



Control Number: 44236



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APPLICATION OF CUSTOM WATER COMPANY, LLC FOR A WATER RATE/TARIFF CHANGE

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**October 23, 2015**

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**INTRODUCTION AND SCOPE OF TESTIMONY**

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

**A.** My name is Jolie Mathis and my business address is 1701 North Congress Avenue, Austin TX.

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

**A.** I am employed by the Public Utility Commission of Texas ("Commission") as an Engineering Specialist in the Water Utilities Division.

**Q. How long have you been employed by the PUC?**

**A.** I have been employed by the PUC since August 1, 2007.

**Q. What are your primary job responsibilities?**

**A.** My responsibilities include reviewing water and sewer tariff changes, Certificates of Convenience and Necessity (CCN), utility rate applications, depreciation schedules and studies, and rate designs for which I make recommendations on utility plant in service and rate designs to ensure that customers are charged just and reasonable rates.

**Q. Please state your qualifications and experience.**

**A.** I graduated from Prairie View A&M University of Texas in 1993 with a Bachelor of Science degree in Electrical Engineering. I worked for 13 years as a Utility Engineering Specialist at the Missouri Public Service Commission in Jefferson City, Missouri,

1 developing depreciation rate and reserve studies for electric, gas, water, sewer and several  
2 small telephone companies. I have received formal training from Depreciation Programs,  
3 Inc. that includes the following courses: "Basic Depreciation Concepts," "Models used in  
4 Life and Salvage Analysis," "Forecasting Life and Salvage," and "Modeling and Life  
5 Analysis Using Simulation." I have also received training while attending the Annual  
6 Society of Depreciation Professionals Meeting in Colorado Springs, Colorado, and  
7 Albuquerque, New Mexico. I have completed the NARUC (National Association of  
8 Regulatory Utility Commissioners) Annual Regulatory Studies Program at Michigan State  
9 University, and attended and participated in numerous industry seminars in the electric,  
10 natural gas, water, sewer, and telecommunications areas.

11 **Q. Have you filed testimony or worked on cases filed at this Commission?**

12 A. Yes, I have filed testimony at this Commission, as well as the Missouri Public Service  
13 Commission. See **Attachment 1** for my list of case participation.

14 **Q. Please state the scope of your testimony and the issues you address in this proceeding.**

15 A. The purpose of my testimony is to make recommendations concerning quality of service,  
16 depreciation, water loss and consumption, and water rate design.

17  
18 **Q. Please explain the scope of your participation in the present proceeding.**

19 A. My participation regarding this proceeding can be summarized as follows:

20 1. I reviewed the rate application including attachments filed by Custom Water Company,

1           LLC (Custom) on January 12, 2015, and all other information subsequently submitted  
2           by Custom.

3           2. I reviewed all the documents received during the formal discovery process, documents  
4           responsive to our onsite requests to Custom, and the prefiled testimonies of all the  
5           parties.

6           3. I developed depreciation schedules for the water system according to the Commission's  
7           rules and statutes from capital assets which were used and useful in providing water  
8           service. The Commission staff accountant, Leila Guerrero, used my calculations for  
9           annual depreciation, accumulated depreciation, and the net plant value, in calculating  
10          the utility's cost of service. Please see the depreciation schedule that I developed in  
11          **Attachment 2.**

12          4. I calculated the average line loss of the utility by analyzing the amount of water pumped  
13          and the amount of water billed to the customers during the test year. Please see the  
14          meter consumption schedule that I prepared in **Attachment 3.**

15          5. Using the cost of service provided by PUC staff accountant, Leila Guerrero, in her  
16          prefiled testimony, I calculated the water rates. Please see the rate design schedule in  
17          **Attachment 4.**

1     **LINE LOSS**

2

3     **Q.     Did you consider Custom's line loss?**

4     A.     Yes. As shown in Attachment 3, the line loss was calculated to be 20.3%.

5     **Q.     Why is line loss important?**

6     A.     When a utility cannot account for a large amount of water, it frequently indicates leaks,  
7             potential contamination, inefficient operations, and extra costs for pumping and treating  
8             resulting in higher rates or possible road or structure damage. Line loss above 15% may  
9             be a reason to determine the utility is not efficiently operated and could be grounds for  
10            making adjustments to the cost of service so that customers do not pay for pumping and  
11            treating water they did not use.

