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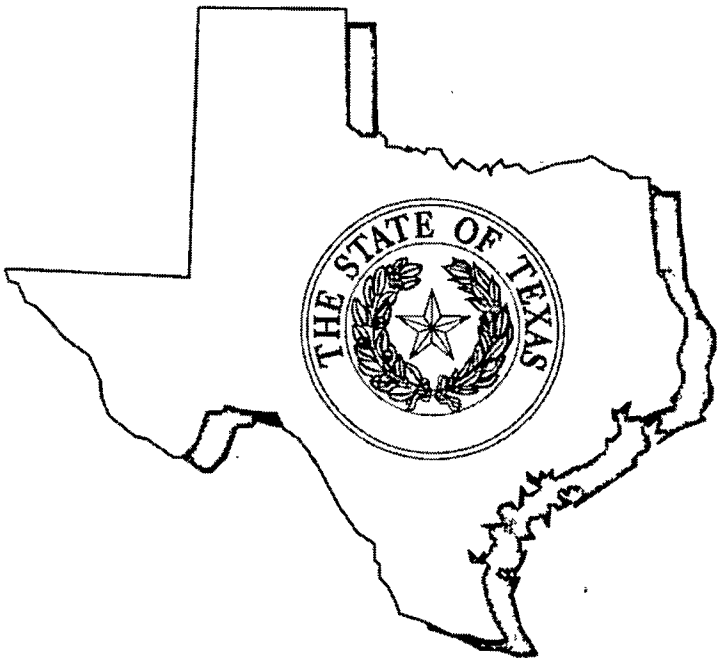
SOAH DOCKET NO. 473-16-3831.WS
PUC DOCKET NO. 45720

APPLICATION OF RIO CONCHO AVIATION, INC. FOR A RATE/TARIFF CHANGE	§	**BEFORE THE STATE OFFICE**
	§	**OF**
	§	**ADMINISTRATIVE**
	§	**HEARINGS**



REDACTED DIRECT TESTIMONY OF ELISABETH ENGLISH WATER UTILITY DIVISION PUBLIC UTLITY COMMISSION OF TEXAS SEPTEMBER 2016

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ATTACHMENTS:

Attachment EE-1	Resume of Elisabeth English
Attachment EE-2	Staff's adjusted depreciation schedule

I. PROFESSIONAL QUALIFICATIONS

Q. Please state your name and business address.

A. Elisabeth English, Public Utility Commission of Texas, 1701 N. Congress Avenue, Austin, Texas 78711-3326.

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

A. I have been employed by the Public Utility Commission of Texas (PUC or Commission) since December 1, 2014, as an Engineering Specialist IV in the Water Utilities Division.

Q. What are your principal responsibilities at the Commission?

A. My responsibilities include: reviewing and processing applications to obtain or amend certificates of convenience and necessity (CCN), Sale/Transfer/Merger (STM) applications, rate/tariff change applications, and rate appeal cases; and participating in negotiating settlements and preparing testimony and exhibits for contested case matters involving investor-owned, non-profit and governmental retail water and sewer utilities. In addition to these responsibilities, I am also assigned to help with several rule amendment and forms projects for the PUC and provide technical and program support for temporary managers/receivers.

Q. Please state your educational background and professional experience.

A. I have provided a summary of my educational background and professional regulatory experience in attachment EE-1.

Q. Please explain how your previous experience relates to this docket.

A. My previous experience directly relates to the regulatory oversight of public water systems (PWS) in Texas. From March 2009 to August 2012, I was a PWS regional investigator for the Texas Commission on Environmental Quality (TCEQ), and from August 2013 until November 2014 I worked in the TCEQ's central office in the Public Drinking Water Division. As an investigator, I conducted Comprehensive Compliance Investigations (CCIs) which evaluated PWS's compliance with 30 Tex. Admin. Code § 290, Subchapter D (TAC). My role while working at the TCEQ in its central office included working on multiple drinking water compliance programs which evaluated PWS's compliance with 30 TAC § 290, Subchapter F. Pursuant to the PUC's rules in 16 TAC § 24.102(a)(1), the review and processing of applications to obtain or amend a water CCN requires the PUC to ensure that the applicant has a TCEQ approved PWS, or a contract for purchased water, and that the applicant is capable of providing drinking water that meets the requirements of Tex. Health and Safety Code § 341 (HSC). In turn, the HSC requires that PWSs comply with the standards set forth in 30 TAC § 290, Subchapters D and F.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Staff of the PUC (Staff).

