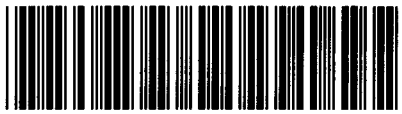

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SOAH DOCKET NO. 582-14-1052
PUC DOCKET NO. 42860

APPLICATION OF DOUGLAS UTILITY COMPANY TO CHANGE WATER AND SEWER RATE/TARIFF IN HARRIS COUNTY, TEXAS	§ § § § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

PREFILED TESTIMONY OF BRET WAYNE FENNER, P. E. ON BEHALF OF EQUALITY COMMUNITY HOUSING CORPORATION

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Q: Please state your name for the record.

A: Bret Wayne Fenner.

WITNESS BACKGROUND

Q: How are you employed?

A: I am the President of B & D Environmental, Inc. I was one of the founding shareholders of the company in 1997 and have been employed by B & D Environmental, Inc. since that time.

Q. Do you hold any professional licenses?

A. Yes. I am a licensed civil engineer in the State of Texas. My Professional Engineer License Number is 81939. I am also a Licensed Real Estate Salesperson in the State of Texas. My Salesperson License Number is 0605704.

Q: Please describe your educational background.

A: I hold a Bachelor of Science Degree in Architectural Engineering from the University of Texas in 1982 and a Masters of Business Administration from Southwest Texas State University in 1991.

Q: Please describe your work experience and experience as a TCEQ and Court Appointed Receiver.

A: From November 1990 until May 1997 I was employed by the Texas Water Commission/Texas Natural Resources Conservation Commission (TNRCC), which was the predecessor agency to the Texas Commission on Environmental Quality (TCEQ), as an Engineering Specialist. From January 1998 until May 2000, I was also employed by AquaSource, Inc. My job responsibilities for AquaSource, Inc. included the performance of field due diligence relating to the company's acquisitions of water and wastewater systems. In addition, from July 1998 until October 2005, I operated the Twin Creek Park Water Company in Travis County, Texas, as a court appointed Receiver and then an owner/manager. I was also a court appointed Receiver for the both the High Sierra Water

System and the Bertram Woods Water Supply Corporation. I have been appointed by the TCEQ to conduct a third party engineering appraisal to determine the compensation value for service area being decertified. Currently, I am a consultant with B & D Environmental, Inc. in the area of water and wastewater utility operations and rate change applications. I have over 25 years' experience in public water and wastewater management and regulatory work. I have qualified and testified as an expert witness in more than 20 water rate cases during my career. A true and correct copy of my resumé is attached hereto as **(Exhibit A)**.

PURPOSE OF TESTIMONY

Q. Please state the nature of this document and its purpose.

A. Douglas Utility Company (Douglas) submitted for approval a Rate/Tariff Change Application (Application) to increase its water and sewer rates. That Application was protested by various affected parties, including Equality Community Housing Corporation (Equality), on whose behalf I file this testimony. In mediation between the parties to reach a settlement of this matter, a customer rate structure was agreed to by all parties. Subsequently Douglas repudiated the settlement agreement, and the Commission ordered this limited evidentiary hearing to determine whether the settlement rates violated section 13.183(a) of the Texas Water Code. The purpose of this limited testimony is to show that the agreed customer rate structure allows Douglas to generate enough revenue requirement from its customer base to cover its correct cost of service and allows Douglas reasonable return on its invested capital used and useful in rendering service to its customers, and thus maintain its financial integrity.

Q. What is meant by financial integrity?

A. Basically, in my opinion, financial integrity means having the ability to keep one's financial commitments.

Q. How does an investor owned utility like Douglas maintain its financial integrity?

A. By generating enough revenue requirement from its customer base to cover its cost of service and to allow reasonable return on its invested capital used and useful in rendering service to its customers.

Q. Is Douglas's current financial integrity preserved based on the settled rates agreed to by the parties to this Docket through mediation?

A. Yes, based on a revenue requirement that accurately reflects Douglas's true cost of service and a reasonable return on its currently used and useful invested capital, Douglas can maintain its financial integrity.

USED AND USEFUL INVESTED CAPITAL

Q. Can you explain what you mean by currently used and useful invested capital?

A. A utility is allowed an opportunity to earn a return on its currently used and useful invested capital or rate base. Its invested capital consists of the utility's plant, property and equipment, etc. that is currently both used and useful in providing service to the utility's customer base.

