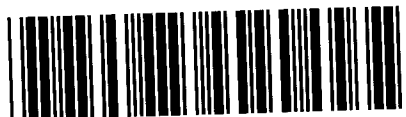


Control Number: 43175



Item Number: 59

Addendum StartPage: 0

SOAH DOCKET NO. 473-15-2274.WS
PUC DOCKET NO. 43175

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PUBLIC UTILITY COMMISSION
FILING CLERK

APPLICATION OF COMMUNITY §
WATER SERVICE, INC. AND §
WALTER J. CARROLL FOR SALE, §
TRANSFER, OR MERGER OF §
FACILITIES AND CERTIFICATE §
RIGHTS IN ELLIS COUNTY (37981-S) §

PUBLIC UTILITY COMMISSION
OF TEXAS

COMMISSION STAFF'S MOTION TO ADMIT EVIDENCE

After the prehearing conference on December 7, 2015, Staff requests that certain evidence be admitted into the record. In support of its Motion to Admit Evidence, Staff states the following:

I. MOTION TO ADMIT EVIDENCE

Staff requests that the following evidence be admitted into the record for the purpose of supporting the administrative law judge's proposal for decision in this proceeding:

- a. Direct Testimony of Elizabeth English, including attachments, filed on November 6, 2015.
- b. Direct Testimony of Fred Bednarski III, including attachments, filed on November 6, 2015.

II. CONCLUSION

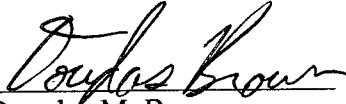
Staff respectfully requests that the evidence specified above be admitted into the record.

Respectfully Submitted,

Margaret Uhlig Pemberton
Division Director
Legal Division

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Stephen Mack
Managing Attorney
Legal Division



Douglas M. Brown
Attorney- Legal Division
State Bar No. 24048366
(512) 936-7203
(512) 936-7268 (facsimile)
Public Utility Commission of Texas
1701 N. Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

DOCKET NO. 43175

CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record December 10, 2015, in accordance with 16 TAC § 22.74.



Douglas M. Brown

**SOAH DOCKET NO. 473-15-2274.WS
PUC DOCKET NO. 43175**

APPLICATION OF COMMUNITY WATER SERVICE, INC. AND WALTER J. CARROLL FOR SALE, TRANSFER, OR MERGER OF FACILITIES AND CERTIFICATE RIGHTS IN ELLIS COUNTY (37981-S)	§ § § § § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS
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COMMISSION STAFF EXHIBIT LIST

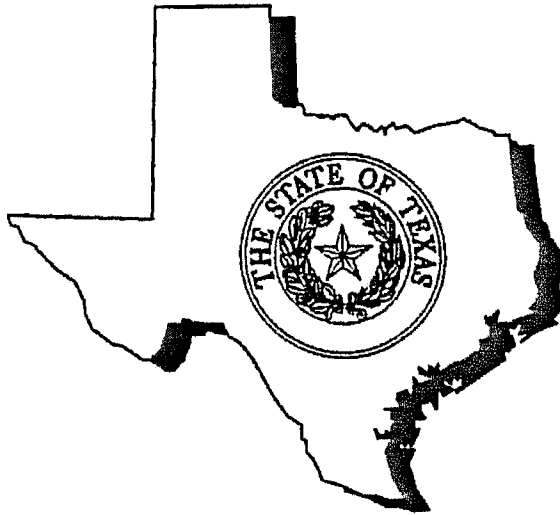
NUMBER	DESCRIPTION	DATE	OFFERED	ADMITTED
1	Direct Testimony of Elisabeth English With attachments EE-1 through EE-4			
2	Direct Testimony of Fred Bednarski III With attachments FB-1 through FB-3			

SOAH DOCKET NO. 473-15-2274.WS
PUC DOCKET NO. 43175

APPLICATION OF COMMUNITY
WATER SERVICE, INC. AND
WALTER J. CARROLL WATER
COMPANY, INC. FOR SALE,
TRANSFER, OR MERGER OF
FACILITIES AND CERTIFICATE
RIGHTS IN ELLIS COUNTY

§
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§

BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE
HEARINGS



DIRECT TESTIMONY OF
FRED BEDNARSKI III
WATER UTILITIES DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS
NOVEMBER 2015

PUC Staff Exhibit No. 2
SOAH DOCKET NO. 473-15-2274.WS
PUC DOCKET NO. 43175

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I. PROFESSIONAL QUALIFICATIONS 3

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VI. CONCLUSION 13

ATTACHMENTS

- Attachment FB-1 Resume of Fred Bednarski III
- Attachment FB-2 Carroll Water's 2014 Tax Engagement Trial Balance
- Attachment FB-3 Water and Wastewater Utilities Annual Reports of Carroll Water for FY2014

I. PROFESSIONAL QUALIFICATIONS

Q. Please state your name and business address.

A. Fred Bednarski III, 1701 N. Congress Avenue, P.O. Box 13326, Austin, Texas 78711.

Q. By whom are you currently employed and how long have you been employed there?

A. I have been employed in the Water Utilities Division of the Public Utility Commission (PUC or Commission) since September 2014. Prior to that, I was employed by the Water Supply Division of the Texas Commission on Environmental Quality (TCEQ) from April 2013 to August 2014 as a Financial & Managerial Review Specialist.

Q. Please describe your educational background and past work experience.

A. I graduated from the University of Texas in Austin with a Bachelor of Liberal Arts degree in Economics and Bachelor of Business Administration degree in Accounting from Texas State University. I was previously employed as an Auditor for the Health & Human Services Commission Office of Inspector General in Austin, Texas. My responsibilities included examining, investigating, and reviewing financial documentation and management practices to ensure legal compliance with state and federal laws, rules, and regulations pertaining to the Medicaid and Children's Health Insurance Programs. I was also employed as a Trading Operations Analyst with the Texas Teacher Retirement System and the State Auditor's Office of Texas as an Auditor. I have worked in the accounting field since August of 1993.

Q. Please describe your current work responsibilities.

A. My responsibilities include reviewing water and sewer retail rate/tariff change applications and reviewing and analyzing information supplied by the applicant in order to recommend

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1 a revenue requirement. I am also responsible for participating in water and sewer utility
2 case settlement negotiations; preparing and providing testimony for evidentiary hearings;
3 and reviewing the outcome of audits of utilities for contested rate applications, wholesale
4 rate appeals, retail rate appeals and cost of service appeals. In addition, I am also
5 responsible for reviewing and processing certificate of convenience and necessity (CCN)
6 applications including Sale/Transfer/Mergers (STMs). I am currently responsible for
7 reviewing, auditing, analyzing, and preparing comprehensive reports of complex business
8 plans and/or financial, managerial, and technical capacity information for retail public
9 water or sewer utilities submitted for review on behalf of the Commission Staff (Staff).

10 **Q. Do you have a prepared resume discussing your professional experience, education,**
11 **and background?**

12 **A. Yes, I do. A copy of my professional resume is attached to my testimony as Attachment**
13 **FB-1 Resume of Fred Bednarski III.**

14 **Q. Did you prepare that document?**

15 **A. Yes, I did.**

16 **Q. How many STM applications and/or rate appeals or cost of obtaining service petitions**
17 **have been previously assigned to you?**

18 **A. I have been assigned approximately 18 STM applications during my employment with the**
19 **Commission and the TCEQ.**

20 **II. PURPOSE & SCOPE OF TESTIMONY**

21 **Q. Are you familiar with the present case?**

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1 A. Yes, I am.

2 Q. Please explain your role in this case.

3 A. My role is to testify on the financial and managerial aspects of the application. Commission
4 Staff Engineering Specialist Ms. Elisabeth English will testify on the technical aspects of
5 the proceeding.

6 Q. Have you reviewed the STM application filed by Community Water Service, Inc.
7 ("Community Water" or "Seller") and Walter J. Carroll Water Company, Inc.
8 ("Carroll Water" or "Purchaser") (collectively called "Applicants"), the testimonies
9 filed, and other information filed with the Commission in this matter?

10 A. Yes, I have.

11 Q. Please explain the scope of your participation in the present proceeding.

12 A. My participation in the present proceeding can be summarized as follows:

13 1. I reviewed the information provided by the Carroll Water in the application and
14 during formal discovery by the parties in this matter.

15 2. I reviewed the financial and managerial information provided by Carroll Water in
16 the application filings with respect to the financial and managerial criteria
17 necessary to obtain or amend a CCN as listed in Tex. Water Code §§ 13.246,
18 13.301 (TWC) and 16 Tex. Admin. Code §§ 24.102(d)(6), 24.102(e), 24.109,
19 24.112 (TAC).