12    **Q.     What would you recommend in this case regarding line loss?**

13    A.     I recommend that Custom more closely monitor its master meters and the amount billed  
14             to customers, in order to determine how line loss has been occurring and take affirmative  
15             steps to reduce any line loss in a subdivision that is above 15%. However, I am not  
16             recommending any reduction in Custom's cost of service based on line loss.

**RATE BASE AND DEPRECIATION**

**Q. Do you have any recommendations or adjustments to the original water plant and equipment cost, annual depreciation, accumulated depreciation, and net plant value presented in the application?**

**A.** I do not have any adjustments at this time. The original water plant and equipment cost, annual depreciation, accumulated depreciation, and net plant value are reasonable.

**RATE DESIGN**

**Q. Did you calculate a rate based on Ms. Guerrero's revenue requirement?**

**A.** Yes. Custom's proposed rates generate more than Staff's recommended revenue requirement. Based on Ms. Guerrero's revenue requirement of \$177,918, a total of 252 water connections, and assuming total gallons billed of 15,236,750 (as filed in the application),<sup>1</sup> I calculated a base rate of \$34.13 including the first 1,000 gallons, and a gallonage rate of \$5.00 per each additional 1,000 gallons. This is below the applicant's previous rates of a \$36.00 base rate including the first 1,000 gallons, and \$5 per each additional 1,000 gallons.

**Q. Do you have a recommendation regarding Custom's proposed rate?**

**A.** Yes. Based on the information provided, Custom cannot justify their rate increase. Therefore, I recommend that the rate increase be denied at this time. I also recommend

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<sup>1</sup>Application at Section VIII., page 15 (Jan. 15, 2015).

1           that Custom be required to refund any money collected for the water rate increase. The  
2           refunds should be applied as a credit on each customer's bill over the same time period  
3           that the rates were collected.

4  
5       **Q.    Does this conclude your direct, prefiled testimony?**

6       **A.    Yes, it does.**

7



| Date Filed | Issue                                | Case Number | Exhibit          | Case Name                                           |
|------------|--------------------------------------|-------------|------------------|-----------------------------------------------------|
| 12/1/1995  |                                      | TO96147     | Direct           | ALLTEL Missouri, Inc.                               |
| 3/7/1996   |                                      | GA96130     | Rebuttal         | Missouri Pipeline Company                           |
| 3/7/1996   |                                      | GA9711      | Rebuttal         | Missouri Pipeline Company                           |
| 1/10/1997  |                                      | GM9770      | Rebuttal         | Atmos Energy Corp. & United Cities Gas              |
| 6/26/1997  |                                      | GR97272     | Direct           | Associated Natural Gas                              |
| 5/13/1999  | Depreciation of Plant                | HR99245     | Direct           | St. Joseph Light & Power Company                    |
| 6/25/1999  | Depreciation                         | WR99326     | Direct           | United Water Missouri, Inc.                         |
| 4/3/2000   | Amortization of Premature Retirement | SR2000282   | Direct           | Missouri-American Water Company                     |
| 7/2/2001   | Depreciation of Plant                | EC20021     | Direct           | Union Electric Company d/b/a Ameren UE              |
| 12/6/2001  | Depreciation of Plant                | EC2002265   | Direct           | Utilicorp United Inc. d/b/a Missouri Public Service |
| 12/6/2001  | Depreciation of Plant                | ER2001672   | Direct           | Utilicorp United Inc. d/b/a Missouri Public Service |
| 1/22/2002  | Depreciation of Plant                | EC2002265   | Surrebuttal      | Utilicorp United Inc. d/b/a Missouri Public Service |
| 3/1/2002   | Depreciation of Plant                | EC20021     | Direct           | Union Electric Company d/b/a Ameren UE              |
| 6/24/2002  | Depreciation                         | EC20021     | Surrebuttal      | Union Electric Company d/b/a Ameren UE              |
| 4/15/2004  | Depreciation                         | GR20040209  | Direct           | Missouri Gas Energy                                 |
| 6/14/2004  | Depreciation Rates                   | GR20040209  | Surrebuttal      | Missouri Gas Energy                                 |
| 10/14/2004 | Depreciation of Plant                | HM20040618  | Rebuttal         | Trigen-Kansas City Energy Corp.                     |
| 12/15/2006 | Depreciation                         | ER20070002  | Direct           | Ameren UE                                           |
| 12/15/2006 | Depreciation                         | GR20070003  | Direct           | Ameren UE                                           |
| 2/27/2007  | Depreciation                         | ER20070002  | Surrebuttal      | Ameren UE                                           |
| 4/18/2008  | Depreciation                         | 34800       | Direct Testimony | Entergy Gulf States, Inc.                           |
| 10/21/2008 | Depreciation                         | 35763       | Direct Testimony | Southwestern Public Service Co.                     |
| 4/15/2009  | Depreciation                         | 37690       | Direct Testimony | El Paso Electric                                    |