Q. Is Douglas allowed to earn a return on future invested capital? In other words, is future debt service considered as a component in determining Douglas's financial integrity?

A. No, any future invested capital, such as a new sewer plant, would be neither used nor useful at the current time. Nor is the total original cost of any future such invested capital known at this time. In addition, the amount or type of debt service for such future invested capital is not known at this time. Thus, whether any future invested capital may affect the financial integrity of Douglas is purely speculative and therefore should not be considered as a part of the return on invested capital component in this case.

Q. If future invested capital or debt service would have an effect on a utility's financial integrity, at what time should this be taken into consideration?

A. If or when a utility has made such invested capital both used and useful in providing service to its customer, then it and any debt service for that invested capital would be considered as part of a future Rate/Tariff Change Application. Therefore, future possible invested capital not currently used and useful in providing service should not be considered as a part of this current Application and thus not a factor in the determination of Douglas's current financial integrity.

Q. Is Douglas allowed an opportunity to earn a return on its used and useful invested capital with the revenues generated from the settlement rate structure agreed to by all parties including Douglas?

A. In my opinion, when excluding speculative future invested capital, Douglas is allowed the opportunity to earn a return on its currently used and useful invested capital.

WATER REVENUE REQUIREMENT

Q. Do you agree with the water cost of service for Douglas Utility Company as provided in Table VI.A of page 11 of its Application?

A. No, in my opinion there are some excessive items that overstate the cost of service.

Q. Do you have any recommended changes to the requested water cost of service as presented in the Application?

A. Yes, for the purposes of this limited proceeding dealing with the settlement rates, a few adjustments need to be made to the water cost of service, namely with respect to salaries and wages and miscellaneous expense. I revised the water cost of service to account for these adjustments.

Q. Please explain how you determined a revised water cost of service for Douglas Utility Company?

A. I used the 12-month test year in the Application (July 1, 2011 to June 30, 2012). I reviewed the utility's financial statements, including its Profit and Loss Statement for the

test year and selected invoices reflecting the test year's expenses for the months since the test year, as provided by Douglas.

Q. Do you recommend an adjustment to the cost of service item identified as salaries and wages as presented in Table VI.A on page 11 of the Application?

A. Yes, in the test year and during the period of known and measurable change, the utility did not pay any salaries according to its general ledgers. Also, no pay checks were provided to show that salaries were paid during the test year or the period of known and measurable change. Therefore, my recommendation is that the $38,822 in expenses for the item salaries and wages be reduced to zero.

Q. Do you recommend any adjustments to the cost of service item identified as miscellaneous expense in the Application?

A. Yes, this expense category contains the cost for the utility's participation in the City of Houston's Groundwater Reduce Program (GRP). In the settlement agreement, this fee was separated from the cost of service and passed through directly to the customers as an extra gallonage fee. Since the revenues collected for this GRP fee are passed directly through from the utility's customers to the City of Houston, it should not be included in Douglas's cost of service. This fee does not have an effect on Douglas's cost of service and should not be double charged to customers by being included in the miscellaneous expense and also charged to customers outside the cost of service in the form of a pass through fee. Because the City of Houston GRP fee will be passed through directly to the customers per the agreed pass thru gallonage fee of $0.85 per 1,000 gallons, I recommend that $61,810 be reduced from the miscellaneous expense item.

SEWER REVENUE REQUIREMENT

Q. Do you agree with the sewer cost of service for Douglas Utility Company as provided in Table VI.A of page 24 of its Application?

A. No, in my opinion the sewer cost of service is overstated.

Q. Do you have any recommended changes to the requested sewer cost of service as presented in the Application?

A. Yes, based on my water cost of service review and for the purposes of this limited proceeding dealing with the settlement rates, I recommend a few adjustments to the sewer cost of service, namely regarding salaries and wages and the method for calculating revenues generated from Douglas's sewer customers by using winter months averaging.

Q. Please explain how you determined a revised sewer cost of service for Douglas Utility Company?

A. As with the water cost of service review, I used the 12-month test year in the Application (July 1, 2011 to June 30, 2012). I reviewed the utility's financial statements, including its Profit and Loss Statement for the test year and selected invoices reflecting the test year's expenses for the months since the test year as provided by Douglas.

Q. Do you recommend an adjustment to the cost of service item identified as salaries and wages as presented in Table VI.A on page 24 of the Application?

