

EXHIBIT "A"

(ATTACHED)

SOAH DOCKET NO. 582-09-4288

TCEQ DOCKET NO. 2009-0505-UCR

APPLICATION OF DOUBLE	§	BEFORE THE STATE OFFICE
DIAMOND UTILITIES COMPANY,	§	
INC. TO CHANGE WATER RATE	§	OF
TARIFF FOR SERVICE IN HILL, PALO	§	
PINTO, AND JOHNSON COUNTIES	§	ADMINISTRATIVE HEARINGS
	§	
	§	

PREFILED DIRECT TESTIMONY AND EXHIBITS

OF

RANDY GRACY

ON BEHALF OF

DOUBLE DIAMOND UTILITIES, CO.

MARCH 1, 2010

DDU-A

**PREFILED DIRECT TESTIMONY AND EXHIBITS**

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**ON BEHALF OF**

**DOUBLE DIAMOND UTILITIES, CO.**

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**EXHIBITS:**

- DDU-1: Application
- DDU-2: Resume
- DDU-3: White Bluff Utility System Map as of 2007
- DDU-4: The Retreat Utility System Map as of 2007
- DDU-5: The Cliffs Utility System Map as of 2007

1

**I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Randy Gracy. My current business address is 10100 N. Central Expressway,  
4 Suite 600, Dallas, Texas 75231.

5 **Q. What is your present position?**

6 A. I have been President of Double Diamond Utilities, Co., which I will refer to as DDU,  
7 since December 31,1996. I am also President of Double Diamond Properties Construction Co.,  
8 which I will refer to as DDC. DDU and DDC are subsidiaries of Double Diamond Delaware,  
9 Inc., which I will refer to as DDD. I also hold other positions with other affiliates of DDD, but  
10 these positions are the only ones relevant to this matter.

11 **Q. What are your duties with respect to DDU?**

12 A. I am responsible for the overall management of DDU and the public water and  
13 wastewater systems that the company operates. This include all aspects of DDU's operations,  
14 finances and planning.

15 **Q. What is the relationship between Double Diamond Delaware and Double Diamond  
16 Utilities, Co.?**

17 A. DDU is a wholly-owned subsidiary of DDD, and both entities are authorized to do  
18 business in Texas. DDD has provided operating and capital advances to DDU in the past in  
19 order to ensure that DDU can continue to operate.

20 **Q. What is the relationship between Double Diamond Construction and Double  
21 Diamond Utilities, Co.?**

22 A. DDU and DDC are affiliated entities authorized to do business in Texas. However, DDC  
23 is responsible for construction of non-utility portions of development projects, including the

1 projects that were contributed to DDU as described later in my testimony. DDU, on the other  
2 hand, is solely responsible for water and wastewater utility operations and management.

3 **Q. Please identify and explain Exhibit DDU-2.**

4 **A.** I prepared Exhibit DDU-2. It is copy of my current resume, which accurately reflects my  
5 educational background and professional experience.

6 **II. PURPOSE AND SUMMARY OF TESTIMONY**

7 **Q. Please state the purpose of your testimony.**

8 **A.** I will present testimony on:

- 9 1. the corporate structure of Double Diamond Utility Co. and its relationship to  
10 Double Diamond Delaware, Inc.;
- 11 2. The description of the White Bluff, The Retreat and The Cliffs water system.
- 12 3. The reasons for DDU's request to increase water and wastewater rates;
- 13 4. DDU's operations, management and planning;
- 14 5. ~~DDU's request to maintain its consolidated rate structure for The Retreat and~~  
15 ~~White Bluff and some of the factors underlying its request for consolidating rates;~~  
16 and
- 17 6. DDU's rate case expenses incurred to date.

18 **Q. Have you previously testified in regulatory proceedings?**

19 **A.** I have previously testified as a witness in other DDU administrative hearings before  
20 TCEQ.

21 **Q. Are you familiar with the Rate Application that is the subject of this proceeding?**

22 **A.** Yes.

1 **Q. Please identify Exhibit DDU-1.**

2 **A.** Yes. DDU-1 is a copy of the Application filed by DDU in this Docket on October 24,  
3 2008 for a water rate increase for the White Bluff, The Retreat and The Cliffs water systems.

4 **Q. How are you familiar with the Rate Application?**

5 **A.** I supervised its preparation and filing, including reviewing the cost of service  
6 calculations it contains. In order to accomplish, this I retained the services of J. Stowe & Co. to  
7 work with our staff to assemble the application materials and provide the necessary  
8 documentation to TCEQ when the application was filed. I also instructed our corporate staff to  
9 provide Chris Ekrut, with J. Stowe & Co., access to and copies of all records he needed to  
10 complete and file the DDU application. In addition, after we had filed the application, TCEQ  
11 advised us to retain a consultant to complete an asset valuation study. I subsequently authorized  
12 the retention of Ms. Victoria Harkins, with Harkins Engineering Co., to complete an asset  
13 valuation study to support the rate base and depreciation information submitted in our  
14 application.

15 **Q. What portions of the rate change application are you sponsoring?**

16 **A.** I sponsor the answers to the following parts of the Rate Application: Section 1A (General  
17 Information); Section 1B (Miscellaneous Information); Section II (Operational Information –  
18 Water); Section III.C. (Developer Contributions – Water); and the Affidavit.

19 **Q. Are the attachments, revised attachments, and responses to the questions in the**  
20 **application that you are sponsoring true and correct?**

21 **A.** Yes, unless otherwise revised by this testimony.

1 Q. Was the factual data contained in or used to prepare the Rate Application either  
2 from your personal knowledge or the type of information commonly and reasonably relied  
3 on by professionals in the field of water and wastewater ratemaking?

4 A. Yes.

5 Q. In your opinion, are the methods and assumptions employed in preparing the Rate  
6 Application reasonable?

7 A. Yes.

8 Q. Have you attached documents to your testimony?

9 A. Yes, they are attached as Exhibits DDU-1 through 5.

10 **III. UTILITY DESCRIPTION**

11 Q. Please describe Double Diamond Utilities, Co..

12 A. DDU owns and operates water and wastewater utility systems in North Texas, including  
13 The White Bluff water system in Hill County (PWS 1090073), The Retreat water system in  
14 Johnson County (PWS 1260127) and the Cliffs water system in Palo Pinto County (PWS  
15 1820061), all of which operate under CCN No. 12087 issued by the TCEQ. The CCN requires  
16 each of these system to serve any property within the CCN once a request for service is received.

17 Q. How many lots do each of these systems currently serve?

18 A. The White Bluff water system currently serves 6,314 lots across 2,918 acres. The Retreat  
19 water system serves 1,931 lots across 1,145 acres, and The Cliffs water system serves 2,518 lots  
20 across 727 acres.

21 Q. How many lots do you project for each of these systems at full build out of the  
22 development projects?

23 A. I project that the White Bluff water system will ultimately serve approximately 7,000 lots  
24 across 3,263 acres, that The Retreat water system will ultimately serve approximately 5,200 lots

1 across 3,034 acres, and that The Cliffs water system is built out for all practical purposes at 2,518  
2 lots across 727 acres.

3 **Q. How many customers did each of these systems have at the end of 2007, the Test**  
4 **Year?**

5 **A.** White Bluff had 562 customers. The Retreat had 60 customers. And The Cliffs had 244  
6 customers. This data was generated from our utility billing records and provided to Mr. Ekrut  
7 and used to prepare the reports attached as Attachment 11 of the Application (Exhibit DDU-1)

8 **Q. How much water did each of these systems pump or produce in 2007?**

9 **A.** In 2007, White Bluff produced approximately 107,384,900 gallons of water. The Retreat  
10 produced approximately 26,174,400 gallons, and The Cliffs produced approximately 17,318,000  
11 gallons of water.

