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TEXAS
COMMISSION
ON ENVIRONMENTAL
QUALITY

SOAH DOCKET NO. 582-09-4288

2010 MAR -1 PM 4:13

TCEQ DOCKET NO. 2009-0505-UCR

CHIEF CLERKS OFFICE

APPLICATION OF DOUBLE
DIAMOND UTILITIES COMPANY,
INC. TO CHANGE WATER RATE
TARIFF FOR SERVICE IN HILL, PALO
PINTO, AND JOHNSON COUNTIES

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BEFORE THE STATE OFFICE

OF

ADMINISTRATIVE HEARINGS

PREFILED DIRECT TESTIMONY AND EXHIBITS

OF

RANDY GRACY

ON BEHALF OF

DOUBLE DIAMOND UTILITIES, CO.

MARCH 1, 2010

DDU-A

376962-6 03/01/2010

**PREFILED DIRECT TESTIMONY AND EXHIBITS
OF RANDY GRACY
ON BEHALF OF
DOUBLE DIAMOND UTILITIES, CO.**

TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
I. INTRODUCTION AND QUALIFICATIONS	1
II. PURPOSE AND SUMMARY OF TESTIMONY	2
III. UTILITY DESCRIPTION	4
IV. REQUESTED RATE INCREASE.....	9
V. SYSTEM OPERATIONS	10
VI. CONSOLIDATION OF WHITE BLUFF AND THE RETREAT	12
VII. RATE CASE EXPENSES	15

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 Ekrot, 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
376962-6 03/01/2010

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
376962-6 03/01/2010

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
376962-6 03/01/2010

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,

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

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

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

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

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

SOAH DOCKET NO. 51109-68
TCEQ DOCKET NO. 2009-0505-UCR 2010 MAR -1 PM 4: 24

PUBLIC UTILITY COMMISSION
FILING CLERK

APPLICATION OF DOUBLE
DIAMOND UTILITIES COMPANY,
INC. TO CHANGE WATER RATE,
TARIFF FOR SERVICE IN HILL,
PALO PINTO, AND JOHNSON
COUNTIES

§ BEFORE THE STATE OFFICE
§ OF
§ CHIEF CLERKS OFFICE
§ ADMINISTRATIVE HEARINGS

PREFILED DIRECT TESTIMONY AND EXHIBITS
OF
DOUBLE DIAMOND UTILITIES, CO.

PREFILED TESTIMONY

- A. Prefiled Direct Testimony and Exhibits of Randy Gracy
- B. Prefiled Direct Testimony and Exhibits of Kevin Shea
- C. Prefiled Direct Testimony and Exhibits of John Carlton
- D. Prefiled Direct Testimony and Exhibits of Victoria Harkins
- E. Prefiled Direct Testimony and Exhibits of Chris Ekrut

EXHIBITS:

- 1. DDU-1: Double Diamond Rate Application, dated October 24, 2008
- 2. DDU-2: Randy Gracy's Resume
- 3. DDU-3: White Bluff Utility System Map as of 2007
- 4. DDU-4: The Retreat Utility System Map as of 2007
- 5. DDU-5: The Cliffs Utility System Map as of 2007
- 6. DDU-6: Statement of Operations
- 7. DDU-7: Detailed Trial Balance
- 8. DDU-8: Labor Transfer Budgets
- 9. DDU-9: 2004 Notes Payable
- 10. DDU-10: 2006 Notes Payable
- 11. DDU-11: J. Carlton's Resume
- 12. DDU-12: Victoria Harkins' Resume

13. DDU-13: Asset Inventory for The Retreat
14. DDU-14: Asset Inventory for The Cliffs
15. DDU-15: Asset Inventory for White Bluff
16. DDU-16: Chris Ekrut's Resume
17. DDU-17: Double Diamond Lot and Acreage Summary
18. DDU-18: Rate of Return Worksheet
19. DDU-19: Schedule CDE-1: Comparison of Requested Revenue Requirement to Revenue Requirement Presented in Filed Application
20. DDU-20: Schedule CDE-2: Proof of Revenue Generation under Requested Rates
21. DDU-21: Schedule CDE-3: Cost of Service and Revenue Requirement for Non-consolidated Systems
22. DDU-22: Schedule CDE-4: Proof of Revenue Generation under Non-Consolidated Rates
23. DDU-23: Schedule CDE-5: Rate Base Impact of Asset Evaluation
24. DDU-24: Schedule CDE-6: Comparison of Application Plant Values to Results of Asset Evaluation
25. DDU-25: Schedule CDE-7: Listing of Parent Company Contributed Plant Assets
26. DDU-26: Schedule CDE-8: Calculation of Requested Revenue Increase Based on Utility's Currently Approved Rates
27. DDU-27: Schedule CDE-9: Summary of Charges Billed by J. Stowe & Co. through February 15, 2010
28. DDU-28: DDU Rate Case Expenses-Paid as of 2/26/2010

SOAH DOCKET NO. 582-09-4288

2010 MAR -1 PM 4:19

TCEQ DOCKET NO. 2009-0505-UCR

CHIEF CLERKS OFFICE

APPLICATION OF DOUBLE
DIAMOND UTILITIES COMPANY,
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TARIFF FOR SERVICE IN HILL, PALO
PINTO, AND JOHNSON COUNTIES

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BEFORE THE STATE OFFICE

OF

ADMINISTRATIVE HEARINGS

PREFILED DIRECT TESTIMONY AND EXHIBITS

OF

KEVIN SHEA

ON BEHALF OF

DOUBLE DIAMOND UTILITIES, CO.

