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**SOAH DOCKET NO. 473-16-1848.WS
PUC DOCKET NO. 44809**

**APPLICATION OF QUADVEST, LP
FOR A RATE/TARIFF CHANGE**

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**BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS**

**REDACTED
DIRECT TESTIMONY
OF
CHRIS EKRUT**

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**ON BEHALF OF THE
OFFICE OF PUBLIC UTILITY COUNSEL**

APRIL 6, 2016

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**SOAH DOCKET NO. 473-16-1848.WS
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REDACTED DIRECT TESTIMONY OF CHRIS EKRUT

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1 **I. INTRODUCTION AND QUALIFICATIONS**

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

3 A. My name is Chris Ekrut. I am a Director with NewGen Strategies & Solutions, LLC.
4 (NewGen). My business address is 1300 E. Lookout Dr., Ste. 100, Richardson, Texas
5 75082.

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

8 A. My educational and professional background are outlined in my professional resume,
9 herein included as Attachment CDE-1.

10 **Q. GENERALLY, WHAT DOES YOUR WORK WITH NEWGEN ENTAIL?**

11 A. I provide a broad range of consulting services, including, but not limited to:

- 12 • Cost of service and rate design studies
- 13 • Litigation support
- 14 • System valuations
- 15 • Operational and organization studies
- 16 • Socioeconomic impact analysis
- 17 • Business Plan development
- 18 • Program / Project Management

19 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**
20 **PROCEEDING?**

21 A. I am presenting testimony on behalf of the Office of Public Utility Counsel (OPUC).

22 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITY**
23 **COMMISSION ON COST OF SERVICE AND/OR RATE MATTERS?**

1 A. No, I have not previously testified before the Public Utility Commission (PUC).
2 However, I have filed written direct testimony regarding the development of rates before
3 the Texas Commission on Environmental Quality (TCEQ) in Docket No. 2009-0505-
4 UCR. Additionally, Attachment CDE-1 contains a listing of the prior contested cases in
5 which I participated but did not submit testimony.

6 **II. PURPOSE AND SCOPE**

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

8 A. My purpose in this proceeding is to provide my recommendations with respect to the
9 reasonableness of Quadvest L.P.'s (Quadvest or the Company) requested increase in
10 water rates and proposed water rate design.

11 **Q. CAN YOU PLEASE SUMMARIZE THE RECOMMENDATIONS YOU WILL**
12 **DISCUSS WITHIN YOUR TESTIMONY?**

13 A. Within my testimony, I will be addressing the following recommendations:

- 14 • The Company's request for a Phase II increase of \$368,928 specific to the installation
15 of automated meter reading infrastructure be disallowed;
- 16 • The Company's requested level of investor supplied capital be reduced in the amount
17 of \$219,000 to reflect customer deposits at the end of the test year;
- 18 • The Company's requested level of investor supplied capital be further reduced in the
19 amount of \$248,222 to reflect the Company's accumulated deferred federal income
20 tax balances as of the end of the test year;

- The Company's requested level of operations and maintenance expenses be reduced in the amount of \$39,793 to remove rate case expenses; and,
- The Company's proposed rate design should be modified consistent with my testimony.

Q. PLEASE SUMMARIZE THE OVERALL IMPACT OF THE ADJUSTMENTS TO THE COMPANY'S REVENUE REQUIREMENT RESULTING FROM YOUR RECOMMENDATIONS?

A. The Company has requested a total revenue requirement of \$7,044,989. As illustrated in Schedule CDE-1, my recommendations result in a reduction of \$464,458 from the Company's requested revenue requirement. This is a reduction of approximately 6.59% from the requested test year amount.

III. AUTOMATED METER READING REQUEST

Q. PLEASE SUMMARIZE YOUR UNDERSTANDING OF QUADVEST'S REQUEST TO INCLUDE AUTOMATED METER READING INVESTMENT?

A. As a part of this application, Quadvest is requesting over \$2 million to complete the deployment of automated meter readers (AMR) within its various systems. As stated in the Direct Testimony of Company Witness Charles Loy, Quadvest "is proposing as part of this filing to include these capital costs as a known and measureable adjustment to test year costs; however, it is proposing to defer the effective date of the portion of the rate increase related to AMR until all meters are placed into service."¹ At the time of filing,

¹ Direct Testimony of Charles E. Loy, CPA, Page 6 (Bates Page 8), Lines 1 through 7.

1 these advanced meters have already been deployed at a number of systems, including
2 Bauer Landing, Bella Vista, Magnolia Lakes, and Waterstone.² Thus, Quadvest's request
3 relates only to those AMR's that have not yet been installed.

4 **Q. HOW MUCH OF QUADVEST'S REQUESTED REVENUE REQUIREMENT**
5 **INCREASE IS COMPRISED OF THE INCLUSION OF AMR?**

6 A. As illustrated in the application at Bates Page 22, Point (c), the inclusion of the AMR is
7 attributable to approximately \$368,928, or 36.82%, of the requested increase in annual
8 revenue, inclusive of impacts to the requested return, income taxes, and operating
9 expenses.

10 **Q. DO YOU AGREE WITH THE INCLUSION OF THE AMR SYSTEM IN THE**
11 **COMPANY'S REQUEST?**

12 A. No, I do not.

13 **Q. PLEASE EXPLAIN.**

14 A. Section 13.183 of the Texas Water Code (TWC) requires that invested capital be "used
15 and useful in rendering service to the public." Additionally, the PUC Substantive Rules
16 in effect at the time the application was filed require, at 16 TAC §24.31(b), that rates be
17 based on a historical test year "that ended less than 12 months" before the effective date
18 of the rates. These same rules, at 16 TAC §24.31(c)(2)(A), echo the provision of TWC
19 §13.183 that plant investment can only be included in rate base to the extent such
20 investment was "used and useful to the utility in providing service." The Company

² See WP/5.2, which states that "# of meters excludes [sic] Bauer Landing, Bella Vista, Magnolia Lakes & Waterstone as already have AMR as of the end of test year."

1 concedes that the requested AMR investment is not used and useful. Mr. Loy testifies
2 that the “AMR was not used and useful at the time of the filing of this case.”³ As such,
3 the requested AMR system should not be included within rate base. The Company’s
4 commitment to defer this portion of the increase until such time as the plant is used and
5 useful is simply not consistent with ratemaking principles that require rates to be based
6 upon an historical test year for plant that is used and useful in serving the public.

7 **Q. HAS THE COMPANY IDENTIFIED ANY OTHER LAW OR RULE THAT**
8 **ALLOWS A WATER UTILITY TO COLLECT OR SECURE THE COST OF**
9 **AMR INVESTMENT BEFORE SUCH INVESTMENT IS USED AND USEFUL?**

10 A. No. Chapter 13 of the Texas Water Code does not address or allow for the collection of
11 revenues for the installation of advanced water meters, much less prior to their
12 installation. This contrasts with the treatment of advanced meters for electric utilities, for
13 which a specific law (See PURA §39.107(h) and 16 TAC §25.130) authorizes the
14 collection of a surcharge for advanced meters. To my knowledge, no such allowance
15 exists in the Water Code or in Chapter 24 of the Commission’s rules.

16 I would note that TWC §13.183(b) does allow the Commission to authorize the
17 collection of additional revenues for customers specific to capital improvements
18 “necessary to provide facilities capable of providing adequate and continuous utility
19 service.” In the event such treatment is authorized, these revenues are to be considered
20 “contributed capital or contributions in aid of construction and may not be included in
21 invested capital, and depreciation expense is not allowed.” In this case, the Company has

³ Direct Testimony of Charles E. Loy, CPA, Page 10 (Bates Page 12), Lines 11 through 17.

not requested the granting of such additional revenues under this provision, nor has the Company proven that the AMR investment is essential to the provision of continuous and adequate service to its customers. Finally, had the Company made this request, and were it granted, the funds would be considered contributed capital and the Company's adjustment to annual depreciation, return, and taxes would not be allowed.

Q. ARE THERE ANY EXCEPTIONS TO THE USED AND USEFUL REQUIREMENT THAT WOULD ALLOW A UTILITY TO INCLUDE PLANT INVESTMENT IN RATE BASE THAT IS NOT IN SERVICE?

A. No. The Commission's rules, as they existed at the time the application was filed, include no exception to allow into rate base plant that is not used and useful, unless such plant was considered construction work in progress (CWIP). However, the rules further recognized that inclusion of CWIP, to the extent it is permitted, constituted an "exceptional circumstance," and the burden of proof for inclusion of such plant items was substantial. Because the rules in effect at the time the application was filed do not permit a post-test year adjustment, and because the Company has not requested CWIP, (nor submitted evidence supporting such a request), the Company is not entitled to set rates for future AMR costs.