12 **Q. Please briefly describe the White Bluff water system.**

13 **A.** DDD acquired and began development of the White Bluff project in 1990. The White  
14 Bluff development is a resort/residential project with a large number of recreational amenities  
15 like a golf course, marina, hotel, restaurant, conference center, spa, pools, etc., and its target  
16 market is generally within 100 mile of Hill County. Consequently, most of the property owners  
17 are weekend visitors or residents. About 65% of our water customers actually reside in White  
18 Bluff as permanent residents. The other 35% are temporary weekend and vacation residents.

19 DDU's White Bluff water system obtains its water supply from four wells drilled into the  
20 Trinity aquifer, which is regulated by the Prairelands Groundwater Conservation District. The  
21 well water is chlorinated – very little treatment is needed for this water - and then stored in  
22 several storage tanks before being distributed into the system at a booster station. The entire  
23 system is connected together and looped in many places in order to provide a reliable and secure  
24 water supply for our customers.



1           The White Bluff water system was initially constructed in 1990-1991. The system was  
2 built in phases as the project developed. However, much of the original system was initially  
3 constructed to serve the project as it grew over time. The original system included Well #1, a  
4 58,000 gallon ground storage tank, a pump station, the land these facilities were located upon,  
5 and the initial distribution lines to serve White Bluff Subdivision Phase I. The developer  
6 contributed 80% of the cost of these facilities and the distribution lines to DDU, and DDU  
7 contributed 20% of the cost.

8           As new sections of development were opened up, the distribution lines for those sections  
9 were installed and connected back to the original system. As a matter of practice, the developer  
10 continued to contribute 80% of the cost of all distribution lines to DDU, and DDU contributed  
11 20% of the cost. However, as the potential for additional connections increased, supply,  
12 treatment, storage and pumping facilities were expanded or added to the system in order to  
13 comply with TCEQ regulations and provide a reliable water supply for the project. These new  
14 supply, treatment, storage and pumping facilities or components were constructed as 100% DDU  
15 projects with no developer contribution.

16 **Q. Please describe Exhibit DDU-3.**

17 **A.** Exhibit DDU-3 is White Bluff's utility system map as of 2007.

18 **Q. Please briefly describe the Retreat water system.**

19 **A.** DDD acquired and began development of The Retreat in 2001. The Retreat development  
20 is a residential development project with recreational amenities similar to White Bluff, and its  
21 target market is generally within 100 miles of Johnson County. About 90% of water customers  
22 in The Retreat are permanent residents.

23           DDU's The Retreat water system obtains its water supply from two wells drilled into the  
24 same aquifer as the White Bluff water system and are subject to regulation by the same

1 groundwater conservation district. The water is treated and distributed to the system in the same  
2 manner as the water is treated and distributed in the White Bluff system. The entire system is  
3 connected together and looped many places just like the White Bluff system.

4 Construction began on The Retreat water system in 2002. Following the model we used  
5 for the White Bluff system, The Retreat system was built in phases as the project has developed.  
6 Just like White Bluff, much of the original system was initially constructed to serve the project  
7 as it grew over time. The original system included a Well #1, a 100,000 gallon storage tank, a  
8 booster station with an 8,000 gallon pressure tank, the land for these facilities and the  
9 distribution lines to serve The Retreat Subdivision, Phase I. Consistent with our practices at  
10 White Bluff, the developer contributed 80% of the cost of these facilities and the distribution  
11 lines to DDU, and DDU contributed 20% of the cost. As in White Bluff, when new sections of  
12 development were opened up, the distribution lines for those sections were installed and  
13 connected back to the original system. And continuing our practice, the developer contributed  
14 80% of the cost of all distribution lines to DDU, and DDU contributed 20% of the cost. And as  
15 the potential for additional connections in The Retreat increased, supply, treatment, storage and  
16 pumping facilities were expanded or added to the system in order to comply with TCEQ  
17 regulations and provide a reliable water supply for the project. These new supply, treatment,  
18 storage and pumping facilities or components were constructed as 100% DDU projects with no  
19 developer contribution.

20 **Q. Please describe Exhibit DDU-4.**

21 **A.** Exhibit DDU-4 is The Retreat's utility system map as of 2007.

22 **Q. Please briefly describe the Cliffs water system.**

23 **A.** DDD acquired The Cliffs in 1993. The Cliff's development is also a resort/residential  
24 project with recreational amenities similar to White Bluff and The Retreat, and its target market

1 is generally within 125 miles of Palo Pinto County. As with White Bluff and The Retreat, many  
2 of the property owners are weekend visitors or residents. Only about 30% of water customers in  
3 The Cliffs actually reside there as permanent residents. The remaining 70% are temporary  
4 weekend and vacation residents.

5         However, The Cliffs water system obtains its water supply from Lake Possum Kingdom  
6 rather than wells. Unlike White Bluff and The Retreat, the raw water is treated in a reverse  
7 osmosis water treatment plant before being distributed to the system. The entire system is  
8 connected together and looped many places just like the White Bluff and The Retreat systems.

9         Construction began on The Cliffs water system prior to 1993. The Cliffs system was also  
10 built in phases as the project developed. But unlike White Bluff and The Retreat developments,  
11 The Cliffs development is nearly complete. The original water system included two 75,000  
12 gallon ground storage tanks, a surface water intake and treatment plant, booster stations, land for  
13 these facilities and the distribution lines to serve The Cliffs Subdivision, Phase I. Consistent  
14 with our practices at White Bluff, the developer treated 80% of the cost of these facilities and the  
15 distribution lines as contributed capital to DDU and considered DDU to have contributed the  
16 remaining 20% of the cost. As in White Bluff, when new sections of development were opened  
17 up, the distribution lines for those sections were installed and connected back to the original  
18 system. As with White Bluff, the developer contributed 80% of the cost of all distribution lines  
19 to DDU, and DDU contributed 20% of the cost. And as the potential for additional connections  
20 in The Cliffs increased, supply, treatment, storage and pumping facilities were expanded or  
21 added to the system in order to comply with TCEQ regulations and provide a reliable water  
22 supply for the project. These new supply, treatment, storage and pumping facilities or  
23 components were constructed as 100% DDU projects with no developer contribution.

1 Q. Please describe Exhibit DDU-5.

2 A. Exhibit DDU-5 is The Cliffs utility system map as of 2007.

3 Q. Did you provide information to Chris Ekrut regarding developer contributions and  
4 utility equity? If so, how?

5 A. I did provide Mr. Ekrut with information about which assets for each system were subject  
6 to the 80/20 split for developer contributions and equity investment and which were subject to a  
7 100% equity investment by DDU. I made a notation for each asset on the Asset Inventory  
8 prepared by Ms. Harkins. Mr. Ekrut's schedule CDE-7 attached to his testimony as Exhibit  
9 DDU-25 and titled "Identification of Parent Company Contributed Assets" accurately reflects the  
10 notations I provided to him.

11 **IV. REQUESTED RATE INCREASE**

12 Q. Please explain the necessity for DDU's requested rate increase.

13 A. DDU was forced to obtain cash advances for operating and capital expenditures for  
14 several years because the approved rates did not generate enough revenue to cover the operating  
15 expenses and capital needs of the systems. These advances have come from DDU's parent  
16 corporation, DDD, because DDU could not obtain favorable financing in the marketplace on its  
17 own. These cash infusions have been documented in the form of loans to DDU by DDD over the  
18 years. As a result, DDU's primary goal in this proceeding is to generate enough revenue for  
19 rates to become a self supporting utility that does not rely upon cash infusions from its parent  
20 corporation in order to pay for operating expenses and ongoing capital improvements.

