



Control Number: 44236



Item Number: 87

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**I. PROFESSIONAL QUALIFICATIONS**

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

A. Leila C. Guerrero, Public Utility Commission of Texas, 1701 N. Congress Avenue,  
Austin, Texas.

**Q. By whom are you currently employed and how long have you been employed there?**

A. I am employed by the Public Utility Commission of Texas (PUC or Commission). I have  
been employed by the Commission since September 1, 2014 as a Regulatory  
Accountant/Auditor. Prior to the transfer of the rates and certificate of convenience and  
necessity (CCN) programs from the Texas Commission on Environmental Quality  
(TCEQ) to the PUC, I was employed by the TCEQ from May 2006 to August 31, 2014,  
as an Auditor.

**Q. Please describe your current job responsibilities at PUC.**

A. My responsibilities include reviewing and processing contested and uncontested rate  
change applications; sale, transfer and merger applications (STMs); applications to obtain  
or amend certificates of convenience and necessity (CCNs); and rate appeals filed with  
the PUC. For contested applications, my responsibilities include testifying as an expert  
witness on accounting matters in rate-cases, financial and managerial aspects of CCNs,  
STMs, and participating in the overall examination, review, and analysis of such  
applications. My work also involves conducting reviews using selected auditing  
procedures of the books and records of both water and sewer utilities. Please see the  
copy of my resume attached to my pre-filed testimony as Attachment LG-1A for  
additional information on my background and qualifications and Attachment LG-1B for  
the list of my previous testimonies.

1   **Q.    Please briefly describe your educational background and your past professional**  
2       **experience.**

3    A.   I earned a Bachelor of Science degree in Business Administration with an accounting  
4       major from the Ortanez University and a Master of Business Administration degree from  
5       the University of Santo Tomas in Manila, Philippines. I am a licensed Certified Public  
6       Accountant (CPA) in the Philippines and a member of the Philippine Institute of CPAs. I  
7       am current with my Continuing Professional Education (CPE) requirements to maintain  
8       my CPA license. My continuing education courses include auditing, accounting, and  
9       various income tax classes. I am also a member of the Institute of Internal Auditors in the  
10      USA. During my tenure at the TCEQ, experienced staff provided one-on-one training  
11      and various rate training sessions for all staff. I attended the National Association of  
12      Regulatory Utility Commissioners (NARUC), Utility Rate School in San Diego,  
13      California, in May 2008.

14      Prior to joining TCEQ, I was employed by the Texas Department of State Health  
15      Services in Austin, Texas, as a Lead Accountant in the Accounting Division.  
16      Furthermore, my work experience includes more than 30 years in various positions in  
17      accounting, auditing, cash management, billing & collection, budgeting, financial  
18      analysis, and operations of financial institutions. I also possess hands-on experience in  
19      dealing with external auditors and CPA firms in the Philippines as well as in the United  
20      States.

21   **Q.    In the course of your employment with the TCEQ and the PUC, approximately how**  
22       **many rate change applications were assigned to you?**

23    A.   I have been assigned over 250 rate change applications and appeals during my

1 employment with the TCEQ and the PUC.

2 **II. PURPOSE OF TESTIMONY**

3 **Q. In connection with the State Office of Administrative Hearings (SOAH) Docket No.**  
4 **473-15-4944.WS, PUC Docket No. 44236, have you reviewed the rate application**  
5 **and supporting information of Custom Water Company, LLC (“Custom Water” or**  
6 **“Applicant”), Certificate of Convenience and Necessity (CCN) No. 13211, for a**  
7 **rate/tariff change in Montague County, the testimonies, and other information filed**  
8 **with the Commission in this matter?**

9 A. Yes, I have.

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

11 A. The purpose of my testimony is to present the Public Utility Commission’s (“PUC” or  
12 “Commission”) recommendation regarding the revenue requirement for the test year  
13 ending August 31, 2014, with respect to Custom Water’s rate change application.

14 Ms. Emily Sears, PUC Utility Rates Analyst, will calculate the Rate of Return  
15 (ROR) for Custom Water’s debt and the equity. I will use the ROR in calculating the  
16 return on the total invested capital that will be part of the revenue requirement for the  
17 utility.

18 Ms. Jolie Mathis, PUC Engineering Specialist, will then use the revenue  
19 requirement to calculate the Commission’s recommended rates.

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

21 A. My participation in SOAH Docket 473-15-4944.WS can be summarized as  
22 follows:

23 1. I reviewed the application and information provided by the Applicant subsequent

1 to its original application and during formal discovery by the parties in this  
2 matter.

3 2. I reviewed the Applicant's responses to Requests for Information (RFIs) to its  
4 rate/tariff change application, as specified in Texas Water Code (TWC), §§  
5 13.131, 13.136, 13.182 and 13.187, and the applicable PUC rules in 16 Tex.  
6 Admin. Code §§24.12, 24.28, and 24.31.

7 3. I reviewed the information filed by all parties as part of formal discovery and pre-  
8 filed testimonies for this proceeding.

9 4. I am presenting Commission Staff's (Staff) position on the cost of service or  
10 revenue requirement of the Applicant to provide the necessary capital investment  
11 to ensure continuous and adequate service to the current and future Custom Water  
12 customers.

13 5. Together with Ms. Sears and Ms. Mathis, I will present my recommendation  
14 regarding the approval or denial of the application.

15 **Q. What standards did you apply during your review of this application?**

16 A. I performed my review in accordance with the utility rate-making standards established  
17 by Chapter 13 of the Texas Water Code (TWC); 16 Tex. Admin. Code Chapter 24  
18 (TAC); and the American Water Works Manual of Water Supply Practices, Fifth Edition  
19 (herein referred to as AWWA M1 Manual). In addition, I am guided by the Generally  
20 Accepted Accounting Principles (GAAP) and the Generally Accepted Auditing Standards  
21 (GAAS).

22

23

1                   **III.       DISCUSSION REGARDING RATE CHANGE APPLICATION**

2   **Q.       What is meant by the term revenue requirement?**

3   A.       The revenue requirement is the amount of revenue the utility needs to cover all its  
4           reasonable and necessary expenses properly incurred in rendering services to the public.  
5           It equals the utility's cost of service. In order to calculate rates, one subtracts "other  
6           revenues," which includes late fees, transfer fees, and other fees. The revenue  
7           requirement should provide the utility an opportunity to earn a fair and reasonable return  
8           on its invested capital that is used and useful in rendering service as required by TWC  
9           §13.183(a)(1). To determine the revenue requirement upon which to base its rates, a  
10          utility must look at a historical test year, which should consist of the most recent 12-  
11          month period for which representative operating data and information for the utility are  
12          available. A rate application must be based on a test year that ended less than 12 months  
13          before the date on which the utility filed its application with the Commission. Non-  
14          recurring expenditures are not typically included in the revenue requirement, and if  
15          known and measurable changes have occurred or are expected to occur, the test year can  
16          be adjusted to reflect those changes. An adjusted test year revenue requirement is  
17          developed which is then compared to the test year operating revenues. If the adjusted  
18          revenue requirement is greater than the operating revenues, the utility is entitled to a rate  
19          increase.

20   **Q.       What test year have you used to review Custom Water's revenue requirement?**

21   A.       I used the applicant's test year of September 1, 2013, through August 31, 2014, as



1 provided in the rate change application.<sup>1</sup>

2 **Q. In your review of Custom Water's records, what did you notice with regard to the**  
3 **general ledger?**

4 A. I noticed that the general ledger of Custom Water commingles utility operations expenses  
5 with expenses incurred for the operation of affiliated companies or other businesses of  
6 the utility owner, Mr. Edward (Eddie) Fenoglio.