20 3. I reviewed the information filed by all parties as part of formal discovery and pre-
21 filed testimonies for this proceeding.

22 4. I am presenting Commission Staff's (Staff) position on the financial and

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1 managerial capability of Carroll Water to provide the necessary capital investment
2 to ensure continuous and adequate service to the area requested in the purchase
3 and transfer of this transaction and any other area already certificated to Carroll
4 Water. I am also giving Staff's position on Carroll Water's financial stability.

5 **III. TRANSFER OF CCN RIGHTS**

6 **Q. As a result of the proposed transaction, are the Applicants proposing to transfer
7 and/or amend certificate rights?**

8 **A. Yes, Carroll Water proposes to amend its CCN by expanding its water CCN to include the
9 additional area requested in this transaction. The additional area is currently in Community
10 Water's CCN. As a result of the proposed transaction, Community Water's CCN will also
11 be amended to remove the proposed area.**

12 **IV. FINANCIAL CAPABILITY OF CARROLL WATER**

13 **Q. Please describe the procedures you followed in your review of the financial and
14 managerial capabilities of the Purchaser.**

15 **A. For the financial capability review, I reviewed all financial information included in the
16 application, the direct testimonies, all supporting documentation provided by the
17 Applicants and the additional information produced in response to discovery. I looked for
18 evidence of Carroll Water's ability to cover future operating expenses and possible
19 infrastructure investments. I based my analysis on Carroll Water's 2014 Tax Engagement
20 Trial Balance provided in Carroll Water's direct testimony¹, Water and Wastewater**

¹Docket 43175, Item 32, Exhibit A-13, pages 42 thru 44, Attachment FB-2.

1 Utilities Annual Reports of Carroll Water for FY2014², and the Projected Income
2 Statement provided in the application³

3 **Q. What does debt-to-equity ratio mean?**

4 A. The term debt-to-equity ratio is a financial leverage ratio that compares a company's total
5 long-term debt to total equity and speaks to the ability of the company to obtain long-term
6 debt in the near future. The debt-to-equity ratio shows the percentage of a company's or
7 entity's financing that comes from creditors and investors. A higher debt-to-equity ratio
8 indicates that more creditor financing (bank loans) is used than investor financing
9 (shareholders), indicating relatively less ability to obtain future long-term debt. The debt-
10 to-equity ratio is calculated by dividing total long-term debt by total equity. The debt-to-
11 equity ratio is considered a balance sheet ratio because all of the elements are reported on
12 the balance sheet. A ratio of 1:1 or lower is preferred when demonstrating financial
13 capability because it demonstrates the entity uses an equal or greater amount of equity than
14 debt to finance growth, operations, or repairs and improvements. Furthermore, a company
15 with a lower ratio has a greater ability to finance capital improvements in the future through
16 debt funding, and a greater ability to pay its current debts than an entity with a higher debt
17 to equity ratio.

18 **Q. Is it your opinion that Carroll Water is financially stable and has a sufficient debt-to-
19 equity ratio to proceed with this transaction?**

20 A. Yes.

²Docket 43175, Item 38, Annual Report pages 1 thru 7, Attachment FB-3.

³Docket 43175, Item 1, Application for Sale, Transfer or Merger, p. 12 of 22.

1 **Q. Please explain the basis for your opinion.**

2 A. Based on my analysis of Carroll Water's financial information and review of other
3 documentation filed in this docket, Carroll Water has a low degree of financial risk and is
4 financially capable of paying off its existing debts. I will explain this further in my
5 succeeding discussions.

6 **Q. Is Carroll Water's debt-to-equity ratio adequate to acquire the proposed area if the
7 proposed transaction is approved pursuant to TWC §13.246(e)?**

8 A. Yes, as shown in Table 1⁴, Carroll Water had total assets of \$122,979, total liabilities of
9 \$19,146 and equity of \$103,834, as of December 31, 2014. I obtained this information from
10 their 2014 Tax Engagement Trial Balance. The debt-to-equity ratio for Carroll Water was
11 \$19,146 (total long-term debt) to \$103,834 (total equity), which is 18.4% or .184:1 which
12 is well below the acceptable ratio of less than 1:1.

13 **Table 1 – Carroll Water - Debt-to-Equity Ratio**

<u>Fiscal</u> <u>Year</u>	<u>Total Assets</u>	<u>Total</u> <u>Liabilities</u>	<u>Long-Term</u> <u>Debt</u>	<u>Total Equity</u>	<u>Debt-to-</u> <u>Equity</u> <u>Ratio</u>
2014	\$122,979	\$19,146	\$19,146	\$103,834	.184:1

14
15 **Q. What does debt service coverage ratio (DSCR) mean?**

16 A. The debt service coverage ratio (DSCR), also known as debt coverage ratio, is the ratio of

⁴ Docket 43175, Item 32, Exhibit A-13, page 42, Attachment FB-2.

1 cash available for debt servicing to interest, principal and lease payments. It is a popular
2 benchmark used in the measurement of an entity's (person or corporation) ability to
3 produce enough cash to cover its debt (including lease) payments. The higher this ratio is,
4 the easier it is to obtain a loan. The DSCR measures a firm's ability to maintain its current
5 debt levels. This is why a higher ratio is always more favorable than a lower ratio when
6 considering an entity's ability to pay its debts. A higher ratio indicates that there is more
7 income available to pay for debt servicing.

8 For example, if a company had a ratio of one to one, that would mean that the company's
9 net operating profits equal its debt service obligations. In other words, the company
10 generates just enough revenues to pay for its debt servicing. A ratio of less than one means
11 that the company doesn't generate enough operating profits to pay its debt service and must
12 obtain the cash to pay debts somewhere other than its operations, such as savings.
13 Generally, companies with a higher DSCR tend to have more cash and are better able to
14 pay their debt obligations on time.

15 **Q. Is a DSCR calculation appropriate in this case?**

16 **A.** Yes. The DSCR reflects Carroll Water's ability to make annual payments on its long-term
17 debt. It is an appropriate tool to use to help analyze Carroll Water's financial health, and
18 therefore, its ability to provide appropriate infrastructure and operational capital.

19 **Q. What is Carroll Water's DSCR?**

20 **A.** As shown in Table 2, Carroll Water's FY2014 Tax Engagement Trial Balance⁵ indicates

⁵Docket 43175, Item 32, Exhibit A-13, pages 43 and 44, Attachment FB-2.

1 net operating income prior to depreciation of \$79,076 and, per Carroll Water's 2014 Water
2 and Wastewater Annual Report,⁶ debt service paid for the year of \$6,686, which results in
3 a DSCR of 11.83:1. Typically a DSCR of more than 1.25:1 is preferred when using net
4 operating income before depreciation and other non-cash expenses when Staff analyzes
5 financial capability.

6 **Table 2 – Carroll Water DSCR**

<u>Fiscal Year</u>	<u>Net Operating Income Before Depreciation</u>	<u>Debt Service Paid for the Year</u>	<u>Debt Service Coverage Ratio</u>
2014	\$79,076	\$6,686	11.83:1

7 **Q. Does Carroll Water have the financial ability available to maintain infrastructure and**
8 **to provide continuous and adequate services pursuant to TWC §13.301(e)(4)?**

9 **A.** The Applicants noted in the application that there are no necessary major capital
10 improvements needed to meet the TCEQ standards⁷. However, if any future repairs or
11 improvements need to be made, Carroll Water demonstrates sufficient financial strength
12 since they reported \$0.00 current liabilities and a net income of approximately \$55
13 thousand⁸ on their 2014 Tax Engagement Trial Balance⁹, as well as projected net income
14 in the application¹⁰ over the next five years of: Year 1 = \$56,000, Year 2 = \$54,000, Year
15 3 = \$64,000, Year 4 = \$63,000, Year 5 = \$56,000 for a cumulative total net income amount

⁶Docket 43175, Item 38, page 4 of 7, Attachment FB-3.

⁷Docket 43175, Item 1, Application for Sale, Transfer or Merger, p 15 of 22.

⁸Docket 43175, Item 32, Exhibit A-13, page 44, Attachment FB-2.

⁹Docket 43175, Item 32, Exhibit A-13, page 42, Attachment FB-2.

¹⁰Docket 43175, Item 1, Application for Sale, Transfer or Merger, p 12 of 22.

1 of \$293 thousand over the next 5 years. Furthermore, as noted earlier, Carroll Water has
2 an equity balance of \$103,834.

3 **Table 3 – Carroll Water – Historical and Projected Net Income in Thousands**

<u>FY2014</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Projected</u> <u>5 Yr.</u> <u>Total</u>
\$55	\$56	\$54	\$64	\$63	\$56	\$293

4 **Q.** Pursuant to TWC §13.246(d) and 16 TAC §24.102(e), should the Purchaser be
5 required to provide a bond or other financial assurance to ensure that continuous and
6 adequate utility service is provided?

