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RATEPAYERS' APPEAL OF THE §
DECISION BY NORTH SAN SABA §
WATER SUPPLY CORPORATION §
TO CHANGE RATES §

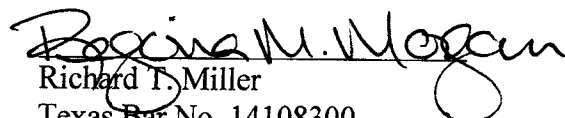
PUBLIC UTILITY COMMISSION
FILING CLERK
OF TEXAS

**NORTH SAN SABA WATER SUPPLY CORPORATION'S RESPONSE TO PUC STAFF'S
THIRD SET OF REQUESTS FOR INFORMATION**

To: Staff of Public Utility Commission of Texas, by and through its attorney of record
Sam Chang, Public Utility Commission of Texas, 1701 N. Congress Avenue, P.O.
Box 13326, Austin, Texas 78711-3326.

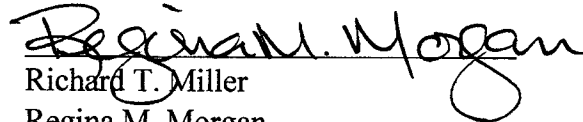
North San Saba Water Supply Corporation ("NSSWSC") provides the following response
to the Staff of the Public Utility Commission of Texas' Third Request for Information Question
Nos. Staff RFI 3-1 through Staff RFI 3-28. NSSWSC reserves the right to supplement these
responses.

Respectfully submitted,


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Attorneys for NSSWSC

P.U.C. DOCKET NO. 45283
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CERTIFICATE OF SERVICE

I certify that on April 20th, 2016 a copy of this document was served upon the parties of record in accordance with P.U.C. Procedural Rule §22.74 :


Richard T. Miller
Regina M. Morgan

SPONSOR FOR RESPONSES

These responses were prepared under the direct supervision of Mr. Roger Whatley, President of the North San Saba Water Supply Corporation and Ms. Katherine Gage, NSSWSC Board Member. Both Ms. Gage and Mr. Whatley can attest to their accuracy. If NSSWSC identifies additional responsive documents or information, the responses will be supplemented in accordance with P.U.C. Subst. R. 22.144(i)

STAFF RFI

NO. 3-1 Provide a copy of North San Saba WSC's original loan documents received and approved by the Texas Water Development Board for loan numbers LN1000129, LF1000128, and L110054.

RESPONSE: Please see documents Bates-labelled NSSWSC to NSSWSC 000414 to NSSWSC 000496 and NSSWSC 000778 to NSSWSC 000901.

NO. 3-2 Provide an explanation and supporting approved agreements for the restrictions on the use of the cash amount of \$80,426 listed as restricted funds in North San Saba WSC's Annual Financial Report for fiscal year 2014 (Note 2).

RESPONSE: In the Loan Agreements for Loan number L1000129 and L110054 provided in response to RFI 3-1 above, Section 3.08 states that NSSWSC must keep a separate reserve account in an amount specified by the Texas Water Development Board. Also, Note 10 of the Financial Statements and Independent Auditors Report year end December 31, 2014 (previously provided at NSSWSC 000004 to NSSWSC 000024) addresses the restriction of funds.

NO. 3-3 Provide copies of all agreements that require North San Saba WSC to maintain and secure cash reserves and/or debt service coverage ratios for any debt outstanding. Detail the terms of such agreements.

RESPONSE: Please see response to No. 3-2.

NO. 3-4 Provide a paper copy and/or electronic file in Microsoft Excel format of North San Saba WSC's Quickbooks detailed transaction report for January 2012 through December 2012 for all revenues, expenses, assets, liabilities, and equity accounts that reconcile to North San Saba WSC's Annual Report for fiscal year 2012.

RESPONSE: Please see documents Bates-labelled NSSWSC 000497 to NSSWSC 000510.

NO. 3-5 Provide a paper copy and/or electronic file in Microsoft Excel format of North San Saba WSC's Quickbooks detailed transaction report for January 2013 through

December 2013 for all revenues, expenses, assets, liabilities, and equity accounts that reconcile to North San Saba WSC's Annual Report for fiscal year 2013.

RESPONSE: Please see documents Bates-labelled NSSWSC 000511 to NSSWSC 000522.