21 Q. What rate increase is DDU requesting?

22 A. DDU is requesting the rate increase described in Chris Ekrut's testimony.

23 Q. Is DDU requesting approval of a tap fee?

24 A. Yes. DDU is requesting approval of a \$675 tap fee for all these systems.

1 **Q. How did DDU calculate its requested tap fees?**

2 **A.** The requested fee is our actual cost to make a new tap and was calculated using records  
3 of our costs.

4 **V. SYSTEM OPERATIONS**

5 **Q. How do these three water systems operate on a day to day basis?**

6 **A.** All three systems are centrally managed from the DDU corporate offices in Dallas,  
7 Texas, where my primary office is located. Our Dallas office provides centralized accounting,  
8 billing, planning and human resources services for the systems. Each system has a Utility  
9 Manager and at least one Utility Assistant, who handle daily system operation and maintenance  
10 issues and report directly to the central office. Although we have a central office position for  
11 Director of Utility Operations to whom the field personnel would normally report, that position  
12 is currently vacant, and we are trying to fill it. In the interim, the field personnel report directly  
13 to me.

14 **Q. How are billing and customer services handled for these three systems?**

15 **A.** Our central office staff handles billing for all three systems. Meter reading data is  
16 provided to the central office by the field personnel and the bills are generated by the central  
17 office personnel and mailed to the customers. All of our customers can get help from our  
18 customer service representatives located within each development or at the central office 24  
19 hours a day, seven days a week.

20 **Q. How are accounting functions, such as accounts receivable, accounts payable and**  
21 **purchasing handled for these three systems?**

22 **A.** All accounting functions, including accounts payable, accounts receivable and purchasing  
23 are handled through the central office. Kevin Shea, the Vice President –Accounting for DDD, is  
24 responsible for oversight of all DDU accounting functions. His central office staff is responsible

1 for keeping all of the books and records for the three systems, including invoices, purchase  
 2 orders, schedules of accounts, etc. They are also responsible for processing any purchase orders  
 3 and payments that are necessary for the systems. All purchases must be approved in the central  
 4 office before the field staff can proceed. Mr. Shea reports directly to me for all utility related  
 5 matters.

6 **Q. How are regulatory compliance issues handled for these three systems?**

7 **A.** The field personnel are responsible for the day to day operations and compliance with all  
 8 applicable regulatory requirements. The central office staff is responsible for all reporting to  
 9 regulatory agencies, such as the TCEQ, and managing the systems to ensure compliance with  
 10 TCEQ and other appropriate regulations. Ultimately, compliance with all applicable rules is my  
 11 responsibility. When issues of non-compliance arise, I work directly with our in-house legal  
 12 counsel, special legal counsel and the TCEQ to resolve any problems.

13 **Q. How many employees work on these three DDU systems?**

14 **A.** There are currently 10 employees working full time on these three systems. These  
 15 employees are identified in the chart below. The same number of employees worked on these  
 16 systems in 2007, although some of the positions were filled with different individuals. In  
 17 addition, there is currently a vacant Director of Utilities position in the Central office that was  
 18 filled in 2007.

Gracy Table-1				
System	Name	Water License	Wastewater License	Position
The Cliffs	Donnie Lewis	C. Surface Water	C Wastewater	Utility Manager
The Cliffs	Gary McCarrell	D Water	None	Assistant Public Work Director
The Cliffs	Billy Stroud	None	None	Public Work Assistant

White Bluff	Richard Zint	C Ground Water	C Wastewater	Utility Manager
White Bluff	William Chad Terry	None	None	Utility Assistant
White Bluff	Kim Harston	None	None	Utility Assistant
White Bluff	George Mike Jenson	None	None	Utility Assistant
The Retreat	Lane Westbrooks	C Ground Water	C Wastewater	Utility Manager
The Retreat	Jacob McKee (NEW)	None	None	Utility Assistant
Central Office	Pat Gibson	N/A	N/A	Billing

1

2 **Q. How many licensed operators does DDU have?**

3 **A.** DDU has 4 licensed operators, all of whom are listed in the Gracy Table-1 above.

4 **Q. What is the current status of compliance with the TCEQ rules for all three**  
5 **systems?**

6 **A.** All three systems are currently compliant with TCEQ rules.

7 **Q. Has DDU adopted a drought contingency plan for these systems?**

8 **A.** DDU adopted the standard TCEQ drought contingency plan, which is incorporated into  
9 DDU's approved Tariff.

10 **Q. How does DDU encourage water conservation?**

11 **A.** DDU's tiered rates promote water conservation in all forms. In addition, newsletters  
12 including tips for water conservation are sent out during the year to all residents and property  
13 owners.

14 **VI. CONSOLIDATION OF WHITE BLUFF AND THE RETREAT**

15 **Q. Please discuss the similarity of the White Bluff and The Retreat water systems.**

16 ~~Both the White Bluff and The Retreat water systems are groundwater supplied. Each is~~  
17 ~~built to conform to TCEQ water system design and capacity rules. The TCEQ Chapter 290,~~  
18 ~~Subchapter D Public Drinking Water System Rules are based upon the number of customers~~

1 served by a system. There are minimum capacities and operating practices that all systems must  
2 meet. As the number of customers grows, the utility must construct additional service plant  
3 capacities to match that growth. So, these groundwater systems, which will serve 200 or more  
4 residential connections in the DDU's certificated service area will have a primary water well,  
5 with at least a secondary well usually used for peak demand. They have ground storage in one or  
6 more tanks sized to meet the TCEQ capacity rules. These systems have a least one large  
7 pressure tank and two or more booster pumps. Chlorine is used for disinfection. Like most retail  
8 public water utilities, DDU produces its water in these systems from the state's larger aquifers.

9 **Q. Are there significant operating differences between the White Bluff and The Retreat**  
10 **water systems?**

11 **A.** Not really. Regardless of what kind or how old a system is, the same basic tools and  
12 equipment will be used for operation. These two systems will serve the same basic customer  
13 classes, residential and low usage commercial. And they will ultimately serve similarly sized  
14 populations.

15 **Q. Based upon your operations and budgeting experience with the DDU water systems,**  
16 **are you aware of any significant "subsidization" of one system by the customers of the**  
17 **other system?**

18 **A.** No, I am not. While a system may require a significant expenditure for system specific  
19 capital improvements at any given point in time, experience shows that both systems will need  
20 such expenditure during their useful service life. Any financial contributions the customers of  
21 one system may make toward the capital improvements of another system will be offset by the  
22 future capital contributions those other customers will make for the first system when it needs  
23 new construction. I am also not aware of either system requiring disproportionate repairs and



1 ~~maintenance expenditures unless the higher costs are short term until remedial construction is~~  
2 ~~performed.~~

3 ~~Q. Does DDU track the costs of operating separate systems? Please explain your~~  
4 ~~answer.~~

5 ~~A. Not entirely. We do track and directly assign some costs to each system. However, there~~  
6 ~~are central office expenses that are allocated among the systems but not directly assigned to~~  
7 ~~those systems. I believe from my experience that system specific accounting for these central~~  
8 ~~office expenses would be expensive and time consuming. As the individual responsible for~~  
9 ~~operating, maintaining, repairing and improving these systems, I do not see that such a record~~  
10 ~~keeping process could make my job any easier or more efficient or reduce customer costs in any~~  
11 ~~way.~~

12 ~~Q. Would consolidation of White Bluff and The Retreat benefit those customers?~~