A. Yes, as with the water cost of service, in the test year and during the period of known and measurable change, the utility did not pay any salaries according to its general ledgers. Also, no pay checks were provided to show that salaries were paid during the test year or since. Therefore, my recommendation is that the $36,778 in expenses for the item salaries and wages be reduced to zero.

Q. For billing purposes how is a sewer customer's usage in gallons usually determined?

A. A customer's water winter months average usage is usually used to determine sewer usage for sewer customers. Due to low outside usage in the winter months, this method reflects the usage that is discharged and thus collected for sewer treatment.

Q. Did Douglas request to use winter months averaging to determine sewer usage in its Application?

A. Yes, it proposed to use the winter months of December, January and February.

Q. Did Douglas use the winter months average to calculate the revenues generated from its sewer customers in its rate design.

A. No, Douglas estimated the total numbers of gallons billed to customers for sewer service as reported in Section VIII on page 27 of the Application. Douglas did not meter all customer water connections during the test year. The estimated gallonage Douglas used in the Application under reports the amount of revenue that is actually generated from sewer customer of the utility. I recommend winter months average gallonage be used to accurately reflect the revenues generated from its sewer customers.

Q. How did you calculate a total number of gallons billed to customers that more accurately reflects the true revenue generate from the utility's sewer customers?

A. First, I reviewed the Water Production Reports provided by TNG, the utility's operating company, for each month of the test year. These closely agree with the total gallons pumped and billed to the utility's customers included in Section VII - Production and Consumption Information –Water on page 14 of the Application. I used this gallonage to determine the revenue generated from water customers of the utility. I then used the total gallonage pumped numbers provide by TNG, minus a six percent reduction for line loss, to calculate a winter months average for the months of December, January and February **(See Exhibit B)**. Based on this actual total for gallons billed to sewer customers, the gallons treated amount used in the Application under-reports the true revenues collected from sewer customers by approximately $30,000, based on the agreed settlement rates **(See Exhibit C)**. Thus, the inaccurate sewer gallonage total in the Application under-represents the amount of revenue generated from Douglas's sewer customers.

REVISED TOTAL REVENUE REQUIREMENT

Q. Have you prepared a revised cost of service and revenue requirement analysis based on your recommendations?

A. Yes, it is attached as **Exhibit D**.

Q. Please Explain your Exhibit D?

A. This exhibit shows a revised cost of service for both water and sewer based on the adjustments recommended in this testimony. It also shows the revised revenues generated based on the actual total gallons billed to sewer customers from this testimony and using the agreed settlement rates. Finally in this exhibit I compare the revised cost of service and the revised revenues generated. This comparison shows that the revenues generated from the agreed settlement rates over recovers the cost of service requirement by $53,336. Therefore, with the settled rates, Douglas over recovers its necessary revenue requirement and should have enough revenue to maintain its present financial integrity.

CONCLUSION

Q. Do you have any recommendations based on your testimony?

A. Yes, using the agreed settlement rates, Douglas should be more than able to cover its cost of service and allowed an opportunity to earn a reasonable return on its invested capital used and useful in rendering service to its customer. Therefore, at the current time Douglas Utility Company's financial integrity is not affected by the rates agreed to in the settlement. The rates as agreed to in the settlement should be approved for Douglas and refunds made to all customers for the difference between the proposed rates in the Application and these agreed rates.

Q. Does this conclude your testimony?

A. Yes it does. However, I reserve the right to supplement my testimony if additional information is made available to me.

BRET W. FENNER, P.E.

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PROFESSIONAL EXPERIENCE

B & D ENVIRONMENTAL, INC.
P.O. Box 500264, Austin, Texas 78750-0264
President, May 1997 to Present
Utility management and consulting - rates and regulations

AQUASOURCE, INC.
1106 Clayton Lane, Suite 400w, Austin, Texas 78723
Manager, January 1998 to May 2000
Regulatory compliance and utility due diligence for acquisitions

TEXAS NATURAL RESOURCE CONSERVATION COMMISSION
Water Utilities Division / Plans Review and Rate Design Section
P. O. Box 13087, Austin, Texas 78711-3087
Engineering Specialist II, November 1990 to May 1997
Water and wastewater utility rates and regulations