The Company may argue that the Commission's new rules applicable to water providers, as amended on September 13, 2015, do contain an exception for post-test year adjustments. However, those rules are not applicable to this case, and even if the Commission were to consider the Company's request under the new rules, Quadvest is not entitled to recovery.

1 Section 24.31(c)(5) of the rules, as amended, allows for a post-test year
2 adjustment to historical test year data for known and measureable rate base additions.
3 Specifically, the rule states that the additions may only be considered if:

4 (i) the addition represents plant which would appropriately be recorded for
5 investor-owned water or wastewater utilities in NARUC account 101 or
6 102;

7 (ii) the addition comprises at least 10% of the water or wastewater utility's
8 requested rate base, exclusive of post-test year adjustments and CWIP:

9 (iii) the addition is in service before the rate year begins; and,

10 (iv) the attendant impacts on all aspects of a utility's operations (including but
11 not limited to, revenue, expenses, and invested capital) can with
12 reasonable certainty be identified, quantified and matched. Attendant
13 impacts are those that reasonably result as a consequence of the post-test
14 year adjustment being proposed.

15 **Q. DOES THE COMPANY'S REQUEST MEET EACH OF THE TESTS OUTLINED**
16 **ABOVE?**

17 A. No. I would note that each of the above requirements must be met, and failure to
18 establish any one of the requirements results in disallowance of the post-test year
19 adjustment. In this instance, the Company fails to meet all of the requirements of the
20 newly adopted rule.

1 With reference to Item (i), NARUC Account 101 includes “the original cost of
2 utility plant . . . *owned and used* by the utility in its utility operations.”⁴ While the meter
3 investment as a post-test year adjustment could be booked into Account 101 as plant if it
4 were purchased and in service subsequent to the test year and before the rate year, the
5 Company’s proposed AMR investment does not meet the “owned and used by the utility”
6 criterion. In the case of the AMR request, the full amount of the plant investment has not
7 been made and the system cannot said to be “owned” by the utility, nor is it all currently
8 used by the utility in current operation, as testified to by Mr. Loy. As such, the
9 Company’s request, to the extent the AMR meters have not been purchased and installed,
10 cannot be included in Account 101. Only AMR meters that have been purchased and are
11 currently in service, subsequent to the Test Year, would meet the test in Item (i).

12 With respect to Item (ii), the Company’s requested level of rate base, or investor
13 supplied capital as noted in 16 TAC §24.31(c)(2), was \$14,194,706. When the AMR
14 investment of \$2,070,410 is excluded as a post-test year adjustment, rate base is reduced
15 to \$12,124,296. When the AMR Investment is then considered as a percentage of this
16 figure, the result is approximately 17%. As such, the Company’s request appears to meet
17 the 10% threshold outlined in Item (ii).

18 Item (iii) requires that the plant be in service before the beginning of the rate year,
19 that is, the effective date of the rate increase. Quadvest’s requested increase was

⁴ National Association of Regulatory Commissioners, Uniform System of Accounts for Class A Water Utilities, 1996 (emphasis added). (NARUC’s classification of water systems is based on level of revenue as opposed to connection count. Quadvest’s level of revenue classifies it as a Class A utility in the application of the standard Chart of Accounts).

1 effective on August 8, 2015. As such, the rate year began on August 8, 2015 and the
2 AMR investment would have to have been in service before that date for it to qualify as a
3 post-test year adjustment under the new rule. However, the Company's requested level
4 of AMR investment was not in service prior to the August 8th effective date and the
5 commencement of the rate year. As such, the Company's request does not meet the test
6 outlined in Item (iii).

7 Finally, with regards to Item (iv), the revised rules require that *all* attendant
8 impacts have to be identified, quantified, and matched. The Company has failed to
9 consider, for example, the retirement and salvage value of existing meters and changes in
10 customer service operations and maintenance expenses.

11 **Q. DO YOU HAVE SOME EXAMPLES OF COSTS THAT THE COMPANY HAS**
12 **NOT IDENTIFIED, QUANTIFIED OR MATCHED?**

13 A. Yes. There are some obvious examples of attendant impacts that the Company has failed
14 to identify, quantify, and match. For example, the Company admits that an adjustment to
15 net plant of approximately \$110,000 would be needed to reflect the retirement of current
16 meters after the transition to AMR.⁵ In addition, Quadvest indicates that a further
17 adjustment would also be needed to reflect salvage value on existing meters.⁶ There
18 would presumably be other impacts such as changes in customer service expense, labor
19 expense, and changes to operational costs associated with meter maintenance. Therefore,

⁵ Quadvest Response to OPUC RFI 4-10(a).

⁶ Quadvest Response to OPUC RFI 4-10(b).

1 as demonstrated by these examples, the Company has failed to comply with the
2 Commission's directive to identify, quantify, and match all attendant impacts.

3 Further, the Company states that "The AMR project will result in a cost to the
4 customer but we believe this cost in the long term will allow us to provide better
5 customer service, promote water conservation, and potentially realize some operational
6 efficiency."⁷ But these benefits identified by the Company, apart from being highly
7 speculative, are not quantified or matched.

8 Quadvest has only recognized that there will be a reduction in third-party meter
9 reading expense associated with the installation of the AMR system. This is a reduction
10 in operations and maintenance expense of \$82,149 coupled with a proposed increase in
11 annual cost of \$451,076.⁸ Apart from the single decrease to operations and maintenance
12 expense, and the associated increases to the requested return and depreciation expense,
13 the Company has clearly failed to recognize the additional attendant impacts associated
14 with a conversion to AMR technology.

15 Given the Company's inability to meet all of the criteria of the new post-test year
16 adjustment rule, the requested AMR investment not only fails the used and useful
17 requirement under the TWC and PUC substantive rules, it also fails to meet the
18 requirements of post-test year adjustment were it to be considered under the
19 Commission's revised rules.

⁷ Quadvest Response to Staff RFI 1-43(i).

⁸ Bates Page 22, Point (c).

1 **Q. DO YOU AGREE WITH QUADVEST’S CHARACTERIZATION THAT THE**
2 **AMR IS A KNOWN AND MEASUREABLE CHANGE?**

3 A. No, I do not.

4 **Q. PLEASE EXPLAIN.**

5 A. First, known and measureable changes generally are applied to expense items, not rate
6 base. PUC Substantive Rule §23.31(b) states with regards to allowable *expenses*, “only
7 the utility’s historical test year expenses as adjusted for known and measureable changes
8 may be considered.” Adjustments to rate base are better characterized as post-test year
9 adjustments for which there was no provision under the rules of the Commission at the
10 time the application was filed. In the case of the Company’s requested increase to annual
11 depreciation expense, which could be considered a known and measureable change, this
12 adjustment is requested based on plant that is not used and useful. Given that the AMR
13 system fails to meet this most basic requirement, there is not an allowable known and
14 measureable change to depreciation expense specific to annual depreciation. Whether the
15 adjustments are made to expense or rate base, the adjustments requested by the Company
16 simply do not meet the known and measureable standard.

17 **Q. WHAT IS CONTEMPLATED BY THE KNOWN AND MEASURABLE**
18 **STANDARD?**

19 A. As recognized in the treatise “Accounting for Public Utilities,” known and measurable
20 changes are certainly recognizable, “but only when they are known with *an absolute*

1 *finality* and measurable by some explicit test year activity.”⁹ The Company’s own
2 witness, Mr. Loy, also testifies that known and measurable changes must be “reasonably
3 certain and not speculative.”¹⁰ Finally, the Commission’s own rules, as revised, provide
4 an additional standard for what constitutes a known and measureable change. Section
5 24.3(33) states that for a change to be known and measureable it must be “verifiable on
6 the record as to amount and certainty of effectuation. Reasonably certain to occur within
7 12 months of the end of the test year.”¹¹ Though not in effect at the time this application
8 was filed, this definition is instructive as to the level of certainty contemplated by the
9 phrase.

10 **Q. WHY DOES THE COMPANY’S REQUEST FOR AMR NOT MEET THE**
11 **KNOWN AND MEASURABLE STANDARD?**

12 A. From the information contained within the application and subsequent discovery
13 responses, it is clear that the Company’s request for AMR does not meet the level of
14 certainty required to be considered a known and measureable change. The Company
15 admits that its request was based on “management’s best estimate at the time.”¹² For
16 example, while the Company did not provide any documentation as part of its direct case,
17 it has provided through discovery an *estimation* of the costs derived from its agreement
18 with HydroPro Solutions LLC. However, this agreement was executed several months

⁹ Robert L Hahne and Gregory E. Aliff, “Accounting for Public Utilities”, §7.05 Pro Forma Adjustments to the Test Year Data, Page 7-10; Rel. 2-10/85 Pub. 016 (emphasis added).

