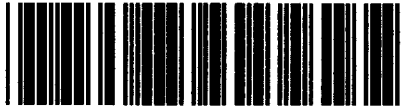




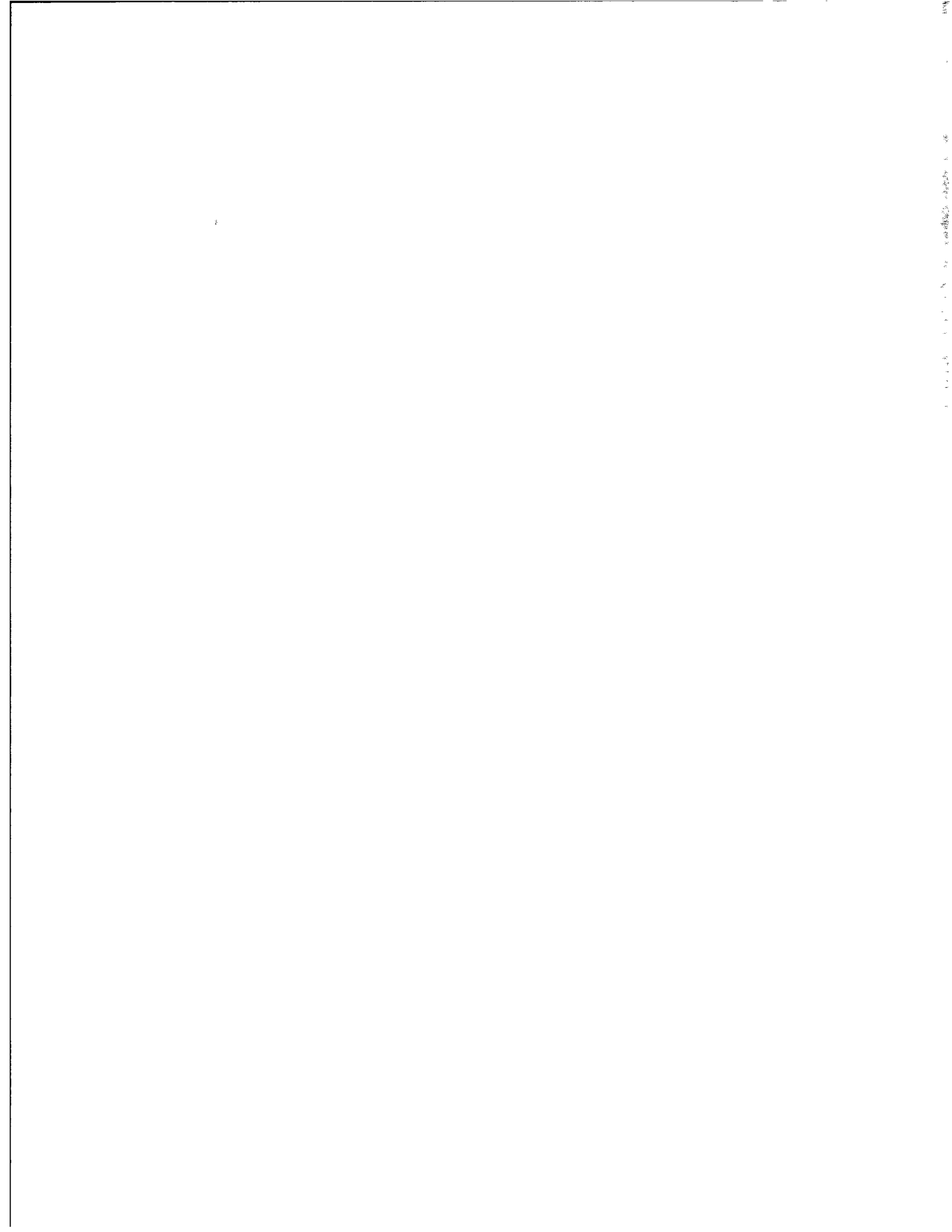
Control Number: 43922



Item Number: 10

Addendum StartPage: 0

House Bill (HB) 1600 and Senate Bill (SB) 567 83<sup>rd</sup>  
Legislature, Regular Session, transferred the functions  
relating to the economic regulation of water and sewer  
utilities from the TCEQ to the PUC effective  
September 1, 2014



SOAH DOCKET NO. 582-09-4288  
TCEQ DOCKET NO. 2009-0505-UCR

RECEIVED

2014 DEC -9 AM 9:49

WATER RATE/TARIFF CHANGE  
APPLICATION OF DOUBLE DIAMOND  
UTILITIES CO. IN HILL, PALO PINTO,  
AND JOHNSON COUNTIES, TEXAS,  
APPLICATION NO. 36220-R

§  
§  
§  
§  
§  
§  
§  
§  
§  
§

BEFORE THE STATE OF TEXAS COMMISSION  
FILING CLERK

OF

ADMINISTRATIVE HEARINGS

7:00 OCT -3 PM 3:47

STATE OF TEXAS  
ADV. DIV. 100



DIRECT TESTIMONY OF  
ELSIE PASCUA  
UTILITIES & DISTRICTS SECTION  
WATER SUPPLY DIVISION  
TEXAS COMMISSION ON ENVIRONMENTAL QUALITY  
APRIL 29, 2010

EXHIBIT  
ED-1

2018 MAR 01 10:10:10

## Index of Attachments

Attachments	Details
EP-1	ED's recommended revenue requirement for The Retreat
EP-2	ED's recommended O&M, other taxes, and federal income taxes for The Retreat
EP-3	ED's recommended weighted cost of capital and invested capital and return for The Retreat
EP-4	ED's recommended federal income taxes for The Retreat
EP-5	ED's recommended revenue requirement for The Cliffs
EP-6	ED's recommended O&M, other taxes, and federal income taxes for The Cliffs
EP-7	ED's recommended weighted cost of capital and invested capital and return for The Cliffs
EP-8	ED's recommended federal income taxes for The Cliffs' water system
EP-9	ED's recommended revenue requirement for White Bluff's water system
EP-10	ED's recommended O&M, other taxes, and federal income taxes for White Bluff
EP-11	ED's recommended weighted cost of capital and invested capital and return for White Bluff
EP-12	ED's recommended federal income taxes for White Bluff's water system
EP-13	Staff adjustments to the cost of service for The Retreat
EP-14	Staff adjustments to the cost of service for The Cliffs
EP-15	Staff adjustments to the cost of service for White Bluff
EP-16	Staff adjustments to salaries and the payroll burden for all three water systems
EP-17	Staff calculations of the RORs for all three water systems
EP-18	Staff expense allocations between the three systems
EP-19	DDU's Direct Assignment and Allocation of Labor Transfer Expense
EP-20	DDU's general ledgers for 2007 for The Retreat with staff notations
EP-21	DDU's general ledgers for 2007 for The Cliffs with staff notations
EP-22	DDU's general ledgers for 2007 for White Bluff with staff notations
EP-23	Cover page of DDU's rate change application
EP-24	Aqua America's interest rates for the long-term debt of its subsidiaries
EP-25	DDU's ROR worksheet calculation (Ex. DDU-18)
EP-26	DDU's Comparison of Requested Revenue Requirement to Revenue

	Requirement Presented in Application (Ex. DDU -19) with staff notations
EP-27	DDU's Reconciliation of 2007 Booked Values to 2007 Test Year Application Values
EP-28	DDU's Non-Consolidated Cost of Service and Revenue Requirement for all three systems (Ex. DDU-21)
EP-29	Allocation of DDU's outstanding loans ( <del>Attachment 9 to the application</del> ) with staff notations
EP-30	ED's recommended revenue requirement for The Retreat and White Bluff
EP-31	ED's recommended O&M, other taxes, and federal income taxes for The Retreat and White Bluff
EP-32	ED's recommended weighted cost of capital and invested capital and return for The Retreat and White Bluff
EP-33	ED's recommended federal income taxes for The Retreat
EP-34	Resume of Elsie Pascua

1 **Q. Please state your name and business address for the record.**

2 A. Elsie N. Pascua, 12015 Park 35 Circle, Building F, Austin, Texas.

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

4 A. I am currently employed by the Water Supply Division of the Texas Commission on  
5 Environmental Quality (TCEQ or Commission) as an Accountant/Auditor.

