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SOAH DOCKET NO. 473-17-0019.WS  
PUC DOCKET NO. 46245

2017 OCT 23 PM 3:00

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

**COMMISSION STAFF'S FIRST ERRATA TO THE  
DIRECT TESTIMONY OF JONATHAN RAMIREZ**

The Staff of the Public Utility Commission of Texas (Staff) submits this first errata to the Direct Testimony of Jonathan Ramirez, originally filed on September 22, 2017. This errata revises pages 6-10 and 12, Attachment JR-2 Staff Schedules I, II, and V, and Attachment JR-3 Staff Schedules I, II, IV, and V, and includes Supplemental Workpapers. These changes are reflected in the attached red-lined and clean versions of Mr. Ramirez's errata testimony.

These revisions will be filed in paper form and uploaded electronically to the Commission's Interchange.

630

Dated: October 23, 2017

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS  
LEGAL DIVISION**

Margaret Uhlig Pemberton  
Division Director

Stephen Mack  
Managing Attorney



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**SOAH DOCKET NO. 473-17-0019.WS  
PUC DOCKET NO. 46245**

**CERTIFICATE OF SERVICE**

I certify that a copy of this document will be served on all parties of record on October 23, 2017 in accordance with 16 TAC § 22.74.



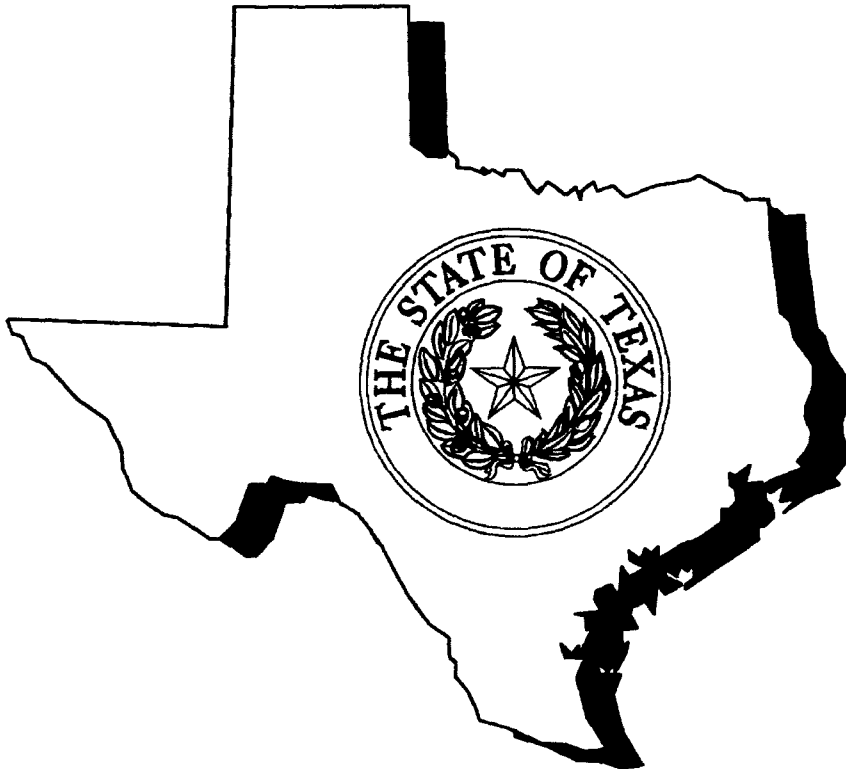
Erika N. Garcia

SOAH DOCKET NO. 473-17-0119.WS  
PUC DOCKET NO. 46245

APPLICATION OF DOUBLE DIAMOND  
UTILITY COMPANY, INC. FOR A  
WATER AND SEWER RATE/TARIFF  
CHANGE

§  
§  
§  
§

BEFORE THE STATE OFFICE  
OF  
ADMINISTRATIVE  
HEARINGS



ERRATA TO THE DIRECT TESTIMONY OF  
JONATHAN RAMIREZ  
WATER UTILITY REGULATION  
PUBLIC UTILITY COMMISSION OF TEXAS  
SEPTEMBER 22, 2017