¹⁰ Direct Testimony of Charles E. Loy, CPA, Page 15 (Bates Page 17), Lines 10 through 13.

¹¹ 16 TAC § 24.3(33).

¹² Quadvest Response to OPUC RFI 3-1.

1 after the filing of the Company's rate case.¹³ Furthermore, this agreement is not an
2 [REDACTED] either within or
3 subsequent to the test year and contains conditions that the Company has not, and cannot,
4 meet.

5 **Q. PLEASE EXPLAIN WHY THE TERMS OF THE AGREEMENT DO NOT MEET**
6 **THE KNOWN AND MEASURABLE STANDARD.**

7 A. The price for purchase and installation, the timing of installation, and the very nature of
8 the agreement itself is tentative and subject to change and, therefore, is not "reasonably
9 certain." First, Quadvest indicates that, based on Task Orders signed with HydroPro
10 Solutions, LLC, [REDACTED]

11 [REDACTED]¹⁴ Second, [REDACTED]

12 [REDACTED]
13 [REDACTED]¹⁵ This current proceeding will not be fully resolved prior to this date,
14 therefore, the Company's "best estimate" will again be subject to potential change.
15 Finally, the aforementioned agreement states that [REDACTED]

16 [REDACTED]¹⁶ However, Quadvest did not
17 begin installation [REDACTED] because its investment is specifically contingent
18 on Commission approval in this case. These issues cast further doubt on the reliability of

¹³ Quadvest Confidential Response to OPUC RFI 3-1(b).

¹⁴ Quadvest Confidential Response to OPUC RFI 3-1(a).

¹⁵ Quadvest Confidential Response to OPUC RFI 3-1(b).

¹⁶ Ibid.

1 the pricing provided. Given the above, the cost of the investment is clearly not a known
2 condition at this time.

3 **Q. ARE THERE ADDITIONAL REASONS WHY THE COMPANY'S REQUEST**
4 **FOR AMR IS NOT KNOWN AND MEASURABLE?**

5 A. Yes. The Company has made it clear that it will not proceed with the project without
6 prior Commission approval. Quadvest witness Mr. Eastman states that the completion of
7 the AMR project "is dependent upon the finalization of this rate case . . ." ¹⁷ Mr. Eastman
8 further states that if the Company's request for inclusion of the AMR through the
9 approval of the Phase II increase is not approved, "then Quadvest would have to
10 reevaluate the timely and overall scope of the AMR project (most likely delaying and
11 reducing the overall scope of AMR project)." ¹⁸ Finally, Mr. Eastman indicates that the
12 third phase of the Company's AMR migration strategy is dependent "upon obtaining
13 assurance that we can immediately start to recover investment." ¹⁹ Mr. Eastman's
14 responses make it clear that the only way the AMR project will move forward at the
15 requested level of plant investment included in the application will be if the Commission
16 approves the Company's request.

17 **Q. IS THE NEED FOR PRIOR COMMISSION APPROVAL REFLECTED IN**
18 **QUADVEST'S AGREEMENT WITH HYDROPRO SOLUTIONS?**

¹⁷ Quadvest Response to Staff RFI 1-43.

¹⁸ Quadvest Response to OPUC RFI 2-13.

¹⁹ Quadvest Response to OPUC 4-13(a).

1 A. [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]

5 [REDACTED]²⁰ This provision, along with the Company's own admission that the
6 investment may not happen as anticipated, further demonstrates that the AMR investment
7 is not a known change. Under Mr. Loy's own standard, a known and measureable
8 change cannot be speculative. The testimony by the Company indicates that the
9 investment in AMR is, at best, speculative and dependent on the final action of the
10 Commission in this proceeding.²¹

11 **Q. YOU STATED EARLIER THAT THE COMPANY HAS PREVIOUSLY**
12 **DEPLOYED SOME AUTOMATED METERS. CAN YOU PLEASE DESCRIBE**
13 **THE LEVEL OF INVESTMENT THE COMPANY HAS MADE SO FAR?**

14 A. The Company's documented activity within the test year and subsequent to the test year
15 with regards to AMR investment appears to be minimal. According to the Company's
16 application, the Bauer Landing (237 meters), Bella Vista (256 meters), Magnolia Lakes
17 (292 meters), & Waterstone Systems (75 meters) already have AMR installed as of the
18 end of the test year. This results in an estimated 860 AMR meters already installed in
19 Quadvest systems. Comparing this figure to the estimated 10,152 meters within the
20 meter listing provided in response to OPUC RFI 2-9, this results in the Company needing

²⁰ Quadvest Confidential Response to OPUC RFI 3-1(b).

²¹ Direct Testimony of Charles E. Loy, CPA, Page 15 (Bates Page 17), Lines 10 through 13.

1 to replace 9,292 meters, or over 91% of the Company's meters, prior to implementing
2 Phase II of the requested increase.

3 **Q. WHAT IS YOUR CONCLUSION REGARDING THE COMPANY'S REQUEST**
4 **FOR AMR?**

5 A. Given the minimal investment in AMR infrastructure that has occurred to-date, the
6 changing and uncertain nature of the estimate of the costs associated with the AMR
7 investment, the lack of supportive documentation provided in the application, and the
8 Company's response that the requested investment will only occur with full Commission
9 approval of the Company's request, the requested AMR investment does not constitute a
10 truly known and measurable condition. The amount of the investment is not verifiable
11 with currently available documentation and the Company has admitted that the requested
12 level of investment is a "best estimate"²² [REDACTED]

13 [REDACTED] Finally, the certainty of the investment within
14 12 months of the end of the test year is clearly not known. The AMR investment clearly
15 does not meet the accepted standard of a known and measureable change.

16 In summary, the Company's requested AMR investment fails to meet the test of
17 used and useful plant investment during the test year; fails to qualify for a post-test year
18 adjustment, if one could be considered under the law governing this application, as the
19 Company has, among other things, failed to identify, quantify, and match all attendant
20 impacts associated with the AMR investment; and it cannot reasonably be characterized
21 as a known and measureable change due to the uncertainties associated with the

²² Quadvest Response to OPUC RFI 3-1.

1 investment. Given the above, it is clear that the Company has failed to meet its burden of
2 proof on this issue and the inclusion of the AMR system within the Company's revenue
3 requirement, and implemented through a Phase II rate, should be disallowed.

4 **Q. DO YOU BELIEVE THAT THE AMR PROJECT WOULD NEVERTHELESS BE**
5 **IN THE PUBLIC INTEREST?**

6 A. No. The Company has not shown that the economic benefits of the AMR investment to
7 customers outweigh, or are at least equal to, the costs. The Company's proposal as
8 contained in the application is to increase costs to ratepayers by a net amount of \$368,928
9 annually. Assuming that there are no additional benefits of the proposed system, the
10 level of benefit to customers compared with the additional annual cost calls into question
11 the overall prudence of the AMR investment. While Mr. Eastman states the AMR
12 investment will lead to a "better customer service experience,"²³ and Mr. Loy states that
13 the AMR investment will be beneficial to Quadvest's customers,²⁴ neither witness
14 provides any further discussion or quantification of these benefits and how said benefits
15 justify a monthly, per customer increase in rates of roughly \$3.49 (\$368,928 / 8,811
16 connections / 12 months) or approximately \$2.56 per meter equivalent (\$368,928 /
17 143,856 test year meter equivalents). Further, Mr. Eastman admits that, beyond the
18 reduced cost for third party meter reading, there "is no additional quantifiable cost
19 reduction provided by AMR meters."²⁵ While Mr. Eastman does state that the

²³ Direct Testimony of Jeffrey Eastman, Page 8 (Bates Page 10), Line 13.

²⁴ Direct Testimony of Charles E. Loy, CPA, Page 6 (Bates Page 8), Line 14.

²⁵ Quadvest Response to OPUC RFI 4-12.

investment “should allow Quadvest to slow the need for additional headcount,”²⁶ this level of cost avoidance is not certain and no attempt is made by the Company to quantify this impact. Without demonstration of further benefit, I cannot see how the AMR investment proposed by the Company could be considered to be in the best interest of the Company’s ratepayers.

Moreover, the Company states that it will depreciate the AMRs over a 10 year period²⁷, which indicates a 10 year useful life. In contrast, the Company's current meters mostly carry a 20-year service life.²⁸ Presumably, this 10-year service life is based on [REDACTED]
[REDACTED]²⁹ It is not cost effective for the Company to install AMRs at a substantial increase in costs to customers, especially when these meters carry a lesser service life than the Company's existing investment.

