

Control Number: 46245



Item Number: 611

Addendum StartPage: 0

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APPLICATION OF DOUBLE § BEFORE THE STATE OFFICE
DIAMOND UTILITY COMPANY, INC. § OF
FOR WATER AND SEWER § ADMINISTRATIVE HEARINGS
RATE/TARIFF CHANGE §

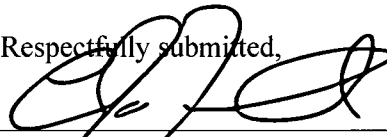
**WHITE BLUFF RATEPAYERS GROUP'S RESPONSE TO
DOUBLE DIAMOND UTILITY COMPANY'S SECOND REQUEST FOR
INFORMATION**

To: Double Diamond Utility Company, Inc., by and through its attorney of record, John Carlton, The Carlton Law Firm, P.L.L.C., 2705 Bee Cave Road, Suite 200, Austin, Texas, 78746

White Bluff Ratepayers Group (WBRG) provides this response Double Diamond Utility Company's Second Request for Information to WBRG. WBRG stipulates that the following responses to the requests for information may be treated by all parties as if the answer was filed under oath.

Dated: October 13, 2017

Respectfully submitted,

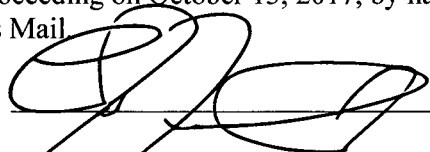


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CERTIFICATE OF SERVICE

I certify that a copy of this Response to Double Diamond's First Request for Information was served on all parties of record in this proceeding on October 13, 2017, by hand-delivery, facsimile, electronic mail, and/or First Class Mail



C. Joe Freeland

DOCKET 46245
RESPONSE TO REQUEST FOR INFORMATION

DDU REQUEST TO WBRG 2-1: Please provide all documents supporting your position that in 2015 it was “common practice in real estate development to finance construction of sewage facilities by the contribution method..., with the cost of such construction reflected in the price paid by the purchasers of homes in the finished development.”

RESPONSE:

WBRG has no documents that expressly demonstrate that this is the common practice. Based on Ms. Heddin’s experience in the industry, most water and sewer utilities in Texas require that developers construct or fund all of the water and sewer infrastructure needed to provide service to a development, which in turn is conveyed to the utility cost free. This is reflected in Double Diamond’s tariff, and in the Commission’s Utility Tariff Form:

http://puc.texas.gov/industry/water/Forms/Sewer_Utility_Tariff.pdf

Section 3.03 - Contributions in Aid of Construction

Developers may be required to provide contributions in aid of construction in amounts sufficient to furnish the development with all facilities necessary to provide for reasonable local demand requirements and to comply with Texas Commission on Environmental Quality minimum design criteria for facilities used in the production, collection, transmission, pumping, or treatment of sewage or Texas Commission on Environmental Quality minimum requirements. For purposes of this subsection, a developer is one who subdivides or requests more than two meters on a piece of property. Commercial, industrial, and wholesale customers will be treated as developers.

Prepared by: Nelisa Heddin

Sponsored by: Nelisa Heddin

DOCKET 46245
RESPONSE TO REQUEST FOR INFORMATION

DDU REQUEST TO WBRG 2-2: Please explain in detail the definition of “funded” as used in Tables NDH-1 and NDH-2

RESPONSE:

“Funded” as used in Tables NDH-1 and NDH-2 refers to the entity that paid for the asset as shown on the documents produced by DDU in response to RFIs. For example, the term “DDPC Funded” means that Double Diamond Property Construction was the purchaser or the source of funds for the purchase of the asset as shown on the documents provided by DDU. Likewise, “DDU Funded” means that Double Diamond Utilities was shown as the purchaser or was the source of funds.

Prepared by: Nelisa Heddin

Sponsored by: Nelisa Heddin

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RESPONSE TO REQUEST FOR INFORMATION

DDU REQUEST WBRG 2-3: Please provide all documents relating to the definition of “funded” provided in response to WBRG 2-1.

RESPONSE:

As stated in Nelisa Heddin’s direct testimony, the source of the information in Tables NDH-1 and NDH-2 was the RFI responses provided by DDU. These documents can be found at on the following documents:

<https://mandf.box.com/s/1ngbf4otebz03r6l39sltz4gf3ig6fg>

Prepared by: Nelisa Heddin

Sponsored by: Nelisa Heddin

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RESPONSE TO REQUEST FOR INFORMATION

DDU REQUEST WBRG 2-4: Please provide all documents relating to your position that the assets listed as transactions in table NDH-1 and NDH-2 should not be considered from the invested capital of the utility.

RESPONSE:

Please see WBRG'S prefiled direct testimony and exhibits filed on September 8, 2017, and the information about the assets provided by DDU in discovery and in prior rate cases.