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1                                    RR    =    Revenue Requirement

2                                    E     =    Operating Expense

3                                    D     =    Depreciation Expense

4                                    T     =    Taxes

5                                    RB    =    Rate Base

6                                    ROR  =    Overall Rate of Return

7    **Q.    WHAT IS THE BASIS FOR REVENUE REQUIREMENT?**

8    A.    In Texas, a utility method revenue requirement is determined by developing a cost of service  
9        based on a historical test year. Pursuant to 16 Tex. Admin. Code ~~Tex. Admin. Code~~ § 24.31(b) (TAC):

10                    Only those expenses that are reasonable and necessary to provide service to the  
11                    ratepayers may be included in allowable expenses. In computing a utility's  
12                    allowable expenses, only the utility's test year expenses as adjusted for known  
13                    and measurable changes may be considered. A change in rates must be based  
14                    on a test year as defined in § 24.3(71) of this title (relating to Definitions of  
15                    Terms).

16

17    **Q.    WHAT REVENUE REQUIREMENT IS THE CLIFFS REQUESTING IN THIS**  
18        **CASE?**

19    A.    DDU originally filed its application on August 1, 2016. DDU amended its application on  
20        August 4, 2016. In the amended application, The Cliffs is requesting a revenue requirement,  
21        expressed in the equation above, of  $\$429,016 = \$286,150 + \$78,443 + \$10,545 + \$5,576 +$

---

Direct Testimony of Jonathan Ramirez

September 22, 2017

1           \$48,302 for its water system. The Cliffs is also requesting a revenue requirement \$319,774  
2           = \$230,581 + \$29,263 + \$9,970 + \$5,171 + \$44,789 for its sewer system.

3   **Q.   WHAT REVENUE REQUIREMENT IS STAFF RECOMMENDING IN THIS**  
4   **CASE?**

5   A.   Staff recommends a revenue requirement of \$391,091 ~~\$386,279~~ = \$264,438 ~~\$260,845~~ +  
6       \$75,905 + \$14,547 ~~\$13,327~~ + (\$520,143 x 6.96%) for water, and \$288,713 ~~\$284,035~~ =  
7       \$210,674 ~~\$206,935~~ + \$28,256 + \$14,097 ~~\$13,157~~ + (\$512,752 x 6.96%) for sewer.<sup>1</sup>

8   **Q.   WHAT PRINCIPLES AND REQUIREMENTS WERE USED AS THE BASIS FOR**  
9   **YOUR RECOMMENDATION?**

10   A.   My recommendation is based on regulatory requirements included in Texas Water Code §  
11       13.185 (TWC), 16 TAC §§ 24.31 and 24.33, my experience, and utility practices in Texas.

12

13   **IV.   EXPENSE ADJUSTMENT SUMMARY FOR THE CLIFFS**

14   **Q.   PLEASE SUMMARIZE STAFF'S RECOMMENDED ADJUSTMENTS TO**  
15   **OPERATION AND MAINTENANCE EXPENSES.**

16   A.   Staff recommends adjusting the following for water:

17

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<sup>1</sup> Attachment JR-2

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Direct Testimony of Jonathan Ramirez

September 22, 2017

Account Name	The Cliffs' Request	Staff's Adjustment	Staff's Recommended Allowance
<del>Other Volume Related Expenses</del>	\$21,107	(\$1,050)	\$20,057
Transportation	\$15,924	<del>(\$1,637) (\$4,593)</del>	<u>\$14,287</u> \$11,331
Miscellaneous	\$22,432	<del>(\$20,075) (\$19,663)</del>	<u>\$2,357</u> \$2,769
<b>Total O&amp;M Adjustments</b>		<b><u>(\$21,712)</u> <del>(\$25,306)</del></b>	