The differential in service lives notwithstanding, at a simplistic level and ignoring the impact of inflation, the Company is proposing over a 10-year period to save approximately \$821,000 ($\$82,149 \times 10$ years) in third-party meter reading expense while charging customers over \$2 million in depreciation expense, not to mention additional charges for return on investment and income taxes. Spending \$2 million to save \$821,000 over 10 years does not make economic sense. The system will never pay for itself regardless of the assumed service life as the increase in costs associated with the

26 Ibid.

²⁷ Quadvest Response to Staff RFI 1-43(i).

²⁸ Response to OPUC 4-10(c).

³⁰ Robert L Hahne and Gregory E. Aliff, "Accounting for Public Utilities", §4.04[11][e] Customer Deposits, Page 4-44; Rel. 2-10/85 Pub. 016.

1 system are so much greater than the offsetting reductions. Customers are better off
2 paying for third-party meter reading as it recognizes the best economic option. Clearly,
3 the requested AMR investment is not in the best interest of ratepayers and should be
4 disallowed by the Commission.

5 **IV. OTHER RECOMMENDED ADJUSTMENTS TO INVESTOR SUPPLIED**
6 **CAPITAL**

7 **Q. DO YOU HAVE OTHER RECOMMENDED ADJUSTMENTS TO THE**
8 **COMPANY'S REQUEST?**

9 A. Yes. I recommend that the Company's rate base be reduced to remove customer
10 deposits. PUC Substantive rules at 16 TAC §24.31(c)(3)(v) require that "other sources of
11 cost-free capital" be excluded from rate base. One such example of cost free capital is
12 customer deposits. As noted in "Accounting for Public Utilities," customer deposits are
13 "similar in nature to customer advances for construction . . . Like customer advances, the
14 deposits are available to the utility for use in support of its rate base investment."³⁰

15 According to its tariff contained within the application, Quadvest requires
16 customers who "cannot establish credit to the satisfaction of the utility"³¹ to pay a
17 deposit. The tariff also requires refund of the deposit "plus interest for any customer who
18 has paid 18 consecutive billings without being delinquent."³²

³⁰ Robert L Hahne and Gregory E. Aliff, "Accounting for Public Utilities", §4.04[11][e] Customer Deposits, Page 4-44; Rel. 2-10/85 Pub. 016.

³¹ Water Utility Tariff for Quadvest, L.P., Tariff Page 2 (Bates Pages 96), Section 2.04.

³² Ibid, Tariff Page 2a (Bates Page 97).

1 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING SPECIFIC TO
2 CUSTOMER DEPOSITS?

3 A. I recommend that a reduction in the amount of \$219,000 be made to the Company's
4 requested rate base, with a corresponding increase of \$197 made to the utility's overall
5 revenue requirement reflective of interest expense within the test year related to deposits.

6 Q. PLEASE EXPLAIN YOUR RECOMMENDATION.

7 Given that the utility pays interest on customer deposits, two alternative methods can be
8 utilized to properly reflect customer deposits. As noted in Accounting for Public
9 Utilities, "The liability may be deducted from the rate base with the associated interest
10 included as a component of the cost of service, or the liability may be included in the
11 capital structure for purposes of calculating the allowed rate of return."³³

12 In reviewing the application at Page 11, Table IV.D (Bates Page 63) it does not
13 appear that the Company has included customer deposits within the capital structure. As
14 such, I recommend utilizing the first method referenced above – that is, removing the
15 customer deposits from rate base while including the associated interest within the cost of
16 service.

17 According to the Company's response to OPUC Request for Information 2-12, as
18 of test year end, the Company had approximately \$219,000 in outstanding customer
19 deposits. According to the Commission's listing of historical interest rates for 2014, the

³³ Robert L Hahne and Gregory E. Aliff, "Accounting for Public Utilities", §4.04[11][e] Customer Deposits, Page 4-44; Rel. 2-10/85 Pub. 016.

1 applicable interest rates for customer deposits during the test year was 0.09%.³⁴ I would
2 note that these historical interest rates are reflective of the substantive rules applicable to
3 electric providers; however, for purposes of this analysis I assume that the same or
4 similar interest rate would also be reasonable for water providers.

5 Based on the assumptions above, Column D of Schedule CDE-1 reflects my
6 recommended adjustment to the Company's requested rate base specific to customer
7 deposits, and the resulting impact on the Company's requested revenue requirement. In
8 total, my adjustments reflect a \$25,745 reduction in the Company's requested revenue
9 requirement.

10 **Q. WHAT OTHER ADJUSTMENTS DO YOU BELIEVE ARE WARRANTED TO**
11 **THE COMPANY'S REQUESTED LEVEL OF INVESTOR SUPPLIED**
12 **CAPITAL?**

13 A. I recommend that an additional reduction in rate base be made to remove accumulated
14 deferred federal income taxes. As noted in PUC Substantive Rule § 24.31(c)(3)(i),
15 accumulated deferred federal income taxes (ADFIT) must be deducted from rate base as
16 it also represents a source of cost free capital for the utility. Within the Company's FY
17 2014 Consolidated Financial Statements³⁵, they indicate [REDACTED] in deferred tax
18 liabilities at the corporate level. Given that the Company has not provided the level of
19 ADFIT applicable to water utility operations, I have allocated this amount to the water
20 utility reflective of the percentage of total water plant in service at the end of the test year

³⁴ <https://www.puc.texas.gov/industry/electric/reports/HRates/HistRates.pdf>.

³⁵ Quadvest Confidential Response to Staff RFI 1-15.

1 [REDACTED] as compared to the Company's reported level of total property, plant and
2 equipment in service [REDACTED]. This results in ADFIT attributable to the water
3 utility of approximately [REDACTED]. This
4 allocation factor is reasonable, due to the fact that the accelerated tax depreciation on
5 plant is one of the primary drivers of ADFIT.

6 **Q. WHAT ADJUSTMENT TO THE COMPANY'S REQUESTED REVENUE**
7 **REQUIREMENT RESULTS FROM YOUR CALCULATED LEVEL OF ADFIT?**

8 A. Column E of Schedule CDE-1 illustrates the impact of my adjustment for ADFIT on the
9 Company's requested revenue requirement. In summary, my adjustment result in a
10 [REDACTED] reduction in the Company's requested revenue requirement.

11 **V. RECOMMENDED ADJUSTMENTS TO OPERATIONS & MAINTENANCE**
12 **EXPENSE**

13 **Q. MR. EKRUT, ARE THERE ADJUSTMENTS TO THE COMPANY'S**
14 **REQUESTED OPERATIONS AND MAINTENANCE EXPENSES WHICH YOU**
15 **BELIEVE ARE WARRANTED?**

16 A. Yes. I have removed rate case expenses from the Company's requested operations and
17 maintenance expenses and, if deemed reasonable and necessary by the Commission, I
18 recommend they be recovered via a rate case surcharge.

19 **Q. PLEASE EXPLAIN THE BASIS FOR YOUR RECOMMENDATION.**

20 A. Rate case expense represents a one-time, non-recurring expense for the Company
21 reflective of the current proceeding as opposed to a normal, everyday expense. As noted
22 in PUC Substantive Rule §23.31(B)(1)(A), only "operations and maintenance expense

1 incurred in furnishing normal utility service” should be included as an allowable expense.
2 To the extent the utility does not incur this amount annually going forward, then the
3 utility’s rates, inclusive of such expenses, would allow recovery of revenue at a rate that
4 is higher than expenses under normal conditions.

5 Further, the Company’s proposed treatment of these expenses results in their
6 inclusion within the calculation of working capital. As such, the Company would not
7 only be recovering the expense, but also a return on 1/8th of these expenses. Given these
8 factors, it is my opinion that these expenses are better included within a surcharge as
9 opposed to the revenue requirement.

10 **Q. WHAT IS THE IMPACT ON THE UTILITY’S REVENUE REQUIREMENT OF**
11 **YOUR RECOMMENDATION?**

12 A. As illustrated in Column F of Schedule CDE-1, the removal of rate case expenses, and
13 associated change in working capital, results in a total reduction in the Company’s
14 requested revenue requirement of \$40,382.

15 **VI. RATE DESIGN**

16 **Q. MR. EKRUT, CAN YOU PLEASE SUMMARIZE YOUR UNDERSTANDING OF**
17 **THE COMPANY’S REQUESTED RATE DESIGN?**

18 A. Based on my review of the filing, the Company is proposing to utilize a consolidated rate
19 structure for all of its systems. Within this consolidated rate structure, the Company is
20 proposing a two-part rate structure. The first part of the rate structure consists of a fixed,
21 monthly meter charge which increases based on the size of the meter using the

Commission's standard meter equivalency factors. The second part of the rate structure consists of a volumetric charge which utilizes an inclining-block rate structure, that is, as a customer utilizes more water the per unit charge for water increases through a series of defined consumption blocks.