II. PURPOSE AND SCOPE OF TESTIMONY

Q. What is the purpose of your testimony?

A. I will provide a recommendation in regards to Rio Concho Aviation Inc.'s ("Rio Concho" or "Applicant") application to change the rates charged for water service as filed on March 22, 2016. Specifically, I will present Staff's recommendation for depreciation and a rate

design for water service, primarily focusing on the technical criteria for the rate application.

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

A. My participation regarding State Office of Administrative Hearings (SOAH) Docket No. 473-16-3831.WS may be summarized as follows:

1. I reviewed the rate application with respect to the criteria in the Texas Water Code and the Commission's rules.
2. I reviewed the information provided by all parties during formal discovery.
3. I reviewed the other parties' pre-filed testimonies.
4. I reviewed the pre-filed testimony of Staff Regulatory Accountant/Auditor's, Debi Loockerman and Andrew Novak.
5. I developed a depreciation schedule (Attachment EE-2) from the utility plant in service according to the Commission's rules found in Title 16 of the TAC Chapter 24 and Texas Water Code (TWC) Chapter 13.
6. I analyzed the annual usage provided by the Applicant in their application and the rate structure proposed in the application and designed a rate to recover the revenue requirement recommended by Ms. Loockerman in her testimony.

Q. Did anyone protest this application?

A. Yes, the application was protested by customers of Rio Concho.

III. SUMMARY OF RIO CONCHO'S REQUEST

Q. What is Rio Concho requesting through this application?

A. Rio Concho proposes an increase in retail water rates for residential users to a base rate of

$39.75 from $31.00 per month, with no water usage included.[1] Rio Concho also proposes to increase the volumetric rate for water usage from $5.50 to $7.67[2] per 1,000 gallons. In the pre-filed testimony of Mr. Randal Manus for Rio Concho, the revenue requirement was adjusted. This revenue requirement adjustment resulted in reduction of the proposed volumetric rate from $7.67 to $7.19 per 1,000 gallons.[3]

Q. What is the basis for Rio Concho's proposed rate increase?

In the original application, Rio Concho states that *the water system's customer base and usage historically remain unchanged.*[4] Rio Concho appears to have incurred additional costs via the purchase of a vehicle, an increase in cost of health insurance, and the addition of life insurance in employee benefits.[5]

Q. What test year did you consider when preparing your testimony?

A. I used the test year January 1, 2015 to December 31, 2015 for the rate design and the depreciation calculations.

Q. How many customers did Rio Concho have at the end of the test year?

A. According to the application, there were 240 active retail water connections at the conclusion of the test year.[6]

III-A: Asset Depreciation

Q. Can you explain in general terms what a depreciation schedule is?

A. It is an inventory of the water system facilities (capital investment) with original costs and installation dates. Each asset is assigned a standard service life. Based on straight line

[1] Application, at 47 (Mar. 22, 2016).
[2] *Id.*
[3] Prefiled testimony and exhibits of Randal Manus, at 7 (Aug. 5, 2016) (Manus Testimony)
[4] Application, Attachment 2 at 2.
[5] Application, Attachment 2.
[6] Application, at 8.

depreciation, the annual depreciation expense for each asset is determined by dividing the original cost by the service life.

Q. Can you explain in general terms why depreciation is calculated when setting utility rates?

A. Calculation of the annual depreciation, as a factor in the revenue requirement, allows for the utility to recover its capital investment during the useful life of an asset. Annual depreciation is calculated using the assets that are in service, and used to provide customers utility service, during the test year ("used and useful"). The depreciation is included in rate design to reimburse the owner for the investment in utility plant. This also allows for the utility to generate funds, via the rates charged, to maintain and potentially replace assets used to provide water service. In the American Water Works Association (AWWA) M1 Manual,[7] it is stated that "it is fair that this expense be borne by the customers benefiting from the use of an asset during the useful life of the asset."