6 **Q. Please describe your current job responsibilities.**

7 A. My responsibilities include reviewing and processing contested and uncontested rate  
8 applications; sale, transfer, and merger applications; applications to obtain and amend  
9 certificates of convenience and necessity; rate appeals; and cost of obtaining service  
10 appeals filed with the TCEQ. For contested applications, I attend and participate in  
11 settlement negotiations and prepare testimony and exhibits for evidentiary hearings. My work  
12 also involves conducting audits of the books and records of both water and sewer utilities  
13 and performing special or management audits for both water and sewer utilities.

14 **Q. Please describe your educational background and your past professional experience.**

15 A. I graduated with a Bachelor of Science degree in Business Administration with a major in  
16 Accounting from the Philippine School of Business Administration. I attended a year of  
17 graduate studies at Manuel L. Quezon University. I have over thirty-five years of experience  
18 in bookkeeping, auditing, budgeting, and accounting in the private and governmental  
19 sectors. My private sector experience includes the Philippine Scout Veterans Security  
20 Agency, Inc., Fema Trading Corp., Monterey Institute of International Studies, Rainier  
21 Mortgage Corp., and GDP Corp. My governmental experience includes the VII Corps  
22 Finance Group of the United States Army and the TCEQ. I have been employed at the  
23 TCEQ for fifteen years and have been at my current position primarily in the areas of water  
24 and sewer rate analysis for eleven years. I have attached my resume as **Attachment EP-34**.

25 **Q. In the course of your employment in the ratemaking area, approximately how many**  
26 **rate applications and rate appeals have you reviewed?**

- 1 A. I have reviewed more than 300 rate applications and rate appeals.
- 2 **Q. Approximately how many of these rate applications have been contested?**
- 3 A. I have participated in approximately 225 contested rate application matters.
- 4 **Q. Have you taken any formal ratemaking seminars or training classes?**
- 5 A. Yes. I attended the National Association of Regulatory Utility Commissioners (NARUC)
- 6 school in October 1998 and May 2009. I have also attended rate training classes held
- 7 internally at the TCEQ.
- 8 **Q. What is the NARUC school?**
- 9 A. It is a week-long intensive training course regarding the ratemaking process which includes
- 10 a review of a practical rate application.
- 11 **Q. Have you previously testified live at contested rate case hearings, and if so, how**
- 12 **many?**
- 13 A. Yes, I have testified live at approximately seventeen contested rate case hearings.
- 14 **Q. In connection with SOAH Docket No. 582-09-4288, have you performed an**
- 15 **examination and review of the rate application and supporting information provided**
- 16 **by Double Diamond Utilities Co. (DDU)?**
- 17 A. Yes, I have.
- 18 **Q. What standards did you apply during your review?**
- 19 A. I performed my review according to the ratemaking standards established by chapter 13 of
- 20 the Texas Water Code and title 30, chapter 291 of the Texas Administrative Code.
- 21 **Q. In connection with SOAH Docket No. 582-09-4288, have you performed a site visit and**
- 22 **audit of the utility's records, and if so, when?**
- 23 A. Yes. Mr. Brian Dickey, TCEQ staff engineering specialist assigned to this case, and I visited
- 24 DDU's office to perform an audit and examination of the utility's records on July 22 and 23,
- 25 2009.
- 26 **Q. Please explain the purpose of your testimony.**



1 A. The purpose of my testimony is to present the Executive Director (ED) of the TCEQ's  
2 recommendation as to the reasonable costs of service and revenue requirements for the test  
3 period contained in DDU's rate application.

4 **Q. What is meant by the term "cost of service"?**

5 A. The cost of service is part of the ratemaking formula set forth in section 291.31 of the  
6 TCEQ's rules. One component of the cost of service is the amount of revenue required to  
7 cover all reasonable and necessary expenses incurred by the utility in providing service to its  
8 customers. The other component allows the utility an opportunity to earn a fair and  
9 reasonable return on its invested capital used in providing service.

10 **Q. What documentation do you typically examine to determine if the applicant has**  
11 **supported its cost of service?**

12 A. I examine copies of invoices, general ledgers, and other financial records and  
13 documentation submitted by the utility during the course of the case for costs that occurred  
14 during the test period.

15 **Q. What test period have you used to review DDU's cost of service?**

16 A. I have used the test period of January 2007 through December 2007, as adjusted for known  
17 and measurable changes for the year ending December 2008.

18 **Q. Why have you used this test period?**

19 A. This is the test period used by DDU in its rate/tariff change application filed on October 23,  
20 2008. **Attachment EP-23** shows the application filing date. The entire application can be  
21 found in Exhibit DDU-1.

22 **Q. Did you review the cost of service listed in the application?**

23 A. Yes.

24 **Q. How did DDU list the cost of service in the application?**

25 A. DDU listed the combined cost of service on page 14 of the application for all three water  
26 systems, which are The Retreat, The Cliffs, and White Bluff.

1 Q. Did you prepare a separate cost of service for each water system?

2 A. Yes.

3 Q. Why did you prepare three separate costs of service rather than one cost of service  
4 as DDU did in its application?

5 A. In the application, DDU provided one cost of service but then two rates without fully  
6 demonstrating how it calculated those two rates from the one cost of service. I needed to  
7 know the cost of service for each system to see how the separate rates were calculated and  
8 address whether the water systems at The Retreat and White Bluff are substantially similar  
9 in terms of cost of service.

10 Q. Why did you need to determine if the systems at The Retreat and White Bluff are  
11 substantially similar in terms of cost of service?

12 A. Under section 291.21(m)(1), if DDU wishes to consolidate those systems under a single  
13 tariff, it must show that the systems are substantially similar in terms of cost of service.  
14 Therefore, I did two cost of service evaluations to determine if the costs are substantially  
15 similar. Based on these evaluations, the total cost of service for White Bluff is \$500,180.00  
16 with a per meter equivalent cost of \$61.66 per month, and the total cost of service for The  
17 Retreat is \$254,641.00 with a per meter equivalent cost of \$268.61 per month. **Attachments**  
18 **EP-1** and **EP-9** show the cost of service calculations for The Retreat and White Bluff,  
19 respectively, and **Attachments BDD-7** and **BDD-16** to Mr. Dickey's testimony show the  
20 connection counts and meter equivalents for the two systems. My calculations show that the  
21 cost of service per meter equivalent at White Bluff is 77% higher than the same amount for  
22 The Retreat. Furthermore, DDU employs a separate utility manager, utility operator, and  
23 utility assistants for the two systems, showing that DDU operates these two systems  
24 separately and that the two systems do not share all their costs. Because the costs of  
25 service for the two systems are so different and the two systems are operated separately, I  
26 do not believe that The Retreat and White Bluff are substantially similar in terms of cost of

1 service. Mr. Dickey will discuss the other factors found in section 291.21(m) in his testimony.

2 **Q. Did you read the other parties' prefiled testimonies, exhibits, and discovery responses**  
3 **and all other information submitted by the other parties?**

4 A. Yes.

5 **Q. Was your testimony prepared by you as a result of your review and examination of**  
6 **these items?**

7 A. Yes.

8 **Q At the audit conducted in July 2009, what records did DDU provide for you to review?**

9 A. DDU provided invoices, general ledgers, W2s, a list of affiliated companies, and other  
10 financial records for 2007 and 2008.

11 **Q. While reviewing the financial records, did you notice anything that caught your**  
12 **attention with regard to the general ledgers, and if so, please explain?**

13 A. Yes, I noticed that all three water systems also have a companion sewer system. DDU's  
14 statement of operations and the general ledgers for 2007 listed the combined expenses for  
15 DDU's water and sewer systems. DDU did not provide general ledgers which separated the  
16 expenses for the water systems from the expenses for the sewer systems. Instead, DDU  
17 provided multiple allocation methods for separating the water and sewer expenses in its  
18 application, which is not the way to determine the true and accurate expenses and other  
19 income for each type of system. In addition, DDU listed several assets as expenses rather  
20 than depreciating them in the depreciation schedule. If those assets remained in the  
21 expense categories, DDU would recoup the entire cost of those assets year after year until it  
22 files a new rate change application.