MARCH 1, 2010

PREFILED DIRECT TESTIMONY AND EXHIBITS

OF KEVIN SHEA

ON BEHALF OF

DOUBLE DIAMOND UTILITIES, CO.

TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
I. BACKGROUND AND QUALIFICATIONS	1
II. PURPOSE OF TESTIMONY	3
III. ACCOUNTING ISSUES	5

EXHIBITS:

DDU-1 (Attachment 7):	2007 Trial balance for Double Diamond Utilities, Co.
DDU-1 (Attachment 8):	Consolidated Financial Statements and Report of Independent Certified Public Accountants for Double Diamond-Delaware, Inc. and Subsidiaries, December 30, 2007 and December 31, 2006
DDU-1 (Attachment 9):	2007 Notes Payable Info
DDU-1 (Attachment 11):	2006 and 2007 customer billing and usage data for White Bluff, The Retreat and The Cliffs
DDU-6:	Statement of Operations
DDU-7:	Detailed Trial Balance
DDU-8:	Labor Transfer Budgets
DDU-9:	2004 Notes Payable
DDU-10:	2006 Notes Payable
DDU-28:	DDU Rate Case Expenses-Paid as of 2/26/2010

1 **I. BACKGROUND AND QUALIFICATIONS**

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

3 **A.** My name is Kevin Shea. 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 am currently the Vice President-Accounting for Double Diamond Delaware, Inc., which
7 I will refer to as DDD.

8 **Q. What are your responsibilities as Vice President-Accounting for Double Diamond**
9 **Delaware, Inc.?**

10 **A.** Manage the day-to-day operations of the Accounting department which includes land
11 sales, hospitality and utilities. I also prepare yearly budgets and forecasting documents.

12 **Q. What are your responsibilities with respect to DDU?**

13 **A.** I manage the day-to-day accounting operations.

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

15 **A.** I am a Graduate of Oklahoma State (1982) with a BS in Accounting. I became a CPA in
16 1989.

17 **Q. Please describe your professional experience.**

18 **A.** I have close to 30 years accounting experience. My background has spanned many
19 industries including manufacturing, communications, hospitality, real estate, oil and gas.

20 **Q. What documents have you attached to your testimony?**

21 **A.** As the Vice President-Accounting for DDD, I will sponsor true and correct copies of
22 DDD's and DDU's business records maintained in the ordinary course of business within my
23 area of responsibility relating to DDU's budgets and expenditures for 2007. Several of these

1 business records are attachments to the Application (DDU-1). The other business records are
2 designated as Exhibits DDU-1, DDU-6 through DDU-10, and DDU-28.

3 DDU- 1 includes the following business records: the DDU Trial Balance for Fiscal Year
4 (FY) 2007 as Attachment 7; DDD's Consolidated Financial Statements and Report of
5 Independent Certified Public Accountants for Double Diamond-Delaware, Inc. and Subsidiaries,
6 December 30, 2007 and December 31, 2006, as Attachment 8; DDU's List of Notes payable as
7 of December 30, 2007, which includes date of issue, date of maturity, original balance, balance
8 as of December 30, 2007, interest rate, annual payment amount, payee and other comments, as
9 Attachment 9; and DDU's 2006 and 2007 customer billing and usage data for White Bluff, The
10 Retreat and The Cliffs, which has been reformatted by Chris Ekrut for use in the Application as
11 Attachment 11.

12 DDU-6 is the Statement of Operations for December 2007, which included the year end
13 numbers, that I provided to Chris Ekrut for use in preparing the Application. DDU- 7 is the
14 Detailed Trial Balance that I provided to Mr. Ekrut for the same purpose. I also provided Mr.
15 Ekrut with the following documents: the Labor Transfer Budgets for 2007 (DDU-8); DDU's List
16 of Notes payable as of December 30, 2004, which includes date of issue, date of maturity,
17 original balance, balance as of December 30, 2004, interest rate, annual payment amount, payee
18 and other comments (DDU- 9); and DDU's List of Notes payable as of December 30, 2006,
19 which includes date of issue, date of maturity, original balance, balance as of December 30,
20 2006, interest rate, annual payment amount, payee and other comments (DDU-10).