NO. 3-6 Provide a paper copy and/or electronic file in Microsoft Excel format of North San Saba WSC's Quickbooks detailed transaction report for January 2014 through December 2014 for all revenues, expenses, assets, liabilities, and equity accounts that reconcile to North San Saba WSC's Annual Report for fiscal year 2014.

RESPONSE: Please see documents Bates-labelled NSSWSC 000523 to NSSWSC 000537.

NO. 3-7 Provide a paper copy and/or electronic file of North San Saba WSC's 2012 and 2013 audited financial statements.

RESPONSE: Please see documents Bates-labelled 000538 to NSSWSC 567.

NO. 3-8 Provide North San Saba WSC's invoices and receipts for any water system fixed asset capitalized since 2008.

RESPONSE: There have been two capital projects since 2008. The earlier was for line replacement in the Pecan Grove area. A grant from the Texas Department of Rural Affairs, 2011 Small Town Environment Program administered by San Saba County allowed North San Saba WSC to replace approximately five miles of pipe along Highway 16, County Road 112, and FM 1480. NSSWSC is not in possession of invoices and receipts for this improvement.

For documents concerning the second construction project in 2013 and 2014 please see documents Bates-labelled NSSWSC 000568 to NSSWSC 000705.

NO. 3-9 Provide a copy of receipts and/or invoices for any water system assets that were expensed as annual capital expenditures during 2012, 2013, and 2014, respectively.

RESPONSE: Please see response to RFI No. 3-8.

NO. 3-10 Provide an original copy of the executed service contract between North San Saba WSC and Will Broyles.

RESPONSE: Please see documents Bates-labelled NSSWSC 000706 to NSSWSC 000712.

NO. 3-11 For any person or business that does business with North San Saba WSC and who employs a relative, or is a relative of a North San Saba WSC employee or board member, please provide the following:

- a. a list of the persons or business responsive to this request;
- b. all dollar amounts paid to each person or business for 2012, 2013, and 2014, respectively;
- c. all invoices supporting the amounts paid to each person or business for 2012, 2013, and 2014, respectively; and
- d. any and all evidence that the amounts paid to such persons or entities are less than or equal to amounts that would be charged to North San Saba WSC by an unrelated party in an arms-length transaction.

RESPONSE: NSSWSC objects to this request as overly broad, unduly burdensome, not limited in time and scope, and lacking in specificity, particularly with respect to the term "relative." Subject to and without waiving the stated objections, NSSWSC responds as follows:

San Saba County has a census of only approximately 6,131 persons. In any public assemblage there is very likely to be kinfolks of varying degrees of consanguinity present, especially of the older extended families of the county. However, four of the seven NSSWSC Board Members are relatively new residents of the county, and the NSSWSC Board has only one member with a cousin who is employed by the City of San Saba. In addition, NSSWSC's sole (part-time) employee also has a son and a son-in-law who are employed by the City of San Saba as well. NSSWSC purchases water from the City of San Saba. In a polling of Board Members during the regular monthly meeting held on April 12th, no other responses to this question were discovered.

- a. **Cindy Hibler, part-time officer manager for NSSWSC. Her son, John K. Whitney, is a street department worker for the City of San Saba. Her son-in-law, Eric J. Morgan, is a water/wastewater foreman for the City of San Saba.**

Diane Wood, board member for NSSWSC, has a second-cousin who is employed by the City of San Saba in the electrical department.

- b. **NSSWSC paid \$69,653 for total water purchases from the City of San Saba in 2015. For amounts in other years, please see financial docs already provided under expenses for water provided.**
- c. **N/A**

- d. **NSSWSC has no other options for purchasing water as there are no other sources of water available from which to purchase.**

NO. 3-12 For fiscal years 2013 and 2014, provide all invoices from Broyles Construction that were approved and paid by North San Saba WSC.

RESPONSE: Please see documents Bates-labelled NSSWSC 000713 to NSSWSC 000717.

NO. 3-13 State whether any owners or managers of Broyles Construction are board members of North San Saba WSC or are related to board members of North San Saba WSC.

RESPONSE: No owners or managers of Broyles Construction are board members of NSSWSC or related to board members of NSSWSC.

NO. 3-14 Provide supporting Documents and approved general ledger entries and for the Water Line Extension General Journal entry 12/31/2014, KLS, Deposit - \$29,152.00.

RESPONSE: NSSWSC has requested this information from its CPA, Kevin Shahan, and will supplement its response as soon as possible.

NO. 3-15 Explain the source of revenues in the other income account and water sales account as reported in North San Saba WSC's audited financial statements for fiscal year 2014. Provide supporting Documents for the dollar amounts.