Q. WHAT CONCLUSIONS HAVE YOU DRAWN FROM YOUR REVIEW OF THE COMPANY'S REQUESTED RATE DESIGN?

A. Overall, I believe that the Company's proposed rate structure is reasonable. However, I disagree with the Quadvest witness Mr. Loy's recommendation to reflect the entire increase in the fixed charge: "the proposed rate design adds the proposed increase to the meter base charges."³⁶

Q. PLEASE EXPLAIN WHY YOU DISAGREE WITH THE COMPANY'S REQUEST TO INCLUDE THE ENTIRE INCREASE WITHIN THE METER BASE CHARGES?

A. As testified to by Mr. Loy, some of the benefits of consolidated pricing include the reduction of rate shock and increasing the affordability of service to customers of smaller systems.³⁷ Despite these benefits, the immediate movement and alignment of customers under a consolidated rate structure can have extreme impacts on the monthly bills of customers whose current rates vary greatly from the proposed consolidated rates. For example, in this case, the Company's Phase I rate request proposes to increase the monthly bill to a 10,000 gallons customer on the Bayer Utilities system from \$41.90 to

³⁶ Direct Testimony of Charles E. Loy, CPA, Page 25 (Bates Page 27), Lines 9 through 10.

³⁷ Direct Testimony of Charles E. Loy, CPA, Page 23 (Bates Page 25), Lines 19 through 20.

1 \$72.95 a month. This is a monthly increase of \$31.05, or over 74%. On an annual basis,
2 this would increase this example customer's household budgeted expense by over \$372.

3 Given the extreme impacts that will be experienced by some of Quadvest's
4 customers associated with the proposed consolidated rate structure, every step should be
5 taken to mitigate this impact by giving customers as much control as possible over the
6 charges they incur on a monthly basis. By recovering the entire increase in the meter
7 base charge, customers have minimal control on the level of increase they experience.

8 **Q. HOW MUCH OF THE COMPANY'S REVENUE REQUIREMENT APPROVED**
9 **BY THE COMMISSION SHOULD BE INCLUDED WITHIN THE BASE METER**
10 **CHARGE?**

11 A. I believe that, at most, 60.61% of the Company's revenue requirement should be
12 recovered in the base meter charge. Within the Company's application, they have
13 assumed a standard 67% of expenses as fixed and recoverable within the base meter
14 charge. This is the alternative allocation method that has historically been allowed.
15 However, the standard method historically allowed is based on the percentage of costs
16 designated as "fixed" for each line-item of expense within the application. As evidenced
17 on Schedule CDE-2, using this standard method results in 60.61% of expenses being
18 considered as fixed costs.

19 **Q. HOW DOES YOUR RECOMMENDATION COMPARE TO THE COMPANY'S**
20 **CURRENT LEVEL OF REVENUE RECOVERY WITHIN ITS BASE METER**
21 **CHARGES.**

1 As evidenced in Schedule CDE-3, under the test year billing determinants and the rates in
2 effect for each system prior to the initial implementation of the increase, the Company
3 was projected to recover \$3,965,115 of revenue in its base meter charge as compared to
4 total revenue of \$6,248,073. In other words, 63.46% of revenue under the utility's
5 current rate design is projected to be recovered from fixed charges.

6 **Q. HOW DOES YOUR RECOMMENDATION COMPARE TO THE COMPANY'S**
7 **PHASE I RATE REQUEST?**

8 A. As illustrated on Schedule CDE-4, under the Phase I rate request the Company is
9 proposing to recover \$4,538,764 of revenue in its base meter charge as compared to total
10 revenue of \$6,807,400. This results in approximately 66.67% of revenue recovery within
11 the base meter charge.

12 **Q. HAVE YOU PREPARED EXAMPLE RATES WHICH ILLUSTRATE YOUR**
13 **RECOMMENDATION?**

14 A. Yes, Schedule CDE-4 presents rates which are calculated to recover the revenue
15 requirement recommended on Schedule CDE-1, with 60.61% of revenue recovery in the
16 base meter charge and the remaining revenue recovered in the volumetric charge. Please
17 note that in structuring the volumetric charges, I have assumed the same percentage
18 increase in rates between each block as requested by the Company in its application.

19 **Q. GIVEN THE LESSOR AMOUNT OF REVENUE THAT YOU ARE PROPOSING**
20 **TO ALLOW THE COMPANY TO RECOVER IN THE BASE METER CHARGE,**
21 **WHAT IS THE IMPACT TO THE COMPANY FROM A FINANCIAL**
22 **PERSPECTIVE?**

1 A. It is my opinion that there will be minimal impact to the financial operations of Quadvest.
2 The process of rate design is revenue neutral. In other words, after the revenue
3 requirement is identified, rates are designed based on test year billing determinants to
4 recover the identified revenue requirement. My proposal simply shifts the proportion of
5 revenue collected from the fixed charge to the volumetric charge.

6 The Company may argue that shifting some of the revenue recovery to the
7 volumetric portion of the rate increases the chance that precipitation and changes in
8 customer behavior will reduce the amount of revenue generated in the volumetric rate
9 component. However, volumetric changes due to a lack of precipitation or customer
10 growth could also equally result in increases in revenues due to customer usage that is
11 higher than the test year amount. Given that the Company has proposed no adjustment to
12 test year billing determinants, it is assumed that these volumes represent a normalized
13 level of consumption that can reasonably be experienced in the future.

14 Further, the consolidation of rates may in fact reduce the Company's cost,
15 reductions which can be used to offset any potential variation experienced in volumetric
16 revenue. As testified to by Mr. Eastman, the single tariff will prevent Quadvest's
17 customer service department from having to "develop separate communications for each .
18 . . tariff group," and may "reduce customer service call times."³⁸ The efficiencies
19 achieved from the consolidated rate may allow the Company to reduce its overall
20 customer service costs while maintaining current service levels.

³⁸ Direct Testimony of Jeffrey Eastman, Page 9 (Bates Page 11), Lines 11 through 17.

1 Finally, the Company's exposure is further reduced by the use of a pass-through
2 charge, per 1,000 gallons of use, for purchased water and Groundwater Conservation
3 District fees. The use of such a pass-through charge ensures the Company will be able to
4 recover these fees outside of a full rate case and further mitigates the financial exposure
5 of the Company to price increases. In summary, I believe the benefits to the Company of
6 the consolidated rate structure are more than sufficient to offset any potential volumetric
7 variations.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 A. Yes. However, due to ongoing discovery and with the Administrative Law Judge's
10 permission, I request the right to amend, delete and/or add to my testimony as additional
11 facts become known.

ATTACHMENTS

Mr. Ekrut currently serves as Director of NewGen Strategies & Solutions, LLC Environmental Practice. He has been in this role since September 2012. Prior to joining NewGen Strategies & Solutions, Mr. Ekrut joined J. Stowe & Co. (now NewGen) as a Senior Consultant in May 2008 and was subsequently promoted to Manager in December 2009. Prior to joining J. Stowe & Co., Mr. Ekrut was employed by R.W. Beck, Inc. as a Staff Consultant beginning in June 2005, after earning his Masters in Public Administration from the University of North Texas and graduating with honors. Prior to beginning his consulting career, Mr. Ekrut served as an intern for U.S. Congressman Larry Combest, Texas 19th District.

EDUCATION

- Masters of Public Administration, University of North Texas
- Bachelor of Arts in Public Administration, West Texas A & M University

PROFESSIONAL AFFILIATIONS

- American Water Works Association
- Texas Municipal Utilities Association

EXPERIENCE

During his career, Mr. Ekrut has assisted in conducting a variety of engagements for water, wastewater, solid waste, electric, and natural gas utilities. A sampling of Mr. Ekrut's experience is included below:

- Assisted in conducting an Economic Impact and End User Impact Analysis for the Toledo Bend Water Supply Project, which proposes to supply at least 600,000 acre-feet of raw water to the DFW Metroplex.
- Assisted the City of Arlington in conducting a wholesale water sales assessment study.
- Assisted the Texas Water Development Board in conducting a Socioeconomic Analysis of Select Interbasin Transfers in Texas and developing a model to quantify the financial impact of water conservation measures.
- Assisted the North Texas Municipal Water District in analyzing rate alternatives for its Member Cities.
- Assisted in conducting Socioeconomic Analysis in support of the Region C Study Commission Report in response to SB 3, 90th Texas Legislative Session requirements.
- Assisted Dallas Water Utilities and Tarrant Regional Water District in conducting a study of the Raw Water Transmission System Integration of Lake Palestine.
- Served as the Project Controls lead for the Program Management of the Waco Metropolitan Area Regional Sewer System Treatment Plant Expansion Program.
- Conducted a top-down Water Audit and assisted in the development of a wholesale water contract for the City of Gainesville, Texas.
- Assisted the City of Terrell, Texas in conducting a top-down water audit and developing a Standardized Developer Agreement related to Water and Wastewater Infrastructure.
- Assisted the City of Denton, Texas in developing and Indirect Cost Allocation Model for general fund and internal service fund departments.