13 ~~A. Yes.~~

14 ~~Q. How would it benefit them?~~

15 ~~A. Consolidation would lower the overall cost of service to those customers, while~~  
16 ~~improving the quality of their service. DDU's centralized management offices and billing and~~  
17 ~~accounting system has also helped DDU keep its accounting expenses down, which translates~~  
18 ~~into lower rates for consumers.~~

19 ~~Another significant benefit that consolidation provides is minimization of rate cases and~~  
20 ~~their associated expenses. Without consolidation, DDU could be forced to file separate rate~~  
21 ~~change applications with the TCEQ for each system, each proposing a rate based on the~~  
22 ~~individual system's costs of service. The TCEQ would then have to review both of those~~  
23 ~~applications to determine their administrative and technical completeness. Because each~~  
24 ~~application would turn on its own peculiar facts, the TCEQ might have to refer those separate~~

1 ~~protested matters to the State Office of Administrative Hearings ("SOAH") for hearings, each of~~  
2 ~~which could require a separate hearing. Allowing a single application with consolidated rates~~  
3 ~~and a single hearing on proposed rates for these similar systems controls rate case expenses. The~~  
4 ~~efficiency associated with a single application consolidating systems and rates, and a single~~  
5 ~~proceeding on that application ultimately saves consumers from paying substantial additional~~  
6 ~~rate case expense surcharges.~~

7 **Q. ~~How would consolidation make it possible for DDU to reduce its accounting~~**  
8 **~~expenses?~~**

9 **A. ~~Consolidation would allow DDU to achieve significant accounting cost savings.~~**  
10 **~~Consolidated accounting takes considerably less manpower than assigning and tracking expenses~~**  
11 **~~on a system by system basis. Consolidated system accounting would allow DDU to maintain its~~**  
12 **~~reduced accounting staff levels. The cost savings comes in part from reducing the personnel~~**  
13 **~~needed for the volume of data sorting and entry associated with tracking personnel and materials~~**  
14 **~~expenses for separate water systems.~~**

15 **VII. RATE CASE EXPENSES**

16 **Q. ~~What are the rate case expenses that DDU is seeking to recover?~~**

17 **A. ~~DDU is seeking to recover all of its reasonable and necessary expenses incurred to~~**  
18 **~~prepare, file, and prosecute its rate change application to a final decision before the TCEQ.~~**  
19 **~~These expenses include attorneys' fees and expenses, expert witness' fees and expenses, and any~~**  
20 **~~other eligible expense.~~**

21 **Q. ~~What is the amount of rate case expenses that DDU is seeking to recover?~~**

22 **A. ~~At this point, I cannot provide the total amount of rate case expenses that DDU will seek~~**  
23 **~~to recover in this matter. DDU is now in the process of preparing and filing prefiled testimony,~~**  
24 **~~and the case is not scheduled for a hearing on the merits until June 2-4, 2010. The total amount~~**

1 paid as of February 26, 2010 for consulting and expert services is approximately \$51,545.00 plus  
2 legal expenses, and DDU seeks to recover that amount in full. DDU will supplement its rate  
3 case expense request to include additional expenses incurred as these proceedings progress and  
4 additional rate case expenses have been paid.

5 **Q. Does this conclude your prefiled direct testimony?**

6 **A.** Yes, it does.

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TARIFF FOR SERVICE IN HILL, PALO  
PINTO, AND JOHNSON COUNTIES

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BEFORE THE STATE OFFICE  
  
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PREFILED DIRECT TESTIMONY AND EXHIBITS

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CHRIS EKRUT

ON BEHALF OF

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MARCH 1, 2010

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**EXHIBITS:**

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- DDU-16: Resume
- DDU-17: Double Diamond Lot and Acreage Summary
- DDU-18: Rate of Return Worksheet
- DDU-19: Schedule CDE-1: Comparison of Requested Revenue Requirement to Revenue Requirement Presented in Filed Application
- DDU-20: Schedule CDE-2: Proof of Revenue Generation under Requested Rates
- DDU-21: Schedule CDE-3: Cost of Service and Revenue Requirement for Non-consolidated Systems
- DDU-22: Schedule CDE-4: Proof of Revenue Generation under Non-Consolidated Rates
- DDU-23: Schedule CDE-5: Rate Base Impact of Asset Evaluation
- DDU-24: Schedule CDE-6: Comparison of Application Plant Values to Results of Asset Evaluation
- DDU-25: Schedule CDE-7: Listing of Parent Company Contributed Plant Assets
- DDU-26: Schedule CDE-8: Calculation of Requested Revenue Increase Based on Utility's Currently Approved Rates
- DDU-27: Schedule CDE-9: Summary of Charges Billed by J. Stowe & Co. through February 15, 2010

1                                   **I. INTRODUCTION AND QUALIFICATIONS**

2   **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.**

3   A. My name is Chris Ekrut. I am a Manager with J. Stowe & Co., Inc. My business address  
4       is 1300 E. Lookout Dr., Ste. 100, Richardson, Texas 75082.

5   **Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL**  
6       **BACKGROUND.**

7   A. I received my undergraduate degree, a Bachelor of Arts with a major in Public  
8       Administration, from West Texas A&M University in 2003, graduating with honors. I  
9       then received a Master's in Public Administration from the University of North Texas in  
10       2005, again graduating with honors. While pursuing my Master's Degree, I served as an  
11       intern with R.W. Beck, Inc. ("R.W. Beck"), and officially joined the Company in 2005 as  
12       a Consulting Analyst upon completion of my degree. I left R.W. Beck in April 2008 to  
13       join J. Stowe & Co., LLC. ("J. Stowe & Co.") as a Senior Consultant, and was promoted  
14       to Manager in December 2009. In 2009, I also received my certification as an Associate  
15       in Project Management by the Project Management Institute. My professional resume is  
16       herein included as Exhibit DDU-16.

17   **Q. GENERALLY, WHAT DOES YOUR WORK WITH J. STOWE & CO. ENTAIL?**

18   A. I have provided a broad range of consulting services to the utility industry, including, but  
19       not limited to:

- 20             • Cost of service and rate design studies
- 21             • Litigation support
- 22             • System valuations
- 23             • Operational and organization studies
- 24             • Socioeconomic impact analysis

- 1           • Business Plan development
- 2           • Program / Project Management

3 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**  
 4 **PROCEEDING?**

5 A. I am presenting testimony on behalf of Double Diamond Utilities Company, Inc., referred  
 6 to herein as "Double Diamond", "DDU", and/or "the Utility."

7 **Q. CAN YOU PLEASE DEFINE THE SYSTEMS THAT ARE THE SUBJECT OF**  
 8 **THIS PROCEEDING?**

9 A. DDU currently is authorized to provide water service from three (3) water systems.  
 10 These systems, listed below in Table 1, are all subject to this proceeding:

<u>Table 1 – List of Water Systems Subject to Proceeding</u>	
<u>Water System</u>	<u>PWS ID</u>
The Cliffs	1820061
The Retreat	1260127
White Bluff	1090073

11

12

**II. PURPOSE AND SCOPE**

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

14 A. J. Stowe & Co. was retained by DDU to assist the Utility in preparing and filing the rate  
 15 change application that is subject of this proceeding. The purpose of my testimony is to  
 16 provide background on the procedures and methodologies utilized to prepare the  
 17 application and the requested rates.

18 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION ON**  
 19 **COST OF SERVICE AND/OR RATE MATTERS?**

20 A. No, I have not.

21



1 Q. IN ASSISTING DOUBLE DIAMOND IN PREPARING THE APPLICATION, DID  
2 J. STOWE & CO. RELY UPON THE AUDITED FINANCIAL STATEMENTS OF  
3 THE COMPANY?