ATTACHMENT 1

|            |              |       |                  |                     |
|------------|--------------|-------|------------------|---------------------|
| 11/15/2010 | Depreciation | 38480 | Direct Testimony | Texas-<br>NewMexico |
|------------|--------------|-------|------------------|---------------------|



|                       |                           |
|-----------------------|---------------------------|
| <b>Utility Name:</b>  | Custom Water Company, LLC |
| <b>Docket Number:</b> | 44236                     |

| <b>Customer Meters</b>          | <b>No.:</b> | <b>Multiplier:</b> | <b>Conn. Equiv.</b> |
|---------------------------------|-------------|--------------------|---------------------|
| Number of 5/8x3/4" connections: | 248         | 1.00               | 248.00              |
| Number of 3/4" connections:     |             | 1.50               | 0.00                |
| Number of 1" connections:       |             | 2.50               | 0.00                |
| Number of 1-1/2" connections:   | 1           | 5.00               | 5.00                |
| Number of 2" connections:       | 1           | 8.00               | 8.00                |
| Number of 3" connections:       | 2           | 15.00              | 30.00               |
| Number of 4" connections:       |             | 25.00              | 0.00                |
| Number of 6" connections:       |             | 50.00              | 0.00                |

Total  
= **252.00**                      **291.00** Connection Equivalents

**Utility/Customer Water Usage**

|                                             |  |  |        |
|---------------------------------------------|--|--|--------|
| Proposed Gallons Included In Minimum Bill = |  |  | 1,000  |
| Test Year Gallons Pumped (x 1,000) =        |  |  | 19,117 |
| Test Year Gallons Billed (x 1,000) =        |  |  | 15,237 |

