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APPLICATION OF LAGUNA VISTA,  
LTD. AND LAGUNA TRES INC.  
FOR SALE, TRANSFER, OR  
MERGER OF FACILITIES AND  
CERTIFICATE RIGHTS IN HOOD  
COUNTY

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PUBLIC UTILITY COMMISSION  
FILING CLERK

OF TEXAS

**PREFILED TESTIMONY OF IKE THOMAS**

**I. QUALIFICATION OF WITNESS**

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

A. My name is Ike Thomas. My business address is 110 N Crockett St., Granbury Texas, 76048.

Q.2. What is your relationship to the Applicants in this Docket – Laguna Vista, Ltd. and Laguna Tres Inc.

A. I am the developer of the subdivisions which constitute the certificated service area of each utility. I am the Manager of Laguna Vista Ltd. and Vice President of Laguna Tres, Inc. I am responsible for the management and finances of both of the utilities.

Q.3. Have you ever been a licensed operator of a water system in the State of Texas.

A. Yes, I held a Class C water operator's license in the 1970's. And since then, I have been the operator of public water systems from the role of the developer who owns and manages the utility company. I have always, since the 70's relied upon

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1 employees or contract labor who held appropriate water utility operator licenses to  
2 physically operate the utility plant and repair and maintain the facilities.

3

4 Q.4. Please give a brief statement about your education, training, and experience  
5 upon which you will rely in expressing opinions or conclusions in your testimony.

6 A. I have a BS degree in Finance and Real Estate from Texas Tech University. I  
7 did obtain a Class C water operator's license in the 70s. I have been involved in putting  
8 in and owning and operating 5 public water supply systems since 1970. Have also  
9 been involved in installing and operating irrigation systems in six states across the US,  
10 and installing approximately 40 miles of piping and related pumping facilities to  
11 accommodate the irrigation of over 10,000 acres.

12

13 Q.5. Mr. Thomas, a list of issues to be considered in this contested case has been  
14 developed. I will ask you about each one, and I would like you to tell me the facts that  
15 you personally know regarding the issue and then any opinions or conclusions that you  
16 might have. Is this instruction clear to you?

17 A. Yes.

18

19 **II. PURPOSE OF APPLICATION**

20 Q.6. Why have you filed this application?

21 A. We developed Laguna Vista and Laguna Tres because there is a growing  
22 market for residential housing in Hood County. We began developing Laguna Tres in  
23 1970, and there were no water systems in operation nearby and none on the north side

1 of Lake Granbury. The lake water was salty and would require an expensive RO plant  
2 to use lake water. It was readily apparent that a ground water supply system would be  
3 needed to service and supply our development area economically. We later developed  
4 Laguna Vista, just 1.5 miles north of Laguna Tres, and the same determination was  
5 made for that area for the same reasons. We have also developed another subdivision  
6 in the area called Cresson Crossroads. That subdivision also required its own water  
7 system since water was not available from another area purveyor. The above  
8 considerations led us to exercise the groundwater option for Laguna Vista and Laguna  
9 Tres. Initially, we seemed to have plenty of groundwater for the early stages of our  
10 development.

11  
12 As the developments grew, it became clear that Laguna Vista needed another source  
13 of water. I had my engineers investigate the possibility of another well in that system.  
14 They advised me that it might be possible to interconnect the two developments, thus  
15 sharing the available water resources and ensuring compliance with the TCEQ capacity  
16 rules.

17  
18 Laguna Tres had an abundance of groundwater. After discussing the situation with my  
19 engineers, operators, and attorney, we concluded that the most cost effective and  
20 reliable solution to the need for more water would be to interconnect the two utilities so  
21 they could share water resources as needed.