7 **Q. Was this pre-filed testimony prepared by you as a result of your review and**  
8 **examination mentioned previously?**

9 A. Yes, it was.

10 **Q. Have you prepared any schedules showing your analysis of the application?**

11 A. Yes, I prepared the following schedules:

- 12 • **Attachment LG-1:** Revenue Requirement;
- 13 • **Attachment LG-2:** Operations & Maintenance Expenses and Taxes;
- 14 • **Attachment LG-3:** Federal Income Tax;
- 15 • **Attachment LG-4:** Recommended Adjustments to the Cost of Service;
- 16 • **Attachment LG-5:** Salaries and Wages, Payroll Taxes, and Contract Labor.
- 17 • **Attachment LG-6:** Analysis and Breakdown of Office Expenses

18 **Q. Can you explain what is presented on Attachment LG-1 through LG-3?**

19 A. Yes. Attachment LG-1 column (c) itemizes the test year revenue requirement, or cost of  
20 service, as adjusted for known and measurable changes and presented in Custom Water's  
21 rate application. Column (d) represents adjustments recommended by the Commission

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<sup>1</sup> Custom Water Application for Rate Change, Docket No. 44236 at p. 13 of 40 (Jan. 12, 2015); *see also* WP-LG-1. *bates p. 18.*

1 Staff to Custom Water's requested revenue requirement for its test year. Column (e)  
2 itemizes the Staff recommended revenue requirement for the test year.

3 Attachment LG-2 shows a detailed breakdown of Staff's adjustments to  
4 operations and maintenance expense, other taxes, and federal income taxes.

5 Attachment LG-3 shows details in the calculation of Custom Water's federal  
6 income taxes.

7 **Q. Did you prepare work-papers to support your testimony?**

8 A. Yes, I did. I included the following documents, which were either provided by Custom  
9 Water in response to requests for information (RFI), or already in PUC's possession, and  
10 are referenced in support of my cost of service adjustments:

11 • **WP-LG-1:** Custom Water's rate change application, Docket No. 44236, Item #1;

12 • **WP-LG-2:** Custom Water's General Ledger 9/1/2013 – 12/31/2013 and 1/1/2014 -  
13 9/1/2014 (Custom Water's Response to RFI, Staff 1-5);

14 • **WP-LG-3:** Custom Water's loan agreements (Response to RFI, Staff 1-3);

15 • **WP-LG-4:** Custom Water's Balance Sheet as of April 30, 2015 (Response to RFI,  
16 Staff 1-7);

17 • **WP-LG-5:** Custom Water's Profit and Loss Statement, September 2014 to April 2015  
18 (Response to RFI, Staff 1-8);

19 • **WP-LG-6:** Custom Water's list of assets (Response to RFI, Staff 1-10);

20 • **WP-LG-7:** Custom Water's response to RFI, Staff 1-15, breakdown of miscellaneous  
21 expenses;

22 • **WP-LG-8:** Custom Water's response to RFI, Staff 1-16, regarding rate case expense;

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1 • **WP-LG-9:** excerpt from response to RFI, Staff 1-9, Custom Water's IRS Form W-3,  
2 Transmittal of Wage and Tax Statements, tax years 2013 and 2014;  
3 income taxes.

4 **IV. RECOMMENDATIONS – COST OF SERVICE**

5 **Q. As a result of your examination of Custom Water's rate application and additional**  
6 **information submitted by the Applicant, have you proposed any adjustments to**  
7 **Custom Water's requested cost of service?**

8 A. Yes, please refer to **Attachment LG-4** for a detailed breakdown of my  
9 recommended adjustments to the utility's cost of service. I used Custom Water's rate  
10 application and the general ledger for the test period ending August 31, 2014, as a  
11 baseline for calculating the cost of service. I prepared my adjustments based on Custom  
12 Water's responses to discovery, documents gathered in response to RFIs, and other  
13 information provided by the Custom Water. My recommended adjustments to Custom  
14 Water's cost of service follow.

15 **Salaries and Wages – Recommended Reduction of \$1,556.**

16 Based on the Applicant's rate/tariff change application, Custom Water paid a total  
17 of \$46,002<sup>2</sup> in salaries during the test period. Custom Water included in its application a  
18 known and measurable reduction of \$3,494,<sup>3</sup> for a net salaries request of \$42,508.<sup>4</sup>

19 My examination of the Applicant's records revealed that based on the IRS Form  
20 W-3, (WP-LG-9), salaries and wages paid for all the Applicant's utility businesses were

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<sup>2</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [A] col (1); *see also* WP-LG-1, bates p.18.

<sup>3</sup> *Id.*, at Line [A] col (2), *see also* WP-LG-1, bates p. 18.

<sup>4</sup> *Id.*, at Line [A] col (3), *see also* WP-LG-1, bates p. 18.

1           \$103,493.74 and \$71,108.84, for the tax years 2013 and 2014, respectively. The general  
2           ledger indicated, "Gonzalez payroll (1/2)<sup>5</sup> and Meeks payroll (1/2)."<sup>6</sup> I interpreted this to  
3           mean that one-half (1/2) of all the salaries and wages for all of Mr. Fenoglio's businesses  
4           were attributed to Custom Water. Subsequently, once I calculated the pro-rated salaries  
5           for the test year (\$34,497.91 for the portion of the test year in 2013, September 1, 2013 to  
6           December 31, 2013, and \$47,405.89 for the portion of test year in 2014, January 1, 2014  
7           to August 31, 2014), and divided these amounts by two (2), I calculated the correct  
8           amount for salaries during the test year to be \$40,952. Please see Table 1 for my  
9           calculation for salaries and wages. Therefore, I recommend a disallowance of \$1,556  
10          from Custom Water's request of \$42,508, which results in a recommended salaries and  
11          wages expense of \$40,952. **Table 1** and **Attachment LG-5** show Staff's calculation for  
12          salaries and wages for the test year.

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<sup>5</sup> General Ledger as of December 31, 2013, p. 29 and General Ledger as of September 1, 2014, p. 34; *see also* WP-LG-2, bates pp. 139 and 185.

<sup>6</sup> General Ledger as of December 31, 2013, p. 31 and General Ledger as of September 1, 2014, p. 40; *see also* WP-LG-2, bates pp. 141 and 191.

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**Table 1- Calculation of Recommended Salaries and Wages**

	<u>Tax Year</u>	<u>Tax Year</u>	
	<u>2013</u>	<u>2014</u>	
<b>Salaries &amp; Wages per IRS Form -W3</b>	\$103,493.74	\$71,108.84	
Salaries for the Test Year	\$34,497.91	\$47,405.89	\$81,903.80
* 2013 = (103,493.74 / 12 x 4 mos. = 34,497.91)			
**2014 = ( 71,108.84 / 12 x 8 mos. = 47,405.89)			
Salaries TY x ½ (allocated for Custom Water)			
2013 = 34,497.91 x 1/2 = 17,248.96	\$17,248.96		
2014 = 47,405.89 x 1/2 = 23,702.95		\$23,702.95	
<b>Total Salaries &amp; Wages for Custom Water</b>			<b><u>\$40,951.91</u></b>

2 \*based on four (4) of the months from the test year being in 2013 (September to December 2013).

3 \*\*based on eight (8) of the months from the test year being in 2014 (January to August 2014).