4 A. Yes. The data provided by DDU to J. Stowe & Co. for inclusion in the application has  
5 been audited by Grant Thornton, LLP, as part of the consolidated financial statements of  
6 Double Diamond-Delaware, Inc. ("DDD") and its subsidiaries. As presented in the audit  
7 letter included as Attachment 8 of DDU's application, Grant Thornton has expressed the  
8 opinion that the financial statements of DDD and its subsidiaries "present fairly, in all  
9 material respects, the financial position of the Company as of December 30, 2007 and  
10 December 31, 2006, and the results of their operations and their cash flows for the years  
11 then ended in conformity with accounting principles generally accepted in the United  
12 States." In preparing this application, J. Stowe & Co. is relying upon management  
13 representation, as verified by a third-party auditor, that the books and records of the  
14 Utility are complete and accurate.

15 Q. HAVE YOU INCORPORATED THE ANALYSIS OF OTHER WITNESSES  
16 WITHIN YOUR TESTIMONY?

17 A. Yes. Based on informal conversations with Commission Staff, it was recommended that  
18 DDU engage a qualified engineer to perform a study in support of its requested rate base.  
19 DDU engaged Dr. Victoria Harkins to perform the Asset Evaluation. Within my  
20 testimony, I will refer to Dr. Harkins analysis and quantify its impact on the utility's  
21 requested revenue requirement and rates.

22

1 Q. WHAT ATTACHMENTS ARE YOU SUPPORTING AS PART OF YOUR  
2 TESTIMONY?

3 A. In addition to my resume, I am supporting the application (Exhibit DDU-1) and other  
4 attachments and schedules that are included and discussed throughout my testimony.

5 Q. WHAT PORTIONS OF THE APPLICATION ARE YOU SPONSORING AS  
6 PART OF YOUR TESTIMONY?

7 A. I am sponsoring all portions of the applications not sponsored by Mr. Gracy.

8 **III. SUMMARY OF APPLICATION PROCESS**

9 Q. YOU PREVIOUSLY TESTIFIED THAT YOU WERE RETAINED BY THE  
10 UTILITY TO ASSIST IN PREPARING AND FILING THE APPLICATION  
11 THAT IS THE SUBJECT OF THIS PROCEEDING. CAN YOU PLEASE  
12 SUMMARIZE THE PROCESS YOU WENT THROUGH IN PREPARING THE  
13 APPLICATION?

14 A. In preparing the application, I first requested financial and operating data from the  
15 Company. From this information, I relied on a number of documents provided including  
16 the following:

- 17 • DDU's 1999, 2001, and 2006 Rate Applications;
- 18 • DDU's 2006 and 2007 Depreciation Statements and other documentation  
19 supporting the Utility's assets;
- 20 • DDU's 2007 Financial Statements;
- 21 • DDD's 2007 Audited Financial Statements;
- 22 • Listing of Notes Payable from DDU to DDD as of 12/31/2004, 12/30/06, and  
23 12/30/07;

- 1 • DDU Detailed Trial Balance and Statement of Operations for the 2007 Test
- 2 Year;
- 3 • 2007 Employee and Labor Transfer Information; and
- 4 • Customer and Billing Information for 2006 and 2007

5 Once the documents were collected, I reviewed them and then prepared the application  
6 based on the data provided. As I will discuss later in my testimony, much of the  
7 information was reformatted to fit within the TCEQ application and some expenses were  
8 allocated to reflect the provision of water and wastewater service by the Utility. Once the  
9 revenue requirements were determined, I also worked with Mr. Gracy to develop the  
10 alternative, inclining-block rate design requested in the application.

11 **IV. SUMMARY OF UTILITY'S REQUESTED**  
12 **REVENUE REQUIREMENT AND RATES**

13  
14 **Q. IS DDU REQUESTING THE REVENUE REQUIREMENT AS CONTAINED**  
15 **WITHIN THE APPLICATION?**

16 A. No. ~~DDU is requesting a lower revenue requirement be approved for the consolidated~~  
17 ~~Groundwater systems at White Bluff and The Retreat.~~

18 **Q. PLEASE EXPLAIN WHY DDU'S REQUEST HAS CHANGED?**

19 A. As I stated earlier, based on Commission Staff recommendation, DDU engaged Dr.  
20 Victoria Harkins to perform an Asset Evaluation in support of its requested rate base.  
21 The results of Dr. Harkins study have impacted the utility's requested revenue  
22 requirement. These impacts will be addressed and quantified within my testimony.

1 Q. CAN YOU PLEASE SUMMARIZE THE REVENUE REQUIREMENT DDU IS  
 2 REQUESTING BE APPROVED BY THE COMMISSION.

3 A. Table 2 below presents the requested summary. Additionally, Schedule CDE-1 (Exhibit  
 4 DDU-19) compares this revenue requirement to the original revenue requirement  
 5 presented within the application.

Table 2 – Summary of Requested Revenue Requirement			
	<u>Groundwater</u>	<u>Surface Water</u>	<u>Total</u>
O&M Expense	\$ 414,046	\$ 370,099	\$784,145
Payroll Taxes	11,189	10,196	21,384
Property and other Taxes	3,332	2,412	5,744
Annual Depreciation and Amortization	185,223	73,069	258,291
Income Taxes	53,661	19,863	73,524
Return	184,380	68,249	252,629
Other Revenues	(12,116)	(9,622)	(21,738)
<b>Total Revenue Requirement</b>	<b>\$ 839,713</b>	<b>\$ 534,266</b>	<b>\$ 1,373,979</b>

6

7 Q. WITH THE LOWERING OF DDU'S REQUESTED REVENUE REQUIREMENT,  
 8 IS THE UTILITY ALSO REQUESTING A REDUCTION IN THE REQUESTED  
 9 RATES?

10 A. Yes. ~~DDU is requesting lower rates be approved for the consolidated Groundwater~~  
 11 ~~systems at White Bluff and The Retreat.~~

12 Q. PLEASE SUMMARIZE THE REQUESTED RATES.

13 A. Table 3 below illustrates the rates DDU is requesting as part of this application.

1

Table 3 – Summary of Requested Rates		
	<u>Groundwater</u>	<u>Surface Water</u>
Meter Charge		
5/8"	\$ 34.72	\$ 52.00
1"	86.80	130.00
1 ½"	173.60	260.00
2"	277.77	416.00
3"	520.81	780.00
Volumetric Charge (Per 1,000 gal.)		
0 – 3,000	\$ 1.78	\$ 2.60
3,001 – 10,000	2.45	3.00
10,001 – 15,000	3.38	5.07
15,001 – 20,000	4.67	8.56
20,001 +	6.45	14.45

2

3 **Q. WILL THE ABOVE REQUESTED RATES GENERATE LESS REVENUE THAT**  
 4 **WHAT WAS INCLUDED IN THE NOTICE PROVIDED TO THE UTILITY'S**  
 5 **CUSTOMERS?**

6 A. Yes. The above requested rates will generate approximately \$839,713 and \$474,104  
 7 from Groundwater and Surface Water Customers, respectively, for a total of \$1,313,817.  
 8 The rates noticed within the application for Groundwater customers proposed to generate  
 9 approximately \$943,064, for a total decrease in revenue generation of \$103,351  
 10 (\$943,064 - \$839,713). A proof of revenue generation for the requested rates and  
 11 utilizing the billing determinants from the application is contained in Schedule CDE-2  
 12 (Exhibit DDU-20).