Q. What assets should be included on a depreciation schedule?

A. The utility plant in service during the test year that is used and useful for the production and delivery of utility service, and dedicated to that public service. Pursuant to 16 TAC 24.31(b)(1)(B), "*Depreciation is allowed on all currently used depreciable utility property owned by the utility except for property provided by explicit customer agreements or funded by customer contributions in aid of construction.*"

Q. What have you done to verify the installation dates and original costs of Rio Concho's assets?

A. I reviewed information in the application, responses to request for information, the

[7] Principles of Water Rates, Fees, and Charges, Manual of Water Supply Practices M1 (6th ed. 2012).

testimony filed in this docket, and Rio Concho's last application for a rate increase.[8]

III-B: Rate Design

Q. How did you analyze the water rate set by Rio Concho?

A. I used the number of connections at the end of the test year, the amount of water billed in the test year, and the revenue requirement provided to me by Mrs. Loockerman. I then determined the rate I would recommend based on Ms. Loockerman's cost of service and compared it to Rio Concho's proposed rate.

Q. Has Rio Concho provided any water consumption information?

A. Yes, Schedule II-1 in the original application included historical water production and consumption information.

Q. How much water did the average Rio Concho customer consume per month during the test year?

A. The application states that that total water sold during the test year was 4,662,400 gallons.[9] At the end of the test year Rio Concho had 240 customer connections, after a loss of 6 customer connections during the test year.[10] Taking that difference in customer connections into account, the average user consumed approximately 1,600 gallons of water per month.

Q. Is the average consumption per customer higher or lower than a typical household?

A. Based on the numbers above, the average Rio Concho customer uses approximately 53 gallons of water per day, which is lower than the average residential water demand of 93 gallons per day according to the most recent U.S. Geological Survey circular (USGS).[11]

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[8] *Application of Rio Concho Aviation, Inc. for Rate/Tariff Change*, Docket 43728 (Nov. 11, 2014).
[9] Application, at 11.
[10] Application, at 8.
[11] Joan F. Kenny, et al., Estimated Use of Water in the United States in 2005, U.S. Geological Survey

Q. How does the level of water consumption impact a rate design?

A. A successful rate design will allow for the utility to yield a predictable revenue that is based on the cost of service, as presented in a rate application. The elements of the cost of service that are directly related to a utility's water demand should be recovered through the variable component of the rate design, the per thousand gallons rate. This directs a customer to pay a bill equitable to the demand produced by that household, and minimizes the potential for subsidies within the utility's customers.

IV. RECOMMENDATIONS

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

A. Yes. As stated above, the depreciation schedule should include items that are owned by the utility, and are used and useful for the production and delivery of utility service. As such, I recommend that the following items not be included in Rio Concho's depreciation schedule.

1. Audi vehicle [12]
2. Television [13]
3. Office equipment (lamp and sideboard).[14]

My adjustments have the following outcome:

Circular 1344, at 52 (2009).
[12] Application, at attachment 3.
[13] *Id.*
[14] *Id.*

	Rio Concho Application	Staff Adjustment
Original Cost Total:	$210,581.85[15]	$180,053
Annual Depreciation:	$10,562.66[16]	$5,127
Accumulated Depreciation:	$124,267.88[17]	$113,622
Net Plant:	$86,313.97[18]	$66,234

The majority of the changed values can be attributed to the disallowance of the Audi vehicle on the depreciation schedule, which had a claimed original cost of $24,600.00 with a five year service life accumulating $4,920.00[19] depreciation value per year.

Q. Explain why the Audi vehicle is not included in your depreciation schedule?

A. The Audi is primarily used to commute from a home residence to the Rio Concho water office. Rio Concho's distribution system is located on approximately 77 acres, and has 240 service connections. The golf cart and 1995 truck, listed on the depreciation schedule, are sufficient to read meters and check facilities as listed as duties in Ms. Brunson's testimony. Additionally, the water utility facilities (water plant) appear to be adjacent to the water office. The Audi is not owned by Rio Concho. Documentation provided by Rio Concho indicates that the Audi was purchased [redacted]. The cost of fuel, to complete the activities of the business outside of the Rio Concho distribution area, was included in the cost of service. It is my understanding that

[15] Application at 32.
[16] *Id.*
[17] *Id.*
[18] *Id.*
[19] Application, Attachment 3.
[20] [redacted]

Ms. Loockerman did include the cost of driving from the Rio Concho water office to collect supplies necessary for the operations of the water utility, and to drop off a bacteriological water sample once per month, in the cost of service.