23 **Q. Do you have any schedules included with your testimony?**

24 A. Yes.

25 **Q. Who prepared these schedules?**

26 A. I did.

1 Q. **Would you please describe what is presented on these schedules?**

2 A. I have included the following schedules:

- 3 1. **Attachments EP-1 through EP-4**, relating to DDU's revenue requirement for The  
4 Retreat's water system.
- 5 2. **Attachments EP-5 through EP-8**, relating to DDU's revenue requirement for The  
6 Cliffs' water system.
- 7 3. **Attachments EP-9 through EP-12**, relating to DDU's revenue requirement for White  
8 Bluff's water system.
- 9 4. **Attachment EP-13**, relating to staff adjustments to the cost of service for The  
10 Retreat's water system.
- 11 5. **Attachment EP-14**, relating to staff adjustments to the cost of service for The Cliffs'  
12 water system.
- 13 6. **Attachment EP-15**, relating to staff adjustments to the cost of service for White  
14 Bluff's water system.
- 15 7. **Attachment EP-16**, relating to staff adjustments to salaries and the payroll burden  
16 for all three water systems.
- 17 8. **Attachment EP-17**: relating to staff calculations of the rates of return (RORs).
- 18 9. **Attachment EP-18**: relating to staff expense allocations between the three systems.

19 Q. **What other documents have you also included with your testimony?**

20 A. I have also included the following documents:

- 21 1. **Attachment EP-19**: Direct Assignment and Allocation of Labor Transfer Expense,  
22 WP-2, attachment 10 to the application with staff notations.
- 23 2. **Attachments EP-20 through EP-22**: DDU's general ledgers for 2007 with staff  
24 notations.

- 1           3.       **Attachment EP-23:** cover page of DDU's rate change application.
- 2           4.       **Attachment EP-24:** relating to Aqua America's interest rates for the long-term
- 3                 debt of its subsidiaries.
- 4           5.       **Attachment EP-25:** DDU's ROR worksheet calculation (Ex. DDU-18).
- 5           6.       **Attachment EP-26:** DDU's comparison of its requested revenue requirement versus
- 6                 the revenue requirement in the application (Ex. DDU -19) with staff notations.
- 7           7.       **Attachment EP-27:** DDU's Reconciliation of 2007 Booked Values to 2007 Test Year
- 8                 Application Values.
- 9           8.       **Attachment EP-28:** DDU's Non-Consolidated Cost of Service and Revenue
- 10                Requirement for all three systems (Ex. DDU-21).
- 11           9.       **Attachment EP-29:** Allocation of DDU's outstanding loans (~~Attachment 9 to the~~
- 12                 application).
- 13           10.      **Attachment EP-30 through 33:** relating to DDU's combined revenue requirement
- 14                 for The Retreat's and White Bluff's water systems.
- 15           11.      **Attachment EP-34:** Resume of Elsie Pascua.

16 **Q.     Can you explain in greater detail what is shown on these attachments?**

17 **A.     Attachments EP-1 through EP-18 and EP-29 ~~EP-30~~ through EP-33** are true and correct  
18 copies of the schedules I prepared for this proceeding. **Attachments EP-19 through EP-23**  
19 **and EP-25 through EP-28 ~~EP-29~~** are provided as reference materials for my cost of service  
20 adjustments. Other than staff notations, these exhibits were not prepared by me directly but  
21 were prepared by DDU. An explanation of some of these exhibits is listed below.

22 **The Retreat:**

23 In **Attachment EP-1**, column (c) itemizes the 2007 test year revenue requirement as  
24 presented in DDU's general ledger for The Retreat. Column (d) represents my proposed

1 adjustments to DDU's requested revenue requirement for its test year. Column (e) shows my  
2 proposed revenue requirement.

3 **Attachment EP-2** contains a more detailed explanation of my calculations for operations  
4 and maintenance, other taxes, and federal income taxes.

5 **Attachment EP-3** shows my calculations of the weighted cost of capital, invested capital,  
6 and return.

7 **Attachment EP-4** shows my calculation of the federal income taxes.

8 **The Cliffs:**

9 In **Attachment EP-5**, column (c) itemizes the 2007 test year revenue requirement as  
10 presented in DDU's general ledger for The Cliffs. Column (d) represents my proposed  
11 adjustments to DDU's requested revenue requirement for its test year. Column (e) shows my  
12 proposed revenue requirement.

13 **Attachment EP-6** contains a more detailed explanation of my calculations for operations  
14 and maintenance, other taxes, and federal income taxes.

15 **Attachment EP-7** shows my calculations of the weighted cost of capital, invested capital,  
16 and return.

17 **Attachment EP-8** shows my calculation of the federal income taxes.

18 **White Bluff:**

19 In **Attachment EP-9**, column (c) itemizes the 2007 test year revenue requirement as  
20 presented in DDU's general ledger for White Bluff. Column (d) represents my proposed  
21 adjustments to DDU's requested revenue requirement for its test year. Column (e) shows my  
22 proposed revenue requirement.

23 **Attachment EP-10** contains a more detailed explanation of my calculations for operations  
24 and maintenance, other taxes, and federal income taxes.

25 **Attachment EP-11** shows my calculations of the weighted cost of capital, invested capital,

1           **Attachment EP-12** shows my calculation of the federal income taxes.

2   **Q.   As a result of your examination of DDU's rate application and additional information**  
3           **supplied by the utility, have you proposed any adjustments to the utility's requested**  
4           **revenue requirements for its water systems?**

5   A.   Yes, I used DDU's application, general ledgers, and statement of operations for 2007 as a  
6           baseline for the costs of service and revenue requirements, subject to the adjustments  
7           outlined below. Please refer to **Attachments EP-13 through EP-18** for my recommended  
8           adjustments. Items listed in the general ledgers must be supported by invoices or other  
9           documentation, so I made adjustments to expenses listed in the general ledger that were not  
10          supported by such documentation.

11 **Q.   In their prefiled testimonies, Dr. Victoria Harkins, P.E. and Mr. Chris Ekrut, witnesses**  
12          **for DDU, stated they were making revisions to DDU's application. Did you and Mr.**  
13          **Dickey use those revisions as the baseline for your analyses of the application?**

14 A.   No, we did not. DDU's witnesses are attempting to amend the application, which under  
15          section 291.25(g) of the TCEQ's rules can only be done upon a showing of good cause. This  
16          means DDU needed to file a motion with the administrative law judge seeking a finding of  
17          good cause and, therefore, permission to amend its application. Because DDU has not filed  
18          such a motion, Mr. Dickey and I used the original application as our baseline. However, in  
19          some instances, we did make some of the same changes made by DDU's witnesses when  
20          we believed those changes were justified.

21 **Q.   What adjustments did you make to DDU's requested revenue requirements?**

22 A.   The following are my proposed adjustments to DDU's revenue requirement for each water  
23          system:

24          **The Retreat (Accounting Code 6090):**

25          DDU did not separate the revenue requirement for The Retreat and White Bluff in its

1 application. In order to determine the revenue requirement for each system, I used the  
2 allocations provided in Attachment 10 to the application and **Attachments EP-26 and EP-28**  
3 to arrive at each system's revenue requirement. Please refer to **Attachment EP-18** for my  
4 allocation and starting value for each expense category. For The Retreat, I calculated an  
5 operations and maintenance expense of \$44,045 after making the following adjustments:

6 **1. Salaries and Wages are reduced by \$16,877.00.**

7 I reduced the salaries and wages by \$16,877.00. According to **Attachment EP-27**,  
8 The Retreat's water system's share of DDU's salaries totaled \$24,204.00. Starting  
9 with that amount, I removed the salaries for employees who were terminated during  
10 2007 and 2008, which totaled \$23,762.00, but added the salaries for employees who  
11 were hired in 2008, which totaled \$6,885.00. I calculated my proposed adjustments  
12 using the 2007 and 2008 W2s for each employee, with the 2008 W2s depicting the  
13 known and measurable changes to the test year. Please refer to **Attachments EP-**  
14 **13 and EP-16** for these adjustments.

15 **2. Chemicals for Treatment are reduced by \$28.00.**

16 I reduced chemicals for treatment by \$28.00. According to the general ledgers, this  
17 amount was for sewer testing, which is a sewer expense, not a water expense.  
18 Please refer to **Attachment EP-13** for this adjustment.

19 **3. Repairs/Maintenance/Supplies are reduced by \$13,506.00.**

20 I reduced repairs/maintenance/supplies by \$13,506.00. I removed \$742.00 for an  
21 item that DDU returned but did not record a corresponding credit in the general  
22 ledger and \$409.00 for Wallele connect lift station, as this is a sewer expense. Also,  
23 I reclassified \$12,355.00 to the depreciation schedule for assets to reflect the same  
24 adjustment that Dr. Harkins made in her depreciation schedule. Please refer to  
25 **Attachment EP-13** for these adjustments.