21 **Q. Are you the custodian of these records for DDU?**

22 **A. Yes.**

23 **Q. Are these records kept by DDU in the regular course of business?**

24 **A. Yes.**

1 **Q. Was it the regular course of business for an employee or representative of DDU with**
2 **knowledge of the act or event recorded to make the record or to transmit information**
3 **thereof to be included in the record?**

4 **A. Yes.**

5 **Q. Were the records made at or near the time of the event, or reasonably soon**
6 **thereafter?**

7 **A. Yes.**

8 **Q. Are the documents exact duplicates of the originals?**

9 **A. Yes, with the exception of Attachment 11 to the Application (DDU-1), which is a**
10 **recompilation of the actual electronic data stored in our system for customer billing and usage in**
11 **2006 and 2007.**

12 **II. PURPOSE OF TESTIMONY**

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

14 **A. I sponsor the historic test year revenues and expenses used in the rate application and**
15 **post-test year financial data that that were taken from the business records of DDU maintained**
16 **under my direction and control. These records are accurate and correct to the best of my**
17 **knowledge.**

18 **Q. Are the exhibits listed above that you are sponsoring true and correct?**

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

20 **Q. What other items will your discuss in your testimony?**

21 **A. I will discuss:**

- 22 • DDU's account practices and why they are followed;
- 23 • treatment of common costs, such as corporate overheads; and
- 24 • reasonableness of expenses in requested costs of services.

1 **Q. What was your assignment and scope of work in regard to this proceeding?**

2 **A.** I have been involved with a number of different aspects of the current DDU rate case.

3 Generally, they are:

- 4 • provided the historical financial records used in the rate application and which
- 5 underlie the requested revenue requirement;
- 6 • researched data and prepared responses to many of the discovery requests propounded
- 7 on DDU by other parties to these proceedings;
- 8 • assisted the TCEQ staff in their audits of DDU before and after formal discovery
- 9 started in this rate case;
- 10 • assisted DDU's attorneys in developing the DDU's prefiled testimony; and
- 11 • since I am directly responsible for the accounting records maintained by DDU, I have
- 12 produced DDU's accounting records for submission into the record.

13 **Q. Can you identify the document attached as DDU-28?**

14 **A.** Yes. DDU-28 is a true and correct copy of a report titled "DDU Rate Case Expenses -
15 Paid as of 2/26/2010."

16 **Q. Are you the custodian of this record for DDU?**

17 **A.** Yes.

18 **Q. Is the document attached as DDU-28 kept by DDU in the regular course of business?**

19 **A.** Yes.

20 **Q. Was it the regular course of business for an employee or representative of DDU with**
21 **knowledge of the act or event recorded to make the record or to transmit information**
22 **thereof to be included in the record?**

23 **A.** Yes.

1 Q. Were the records made at or near the time of the event, or reasonably soon
2 thereafter?

3 A. Yes.

4 Q. Is the document an exact duplicate of the original?

5 A. Yes.

6 **III. ACCOUNTING ISSUES**

7 Q. What system of accounts does DDU follow?

8 A. DDU has historically followed General Accepted Accounting Principles (GAAP). DDU
9 is currently transitioning to a NARUC system of accounts as recently required by TCEQ.

10 Q. What are the accounting systems or practices used by DDU?

11 A. Our Accounts Payable department receives all approved accounts payable requests with
12 attached vendor invoices. They are then forwarded to an Accounting Manager for final approval.
13 The checks to pay these expenses are prepared and processed by the Accounts Payable
14 department.

15 Q. Do these invoices constitute all of the accounting that must be done by or for DDU?

16 Please explain your answer.

17 A. No. Those invoices are only a portion of the accounting done by DDU. We handle all of
18 the billing and collection from customer accounts for the DDU systems. We also maintain the
19 timesheets and work orders that are generated by the operation of the utility systems. Timesheet
20 information on each employee is forwarded to the Payroll department. All paychecks, including
21 mine, are issued and accounted for at the parent level. There are a number of categories of
22 expenses that DDU incurs that are accounted for at the DDD level as a result of the synergies
23 that can be achieved through a typical tiered corporate structure. For example, employee
24 benefits are provided at the parent level. DDD can negotiate better terms for things like

1 insurance if it uses a company wide employee base than just the utility employee base. Federal
2 and state taxes are handled at the DDD level.

3 **Q. Does DDD allocate "corporate overhead" expenses to DDU that are sought to be**
4 **recovered in these proposed rates? If so, how?**

5 **A.** Yes. Because DDD provides the billing and customer phone support functions for DDU
6 a portion of this labor is allocated to DDU.

7 **Q. Are these corporate overheads allocated to the individual water or sewer systems?**
8 **Please explain.**

9 **A.** No, DDU does not maintain accounting records for each individual water or sewer
10 system. I am unaware of any other TCEQ-approved system of accounts that require accounts to
11 be maintained on a system-by-system basis. In my opinion, system-by-system accounting would
12 be inefficient and unnecessarily expensive. I do not know how customer services would be
13 improved by incurring this additional cost.

14 **Q. Are there any DDU expenditures accounted for at the individual system level? If so,**
15 **why?**

16 **A.** Yes. Some expenditures are directly attributable to specific systems. However, there are
17 other home office expenditures that are not tracked at the system level, and these expenditures
18 are allocated to the subdivision served by the system.

19 **Q. How are DDU's individual systems managed and budgeted?**

20 **A.** DDU manages these three water systems on a partially consolidated basis. All billing
21 and accounting functions are handled by the home office. An annual budget is prepared for each
22 subdivision each year. If White Bluff and The Retreat are formally consolidated in this
23 proceeding, they will be managed together as ground water based systems, and The Cliffs will be
24 managed separately as a surface water based system.