1 V. MULTIPLE SYSTEMS CONSOLIDATED UNDER A SINGLE TARIFF

2 ~~Q. IS DDU REQUESTING TO CONSOLIDATE MULTIPLE SYSTEMS UNDER A~~  
3 ~~SINGLE TARIFF AS PART OF THIS APPLICATION?~~

4 ~~A. Yes. Of the three water systems, DDU is seeking the Commission's approval to~~  
5 ~~consolidate the groundwater systems at White Bluff and The Retreat under a single rate.~~  
6 ~~DDU is proposing a separate rate for the surface water system located at The Cliffs.~~

7 ~~Q. ACCORDING TO THE TEXAS WATER CODE, WHAT REQUIREMENTS~~  
8 ~~MUST BE MET TO ENABLE A UTILITY TO CONSOLIDATE SYSTEMS~~  
9 ~~UNDER A SINGLE TARIFF?~~

10 ~~A. Texas Water Code ("TWC") § 13.145(a) states:~~  
11 ~~----- "A utility may consolidate more than one system under a single tariff only if:~~  
12 ~~(1) The systems under the tariff are substantially similar in terms of facilities,~~  
13 ~~quality of service, and cost of service and;~~  
14 ~~(2) The tariff provides for rates that promote water conservation for single family~~  
15 ~~residences and landscape irrigation."~~

16 ~~Q. ARE YOU AWARE OF OTHER GUIDANCE OR PRECEDENT TO GUIDE A~~  
17 ~~UTILITY WITH REGARDS TO THE REQUIREMENTS OF TWC §13.145(A)?~~

18 ~~A. Yes. The Commission approved consolidation of systems under regional rates in SOAH~~  
19 ~~Docket Nos. 582-05-2771 and 582-05-2770, Application by Aqua Utilities, Inc. d/b/a~~  
20 ~~Aqua Texas, Inc., and AquaSource Development Company d/b/a Aqua Texas, Inc. to~~  
21 ~~change their water and sewer tariffs and rates in various counties, and appeal of rate-~~  
22 ~~making actions of various municipalities denying requested changes to water and sewer~~

1 tariffs and rates (“Aqua Texas case”). The Commission also recently approved  
 2 consolidation of two systems, based on the precedent set in the Aqua Texas Case, in  
 3 SOAH Docket No. 582-08-1023, Application for a Water Rate / Tariff Change of Texas  
 4 Landing Utilities (“Texas Landing Utilities Case”).

5 ~~Q. IN YOUR OPINION, WHAT GUIDANCE DO THE AFOREMENTIONED~~  
 6 ~~PROCEEDINGS PROVIDE?~~

7 ~~A. In the Aqua Texas case, the principles of which were affirmed in the Texas Landing~~  
 8 ~~Utilities Case, the Commission ultimately found that the facilities, quality of service, and~~  
 9 ~~cost of service were substantially similar within each tariff region. In the PFD of the~~  
 10 ~~Aqua Texas case, on which the Commission’s decision is based, the Administrative Law~~  
 11 ~~Judge (“ALJ”) makes several statements, included below, which clearly outline the~~  
 12 ~~methodology approved by the Commission for determining substantial similarity:~~

13 ~~———— “The ALJ finds that the approach most consistent with the Legislature’s goal of~~  
 14 ~~regionalization is that offered by . . . Aqua Texas.” (Page 23)~~

16 ~~———— “Aqua Texas and the ED subscribe to the view that the substantial similarity~~  
 17 ~~inquiry must compare the systems over time (including prospectively) to~~  
 18 ~~determine the similarity of the maintenance, investment, and depreciation of~~  
 19 ~~assets.” (Page 23, emphasis added)~~  
 20

21 ~~———— “In contrast, the Protestants take a snapshot approach that essentially compares~~  
 22 ~~each system to the others within that region based on the state of the system at the~~  
 23 ~~time the snapshot is taken. The result is that differences between the systems are~~  
 24 ~~highlighted.” (Page 24)~~  
 25

26 ~~———— “The problem with Protestants’ approach is that it fails to recognize that, during~~  
 27 ~~any given test year, every system will be at [a] specific point in the range of its~~  
 28 ~~facilities’ life. Arguably, as a facility’s assets change from year to year, a single~~  
 29 ~~facility would be dissimilar to itself in prior years. So Protestant’s approach~~  
 30 ~~guarantees that systems within a region will be dissimilar to one another based~~  
 31 ~~solely on the age of their facilities.” (Page 24)~~

Bryan W. Shaw, P.D., *Chairman*  
Buddy Garcia, *Commissioner*  
Carlos Rubistein, *Commissioner*  
Mark R. Vickers, P.G., *Executive Director*

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

*Protecting Texas by Reducing and Preventing Pollution*

October 14, 2010

The Honorable Richard R. Wilfong  
State Office of Administrative Hearings  
P.O. Box 13025  
Austin, Texas 78711-3025

Re: Water Rate/Tariff Change Application of Double Diamond Utilities Co.,  
Certificate of Convenience and Necessity No. 12087, in Hill, Palo Pinto, and  
Johnson Counties, Texas, Application No. 36220-R; SOAH Docket No. 582-09-  
4288; TCEQ Docket No. 2009-0505-UCR

Dear Judge Wilfong:

An issue has arisen regarding how DDU reported its gallons billed and how the Executive Director (ED) allocated those gallons billed in his rate calculations. When the ED developed his allocations using the gallons billed tables provided by DDU, the ED believed that the totals for each tier on the table (0-1,000; 1,000-2,000; etc.) represented the total gallons billed for just that tier and that any gallons billed for other tiers had been included in the totals for those other tiers. For example, if the 3,000-4,000-gallons tier listed a total of 1,000,000, the ED believed that meant that the customers had used 1,000,000 gallons only in the 3,000-4,000 tier and that the first 3,000 gallons used by each of those customers was accounted for in the lower tiers.

On Friday, October 8, 2010, DDU contacted ED staff regarding the staff's use of the information in the gallons billed tables. After DDU provided a clear explanation of the information it had intended to convey in the tables, the ED now understands that the amount listed in each tier is actually the total usage for each customer accounted for in that tier. Using the example above, that means that the total amount used by those customers was 1,000,000, so part of the 1,000,000 still needed to be allocated to the lower tiers by using the total meter count for the 3,000-4,000-gallons tier. Based on his review of this information, the ED believes that the gallons billed should be allocated differently in his rate calculations. Therefore, the ED has enclosed corrected Ex. ED-2, pages 17 (lines 15-17), 18 (line 4), and 19 (lines 2, 3, 11) and Attachments BDD-5, BDD-13, BDD-18, and BDD-19. The ED has only made those corrections that relate to The Cliffs, as it is the only system still at issue in this case.

Page 1 of 2

CHIEF CLERKS OFFICE

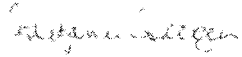
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TEXAS  
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QUALITY



Because the above changes to the ED's prefiled testimony change the ED's recommended base rate, I am providing the changes to the ALJ and all parties as soon as possible. Please let me know if you have any questions.

Sincerely,



Stefanie Skogen  
Staff Attorney  
Environmental Law Division

Enclosure

cc: Mailing list

**CERTIFICATE OF SERVICE**

I certify that on October 14, 2010, a copy of the foregoing document was sent by first class mail, agency mail, electronic mail, and/or facsimile to the persons on the attached mailing list.

*Stefanie Skogen*  
Stefanie Skogen, Staff Attorney  
Environmental Law Division

**Mailing List**  
**Double Diamond Utility Co.**  
**SOAH Docket No. 582-09-4288**  
**TCEQ Docket No. 2009-0505-UCR**

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CHIEF CLERK'S OFFICE

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TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

1 generate \$21,060.00 over twelve months. Adding the values for all the meter sizes, the  
2 total revenue that would be generated is \$353,340.00. Please see **attachment BDD-6** for  
3 these calculations.