RESPONSE: NSSWSC has referred this question to its CPA, Kevin Shahan and will supplement this response as soon as possible

NO. 3-16 Provide supporting Documents used by Roger Whatley to sponsor North San Saba WSC's responses to Staff RFI No. 2-4. Provide all calculations for the \$29,000 a month figure.

RESPONSE: NSSWSC President Roger Whatley responds to this request as follows:

"In my response to STAFF RFI 2-4 I said, 'My starting point was my anecdotal observation that our income was running about \$27,000/month and our expenses somewhat over about \$29,000/month.'

When I said "anecdotal observation," I meant that I had merely observed, in the few months I had been on the Board. I did not mean that I had actually calculated. I meant that I had anecdotally observed, in a few months or so of observations, that our income was running about \$27,000 and our expenses about \$29,000.

However, there was a cashflow chart that Kathy Gage, president of NSSWSC at that time, had prepared for meetings, and I took an Excel version of that chart and added a line at the bottom differencing the monthly “cash on hand” amounts to see what our monthly cash flow deficit was running. See chart provided at NSSWSC 000772. I think I just visually observed that monthly figure to be about \$2.2k.

Before the meeting to consider a rate increase, I had constructed an Excel spreadsheet which calculated our income on a hypothetical average month for 2014. When this was run on the older rates, the monthly income was \$27,146, and thus confirming my anecdotal observation of “about \$27,000.”

Finally, when I added the \$2.2K/month cashflow deficit to “about \$27,000” the result was “about \$29,000.”

In another document provided at NSSWSC 000773, you can see my handwritten notes of talking points I used to present my findings to the Board. These notes also contain the figures mentioned above.

No matter how exacting the calculation of monthly income and monthly expenses in the past what is important is these quantities in the future. But no one knows the future. Approximations were good enough because monthly demand fluctuated not only seasonally, but also without apparent explanation sometimes. Further, we could not know exactly how demand would respond to a rate increase, so educated guesses were required, which means a high degree of exactness of calculations was, for this purpose, meaningless.

The predicted average water sales income from the Excel spreadsheet for an average 2014 month under the new rates is \$34,032. The actual monthly water sales income for March 2016 from the April 2016 monthly Board meeting was \$30,347.29.

I heard a TCEQ public service advertisement on the radio as I drove to the rate increase meeting last year in which TCEQ encouraged Texans to conserve water, and I told the Board about this advertisement as I began to present my rate increase proposal. Since one of the goals of the rate structure design was to encourage water conservation at the high volume usage end, while minimally impacting the rates for low volume users, the demand drop appears so far to be more than we anticipated, perhaps a good thing, since another term for “drop in demand” would be “water conservation.”

NO. 3-17 Provide North San Saba WSC’s budget for 2015 and the approved board minutes for the board meeting that approved the budget.

RESPONSE: Please see documents Bates-labelled NSSWSC 000718 and NSSWSC 000774.

NO. 3-18 With regard to North San Saba WSC's 2015 budget:

- a. Explain the difference between North San Saba WSC's 2015 budget and its 2014 budget by account:
- b. Explain the reason for such differences; and
- c. Provide all supporting documents that account for the difference between North San Saba WSC's 2015 budget and its 2014 budget (e.g. price increase documentations, vendor quotes, invoices, etc.).

RESPONSE: There is very little difference in the 2014 and 2015 budgets. The budgeted income in 2015 is \$24, 876 less than 2014. This number is reduced due to our anticipation of a reduction in late fees, reconnects, and water sales.

The budgeted expense in 2015 is \$34 less than in 2014 with reductions in advertising, annual meetings, TCEQ penalty expenses, and an increase in interest expense.

The principal portion of the loan payments is not considered an expense, but a reduction in long-term liability, and therefore was not budgeted.

NO. 3-19 Provide a sample a [sic] North San Saba WSC water customer bills with the old rates and the new rates being appealed.

RESPONSE: Please see document Bates-labelled NSSWSC 000719.

NO. 3-20 Provide all of North San Saba WSC's financial statements for fiscal year 2015 that were available when the board of directors approved the rate increase.

RESPONSE: Please see documents Bates-labelled NSSWSC 000720 to NSSWSC 000747.