TEXAS DEPARTMENT OF PUBLIC SAFETY
Division of Emergency Management
5805 N. Lamar Blvd., Austin, Texas 78752
Engineering Assistant III, February 1989 to January 1990
Emergency facilities inspector

AECO INTERIOR CONTRACTORS
P.O. Box 92190, Houston, Texas 77029
Branch Manager / Project Manager, March 1983 to August 1988
Commercial interior construction

EDUCATION

SOUTHWEST TEXAS STATE UNIVERSITY, SAN MARCOS, TEXAS
Masters of Business Administration, December 1991
Specialization: Management and Finance

UNIVERSITY OF TEXAS, AUSTIN, TEXAS
Bachelors of Science in Architectural Engineering, December 1982
Specialization: Construction Management

PROFESSIONAL REGISTRATION

REGISTERED PROFESSIONAL ENGINEER, STATE OF TEXAS
License No. 81938

REGISTERED REAL ESTATE SALESPERSON, STATE OF TEXAS
License No. 0605704

Exhibit B

Test Year Gallons Pumped Per TNG Water Production Reports	
Jul-11	7,440,700
Aug-11	6,644,200
Sep-11	8,062,800
Oct-11	5,428,260
Nov-11	7,614,000
Dec-11	5,966,000
Jan-12	7,537,000
Feb-12	5,882,000
Mar-12	4,553,000
Apr-12	7,998,000
May-12	7,486,000
Jun-12	5,452,000
Total:	**80,063,960**
Line Loss: 6%	4,803,838
Usage Total:	**75,260,122**

Test Year Gallons Pumped Per Douglas Application	
Water	80,063,960
Sewer	54,780,000

Winter Months Totals	
Dec-11	5,966,000
Jan-12	7,537,000
Feb-12	5,882,000
Total:	**19,385,000**
Line Loss: 6%	1,163,100
Usage Total:	**18,221,900**

Winter Months Average	
Usage Total:	**18,221,900**
Divide by 3	
Average Month	6,073,967
Multiply by 12	
Sewer Usage:	**72,887,600**

Exhibit C

Revenues Generated From Sewer Customers (Winter Months' Average Billing)

Estimated Gallons (Application):	Sewer - 54,780,000

Actual Gallons Billed (Test Year):	Sewer - 72,887,600

Comparisions Estimated Gallons verus Actual Gallons Billed:		
Actual		
Gallonage Rate: 72,887,600 Gallons ÷ 1000 = 72,888 x $ 1.65 =	$	120,265
Estimated		
Gallonage Rate: 54,780,000 Gallons ÷ 1000 = 54,780 x $ 1.65 =	$	(90,387)
Under Reported Revenues Generated:	**$**	**29,878**

Exhibit D

Revised Cost of Service & Revenues Generated Using Settlement Rates

Total Meter Equivalents:	Water- 456	Sewer - 432
Total Gallons Sold (Test Year):	Water - 75,118,887	Sewer (Actual) - 72,887,600

Revised Water Cost of Service:				
Test Year Revenue Requirement per Application:			$	300,825
Deduct:				
Salaries & Wages	$	(38,822)		
Miscellaneous Expense	$	(61,810)		
			$	(100,632)
Water Total:			$	200,193
Revised Sewer Cost of Service:				
Test Year Revenue Requirement per Application:			$	239,512
Deduct:				
Salaries & Wages	$	(36,778)		
			$	(36,778)
Water Total:			$	202,734
Total Revised Revenue Requirement:			**$**	**402,927**

Revised Revenues Generated Using Agreed Settlement Rates:		
Water Rates:		
Gallonage Rate: 75,118,887 Gallons ÷ 1000 = 75,119 x $ 2.00 =	$	150,238
Monthly Base Rate: $15.00 x 456 meter equivalents x 12 months =	$	82,080
Water Total:	$	232,318
Sewer Rates:		
Gallonage Rate: 72,887,600 Gallons ÷ 1000 = 72,888 x $ 1.65 =	$	120,265
Monthly Base Rate: $20.00 x 432 meter equivalents x 12 months =	$	103,680
Sewer Total:	$	223,945
Total Revised Revenue Requirement:	**$**	**456,263**

Comparisions Revised Cost of Service vs. Revised Revenues Generated:		
Revised Revenues Generated Total:	$	456,263
Deduct Revised Cost of Service Total:	$	(402,924)
Over Recovery of Revenue Requirement:	**$**	**53,339**