20.3% = percent lost

## PUC DOCKET NO. 44236

| Revenue Generated by Existing Rates     |              |  | Revenue Generated by Proposed Rates     |    |              | Revenue Generated by Staff's Recommended Rates |  |               |
|-----------------------------------------|--------------|--|-----------------------------------------|----|--------------|------------------------------------------------|--|---------------|
| Base Rate (Includes 1,000 gallons)      |              |  | Base Rate (Includes 1,000 gallons)      |    |              | Base Rate (Includes 1,000 gallons)             |  |               |
| 5/8" or 3/4"                            | \$36.00      |  | 5/8" or 3/4"                            |    |              | 5/8" or 3/4"                                   |  | \$34.13       |
| 1"                                      | \$70.72      |  | 1"                                      |    |              | 1"                                             |  |               |
| 1 1/2"                                  | \$135.24     |  | 1 1/2"                                  |    |              | 1 1/2"                                         |  |               |
| 2"                                      | \$212.67     |  | 2"                                      |    |              | 2"                                             |  |               |
| 3"                                      | \$393.34     |  | 3"                                      |    |              | 3"                                             |  |               |
| Volumetric Charge per tier              |              |  | Volumetric Charge per tier              |    |              | Volumetric Charge per tier                     |  |               |
| All Usage                               | \$5.00       |  | All Usage                               |    |              | All Usage                                      |  | \$5.00        |
| No. of Meters                           |              |  | No. of Meters                           |    |              | No. of Meters                                  |  |               |
| 5/8"                                    | 248          |  | 5/8"                                    |    |              | 5/8"                                           |  | 248           |
| 1"                                      |              |  | 1"                                      |    |              | 1"                                             |  |               |
| 1 1/2"                                  | 1            |  | 1 1/2"                                  |    |              | 1 1/2"                                         |  | 1             |
| 2"                                      | 1            |  | 2"                                      |    |              | 2"                                             |  | 1             |
| 3"                                      | 2            |  | 3"                                      |    |              | 3"                                             |  | 2             |
| Total                                   | 252          |  | Total                                   |    |              | Total                                          |  | 252           |
| Gallons Billed                          |              |  | Gallons Billed                          |    |              | Gallons Billed                                 |  |               |
| All Usage                               | 12,213,000   |  | All Usage                               |    |              | All Usage                                      |  | 12,213,000    |
| Total                                   | 12,213,000   |  | Total                                   |    |              | Total                                          |  | 12,213,000    |
| REVENUE                                 |              |  | REVENUE                                 |    |              | REVENUE                                        |  |               |
| Base Rate                               |              |  | Base Rate                               |    |              | Base Rate                                      |  |               |
| 5/8"                                    | \$107,136.00 |  | 5/8"                                    |    | \$161,983.68 | 5/8"                                           |  | \$101,570.88  |
| 1"                                      | \$0.00       |  | 1"                                      |    | \$0.00       | 1"                                             |  | \$0.00        |
| 1 1/2"                                  | \$1,622.88   |  | 1 1/2"                                  |    | \$2,929.80   | 1 1/2"                                         |  | \$0.00        |
| 2"                                      | \$2,552.04   |  | 2"                                      |    | \$4,637.28   | 2"                                             |  | \$0.00        |
| 3"                                      | \$9,440.16   |  | 3"                                      |    | \$17,242.80  | 3"                                             |  | \$0.00        |
| Total revenue generated by base         | \$ 120,751   |  | Total revenue generated by base rates   |    | \$186,793.56 | Total revenue generated by base                |  | \$101,570.88  |
| Volumetric Revenue                      |              |  | Volumetric Revenue                      |    |              | Volumetric Revenue                             |  |               |
| All Usage                               | \$61,065.00  |  | All Usage                               |    | \$85,491.00  | All Usage                                      |  | \$61,065.00   |
| Total revenue generated by              |              |  | Total revenue generated by Volumetric   |    |              | Total revenue generated by                     |  |               |
| Volumetric Usage                        | \$61,065.00  |  | Usage                                   |    | \$85,491.00  | Volumetric Usage                               |  | \$61,065.00   |
| Revenue Generated by Existing rates     | \$181,816.08 |  | Revenue Generated by Proposed rates     | \$ | 272,285      | Revenue Generated by Proposed rates            |  | \$162,635.88  |
| Staff's Recommended Revenue Requirement | \$177,918.00 |  | Staff's Recommended Revenue Requirement | \$ | \$177,918.00 | Staff's Recommended Revenue Requirement        |  | \$177,918.00  |
| Over / (Under) Recovery                 | \$3,898.08   |  | Over / (Under) Recovery                 | \$ | 94,367       | Over / (Under) Recovery                        |  | (\$15,282.12) |
| Percentage of (Under) Recovery          | 2.19%        |  | Percentage of (Under) Recovery          |    | 53.04%       | Percentage of (Under) Recovery                 |  | -8.59%        |