Chris D. Ekrut

Director, Environmental Practice

- Assisted the City of Gunter, Texas in performing due-diligence and establishing a developer proposed Tax Increment Reinvestment Zone.
- Assisted Nueces County Water Control & Improvement District No. 4 in reviewing and negotiating a water rate methodology with the City of Corpus Christi.
- Assisted the Pittsburgh Water and Sewer Authority in reviewing the appropriateness of subsidy payments made to Pennsylvania America Water Company
- Assisted the Navajo Tribal Utilities Authority in updating and amending its water and wastewater service tariff terms and conditions
- Assisting the City of Killeen in evaluating the feasibility of establishing and setting a user fee for a Transportation Utility

Utility Business Plans:

- City of Gainesville, Texas
- City of Blue Mound, Texas
- Town of Prosper, Texas

Operations and Management Reviews:

- Brownsville Public Utilities Board
- Lower Colorado River Authority's Water and Wastewater Service Unit

System Valuations:

- City of Blue Mound, Texas
- City of Tyler, Texas
- Town of Lakeside, Texas
- City of Oak Point, Texas
- City of Southmayd, Texas
- Mustang Special Utility District

Wholesale and/or Retail Water, Reclaimed Water, Wastewater, and Drainage Cost of Service and Rate Design Studies:

- Town of Addison, Texas
- Double Diamond Utilities Co. *
- City of Aledo, Texas *
- City of Farmersville, Texas *
- City of Amarillo, Texas
- City of Gainesville, Texas *
- City of Bellaire, Texas
- City of Garland, Texas
- City of Bonham, Texas
- City of Glenn Heights, Texas *
- City of Burkburnett, Texas *
- City of Graham, Texas
- City of Burnet, Texas *
- City of Grapevine, Texas *
- Canyon Regional Water Authority
- City of Killeen, Texas
- City of Cedar Park, Texas
- Town of Lakeside, Texas
- City of Cisco, Texas
- City of Lancaster, Texas *
- City of Coleman, Texas
- City of League City, Texas

- | | |
|--|--|
| ▪ City of Lewisville, Texas | ▪ Possum Kingdom Water Supply Corporation |
| ▪ City of Mansfield, Texas | ▪ Town of Prosper, Texas * |
| ▪ City of McGregor, Texas | ▪ City of Roanoke, Texas |
| ▪ City of Mexia, Texas | ▪ City of Seagoville, Texas |
| ▪ City of Murphy, Texas | ▪ City of Terrell, Texas * |
| ▪ Navajo Tribal Utility Authority | ▪ Trophy Club Municipal Utility District No. 1 |
| ▪ Nueces County Water Control and Improvement District No. 3 | ▪ City of Tyler, Texas * |
| ▪ City of Paris, Texas * | ▪ City of Waco, Texas * |
| ▪ Pittsburgh Water and Sewer Authority | ▪ City of Weatherford, Texas * |
| ▪ City of Portland, Texas | ▪ City of Willow Park, Texas |
| | * Engaged for multiple studies |

Expert Witness Testimony Development and/or Litigation Support

- SOAH Docket Nos. 582-02-1652, 582-03-1820, 582-03-1821, & 582-03-1824 – Applications of McKinney, Melissa, and Anna and North Collin Water Supply Corporation to Amend CCN Nos. 10194, 11482, 12976, 11035 and Sewer CCN No. 20898 and of the City of Melissa to Obtain a Sewer CCN in Collin County
- SOAH Docket No. 582-06-1366, Woodcreek Ratepayers Coalition Petition to Appeal the City of Woodcreek's Decision to Establish Water and Sewer Rates Charged by Aqua Utilities
- SOAH Docket No. 582-06-2023, Application of the Town of Lindsay to Amend Water and Sewer Certificates of Convenience and Necessity Nos. 13025 and 20927
- SOAH Docket No. 582-07-2049, Petition of BHP Water Supply Corporation Appealing the Wholesale Water Rate Increase of Royse City, Texas and Request for Interim Rates
- SOAH Docket No. 582-08-1318, Application of Mustang Special Utility District to Decertify a Portion of Sewer Certificate of Convenience and Necessity No. 20867 From AquaSource Development, Inc. DBA Aqua Texas Inc., and to Amend Sewer CCN No. 20930 In Denton County, Texas
- SOAH Docket No. 582-08-0698, Application of Double Diamond Utilities Company to Change its Water Tariff
- SOAH Docket No. 582-08-1341, Application of Monarch Utilities I, L.P., to Change Water and Sewer Rates and Tariffs
- SOAH Docket No. 582-08-2580, Appeal by Midway Water Utilities, Inc. CCN No. 11571, From the Ratemaking Actions of the City of Oak Point
- SOAH Docket No. 582-09-4288, Application of Double Diamond Utilities Company, Inc. to Change its Water Tariff
- SOAH Docket No. 582-09-6112, Application of Double Diamond Utilities Company, Inc. to Change its Sewer Tariff
- SOAH Docket No. 582-12-5332, Application of Upper Trinity Regional Water District for Water Use Permit No. 5821

Chris D. Ekrut

Director, Environmental Practice

- SOAH Docket No. 582-14-2854, Petition of Fort Belknap Water Supply Corporation and Graham East Water Supply Corporation to Appeal the Wholesale Water Rate increased imposed by the City of Graham
- SOAH Docket No. 473-15-037, Application of Double Diamond Utilities Co. for a Water and Sewer Rate / Tariff Change (37752-R and 37753-R)
- SOAH Docket No. 473-16-1836-WS, Ratepayers' Appeal of the Decision by Trophy Club Municipal Utility District No. 1 to Change Rates
- Expert Assistance to Office of Public Utility Counsel ("OPUC") for the following PUC Rulemaking Project Nos.
 - PUC Project No. 43871
 - PUC Project No. 43876
 - PUC Project No. 43967
 - PUC Project No. 44462
 - PUC Project No. 44706

Solid Waste Experience

- Assisted in conducting a Municipal Solid Waste Operations Study for the City of Denton, Texas.
- Assisted in the conduct of an Alternative Feasibility Study for the City of Peoria, Arizona.
- Assisted Siemens Energy and Environmental Services in conducting a detailed Waste Shed Analysis of the Dallas-Ft. Worth Metroplex in support of a new, environmental-friendly waste processing technology.
- Assisted in conducting a Mixed Recycling Facility (MRF) Study for the North Central Texas Council of Governments.

Electric Utility Experience

- Assisted Garland Power & Light in the conduct of an Asset Inventory and Assessment in 2006, filing their 2006 and 2006 Earnings Monitoring Report and 2014 Transmission Cost of Service Study with the Public Utility Commission of Texas.
- Assisted the City of Brenham, Texas in conducting an Electric Cost of Service and Rate Design Study and developing a Power Cost Recovery Factor (PCRF).
- Assisted Austin Energy in modifying and refining the utility's excel-based financial forecasting model.

Gas Utility Experience

- Assisted the City of Brenham, Texas in analyzing and amending their Gas Cost Adjustment Factor
- Provided litigation support in Texas Railroad Commission Docket No. 9670 – Petition for De Novo Review of the Reduction of the Gas Utility Rates of ATMOS Energy Corp., Mid – Tex Division.

Franchise Fee Experience

- Assisted in conducting reviews of the franchise fee payments made by Charter Communications to the Cities of Rockwall and Denton, Texas.
- Assisted in conducting reviews of the franchise fee payments made by Oncor to a coalition of Cities within the State of Texas.
- Assisted in conducting franchise fee reviews of gas and electric providers in Fayette County, Kentucky.