7 **A.** No. In my opinion, a bond or other form of financial assurance to ensure continuous and
8 adequate service is not needed for this proposed transaction. My opinion is based on my
9 analysis of Carroll Water's financial information and my review of other documentation
10 filed in this docket. From my analysis, I determined that the Carroll Water has a low degree
11 of financial risk, is financially capable of paying off existing debts, and has the capability
12 of obtaining debt financing in the future, especially since their debt balance is low. Carroll
13 Water has healthy financial ratios and equity and can fund the utility or obtain funding, if
14 necessary, if an emergency arises.

15 **V. MANAGERIAL CAPABILITY OF CARROLL WATER**

16 **Q.** Please describe your analysis of Carroll Water's managerial capabilities.

17 **A.** I reviewed Carroll Water's application, Texas Commission on Environmental Quality's
18 (TCEQ) Central Registry compliance database, TCEQ's inspection reports, and the

1 testimonies filed in this case. In my review, I found that Carroll Water has been in
2 operation since 1986 and has a licensed operator working for them. Carroll Water currently
3 operates 4 public water systems (PWSs) with approximately 447 connections. Per TCEQ's
4 Central Registry Database, there are no outstanding violations for any of Carroll Water's
5 PWSs. Ms. Elisabeth English addresses the status of Carroll Water's public water systems
6 in greater detail in her testimony.

7 **Q. Do you believe Carroll Water has the managerial capability to provide continuous**
8 **and adequate service to its existing water service area plus the additional area**
9 **requested in this application?**

10 **A. Yes, Carroll Water has a licensed water operator on staff to maintain and operate its PWSs**
11 **and the management has experience overseeing the water utility rates, service policies,**
12 **financing, maintenance and operations.**

13 **Q. Was Community Water's system partially or wholly constructed with customer**
14 **contributions in aid of construction derived from specific surcharges as provided by**
15 **TWC §13.301(j)?**

16 **A. No.¹¹**

17 **Q. Does Community Water currently retain any customer deposits? If so, what is the**
18 **total amount of customer deposits retained?**

19 **A. Yes, Community Water has customer deposits that have been retained that total \$4,825**

20 **Q. Does the seller have proper records to allow deposits and any unpaid interest to be**

¹¹ Docket #43175, Item #1, page 7, question 13.a.

1 returned?

2 A. Yes, the Applicants have identified that unpaid interest exists in the amount of \$90.83.

3 **Q. Will customer deposits be returned to customers or transferred to the purchaser?**

4 A. Before final approval of the transfer of the certificate, Staff will require proof that customer
5 accounts with remaining deposit balances are either transferred to Carroll Water or returned
6 to the customer.

7 **VI. CONCLUSION**

8 **Q. Has the Purchaser demonstrated adequate financial and managerial capability for**
9 **providing continuous and adequate service to the requested area and any areas**
10 **currently certificated to them as required in TWC § 13.301(b) and 16 TAC §**
11 **24.112(b)?**

12 A. Yes. Carroll Water demonstrates adequate financial and managerial capability to provide
13 continuous and adequate service to the area being requested as well as the area already
14 being served by Carroll Water. Carroll Water is in good financial standing and has a sound
15 managerial background with experience in the water utility industry. The addition of this
16 area to Carroll Water's CCN plus the infrastructure being transferred will allow for both
17 growth and development to the area's water utility services. Therefore, I conclude that
18 Carroll Water has the financial and managerial capability to acquire the facilities, assets,
19 and service area requested in this application.

20 **Q. Does this conclude your pre-filed testimony?**

21 A. Yes, however, I reserve the right to supplement this testimony during the course of the
22 hearing or prior to the hearing as new information is presented.

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ATTACHMENT FB-1 RESUME OF FRED BEDNARSKI III

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FRED BEDNARSKI III
820 San Remo Blvd.
Lakeway, Texas 78734
512-786-3989 (H)
512-239-4758 (W)

Education

The University of Texas May 1989
Austin, Texas
Degree: BA/Economics

Southwest Texas State University August 1995
San Marcos, Texas
Degree: BBA/Accounting
GPA Major 3.2

Work Experience

Texas Commission on Environmental Quality
Public Utility Commission of Texas April 13–Present
Austin, Texas
Financial and Managerial Review Specialist

Reviews water/sewer utility retail rate change applications for utility cost of service, and follows up on applications through the final action date to ensure rates are just and reasonable. Conducts special utility audits as directed. Participates in utility case [certificates of convenience and necessity (CCN) or rate] settlement negotiations, preparing/providing testimony for evidentiary hearings, which includes covering the outcome of audits prepared on the books and records of utilities related to rate case proceedings for contested applications/cost of service appeals, CCNs/sale, transfer, and mergers (STMs); and maintaining effective communication and coordination with legal staff and co-workers. Reviews, audits, analyzes, and prepares comprehensive reports of complex business plans and/or financial, managerial, and technical capacity information for public water systems and retail public water or sewer utilities submitted for review as well as provides assistance for public water systems and retail public water or sewer utilities in developing business plans; financial, managerial, and technical information; and in following the strategies set forth in the plans.

Office of Inspector General Texas HHSC Aug 10–March 13
Austin, Texas
Auditor

Performs moderately complex (journey-level) auditing work for the Medicaid/CHIP Audit Unit (MCAU). The work involves examining, investigating, and reviewing financial documentation and management practices to ensure legal compliance with state and federal laws, rules, and regulations pertaining to the Medicaid and Children's Health Insurance Programs. Works as part of audit teams within the MCAU in conducting audits for program economy, efficiency, and effectiveness with a goal of identifying and eliminating waste, abuse, and fraud within the programs. Works under

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general supervision with limited latitude for the use of initiative and independent judgment.

Texas Teacher Retirement System

Aug 04–July 10

Austin, Texas

Trading Operations Analyst

Performs complex analysis, support and accounting of equity trading operations. Work involves assisting in developing and implementing automated processes; assisting in administering trading systems, monitoring the trading and execution and settlement process; researching, reconciling and resolving problems and discrepancies; performing pre- and post-trade analytics; verifying exchange rates and conversions; and providing back up assistance to the Senior Trading Operations Specialist. Helps prepare Board Commission Report.

Texas State Auditor

April 98–Aug 04

Austin, Texas

Staff Auditor

Work involved the examination, investigation, and review of records, reports, financial statements, and management practices to ensure legal compliance with state statutes and internal regulations; and performance of audits for program economy, efficiency, and effectiveness. Team member on several financial audits as well as compliance and management control audits and Team leader for 2 Performance Measure Audits.

JI Specialty Services, Inc.

Aug 97–Dec 97

Austin, Texas

Corporate Accountant

Financial statement preparation, consolidation of statements, intercompany transactions, reconciliation's, cash management, and payroll

Hydrolab Corporation

Sept. 95–Aug 97

Austin, Texas

Staff Accountant

Accounts receivable, monthly sales and commission report preparation, reconciliation of various G/L accounts, deposit preparation, monthly and quarterly sales tax returns, and credit analysis

Ricon Products and Fast

Sept. 95–Sept. 96

Stop Stores, Inc.

Austin, Texas

Accountant

Payroll, accounts receivable, accounts payable, reconcile statements, and post entries to the general ledger

William Bonner CPA

Aug 93–Sept. 94

Austin, Texas

Bookkeeper

Reconciled bank statements, coded and posted checks to the general ledger, and general administrative duties

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Austin Teachers Federal Credit Union
Austin, Texas
Financial Service Representative
Proof Operator

April 93-Sept 94

Awards Received

- Employee of the month (July 29, 1994 Austin Teachers Federal Credit Union)
- The University of Texas Football Letterman 1986 and 1988
- Passed the Audit and Business Law sections of the CPA exam
- Bushel of Fun Award from TRS for demonstrating outstanding dedication by working flexible and long hours to accommodate both International and Domestic Trade Operations
- CGAP exam passed 12/4/2010

Special Skills

- Software Experience: Bloomberg Trading System, Gateway (data management software) PAM (equity security accounting system), Windows, Microsoft Office, Microsoft Excel, Teammate (auditing software), and other accounting software (Peachtree, Mapics, & Quickbooks)
- Attended the National Association of Regulatory Utility Commissioners Utility Rate School from May 12-16, 2014

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**ATTACHMENT FB-2 CARROLL WATER'S 2014 TAX ENGAGEMENT
TRIAL BALANCE**

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SOAH Docket No. 473-15-2274
PUC Docket No. 43175