1 **Q. Are there any payments to affiliated interests for costs of any services, or any**
2 **property, right or thing, or interest expense included in the test year cost of service**
3 **adjusted for known and measurable changes? If so, please explain them.**

4 **A.** There are "affiliate costs" in the cost of service. As I previously explained, many
5 expenses necessary for the operation of any large business are incurred at the corporate parent
6 level. DDD can purchase insurance, lease vehicle, etc. than any of the smaller subsidiaries
7 standing alone. There is greater purchasing power in bulk buying than piecemeal purchasing. It
8 is cheaper to share the services of senior management, accountants, attorneys, engineers, IT
9 specialists, etc. if they are employees of the parent and the subsidiaries only pay part of their
10 costs.

11 Of course, the key to the use of affiliate transactions like this is to insure that the cost is
12 reasonable and necessary in the first place. This is done at several levels in the corporate annual
13 budgeting process. A budget is set for each subsidiary. Management at the sub level must stay
14 within their budget or undergo an approval process to incur costs outside of that budget. This is
15 particularly true in the area of affiliate transactions because a manager operating outside of the
16 budget structure strains the availability of resources for the rest of the affiliates. It may be
17 possible to accomplish the accounting tasks with available resources at the corporate level at a
18 lower overall cost.

19 The second key to affiliate transaction is the methods used to allocate those costs to the
20 different subsidiaries. As I have discussed, as a general rule costs are allocated in the DDD
21 corporate structure by the annual budgeting process.

1 **Q. What primary standard is followed regarding affiliate costs being evaluated for**
2 **inclusion in a rate application's cost of service?**

3 **A.** The expense or charge to the affiliate proposing to include those dollars in its rate
4 application must be equal to or less than the service or property provider charges to other
5 affiliates or third parties.

6 **Q. Has this affiliate transaction standard been followed in this rate application?**

7 **A.** Yes. To the best of my knowledge there are no affiliate expenses or other costs that are
8 not reasonable and necessary to provide public service or which exceed the cost to other
9 affiliates or third parties.

10 **Q. What does DDU do to insure reasonableness of expenses it seeks to recover from its**
11 **retail water and sewer customers?**

12 **A.** As I have described above, all expenses and capital improvement expenditures undergo a
13 rigorous corporate budgeting process, which includes stringent review of proposed budgets by
14 senior management with respective department heads, usually on a line by line basis.

15 **Q. Does DDU have any debt? If so, please explain.**

16 **A.** Yes. As of December 31, 2007, DDU had the debts listed on Attachment 9 of the
17 Application (Exhibit DDU-1). All of the debts were payable to DDD at an interest rate of 10%
18 and are the subject of a Loan and Security Agreement between DDU and DDD dated January 13,
19 1997. As you can see from Attachment 9, DDU has not been able to make substantial progress
20 towards paying off this debt since it was issued.

21 **Q. How did DDD determine the 10% interest rate?**

22 **A.** DDD first established the line of credit for DDU around 1997. At that time the cost of
23 debt in the marketplace was slightly higher than 10% and the prime lending rate was over 8%.
24 In fact, DDU was able to secure debt from third parties in the market around that time as well.

1 The last two such loans that DDU was able to obtain were for equipment from RDO Financial
2 (Date of Issue: 3/23/2000) and for other system improvements from the Bank of Whitney (Date
3 of Issue: 8/23/2000). The interest rate on those loans were 10.9% and 10.5%, respectively. Both
4 of the loans were paid off prior to the Test Year used in the Application.

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

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

SOAH DOCKET NO. 582-09-4288

2010 MAR -1 PM 4: 20

TCEQ DOCKET NO. 2009-0505-UCR

CHIEF CLERKS OFFICE

APPLICATION OF DOUBLE
DIAMOND UTILITIES COMPANY,
INC. TO CHANGE WATER RATE
TARIFF FOR SERVICE IN HILL, PALO
PINTO, AND JOHNSON COUNTIES

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BEFORE THE STATE OFFICE

OF

ADMINISTRATIVE HEARINGS

PREFILED DIRECT TESTIMONY AND EXHIBITS

OF

JOHN J. CARLTON

ON BEHALF OF

DOUBLE DIAMOND UTILITIES, CO.

MARCH 1, 2010

DIRECT TESTIMONY AND ATTACHMENTS

OF JOHN J. CARLTON

ON BEHALF OF

DOUBLE DIAMOND UTILITIES, CO.

TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
I. INTRODUCTION	1
II. PROFESSIONAL TRAINING AND EXPERIENCE	1
III. PURPOSE OF TESTIMONY	1
IV. RATE CASE EXPENSES.....	1

ATTACHMENTS:

DDU-11: John J. Carlton Resume

1 **I. INTRODUCTION**

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

3 **A.** My name is John J. Carlton. My business address is Armbrust & Brown, L.L.P., 100
4 Congress Avenue, Suite 1300, Austin, Texas 78701.