22

1 During my discussions on this plan of shared water resources with our attorney, Mark  
2 Zeppa, he informed me that if one affiliate utility provided services or water resources to  
3 another affiliate water utility, this situation would create an "affiliate transaction."  
4 Affiliate transactions apparently are given special scrutiny when the utilities go before  
5 the PUC in a rate case. Presenting the evidence on affiliate transactions and defending  
6 them will increase the costs of doing a rate case. After hearing this, I questioned Mr.  
7 Zeppa if there was a way that we could share the water resources and avoid incurring  
8 the cost of affiliate transactions and having to pass that additional cost on to our  
9 customers. He informed me that the simplest way to do this would be to merge the two  
10 utilities into a single company. This would remove the affiliate transactions since there  
11 would only be one utility. The merger option made good business sense to me, and I  
12 elected to pursue it.

13

14 Q.7. Who is the actual applicant in this docket?

15 A. Technically, both Laguna Vista and Laguna Tres are co-applicants since they  
16 are both required to execute the PUC STM application form under oath. However, for  
17 all practical purposes, Laguna Tres is the applicant since it will be the surviving  
18 company after the two utilities are merged.

19

20 Q.8. Are Laguna Vista and Laguna Tres engaged in a sale?

21 A. Not really. While our accountants may book some aspect of the transaction as a  
22 sale for tax purposes, in reality, this is going to be a merger of two existing companies  
23 with one of those companies coming out as the survivor.

1 **III. STATUTORY ISSUES**

2 Q.9. Does the applicant (Laguna Tres) possess the financial, managerial, and  
3 technical (FMT) capability to provide continuous and adequate service to the requested  
4 area and any areas currently certificated to the applicant?

5 A. Laguna Tres possesses, through my development company and its affiliate  
6 utilities, the FMT to adequately serve both the Laguna Vista and the Laguna Tres  
7 service areas. Both of these subdivision water systems have been operated under the  
8 same basic ownership and management since their creation. Granting this application  
9 and allowing these two utilities to merge for regulatory purposes will have no  
10 fundamental effect or change on how they have been operated in the past. The same  
11 people will manage the utility; they will have the same financial resources to draw on;  
12 and the same operators will physically run the systems. I will make sure that they will  
13 continue to have access to any equipment or contractors that they need. The  
14 interconnect water line is in place and will remain in place and in use regardless of the  
15 outcome of this application, so the available water resources are being shared and will  
16 continue to be shared.

17  
18 My development companies have a combined net worth of \$1,100,000, which I pledge  
19 in support of the long-term financial needs of the utility.

20  
21 All of our water utilities are managed from my office, and that will continue. We have  
22 been in the water business for many years, and have never been cited by the TCEQ or

1 the PUC for any act of mismanagement. We provide continuous and adequate service  
2 while charging only those rates and fees approved by the TCEQ in our initial tariffs.

3  
4 We have the technical ability to operate the system. We use licensed water operators,  
5 and we have the equipment they need for the water systems; they are empowered to  
6 use it as needed. If we don't have it, we will lease it or will get qualified contractors to  
7 come and perform the necessary services we require to ensure good water gets to our  
8 customers.

9  
10 Q.10. Does Laguna Tres or an affiliate of Laguna Tres have a history of  
11 noncompliance with the requirements of the TCEQ, PUC, or the Texas Department of  
12 Health Services?

13 A. For almost five years we had contracted with Texas Rain to operate our water  
14 systems. During our contract years with Texas Rain, they (Texas Rain) experienced  
15 the death of their main owner and then the death of his son who had taken over the  
16 operations. During these times their quality of work and service and maintaining TCEQ  
17 requirements deteriorated substantially. After many confrontations and exhortations  
18 with them about keeping on top of and meeting all needed requirements, in November  
19 of this last year we negotiated an early termination of their contract. We then  
20 proceeded to contract with Stephens Utilities (a much recommended operator) to  
21 operate our systems. They have since made several needed improvements and  
22 updates to both systems and have addressed, met and satisfied the TCEQ violations  
23 that Texas Rain had allowed to accumulate. In addition, we have two engineering firms