APPLICATION OF COMMUNITY § BEFORE THE STATE OFFICE
WATER SERVICE, INC. and §
WALTER J. CARROLL CO., INC. § OF
INVESTORS, LP, FOR SALE, TRANSFER, §
OR MERGER OF FACILITIES AND § ADMINISTRATIVE HEARINGS
CERTIFICATE RIGHTS IN ELLIS COUNTY §
Application No. 37981-s

BUSINESS RECORDS AFFIDAVIT

STATE OF TEXAS §
COUNTY OF Ellis §

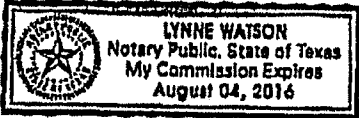
BEFORE ME, the undersigned authority, on this day personally appeared Patty Hilton, who, after being by me duly sworn, upon her oath did state the following:

"My name is Patty Hilton. I am over the age of 18 years and fully competent to testify to the matter stated in this affidavit. I have personal knowledge of the facts and statements contained in this affidavit and each of them is true and correct. I am the Business Administrator and a custodian of the records for Walter J. Carroll Water Co., Inc. and am authorized to make this affidavit on behalf of the Walter J. Carroll Water Co., Inc. Attached to this affidavit are 7 pages of records from the Walter J. Carroll Water Co., Inc. These records are kept by the Walter J. Carroll Water Co., Inc. in the regular course of business, and it was the regular course of business of the Walter J. Carroll Water Co., Inc. for an employee or representative, with knowledge of the acts, events, conditions, opinions, or diagnoses that were recorded, to make these records or to transmit the information to be included in these records. The records were made at or near the time or reasonably soon after the acts, events, conditions, opinions, or diagnoses that were recorded. The records attached to this affidavit are the originals or the exact duplicates of the originals. Further affiant sayeth not."

Patty Hilton
Patty Hilton

SUBSCRIBED and SWORN TO BEFORE ME by Patty Hilton
on the 5 day of May, 2015.

Lynne Watson
NOTARY PUBLIC, STATE OF TEXAS



Business Records Affidavit - Patty Hilton

Applicants' Exhibit
A-1000019

Client: 1588 - Walter J. Carroll Water Co., Inc.
 Engagement: 2014 Tax - Walter J Carroll Water Co, Inc
 Period Ending: 12/31/2014
 Tax Balance: 0001 - S Corporation TB
 Worksheet: S Corporation TB Combined Data8 Classified L3

Account	Description	101 PP-PTAX 12312013	LINADM 12312014	JENef #	FTJE	FTAX 12312014
Group 1 [L1] Cash						
Subgroup: None						
1000 Cash		25,084.77	25,084.77		(7,572.02)	17,114.75
				FTJE - 1	(7,572.02)	
Subtotal: None		25,084.77	25,084.77		(7,572.02)	17,114.75
Total [L1] Cash		25,084.77	25,084.77		(7,572.02)	17,114.75
	Current Assets	25,084.77	25,084.77		(7,572.02)	17,114.75
Group 1 [L10A] Buildings and other depreciable assets						
Subgroup: None						
2001 Equipment		93,338.57	93,338.57		0.00	93,338.57
2002 Tractor, Backhoe, Loader		13,454.46	13,454.46		0.00	13,454.46
2003 Water Well		70,388.78	70,388.78		34,915.83	103,254.58
				FTJE - 8	34,915.83	
2004 Backhoe		8,008.00	8,008.00		0.00	8,008.00
2005 Leasehold Improvements		2,827.53	2,827.53		0.00	2,827.53
2006 2003 Truck		26,723.84	26,723.84		0.00	26,723.84
2007 2006 Truck		33,487.58	33,487.58		0.00	33,487.58
2007.1 2008 Truck		8,875.52	8,875.52		0.00	8,875.52
2008 2012 Honda Civic		21,064.81	21,064.81		0.00	21,064.81
2008 2012 Chevy Silverado		30,379.33	30,379.33		0.00	30,379.33
Subtotal: None		314,815.23	314,815.23		34,915.83	349,731.06
Total [L10A] Buildings and other depreciable assets		314,815.23	314,815.23		34,915.83	349,731.06
Group 1 [L10B] Less accumulated depreciation						
Subgroup: None						
2100 Accum Depreciation		(284,377.00)	(284,377.00)		(23,223.00)	(207,700.00)
				FTJE - 10	(23,223.00)	
Subtotal: None		(284,377.00)	(284,377.00)		(23,223.00)	(207,700.00)
Total [L10B] Less accumulated depreciation		(284,377.00)	(284,377.00)		(23,223.00)	(207,700.00)
Group 1 [L11] Land						
Subgroup: None						
2200 Land		44,190.39	44,190.39		0.00	44,190.39
Subtotal: None		44,190.39	44,190.39		0.00	44,190.39
Total [L11] Land		44,190.39	44,190.39		0.00	44,190.39
	Non-Current Assets	84,231.64	84,231.64		11,832.83	104,864.47
	TOTAL ASSET	119,316.41	119,316.41		2,882.81	122,879.22
	Current Liabilities	0.00	0.00		0.00	0.00
Group 1 [L20] Mortgages, notes, bonds payable in 1 year or more						
Subgroup: None						
2302 Notes Payable - 2012 Chevy Truck		(2,808.81)	(2,808.81)		5,883.08	(18,143.52)
				FTJE - 3	5,883.08	
2303 Notes Payable - 2012 Honda Civic		(12,526.18)	(12,526.18)		12,526.18	0.00
				FTJE - 3	12,526.18	
Subtotal: None		(15,334.99)	(15,334.99)		18,409.26	(18,143.52)
Total [L20] Mortgages, notes, bonds payable in 1 year or more		(15,334.99)	(15,334.99)		18,409.26	(18,143.52)
	Non-Current Liabilities	(15,334.99)	(15,334.99)		18,409.26	(18,143.52)
	TOTAL LIABILITY	(15,334.99)	(15,334.99)		18,409.26	(18,143.52)
Group 1 [L21] Capital stock - Common Stock						
Subgroup: None						
1000 Capital Stock		(1,000.00)	(1,000.00)		0.00	(1,000.00)
Subtotal: None		(1,000.00)	(1,000.00)		0.00	(1,000.00)
Total [L21] Capital stock - Common Stock		(1,000.00)	(1,000.00)		0.00	(1,000.00)
Group 1 [L22] Additional paid-in capital						
Subgroup: None						
1001 Additional Paid in Capital		(633.83)	(633.83)		0.00	(633.83)
Subtotal: None		(633.83)	(633.83)		0.00	(633.83)
Total [L22] Additional paid-in capital		(633.83)	(633.83)		0.00	(633.83)
Group 1 [L23] Retained earnings - Unappropriated - end of year entry is an override						
Subgroup: None						
1500 Dividends		28,282.50	0.00		31,887.99	31,887.99
				FTJE - 1	7,380.00	
				FTJE - 2	21,888.01	
				FTJE - 4	1,232.08	
				FTJE - 7	3,689.00	
Subtotal: None		(80,251.18)	(80,251.03)		0.00	(80,251.03)
Total [L23] Retained earnings - Unappropriated - end of year entry is an override		(80,251.18)	(80,251.03)		32,867.99	(47,383.04)
	Equity	(80,251.18)	(80,251.03)		32,867.99	(47,383.04)
	NET (INCOME) LOSS	(1,884.38)	(1,884.38)		0.00	(1,884.38)
	TOTAL EQUITY	(78,366.80)	(78,135.41)		(31,517.59)	(109,652.90)
	TOTAL LIABILITY AND EQUITY	(119,316.41)	(119,316.41)		(2,882.81)	(122,879.22)
Group 1 [81A] Gross receipts or gross sales						

Client: 17818 - Water & Carroll Water Co., Inc.
 Engagement: 2018 Tax - Water & Carroll Water Co, Inc
 Period Ending: 12/31/2018
 Trial Balance: 6/20/18 - S Corporation TB
 Worksheet: S Corporation TB Combined Detail Classified LS