4

5 **Office Expenses – Recommended Reduction of \$7,610.**

6 Custom Water requested a total of \$15,110<sup>7</sup> for office expenses. Based on  
7 information obtained from my review of Custom Water's records, I observed that the  
8 general ledger (WP-LG-2) shows office expenses of \$9,993.73, for September 1 to  
9 December 31, 2013,<sup>8</sup> and \$24,485.40 for January 1 to August 31, 2014,<sup>9</sup> for a total of  
10 \$34,479.13. In the application, Custom Water is only requesting \$15,110. According to  
11 Custom Water's general ledger, the office expense account is comprised of bank charges,  
12 computer software, dumpster, fuel-Custom Water, lawn maintenance, office supplies,  
13 postage, propane, repairs/maintenance, safety deposit box, Shop 108 Alamo Rd., Shop

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<sup>7</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [G] col (1); *see also* WP-LG-1, bates p. 18.

<sup>8</sup> General Ledger as of December 31, 2013, pp. 22-26; *see also* WP-LG-2, bates pp. 132-136.

<sup>9</sup> General Ledger as of September 1, 2014, pp. 24-30, *see also* WP-LG-2, bates pp. 175-181.

1        106 Alamo Rd., subscription Times Record News, Verizon cell phones (1/3) Windstream  
2        land lines (1/3), filing fees, uniform expenses, and veterinary expenses.<sup>10</sup> My analysis of  
3        the office expense account shows that telephone expenses (cell phones and landlines)  
4        appear to improperly include costs that were incurred for the owner's affiliated  
5        businesses. Based on the Applicant's general ledger, allocation for cell phones and land  
6        line telephone for Custom Water is one-third (1/3).<sup>11</sup> However, in my opinion, the cost  
7        listed for cellphones and landline telephones for a water company with only 252  
8        customers is too high. I therefore concluded the two-thirds (2/3) attributed to affiliates  
9        has not yet been taken out. I calculated my recommended disallowance for cell phone  
10       expenses by multiplying the cell phone expense of \$473.95 for 9/1/2013 to 12/31/2013<sup>12</sup>  
11       by two-thirds ( $\$473.95 \times 2/3 = \$315.97$ ), and multiplying cell phone expense of  
12       \$1,878.18 for 1/1/2014 to 8/31/2014<sup>13</sup> by two-thirds ( $\$1,878.18 \times 2/3 = \$1,252.12$ ). I  
13       then added \$316 and \$1,252 and I came up with \$1,568 as the recommended disallowed  
14       amount for cell phone expenses for the test year. Similarly, I calculated my  
15       recommended disallowance for landline telephone expenses by multiplying the amount of  
16       \$2,417.76 for 9/1/2013 to 12/31/2013<sup>14</sup> by two-thirds ( $\$2,417.76 \times 2/3 = \$1,611.84$ ); and  
17       multiplying \$4,163.42 for 1/1/2014 to 8/31/2014<sup>15</sup> by two-thirds ( $\$4,163.42 \times 2/3 =$   
18        $\$2,775.61$ ). I then added \$1,612 and \$2,776 and I came up with \$4,388 as the  
19       recommended disallowed amount for landline telephone for the test year ( $\$1,612 +$

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<sup>10</sup> See Attachment LG-6.

<sup>11</sup> General Ledger as of December 31, 2013, pp.25-26 and General Ledger as of September 1, 2014, p. 29;  
*see also* WP-LG-2, bates pp. 135-136 and p.180.

<sup>12</sup> General Ledger as of December 31, 2013, p. 25; *see also* WP-LG-2, bates p. 135.

<sup>13</sup> General Ledger as of September 1, 2014, p. 29; *see also* WP-LG-2, bates p. 180.

<sup>14</sup> General Ledger as of December 31, 2013, p. 26; *see also* WP-LG-2, bates p. 136.

\$2,776 = \$4,388). Therefore, I recommend allowing only \$2,977 for Custom Water's telephone expenses and recommend a disallowance of \$5,956 [\$1,568 (cell phone) + \$4,388 (landline) = \$5,956] in telephone expenses.

In addition, veterinary expenses and dry-cleaning/uniform expenses of \$639<sup>16</sup> and \$1,015,<sup>17</sup> respectively, appear unreasonable and unnecessary to providing water service pursuant to 16 TAC § 24.31(b)(2)(I), and I recommend disallowing these as well.

Based on my audit of the documentation provided by the Applicant, I made the adjustments/recommended disallowance to office expense account shown in Table 2:

**Table 2 – Adjustments/Disallowance to Office Expenses**

<u>Expense Item</u>	<u>Adjustment</u> <u>9/1/2013 – 12/31/2013</u>	<u>Adjustment</u> <u>1/1/2014 – 8/31/2014</u>	<u>Total</u>
Veterinary Expenses	\$201	\$438	\$639
Uniform Expense /Cleaning	\$560	\$455	\$1,015
Cell Phone – Verizon (473.95 x 2/3= 316) (1,878.18 x 2/3=1,252)	\$316	\$1,252	\$1,568
Land Lines- Windstream (2,417.76 x 2/3=1,612) (4,163.42 x 2/3=2,776)	\$1,612	\$2,776	\$4,388
<b>Total Adjustment/ Disallowed Office Expense</b>	<b>\$2,689</b>	<b>\$4,921</b>	<b>\$7,610</b>

**Insurance Expenses – Recommended Reduction of \$394.**

The Applicant requested to include an insurance expense of \$4,576 in the application.<sup>18</sup> I reviewed the general ledger, receipts, invoices, and documentation

<sup>15</sup> General Ledger as of September 1, 2014, p. 29; *see also* WP-LG-2, bates p. 180.

<sup>16</sup> General Ledger as of December 31, 2013, p. 26 and General Ledger as of September 1, 2014, p. 30; *see also* WP-LG-2, bates pp. 136 and 181; and Attachment LG-6.

<sup>17</sup> General Ledger as of December 31, 2013, p. 26 and General Ledger as of September 1, 2014, p. 30; *see also* WP-LG-2 bates pp. 136 and 181; and Attachment LG-6.

<sup>18</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [I] col (1); *see also* WP-LG-1 bates p. 18.

1 provided and found that the requested amount appears to improperly include costs that  
2 were incurred for the owner's affiliated businesses. The Applicant's general ledger  
3 shows that insurance expense were incurred by the Applicant for different asset items, as  
4 shown in Table 3. It was also indicated in the general ledger that one-third (1/3) is  
5 allocated to Custom Water for "Insurance-All Companies."<sup>19</sup> I calculated the insurance  
6 expense allocated to Custom Water by adding "*All Companies*" insurance of \$2,284.90  
7 for 9/1/2013 to 12/31/2013<sup>20</sup> and \$4,738.80 for 1/1/2014 to 8/31/2014<sup>21</sup> ( $\$2,284.90 +$   
8  $\$4,738.80 = \$7,023.70$ ) and multiplying the sum of \$7,023.70 by one-third (allocation for  
9 Custom Water is 1/3). This results in an amount of \$2,341.23 ( $\$7,023.70 \times 1/3 =$   
10  $\$2,341.23$ ). I then added the amount of \$2,341.23 to all the insurance expenses items  
11 solely for Custom Water. Therefore, I recommend only \$4,182 be allowed for Custom  
12 Water's insurance expense and \$394 be disallowed for insurance expenses. Table 3  
13 shows the breakdown/schedule of insurance expenses.

<sup>19</sup> General Ledger as of December 31, 2013, p. 17 and General Ledger as of September 1, 2014, p. 19; *see also* WP-LG-2, bates pp. 127 and 170.

<sup>20</sup> General Ledger as of December 31, 2013, p. 17; *see also* WP-LG-2, bates p. 127.

<sup>21</sup> General Ledger as of September 1, 2014, p. 19; *see also* WP-LG-2, bates p. 170.