5 **Q. What is your relationship to the applicants in these proceedings?**

6 **A.** The Applicant, Double Diamond Utilities Co., hired my law firm to represent them in
7 these proceedings. I am lead litigation counsel for Double Diamond Utilities, Co.

8 **II. PROFESSIONAL TRAINING AND EXPERIENCE**

9 **Q. Please describe Exhibit DDU-11.**

10 **A.** Exhibit DDU-11 is a copy of my resume, which describes my professional training and
11 experience.

12 **III. PURPOSE OF TESTIMONY**

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

14 **A.** I will present testimony on the rate case expenses paid to date by Double Diamond
15 Utilities Co. for special legal representation and to prosecute its Rate Change Application.

16 **Q. Have you included other exhibits with your testimony?**

17 **A.** Yes. I have included the following exhibits with my testimony: Exhibit DDU-11 is a
18 copy of my resume.

19 **IV. RATE CASE EXPENSES**

20 **Q. Why does Double Diamond seek recovery of its rate case expenses?**

21 **A.** Rate case expenses are necessary expenses an investor owned utility ("IOU") cannot
22 avoid in order to adjust its rates and improve its financial cash flow for whatever reasons may
23 justify that change. This is because the IOU is prohibited by law from changing its rates in any
24 manner except by filing a rate change application with the TCEQ or the city in whose corporate

1 limits it serves. Because this is a government imposed cost, to the extent it is found reasonable
2 and necessary to the prosecution of that case, it must be permitted to be recovered.

3 **Q. What rate case expenses is Double Diamond seeking to recover in this case?**

4 **A.** Double Diamond Utilities Co. seeks to recover all of the reasonable and necessary costs
5 incurred to prepare and file its rate application, as well as those reasonable and necessary post-
6 filing costs incurred to prosecute the application to completion and final decision by the TCEQ.

7 **Q. How does Double Diamond seek to recover its rate case expenses?**

8 **A.** Rate case expenses are generally recovered through a surcharge on customers' bills. This
9 is what Double Diamond Utilities Co. requests the TCEQ to do in this case. When the
10 Administrative Law Judges ("ALJs") and the TCEQ Commissioners determine Double Diamond
11 Utilities Co.'s reasonable and necessary rate case expenses, Double Diamond Utilities Co. seeks
12 to recover those expenses as a monthly surcharge to each customer's bill over the number of
13 months the Commission deems appropriate.

14 **Q. What items are included in the rate case expenses that Double Diamond seeks to**
15 **recover?**

16 **A.** A large portion of the rate case expenses that Double Diamond Utilities Co. seeks to
17 recover includes its attorneys fees for legal services rendered to prepare and prosecute the
18 application to completion and final decision before the TCEQ. Double Diamond Utilities Co.
19 also seeks to recover its consultant and expert witness fees, as well as travel and lodging costs
20 and other eligible expenses.

1 **Q. Please generally describe the legal work that has been done to prosecute Double**
2 **Diamond's application in this case to date and the types of expenses that Double Diamond**
3 **has incurred.**

4 **A.** Since Double Diamond Utilities Co. filed its application, the legal work performed on
5 this case by my firm and the other attorneys representing Double Diamond Utilities Co. in this
6 matter include without limitation:

- 7 a. Review of the Application and conferences with Double Diamond Utilities Co.
8 representatives to develop legal strategy;
- 9 b. Conferences with TCEQ staff regarding the Rate Application, including responses
10 to staff requests for information;
- 11 c. Travel to Dallas on several occasions;
- 12 d. Legal research and analysis of the Protestants' challenges to Double Diamond
13 Utilities Co.'s application;
- 14 e. Conferences and correspondence with other attorneys representing Double
15 Diamond Utilities Co. regarding legal strategy and case status;
- 16 f. Conferences and correspondence with expert witnesses and consultants;
- 17 g. Preparation for and attendance at multiple hearings, including hearings before
18 SOAH and the TCEQ related to Protestants' various challenges to Double
19 Diamond Utilities Co.'s Application;
- 20 h. Drafting written discovery requests to the protestants and the TCEQ Executive
21 Director;
- 22 i. Preparation and response to written discovery requests propounded by the
23 Protestants and the Executive Director of the TCEQ, including production of
24 nearly 13,000 pages of documents;

- 1 j. Correspondence to and conferences with Double Diamond Utilities Co.
2 representatives regarding case strategy and status;
- 3 k. Conferences with and correspondence to attorneys and others representing the
4 Protestants regarding discovery, various legal issues, settlement and other rate
5 case issues;
- 6 l. Analysis of legal and factual issues for prefiled testimony;
- 7 m. Coordinating and drafting prefiled testimony for all Double Diamond Utilities
8 Co.'s witnesses; and
- 9 n. Assembly and preparation of exhibits to be included with Double Diamond
10 Utilities Co.'s prefiled testimony.

11 This is by no means the complete list of tasks performed by attorneys, but is a
12 representative description of the tasks that attorneys have performed in this rate case.