Account	Description	141 PF-FTAX	UNADJ	JE Ref #	FTJE	FTAX
		12010293	12010214			12010294
Subgroup : None						
4000	Water Sales	784,753.09	0.00		(272,051.13)	(272,051.13)
				FTJE - 1	(200,012.10)	
				FTJE - 2	(8,038.93)	
4001	Customer Rchrd	0.00	0.00		268.11	268.11
				FTJE - 1	268.11	
Subtotal : None		784,753.09	0.00		(271,782.92)	(271,782.92)
Total [01A] Gross receipts or gross sales		784,753.09	0.00		(271,782.92)	(271,782.92)
Revenue		784,753.09	0.00		(271,782.92)	(271,782.92)
Group : [08]	Other Income					
Subgroup : None						
4500	Late Fees	0.00	0.00		(7,815.00)	(7,815.00)
4501	Reconnect Fees	0.00	0.00	FTJE - 2	(7,815.00)	
					(4,138.17)	
4502	Tap Fees	0.00	0.00	FTJE - 3	(4,138.17)	
					(3,000.00)	
4503	Adaptations	0.00	0.00	FTJE - 2	(3,000.00)	
					(567.84)	
Subtotal : None		0.00	0.00		(15,521.04)	(15,521.04)
Total [02] Other Income		0.00	0.00		(15,521.04)	(15,521.04)
Other Income		0.00	0.00		(15,521.04)	(15,521.04)
TOTAL REVENUE		784,753.09	0.00		(287,303.96)	(287,303.96)
Group : [A07]	CGR-Other costs (Beh A)					
Subgroup : None						
5000	Chlorine	9,007.98	0.00		9,818.46	9,818.46
5001	Repairs and Maintenance	50,494.62	0.00	FTJE - 1	9,818.46	
					30,700.10	
5002	Aids Expense	12,531.73	0.00	FTJE - 1	74,888.03	
					(34,866.83)	
5003	Utilities	28,405.25	0.00	FTJE - 1	9,949.78	9,949.78
					9,840.79	
5004	Water Samples	1,800.22	0.00	FTJE - 1	33,000.81	33,000.81
					3,211.03	
Subtotal : None		115,819.78	0.00		87,772.36	87,772.36
Total [A07] CGR-Other costs (Beh A)		115,819.78	0.00		87,772.36	87,772.36
Cost of Sales		115,819.78	0.00		87,772.36	87,772.36
Group : [08]	Salaries and wages					
Subgroup : None						
6010	Wages	73,800.00	0.00		74,873.00	74,873.00
				FTJE - 1	81,341.25	
				FTJE - 8	10,813.76	
Subtotal : None		73,800.00	0.00		74,873.00	74,873.00
Total [08] Salaries and wages		73,800.00	0.00		74,873.00	74,873.00
Group : [12]	Taxes and Licenses					
Subgroup : None						
6011	Taxes - Payroll Tax Expense	5,883.50	0.00		5,904.30	5,904.30
				FTJE - 1	23,163.38	
				FTJE - 7	(3,584.00)	
6012	Taxes - Property	1,954.68	0.00		(12,868.08)	
				FTJE - 8	1,788.06	1,788.06
Subtotal : None		7,837.18	0.00		1,788.06	1,788.06
Total [12] Taxes and Licenses		7,837.18	0.00		7,703.33	7,703.33
Group : [13]	Interest					
Subgroup : None						
6504	Interest Expense	1,073.00	0.00		1,073.73	1,073.73
				FTJE - 1	7,554.98	
				FTJE - 3	(6,522.11)	
				FTJE - 3	11.28	
Subtotal : None		1,073.00	0.00		1,073.73	1,073.73
Total [13] Interest		1,073.00	0.00		1,073.73	1,073.73
Group : [14]	Depreciation expense					
Subgroup : None						
6900	Depreciation	7,098.00	0.00		23,323.00	23,323.00
				FTJE - 10	23,323.00	
Subtotal : None		7,098.00	0.00		23,323.00	23,323.00
Total [14] Depreciation expense		7,098.00	0.00		23,323.00	23,323.00
Group : [15]	Other deductions					
Subgroup : None						
6000	Professional Fees	6,251.50	0.00		0.00	0.00
6001	Bank Fees	1,022.14	0.00		812.54	812.54
				FTJE - 1	812.54	
6002	Insurance	3,812.00	0.00		2,920.57	2,920.57
				FTJE - 1	4,173.65	
6003	Legal and Professional	0.00	0.00		(1,253.08)	
				FTJE - 4	3,465.00	3,465.00

Client: 1287 - Water & Carroll Water Co., Inc.
 Engagement: 3014 Tax - Water & Carroll Water Co., Inc.
 Period Ending: 12/31/2014
 Trial Balance: S Corporations TB
 Worksheet: S Corporation TB Combined Gwa# Classified LS

Account	Description	141 PP-PTAX 12/31/2014	UNADJ 12/31/2014	JE Ref #	FTJE	FTAX 12/31/2014
6008	Office Expense	7,018.81	0.00	FTJE - 1	3,458.00	
					3,433.29	3,433.29
				FTJE - 1	2,238.80	
					184.30	
6009	Regulatory Expense	3,287.46	0.00		3,226.28	3,226.28
6011	Telephone	4,873.71	0.00	FTJE - 1	2,328.28	
					8,992.26	8,992.26
6015	Fees	282.96	0.00	FTJE - 1	623.22	
					161.54	
6020	Miscellaneous	73.63	0.00	FTJE - 1	600.77	600.77
					3,882.88	3,882.88
				FTJE - 1	810.75	
					10,280.16	
				FTJE - 8	(11,283.42)	
					(1,738.03)	
				FTJE - 8	(247.23)	
Subtotal: None		39,642.15	0.00		28,903.35	28,903.35
Total [18] Other Deductions		39,642.15	0.00		28,903.35	28,903.35
Operating Expenses		118,648.63	0.00		126,879.67	126,879.67
Other Expenses		0.00	0.00		0.00	0.00
TOTAL EXPENSES		118,648.63	0.00		126,879.67	126,879.67
NET (INCOME) LOSS		(10,254.28)	0.00		(25,783.63)	(25,783.63)
Sum of Account Groups		0.00	0.00		0.00	0.00

5/1/2015
4:28 PM

Client: 13698 - Walter J. Carroll Water Co., Inc.
 Engagement: 2014 Tax - Walter J Carroll Water Co, Inc
 Period Ending: 12/31/2014
 Trial Balance: 0400.1 - S Corporation TB
 Workpaper: Federal Tax Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
Federal Tax Journal Entries JE # 1		0900.07		
To record current year activity				
3500	Distributions		7,380.00	
4001	Customer Refund		269.11	
5000	Chlorine		9,819.98	
5001	Repairs and Maintenance		74,655.93	
5002	Auto Expense		9,949.76	
5003	Utilities		33,090.61	
5004	Water Samples		3,211.93	
6001	Bank Fees		812.54	
6003	Insurance		4,173.65	
6004	Interest Expense		7,584.58	
6005	Legal and Professional		3,455.00	
6006	Office Expense		194.30	
6006	Office Expense		5,238.99	
6006	Regulatory Expense		3,326.28	
6011	Taxes - Payroll Tax Expenses		22,165.39	
6013	Telephone		6,531.22	
6016	Wages		61,361.25	
6018	Fines		600.77	
6020	Miscellaneous		810.76	
6020	Miscellaneous		19,350.18	
1000	Cash			7,970.02
4000	Water Sales			268,012.18
Total			<u>273,982.20</u>	<u>273,982.20</u>
Federal Tax Journal Entries JE # 2				
Adjust other income				
3500	Distributions		21,660.91	
4000	Water Sales			6,038.95
4500	Late Fees			7,916.00
4501	Reconnect Fees			4,139.12
4502	Tap Fees			3,000.00
4503	Adjustments			567.64
Total			<u>21,660.91</u>	<u>21,660.91</u>
Federal Tax Journal Entries JE # 3				
To adjust interest and loans				
2802	Notes Payable - 2012 Chevy Truck		5,863.08	
2803	Notes Payable - 2012 Honda Civic		697.99	
6013	Telephone		161.04	
6004	Interest Expense			6,522.11
Total			<u>6,522.11</u>	<u>6,522.11</u>
Federal Tax Journal Entries JE # 4				
To adjust Ted Insurance				
3500	Distributions		1,253.08	

5/1/2015
4:28 PM

Client: 13898 - Walter J. Carroll Water Co., Inc.
 Engagement: 2014 Tax - Walter J Carroll Water Co, Inc
 Period Ending: 12/31/2014
 Trial Balance: 0400.1 - S Corporation TB
 Workpaper: Federal Tax Journal Entries Report

Account	Description	WIP Ref	Debit	Credit
6003	Insurance			1,253.08
Total			<u>1,253.08</u>	<u>1,253.08</u>
Federal Tax Journal Entries JE # 5				
To adjust the Honda Civic pay off				
2803	Notes Payable - 2012 Honda Civic		11,841.18	
6004	Interest Expense		11.28	
6020	Miscellaneous			11,852.42
Total			<u>11,852.42</u>	<u>11,852.42</u>
Federal Tax Journal Entries JE # 6				
To adjust Misc				
6012	Taxes - Property		1,798.05	
6020	Miscellaneous			1,798.05
Total			<u>1,798.05</u>	<u>1,798.05</u>
Federal Tax Journal Entries JE # 7				
To adjust Ted Est Tax Payments				
3500	Distributions		3,594.00	
6011	Taxes - Payroll Tax Expenses			3,594.00
Total			<u>3,594.00</u>	<u>3,594.00</u>
Federal Tax Journal Entries JE # 8				
To adjust wages				
6016	Wages		13,613.75	
6011	Taxes - Payroll Tax Expenses			12,866.19
6020	Miscellaneous			847.56
Total			<u>13,613.75</u>	<u>13,613.75</u>
Federal Tax Journal Entries JE # 9				
To adjust repairs				
2003	Water Well		34,955.83	
5001	Repairs and Maintenance			34,955.83
Total			<u>34,955.83</u>	<u>34,955.83</u>
Federal Tax Journal Entries JE # 10				
To adjust depreciation				
9000	Depreciation		23,323.00	
2500	Accum Depreciation			23,323.00
Total			<u>23,323.00</u>	<u>23,323.00</u>