1

2 Staff recommends adjusting the following for sewer:

Account Name	The Cliffs' Request	Staff's Adjustment	Staff's Recommended Allowance
<del>Other Volume Related Expenses</del>	\$373	(\$373)	\$0
Transportation	\$13,261	<del>(\$1,637) (\$4,593)</del>	<u>\$11,624</u> \$8,668
Miscellaneous	\$18,681	<del>(\$18,270) (\$18,681)</del>	<u>\$411</u> \$0
<b>Total O&amp;M Adjustments</b>		<b><u>(\$19,907)</u> <del>(\$23,647)</del></b>	

3

4 **V. EXPENSE ADJUSTMENTS FOR THE CLIFFS**

5 **A. OTHER VOLUME RELATED EXPENSES**

6 ~~**Q. WHAT IS THE CLIFFS' OTHER VOLUME RELATED EXPENSES CLAIMED?**~~

7 ~~A. The Cliffs other volume related expenses claimed is \$21,107 for water, and \$373 for sewer.~~

8 ~~**Q. WHAT IS THE CLIFFS' BASIS FOR THE OTHER VOLUME RELATED**~~  
9 ~~**EXPENSES CLAIMED?**~~

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Direct Testimony of Jonathan Ramirez

September 22, 2017

1 ~~A. The Cliffs Other Volume Related Expenses includes repair and maintenance chemicals, and~~  
2 ~~repair and maintenance equipment.~~

3 **Q. WHAT DOES STAFF RECOMMEND FOR OTHER VOLUME RELATED**  
4 **EXPENSES?**

5 A. Staff has been provided additional information in rebuttal that addresses its concerns; therefore, Staff no longer  
6 recommends these adjustments. Staff recommends removing \$1,050 from water, and \$373 from sewer.

7 ~~**Q. WHAT IS STAFF'S BASIS FOR REMOVING THESE AMOUNTS?**~~

8 ~~A. Staff recommends removing these amounts because the amounts in the trial balances are not supported by~~  
9 ~~invoices.<sup>2</sup> Therefore, Staff recommends removal of these amounts from the Other Volume Related Expenses.~~

10 **B. TRANSPORTATION**

11 **Q. WHAT IS THE CLIFFS' TRANSPORTATION EXPENSE CLAIMED?**

12 A. The Cliffs is claiming \$15,924 for water, and \$4,593 for sewer.

13 **Q. WHAT IS THE COMPANY'S BASIS FOR ITS TRANSPORTATION EXPENSE**  
14 **CLAIMED?**

15 A. The Cliffs Transportation Expense includes vehicle expense, vehicle fuel expense, and  
16 vehicle lease.

17

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<sup>2</sup> ~~Workpapers of Jonathan Ramirez at 1-2.~~

Direct Testimony of Jonathan Ramirez

September 22, 2017



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1 **Q. WHAT DOES STAFF RECOMMEND FOR TRANSPORTATION EXPENSE?**

2 A. Staff recommends removing \$1,637 ~~\$4,593~~ from water, and \$1,637 ~~\$4,593~~ from sewer.

3 **Q. WHAT IS THE BASIS FOR STAFF'S REMOVAL OF THESE AMOUNTS?**

4 A. Staff recommends removing these amounts because there were several journal entries  
5 represented by these amounts that were marked with dates outside the test year. ~~were unsupported by vehicle~~  
6 ~~logs, receipts or invoices.~~ Staff recommends removal of these amounts from the cost of service.<sup>3</sup>

7 **C. MISCELLANEOUS**

8 **Q. WHAT IS THE CLIFFS' CLAIM FOR MISCELLANEOUS EXPENSES?**

9 A. The Cliffs is claiming miscellaneous expenses of \$22,432 for water and \$18,681 for sewer.

10 **Q. WHAT IS THE CLIFFS' BASIS FOR MISCELLANEOUS EXPENSES?**

11 A. The Cliffs miscellaneous expenses included equipment leases, training and education, sewer  
12 tap expense, allocated resort overhead, and "allocated resort G&A".

