 | Generator | 07/01/94 | ST LINE | 30/00 | N | 16,202.00 | 9,453.44 | 268.56 | 9,722.00 |
| 48 | Mercoid Switches | 03/16/11 | ST LINE | 10/00 | N | 1,490.00 | 118.79 | 74.09 | 192.88 |
| | Total for (Electrical) | | | | | 17,692.00 | 9,572.23 | 342.65 | 9,914.88 |
| Pressure Tanks | | | | | | | | | |
| 9 | 9,000 gal Pressure Tank | 07/01/85 | ST LINE | 50/00 | N | 7,243.00 | 3,839.39 | 72.03 | 3,911.42 |
| 10 | 10,000 Pressure Tank | 07/01/08 | ST LINE | 50/00 | N | 32,461.00 | 2,274.04 | 322.84 | 2,596.88 |
| | Total for (Pressure Tanks) | | | | | 39,704.00 | 6,113.43 | 394.87 | 6,508.30 |
| Chlorinators | | | | | | | | | |
| 6 | 2 - Chlorinators | 07/01/08 | ST LINE | 10/00 | N | 2,080.00 | 728.57 | 103.43 | 832.00 |
| 7 | 2 - Superior Chlorine Regulators | 07/01/08 | ST LINE | 20/00 | N | 1,415.00 | 247.82 | 35.18 | 283.00 |
| 8 | 2 - Chloring Scales | 07/01/08 | ST LINE | 10/00 | N | 1,415.00 | 495.64 | 70.36 | 566.00 |
| 47 | 2 - Chlorine Scale | 03/29/11 | ST LINE | 10/00 | N | 3,028.00 | 230.63 | 150.57 | 381.20 |
| 52 | Chlorine Scale | 01/01/12 | ST LINE | 10/00 | N | 1,900.00 | 0.00 | 94.48 | 94.48 |
| | Total for (Chlorinators) | | | | | 9,838.00 | 1,702.66 | 454.02 | 2,156.68 |
| Ground Storage Tanks | | | | | | | | | |
| 11 | 3,000 bbl Ground Storage Tank | 07/01/85 | ST LINE | 50/00 | N | 17,222.00 | 9,129.08 | 171.28 | 9,300.36 |
| 12 | 2 - 1,500 bbl Ground Storage Tan | 07/01/80 | ST LINE | 50/00 | N | 20,346.00 | 12,819.09 | 202.35 | 13,021.44 |
| | Total for (Ground Storage Tanks) | | | | | 37,568.00 | 21,948.17 | 373.63 | 22,321.80 |
| Distribution System | | | | | | | | | |
| 13 | 2,355 ft - 8" Cast Iron Pipe | 07/01/61 | ST LINE | 50/00 | N | 6,724.00 | 6,724.00 | 0.00 | 6,724.00 |
| 14 | 1,570 ft - 8" A/C Pipe | 07/01/61 | ST LINE | 50/00 | N | 9,411.00 | 9,411.00 | 0.00 | 9,411.00 |
| 15 | 2,970 ft - 2" Steel Pipe | 07/01/61 | ST LINE | 50/00 | N | 4,433.00 | 4,433.00 | 0.00 | 4,433.00 |
| 16 | 620 ft - 4" A/C Pipe | 07/01/61 | ST LINE | 50/00 | N | 2,450.00 | 2,450.00 | 0.00 | 2,450.00 |

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Douglas Utility Depreciation Schedule by Category For the 6 Months Ended 06/30/12