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3:50 PM
04/10/15
Accrual Basis

Carroll Water Company, Inc.
Balance Sheet
As of December 31, 2014

	<u>Dec 31, 14</u>
ASSETS	
Current Assets	
Checking/Savings Carroll Water Company, Inc.	<u>36,252.70</u>
Total Checking/Savings	<u>36,252.70</u>
Total Current Assets	<u>36,252.70</u>
TOTAL ASSETS	<u><u>36,252.70</u></u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Credit Cards Chase CC	<u>-1,917.37</u>
Total Credit Cards	<u>-1,917.37</u>
Total Current Liabilities	<u>-1,917.37</u>
Total Liabilities	<u>-1,917.37</u>
Equity	
Opening Balance Equity	33,549.88
Retained Earnings	12,590.13
Net Income	<u>-7,879.02</u>
Total Equity	<u>38,170.07</u>
TOTAL LIABILITIES & EQUITY	<u><u>38,252.70</u></u>

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04/10/18
Accrual Basis

Carroll Water Company, Inc.
Profit & Loss
January through December 2014

	<u>Jan - Dec 14</u>
Ordinary Income/Expense	
Income	
Bank Deposits	<u>268,012.18</u>
Total Income	<u>268,012.18</u>
Gross Profit	<u>268,012.18</u>
Expense	
Accounting & Legal Fees	3,455.00
Bank Account Analysis	812.64
Deposit Corrections	810.75
Gas	8,848.75
Installation Loans	7,584.58
Insurance	4,173.85
Miscellaneous	19,350.16
Office Supplies	3,238.88
Payroll Expenses	61,361.25
Phones	8,531.22
Quickbooks Support	184.30
Return Checks	600.77
Supplies, Parts, Repairs	74,655.93
TCEQ Fees	3,328.28
water deposit refunds	288.11
Water Samples	3,211.93
Well Electric Bills	<u>33,680.61</u>
Total Expense	<u>234,616.83</u>
Net Ordinary Income	<u>31,395.35</u>
Other Income/Expense	
Other Expense	
Payroll Taxes	22,185.39
Water Carroll	7,380.00
Water Use Fees	<u>9,819.98</u>
Total Other Expense	<u>39,385.37</u>
Net Other Income	<u>-39,385.37</u>
Net Income	<u><u>-7,970.02</u></u>

**ATTACHMENT FB-3 WATER AND WASTEWATER UTILITIES
ANNUAL REPORTS OF CARROLL WATER FOR FY 2014**

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**WATER AND WASTEWATER UTILITIES
ANNUAL REPORT**

Docket No. _____

(this number will be assigned by the Public Utility Commission after your document is filed)

of
Carroll Water Co., Inc.
Exact Legal Name of Utility/Respondent

11543
Certificate of Convenience and Necessity (CCN) No.

Submitted to the



for the

Calendar Year Ended

12-31-2014

Page 1 of 7

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Section 1: Utility Information

Utility Name Carroll Water Co., Inc.
 Address 513 Winding Creek Trail
Red Oak, Tx 75154

Please check this box if your Official Address, which is noted on the enclosed letter, has changed.

Telephone Number 972-617-0817 Fax Number 972-617-0817
 E-mail Address carrollwater@att.net
 Contact Person Patty Hilton Title Secretary

Check the business ownership entity of the utility as filed with the Internal Revenue Service

Individual Partnership Corporation Nonprofit Association

Section 2: Utility Background

Water CCN No. _____
 Number of FWSs 11543
 TCEQ PWS ID No. 4
 TCEQ PWS ID No. 0700063, 0700068
(If the utility has more PWS ID Nos., please indicate in Section 10)
0700067, 0700064

Number of Wastewater Systems _____
 Sewer CCN No. _____
 TCEQ Sewer Discharge Permit No. _____
 TCEQ Sewer Discharge Permit No. _____
(If the utility has more Discharge Permit Nos., please indicate in Section 10)

Section 3: Revenues

	Water	Wastewater	Total <small>Water + Wastewater</small>
OPERATING REVENUES:			
Utility Service/Sales	256,160	—	\$ 0.00
Fees (Tap, Reconnection, etc.)	15,622	—	\$ 0.00
OTHER REVENUES:			
Please Identify:	—	—	\$ 0.00
TOTAL REVENUES	271,782	\$ 0.00	\$ 0.00

Section 4: Expenses

	Water	Wastewater	Total <small>Water + Wastewater</small>
Salaries & Wages	73,800	/	\$ 0.00
Contract Labor	1,790	/	\$ 0.00
Purchased Water	-0-	/	\$ 0.00
Chemicals for Treatment	9,820	/	\$ 0.00
Utilities (electricity)	33,091	/	\$ 0.00
Repairs/Maintenance/Supplies	39,700	/	\$ 0.00
Office Expenses (1)	13,539	/	\$ 0.00
Professional Fees (Accounting, Legal)	3,455	/	\$ 0.00
Insurance	2,921	/	\$ 0.00
Depreciation & Amortization	23,323	/	\$ 0.00
Miscellaneous (describe in remarks below) (1)	11,980	/	\$ 0.00
Subtotal	213,419	\$ 0.00	\$ 0.00
Taxes:			
Federal Income Taxes	5,901	/	\$ 0.00
Property and Other Taxes (Payroll, etc.)	1,798	/	\$ 0.00
Regulatory Expenses (Rate Case, Permits)	3,336	/	\$ 0.00
Other (describe in remarks below) (2)	9,950	/	\$ 0.00
TOTAL EXPENSES	234,394	\$ 0.00	\$ 0.00

Remarks: (1) Includes samples, training, & other fees
 (2) Includes vehicle loans & other misc.
 (3) Includes bank fees & telephones

Section 5: Operating Items

Debt Information:

Annual interest expense on long and/or short term debt?	\$ 5,824.68
Annual principal payment on debt?	\$ 861.72
Annual interest rate on debt?	4.49 %
Annual debt principal and interest?	\$ 6,686.40
Principal balance on outstanding debt at end of this reporting period?	\$ 19,645.77

Regulatory Assessment Fee:
 What was the Regulatory Assessment fee amount submitted to TCEQ for the applicable Calendar Year
 \$ 2,599.99

Rate Changes
 What was the effective date of the last Rate Change?
 0700063
 0700064
 0700057
 0700058 July 2010

Section 6: Customer Information

Connection Type	Number of Connections at	
	Beginning of the Calendar Year	End of the Calendar Year
Water		
Total	454	456

Connection Type	Number of Connections at	
	Beginning of the Calendar Year	End of the Calendar Year
Wastewater		
Total	—	—

Section 7: Water Production & Consumption

A What is the total amount of water produced/pumped? 514,273 gallons
 B What is the total amount of water sold/billed? 316,373 gallons
 C How much water was lost? 197,894 gallons
 What is the total percent of water lost? 39 %

To calculate the above, please reference the attached document Water and Wastewater Utilities Annual Report Instructions. Comments?

Section 8: Wastewater Treated

What is the total amount of wastewater treated? NA gallons
 Comments?

Section 9: Utility Management & Operations Assessment

Utility Policy and Procedures

- Do you have an Application Form or Formal Process for New Customers? Yes No
- Do you have a copy of your approved tariff and drought contingency plan for customers to review? Yes No
- Do you have Written Operating Procedures for Routine Operations? Yes No
- Do you have Written Emergency Actions Plan(s)? Yes No
- Do you have Written Personnel Procedures? Yes No
- Do you have Risk Management & Safety Policies? Yes No
- Do you have Customer Service Policies (including billing & collection)? Yes No
- Do you have a Written Budget (normally updated annually)? Yes No

Did you or any utility staff attend any other utility/business related conferences?
this year? If so, please list them in Section 10.

Do you record complaints or keep a complaint log?

Yes No

Is a customer service representative, water system employee, or
answering service accessible by phone at all times to all customers?