**Table 3 – Schedule of Insurance Expense**

<i>Insurance Expense</i>	Test Year 9/1/13- 12/31/13	Test Year 1/1/14- 8/31/14	TOTAL	Allocated to Custom Water
All Companies (1/3 allocated Custom Water) (\$7,023.70 x 1/3 = \$2,341.23)	2,284.90	4,738.80	7,023.70	2,341.23
2000 Ford	265.5	272.5	538	538.00
2009 Kawasaki Mule	265.38	0	265.38	265.38
Eddie's Truck	228.99	396.27	625.26	625.26
Custom Water- Other (Farm Bureau)		411.66	411.66	411.66
<b>Total Amount for Custom Water</b>	<b>3,044.77</b>	<b>5,819.23</b>	<b>8,864.00</b>	<b>4,181.53</b>

**Rate-Case Expense – Recommended Reduction of \$18,000**

In the rate change application, the Applicant requested an amount of \$18,000<sup>22</sup> as a known and measurable adjustment for the rate-case expenses. Supporting documentation for rate-case expenses provided by the Applicant was either incomplete, invalid, or unacceptable (*see* WP-LG-8, invoices from Ross Bookkeeping & Tax for years 2011 and 2012, showing invoices that are not from the test year). At this time, I recommend disallowing Custom Water's collection of any rate-case expenses from the customers because, as Ms. Mathis will testify, Custom Water has not supported its proposed rate change. According to 16 TAC § 24.28(8), "*A utility may not recover any rate-case expenses if the increase in revenue generated by the just and reasonable rate determined by the Commission after a contested case hearing is less than 51% of the increase in revenue that would have been generated by a utility's proposed rate.*"<sup>23</sup>

Therefore, Custom Water should not recover any rate-case expenses because Custom

<sup>22</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [J] col (2); *see also* WP-LG-1, bates p. 18.

1 Water is not entitled to any of the increase in revenue it requested.

2 However, if the Commission does grant Custom Water a rate increase and that  
3 rate increase generates a revenue that is at least 51% of the increase in revenue that would  
4 have been generated by Custom Water's proposed rates, then I recommend that the  
5 Commission consider 16 TAC § 24.28(7) and allow Custom Water to recover only those  
6 expenses that are reasonable, necessary, and in the public interest through a surcharge to  
7 its water customers.<sup>24</sup> The surcharge should be calculated by dividing the total amount of  
8 rate-case expenses awarded by the current number of water customers, divided by 24.  
9 Therefore, I recommend that the surcharge be collected from all current and future water  
10 customers that are affected by the rate change for 24 months, or until the total amount is  
11 collected, whichever occurs first. I also recommend that Custom Water be required to  
12 submit a semi-annual report to the PUC's Water Utility Regulation Division which shows  
13 the total surcharge amount collected and the remaining balance to be collected. Even if  
14 Custom Water were entitled to recover rate-case expenses, I cannot make a  
15 recommendation as to the final amount without first reviewing all invoices and other  
16 supporting documentation from Custom Water regarding rate-case expenses.

17 In the event that rate-case expenses are to be recovered, I reserve the right to  
18 review all such invoices, supporting documentation, and/or any additional testimony  
19 regarding rate-case expenses before making a final recommendation to insure that only  
20 reasonable and justifiable expenses are charged to the customers. Any unsupported or  
21 undocumented charges should be disallowed. At this time, my current recommendation

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<sup>23</sup> This rule was readopted by the Commission, effective September 13, 2015, in 16 TAC § 24.33(b).

<sup>24</sup> This rule was readopted by the Commission, effective September 13, 2015, in 16 TAC § 24.33(a).

1 for rate-case expense is zero (\$0.00).

2 **Miscellaneous Expenses – Recommended Reduction of \$58,896**

3 Custom Water requested \$66,224<sup>25</sup> for miscellaneous expenses. This consists of  
4 \$54,163<sup>26</sup> for the test year, plus \$12,061<sup>27</sup> for the known and measurable changes. Table  
5 4 shows the break-down and reconciliation of the requested amount for miscellaneous  
6 expenses.

7 A detailed review of the general ledger and other supporting documentation  
8 provided by Custom Water shows that some amounts were improperly included in the  
9 miscellaneous expenses account. Therefore, I recommend disallowance of these  
10 expenses. Table 5 shows the breakdown of disallowed miscellaneous expenses.

11 Pursuant to 16 TAC § 24.31(b)(2)(I), fines and penalties are excluded from a  
12 company's cost of service. Therefore, I recommend disallowance of \$4,130 for fines and  
13 penalties.<sup>28</sup>

14 Custom Water has improperly included loan payments as part of its cost of  
15 service.<sup>29</sup> Loan payments are not expenses and are not properly considered part of a  
16 utility's cost of service. This is because depreciation expenses, which will be part of the  
17 Applicant's revenue requirement, are calculated on the assets for which loans were  
18 acquired, and the net assets will also earn a return. Therefore, if the Applicant recovered  
19 both the loan payments as well as depreciation and a return, then Custom Water's

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<sup>25</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [K] col (3); *see also* WP-LG-1, bates p.18.

<sup>26</sup> *Id.*, at Line [K] col (1); *Id.*

<sup>27</sup> *Id.*, at Line [K] col (2); *Id.*

<sup>28</sup> General Ledger as of December 31, 2013, p. 19 and General Ledger as of September 1, 2014, pp. 20-21; *see also* WP-LG-2, bates pp. 129 and 171-172.

1 customers would be paying for the asset cost twice. Furthermore, even if these loans  
2 were properly included as expenses, based on my experience analyzing other similar  
3 water systems, three (3) vehicles for a utility with only 252 customers is unreasonable,  
4 unnecessary, and not in the public interest under 16 TAC § 24.31(b)(2)(I).

5 The Applicant also included in its miscellaneous expenses \$12,061<sup>30</sup> and \$1,343<sup>31</sup>  
6 for known and measurable changes/adjustments; however, both amounts were  
7 unsupported by documentation. Therefore, I recommend allowing only \$7,328.00 for  
8 miscellaneous expenses and disallowing \$58,896.00.

9

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<sup>29</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [K] col (3); *see also* WP-LG-1, bates p.18; *see also* WP-LG-2, bates pp. 129-131 and pp. 172-174.

<sup>30</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [K] col (2); *see also* WP-LG-1, bates p.18.

<sup>31</sup> *See* Table 4, Miscellaneous Expenses – breakdown and reconciliation.

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**Table 4 – Miscellaneous Expenses (break-down and reconciliation)**

<b>Account / Expense Item</b>	<b>Test Year per GL 9/1/2013- 12/31/2013</b>	<b>Test Year per GL 1/1/2014- 8/31/2014</b>	<b>TEST YEAR TOTAL</b>	<b>Known &amp; Measurable Changes 9/1/2014 – 8/31/2015</b>
Business Membership Fees	\$125.00	\$82.00	\$207.00	
Fines # 23607354 (penalties paid to TCEQ for system violations)	\$1,239.00	\$2,891.00	\$4,130.00	
2013 GMC (Ed's Truck) Finance Charge	\$393.25	\$267.77	\$661.02	
2013 GMC (Ed's Truck) Principal Payments	\$3,462.95	\$2,055.97	\$5,518.92	
2014 Chevy (3 payments@ \$620.15)	\$0.00	\$1,860.45	\$1,860.45	
2014 Kubota – loan payments	\$0.00	\$3,524.75	\$3,524.75	
New Wells – loan payments	\$6,443.60	\$12,981.05	\$19,424.65	
Operating Expense 2000 Ford (\$1,037.19/mo.)	\$3,111.57	\$7,260.33	\$10,371.90	
Lot Fees - Oak Shores	\$0.00	\$150.00	\$150.00	
Testing Fees	\$1,554.37	\$1,176.55	\$2,730.92	
State Water Fees	\$0.00	\$542.65	\$542.65	
Upper Trinity GCD	\$1,425.18	\$2,102.91	\$3,528.09	
Travel	\$0.00	\$150.00	\$150.00	
Vehicle Registration	\$13.00	\$7.00	\$20.00	
K & M Per application (not itemized & unsupported)	\$0.00	\$0.00	\$0.00	\$12,061
<b>TOTAL per GL</b>	<b>\$17,767.92</b>	<b>\$35,052.43</b>	<b>\$52,820.35</b>	
<b>Applicant's Discrepancy per GL (\$52,820.35) and application(\$54,163)</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$ 1,342.65</b>	
<b>Total per Application</b>	<b>\$17,767.92</b>	<b>\$35,052.43</b>	<b>\$54,163.00</b>	<b>\$12,061.00</b>