13 **Q. How much in rate case expenses for legal services has Double Diamond Utilities Co.
14 incurred as of February 26, 2010?**

15 **A.** Double Diamond Utilities Co. has incurred \$48,426 in fees, costs and expenses from
16 Armbrust & Brown, L.L.P. for the period of December 3, 2009 through January 31, 2010. In
17 addition, they incurred \$56,343 in fees and expenses from Jackson & Walker, L.L.P., for the
18 period of August 2009 through November 2009. The total amount of attorneys' fees that will be
19 required to finish prosecution of the Rate Change Application is now known, but Double
20 Diamond Utilities Co. will supplement its testimony as additional fees and expenses are incurred
21 and paid.

22 **Q. Do you have an opinion regarding the reasonableness or necessity of the amount of
23 rate case expenses that Double Diamond Utilities Co. has already incurred?**

24 **A.** Yes.

1 **Q. What is your opinion?**

2 **A.** It is my opinion that the attorneys' fees incurred and paid by Double Diamond Utilities
3 Co. through February 26, 2010, were reasonable and necessary to prepare, file and prosecute
4 Double Diamond Utilities Co.' Rate Change Application. I am familiar with the hourly rate
5 charged by attorneys for the types of work performed in this case. The hourly rates by the
6 attorneys engaged by Double Diamond Utilities Co. are reasonable. Given the magnitude of the
7 requested rates in this Rate Application and their importance to Double Diamond Utilities Co.,
8 its request to consolidate two of those systems under one tariff as allowed by the Water Code and
9 TCEQ rules, as well as the active participation by the parties who intervened in these
10 proceedings, and the complexity of the legal and factual issues, the amount of rate case expenses
11 paid by Double Diamond Utilities Co. through February 26, 2010, is reasonable and necessary.

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

13 **A.** With the exception of supplementing the rate case expenses as they are later incurred and
14 paid, it does.

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

2010 MAR -1 PM 4: 21

CHIEF CLERKS OFFICE

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

VICTORIA RICHARDS HARKINS, PH.D., P.E.

ON BEHALF OF

DOUBLE DIAMOND UTILITIES, CO.

MARCH 1, 2010

**PREFILED DIRECT TESTIMONY AND EXHIBITS OF
VICTORIA RICHARDS HARKINS, PH.D., P.E.
ON BEHALF OF
DOUBLE DIAMOND UTILITIES, CO.**

TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
I. INTRODUCTION AND QUALIFICATIONS	1
II. SCOPE AND PURPOSE OF TESTIMONY	3
III. TESTIMONY	5
IV. CONCLUSION	7

EXHIBITS:

DDU-12:	Resume
DDU-13:	Asset Inventory For The Retreat
DDU-14:	Asset Inventory For The Cliffs
DDU-15:	Asset Inventory For White Bluff

1 I. **INTRODUCTION AND QUALIFICATIONS**

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

3 **A. Victoria Richards Harkins, Ph.D., P.E. 3300 Lost Oasis Hollow, Austin, Texas 78739.**

4 **Q. By who are you employed?**

5 **A. Harkins Engineering, Inc.**

6 **Q. Please tell me what you do for Harkins Engineering, Inc.**

7 **A. I am the owner of Harkins Engineering, Inc. Harkins Engineering, Inc. provides**
8 **environmental, municipal and civil engineering consulting services to governmental and**
9 **private corporation clients.**

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

11 **A. I graduated with a Bachelor's degree in Biochemistry in 1992, a Masters in Civil**
12 **Engineering in 1995, and a Ph.D. in Civil Engineering in 1998. Each degree was from**
13 **Texas Tech University. I worked as a research assistant and instructor in the Department**
14 **of Civil Engineering at Texas Tech University, and I also served as an adjunct professor**
15 **in the Department of Environmental Sciences at Lubbock Christian University. During**
16 **the summers of 1996 and 1997, I also worked as a consultant for Cypress Engineering,**
17 **Inc.**

18 **Q. Are you a professional engineer?**

19 **A. I am a registered professional engineer in the States of Texas (No. 87733) and Oklahoma**
20 **(No. 20957). I am also a member of the American Society of Civil Engineers. A copy of**
21 **my resume is attached.**

1 **Q. When did you become a licensed professional engineer?**

2 **A.** 2001.

3 **Q. What is your previous employment history?**

4 **A.** From June 1998 to August 2002, I was employed with the Texas Commission on
5 Environmental Quality ("TCEQ" or "Commission") (previously the Texas Natural
6 Resource Conservation Commission or "TNRCC") as an Engineer III and Engineer V
7 and Team Leader of the Utility Certification and Rate Analysis Team. From September
8 2002, through February 2006, I was employed by Espey Consultants, Inc., as a project
9 manager.

10 **Q. Please describe your education and experience related to the issue at hand.**

11 **A.** During my tenure at the TCEQ, I was Team Leader for the Utility Certification and Rate
12 Analysis team of the Water Supply Division. I was responsible for managing, review and
13 issuance of all approvals for certificates of convenience and necessity (CCN) for retail
14 water and wastewater utilities and the rate-making requirements for all investor owned
15 utilities in the State of Texas. My responsibilities included reviewing and processing
16 applications to obtain, amend or transfer CCN's, reviewing rate applications and rate
17 appeals filed with TCEQ, negotiating settlements, preparing testimony and exhibits for
18 contested hearings, conducting inspections of utility systems, and reviewing public water
19 system plans and specifications. I processed over three hundred applications for an
20 amendment and/or to obtain a CCN and over one hundred rate-related applications. I
21 served as the state's expert resource for legislative contacts for water and sewer utility

1 service issues. After leaving the TCEQ, I have been retained on at least twenty additional
2 CCN and/or rate related projects for various clients.