Yes No

Rules and Regulations

If you own/operate a public water system, do you have a copy of
or have access to 30 Texas Administrative Code (TAC) Chapter 2907?

Yes No

If you own/operate a sewer system, do you have a copy of or have access
to 30 TAC 30 Subchapter J, 30 TAC 217, 30 TAC 308, and 30 TAC 309?

Yes No

Do you have a copy of or have access to the TAC 167?

Yes No

Do you have a copy of or have access to Texas Water Code Chapter 157?

Yes No

Administrative Information

Do you notify customers prior to shutting down the system for repairs?

Yes No Sometimes Only if greater than 2 hours

How do you keep your customers informed?

Billing Statements Newsletter Meetings

Other _____

Are water records kept separate from other business and personal records?

Yes No

Are records kept for additions to fixed assets?

Yes No

Is the financial position of the system reviewed at least quarterly?

Yes No

Are accounting records for water and wastewater kept separately?

Yes No

Section 10: Remarks (please feel free to attach additional pages if necessary)

PW ID# 0700064
0700058
6700057
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Section 11: Sworn Statement

I HEREBY CERTIFY THAT THE INFORMATION PROVIDED IN THIS REPORT IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF. (This document MUST be signed by the President or Owner of the Utility)

This 29 day of May, 2015.

President or Owner:

Walter J. Carroll

(Signature)

Walter J. Carroll

(Printed name)

SOAH DOCKET NO. 473-15-2274.WS
PUC DOCKET NO. 43175

2015 NOV -6 PM 1:07

APPLICATION OF COMMUNITY
WATER SERVICE INC. AND WALTER
J. CARROLL FOR SALE, TRANSFER,
OR MERGER OF FACILITIES AND
CERTIFICATE RIGHTS IN ELLIS
COUNTY (37981-S)

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BEFORE THE STATE OFFICE

OF

ADMINISTRATIVE

HEARINGS



DIRECT TESTIMONY OF
ELISABETH ENGLISH
WATER UTILITY DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS
NOVEMBER 2015

PUC Staff Exhibit No. 1
SOAH DOCKET NO. 473-15-2274.WS
PUC DOCKET NO. 43175

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I. PROFESSIONAL QUALIFICATIONS

Q. Please state your name and business address.

A. Elisabeth English, Public Utility Commission of Texas, 1701 N. Congress Avenue, Austin, Texas 78711-3326.

Q. By whom are you currently employed and in what capacity?

A. I have been employed by the Public Utility Commission of Texas (PUC or Commission) since December 1, 2014, as an Engineering Specialist IV in the Water Utilities Division.

Q. What are your principal responsibilities at the Commission?

A. My responsibilities include: reviewing and processing applications to obtain or amend certificates of convenience and necessity (CCN); reviewing rate filings and participating in negotiating settlements; preparing testimony and exhibits for contested case matters involving investor-owned, non-profit and governmental water and sewer utilities; and conducting rate-related inspections of water or sewer utility systems within the state.

Q. Please state your educational background and professional experience.

A. I have provided a summary of my educational background and professional regulatory experience in attachment EE-1.

Q. Please explain how your previous experience relates to this docket.

A. My previous experience directly relates to the regulatory oversight of public water systems (PWS) in Texas. From March 2009 to August 2012, I was a PWS regional investigator for the Texas Commission on Environmental Quality (TCEQ), and from August 2013 until November 2014 I worked in the TCEQ's central office in the Public Drinking Water Division. As an investigator, I conducted Comprehensive Compliance Investigations (CCI)

1 which evaluated PWS's compliance with 30 Tex. Admin. Code § 290, Subchapter D (TAC).

2 My role while working at the TCEQ in its central office included working on multiple
3 drinking water compliance programs which evaluated PWS's compliance with 30 TAC §
4 290, Subchapter F. Pursuant to the PUC's rules in 16 TAC §24.102(a)(1), the review and
5 processing of applications to obtain or amend a water CCN requires the PUC to ensure that
6 the applicant has a TCEQ approved PWS, or a contract for purchased water, and that the
7 applicant is capable of providing drinking water that meets the requirements of Tex. Health
8 and Safety Code §341 (HSC). In turn, the HSC requires that PWSs comply with the standards
9 set forth in 30 TAC §290, Subchapters D and F.

10 **Q. On whose behalf are you testifying?**

11 A. I am testifying on behalf of the Staff of the PUC (Staff).

12 **II. PURPOSE AND SCOPE OF TESTIMONY**

13 **Q. What is the purpose of your testimony?**

14 A. I will provide a recommendation in regards to the Walter J. Carroll Water Company, Inc.'s
15 ("Carroll Water" or "Purchaser") and Community Water Service, Inc.'s ("Community" or
16 "Seller") (collectively called "Applicants") joint application to amend their respective water
17 CCNs via a Sale, Transfer, or Merger (STM) as filed on July 11, 2014.

18 **Q. Please explain the scope of your participation in the present proceeding.**

19 A. My participation regarding State Office of Administrative Hearings (SOAH) Docket No.
20 473-15-2274.WS may be summarized as follows:

1 1. I reviewed the STM application in accordance with 16 TAC §24.109 and Tex.

2 Water Code § 13.30 (TWC) and with respect to the criteria necessary to obtain or
3 amend a CCN, as found in the TWC § 13.246 and 16 TAC §§ 24.102 and 24.105.

4 2. I reviewed the information provided by all parties during formal discovery.

5 3. I reviewed the other parties' pre-filed testimonies.

6 **Q. What are the specific criteria that you considered in your review?**

7 A. The review of an STM application is considered under 16 TAC § 24.109 *Report of Sale,*
8 *Merger, Etc.; Investigation; Disallowance of Transaction;* 16 TAC § 24.102 *Criteria for*
9 *Considering and Granting Certificates or Amendments;* and 16 TAC § 24.112 *Transfer of*
10 *Certificate of Convenience and Necessity.* My review was focused on the technical
11 capabilities of the Purchaser's ability to acquire the system as well as on whether the
12 transaction will serve the public interest.

13 **Q. What are the Applicants requesting through this application?**

14 A. The Applicants are requesting that the Commission approve the transfer of a portion of the
15 service area of water CCN No. 10091 held by Community to Carroll Water, as well as
16 approve the purchase of facilities and the acquisition of existing customers in the applicable
17 service area. As a result of the proposed transaction, water CCN No. 11543, held by Carroll
18 Water, will be expanded to include the requested area and CCN No. 10091, held by
19 Community, will be amended to remove the requested area. The requested area is currently
20 dually certified to Community and the City of Red Oak (City). Consequently, the application
21 requests for continuation of the dual certification. As a result of the proposed transaction,
22 dual certification will change from Community and the City to dual certification between
23 Carroll Water and the City. The proposed transaction includes approximately 63 acres of

1 certificated area, the facilities associated with the PWS known as Red Oak Community
2 Water Service (PWS ID 0700056) and 90 service connections.

3 **Q. Did anyone protest this application?**

4 A. Yes, the application was protested by the City. The City is currently dually certificated with
5 Community. If the transaction is approved, the City will be dually certificated with Carroll
6 Water.

7 **Q. What is the effective date of the proposed sale?**

8 A. The Applicants provided public notice of the proposed sale on December 19, 2014, per the
9 affidavit provided by Carroll Water. Notice was provided to current customers by regular
10 mail and to neighboring utilities and affected parties, including the City of Lancaster, Rocket
11 Special Utility District, City of Glenn Heights, City of Ovilla, Cozy Waterworks, City of
12 Red Oak, City of Oak Leaf, City of Waxahachie, Trinity River Authority of Texas and Ellis
13 County. Based on my review of the notices, I believe proper notice was provided regarding
14 the proposed transaction. Pursuant to 16 TAC § 24.109(a), on or before the 120th day before
15 the effective date of a proposed STM, the utility shall file a STM application with the
16 Commission and give proper notice of the proposed transaction. The 120-day period begins
17 on the last day that the Applicants provided the required notices of the proposed transaction.
18 For this application, the Applicants' affidavit states that notice was provided on December
19 19, 2014. 16 TAC § 24.109(e) states that prior to the expiration of the 120-day notification
20 period, which started December 19, 2014, the Commission shall either approve the sale
21 administratively or require a public hearing to determine if the transaction will serve the
22 public interest. In this case, the Commission referred the application to SOAH for a hearing
23 prior to the expiration of the 120-day period. Had the Commission not referred the

1 application to SOAH, the effective date could have been at the end of the 120-day period
2 (which was April 18, 2015) or at any time after the Commission notifies the utility that a
3 hearing was not going to be requested [TWC § 13.301(f)]. However, because the
4 Commission referred the STM to SOAH to hold a hearing, the STM may not be completed
5 unless the Commission determines that the proposed transaction serves the public interest as
6 required by TWC § 13.301(g). Based on this criteria, there is no effective date of the sale at
7 this time until a determination regarding the public interest has been made by the
8 Commission.