4 **Q. What would be the total revenue generated by the base rates and the gallonage**  
5 **charges?**

6 A. Adding the base rate revenue of \$353,340.00 to the gallonage charge revenue of  
7 \$512,385.00 gives a total revenue of \$865,725.00.

8 **Q. Did you prepare a rate design for The Cliffs based on Ms. Pascua's calculated**  
9 **revenue requirement and DDU's proposed rates?**

10 A. Yes, my rate design is attached (**attachment BDD-5**).

11 **Q. How did you calculate the total revenue that would be generated by the proposed**  
12 **gallonage charges for The Cliffs?**

13 A. I calculated the revenue generated by the gallonage charges by multiplying the requested  
14 inclining block rates listed in the notice and the gallons billed in 2007 for each tier. For  
15 example, DDU billed for 4,902,734 ~~4,128,734~~ gallons in the 0-3,000 gallons tier. At  
16 \$2.60/1,000 gallons, that tier would generate \$12,474 ~~\$2,935.00~~. Adding the values for  
17 all the tiers, the total revenue that would be generated is \$199,274 ~~\$268,979.00~~.

18 **Q. How did you calculate the total revenue that would be generated by the proposed**  
19 **base rates?**

20 A. I multiplied the total number of customers for each meter size by the corresponding base  
21 rate times twelve months. For example, a 1-inch meter with a base rate of \$130.00 would  
22 generate \$18,720.00 over twelve months. Adding the values for all the meter sizes, the  
23 total revenue that would be generated is \$240,240.00.

1 **Q. What would be the total revenue generated by the base rates and the gallonage**  
2 **charges?**

3 A. Adding the base rate revenue of \$240,240.00 to the gallonage charge revenue of  
4 \$199,274 ~~\$268,979.00~~ gives a total revenue of \$439,514 ~~\$509,219.00~~.

5 **Q. What are your recommended rates for The Retreat and White Bluff?**

6 A. The current rates for these systems are \$1.85/1000 gallons for 1,001 to 10,000 gallons,  
7 \$2.10/1,000 for 10,001 to 20,000 gallons, and \$4.75/1,000 for 20,001 gallons and  
8 thereafter with a base rate of \$30.00, which includes 1,000 gallons, for a 5/8-inch meter.  
9 This rate structure generates a revenue of \$573,528 (**attachment BDD-11**), which is  
10 lower than the ED's recommended revenue requirement for the two systems by  
11 \$179,090.00. Therefore, the utility would have been entitled to increase its rates to make  
12 up the difference. The utility has proposed a gallonage charge of \$2.00/1,000 gallons for  
13 0 to 3,000 gallons. \$2.75/1,000 for 3,001 to 10,000 gallons. \$3.80/1,000 for 10,001 to  
14 15,000 gallons. \$5.25/1,000 for 15,001 to 20,000 gallons, and \$7.25/1,000 for 20,001  
15 gallons and over with a base rate of \$39.00, including zero gallons, for a 5/8-inch meter.  
16 Using Ms. Pascua's \$752,618.00 revenue requirement and the proposed gallonage  
17 charges requested by DDU, I have adjusted the base rate in my rate design so that the  
18 over/under recovery amount is as close to zero as possible. This resulted in a base rate of  
19 \$26.52 for a 5/8-inch meter. My rate design, which includes the base rates for the other  
20 meter sizes, is attached (**attachment BDD-12**).

21 **Q. What are your recommended rates for The Cliffs?**

22 A. The current rates for this system are \$1.85/1,000 gallons for 1,001 to 10,000 gallons,  
23 \$4.75/1,000 for 10,001 to 20,000 gallons, and \$6.75/1,000 for 20,001 gallons and

1 thereafter with a base rate of \$30.00, including 1,000 gallons, for a 5/8-inch meter. This  
2 generates a revenue of \$220,733 ~~\$253,103~~ (attachment BDD-19), which is lower than  
3 the ED's revenue requirement by \$136,854 ~~\$104,484~~. Therefore, the utility is entitled to a  
4 rate increase to make up the difference. The utility proposed a gallonage charge of  
5 \$2.60/1,000 gallons for 0 to 3,000 gallons, \$3.00/1,000 for 3,001 to 10,000 gallons,  
6 \$5.07/1,000 for 10,001 to 15,000 gallons, \$8.56/1,000 for 15,001 to 20,000 gallons, and  
7 \$14.45/1,000 for 20,001 gallons and over with a base rate of \$52.00, including zero  
8 gallons, for a 5/8-inch meter. Using Ms. Pascua's \$357,587 revenue requirement and the  
9 proposed gallonage charges requested by DDU, I have adjusted the base rate in my rate  
10 design so that the over/under recovery amount is as close to zero as possible. This  
11 resulted in a base rate of \$34.27 ~~\$19.19~~ for a 5/8-inch meter. My rate design, which  
12 includes the base rates for the other meter size, is attached (attachment BDD-18).

13 **Q. Do you have any recommendations regarding DDU's proposed miscellaneous fees?**

14 A. In my professional experience, I believe that the miscellaneous fees proposed by DDU  
15 for all the systems are reasonable. Also, those costs are not determined or calculated  
16 based on the consolidation of the water systems but rather are independent from the rate  
17 calculations. Therefore, I recommend approval of the proposed miscellaneous fees for all  
18 the water systems.

19 **Q. Do you have a recommendation regarding customer refunds for The Cliffs?**

20 A. Yes, under section 291.29(h) of the TCEQ's rules, unless the parties agree otherwise, the  
21 utility must "refund or credit against future bills all sums collected in excess of the rate  
22 finally ordered plus interest as determined by the commission in a reasonable number of  
23 monthly installments." Because the ED is not recommending the full rate increase, DDU

Revenue Generated by Utility Proposed Rates		
The Cliffs		
<b>RATES</b>		
Base Rate		
5/8"	\$	52.00
1"		130.00
1 1/2"		260.00
2"		416.00
3"		780.00
Volumetric		
0 - 3,000	\$	2.60
3,000 - 10,000		3.00
10,000 - 15,000		5.07
15,000 - 20,000		8.56
20,000 +		14.45
Total		
No. of Meters (Dec. 2007)		
5/8"		215
1"		12
1 1/2"		1
2"		15
3"		1
Total		244
Gallons Billed		
0 - 3,000		4,902,734
3,000 - 10,000		5,956,968
10,000 - 15,000		2,460,480
15,000 - 20,000		1,707,877
20,000 +		9,796,707
Total		24,824,766
<b>REVENUE</b>		
Base Rate		
5/8"	\$	134,160
1"		18,720
1 1/2"		3,120
2"		74,880
3"		9,360
<b>Total revenue generated by base rates</b>	\$	240,240
Volumetric Revenue		
0 - 3,000	\$	12,747
3,000 - 10,000		17,871
10,000 - 15,000		12,475
15,000 - 20,000		14,619
20,000 +		141,562
<b>Total revenue generated by volumetric usage</b>	\$	199,274
Revenue Generated by Proposed rates	\$	439,514
Revenue Required		357,587
Over / (Under) Recovery	\$	81,928

Double Diamond Utilities Company, Inc.  
The Cliffs

Water Tariff Page No. 2

SECTION 1.0 - RATE SCHEDULE

Section 1.01 - Rates

<u>Meter Size</u>	<u>Monthly Minimum Charge</u>	<u>Gallage Charge</u>
5/8" or 3/4"	\$34.27 (Includes zero gallons)	\$2.60 per 1000 gallons, 0 - 3,000 gallons
1"	\$85.68	\$3.00 per 1000 gallons, 3,001 - 10,000 gallons
1 1/2 "	\$171.35	\$5.07 per 1000 gallons, 10,001 - 15,000 gallons
2"	\$274.16	\$8.56 per 1000 gallons, 15,001 - 20,000 gallons
3"	\$514.05	\$14.45 per 1000 gallons, 20,001 gallons and thereafter

FORM OF PAYMENT: The utility will accept the following forms of payment:

Cash X, Check X, Money Order X, Credit Card X, Other (specify) \_\_\_\_\_  
THE UTILITY MAY REQUIRE EXACT CHANGE FOR PAYMENTS AND MAY REFUSE TO ACCEPT PAYMENTS MADE USING MORE THAN \$1.00 IN SMALL COINS. A WRITTEN RECEIPT WILL BE GIVEN FOR CASH PAYMENTS.