Q. Explain why the TV and office equipment is not included in your depreciation schedule?

A. The TV was included in the Applicant's depreciation schedule at a cost of $677.60[21] which included additional items including a [redacted].[22] It is my recommendation that the TV, and the [redacted] be excluded from the depreciation schedule as it does not serve a purpose for providing retail water utility service to the public. The lamp and sideboard were included in the Applicant's depreciation schedule at a cost of $700.92.[23] Again, these items do not appear to serve a purpose for providing retail water utility service to the public. The desk and chairs were included as necessary office expenses, based on the assumption that the desk and chairs are located at the Rio Concho office and not at the residence of Ms. Brunson.

Q. Does the application support Rio Concho's proposed rates?

No.

Q. What are your recommended rates?

Minimum Bill including zero gallons		Gallonage Rates per 1,000 gallons	
Meter Size	Rate		
5/8"	$33.69		$3.20

[21] Application, Attachment 3.
[22] [redacted]
[23] Application, Attachment 3.

Q. What revenue requirement did you use in your review of Rio Concho's proposed rates?

A. I used the annual revenue requirement of $111,936 based on the adjustments to the cost of service recommended by Ms. Loockerman.

Q. How did you calculate the total revenue that would be generated by your proposed volumetric rate?

A. I took the variable costs of the system from Ms. Loockerman's testimony and divided it by total water sold during the test year, 4,662,400 gallons.[24] Considering this, the variable water costs provided by Ms. Loockerman's testimony of $14,890 divided by 4,662,400 gallons (multiplied by 1000), generates $3.20 per 1,000 gallon charge.

Q. How did you calculate the total revenue that would be generated by your recommended proposed base rates?

A. I took the fixed costs of the system from Ms. Loockerman's testimony and divided it by the total number of connections, and then by twelve months within a year. Considering this, the fixed water costs provided by Ms. Loockerman's testimony of $97,047 divided by 240 connections, divided by twelve months generates $33.69 per month per connection.

Q. What would be the total revenue generated by the recommended base rates and the gallonage charges?

A. Adding the base rate revenue of $97,047 to the volumetric charge revenue of $14,920 gives a total revenue of $111,967.

[24] Application, at 11.

Q. How does the recommended base rate and volumetric rate compare to the rates requested by Rio Concho?

A. Rio Concho requested a base rate of $39.75, and a volumetric rate of $7.67 per 1,000 gallons. Based on the test year billed gallons, and the end of year customer service connections, the base rate would generate a revenue of $114, 480 and the volumetric rate would generate $35,757.54. The amended application adjusted the volumetric rate to $7.19, which would generate a revenue of $33,520. In total, the amended application would generate $147,999, which is $36,064 more than Ms. Lockerman's revenue requirement of $111,936.

V. CONCLUSION

Q. Does this conclude your direct, pre-filed testimony?

A. Yes, but I reserve the right to supplement this testimony during the course of the proceeding as new evidence is presented.

Attachment EE-1

Elisabeth English Resume

ELISABETH M. ENGLISH

PROFESSIONAL EXPERIENCE

The Public Utility Commission of Texas, Water Utilities Division, Austin, TX
Engineering Specialist IV December 2014–Present

A technical expert on a broad range of water and sewer utility issues. Work primarily involves reviewing petitions of various parties to the Commission and providing analyses and recommendations regarding the sufficiency, accuracy, and technical specifications of those filings.

- Providing technical assistance and rule interpretations to the public and PUC Staff related to water and sewer utilities.
- Assisting in the creation of Staff guidance documents and administrative rulemakings.
- Preparing written testimony, technical reports, and memoranda supporting staff conclusions regarding the merits of water and sewer applications seeking relief from the Commission.

University of Texas – Arlington, Business Development Division, Austin, TX
Natural Resource Specialist August 2013 November 2014

A representative for the University of Texas-Arlington working with the Texas Commission on Environmental Quality (TCEQ) in the Public Drinking Water Section specializing in rule interpretation and regulatory guidance material for the Drinking Water Quality team.

- Refined the project management of multiple drinking water quality programs to meet regulatory requirements.
- Created regulatory guidance materials and tools to assist the regulated community with compliance, including presentations and workshops.
- Performed an in-depth analysis of all drinking water quality regulations.
- Improved multiple Standard Operating Procedures to standardize workflow, increasing the efficiency of the program.

Texas Commission of Environmental Quality, Region 12, Houston, TX
Environmental Investigator III March 2009 August 2012

A government agent responsible for inspecting and investigating public water systems in Houston and the 12 surrounding counties to verify compliance with the Safe Drinking Water Act (SDWA).