Prepared by: Nelisa Heddin

Sponsored by: Nelisa Heddin

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RESPONSE TO REQUEST FOR INFORMATION

DDU REQUEST TO WBRG 2-5: Please provide all documents supporting your position that the any of the assets listed as transactions in table NDH-1 and NDH-2 were sourced from capital that originated from lot sales.

RESPONSE:

Please see WBRG'S prefiled direct testimony and exhibits filed on September 8, 2017, and the information about the assets provided by DDU in discovery, and in prior rate cases.

Prepared by: Nelisa Heddin

Sponsored by: Nelisa Heddin

DOCKET 46245
RESPONSE TO REQUEST FOR INFORMATION

DDU REQUEST TO WBRG 2-6: Please provide all documents relating to “funding” for the assets listed as transactions in table NDH-1 and NDH-2

RESPONSE:

Please see WBRG’S prefiled direct testimony and exhibits filed on September 8, 2017, and the information about the assets provided by DDU in discovery. See also response to DDU Request to WBRG 2-3.

Prepared by: Counsel for WBRG

DOCKET 46245
RESPONSE TO REQUEST FOR INFORMATION

DDU REQUEST TO WBRG 2-7: Please explain in detail the type of documents that would be used to show the source of the capital used to purchase the assets originated from utility rates

RESPONSE:

The following types of documents could be used to show the source capital used to purchase the assets originated from utility capital:

- Full federal income tax returns dating back to when infrastructure was first constructed, which might show detailed listing of the cost basis of the lots and depreciation schedules that could be reconciled with asset schedules used for rate purposes.
- Internal memos or directives showing that the capitalization approach used for tax purposes was actually used when recording assets.
- A complete reconciliation between tax depreciation schedules and assets lists.
- Invoices for assets and check stubs showing the source of payment.
- Incorporation documents showing that the utility entity existed at the time the infrastructure was constructed.
- STM applications showing the assets transferred to the utility, the original cost value of those assets, and the cost paid by the utility.

Prepared by: Nelisa Heddin

Sponsored by: Nelisa Heddin

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RESPONSE TO REQUEST FOR INFORMATION

DDU REQUEST TO WBRG 2-8: Please explain in detail how the recommended 2% amount on page 47, line 3 of Ms. Heddin's testimony was calculated?

RESPONSE:

Ms. Heddin's recommended 2% reduction in return on equity is based on a number of factors including those set out in the TCEQ Rate of Return Worksheet – unaccounted for water, poorly maintained books and records, poor customer service, inaccurate rate filings. As set out in Ms. Heddin's testimony, the primary factor for recommending a reduction in return is to provide an incentive for DDU to significantly reduce its unaccounted for water. During the test year, DDU claims that 50% of the water it produced was not accounted for as a sale. Whatever the cause, this unaccounted for water is increasing DDU's cost of service and the rates sought in this application. The suggested amount of 2% is based on the TCEQ Rate of Return Worksheet, which would have reduced the recommended return by 2% for line losses in excess of 15%.

Prepared by: Nelisa Heddin

Sponsored by: Nelisa Heddin

DOCKET 46245
RESPONSE TO REQUEST FOR INFORMATION

DDU REQUEST TO WBRG 2-9: Please identify and describe in detail any rate study prepared by Ms. Heddin for an investor-owned utility, including the name of the investor-owned utility, the application number, the agency with jurisdiction, and the date of filing.

RESPONSE:

Southern Horizons Development, Inc. CCN No. 12863, the application is in process now and has not been filed as of yet. The PUC will jurisdiction.

La Ventana Water Co. CCN 12920, the application was prepared on behalf of the utility with an anticipated filing in Spring 2014. However, the utility was sold to another entity and the application was never filed.

Fair Management – Ms. Heddin performed work for Fair Management looking at the potential of providing wastewater services (currently on septic systems). The analysis was conceptual in nature to show the potential effects of changing to a wastewater utility would have on rates. No application was ever filed.

Prepared by: Nelisa Heddin

Sponsored by: Nelisa Heddin

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RESPONSE TO REQUEST FOR INFORMATION

DDU REQUEST TO WBRG 2-10: Referencing point #3 on WBRG000080, please identify any instances where DDU treated expenditures for the water and sewer systems as current expenses rather than capitalizing and depreciating the expenditures. Provide any documents used to respond to this request.

RESPONSE:

Despite repeated requests, DDU has failed to produce full tax information dating back to the initial construction of infrastructure at White Bluff, and has failed to produce a reconciliation between the tax depreciation schedules produced in discovery and the asset values claimed in its application. Without this information, WBRG has insufficient information to respond to this request.

Prepared by: Nelisa Heddin

Sponsored by: Nelisa Heddin