13 **Q. WHAT IS STAFF'S RECOMMENDATION FOR MISCELLANEOUS EXPENSES?**

14 A. Staff recommends removing \$20,075 ~~\$19,663~~ for water, and \$18,270 ~~\$18,681~~ for sewer  
15 which includes the allocation for both resort overhead and resort G&A, ~~sewer tap expense,~~  
16 ~~and equipment lease.~~

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<sup>3</sup> Supplemental Workpapers of Jonathan Ramirez at 1-3 3-5.

Direct Testimony of Jonathan Ramirez

September 22, 2017

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1       **THIS CASE?**

2       A.    Yes. Both other taxes and federal income taxes were adjusted based on the flow-through  
3            calculations due to Staff's recommended changes to the cost of service.

4       **Q.    WHAT IS THE REDUCTION TO OTHER TAXES?**

5       A.    Other taxes were reduced by \$686 ~~\$281~~ for water, and \$561 ~~\$281~~ for sewer.

6       **Q.    WHAT IS THE REDUCTION TO FEDERAL INCOME TAXES?**

7            Federal income taxes were reduced by \$888 ~~\$2,108~~ for water, and \$483 ~~\$2,281~~ for sewer.

8       **VI.   RATE CASE EXPENSES FOR WHITE BLUFF AND THE CLIFFS**

9       **Q.    WHAT IS RATE CASE EXPENSES?**

10      A.    A utility may recover rate case expenses, including attorney fees, incurred as a result of  
11            filing a rate-change application pursuant to TWC §§ 13.187 or 13.1871, only if the expenses  
12            are just, reasonable, necessary, and in the public interest. Pursuant to 16 TAC § 24.33 a  
13            utility may not recover any rate case expenses if the increase in revenue generated by the just  
14            and reasonable rate determined by the Commission after a contested case hearing is less than  
15            51% of the increase in revenue that would have been generated by a utility's proposed rate.

16      **Q.    DO YOU RECOMMEND ANY ADJUSTMENTS TO RATE CASE EXPENSES?**

17      A.    Yes. At this point in time, Staff recommends recovery of zero (\$0) rate case expenses.

18

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Direct Testimony of Jonathan Ramirez

September 22, 2017

SOAH DOCKET NO. 473-17-0117.WS  
PUC DOCKET NO. 46245  
COMPANY NAME Double Diamond Utility Company, Inc. - The Cliffs Subdivision - Water  
TEST YEAR END 31-Dec-15

Attachment JR-2 ERRATA Staff Schedule I  
Revenue Requirement

	Test Year Total	Company Adjustments To Test Year	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
	(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
<b>REVENUE REQUIREMENT</b>					
Operations and Maintenance	\$ 260,326	\$ 25,824	\$ 286,150	\$ (21,712)	\$ 264,438
Depreciation and Amortization Expense	\$ 45,823	\$ 32,620	\$ 78,443	\$ (2,538)	\$ 75,905
Taxes Other Than Income	\$ 10,849	\$ (304)	\$ 10,545	\$ (686)	\$ 9,859
Federal Income Taxes	\$ -	\$ 5,576	\$ 5,576	\$ (888)	\$ 4,688
Return on Invested Capital	\$ 15,032	\$ 33,269	\$ 48,301	\$ (12,099)	\$ 36,202
<b>TOTAL</b>	<b>\$ 332,030</b>	<b>\$ 96,985</b>	<b>\$ 429,015</b>	<b>\$ (37,924)</b>	<b>\$ 391,091</b>
Other Revenues - Taps, Recon, late fee, Etc.				\$	-
Revenue Requirement Used to Set Rates	\$ 332,030	\$ 96,985	\$ 429,015	\$ (37,924)	\$ 391,091