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

4 **Q. In connection with SOAH DOCKET NO. 582-09-4288, what is your responsibility?**

5 **A.** I was retained by Double Diamond Utilities Company, Inc. on August 25, 2009 to
6 complete an asset inventory and cost evaluation including a trend study as needed.

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

8 **A.** I will present testimony concerning my professional opinion on the original cost of the
9 water assets, the annual depreciation of those assets and the final net plant of those assets
10 as of December 31, 2007.

11 **Q. Have you ever testified as an expert witness in contested matters before the**
12 **Commission or other level of Court related to water utility services?**

13 **A.** Yes.

14 **Q. Which applications?**

15 **A.** I have provided testimony in 14 hearings, which are listed below.

- 16 • In the matter of the City of Pearland, Texas (SOAH Docket Nos. 582-98-0994 and 582-
17 98-1977)
- 18 • In the matter of AquaSource Development Company regarding Briar Creek Subdivision
19 in Travis County (SOAH Docket No. 98-1479-UCR)
- 20 • In the matter of Hays v. Frankford Properties in the 72nd District court in Lubbock,
21 Texas

- 1 • In the matter of Creedmoor-Maha Water Supply Corporation (SOAH Docket No. 582-
2 00-0546)
- 3 • In the matter of the City of Fort Worth (SOAH Docket No. 582-00-1092)
- 4 • In the matter of Woodcreek Utilities, inc. (SOAH Docket No. 582-00-1469)
- 5 • In the matter of City of Crandall (SOAH Docket No. 582-00-1479)
- 6 • In the matter of Mustang Water Supply Corporation and the Town of Little Elm (SOAH
7 Docket No. 582-01-1618)
- 8 • In the matter of East Medina Special Utility District (SOAH DOCKET NO. 582-04-
9 1012)
- 10 • In the matter of the City of Prosper (SOAH DOCKET NO. 582-03-1994)
- 11 • In the matter of AquaTexas, Inc. for a water and wastewater tariff change and rate
12 increase (SOAH DOCKET NOS. 582-05-2770, 582-05-2771, 582-05-3745, 582-05-
13 4181, 582-05-4182, 582-05-4184)
- 14 • In the matter of Cease And Desist Petition Of Wax Mid, Inc. Certificate Of Convenience
15 And Necessity (CCN) No 11966 Against The City Of Midlothian, CCN No. 11706 In
16 Ellis County, Texas (SOAH DOCKET NO. 582-06-1029, TCEQ DOCKET NO. 2006-
17 0487-UCR)
- 18 • In the matter of the City of Midlothian's CCN amendment application in Ellis County,
19 Texas (SOAH DOCKET NO. 582-06-1029)
- 20 • In the matter of a water and wastewater rate appeal of the City of Willow Park
21 Certificate of Convenience And Necessity (CCN) Nos. 11814 and 20773 in Parker

1 county, Texas (SOAH DOCKET NO. 582-06-1735, TCEQ DOCKET NO. 2006-01888-
2 UCR).

3 **Q. What topics are you going to discuss in your testimony?**

4 **A.** I will present depreciation schedules for the water assets used to serve three Double
5 Diamond Utilities Company, Inc. systems: The Retreat, The Cliffs and White Bluff.

6 **Q. Do you have any attachments to your testimony?**

7 **A.** Yes. I have Exhibits DDU-12 through 15. DDU-12 is a copy of my resume. DDU-13 is
8 the asset inventory for The Retreat. DDU-14 is the asset inventory for The Cliffs.
9 DDU-15 is the asset inventory for White Bluff.

10 **III. TESTIMONY**

11 **Q. Please explain your responsibilities regarding the water assets for the three**
12 **subdivisions?**

13 **A.** My first task was to complete a file review of the TCEQ's file room to attempt to acquire
14 the most recent compliance investigations for the three systems. The compliance
15 investigations provide an summary of the facilities.

16 My second task was to complete site visits to each of the systems to record a physical
17 inventory of assets. A site visit of each system was completed. I met with each systems'
18 operators and recorded both in writing and with photos assets used to provide water
19 service.

20 My third task was to provide a data needs list to the utility for all invoices related to each
21 of the systems' assets. A response was received.

22 My fourth task was the inventory of the invoices received and a merge of the two lists:

1 physical inventory and invoice inventory.

2 My fifth task was to create a comprehensive list of assets and compare the list to the
3 physical inventory described above as well as using the compliance investigations for
4 assistance. A used and useful determination was made for each asset. A second data
5 needs list was generated and sent to the utility. A response was received.