- Evaluated, analyzed, and summarized evidence and investigative findings into written reports related to complaints of complex public water systems. All reports were published for public record.
- Provided professional and administrative support to water consumers and investigated claims of misconduct under the jurisdiction of the TCEQ Office of Water.
- Implemented a Quality Assurance and Quality Control process for complaint investigation reports.
- Created a multi-tiered system for quality assurance for complaint investigation reports.
- Conducted yearly skill tests for a team of 12 investigators to demonstrate competence with equipment and instruments.

EDUCATION

Texas State University, San Marcos, TX
Bachelor of Science, Major in Biology & Minor in English 2003 2008

- Undergraduate Research Assistant at San Marcos National Fish Hatchery: Assisted with the execution of a research proposal under the supervision of Dr. C. Phillips (San Marcos National Fish Hatchery) and Dr. T. Bonner (Texas State University).
- Biology Computer Lab Supervisor and Tutor: Managed the operation of the Biology Computer Lab (Texas State University) including work schedules, bi-yearly reports, and supervising up to four other student assistants. Provided tutoring to biology undergraduate students.

TRAINING & ACTIVITIES

- Occupational Safety and Health Administration/Hazardous Materials certified (40 hours)
- National Incident Management System Emergency Response certified
- Environmental Protection Agency Sanitary Survey Training
- Participation in Texas Water Infrastructure Coordination Committee (TWICC)

Attachment EE-2

Staff's adjusted depreciation schedule

Description	Acquired Date	Claimed Economic Life, yrs	Claimed Original Cost	% Used & Useful	Ver./Est. Original Cost	Economic Life, yrs	Actual Deprec. Life	Annual Deprec.	Accum. Deprec.	Net Plant*	Contributions in Aid of Construction: Developer $	Contributions in Aid of Construction: Customer $
Distrib. System (Mains and Lines)*	1-Dec-12	50	1250	100%	1,250	50	3.08	$25	77	1,173		
Distrib. System (Mains and Lines)*	1-Jan-13	50	1238.71	100%	1,239	50	3.00	$25	74	1,165		
Light Vehicles	17-Jun-05	5	20000	100%	20,000	5	110.54	—	20,000	0		
Light Vehicles (Golfcart,	1-Sep-14	5	2100	100%	2,100	5	1.33	$420	559	1,541		
Office Equipment (Chairs)	1-Oct-14	10	475.2	100%	475	10	1.25	$48	59	416		
Office Equipment (Computer	1-Mar-15	3	756.67	100%	757	3	0.84	$252	211	546		
Office Equipment (software)	31-Mar-15	5	1494	100%	1,494	5	0.75	$299	225	1,269		
Office Equipment (Desk and Chair)	1-Sep-15	10	335.47	100%	335	10	0.33	$34	11	324		
Land	1-May-85	n/a	5184	100%	5,184	n/a	n/a	n/a	n/a	5,184		
Structures												
Masonry		30		100%	0	30		—				
Wood	1-May-85	15	4000	100%	4,000	15	30.67	—	4,000	0		
Well	1-May-85	50	8460	100%	8,460	50	30.67	$169	5,189	3,271		
Pumps												
Booster <5HP	1-Jan-13	5	616	100%	616	5	3.00	$123	369	247		
Booster <5HP	1-Jul-08	5	626	100%	626	5	7.50	—	626	0		
Hypochlorinator	1-Aug-11	10	150	100%	150	10	4.42	$15	66	84		
Tanks												
Pressure	1-May-85	50	5900	100%	5,900	50	30.67	$118	3,619	2,281		
Ground Storage	1-May-85	50	9813	100%	9,813	50	30.67	$196	6,019	3,794		
Distrib. System	1-May-85	50	109220	100%	109,220	50	30.67	$2,184	66,988	42,232		
Paving	1-Apr-13	5	6011	100%	6,011	5	2.75	$1,202	3,305	2,706		
Meters	1-Jan-92	20	1800	100%	1,800	20	24.00	—	1,800	0		
Shop tool - compressor	1-Jan-10	5	376.17	100%	376	5	6.00	—	376	0		
Shop tool - dewalt tool bag	1-Jan-13	15	247.73	100%	248	15	3.00	$17	49	198		
			$205,331		$180,053			$5,127	$113,622	$66,432	$0	$0