26 **4. Accounting and Legal Fees are reduced by \$4,892.00.**



1           **4. Accounting and Legal Fees are reduced by \$4,892.00.**

2           I reduced the accounting and legal fees by \$4,892.00. I removed the following  
3           expenses: wastewater permit for \$1,215.00, sewer rate case expense for \$1,067.00,  
4           and wastewater engineering master plan for water and sewer for \$2,400.00 (half of  
5           \$4,800.00 for the sewer portion). These are sewer expenses, not water expenses. I  
6           also disallowed \$210.00 for a TCEQ penalty against James E. Lyles for not having a  
7           required occupational license, as the customers should not have to pay for this legal  
8           violation. The net effect of these adjustments results in a negative amount for this  
9           expense account because DDU had allocated the expenses instead of using the  
10          actual amount in the general ledger, which is \$7,292.00. Please refer to **Attachment**  
11          **EP-13** for these adjustments.

12          **5. Payroll Taxes are reduced by \$162.00.**

13          I reduced the payroll taxes by \$162.00 for the portion of the payroll tax burden that  
14          corresponds with my salary adjustments. I subtracted \$836.00 for employees  
15          terminated in 2007 and 2008 and added \$674.00 for employees hired in 2008.  
16          Please refer to **Attachments EP-13** and **EP-16** for these adjustments.

17          **The Cliffs (Accounting Code 8090):**

18          DDU provided a separate cost of service for The Cliffs in the amount of \$488,305.00. In  
19          order to determine the revenue requirement for each system, I used the allocations provided  
20          in Attachment 10 to the application and **Attachments EP-26** and **EP-28** to arrive at each  
21          system's revenue requirement. Please refer to **Attachment EP-18** for my allocation and  
22          starting value for each expense category. For The Cliffs, I calculated an operations and  
23          maintenance expense of \$270,782.00 after making the following adjustments:

24          **1. Salaries and Wages are reduced by \$28,034.00.**

25          I reduced the salaries and wages by \$28,034.00. According to **Attachment EP-26**,  
26          The Cliffs' water system's share of DDU's salaries totaled \$98,301.00. Starting with

1 that amount, I removed the salaries for employees who were terminated during 2007  
2 and 2008, which totaled \$57,640.00, but added the salaries for employees who were  
3 hired in 2008, which totaled \$29,606.00. I calculated my proposed adjustments using  
4 the 2007 and 2008 W2s for each employee, with the 2008 W2s depicting the known  
5 and measurable changes to the test year. Please refer to **Attachments EP-14** and  
6 **EP-16** for these adjustments.

7 **2. Chemicals for Treatment are reduced by \$1,449.00.**

8 I removed \$1,449.00 for sewer chemicals, as that is a sewer expense, not a water  
9 expense. Please refer to **Attachment EP-14** for this adjustment.

10 **3. Repairs/Maintenance/Supplies are reduced by \$142,427.00.**

11 I reduced repairs/maintenance/supplies by \$142,427.00. I removed \$19,484.00 for a  
12 reverse osmosis (RO) unit rental and \$860 for an electric hook-up for the RO unit  
13 because that particular RO unit was disconnected in May 2007. I also removed  
14 \$1,105.00 for an ultrafiltration (UF) pilot study because, as Mr. Dickey will testify to,  
15 the TCEQ has not approved the use of the UF unit. I reclassified \$74,357.00 to the  
16 depreciation schedule for assets to reflect the same adjustment that Dr. Harkins  
17 made in her depreciation schedule. I also reclassified another \$44,759.00  
18 ~~\$46,621.00~~ to the depreciation schedule for assets, which are listed in **Attachment**  
19 **BDD-2**. Please see **Attachment EP-14** for these adjustments.

20 **4. Accounting and Legal Fees are reduced by \$30,104.00.**

21 I reduced the accounting and legal fees by \$30,104. I removed \$28,025.00 for  
22 engineer expenses that should be included in the depreciation schedule once the  
23 applicable asset is constructed. I recommend that DDU maintain a log for each asset  
24 listing each engineering service for that asset so it can track those costs in the  
25 future. I also removed sewer rate case expenses for \$1,067.00 and preparation and  
26 submittal of DMRs, 8/2005-1/2007 for \$1,012.00. These are both sewer expenses,

1 not water expenses. The net effect of these adjustments results in a negative  
2 amount for this expense account because DDU had allocated the expenses instead  
3 of using the actual amount in the general ledger, which is \$32,603.00. Please see  
4 **Attachment EP-14** for these adjustments.

5 **5. Payroll Taxes are reduced by \$2,745.00 ~~\$696.00~~.**

6 I reduced the payroll taxes by \$2,745.00 ~~\$696.00~~ for the portion of the payroll tax  
7 burden that corresponds with my salary adjustments. I subtracted \$5,643.00  
8 ~~\$3,594.00~~ for employees terminated in 2007 and 2008 and added \$2,898.00 for  
9 employees hired in 2008. Please refer to **Attachments EP-14** and **EP-16** for these  
10 adjustments.

11 **White Bluff (Accounting Code 9090):**

12 DDU did not separate the revenue requirement for The Retreat and White Bluff in its  
13 application. In order to determine the revenue requirement for each system, I used the  
14 allocations provided in Attachment 10 to the application and **Attachments ED-26** and **ED-28**  
15 to arrive at each system's revenue requirement. Please refer to **Attachments EP-15** and **EP**  
16 **16** for my allocation and starting value for each expense category. For White Bluff, I  
17 calculated an operations and maintenance expense of \$318,245.00 after making the  
18 following adjustments:

19 **1. Salaries and Wages are reduced by \$9,982.00.**

20 I reduced the salaries and wages by \$9,982.00. According to **Attachment EP-27**,  
21 White Bluff's water system's share of DDU's salaries totaled \$106,853.00. Starting  
22 with that amount, I removed the salaries for employees who were terminated during  
23 2007 and 2008, which totaled \$42,342.00, but added the salaries for employees who  
24 were hired in 2008, which totaled \$32,360.00. I calculated my proposed adjustments  
25 using the 2007 and 2008 W2s for each employee, with the 2008 W2s depicting the  
26 known and measurable changes to the test year. Please refer to **Attachments EP-**

1           **15** and **EP-16** for these adjustments.

2           **3. Repairs/Maintenance/Supplies are reduced by \$102,698.00.**

3           I reduced repairs/maintenance/supplies by \$102,698.00. I reclassified \$82,228.00 to  
4           the depreciation schedule for assets to reflect the same adjustment that Dr. Harkins  
5           made in her depreciation schedule. I reclassified another \$17,563.00 to the  
6           depreciation schedule for assets, which are listed in **Attachment BDD-4**. I also  
7           removed \$2,706.00 for sludge pumping and \$200.00 (half of \$400.00 for the sewer  
8           portion) of a water and sewer expense. These were sewer expenses, not water  
9           expenses. Please refer to **Attachment EP-15** for these adjustments.

10          **4. Accounting and Legal Fees are reduced by \$7,138.00.**

11          I reduced the accounting and legal fees by \$7,138.00. I removed a wastewater  
12          engineering service expense for \$4,710.00, a water and sewer consulting services  
13          expense for \$1,361.50 (half of \$2,723.00 for the sewer portion), and a sewer rate  
14          case expense for \$1,067.00. These were sewer expenses, not water expenses. The  
15          net effect of these adjustments results in a negative amount for this expense account  
16          because DDU had allocated the expenses instead of using the actual amount in the  
17          general ledger, which is \$11,512.00. Please refer to **Attachment EP-15** for these  
18          adjustments.

19          **5. Miscellaneous expenses are reduced by \$519.00.**

20          I reduced the miscellaneous expenses by \$519.00 by removing half of \$1,038 for a  
21          backhoe rental, as half of the expense was for the golf course. Please refer to  
22          **Attachment EP-15** for this adjustment.

23          **6. Payroll Taxes are reduced by \$761.00.**

24          I reduced the payroll taxes by \$716.00 for the portion of the payroll tax burden that  
25          corresponds with my salary adjustments. I subtracted \$3,929.00 for employees  
26          terminated in 2007 and 2008 and added \$3,168.00 for employees hired in 2008.