REGULATORY ASSESSMENT ..... 1.0%  
TCEQ RULES REQUIRE THE UTILITY TO COLLECT A FEE OF ONE PERCENT OF THE RETAIL MONTHLY BILL.

Section 1.02 - Miscellaneous Fees

TAP FEE ..... \$675.00  
TAP FEE COVERS THE UTILITY'S COSTS FOR MATERIALS AND LABOR TO INSTALL A STANDARD RESIDENTIAL 5/8" or 3/4" METER. AN ADDITIONAL FEE TO COVER UNIQUE COSTS IS PERMITTED IF LISTED ON THIS TARIFF.

TAP FEE (Large meter) ..... Actual Cost  
TAP FEE IS THE UTILITY'S ACTUAL COST FOR MATERIALS AND LABOR FOR METER SIZE INSTALLED

METER RELOCATION FEE ..... Actual Relocation Cost | Not to Exceed Tap Fee  
THIS FEE MAY BE CHARGED IF A CUSTOMER REQUESTS THAT AN EXISTING METER BE RELOCATED.

METER TEST FEE ..... \$25.00  
THIS FEE WHICH SHOULD REFLECT THE UTILITY'S COST MAY BE CHARGED IF A CUSTOMER REQUESTS A SECOND METER TEST WITHIN A TWO-YEAR PERIOD AND THE TEST INDICATES THAT THE METER IS RECORDING ACCURATELY. THE FEE MAY NOT EXCEED \$25.

RATES LISTED ARE EFFECTIVE ONLY  
IF THIS PAGE HAS TCEQ APPROVAL STAMP

(1)

Double Diamond Utilities Company, Inc.  
The Cliffs

Water Tariff Page No. 3

SECTION 1 0 - RATE SCHEDULE (CONT.)

RECONNECTION FEE

THE RECONNECT FEE MUST BE PAID BEFORE SERVICE CAN BE RESTORED TO A CUSTOMER WHO HAS BEEN DISCONNECTED FOR THE FOLLOWING REASONS (OR OTHER REASONS LISTED UNDER SECTION 2.0 OF THIS TARIFF):

- a) Non payment of bill (Maximum \$25.00).....\$25.00
- b) Customer's request that service be disconnected.....\$25.00

TRANSFER FEE.....\$25.00

THE TRANSFER FEE WILL BE CHARGED FOR CHANGING AN ACCOUNT NAME AT THE SAME SERVICE LOCATION WHEN THE SERVICE IS NOT DISCONNECTED

LATE CHARGE (EITHER \$5.00 OR 10% OF THE BILL) ..... 10%

TCEQ RULES ALLOW A ONE-TIME PENALTY TO BE CHARGED ON DELINQUENT BILLS. A LATE CHARGE MAY NOT BE APPLIED TO ANY BALANCE TO WHICH THE PENALTY WAS APPLIED IN A PREVIOUS BILLING

RETURNED CHECK CHARGE.....\$30.00

RETURNED CHECK CHARGES MUST BE BASED ON THE UTILITY'S DOCUMENTABLE COST.

CUSTOMER DEPOSIT RESIDENTIAL (Maximum \$50).....\$50.00

COMMERCIAL & NON-RESIDENTIAL DEPOSIT..... 1/6TH OF ESTIMATED ANNUAL BILL

GOVERNMENTAL TESTING, INSPECTION AND COSTS SURCHARGE

WHEN AUTHORIZED IN WRITING BY TCEQ AND AFTER NOTICE TO CUSTOMERS, THE UTILITY MAY INCREASE RATES TO RECOVER INCREASED COSTS FOR INSPECTION FEES AND WATER TESTING 30 TAC 291.21(K)(2)

LINE EXTENSION AND CONSTRUCTION CHARGES:

REFER TO SECTION 3.0--EXTENSION POLICY FOR TERMS, CONDITIONS AND CHARGES WHEN NEW CONSTRUCTION IS NECESSARY TO PROVIDE SERVICE.

RATES LISTED ARE EFFECTIVE ONLY  
IF THIS PAGE HAS TCEQ APPROVAL STAMP

(2)



Revenue Generated by Staff Proposed Rates	
The Cliffs	
<b>RATES</b>	
Base Rate	
5/8"	\$ 34.27
1"	85.68
1 1/2"	171.35
2"	274.16
3"	514.05
Volumetric	
0 - 3,000	\$ 2.60
3,000 - 10,000	3.00
10,000 - 15,000	5.07
15,000 - 20,000	8.56
20,000 +	14.45
Total	
No. of Meters (Dec. 2007)	
5/8"	215
1"	12
1 1/2"	1
2"	15
3"	1
Total	244
Gallons Billed	
0 - 3,000	4,902,734
3,000 - 10,000	5,956,968
10,000 - 15,000	2,460,480
15,000 - 20,000	1,707,877
20,000 +	9,796,707
Total	24,824,766
<b>REVENUE</b>	
Base Rate	
5/8"	\$ 88.417
1"	12.337
1 1/2"	2.056
2"	49.349
3"	6.169
<b>Total revenue generated by base rates</b>	\$ 158,327
Volumetric Revenue	
0 - 3,000	\$ 12,747
3,000 - 10,000	17,871
10,000 - 15,000	12,475
15,000 - 20,000	14,619
20,000 +	141,562
<b>Total revenue generated by volumetric usage</b>	\$ 199,274
Revenue Generated by Proposed rates	\$ 357,602
Revenue Required	357,587
Over / (Under) Recovery	\$ 15

Revenue Generated by Existing Rates	
The Cliffs	
<b>RATES</b>	
Base Rate	
5/8"	\$ 30 00
1"	50 10
1 1/2"	99 90
2"	159 80
3"	320.00
Volumetric Charge per tier	
0 - 1,000	\$ 0.00
1,000 - 10,000	1 85
10,000 - 20,000	4.75
20,000 +	6 75
Total	
No. of Meters (Dec 2007)	
5/8"	215
1"	12
1 1/2"	1
2"	15
3"	1
Total	244
Gallons Billed	
0 - 1 000	2 001 151
1,000 - 10,000	8,858,551
10,000 - 20,000	4 168 357
20,000 +	9 796,707
Total	24,824,766
<b>REVENUE</b>	
Base Rate	
5/8"	\$ 77,400
1"	7,214
1 1/2"	1,199
2"	28,764
3"	3,840
<b>Total revenue generated by base rates</b>	\$ 118,417
Volumetric Revenue	
0 - 1,000	\$ 0
1,000 - 10,000	16 388
10,000 - 20 000	19 800
20,000 +	66,128
<b>Total revenue generated by volumetric usage</b>	\$ 102 316
Revenue Generated by Existing rates	\$ 220 733
Revenue Required	357,587
Over / (Under) Recovery	\$ (136,854)