Impact Fee Experience

Mr. Ekrut has assisted in the development of Water, Wastewater, and/or Roadway Impact Fees for the following clients:

- | | |
|-------------------------------|--------------------------------|
| ▪ City of Denton, Texas | ▪ City of Glenn Heights, Texas |
| ▪ City of Ft. Worth, Texas | ▪ City of McKinney, Texas |
| ▪ City of Flower Mound, Texas | ▪ City of Mesquite, Texas |
| ▪ City of Frisco, Texas | ▪ City of Willow Park, Texas |

Publications and Presentations

- "Allocating the Costs of Population Growth in Wholesale Water Contracts," Texas Water Law Conference, January 2007
- "Business Planning and Its Benefits to Municipal Utilities," American Water Works Association, Texas Section, 2008
- "Plan Your Work and Work Your Plan: The Benefits of Municipal Utility Business Planning," Texas Town & City, October 2009.
- "Strategies for Pricing Direct Water Reuse," Texas Water Conservation Association, March 2013.
- "Utility Management and Revenue Considerations," New and Emerging City Manager Roundtable, North Central Texas Council of Governments, February 2014.
- "Texas Water Development Board Water Conservation Best Management Practices Model: Estimating Water Conservation Savings for New Annual Reporting Requirements," Texas Water Conservation Association, March 2014
- "When in Drought! Utility Ratemaking 101," Government Finance Officers Association of Texas, April 2014
- "Aledo, Texas – How a Small City Overcame a Capital Improvement Giant," American Water Works Association, Utility Management Conference, January 2015
- "To the PUC . . . and Beyond!," Government Finance Officers Association of Texas, Pre-Conference, November 2015

SCHEDULES

Application of Quadvest, LP for a Rate / Tariff Change
PUC Docket No. 44809
Summary of Recommended Adjustments

Line No.	Col (A)	(B)	(C)	(D)	(E)	(F)	(G)
		Requested	Removal of AMR	Removal of Customer Deposits	Removal of ADFIT	Removal of Rate Case Expense	Adjusted Value
1	RATE BASE						
2	Net Book Value	\$ 17,845,600	\$ -	\$ -	\$ -	\$ -	\$ 17,845,600
3	Affiliates Share of Common Plant	(6,405)	-	-	-	-	(6,405)
4	AMR Meters	2,070,410	(2,070,410)	-	-	-	-
5	Capital Projects Completed By June 2015 (CCNC)	58,000	-	-	-	-	58,000
6	Working cash allowance	605,923	10,269	-	-	(4,974)	611,217
7	Materials and supplies/Prepays	137,070	-	-	-	-	137,070
8	Subtotal	\$ 20,710,598	\$ (2,060,141)	\$ -	\$ -	(4,974)	\$ 18,645,483
9	Advances	(1,062,401)	-	-	-	-	(1,062,401)
10	Developer Contribution	(5,453,491)	-	-	-	-	(5,453,491)
11	Customer Deposits	-	-	(219,000)	-	-	(219,000)
12	ADFIT	-	-	-	-	-	-
13	Total Invested Capital	\$ 14,194,706	\$ (2,060,141)	\$ (219,000)	\$ -	(4,974)	-
14	Rate of Return	8.52%	8.52%	8.52%	8.52%	8.52%	8.52%
15	Return/Interest	\$ 1,209,509	\$ (175,541)	\$ (18,661)	\$ -	(424)	-
16							
17	TAXES						
18	Total Invested Capital	\$ 14,194,706	\$ (2,060,141)	\$ (219,000)	\$ -	(4,974)	-
19	Weighted Average Cost of Debt	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%
20	Interest Expense	\$ 333,055	\$ (48,338)	\$ (5,138)	\$ -	(117)	-
21	Taxable Interest	876,454	(127,204)	(13,522)	-	(307)	-
22	Income Tax (35%)	\$ 471,937	\$ (68,494)	\$ (7,281)	\$ -	(165)	-
23							

Application of Quadvest, LP for a Rate / Tariff Change
PUC Docket No. 44809
Summary of Recommended Adjustments

Line No.	Col (A)	(B)	(C)	(D)	(E)	(F)	(G)
		Requested	Removal of AMR	Removal of Customer Deposits	Removal of ADFI	Removal of Rate Case Expense	Adjusted Value
24	REVENUE REQUIREMENT						
25	Salaries and Wages	\$ 2,098,124	\$ -	\$ -	\$ -	\$ -	\$ 2,098,124
26	Contract Labor	69,899	82,149	-	-	-	152,048
27	Purchased Treatment	15,532	-	-	-	-	15,532
28	Chemicals	164,858	-	-	-	-	164,858
29	Utilities (Electricity)	529,931	-	-	-	-	529,931
30	Repairs / Maintenance / Supplies	852,407	-	-	-	-	852,407
31	Office Expenses	615,536	-	-	-	-	615,536
32	Accounting & Legal Fees	94,777	-	-	-	-	94,777
33	Insurance	338,086	-	-	-	-	338,086
34	Rate Case Expense	39,793	-	-	-	-	-
35	Misc	28,441	-	-	-	(39,793)	-
36	Subtotal	\$ 4,847,383	\$ 82,149	\$ -	\$ -	(39,793)	\$ 4,889,739
37	Payroll Taxes	138,279	-	-	-	-	138,279
38	Property & Other Taxes	179,526	-	-	-	-	179,526
39	Annual Depreciation & Amortization	981,764	(207,041)	-	-	-	774,723
40	Income Taxes	471,937	(68,494)	(7,281)	-	(165)	(165)
41	Return	1,209,509	(175,541)	(18,661)	-	(424)	(424)
42	Interest on Customer Deposits	-	-	197	-	-	197
43	Subtotal	\$ 7,828,397	\$ (368,928)	\$ (25,745)	\$ -	(40,382)	\$ 783,408
44	Other Revenues	783,408	-	-	-	-	-
45	Total Revenue Requirement	\$ 7,044,989	\$ (368,928)	\$ (25,745)	\$ -	(40,382)	\$ 6,580,531
46							
47							
48							
49							
50							
51							
52							
53							

Test Year Revenue Increase (\$)	\$ 6,043,129
Test Year Revenue Increase (%)	537,402
	8.89%
Requested Increase Difference From Requested (\$)	\$ 1,001,860
	(464,458)

Application of Quadvest, LP for a Rate / Tariff Change
PUC Docket No. 44809
Calculation of Fixed Expenses

Line No.	Col (A)	(B) Adjusted Revenue Requirement	(C) Commission Standard Fixed %	(D) Fixed Expenses
1	REVENUE REQUIREMENT			
2	Salaries and Wages	\$ 2,098,124	50%	\$ 1,049,062
3	Contract Labor	152,048	90%	136,843
4	Purchased Treatment	15,532	0%	-
5	Chemicals	164,858	0%	-
6	Utilities (Electricity)	529,931	0%	-
7	Repairs / Maintenance / Supplies	852,407	50%	426,204
8	Office Expenses	615,536	50%	307,768
9	Accounting & Legal Fees	94,777	100%	94,777
10	Insurance	338,086	100%	338,086
11	Rate Case Expense	-	100%	-
12	Misc	28,441	50%	14,220
13	Subtotal	\$ 4,889,739		\$ 2,366,959
14	Payroll Taxes	138,279	50%	69,139
15	Property & Other Taxes	179,526	100%	179,526
16	Annual Depreciation & Amortization	774,723	100%	774,723
17	Income Taxes	387,743	100%	387,743
18	Return	993,732	100%	993,732
19	Interest on Customer Deposits	197	100%	197
20	Subtotal	\$ 7,363,939		\$ 4,772,020
21	Other Revenues	783,408	100%	783,408
22	Total Revenue Requirement	\$ 6,580,531		\$ 3,988,612
23				
24	Revenue to be Recovered in Fixed Charge		60.61%	\$ 3,988,612
25	Revenue to be Recovered in Variable Charge		39.39%	2,591,919
26				\$ 6,580,531

Application of Quadvest, LP for a Rate / Tariff Change
PUC Docket No. 44809
Current Rate Revenue Proof

Line No.	Col (A)	(B)	(C)	(D)	(E)	(F)	(G)
Current Rate Proof							
		<u>Quadvest</u> <u>Original</u>	<u>Decker</u> <u>Oaks</u>	<u>Bayer</u>	<u>Shaw</u> <u>Acres</u>	<u>Caddo</u> <u>Village</u>	<u>Total</u>
1	Monthly Meter Charge:						
2	5/8" x 3/4"	\$ 28.75	\$ 17.98	\$ 12.50	\$ 20.00	\$ 28.00	
3	3/4"	28.75	17.98	12.50	30.00	28.00	
4	1"	71.88	44.95	n/a	50.00	70.00	
5	1 1/2"	143.75	89.90	62.50	100.00	140.00	
6	2"	230.00	143.84	75.00	160.00	224.00	
7	3"	460.00	269.71	n/a	300.00	420.00	
8	4"	718.75	449.51	n/a	600.00	700.00	
9	6"	1,437.50	899.02	n/a	1,200.00	1,400.00	
10	8"	n/a	1,438.43	n/a	n/a	n/a	
11	10"	n/a	n/a	n/a	n/a	n/a	
12	12"	n/a	n/a	n/a	n/a	n/a	
13							
14	Gallonage Charge:						
15	First 10,000 Gallons	1.75	2.29		2.00		
16	From 10,001 to 20,000 Gallons	2.00	2.29		3.00		
17	From 20,001 to 30,000 Gallons	2.25	2.29		3.00		
18	Over 30,000 Gallons	3.00	2.29		3.00		
19							
20	First 2,000 Gallons			-			
21	From 2,001 to 10,000 Gallons			1.35			
22	From 10,001 to 20,000 Gallons			1.35			
23	From 20,001 to 30,000 Gallons			1.35			
24	Over 30,000 Gallons			1.35			
25							
26	First 10,000 Gallons					2.25	
27	From 10,001 to 15,000 Gallons					2.90	
28	From 15,001 to 20,000 Gallons					3.60	
29	From 20,001 to 30,000 Gallons					4.35	
30	Over 30,000 Gallons					4.35	
31							