NO. 3-21 Provide a paper copy and/or electronic files in Microsoft Excel format of a reconciliation between North San Saba WSC's Quickbooks detailed transaction by account balance and each line in North San Saba WSC's financial statements for fiscal year 2015 financial statements for all revenues, expenses, assets, liabilities, and equity accounts.

RESPONSE: Please see documents Bates-labelled NSSWSC 000748 to NSSWSC 000763.

NO. 3-22 Provide all detailed invoices that support any rate case expenses for which North San Saba WSC intends to request recovery due to this appeal. Invoices should

include the name of the person providing the service, hourly billing rates, specific descriptions of services performed during the time billed, and hours billed on each invoice.

RESPONSE: NSSWSC objects to this request on the grounds that it is overly broad. Furthermore, NSSWSC's expenses in defense of the rate increase are ongoing and therefore not complete at this time. NSSWSC reserves the right to supplement this response with any updated expenses. Subject to and without waiving the stated objection, NSSWSC responds as follows:

Please see documents Bates-labelled NSSWSC 000775 to NSSWSC 000777.

NO. 3-23 Provide all evidence reasonableness [sic] regarding the rate case expenses incurred by North San Saba WSC due to this appeal.

RESPONSE: NSSWSC objects to this request on the grounds that the request is vague and fails to state with sufficient specificity the information that is being sought. Subject to and without waiving the states objections, NSSWSC responds as follows:

The only expenses NSSWSC is seeking to recoup as a result of this rate case are the expenses for its legal fees. Since the NSSWSC board members are all volunteers, many with other business of their own, and NSSWSC only employs one part-time employee, it was necessary to employ legal counsel in order to timely and efficiently handle NSSWSC's defense in this rate appeal. The Law Office of Richard T. Miller is representing NSSWSC in this rate appeal at a rate that is at least \$50 less per hour than its normal rate for both of its attorneys.

Please see responses to RFI 3-22.

NO. 3-24 Provide detailed listing of which North San Saba WSC budget expense and revenue accounts correspond to their audited annual financial report expense and revenues account.

RESPONSE: NSSWSC objects to this request on the grounds that it is vague, unclear, and does not specify a time period with respect to which fiscal year for which information is sought. Subject to and without waiving the stated objections, NSSWSC responds as follows:

Please see the budget provided, Financial Statements previously provided, and Independent Auditor's Report (FSIAR) for the year ended December 31, 2014, (NSSWSC 000771) as well as the Notes listed in the FSIAR.

NO. 3-25 Explain the source of revenues for each account in the North San Saba WSC's 2014 budget.

RESPONSE: NSSWSC responds as follows:

Capital Fee – Contribution to Capital Fee: -- \$750 (Non-Refundable)* at the time of application for Membership. Only New Applicants are required to pay the Contributions to Capital Fee. (From Tariff).

Interest – Money paid regularly at a particular rate for the reserve accounts of NSSWSC.

Late Fee – Fee charged by NSSWSC to its members if the member does not pay its water bill on time. (From Tariff)

Membership Fee -- \$100.00 (Non-refundable) at the time of application for Membership. All Applicants (Transfer and New) are required to pay the Membership Fee.

Reconnects -- A fee NSSWSC charges if the member does not pay its water bill by the 28th of each month. The Member will be notified that if the account is not paid by the 28th of the month, service will be discontinued pending payment, with a re-connection fee of \$50.00, payable in addition to the delinquencies before resumption of service. (From Tariff).

NO. 3-26 Provide a written and/or electronic copy of the WSC's charter and operating rules.

RESPONSE: Please see documents Bates-labelled NSSWSC 000767 to NSSWSC 000770 and NSSWSC 000902 to NSSWSC 000913.

NO. 3-27 Provide all executed agreements and paid invoices for expense/revenue increases that support known and measurable changes during the time North San Saba WSC's board approved the rate increase.

RESPONSE: Please see response to RFI 3-1.

NO. 3-28 Provide the supporting financial statements and detailed transaction listing ledger that reconciles to North San Saba WSC's revenue requirement budget/cost amounts reported in Exhibit KG-3 of Ms. Cages [sic] testimony.

RESPONSE: James Smith of the Texas Rural Water Association came to NSSWSC's office in November 2015 and used the TRWA excel spreadsheet, the Financial Statements, and Independent Auditor's Report for the year ended December 31, 2014, which have all been provided.

OVERSIZED DOCUMENT

CD ATTACHED

**TO VIEW OVERSIZED
DOCUMENT PLEASE CONTACT
CENTRAL RECORDS
512-936-7180**