1 Please refer to **Attachments EP-15** and **EP-16** for these adjustments.

2 **The Retreat & White Bluff (Accounting Codes 6090 and 9090):**

3 The adjustments that I made above for The Retreat and White Bluff individually also apply to  
4 their combined revenue requirement. This results in a combined operations and  
5 maintenance expense of \$362,290. Please refer to **Attachment EP-31** for this calculation.

6 **Q. How did you calculate Federal Income Tax for The Retreat, The Cliffs, and White**  
7 **Bluff?**

8 **A.** The federal income tax amounts listed in column (e) of **Attachment EP-2** (The Retreat),  
9 **Attachment EP-6** (The Cliffs), **Attachment EP-10** (White Bluff), and **Attachment EP-32**  
10 (The Retreat and White Bluff) are the product of each system's taxable income times the  
11 applicable percent tax rate listed on **Attachment EP-4** (The Retreat), **Attachment EP-8**  
12 (The Cliffs), **Attachment EP-12** (White Bluff), and **Attachment EP-33** (The Retreat and  
13 White Bluff).

14 **Q. How did you compute the Notes Payable for The Retreat, The Cliffs, and White Bluff?**

15 **A.** Looking at Attachment 9 to the application, the balance on the notes payable at the end of  
16 the test year was \$644,729.00. Out of this amount, DDU is seeking to recover \$554,319.00  
17 as a regulatory asset for deferred expenses, which Mr. Dickey will elaborate on in his  
18 testimony. Staff identified \$644,729.00 ~~\$140,028.00~~ as the remaining outstanding loan  
19 balance as of December 31, 2007, as follows: \$296,727.00 ~~\$49,423.00~~ for The Cliffs,  
20 \$315,778.00 ~~\$58,380.00~~ for White Bluff, and \$32,225.00 that was not identified as being for  
21 a particular system. I allocated the loans for The Cliffs and White Bluff between the water  
22 and sewer systems based on their connection counts. I also allocated the \$32,225.00 loan  
23 between the water and sewer systems for all three subdivisions based on the number of  
24 connections with the following result: \$14,823.00 ~~\$9,023.00~~ for The Cliffs, \$2,256.00 for The  
25 Retreat, and \$15,146.00 ~~\$20,946.00~~ for White Bluff.

26

1 DDU obtained its loans from Double Diamond-Delaware, Inc. (DD-DI), DDU's parent  
2 company, at an interest rate of 10%. I recommend that the Commission apply an interest  
3 rate of 4.87% to the loans in lieu of the 10% rate because DDU's loan transaction was with  
4 an affiliated company with an affiliated interest, i.e. it was not an arm's length transaction.  
5 This is the interest rate that another parent company, Aqua America, Inc., imposed upon a  
6 loan to its utility subsidiary, Aqua Texas, Inc. Please see **Attachment EP-24** for more  
7 information about the Aqua Texas loan. The payment of interest expense to an affiliated  
8 interest must be shown to be reasonable and necessary under section 13.185(e) of the  
9 Texas Water Code. With DD-DI loaning money to its subsidiary and then asking the  
10 subsidiary's customers to pay 10% interest on those loans, DDU needed to demonstrate that  
11 the interest rates were reasonable and necessary. DDU's parent company can obtain a  
12 much lower rate for bulk loans than DDU can by itself, so the interest rate on a loan from  
13 DD-DI should be lower than the interest rate DDU could obtain on its own. Furthermore, in  
14 DD-DI's consolidated audited financial statements, the auditor indicated that advances from  
15 DD-DI to its affiliates do not bear interest. This can be found on page 17 of Attachment 8 to  
16 the application. DDU is a Qualified Subchapter S Subsidiary of DD-DI and is not treated as a  
17 separate company for federal tax purposes. Rather, its assets, liabilities, and all items of  
18 income, deduction, and credit are treated as those of the parent S Corporation, DD-DI.  
19 Therefore, any income incurred by DDU belongs to the parent company, including any  
20 interest on the loan that DDU collects from its customers through its rates. DDU did not  
21 show that the 10% interest rate was reasonable and necessary, so it should be reduced.

22 **Q. What is your recommendation for rate case expenses?**

23 A. DDU indicated that it had incurred \$162,406.00 for rate case expenses as of February 26,  
24 2010. This amount does not include any rate case expenses for the hearing on the merits  
25 through the Commission's agenda. DDU has not provided all the invoices for its rate case  
26 expense. I recommend that DDU submit its rate case expense invoices as they are incurred

1 and billed. For each system for which DDU can support a rate change and meet the rate  
2 case expense requirements found in section 291.28(7)-(9) of the TCEQ's rules, staff  
3 recommends that the rate case expenses be recovered through a surcharge to DDU's water  
4 customers over a twenty-four month period. The surcharge should be calculated by dividing  
5 the total amount of reasonable and necessary rate case expenses by the current number of  
6 water customers and then dividing that number by twenty-four so the amount can be  
7 collected from all current and future water customers for twenty-four months or until the total  
8 amount is collected, whichever occurs first. For each system that the Commission does not  
9 grant a rate change, staff recommends denying rate case expenses for that system, as DDU  
10 cannot collect rate case expenses for that system under section 291.28(8).

11 **Q. Has the Commission issued an order regarding rate case expenses in the Texas  
12 Landing Utilities, SOAH Docket No. 582-08-1023?**

13 A. No. Because of the extraordinary amount of rate case expenses that Texas Landing is  
14 seeking to recover, the Commission remanded the case back to the State Office of  
15 Administrative Hearings (SOAH) to hold an additional hearing regarding rate case expenses.

16 **Q. How did you compute the Working Cash Allowance for The Retreat, The Cliffs, and  
17 White Bluff?**

18 A. Based on section 291.31(c)(2)(B)(iii), I computed an allowance of one-eighth of my  
19 recommended operations and maintenance expenses for each system. Please refer to  
20 **Attachment EP-3** (The Retreat), **Attachment EP-7** (The Cliffs), **Attachment EP-11** (White  
21 Bluff), and **Attachment EP-32** (The Retreat and White Bluff) for the computed amounts.

22 **Q. How did you compute the Total Invested Capital for each system?**

23 A. I added each system's working cash allowance to its net plant and subtracted its developer  
24 contributions. The values for net plant and developer contributions came from Mr. Dickey's  
25 depreciation schedules for The Retreat (**Attachment BDD-3**), The Cliffs (**Attachment BDD-**  
26 **2**), and White Bluff (**Attachment BDD-4**). This resulted in a total invested capital of

1 \$981,880.00 for The Retreat (**Attachment EP-3**), \$445,145.00 for The Cliffs (**Attachment**  
2 **EP-7**), \$708,799.00 for White Bluff (**Attachment EP-11**), and \$1,690,679 for The Retreat  
3 and White Bluff (**Attachment EP-32**).

4 **Q. How did you compute your recommended RORs?**

5 A. I used the TCEQ's ROR worksheet. Based on Moody's BAA Public Utility Bond average for  
6 the test year, which was 7.45%, plus various risk factors for operating a water system, I  
7 calculated an ROR of 9.45% (**Attachment EP-17**) and a weighted average ROR of 7.65%  
8 ~~8.85%~~ (**Attachment EP-7**) for The Cliffs, and ROR of 11.45% (**Attachment EP-17**) with a  
9 weighed average ROR of 11.43% (**Attachment EP-3**) for The Retreat, an ROR of 10.45%  
10 (**Attachment EP-17**) with a weighted average ROR of 9.83% (**Attachment EP-11**) for White  
11 Bluff, and an ROR of 10.45% (**Attachment EP-17**) with a weighted average ROR of 10.18%  
12 (**Attachment EP-32**) for The Retreat and White Bluff combined.

13 **Q. In computing the recommended RORs for DDU, what basic principles guided your**  
14 **analysis?**

15 A. The ROR is the revenue earned by a utility from its operations over and above its allowable  
16 operating expenses and is expressed as a percentage of invested capital. The ROR must be  
17 reasonable, should be reasonably sufficient to assure confidence in the financial soundness  
18 of the utility, and should be adequate, under efficient and economical management, to  
19 maintain and support its credit and enable it to raise the money necessary for the proper  
20 discharge of its public duties. Section 291.31(c) describes all the ROR requirements

21 **Q. How did you calculate your recommended returns?**

22 A. I multiplied each system's total invested capital times its weighted average ROR to calculate  
23 the return for each system. For The Cliffs, 7.65% ~~8.85%~~ times \$445,145.00 resulted in a  
24 return of \$34,058.00 ~~\$39,389.00~~. Please refer to **Attachment EP-7** for this calculation. For  
25 The Retreat, 11.43% times \$981,880.00 resulted in a return of \$112,277.00. Please refer to  
26 **Attachment EP-3** for this calculation. For White Bluff, 9.83% times \$708,799.00 resulted in



1 a return of \$69,643.00. Please refer to **Attachment EP-11** for this calculation. For The  
2 Retreat and White Bluff combined, 10.18% times \$1,690,679 resulted in a return of  
3 \$172,124. Please refer to **Attachment EP-32** for this calculation.