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**Table 5 – Schedule of Disallowed Miscellaneous Expenses**

<b><u>Miscellaneous Expense - Disallowed</u></b>	<b><u>Amount</u></b>
Fines/ Penalties paid to TCEQ	\$ 4,130.00
Loan payments for 2014 Chevy truck	\$ 1,860.00
Loan payments for 2014 Kubota	\$ 3,525.00
Loan payments for new wells	\$ 19,425.00
"Operating expense" 2000 Ford Truck (Loan payments of \$1,037.19 per month. x 10 months)	\$ 10,372.00
Loan payments for 2013 GMC truck (principal + interest)	\$ 6,180.00
Unsupported known & measurable changes/adjustments	\$ 12,061.00
Unsupported/unaccounted miscellaneous expenses	\$ 1,343.00
<b>Total disallowed miscellaneous expenses</b>	<b><u>\$58,896.00</u></b>

**Federal Income Taxes - Recommended Increase of \$281.**

The Applicant calculated \$882<sup>32</sup> and requested the same amount for federal income taxes.<sup>33</sup> Based on my adjustments to Custom Water's costs and expenses, I calculated the federal income tax amount by multiplying the taxable income by the corresponding tax rate of 15%. Attachment LG-2, Schedule 1(c) and Attachment LG-3 show a detailed Staff calculation of the utility's federal income taxes. The recommended amount for federal income tax amount equals \$1,163 (\$882 + \$281 = \$1,163), which is an increase of \$281 to Custom Water's request (please see Attachment LG-2 and Attachment LG-3 for details).

**Return on Invested Capital – Recommended Reductions of \$646.**

Custom Water calculated \$22,631<sup>34</sup> and requested the same amount for return on invested

<sup>32</sup> Rate change application, p.12 of 40, Sec V, Income Tax Calculation, Table V, Line [F]; *see also* WP-LG-1, bates p. 17.

<sup>33</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [P] col (3); *see also* WP-LG-1, bates p. 18.

<sup>34</sup> Rate change application, p.12 of 40, Sec E, Invested Capital & Return – Water, Table IV.E., Line [H]; *see also* WP-LG-1, bates p. 17.

1 capital.<sup>35</sup> I propose to reduce the return on invested capital by \$646. I calculated the  
2 return of \$21,985 by adding the net plant value of \$414,381 to the working cash  
3 allowance of \$16,119, or \$430,500, and then multiplying that total by the weighted  
4 average ROR of 5.107% (ROR calculated by Staff is 5.107%). **Attachment LG-3** shows  
5 the calculation of the return on invested capital in greater detail.

6 **Q. How did you calculate the Working Cash Allowance?**

7 A. Based on the Commission's rule in 16 TAC § 24.31(c)(2)(C)(iii), I computed an  
8 allowance of one-eighth of my recommended operations and maintenance expenses.

9 **Payroll Taxes – Recommended Reduction of \$7,537.**

10 The utility requested \$11,268<sup>36</sup> for payroll taxes. This consists of \$13,333<sup>37</sup> for  
11 the test year with a negative adjustment for the known and measurable changes of  
12 \$2,065<sup>38</sup> (\$13,333 - \$2,065 = \$11,268). With all my adjustments to salaries and wages  
13 discussed on page 10, which results in a total amount of \$40,952 as the basis for  
14 calculating payroll taxes, I calculated a net amount of \$3,731 for payroll taxes. I  
15 calculated this by taking the adjusted salaries of \$40,952 multiplied by 7.65%, the  
16 standard social security (6.2%) and medicare tax (1.45%), which equals \$3,133. I then  
17 calculated Federal Unemployment Tax (FUTA) of \$112 by multiplying \$14,000 by .80%  
18 (the FUTA cap is \$7,000 per employee multiplied by two (2) employees who received  
19 salaries). Lastly, I calculated State Unemployment Tax (SUTA) of \$486 by multiplying

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<sup>35</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [Q] col (3); *see also* WP-LG-1, bates p. 18.

<sup>36</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [M] col (3); *see also* WP-LG-1, bates p. 18.

<sup>37</sup> *Id.*, at Line [M] col (1).

<sup>38</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [M] col (2); *see also* WP-LG-1, bates p. 18.

\$18,000 by 2.7% (the SUTA cap is \$9,000 per employee multiplied by two (2) employees who received salaries). I recommend a reduction of \$7,537 (\$11,268 – \$3,731 = \$7,537) to the Applicant's request for payroll taxes. Table 6 and Attachment LG-5 show my analysis and calculation of payroll taxes.

**Table 6 -Payroll Tax Calculation**

Account Item	Amount
SS & Medicare - \$40,952 x 7.65%	\$3,133.00
*FUTA (7,000 x 2) = 14,000 x 0.80%	\$112.00
**SUTA (9,000 x 2) = 18,000 x 2.70%	\$486.00
<b>Total Adjusted Payroll Taxes- Custom Water</b>	<b>\$3,731.00</b>

\* Federal Unemployment Tax Account (FUTA)

\*\*State Unemployment Tax Account (SUTA)

**V. ANALYSIS OF UNADJUSTED EXPENSES & OTHER REVENUES**

**Contract Labor**

Custom Water requested \$65,473<sup>39</sup> for contract labor and made a negative adjustment for known and measurable changes of \$41,156.<sup>40</sup> I reviewed the application, general ledger, and other documentation provided and made no adjustment because I found the requested amount and the negative adjustment to be valid. I agree with the Applicant's adjustment. Therefore, I recommend \$24,317 for contract labor. Table 7 shows the schedule for contract labor.

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<sup>39</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, at Line [B] col (1); *see also* WP-LG-1, bates p. 18.

<sup>40</sup> *Id.*, at Line [B] col (2).



**Table 7 - Schedule for Contract Labor**

<b>Contract Labor</b>	<b>9/1/13 – 12/31/13</b>	<b>1/1/14 - 8/31/14</b>	<b>Total</b>
Eddie Fenoglio	\$5,750.00	\$12,425.00	\$18,175.00
Santiago Contreras (12,285 x 1/2)		\$6,142.50	\$6,142.50
<b>Total Contract Labor for Custom Water</b>			<b><u>\$24,317.50</u></b>

**Chemicals and Treatments**

Custom Water requested \$4,065<sup>41</sup> for chemicals and treatments. I reviewed the receipts, invoices, and documentations provided and made no adjustment because I found the requested amount to be valid. I agree with the requested amount and I recommend \$4,065 for chemicals and treatments.

**Utilities**

Custom Water requested a total of \$11,981<sup>42</sup> for utilities (electricity) expenses. I reviewed the receipts, invoices, and documentation provided, and made no adjustment because I found the requested amount to be valid. I agree with the requested amount. Therefore, I recommend \$11,981 for utilities expenses.

**Repairs, Maintenance, and Supplies**

Custom Water reported a total of \$172,353<sup>43</sup> for repairs, maintenance, and supplies in the test year. The Applicant's general ledger (WP-LG-2) shows a sub-total of \$9,356.51, for the period of September 1 to December 31, 2013,<sup>44</sup> and \$162,996.13 for

<sup>41</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, at Line [D] col (1); *see also* WP-LG-1, bates p. 18.