SOAH DOCKET NO. 473-17-0117.WS  
PUC DOCKET NO. 46245  
COMPANY NAME Double Diamond Utility Company, Inc. - The Cliffs Subdivision - Water  
TEST YEAR END 31-Dec-15

Attachment JR-2 ERRATA Staff Schedule II  
O&M Expense

OPERATIONS AND MAINTENANCE EXPENSE		Test Year Total	Company Adjustments To Test Year	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
Acct. No.	ACCOUNT	(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
610	PURCHASED WATER			\$0		\$0
615	POWER EXPENSE-PRODUCTION ONLY	\$18,275		\$18,275		\$18,275
618	OTHER VOLUME RELATED EXPENSES	\$21,107		\$21,107		\$21,107
601-1	EMPLOYEE LABOR	\$61,126	\$25,824	\$86,950		\$86,950
620	MATERIALS	\$1,636		\$1,636		\$1,636
631-636	CONTRACT WORK	\$12,110		\$12,110		\$12,110
650	TRANSPORTATION EXPENSES	\$15,924		\$15,924	-\$1,637	\$14,287
664	OTHER PLANT MAINTENANCE	\$65,828		\$65,828		\$65,828
601-2	OFFICE SALARIES			\$0		\$0
601-3	MANAGEMENT SALARIES			\$0		\$0
604	EMPLOYEE PENSIONS & BENEFITS			\$0		\$0
615	PURCHASED POWER-OFFICE ONLY			\$0		\$0
670	BAD DEBT EXPENSE			\$0		\$0
676	OFFICE SERVICES & RENTALS			\$0		\$0
677	OFFICE SUPPLIES & EXPENSES	\$6,088		\$6,088		\$6,088
678	PROFESSIONAL SERVICES	\$21,231		\$21,231		\$21,231
684	INSURANCE	\$11,243		\$11,243		\$11,243
666	REGULATORY EXPENSE (RATE CASE)			\$0		\$0
667	REGULATORY EXPENSE (OTHER)	\$3,326		\$3,326		\$3,326
675	MISCELLANEOUS	\$22,432		\$22,432	-\$20,075	\$2,357
	<b>TOTAL</b>	<b>\$260,326</b>	<b>\$25,824</b>	<b>\$286,150</b>	<b>-\$21,712</b>	<b>\$264,438</b>

\*Rounding

SOAH DOCKET NO.	473-17-0117.WS	Attachment JR -2 ERRATA Staff Schedule V
PUC DOCKET NO.	46245	Federal Income Taxes
COMPANY NAME	Double Diamond Utility Company, Inc. - The Cliffs - Water	
TEST YEAR END	31-Dec-15	

	Test Year Total	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
FEDERAL INCOME TAXES	(a)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
Return	Total	\$ 93,091	\$ (21,202)	\$ 71,889
Less			\$ -	
Interest Included in Return		\$ 37,018	\$ (13,055)	\$ 23,963
Plus			\$ -	
Other Adjustments			\$ -	
<b>TAXABLE COMPONENT OF RETURN</b>		\$ 56,073	\$ (8,147)	\$ 47,926
TAX RATE		16%		25%
TAX FACTOR	(1/(1-TR))*(TR)	0.191648077	\$ 0.14	0.333333333
<b>FEDERAL INCOME TAX BEFORE ADJUSTMENTS</b>		\$ 10,746	\$ 5,229	\$ 15,975
LESS			\$ -	
Surtax Exemption		\$ -	\$ (6,667.00)	\$ (6,667.00)
<b>TOTAL FEDERAL INCOME TAXES</b>		\$ 10,746	\$ (1,438)	\$ 9,308
Allocation Factor	(Cliffs Sewer NI/Total Cliffs NI)	52%	\$ -	50%
Allocated to The Cliffs - Water		\$ 5,576	\$ (888)	\$ 4,688