1 working on approvals of additional wells and water storage tanks that will add additional  
2 and redundant (extra capacities), over and above the required amounts. When the  
3 PUC staff was performing its technical review of our STM application, they informed  
4 Mark Zeppa that the PUC staff had concerns of violations of TCEQ rules by Laguna  
5 Tres. During our conference call, I learned that there were allegations the utility had  
6 not filed various plans and studies with the TCEQ and had not properly given proof of  
7 disinfecting the pipeline we installed to interconnect the water resources at Laguna  
8 Tres and Laguna Vista. It was said the Laguna Vista utility was deficient in water well  
9 capacity, but I understood that we had resolved that particular issue by bringing the  
10 outside source of water through the interconnecting pipe. These were technical  
11 matters that we were relying upon our operator (Texas Rain) and our consulting  
12 engineer to handle. Upon receiving this information from the PUC staff, I contacted our  
13 consulting engineer and our new operator (Stephen's Utilities) and directed them to  
14 investigate the allegations and to resolve the matters immediately. It is my belief that  
15 this has been done. There were also allegations regarding what I consider to be minor  
16 issues such as signage and filing compliance reports. After hearing these allegations, I  
17 instructed my staff to do what could physically be done to resolve these issues. It is my  
18 understanding this was done.

19  
20 Other than these issues during our contracted time with Texas Rain as operators of the  
21 systems, I am unaware of Laguna Tres or any of its affiliates having a history of  
22 noncompliance with state regulations.

23



1 Q.11. Does Laguna Tres have a history of continuing mismanagement or misuse of  
2 utility revenues?

3 A. No. There has never been any mismanagement or misuse of utility revenues.  
4 Those revenues are spent primarily on operating expenses of the water systems and  
5 the cost the capital plant needed to provide water service. Neither I nor any other  
6 affiliate are receiving any of the revenue streams from Laguna Tres in a manner that  
7 would deny the funds from being available to provide continuous and adequate service.

8

9 Q.12. Have Laguna Vista or Laguna Tres ever failed to comply with a PUC Order?

10 A. No.

11

12 Q.13. What is the adequacy of service currently provided to the requested area?

13 A. This is a merger of two existing certificated utilities. There is no requested area.  
14 We are only requesting to put both utilities' service areas under the Laguna Tres  
15 service area. No additional area is being requested.

16

17 Q.14. Is there need for additional service in the requested area?

18 A. Again, there is no requested area. The service areas of Laguna Vista and  
19 Laguna Tres are both being adequately served. The intent of the application is to  
20 better utilize the water resources of these two utility systems for the benefit of their  
21 combined customer base in a way that reduces the cost to customers by removing  
22 frequently contested affiliate transaction issues from future rate cases.

23

1 Q.15. What is the effect of approving the transaction on the utility?

2 A. It will allow the sharing of existing water resources for the benefit of a combined  
3 customer base in a manner that will minimize regulatory expenses that must ultimately  
4 be borne by the customers. If we did not share the water resources in this manner, we  
5 would have to dig another water well for Laguna Vista. Our engineers have informed  
6 us that this is not practical in the general area of Laguna Vista. This is why I chose to  
7 have the interconnecting pipeline installed and put into service when my operators and  
8 engineer told me we were ready.

9

10 Q.16. What is the effect of approving the transaction on landowners?

11 A. They will be assured more water to meet their needs while saving on regulatory  
12 expenses in future rate cases.

13

14 Q.17. What is the effect of approving the transaction on any retail public utility of the  
15 same kind already serving the proximate area?

16 A. The City of Granbury and Aqua Texas are nearby utilities. There should be no  
17 effect on either of them. Both of them do have substantially higher rates than either  
18 Vista or Tres, but again this approval should have no effect on them. The only existing  
19 utilities actually affected by this application are Laguna Tres and Laguna Vista.

20

21 Q.18. Please discuss the ability of the person purchasing or acquiring the water  
22 system to provide adequate service.