6 With all the invoices received, I requested current costs for those items without invoices.
7 The request for current costs was made to the current suppliers used by Double Diamond
8 Utilities Companies, Inc. Additional current costs were researched on-line. With current
9 costs, I utilized the Handy Whitman Indices to trend back the current costs to the
10 approximate date of installation. With both the list of invoiced items and the list of
11 trended items, I completed a straight line depreciation of the assets with a date of
12 reference of 12/31/2007.

13 Finally, I totaled all original costs (including trended original costs), annual depreciation,
14 and net plant values.

15 **Q. What is a trending study?**

16 **A.** A trending study is used to estimate costs of the asset at the date of installation. The
17 process starts with a current cost in today's dollars. Based on the type of asset, for
18 example, linework versus ground storage tanks, an index value is assigned for today's
19 cost and for the date of installation. The indices provide a reliable guide to determine
20 appropriate changes in costs since the date of installation. By multiplying the current
21 cost to the indices given per year (current and date of installation), an estimated original
22 cost can be calculated.

1 **Q. What did you trend as part of your asset inventory?**

2 **A.** I trended two wells, a ground storage tank and a portion of the linework for White Bluff.

3 I trended fencing, two ground storage tanks and a portion of the linework for The Cliffs.

4 **Q. Did you trend any assets for The Retreat?**

5 **A.** No.

6 **Q. Why?**

7 **A.** All of the major plant items were represented by invoices. An evaluation was made for
8 linework by tallying the footage of linework and trending the current installation costs
9 back to the date of installation. The invoiced costs for linework were sufficient to cover
10 the costs for The Retreat. Thus, trending was not necessary.

11 **Q. Why did you trend linework for both The Cliffs and WhiteBluff?**

12 **A.** Based on review of the footage of linework for both The Cliffs and White Bluff and
13 comparison to the trended original costs, invoices were not available to account for the
14 linework in its entirety. Therefore, I took the trended original cost and subtracted the
15 value of the invoices in receipt and depreciated the remainder. The costs subtracted are
16 shown in duplicate at the bottom of each spreadsheet for completeness.

17 **Q. What date did you use for installation dates?**

18 **A.** Utilizing a conservative approach, I used a date in which construction data was made
19 available for each of the systems. I used 1985 for The Cliffs and 1991 for White Bluff.

20 **IV. CONCLUSION**

21 **Q. What is the conclusion of your asset inventory tasks?**

1 A. I have provided the results of my tasks in the form of spreadsheets. DDU-13 is the asset
2 inventory for The Retreat. DDU-14 is the asset inventory for The Cliffs. DDU-15 is the
3 asset inventory for White Bluff. Each of the exhibits presents the original costs of assets,
4 the trended original cost of those items trended, an annual depreciation for each system, a
5 used and useful determination and a net plant value as of December 31, 2007.

6 **Q. Please explain how you calculated the original cost, annual depreciation, and net**
7 **plant of each system?**

8 A. Once I had either an original cost from an invoice or a trended original cost as a result of
9 trending presented above, I assigned a service life for each asset. I used service lives
10 stated on Table III.B. of the TCEQ's application for a rate/tariff change (TCEQ Form No.
11 10423). The only changes made were for the service lives for vehicles, wells, and heavy
12 equipment. I used seven years instead of five as the utility maintains the vehicles for
13 more than five years. I used twenty years for wells as the data has shown that there have
14 been a number of large well repairs needed that have demonstrated the life of the well is
15 far less than 50 years with repair costs included. I also used 20 years for the heavy
16 equipment. The heavy equipment service life was for heavy equipment rental rather than
17 for actual heavy equipment. TCEQ does not provide a service life for engineering. I
18 used a service life of five years. CCN applications and surveying were included in the
19 engineering category with a service life of five years.

20 With a service life assigned, I divided the original cost by the service life. This
21 calculated number is the annual depreciation of the asset or how much of the asset is paid
22 each year. The second calculation was to multiply the number of years the asset has been
23 in use by the annual depreciation. This number represents the accumulated depreciation.

1 The difference between the original cost and the accumulated depreciation is the system's
2 net plant value.

3 For The Cliffs, the original cost, including those items trended, is \$1,185,625, annual
4 depreciation is \$42,104, and the accumulated depreciation is \$405,537 which leaves a net
5 plant value of \$780,088.

6 For White Bluff, the original cost, including those items trended, is \$3,080,531, annual
7 depreciation is \$98,649, and the accumulated depreciation is \$840,050 which leaves a net
8 plant value of \$ 2,240,482.

9 For The Retreat, the original cost is \$1,700,104, annual depreciation is \$56,063, and the
10 accumulated depreciation is \$214,198 which leaves a net plant value of \$1,485,906.

11 **Q. What invoices have you submitted to Double Diamond Utilities Companies, Inc. for**
12 **the water asset inventory presented above?**

13 **A.** I have invoiced Double Diamond Utilities Companies, Inc. as of 2/26/2010 for the water
14 asset inventory study \$10,675.11.

15 **Q. Does this conclude your direct, prefiled testimony?**

16 **A.** Yes, it does, but I reserve the right to supplement this testimony during the course of the
17 proceeding as new facts arise or new information becomes available to me.