4 **Q. What are your final revenue requirement recommendations in this case?**

5 A. After making my and Mr. Dickey's adjustments to the utility's requested cost of service, I  
6 recommend the following revenue requirements:

7 **Attachment EP-1, The Retreat - \$253,430.00**

8 **Attachment EP-5, The Cliffs - \$357,587.00 ~~\$366,908.00~~**

9 **Attachment EP-9, White Bluff - \$489,275.00**

10 **Attachment EP-30, The Retreat and White Bluff – \$752,618.00**

11 **Q. What is the purpose of calculating the proposed revenue requirements?**

12 A. The values I calculated will be used by Mr. Dickey for preparing the ED's recommended  
13 rates in this case.

14 **Q. Does this conclude your prefiled testimony?**

15 A. Yes, however, I reserve the right to supplement this testimony during the course of the  
16 proceeding as new facts arise.

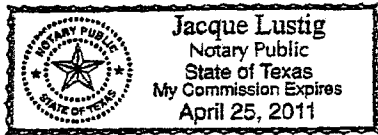
VERIFICATION


THE STATE OF TEXAS   §  
                                  §  
COUNTY OF TRAVIS   §

BEFORE ME, the undersigned authority, on this day personally appeared Elsie Pascua, known to me to be the person whose name is subscribed below and after having been duly sworn, on her oath stated the following: that the information set forth in the foregoing prefiled testimony was assembled by the Executive Director's attorney of record, that she has personal knowledge of the information contained within the foregoing prefiled testimony, and that this information is true and correct to the best of her knowledge and belief.

  
\_\_\_\_\_  
Elsie Pascua

SUBSCRIBED AND SWORN TO BEFORE ME on this the 29th day of April, 2010, to certify which, witness my hand and seal of office.



  
\_\_\_\_\_  
NOTARY PUBLIC  
STATE OF TEXAS

# **Attachment EP-1**

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY 0  
 Utility Name: DOUBLE DIAMOND UTILITIES CO  
 Docket Number: 36220-R (WATER)

version: 20070403  
 2:00 PM  
 29-Apr-10

Retreat

**SCHEDULE I - REVENUE REQUIREMENT**

	TEST PERIOD PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
Operations and Maintenance	\$990,751	\$0	\$990,751	(\$35,303)	\$44,045
Depreciation and Amortization	\$137,020	\$61,475	\$198,495	(\$145,819)	\$52,676
Other Taxes	\$31,586	\$0	\$31,586	(\$162)	\$1,389
Federal Income Taxes		\$49,160	\$49,160	(\$4,906)	\$44,254
Return		\$168,914	\$168,914	(\$56,637)	\$112,277
Cost of Service	\$1,159,357	\$279,549	\$1,438,906	(\$242,827)	\$254,641
Other Revenues - Taps	(21,738)		(21,738)	20,526	(1,212)
Revenue Requirement	\$1,137,619	\$279,549	\$1,417,168	(\$222,300)	\$253,430

# **Attachment EP-2**

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Preliminary - Subject To Change

Utility Name:

DOUBLE DIAMOND UTILITIES CO

Docket Number:

36220-R (WATER) Retreat

version: 20070403

st Period:

From:

1/1/2007

To:

12/31/2007

5:48 PM

28-Apr-10

**SCHEDULE I(a) - OPERATIONS & MAINTENANCE**

	TEST PERIOD PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
SALARIES	\$229,384		\$24,204	(\$16,877)	\$7,327
CONTRACT SERVICES	\$6,456		\$37	\$0	\$37
PURCHASED WATER	\$10,846		\$0	\$0	\$0
CHEMICALS AND TREATMENT	\$10,050		\$1,069	(\$28)	\$1,041
UTILITIES	\$132,249		\$24,444	\$0	\$24,444
REPAIRS AND MAINTENANCE	\$387,723		\$17,151	(\$13,506)	\$3,645
OFFICE EXPENSE	\$9,562		\$580	\$0	\$580
ACCOUNTING AND LEGAL	\$28,774		\$3,917	(\$4,892)	(\$975)
INSURANCE	\$28,479		\$1,782	\$0	\$1,782
RATE CASE EXPENSE	\$0		\$0	\$0	\$0
MISCELLANEOUS	\$147,228		\$6,164	\$0	\$6,164
<b>TOTAL</b>	<b>\$990,751</b>	<b>\$0</b>	<b>\$79,348</b>	<b>(\$35,303)</b>	<b>\$44,045</b>

**SCHEDULE I(b) - OTHER TAXES**

	TEST YEAR PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
AD VALOREM TAXES	\$5,806		\$323	\$0	\$323
PAYROLL TAXES	\$25,780		\$1,228	(\$162)	\$1,066
OTHER TAXES-MISC			\$0		\$0
NON-REVENUE RELATED	\$31,586	\$0	\$1,551	-\$162	\$1,389
TWC ASSESSMENT			\$0		\$0
REVENUE RELATED TAXES	\$0	\$0	\$0		\$0
<b>TOTAL OTHER TAXES</b>	<b>\$31,586</b>	<b>\$0</b>	<b>\$1,551</b>	<b>-\$162</b>	<b>\$1,389</b>
	<b>1,022,337</b>	<b>0</b>	<b>80,899</b>	<b>(35,465)</b>	<b>45,434</b>

**SCHEDULE I(c) - FEDERAL INCOME TAXES**

REVENUE REQUIREMENT	\$254,641
LESS:	
OPERATIONS AND MAINTENANCE	(44,045)
DEPRECIATION AND AMORTIZATION	(52,676)
OTHER TAXES	(1,389)
INTEREST EXPENSE	(110)
TAXABLE INCOME	156,422
TAXES @ FACTOR :	39%
SUB-TOTAL	61,004
LESS:	
SURTAX EXEMPTION :	(16,750)
FEDERAL INCOME TAXES	44,254

ATTACHMENT EP-2

# **Attachment EP-3**

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Preliminary - Subject To Change

Utility Name:

DOUBLE DIAMOND UTILITIES

Docket Number:

36220-R (WATER) Retreat

version: 20070403

5:48 PM

28-Apr-10

**SCHEDULE I(d) - WEIGHTED COST OF CAPITAL**

PAYEE	PRINCIPAL AS OF	INTEREST RATE	PERCENTAGE	WEIGHTED AVERAGE
	\$2,256	4.87%	0.23%	0.01%
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
EQUITY	979,624	11.45%	99.77%	11.42%
<b>TOTAL</b>	<b>\$981,880</b>		<b>100.00%</b>	<b>11.43%</b>

**SCHEDULE I(e) - INVESTED CAPITAL & RETURN**

	COMPANY AMOUNT (a)	STAFF ADJUST (b)=(c)-(a)	STAFF AMOUNT (c)
PLANT IN SERVICE		1,631,643	1,631,643
ACCUMULATED DEPRECIATION		206,774	206,774
NET PLANT		1,424,869	1,424,869
WORKING CASH ALLOWANCE		5,506	5,506
MATERIALS AND SUPPLIES		0	\$0.00
CUSTOMERS DEPOSITS		0	
INVESTMENT TAX CREDITS		0	
DCIAC		(448,494)	(448,494)
<b>TOTAL INVESTED CAPITAL</b>	<b>0</b>	<b>981,880</b>	<b>981,880</b>
RATE OF RETURN			11.43%
RETURN	168,914	-56,637	112,277

ATTACHMENT EP-3

::