Application of Quadvest, LP for a Rate / Tariff Change
PUC Docket No. 44809
Current Rate Revenue Proof

Line No.	Col (A)	(B)	(C)	(D)	(E)	(F)	(G)
Current Rate Proof							
		<u>Quadvest Original</u>	<u>Decker Oaks</u>	<u>Bayer</u>	<u>Shaw Acres</u>	<u>Caddo Village</u>	<u>Total</u>
32	Test Year End Connections						
33	5/8" x 3/4"	5,621	522	304	106	408	6,961
34	3/4"						-
35	1"	1,783	2	9			1,794
36	1 1/2"	9	2	3			14
37	2"	24	5	4	1		34
38	3"						-
39	4"	7	1				8
40	6"						-
41	8"						-
42	10"						-
43	12"						-
44	Subtotal	7,444	532	320	107	408	8,811
45							
46	Test Year Usage						
47	First 10,000 Gallons	529,783,000	31,041,000	13,936,000	5,341,000	25,237,000	605,338,000
48	From 10,001 to 20,000 Gallons	195,141,000	2,623,000	2,297,000	546,000	1,927,000	202,534,000
49	From 20,001 to 30,000 Gallons	113,961,000	447,000	820,000	88,000	494,000	115,810,000
50	Over 30,000 Gallons	176,979,000	510,000	3,434,000	108,000	187,000	181,218,000
51	Subtotal	1,015,864,000	34,621,000	20,487,000	6,083,000	27,845,000	1,104,900,000
52							
53	First 2,000 Gallons			5,445,000			
54	From 2,001 to 10,000 Gallons			8,491,000			
55	From 10,001 to 20,000 Gallons			2,297,000			
56	From 20,001 to 30,000 Gallons			820,000			
57	Over 30,000 Gallons			3,434,000			
58	Subtotal			20,487,000			
59							
60	First 10,000 Gallons					25,237,000	
61	From 10,001 to 15,000 Gallons					1,391,000	
62	From 15,001 to 20,000 Gallons					536,000	
63	From 20,001 to 30,000 Gallons					494,000	
64	Over 30,000 Gallons					187,000	
65	Subtotal					27,845,000	
66							

Application of Quadvest, LP for a Rate / Tariff Change
PUC Docket No. 44809
Current Rate Revenue Proof

Line No.	Col (A)	(B)	(C)	(D)	(E)	(F)	(G)
Current Rate Proof							
		<u>Quadvest</u> <u>Original</u>	<u>Decker</u> <u>Oaks</u>	<u>Bayer</u>	<u>Shaw</u> <u>Acres</u>	<u>Caddo</u> <u>Village</u>	<u>Total</u>
67	Meter Charge Revenues						
68	5/8" x 3/4"	\$ 1,939,245	\$ 112,627	\$ 45,600	\$ 25,440	\$ 137,088	\$ 2,260,000
69	3/4"	-	-	-	-	-	-
70	1"	1,537,944	1,079	-	-	-	1,539,023
71	1 1/2"	15,525	2,158	2,250	-	-	19,933
72	2"	66,240	8,630	3,600	1,920	-	80,390
73	3"	-	-	-	-	-	-
74	4"	60,375	5,394	-	-	-	65,769
75	6"	-	-	-	-	-	-
76	8"	-	-	-	-	-	-
77	10"	-	-	-	-	-	-
78	12"	-	-	-	-	-	-
79	Subtotal	\$ 3,619,329	\$ 129,888	\$ 51,450	\$ 27,360	\$ 137,088	\$ 3,965,115
80							
81	Gallonge Charge:						
82	First 10,000 Gallons	927,120	71,084	-	10,682	-	1,008,886
83	From 10,001 to 20,000 Gallons	390,282	6,007	-	1,638	-	397,927
84	From 20,001 to 30,000 Gallons	256,412	1,024	-	264	-	257,700
85	Over 30,000 Gallons	530,937	1,168	-	324	-	532,429
86	Subtotal	2,104,752	79,282	-	12,908	-	2,196,942
87							
88	First 2,000 Gallons	-	-	-	-	-	-
89	From 2,001 to 10,000 Gallons	-	-	11,463	-	-	11,463
90	From 10,001 to 20,000 Gallons	-	-	3,101	-	-	3,101
91	From 20,001 to 30,000 Gallons	-	-	1,107	-	-	1,107
92	Over 30,000 Gallons	-	-	4,636	-	-	4,636
93	Subtotal	-	-	20,307	-	-	20,307
94							
95	First 10,000 Gallons	-	-	-	-	56,783	56,783
96	From 10,001 to 15,000 Gallons	-	-	-	-	4,034	4,034
97	From 15,001 to 20,000 Gallons	-	-	-	-	1,930	1,930
98	From 20,001 to 30,000 Gallons	-	-	-	-	2,149	2,149
99	Over 30,000 Gallons	-	-	-	-	813	813
100	Subtotal	-	-	-	-	65,709	65,709
101							
102	Revenue Summary:						
103	Meter Charge Revenues	\$ 3,619,329	\$ 129,888	\$ 51,450	\$ 27,360	\$ 137,088	\$ 3,965,115
104	Gallonge Charge Revenues	2,104,752	79,282	20,307	12,908	65,709	2,282,957
105	Total	\$ 5,724,081	\$ 209,170	\$ 71,757	\$ 40,268	\$ 202,797	\$ 6,248,073
106							
107						Fixed %	63.46%
108						Variance %	36.54%

Application of Quadvest, LP for a Rate / Tariff Change
PUC Docket No. 44809
Consolidated Rate Recommendation

Line No.	Col (A)	(B)	(C)	(D)	(E)
		Company		Comparison of Company Request to Recommendation	
		<u>Request (Phase I)</u>	<u>Recommended</u>	<u>\$</u>	<u>%</u>
1	Monthly Meter Charge:				
2	5/8" x 3/4"	\$ 31.55	\$ 27.73	\$ (3.82)	-12.12%
3	3/4"	31.55	27.73	(3.82)	-12.12%
4	1"	78.88	69.32	(9.56)	-12.12%
5	1 1/2"	157.75	138.63	(19.12)	-12.12%
6	2"	252.40	221.81	(30.59)	-12.12%
7	3"	504.80	443.61	(61.19)	-12.12%
8	4"	788.75	693.14	(95.61)	-12.12%
9	6"	1,577.50	1,386.29	(191.21)	-12.12%
10	8"	2,524.00	2,218.06	(305.94)	-12.12%
11	10"	3,628.25	3,188.46	(439.79)	-12.12%
12	12"	6,783.25	5,961.03	(822.22)	-12.12%
13					
14	Gallage Charge:				
15	First 10,000 Gallons	\$ 1.75	\$ 2.00	\$ 0.25	14.25%
16	From 10,001 to 20,000 Gallons	2.00	2.29	0.29	14.25%
17	From 20,001 to 30,000 Gallons	2.25	2.57	0.32	14.25%
18	Over 30,000 Gallons	3.00	3.43	0.43	14.25%
19					
20	Meter Charge Revenues				
21	5/8" x 3/4"	\$ 2,635,435	\$ 2,315,983		
22	3/4"	-	-		
23	1"	1,698,129	1,492,292		
24	1 1/2"	26,502	23,290		
25	2"	102,979	90,497		
26	3"	-	-		
27	4"	75,720	66,542		
28	6"	-	-		
29	8"	-	-		
30	10"	-	-		
31	12"	-	-		
32	Subtotal	\$ 4,538,764	\$ 3,988,603		
33					
34	Gallage Charge:				
35	First 10,000 Gallons	\$ 1,059,342	\$ 1,210,299		
36	From 10,001 to 20,000 Gallons	405,068.00	462,791		
37	From 20,001 to 30,000 Gallons	260,572.50	297,704		
38	Over 30,000 Gallons	543,654.00	621,125		
39	Subtotal	\$ 2,268,636	\$ 2,591,919		
40					
41	Revenue Summary				
42	Meter Charge Revenues	\$ 4,538,764	\$ 3,988,603	\$ (550,161)	-12.12%
43	Volumetric Charge Revenues	2,268,636	2,591,919	323,283	14.25%
44	Total Revenue	6,807,400	6,580,522	(226,879)	-3.33%