| Asset No. | Asset Description | Date Acquired | Method | Life | Sold? | Cost | Accum Depr 01/01/12 | Current Depreciation | Accum Depr 06/30/12 |
|---------------------------------|--------------------------|---------------|---------|-------|-------|------------|---------------------|----------------------|---------------------|
| Distribution System | | | | | | | | | |
| 17 | 1,450 ft - 4" C-900 Pipe | 07/01/11 | ST LINE | 50/00 | N | 19,765.00 | 199.27 | 196.57 | 395.84 |
| 18 | 930 ft - 2" Steel Pipe | 07/01/61 | ST LINE | 50/00 | N | 1,388.00 | 1,388.00 | 0.00 | 1,388.00 |
| Total for (Distribution System) | | | | | | 44,171.00 | 24,605.27 | 196.57 | 24,801.84 |
| Meters | | | | | | | | | |
| 19 | 4" WellMeter | 07/01/83 | ST LINE | 20/00 | N | 982.00 | 982.00 | 0.00 | 982.00 |
| 20 | 3" Well Meter | 07/01/10 | ST LINE | 20/00 | N | 1,348.00 | 101.38 | 33.52 | 134.90 |
| 27 | Meter with Modern Line | 07/01/05 | ST LINE | 20/00 | N | 6,750.00 | 2,195.14 | 167.83 | 2,362.97 |
| 28 | Meter with Modern Line | 07/01/05 | ST LINE | 20/00 | N | 8,680.00 | 2,822.78 | 215.81 | 3,038.59 |
| Total for (Meters) | | | | | | 17,760.00 | 6,101.30 | 417.16 | 6,518.46 |
| Fire Hydrants | | | | | | | | | |
| 21 | 9 - Fire Hydrants | 07/01/61 | ST LINE | 40/00 | N | 2,829.00 | 2,829.00 | 0.00 | 2,829.00 |
| 49 | Fire Hydrant | 04/07/11 | ST LINE | 05/00 | N | 3,518.00 | 518.54 | 349.88 | 868.42 |
| Total for (Fire Hydrants) | | | | | | 6,347.00 | 3,347.54 | 349.88 | 3,697.42 |
| Client Subtotal Before Sales | | | | | | 267,799.00 | 117,818.16 | 3,428.59 | 121,246.75 |
| Less Assets Sold | | | | | | 0.00 | | | 0.00 |
| Total | | | | | | 267,799.00 | 117,818.16 | 3,428.59 | 121,246.75 |



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February 26, 2013

Ms. Carol Zieben, Owner
Douglas Utility Company
32 E Rivercrest Drive
Houston, TX 77042

Re: **Douglas Utility Company Trending**

Dear Ms. Zieben:

GDS was asked to provide asset trending for Douglas Utility Company. Douglas Utility Company provided a test year end date of 06/30/12. Douglas Utility Company also provided an inventory list of assets with install dates and replacement cost values. We used this information in our GDS Asset Valuation Model to compute useful life, years in service at test year end date, trended original cost, annual depreciation expense, total accumulated depreciation, and net book value at test year end date for each asset. Because we were only provided with a year for install date for each asset, we made the assumption that all assets were installed at mid-year on July 1 of the year of installation.

A trending study is a computational methodology used to develop a reliable value of utility plant for different times. If the value of an item is known at any point in time, trending indices can be used to estimate its value at any other point in time. One normally begins a trending study with a replacement cost of an item for a point in time and, with trending indices from that point in time and from the time the item was installed, computes a value at the time of installation, a substitute for the original cost of the item. The purpose of this trending study is to provide Douglas Utility Company with a computation of the value of the original cost for existing plant so that the original cost can be depreciated to the net plant value for the end of the test year.

A trending study is based on two key items, the replacement cost and construction cost indices. The replacement cost is the current price for installing the same item new and is a purchase price or contractor's price for an item based upon materials, equipment, and labor used. Construction price indices are maintained by various organizations that monitor construction pricing over time. For the construction industry as a whole, ENR (formerly Engineering News Record) maintains both a construction cost index and a building cost index. For the utility industry, Electric, Gas and Water, the Handy Whitman Index maintains indices based upon capital items using a utility chart of accounts. Government agencies, such as the U.S. Bureau of Reclamation also maintain construction cost indices. Each of these indices provides an index number for different times. If one knows the cost of an item at any point in time, construction

Ms. Carol Zieben
February 26, 2013
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cost indices can be used to reliably estimate the cost at another point in time. Thus, current costs can be used to estimate original cost using an index value for the date of installation.

The GDS Asset Valuation Model uses three indices of construction costs to estimate trended original cost: (1) Handy Whitman Index of Water Utility Construction Costs for the South Central Region (Region 4); (2) the ENR (formerly Engineering News Record) Index of Building Cost and Construction Cost Trends; and (3) the Bureau of Reclamation Construction Cost Trends. The Handy Whitman Index was the primary reference source used for this trending because utility regulators and the industry routinely accept it. The Handy Whitman Index is commonly used in Texas ratemaking dockets. The Handy Whitman Index has been reporting values since 1912. The Handy Whitman Index has reported values on January 1 and July 1 for each year since 1973 and reported annual values before 1973. The Handy Whitman indices are designed to estimate reproduction and original costs. For sewage treatment plants, we use the Building Cost Index of ENR, as we have found it to be the most suitable alternative when the Handy Whitman Index is not applicable. We prefer the ENR Building Cost Index to the ENR Construction Cost Index because we believe it is based upon features more accurately applied to sewage treatment plants and because it has a slightly lower inflation rate. The ENR Building Cost Index has been reported since 1915 and currently reports monthly values. We also use the U.S. Bureau of Reclamation Construction Cost Trends Index because it covers land costs, electrical equipment, and other specialized items not covered by the Handy Whitman Index and the ENR Building Cost Index. The U.S. Bureau of Reclamation Index has been reported quarterly since 1940. We have used the most appropriate index for each inventory item and used the index value for the nearest reported date.