# **Attachment EP-4**

**TEXAS COMMISSION ON ENVIRONMENTAL QUALITY**

0

**Utility Name:** DOUBLE DIAMOND UTILITIES CO  
**Docket Number:** 36220-R (WATER)

version: 20070403

8:33 AM  
29-Apr-10

RETURN 112,277  
 INTEREST 110 (TOTAL INVESTED CAPITAL \* WEIGHTED AVERAGE LT DEBT)  
 TAXABLE INCOME 112,167

**TAX CALCULATIONS FYE 07-01-87**

RATE	BRACKET	SURTAX
15%	0 - 50,000	
25%	50,001 - 75,000	5,000
34%	75,001 - 100,000	11,750
39%	100,001 - 335,000	16,750
34%	335,001 -	

USE THE FOLLOWING RULE TO DETERMINE THE APPROPRIATE TAX BRACKET:  
 IF TAXABLE INCOME (RETURN - INTEREST) IS:

- 0 - 42,500 USE 15%
- 42,501 - 61,250 USE 25%
- 61,251 - 77,750 USE 34%
- 77,751 - 221,100 USE 39%
- 221,101 OR OVER USE 34%

INCOME RANGE	IF TAXABLE INCOME IS	THE TAX RATE IS	THE TAX INCLUDING THE SURTAX EXEMPTION IS	AND THE SURTAX EXEMPTION IS
0 - 42,500	0	0.00%	0	0
42,501 - 61,250	0	0.00%	0	0
61,251 - 77,750	0	0.00%	0	0
77,751 - 221,100	112,167	39.00%	44,254	16,750
221,100 -	0	0.00%	0	0
<b>Total</b>	<b>112,167</b>	<b>39.00%</b>	<b>44,254</b>	<b>16,750</b>

ATTACHMENT EP-4

# **Attachment EP-5**

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY  
 Utility Name: DOUBLE DIAMOND UTILITIES CO  
 Docket Number: 36220-R (WATER)

version: 20070403

1:23 PM  
 7-Oct-10

The Cliffs

SCHEDULE I - Revenue Requirement

	TEST PERIOD PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)	Original Profile
Operations and Maintenance	990,751	0	990,751	(202,014)	270,782	
Depreciation and Amortization	137,020	61,475	198,495	(153,398)	45,097	
Other Taxes	31,586	0	31,586	(2,745)	12,764	14,813
Federal Income Taxes		49,160	49,160	(44,653)	4,507	6,449
Return		168,914	168,914	(134,856)	34,058	39,389
Cost of Service	1,159,357	279,549	1,438,906	(537,665)	367,209	
Other Revenues - Taps	(21,738)		(21,738)	12,116	(9,622)	
Revenue Requirement	1,137,619	279,549	1,417,168	(525,549)	357,587	366,908

ATTACHMENT EP-5 (Errata)

# **Attachment EP-6**

**TEXAS COMMISSION ON ENVIRONMENTAL QUALITY**

Utility Name: DOUBLE DIAMOND UTILITIES CO  
 Docket Number: 36220-R (WATER) The Cliffs  
 t Period: From: 1/1/2007 To: 12/31/2007

version: 20070403

1:37 PM

7-Oct-10

**SCHEDULE I(a) - OPERATIONS & MAINTENANCE**

	TEST PERIOD PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
SALARIES	\$229,384		\$98,301	(\$28,034)	\$70,267
CONTRACT SERVICES	\$6,456		\$3,633	\$0	\$3,633
PURCHASED WATER	\$10,846		\$10,846	\$0	\$10,846
CHEMICALS AND TREATMENT	\$10,050		\$5,001	(\$1,449)	\$3,552
UTILITIES	\$132,249		\$27,961	\$0	\$27,961
REPAIRS AND MAINTENANCE	\$387,723		\$209,927	(\$142,427)	\$67,500
OFFICE EXPENSE	\$9,562		\$5,122	\$0	\$5,122
ACCOUNTING AND LEGAL	\$28,774		\$18,674	(\$30,104)	-\$11,430
INSURANCE	\$28,479		\$10,005	\$0	\$10,005
RATE CASE EXPENSE	\$0		\$0	\$0	\$0
MISCELLANEOUS	\$147,228		\$83,326	\$0	\$83,326
<b>TOTAL</b>	<b>\$990,751</b>	<b>\$0</b>	<b>\$472,796</b>	<b>(\$202,014)</b>	<b>\$270,782</b>

**SCHEDULE I(b) - OTHER TAXES**

	TEST YEAR PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
AD VALOREM TAXES	\$5,806		\$2,454	0	\$2,454
PAYROLL TAXES	\$25,780		\$13,055	(2,745)	\$10,310
OTHER TAXES-MISC			\$0		\$0
NON-REVENUE RELATED	\$31,586	\$0	\$15,509	(2,745)	\$12,764
TWC ASSESSMENT			\$0		\$0
REVENUE RELATED TAXES	\$0	\$0	\$0		\$0
<b>TOTAL OTHER TAXES</b>	<b>\$31,586</b>	<b>\$0</b>	<b>\$15,509</b>	<b>(2,745)</b>	<b>\$12,764</b>
	<b>1,022,337</b>	<b>0</b>	<b>488,305</b>	<b>(204,759)</b>	<b>283,546</b>

**SCHEDULE I(c) - FEDERAL INCOME TAXES**

		Original Profile
COST OF SERVICE	\$367,209	\$376,530
LESS:		
OPERATIONS AND MAINTENANCE	(270,782)	
DEPRECIATION AND AMORTIZATION	(45,097)	
OTHER TAXES	(12,764)	(14,813)
INTEREST EXPENSE	(8,516)	(2,846)
TAXABLE INCOME	30,050	42,991
TAXES @ FACTOR :	15%	
SUB-TOTAL	4,507	6,449
LESS:		
SURTAX EXEMPTION :	0	
FEDERAL INCOME TAXES	4,507	6,449

ATTACHMENT EP-6 (Errata)

# **Attachment EP-7**

**TEXAS COMMISSION ON ENVIRONMENTAL QUALITY**

Utility Name: DOUBLE DIAMOND UTILITIES  
 Docket Number: 36220-R (WATER) The Cliffs

version: 20070403  
 1:46 PM  
 7-Oct-10

**SCHEDULE I(d) - WEIGHTED COST OF CAPITAL**

PAYEE	PRINCIPAL AS OF	INTEREST RATE	PERCENTAGE	WEIGHTED AVERAGE	Original Profile
Attachment EP-29 (Errata)	\$174,857	4.87%	39.28%	1.91%	0.64%
Original Profile \$58,446			0.00%	0.00%	
			0.00%	0.00%	
			0.00%	0.00%	
			0.00%	0.00%	
			0.00%	0.00%	
			0.00%	0.00%	
			0.00%	0.00%	
EQUITY	270,288	9.45%	60.72%	5.74%	8.21%
<b>TOTAL</b>	<b>\$445,145</b>		<b>100.00%</b>	<b>7.65%</b>	<b>8.85%</b>

**SCHEDULE I(e) - INVESTED CAPITAL & RETURN**

	COMPANY AMOUNT (a)	STAFF ADJUST (b)=(c)-(a)	STAFF AMOUNT (c)
PLANT IN SERVICE		1,323,711	1,323,711
ACCUMULATED DEPRECIATION		464,814	464,814
NET PLANT		858,897	858,897
WORKING CASH ALLOWANCE		33,848	33,848
MATERIALS AND SUPPLIES		0	\$0.00
CUSTOMERS DEPOSITS		0	
INVESTMENT TAX CREDITS		0	
DCIAC		(447,600)	(447,600)
TOTAL INVESTED CAPITAL	0	445,145	445,145
RATE OF RETURN			7.65%
RETURN	168,914	-134,856	34,058

8.85%  
 39,389

**ATTACHMENT EP-7 (Errata)**



# **Attachment EP-8**

**TEXAS COMMISSION ON ENVIRONMENTAL QUALITY**

**Utility Name:** DOUBLE DIAMOND UTILITIES CO  
**Docket Number:** 36220-R (WATER)

version: 20070403

1:46 PM  
7-Oct-10

**The Cliffs**

RETURN 34,058  
 INTEREST 8,516 (TOTAL INVESTED CAPITAL \* WEIGHTED AVERAGE LT DEBT)  
 TAXABLE INCOME 25,542

**TAX CALCULATIONS FYE 07-01-87**

RATE	BRACKET	SURTAX
15%	0 - 50,000	
25%	50,001 - 75,000	5,000
34%	75,001 - 100,000	11,750
39%	100,001 - 335,000	16,750
34%	335,001 -	

USE THE FOLLOWING RULE TO DETERMINE THE APPROPRIATE TAX BRACKET:

IF TAXABLE INCOME (RETURN - INTEREST) IS:

- 0 - 42,500 USE 15%
- 42,501 - 61,250 USE 25%
- 61,251 - 77,750 USE 34%
- 77,751 - 221,100 USE 39%
- 221,101 OR OVER USE 34%

INCOME RANGE	IF TAXABLE INCOME IS	THE TAX RATE IS	THE TAX INCLUDING THE SURTAX EXEMPTION IS	AND THE SURTAX EXEMPTION IS
0 - 42,500	25,542	15.00%	4,507	0
42,501 - 61,250	0	0.00%	0	0
61,251 - 77,750	0	0.00%	0	0
77,751 - 221,100	0	0.00%	0	0
221,100 -	0	0.00%	0	0
<b>Total</b>	<b>25,542</b>	<b>15.00%</b>	<b>4,507</b>	<b>0</b>

**ATTACHMENT EP-8 (Errata)**

# **Attachment EP-9**

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY 0  
 Utility Name: DOUBLE DIAMOND UTILITIES CO  
 Docket Number: 36220-R (WATER)

version: 20070403  
 2:00 PM  
 29-Apr-10

White Bluff

**SCHEDULE I - Revenue Requirement**

	TEST PERIOD PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
Operations and Maintenance	\$990,751	\$0	\$990,751	(120,337)	\$318,245
Depreciation and Amortization	\$137,020	\$61,475	\$198,495	(116,053)	\$82,442
Other Taxes	\$31,586	\$0	\$31,586	(761)	\$13,766
Federal Income Taxes		\$49,160	\$49,160	(33,076)	\$16,084
Return		\$168,914	\$168,914	(99,271)	\$69,643
Cost of Service	\$1,159,357	\$279,549	\$1,438,906	(369,498)	\$500,180
Other Revenues - Taps	(21,738)		(21,738)	10,834	(10,904)
Revenue Requirement	\$1,137,619	\$279,549	\$1,417,168	(358,665)	\$489,275

# **Attachment EP-10**

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Preliminary - Subject To Change

Utility Name:

DOUBLE DIAMOND UTILITIES CO

Docket Number:

36220-R (WATER) White Bluff

version: 20070403

Test Period:

From: 1/1/2007

To: 12/31/2007

5:51 PM

28-Apr-10

**SCHEDULE I(a) - OPERATIONS & MAINTENANCE**

	TEST PERIOD PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
SALARIES	\$229,384		\$106,853	(9,982)	\$96,871
CONTRACT SERVICES	\$6,456		\$2,787	0	\$2,787
PURCHASED WATER	\$10,846		\$0	0	\$0
CHEMICALS AND TREATMENT	\$10,050		\$3,980	0	\$3,980
UTILITIES	\$132,249		\$79,843	0	\$79,843
REPAIRS AND MAINTENANCE	\$387,723		\$160,645	(102,698)	\$57,947
OFFICE EXPENSE	\$9,562		\$3,860	0	\$3,860
ACCOUNTING AND LEGAL	\$28,774		\$6,183	(7,138)	-\$955
INSURANCE	\$28,479		\$16,693	0	\$16,693
RATE CASE EXPENSE	\$0		\$0	0	\$0
MISCELLANEOUS	\$147,228		\$57,738	(519)	\$57,219
<b>TOTAL</b>	<b>\$990,751</b>	<b>\$0</b>	<b>\$438,582</b>	<b>(120,337)</b>	<b>\$318,245</b>

**SCHEDULE I(b) - OTHER TAXES**

	TEST YEAR PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
AD VALOREM TAXES	\$5,806		\$3,029	0	\$3,029
PAYROLL TAXES	\$25,780		\$11,498	(761)	\$10,737
OTHER TAXES-MISC			\$0		\$0
NON-REVENUE RELATED	\$31,586	\$0	\$14,527	(761)	\$13,766
TWC ASSESSMENT			\$0		\$0
REVENUE RELATED TAXES	\$0	\$0	\$0		\$0
<b>TOTAL OTHER TAXES</b>	<b>\$31,586</b>	<b>\$0</b>	<b>\$14,527</b>	<b>(761)</b>	<b>\$13,766</b>
	<b>1,022,337</b>	<b>0</b>	<b>453,109</b>	<b>(121,098)</b>	<b>332,011</b>

**SCHEDULE I(c) - FEDERAL INCOME TAXES**

REVENUE REQUIREMENT	\$500,180
LESS:	
OPERATIONS AND MAINTENANCE	-\$318,245
DEPRECIATION AND AMORTIZATION	-\$82,442
OTHER TAXES	-\$13,766
INTEREST EXPENSE	-\$3,863
TAXABLE INCOME	\$81,863
TAXES @ FACTOR :	34%
SUB-TOTAL	\$27,834
LESS:	
SURTAX EXEMPTION :	-\$11,750
FEDERAL INCOME TAXES	\$16,084

ATTACHMENT EP-10

# **Attachment EP-11**

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY Preliminary - Subject To Change

Utility Name: DOUBLE DIAMOND UTILITI  
 Docket Number: 36220-R (WATER) White Bluff

version: 20070403  
 5:51 PM  
 28-Apr-10

**SCHEDULE I(d) - WEIGHTED COST OF CAPITAL**

PAYEE	PRINCIPAL AS OF	INTEREST RATE	PERCENTAGE	WEIGHTED AVERAGE
	\$79,326	4.87%	11.19%	0.55%
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
EQUITY	629,473	10.45%	88.81%	9.28%
<b>TOTAL</b>	<b>\$708,799</b>		<b>100.00%</b>	<b>9.83%</b>

compute the lo

**SCHEDULE I(e) - INVESTED CAPITAL & RETURN**

	COMPANY AMOUNT (a)	STAFF ADJUST (b)=(c)-(a)	STAFF AMOUNT (c)
PLANT IN SERVICE		2,948,805	2,948,805
ACCUMULATED DEPRECIATION		968,310	968,310
NET PLANT		1,980,495	1,980,495
WORKING CASH ALLOWANCE		39,781	39,781
MATERIALS AND SUPPLIES		0	\$0.00
CUSTOMERS DEPOSITS		0	
INVESTMENT TAX CREDITS		0	
DCIAC		(1,311,477)	(1,311,477)
<b>TOTAL INVESTED CAPITAL</b>	<b>0</b>	<b>708,799</b>	<b>708,799</b>
<b>RATE OF RETURN</b>			<b>9.83%</b>
<b>RETURN</b>	<b>168,914</b>	<b>-99,271</b>	<b>69,643</b>

ATTACHMENT EP-11

::



# **Attachment EP-12**

**TEXAS COMMISSION ON ENVIRONMENTAL QUALITY**

0

**Utility Name:** DOUBLE DIAMOND UTILITIES CO  
**Docket Number:** 36220-R (WATER)

version: 20070403

8:34 AM  
29-Apr-10

RETURN 69,643  
 INTEREST 3,863 (TOTAL INVESTED CAPITAL \* WEIGHTED AVERAGE LT DEBT)  
 TAXABLE INCOME 65,780

**TAX CALCULATIONS FYE 07-01-87**

RATE	BRACKET	SURTAX
15%	0 - 50,000	
25%	50,001 - 75,000	5,000
34%	75,001 - 100,000	11,750
39%	100,001 - 335,000	16,750
34%	335,001 -	

USE THE FOLLOWING RULE TO DETERMINE THE APPROPRIATE TAX BRACKET:  
 IF TAXABLE INCOME (RETURN - INTEREST) IS:

- 0 - 42,500 USE 15%
- 42,501 - 61,250 USE 25%
- 61,251 - 77,750 USE 34%
- 77,751 - 221,100 USE 39%
- 221,101 OR OVER USE 34%

INCOME RANGE	IF TAXABLE INCOME IS	THE TAX RATE IS	THE TAX INCLUDING THE SURTAX EXEMPTION IS	AND THE SURTAX EXEMPTION IS
0 - 42,500	0	0.00%	0	0
42,501 - 61,250	0	0.00%	0	0
61,251 - 77,750	65,780	34.00%	16,084	11,750
77,751 - 221,100	0	0.00%	0	0
221,100 -	0	0.00%	0	0
<b>Total</b>	<b>65,780</b>	<b>34.00%</b>	<b>16,084</b>	<b>11,750</b>

ATTACHMENT EP-12