<sup>42</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [E] col (1); *see also* WP-LG-1, bates p. 18.

<sup>43</sup> *Id.*, at Line [F] col (1).

<sup>44</sup> General Ledger as of December 31, 2013, pp. 28-29; *see also* WP-LG-2, bates pp. 138-139.

1 January 1 to August 31, 2014,<sup>45</sup> or a total of \$172,352.64 for the test year. According to  
2 Custom Water's general ledger, the repairs and maintenance account consists of  
3 equipment repairs, materials, shop supplies, new wells, new storage tanks, and small  
4 tools. The Applicant made a negative known and measurable adjustment of \$146,331<sup>46</sup>  
5 to the test year and requested only \$26,022 for the adjusted test year expense.<sup>47</sup> This  
6 adjustment is comprised of capital outlays for new wells and new storage tanks. The  
7 Applicant should have recorded this adjustment as an asset and not as an expense. The  
8 Applicant has since re-classified this amount as an asset and has reduced the expense  
9 account. Staff agrees with the Applicant's adjustments and recommends \$26,022 for  
10 repairs, maintenance, and supplies. Table 8 shows the breakdown and schedule of repairs  
11 and maintenance account for the test year.

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<sup>45</sup> General Ledger as of September 1, 2014, pp. 32-34; *see also* WP-LG-2, bates pp. 183-185.

<sup>46</sup>Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [E] col (1); *see also* WP-LG-1, bates p. 18.

<sup>47</sup> *Id.*, Line [F] co. (3).

**Table 8 – Schedule of Repairs and Maintenance**

<b><u>Repairs &amp; Maintenance</u></b>	<b>Per GL 9/1/13- 12/31/13</b>	<b>Per GL 1/1/14- 8/31/14</b>	<b>Total</b>
Equipment Repairs- Custom	6,132.43	1,236.99	7,369.42
Materials - Custom	2,803.28	16,113.25	18,916.53
Shop Supplies - Airgas	21.61	153.11	174.72
Small Tools - Scott Morris	51.82	96.34	148.16
Repairs/Maintenance/Supplies - Other	347.37	688.73	1,036.10
Rental		197.89	197.89
New Tanks		2,361.82	2,361.82
New Wells		22,830.71	22,830.71
Shop Repairs & Maintenance		3,561.29	3,561.29
Storage Tanks		115,756.00	115,756.00
Total Rep/Maintenance/Supplies	<b>9,356.51</b>	<b>162,996.13</b>	<b>172,352.64</b>
Repairs & Maintenance Adjustment per Application (known and measurable)			<b>(146,330.61)</b>
Repairs & Maintenance per Application			<b>26,022.00</b>

**Accounting & Legal Fees**

For the test year, Custom Water recorded a total of \$23,212<sup>48</sup> expenses in accounting and legal fees. The utility then recorded a negative known and measurable adjustment of \$20,612,<sup>49</sup> which brought the amount down to \$2,600.<sup>50</sup> I reviewed the receipts, invoices, and documentation provided and made no adjustment because I found the requested amount to be valid. I agree with the Applicant's adjustment. Therefore, I recommend \$2,600 for accounting and legal fees. Table 9 shows the breakdown and schedule of accounting, legal, and professional fees.

<sup>48</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [H] col (1); *see also* WP-LG-1, bates p. 18.

<sup>49</sup> *Id.*, at Line [H] col (2).

<sup>50</sup> *Id.*, at Line [H] col (3).

**Table 9 - Schedule of Accounting & Legal Fees**

<b><u>Accounting, Legal &amp; Professional Fees</u></b>	<b><u>TY per GL</u> <u>9/1/13-12/31/13</u></b>	<b><u>TY per GL</u> <u>1/1/14-8/31/14</u></b>	<b><u>TOTAL</u></b>
Accounting – Custom Water	1,200.00	1,400.00	2,600.00
Engineers - Others	15,500.00		15,500.00
TCEQ Hearing	1,111.57	4,000.00	5,111.57
<b>Total</b>	<b>17,811.57</b>	<b>5,400.00</b>	<b>23,211.57</b>
Less: Amount allocated for other businesses as adjusted by the Applicant			<b><u>(20,612.00)</u></b>
Net Amount for Custom Water only			<b>2,599.57</b>

**Property & Other Taxes \$2,284.**

The utility requested \$2,284<sup>51</sup> for property and other taxes. Verification of the invoices and documentation provided by the Applicant revealed that the requested amount is valid. I agree with the requested amount. Therefore, I recommend \$2,284 for property and other taxes.

**Other Revenues**

On the Revenue Requirement found on page 13 of the rate application, Custom Water posted \$3,924<sup>52</sup> for other revenues. This account consists of connect fees, late charges, return check fees, tap fees, and other income. This amount is a reduction to the revenue requirement. Staff agrees with the utility and recommends \$3,924 due to “Other Revenues” be deducted from the revenue requirement.

<sup>51</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [N] col (3); *see also* WP-LG-1, bates p. 18.

**VI. FINAL RECOMMENDATION**

1

2 **Q. How much is the revenue requirement requested by Custom Water?**

3 A. Based on the rate change application, Custom Water requested a revenue requirement of  
4 \$276,198<sup>53</sup> less other revenues of \$3,924<sup>54</sup> or a net of \$272,274.<sup>55</sup>

5 **Q. How much is the total Staff adjustments made to Custom Water's requested**  
6 **revenue requirement?**

7 A. I made a total negative adjustment of \$94,356, which reduced the revenue requirement to  
8 \$177,918. (Please see Attachment LG-1 for more details).

9 **Q. What is your final recommended revenue requirement?**

10 A. Based on the testimonies of Ms. Sears regarding rate of return, Ms. Mathis regarding  
11 depreciation and rate design, and my combined adjustments to Custom Water's requested  
12 cost of service, I calculated a revenue requirement of \$181,842. This amount will be  
13 reduced by the Applicant's other revenues of \$3,924, or a net amount of \$177,918 for  
14 base rate revenue requirement ( $\$181,842 - \$3,924 = \$177,918$ ). **Attachment LG-1**  
15 **column (e)** provides a more detailed breakdown of Staff's revenue requirement  
16 calculation.

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

18 A. The values I calculated will be used by the Engineering Specialist, Ms. Mathis, for  
19 preparing Commission Staff's recommended rates.

20

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<sup>52</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [S] col (1); *see also* WP-LG-1, bates p. 18.

<sup>53</sup> Rate change application, p.13 of 40, Sec VI, A. Revenue Requirement, Line [R] col (3); *see also* WP-LG-1, bates p. 18.

<sup>54</sup> *Id.*, at Line [S], col 3.

1    **Q.    Does this conclude your pre-filed testimony?**

2    A.    Yes; however, I reserve the right to supplement this testimony during the course of the  
3           hearing and as new information or additional evidence is presented.

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<sup>55</sup> *Id.*, at Line [T], col 3.