9 **Q. Has the Commission approved the sale?**

10 A. No. A hearing was requested and therefore the sale has not been completed as proposed.

11 **Q. In your opinion, has the Purchaser demonstrated the technical capability to provide**
12 **continuous and adequate service to the requested area and any areas currently**
13 **certificated to the Purchaser?**

14 A. The Purchaser, Carroll Water, is the responsible utility for CCN No. 11543 which includes
15 the following four PWSs in Ellis County:

<u>PWS ID</u>	<u>Name</u>	<u>Last Inspected</u>
0700057	LAKEVIEW RANCHETTES	09/19/2013
0700058	EMERALD FOREST	09/19/2013
0700063	GRANDE CASA	09/19/2013
0700064	SPANISH GRANT SUBDIVISION	09/19/2013

1 During the last Comprehensive Compliance Investigation¹ (CCI) conducted by the TCEQ,
2 violations of 30 TAC § 290, Subchapter D were cited, which were subsequently resolved by
3 the Purchaser as of April, 2015 as per the TCEQ's Central Registry Database. At this time,
4 all Carroll Water PWS's are in compliance with the applicable rules².

5 The PWSs are operated by Ricky L. Reeder (License No. WG0008722), who is Ground
6 Water Class C certified operator. PWSs that treat groundwater and serve no more than 250
7 customers must employ an operator with a Class "D" or higher license, pursuant to 30 TAC
8 § 290.46(e)(4)(A). All PWSs, including the PWSs involved in the proposed transaction, are
9 groundwater systems and have less than 250 service connections. Additionally, the Purchaser
10 is managed by Mr. Walter J. Carroll, who held a Water Operator Class D (No. WO0004726)
11 license from 1981-2003.

12 It is my professional opinion that the Purchaser demonstrates the technical capability to
13 provide continuous and adequate service to its existing area plus the area requested in this
14 transaction. This is supported by the compliance standing of the PWSs operated by the
15 Purchaser and the license held by its certified operator.

16 **Q. In your opinion, is the water service currently provided in the area adequate?**

17 A. The proposed purchased area receives service from PWS 0700056. PWS 0700056 is owned
18 and operated by the Seller and is located within the certificated area of CCN No. 10091, held
19 by the Seller. The PWS is a ground water system that serves 90³ service connections. The
20 PWS is required to provide 0.6 Gallons per minute (GPM) per connection (conn.) of

¹ See attachment EE-2.

² See attachment EE-2.

³ The application states that the total connection count is 84 (page 16 of 22); the TCEQ database Drinking Water Watch (DWW) and the most recent CCI states that the system has 90 connections, which is the official record for compliance determinations.

1 production capacity, 200 Gallons per conn. (GPC) of total storage capacity, 20 GPC of
2 pressure tank capacity, and 2 GPM per conn. of service pump capacity pursuant to 30 TAC
3 § 290.45. Minimum capacity requirements can be calculated by multiplying the connection
4 count by the TCEQ prescribed capacity requirements, as previously stated. Therefore, the
5 following are the required PWS capacities for PWS 0700056:

6 Production = 54 GPM

7 Total Storage = 18,000 G

8 Pressure tank = 1,800 G

9 Service Pump = 180 GPM

10 The provided capacities of PWS 0700056 are as follows:

11 Production = 110 GPM

12 Total Storage = 55,000 G

13 Pressure tank = 2,500 G

14 Service Pump = 300 GPM

15 The above provided capacities are based upon the TCEQ CCI dated April 7, 2015.⁴

16 As illustrated above, the facilities serving the purchased area meet the TCEQ minimum
17 capacity requirements and are therefore adequate. Additionally, the CCI did not find any
18 violation of 30 TAC Subchapter D, and is therefore in compliance at this time and it is my
19 opinion that the service currently provided in the area is adequate.

20 **Q. In your opinion, is additional service needed in the requested area?**

⁴ Attachment EE-3.

1 This application is for the STM of existing facilities, customers and service area. No
2 landowners, prospective landowners, tenants, or residents have requested service and the
3 Applicants did not apply to add additional uncertificated area to the CCNs. Therefore, the
4 need for additional service in the requested area was not considered.

5 **Q. In your opinion , what is the effect of the granting a CCN amendment on the Applicants,**
6 **on the landowners in the area, and on any retail public utility of the same kind already**
7 **servng the proximate area?**

8 A. The effect of the proposed transaction is that it would amend the existing CCNs of both the
9 Purchaser and the Seller. The Seller's CCN service area would be decreased by the 63 acres
10 to be transferred to the Purchaser. In turn, the Purchaser's CCN service area would increase
11 by 63 acres to acquire the existing service area. Because the requested area is currently
12 dually certified to the City and the Seller, the transaction would shift the dual certification
13 between the City and the Purchaser if the transaction is approved by the Commission. The
14 facilities and existing customers of the Seller that are currently in the 63 acres would be
15 transferred to the Purchaser; however, the retail rates would not change for these customers
16 due to the transfer. Currently, the customers and landowners in the proposed area can seek
17 service from either the City or the Seller, since the area is dually certificated to both. If the
18 transaction is approved, the customers and landowners in the area will be able to seek service
19 from either the City or the Purchaser. There are no other retail public utilities of the same
20 kind that would be affected by the proposed transaction.

21 **Q. In your opinion, and taking into consideration the current and projected density and**
22 **land use of the area, does the purchaser have the ability to provide adequate service**
23 **and meet the standards of the TCEQ?**

1 A. Yes. As explained earlier in my testimony, the Purchaser demonstrates the technical
2 capability to provide retail water utility service to the proposed area. The Applicants did not
3 provide any detail on the projected density or land use of the area; however, those factors are
4 not being analyzed because the Applicants are not seeking to expand the service area outside
5 of currently certificated boundaries. Furthermore, PWS 0700056 is currently in compliance
6 with TCEQ capacity regulations and is capable of providing adequate service to the existing
7 customers.

8 **Q. In your opinion, is it feasible to obtain service from an adjacent retail public utility?**

9 A. Yes, it is possible that the area could be served by the City. In fact, the City is already dually
10 certified to serve in the area. However, the facilities, including the water distribution lines
11 that serve the proposed area, are not owned by the City. If the City were to serve the existing
12 customers, additional infrastructure and capital investment would be needed in order to
13 provide the service.

14 **Q. In your opinion, what is the effect of approving the sale on environmental integrity?**

15 A. Because the area is served with existing infrastructure, the transfer of the facilities from
16 Community to Carroll Water does not require any construction or disruption of the
17 environment and will maintain the environmental integrity of the area.

18 **Q. In your opinion, what is the probable improvement of service resulting from the
19 proposed sale?**

20 A. The service will be maintained in accordance with the way in which it is currently operated.
21 Based on the application, the Applicants did not anticipate any needed upgrades or changes
22 in the operation of the PWS which would indicate an improvement in service. It should be

1 noted that the Applicants stated in the application, and in testimony, that Community no
2 longer desires to operate and maintain the facilities associated with the certificated area.

3 **Q. Was the notice required by TWC § 13.301(k) provided?**

4 A. Yes. TWC § 13.301 (k) requires that the seller notify the purchaser of the STM requirements
5 prior to signing an agreement. The agreement (provided in the application) that the Buyer
6 and Seller entered into, and the joint filing of this application, serve as notice of the regulatory
7 requirements. The agreement states that the transaction cannot be completed until the
8 Commission approves the sale, and that the Seller is responsible for the operation of the PWS
9 up until that point.

10 **Q. Was the notice required by 16 TAC § 24.112(c) provided?**

11 A. Yes. As previously stated in my testimony, the Applicants provided proper notice of the
12 application on December 19, 2014. The Applicants filed an affidavit supporting the mailed
13 notice on January 26, 2015. The notice included an accurate description of the applicable
14 area, the anticipated effect of the acquisition on the rates and the services provided to
15 customers being transferred, and information about commenting to the Commission on the
16 application. The notice was provided in accordance with 16 TAC § 24.112(c).

17 **Q. In your opinion, does the water system being purchased have any deficiencies or
18 problems that need correction to be in compliance with the TCEQ or the Commission?**

19 A. No. As stated above, the PWS being purchased does not have any outstanding violations,
20 which supports compliance with TCEQ regulations. In the pre-filed testimony of John W.
21 Birkhoff, P.E. (representing the City), potential deficiencies or problems were raised.
22 Specifically, Mr. Birkhoff states that the water distribution lines of the PWS are 2 inch lines.
23 Mr. Birkhoff refers to the distribution map provided by the Applicants, which does not