1 A. Laguna Tres is technically purchasing existing Laguna Vista water system. But in  
2 essence they are being merged. I believe that they are already providing adequate  
3 service now that the interconnection line has been constructed and put into service. I  
4 believe that with the resources (FMT) that we have as a development group owning  
5 water utilities, adequate service will continue to be experienced into the indefinite  
6 future.

7  
8 Q.19. Please discuss the feasibility of obtaining service from an adjacent retail public  
9 utility.

10 A. Aqua Texas has already had to implement hauling in water to their system  
11 adjacent to Laguna Vista; therefore they're not in a position to offer additional water  
12 services, plus their rates are more than double what ours are and thus would be  
13 detrimental to our customers to contract with them. There is the possibility of obtaining  
14 service from the City of Granbury, but again at approximately three to four times the  
15 cost that Laguna Tres is providing. Further, it is not necessary to obtain additional  
16 service from an adjacent utility because with the shared resources now available to the  
17 combined customer base, there will be adequate service without the assistance of a  
18 third party.

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20 Q.20. Please discuss the financial stability of the person purchasing or acquiring the  
21 water system.

22 A. I have previously discussed our financial resources in the early part of my  
23 testimony and will not repeat that discussion here.

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Q.21. Please discuss the environmental integrity impact of this application.

A. There is no long-term environmental impact from the operation of the combined water systems. While there is occasionally a temporary disruption of soils as lines and equipment are installed or repaired, this work is done within the standards of the TCEQ. It has been my experience as a developer and public utility owner/operator that groundwater utility systems do not have an inherently adverse environmental impact.

Q.22. Please discuss the probable improvement of service resulting from approving the transaction.

A. Whether or not this application is approved, the two water systems are interconnected, are sharing water resources, and will continue to do so. Any future improvements of services from this merger will occur because of the economies of scale inherent in the larger combined customer base.

Q.23. Please discuss the probable lowering of costs to consumers in the area resulting from approving the transaction.

A. There will be no immediate lowering of rates. Customers in each service area will continue to be served under the rate schedules approved by the TCEQ for their subdivision. There will be fewer regulatory costs in future rate cases because there will be no affiliate transactions. Avoiding these regulatory costs will mean that customer rates will not have to be increased more than absolutely necessary in future rate cases.

1 **IV. PUC STAFF ISSUES**

2 Q.24. In the ordered list of issues to be considered in this case, there was a concluding  
3 list identified as issues raised by the PUC staff. They are listed below. Please discuss  
4 these issues and what you have done to address them.

- 5 a. Violation of Chlorine Monitoring Routine
- 6 b. Failure to Document Notice to Customers of Chlorine Monitoring Violation.
- 7 c. Failure to Document Adequate Disinfection of Interconnecting Water Main.
- 8 d. Documentation of Additional Steps Necessary to Convert the Interconnecting Water  
9 Main from Interim to Permanent Use.
- 10 e. Inadequate Well Production Capacity
- 11 f. Failure to Update Drought Contingency Plan.
- 12 g. Failure to Provide Proper Ownership Signage
- 13 h. Approval of Water Well.

14 A. I have previously addressed these issues in response to Question 10, beginning  
15 on page 6 of my testimony above. In the interest of brevity, I will not repeat that  
16 testimony. As I stated previously, it is my belief that with the help of my new operators  
17 and consulting engineer, the matters of concern to the PUC staff when this application  
18 was first filed have been resolved. With better communications I will now have with my  
19 new operators, I do not believe these types of issues will arise in the future.

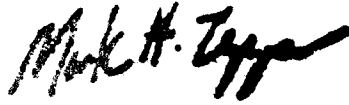
20 **V. CONCLUSION**

21 Q.25. Does this conclude your prefiled testimony?

22 A. Yes, it does.

CERTIFICATE OF SERVICE

I, Mark H. Zeppa, counsel for the Applicant, certify the foregoing pleading was served in accordance with 16 TAC § 22.74 on June 15, 2016:

A handwritten signature in black ink that reads "Mark H. Zeppa". The signature is written in a cursive, slightly slanted style.

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Mark H. Zeppa