# **Attachment LG-1A**

**LEILA C. GUERRERO**  
**Professional Experience**

**Regulatory Accountant/Auditor – September 1, 2014 to present – Water Utilities Division  
Public Utility Commission, Austin, Texas**

- Review retail water and sewer utility rate change applications, utility cost of service information, and process applications through final action dates to ensure rates are just and reasonable. Conduct special utility audits as directed;
- Participate in utility case Certificates of Convenience and Necessity (CCN) or rates settlement negotiations, prepare and provide testimony for evidentiary hearings, including discussing the outcome of audits prepared on utility books and records in relation to rate case proceedings for contested applications/cost of service appeals, CCNs, and Sale, Transfer, Mergers (STMs);
- Review, audit, analyze, and prepare comprehensive reports of complex business plans and/or financial, managerial, and technical capacity information for public water systems and retail public water or sewer utilities submitted for review;
- Provide assistance for retail public water or sewer utilities in developing business plans; financial, managerial, and technical information; and in following the strategies set forth in the plans;
- Prepare analyses and written testimony on financial, accounting, and cost-recovery issues in rate proceedings and other cases before the Commission;
- Present testimony, defend position under cross-examination, and work closely with attorneys and other professional staff in the pre-hearing and post-hearing stages of contested cases;
- Conduct investigations and audits related to compliance with Commission rules and the determination of reasonable levels of expenses and revenues;
- Participate in and lead rulemaking activities in coordination with other divisions and prepare documents for Commission action;
- Respond to inquiries from utilities, legislative representatives, other government agencies, and the general public regarding utility rate and cost-recovery issues;
- Participate in the development of staff and Commission policy on financial and related issues.

**Auditor – May 2006 to August 31, 2014 – Utilities Financial Review Team, Water Supply Division,  
Texas Commission on Environmental Quality (TCEQ), Austin, Texas**

**Assigned Cases - TCEQ and PUC:**

Number of Rates Review Completed	= 245
Number of Hearings, Negotiations, and Agenda Attended	= 175
Number of Administrative Rate Reviewed Applications	= 670
Number of CCN and STM Applications Completed	= 140
Number of Contested Rates, CCN and STM Applications	= 160

**Seasonal Tax Examiner – February 2008 –  
Internal Revenue Service (IRS), Austin, Texas**

**Lead / Accountant - Accounting Division - April 2005 – May 2006  
Texas Department of State Health Services (DSHS) - Austin, Texas**

**Tax Specialist – December 2003 – April 2005  
H & R Block - Austin, Texas**

**AFP Savings & Loan Assn., Inc. – September 1983 to April 2003 - Manila, Philippines  
positions held:**

- VP/Manager – Billing & Collection Division (December 2001 - April 2003)**
- VP/Branch Manager – Operations Department (March 1995 – December 2001)**
- AVP/Manager – Cash Management Division (March 1992 – March 1995)**
- Chief Accountant – Comptrollership Department (September 1983 – March 1992)**

**Accountant – February – September 1983  
Consumer Finance Corporation, Manila, Philippines**

**Staff Auditor — July 1982 – February 1983  
T. D. Ligutan & Co., CPA's, Manila, Philippines**

**Education:**

- NARUC Utility Rate School, San Diego California, May 2008
- Master of Business Administration (MBA) 1995  
University of Santo Tomas, Manila, Philippines
- Bachelor of Science in Business Administration (BSBA) 1981  
Major in Accounting (Graduated Cum Laude)  
Ortanez University, Manila, Philippines

**Certification:**

Certified Public Accountant - Philippines, 1982

**Professional Organizations / Affiliations:**

- Philippine Institute of Certified Public Accountants (PICPA)
- The Institute of Internal Auditors (IIA), U.S.A.
- ASEAN Federation of Accountants (AFA)

**Attachment LG-1A**



# **Attachment LG-1B**

**LEILA C. GUERRERO  
PUBLIC UTILITY COMMISSION OF TEXAS (PUC)  
LIST OF PREVIOUS TESTIMONIES**

**Testimonies filed with TCEQ and PUC**

**SOAH Docket No. 582-09-2069; TCEQ Docket No. 2008-1811-UCR**

Application of Southern Water Corporation for Water and Sewer Rate/Tariff Change  
Appeal of Southern Water Corporation from the Ratemaking Action of the City of Houston  
Testimony on Cost of Service and Revenue Requirement filed November 6, 2009

**SOAH Docket No. 582-09-3549; TCEQ Docket No. 2009-0372-UCR**

Application of Wiedenfeld Water Works, Inc. for Water Rate/Tariff Change  
Testimony on Cost of Service and Revenue Requirement filed April 2, 2010

**SOAH Docket No. 582-10-3419; TCEQ Docket No. 2010-0292-UCR**

Application of Woodland Hills Water Company for Water Rate/Tariff Change  
Testimony on Cost of Service and Revenue Requirement filed September 17, 2010

**SOAH Docket No. 582-13-2405; TCEQ Docket No. 2012-2707-UCR**

Application of Wiedenfeld Water Works, Inc. for Water Rate/Tariff Change  
Testimony on Cost of Service and Revenue Requirement filed on January 21, 2014

**SOAH Docket No. 473-15-0371; PUC Docket No. 42924**

Application of Crystal Springs Water Co., Inc. to Amend Water CCN  
Testimony on Financial and Managerial Analysis filed February 25, 2015

**SOAH Docket No. 473-14-5139.WS; PUC Docket No. 42862**

**SOAH Docket No. 473-15-1710.WS; PUC Docket No. 43720**

Appeal from Outside City Customers of the Town of Woodloch for Water and Sewer Rates  
Appeal from Outside City Customers of the Town of Woodloch for Rate-Case Expense  
Surcharge  
Testimony on Rate-Case Expense filed May 5, 2015

**SOAH Docket No. 473-145-143.WS; PUC Docket No. 42861**

Application for Sale, Transfer or Merger of the City of Georgetown and  
Chisholm Trail Special Utility District  
Testimony on Financial and Managerial Analysis filed June 5, 2015

**SOAH Docket No. 473-15-4944; PUC Docket No. 44236**

Application of Custom Water Company, LLC for Water Rate/Tariff Change  
Testimony on Cost of Service and Revenue Requirement filed October 23, 2015

**Attachment LG-1B**

# **Attachment LG-1**

## PUBLIC UTILITY COMMISSION OF TEXAS

Utility Name:

Custom Water Company, LLC

Docket Number:

44,236

Preliminary - Subject To Change

version: 20070403

7:53 PM

20-Oct-15

ATTACHMENT LG-1SCHEDULE I - REVENUE REQUIREMENT

	TEST PERIOD PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
Operations and Maintenance	\$396,935	-\$181,532	\$215,403	-\$86,455	\$128,948
Depreciation and Amortization	\$23,730	\$0	\$23,730	\$0	\$23,730
Other Taxes	\$15,617	-\$2,065	\$13,552	-\$7,537	\$6,015
Federal Income Taxes		\$882	\$882	\$281	\$1,163
Return	\$0	\$22,631	\$22,631	-\$646	\$21,985
Revenue Requirement	\$436,282	-\$160,084	\$276,198	-\$94,356	\$181,842
Other Revenues - Taps, Recon, late fee, Etc.	-\$3,924		-\$3,924	\$0	-\$3,924
Base Rate Revenue	\$432,358	-\$160,084	\$272,274	-\$94,356	\$177,918
Base Rate Revenue Deficiency			\$0	-\$94,356	-\$94,356

# **Attachment LG-2**

**PUBLIC UTILITY COMMISSION OF TEXAS***Preliminary - Subject To Change*

Utility Name:

Custom Water Company, LLC

Docket Number:

44236

version: 20070403

Test Period:

From: 9/1/2013

To: 8/31/2014

7:53 PM

20-Oct-15

**SCHEDULE I(a) - OPERATIONS & MAINTENANCE****ATTACHMENT LG-2**

	TEST PERIOD PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
SALARIES	46,002	(3,494)	42,508	(1,556)	\$40,952
CONTRACT SERVICES	65,473	(41,156)	24,317		\$24,317
PURCHASED WATER		0	0		\$0
CHEMICALS AND TREATMENT	4,065	0	4,065		\$4,065
UTILITIES	11,981	0	11,981		\$11,981
REPAIRS AND MAINTENANCE	172,353	(146,331)	26,022		\$26,022
OFFICE EXPENSE	15,110	0	15,110	(7,610)	\$7,500
ACCOUNTING AND LEGAL	23,212	(20,612)	2,600		\$2,600
INSURANCE	4,576	0	4,576	(394)	\$4,182
RATE CASE EXPENSE		18,000	18,000	(18,000)	\$0
MISCELLANEOUS	54,163	12,061	66,224	(58,895)	\$7,329
<b>TOTAL</b>	<b>396,935</b>	<b>(181,532)</b>	<b>215,403</b>	<b>(86,455)</b>	<b>\$128,948</b>

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

	TEST YEAR PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
AD VALOREM TAXES			0		\$0
PAYROLL TAXES	13,333	(2,065)	11,268	(7,537)	\$3,731
OTHER TAXES-MISC	2,284		2,284		\$2,284
NON-REVENUE RELATED	15,617	(2,065)	13,552	(7,537)	\$6,015
TWC ASSESSMENT			0		\$0
REVENUE RELATED TAXES	0	0	0		\$0
<b>TOTAL OTHER TAXES</b>	<b>15,617</b>	<b>(2,065)</b>	<b>13,552</b>	<b>(7,537)</b>	<b>\$6,015</b>

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

REVENUE REQUIREMENT	\$181,842
LESS:	
OPERATIONS AND MAINTENANCE	-\$128,948
DEPRECIATION AND AMORTIZATION	-\$23,730
OTHER TAXES	-\$6,015
INTEREST EXPENSE	-\$15,395
TAXABLE INCOME	\$7,753
TAXES @ FACTOR :	\$0
SUB-TOTAL	\$1,163
LESS:	
SURTAX EXEMPTION :	\$0
FEDERAL INCOME TAXES	\$1,163

# **Attachment LG-3**

## PUBLIC UTILITY COMMISSION OF TEXAS

Preliminary - Subject To Change

Utility Name: Custom Water Company, LLC

Docket Number: 44,236

version: 20070403

7:53 PM  
20-Oct-15

RETURN 21,985  
 INTEREST 15,395 (TOTAL INVESTED CAPITAL \* WEIGHTED AVERAGE LT DEBT)  
 TAXABLE INCOME 6,590

## TAX CALCULATIONS FYE 07-01-87

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

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

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

INCOME RANGE	IF TAXABLE INCOME IS	THE TAX RATE IS	THE TAX INCLUDING THE SURTAX EXEMPTION IS	AND THE SURTAX EXEMPTION IS
0 - 42,500	6,590	15.00%	1,163	0
42,501 - 61,250	0	0.00%	0	0
61,251 - 77,750	0	0.00%	0	0
77,751 - 221,100	0	0.00%	0	0
221,100 -	0	0.00%	0	0
<b>Total</b>	<b>6,590</b>	<b>15.00%</b>	<b>1,163</b>	<b>0</b>



# **Attachment LG-4**

**Custom Water Company LLC**

**Applicant:**

**Application No.**

Application No. Docket No. 44236  
Test Year: 9/1/2013 to 8/31/2014

9/1/2013 to 8/31/2014

[illegible]

**LGuerrier**

# **Attachment LG-5**

Custom Water Company, LLC		<b>ATTACHMENT LG-5</b>	
Docket No. 44236			
Test Year: 9/1/2013 - 8/31/2014			
Analysis- Salaries & Wages, Payroll Taxes and Contract Labor			
	<b>Tax Year</b>	<b>Tax Year</b>	
	<b>2013</b>	<b>2014</b>	
<b>Salaries &amp; Wages per IRS Form -W3</b>	\$103,493.74	\$71,108.84	
Salaries for the Test Year	\$34,497.91	\$47,405.89	\$81,903.80
2013 = (103,493.74 / 12 x 4 mos. = 34,497.91)			
2014 = ( 71,108.84 / 12 x 8 mos. = 47,405.89)			
*Salaries TY x 1/2			
2013 = 34,497.91 x 1/2 = 17,248.96	\$17,248.96		
2014 = 47,405.89 x 1/2 = 23,702.95		\$23,702.95	
<b>Total Salaries &amp; Wages for Custom Water</b>			<b>\$40,951.91</b>
<b>Payroll Tax Calculation:</b>			
SS & Medicare - 40,952 x 7.65%	\$3,133.00		
**FUTA (7,000 x 2) = 14,000 x 0.80%	\$112.00		
***SUTA (9,000 x 2) = 18,000 x 2.70%	\$486.00		
<b>Total Adjusted Payroll Taxes- Custom Water</b>	<b>\$3,731.00</b>		
<b>Contract Labor</b>			
Eddie Fenoglio	\$5,750.00	\$12,425.00	\$18,175.00
Santiago Contreras (12,285 / 2)		\$6,142.50	\$6,142.50
<b>Total Contract Labor for Custom Water</b>			<b>\$24,317.50</b>
Note: W2s and 1099s were requested per Custom Water's response to RFI - Staff 1-9 but were not provided by the Applicant (refer to response to RFI Staff 1-9)			
* Custom Water's share for two employees salaries is only one-half (1/2)			
**Federal Unemployment Tax Act (FUTA)			
***State Unemployment Tax Act (SUTA)			

# **Attachment LG-6**

<b>Custom Water Company, LLC</b>			
<b>Docket No. 44236</b>		<b>ATTACHMENT LG-6</b>	
<b>Test Year: 9/1/2013 - 8/31/2014</b>			
<b>Analysis and Breakdown - Office Expenses</b>			
<b><u>Office Expenses</u></b>			
	<b><u>Test Year</u></b>	<b><u>Test Year</u></b>	<b><u>Total</u></b>
	<b><u>9/1/2013 - 12/31/2013</u></b>	<b><u>1/1/2014-8/31/2014</u></b>	
Bank NSF fees	0.00	60.00	60.00
Computer Software (1/3) other	486.75	1,086.23	1,572.98
Dumpster (1/3)	647.77	2,052.45	2,700.22
Fuel Custom (1/2)	2,826.57	7,408.21	10,234.78
Lawn maintenance (1/3)	85.00	600.00	685.00
Office Supplies (1/3)	710.09	1,727.60	2,437.69
Postage	507.04	948.94	1,455.98
Propane (1/3)	363.00	647.25	1,010.25
Repairs/Maint (1/3)	140.72	1,135.81	1,276.53
Safety Deposit Box	0.00	65.00	65.00
Shop 108 Alamo Rd	115.70	368.19	483.89
Shop106 Alamo Rd	428.74	1,200.91	1,629.65
Subscription Time Record News	29.97	139.88	169.85
	<b><u>6,341.35</u></b>	<b><u>17,440.47</u></b>	<b><u>23,781.82</u></b>
Telephone:			
Cell Phone (1/3) (Verizon)	473.95	1,878.18	2,352.13
Land Lines (1/3) (Windstream)	2,417.76	4,163.42	6,581.18
<b>total telephone</b>	<b><u>2,891.71</u></b>	<b><u>6,041.60</u></b>	<b><u>8,933.31</u></b>
Filing Fees ( count clerk)		110.00	
Uniform Expense			
Cleaning (Legacy Cleaners)	118.78	183.5	302.28
Custom Water (Aramak Uniform)	440.79	271.89	712.68
<b>total uniform</b>	<b><u>559.57</u></b>	<b><u>455.39</u></b>	<b><u>1,014.96</u></b>
Vet Expense (Security 1/3) "Cactus Clinic"	201.1	437.94	639.04
<b>Total Office Expenses - Test Year per GL</b>	<b><u>9,993.73</u></b>	<b><u>24,485.40</u></b>	<b><u>34,479.13</u></b>