Service lives and depreciation rates were determined using recommended service lives from TCEQ. These rates were used to compute the annual depreciation expense and the total accumulated depreciation on the purchased assets. Depreciation was computed and subtracted from the trended value of original cost to determine net book value.

The attached reports included the trended value of assets for the Water Treatment Plants # 1 and 2 as well as the Sewer Treatment Plant at Douglas Utility Company. We believe that our computations have produced appropriate values for net book value.

Sincerely,



Chuck Loy

Summary
 Company: Douglas Utility Company
 Subd Name: Sewer Treatment Plant

Utility Asset Valuation
 Sewer Treatment Plant

| Item No. | Account No. | Account Name | Asset Description | Unit | Approx. Quantity | Unit Price | Replacement Cost | Date Installed | Useful Life | Years in Service at Test Year End Date 6/30/2012 | Actual or Treaded Original Cost | Annual Depreciation Expense | Total Accumulated Depreciation | Net Book Value at Test Year End Date 6/30/2012 |
|----------|-------------|---|--|------|------------------|------------|------------------|----------------|-------------|--|---------------------------------|-----------------------------|--------------------------------|--|
| 1 | 360.0 | Collection System - Gravity Flow Lines | 8" Line, 3,925' (\$28.00 per foot) | FT | 3,925 | \$28.00 | \$109,900.00 | 07/01/61 | 50 | 51 | \$29,945.50 | \$598.91 | \$29,945.50 | \$0.00 |
| 2 | 360.0 | Collection System - Gravity Flow Lines | 10" Line, 140' (\$36.00 per foot) | FT | 140 | \$36.00 | \$5,040.00 | 07/01/61 | 50 | 51 | \$1,373.30 | \$27.47 | \$1,373.30 | \$0.00 |
| 3 | 360.0 | Collection System - Gravity Flow Lines | 6" Line, 2,585' (\$23.50 per foot) | FT | 2,585 | \$23.50 | \$60,748.00 | 07/01/61 | 50 | 51 | \$16,552.59 | \$331.05 | \$16,552.59 | \$0.00 |
| 4 | 360.0 | Collection System - Gravity Flow Lines | 8" Line, 980' (\$28.00 per foot) | FT | 980 | \$28.00 | \$27,440.00 | 07/01/61 | 50 | 51 | \$7,476.84 | \$149.54 | \$7,476.84 | \$0.00 |
| 5 | 380.0 | Wastewater Treatment and Disposal Equipment | Wastewater Treatment Plant (380,000 GPD) | GPD | 380,000 | | \$2,280,000.00 | 07/01/86 | 25 | 26 | \$1,102,073.50 | \$44,082.94 | \$1,102,073.50 | \$0.00 |
| 6 | 380.0 | Wastewater Treatment and Disposal Equipment | Chlorinator & Scales | E/A | 1 | | \$7,200.00 | 07/01/08 | 20 | 4 | \$5,991.00 | \$299.55 | \$1,197.38 | \$4,793.62 |
| | | TOTAL - SEWER TREATMENT PLANT | | | | | \$2,490,328.00 | | | | \$1,163,412.73 | \$45,489.45 | \$1,158,619.11 | \$4,793.62 |

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Reconciliation and Land Value Conclusion

After considering the all of the land sales, the land value for the subject tracts is calculated as follows:

| LAND VALUE SUMMARY | | |
|--------------------|-----------------|------------------|
| Land Area | Land Value/SF | Land Value |
| 49,571 | \$2.00 | \$99,142 |
| 11,717 | \$1.00 | \$11,717 |
| 4,550 | \$1.00 | \$4,550 |
| | Total: | \$115,409 |
| | Rounded: | \$120,000 |