SOAH DOCKET NO. 473-17-0117.WS  
PUC DOCKET NO. 46245  
COMPANY NAME Double Diamond Utility Company, Inc. - The Cliffs Subdivision - Sewer  
TEST YEAR END 31-Dec-15

Attachment JR- 3 ERRATA Staff Schedule I  
Revenue Requirement

	Test Year Total	Company Adjustments To Test Year	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
<b>REVENUE REQUIREMENT</b>	(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
Operations and Maintenance	\$ 194,534	\$ 36,047	\$ 230,581	\$ (19,907)	\$ 210,674
Depreciation and Amortization Expense	\$ 38,159	\$ (8,896)	\$ 29,263	\$ (1,007)	\$ 28,256
Taxes Other Than Income	\$ 9,035	\$ 935	\$ 9,970	\$ (561)	\$ 9,409
Federal Income Taxes	\$ -	\$ 5,171	\$ 5,171	\$ (483)	\$ 4,688
Return on Invested Capital	\$ (36,428)	\$ 81,218	\$ 44,790	\$ (9,102)	\$ 35,688
<b>TOTAL</b>	\$ 205,300	\$ -	\$ 319,775	\$ (31,062)	\$ 288,713
Other Revenues - Taps, Recon, late fee, Etc.				\$ -	
Revenue Requirement Used to Set Rates	\$ 205,300	\$ 114,475	\$ 319,775	\$ (31,062)	\$ 288,713

SOAH DOCKET NO. 473-17-0117.WS  
PUC DOCKET NO. 46245  
COMPANY NAME Double Diamond Utility Company, Inc. - The Cliffs Subdivision - Sewer  
TEST YEAR END 31-Dec-15

Attachment JR-3 ERRATA Staff Schedule II  
O&M Expense

OPERATIONS AND MAINTENANCE EXPENSE		Test Year Total	Company Adjustments To Test Year	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
Acct. No.	ACCOUNT	(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
610	PURCHASED WATER			\$0		\$0
615	POWER EXPENSE-PRODUCTION ONLY	\$3,292		\$3,292		\$3,292
618	OTHER VOLUME RELATED EXPENSES	\$373		\$373		\$373
601-1	EMPLOYEE LABOR	\$50,903	\$36,047	\$86,950		\$86,950
620	MATERIALS	\$1,363		\$1,363		\$1,363
631-636	CONTRACT WORK	\$10,084		\$10,084		\$10,084
650	TRANSPORTATION EXPENSES	\$13,261		\$13,261	-\$1,637	\$11,624
664	OTHER PLANT MAINTENANCE	\$57,231		\$57,231		\$57,231
601-2	OFFICE SALARIES			\$0		\$0
601-3	MANAGEMENT SALARIES			\$0		\$0
604	EMPLOYEE PENSIONS & BENEFITS			\$0		\$0
615	PURCHASED POWER-OFFICE ONLY			\$0		\$0
670	BAD DEBT EXPENSE			\$0		\$0
676	OFFICE SERVICES & RENTALS			\$0		\$0
677	OFFICE SUPPLIES & EXPENSES	\$5,069		\$5,069		\$5,069
678	PROFESSIONAL SERVICES	\$3,028		\$3,028		\$3,028
684	INSURANCE	\$9,363		\$9,363		\$9,363
666	REGULATORY EXPENSE (RATE CASE)			\$0		\$0
667	REGULATORY EXPENSE (OTHER)	\$21,886		\$21,886		\$21,886
675	MISCELLANEOUS	\$18,681		\$18,681	-\$18,270	\$411
	<b>TOTAL</b>	<b>\$194,534</b>	<b>\$36,047</b>	<b>\$230,581</b>	<b>-\$19,907</b>	<b>\$210,674</b>

\*Rounding

SOAH DOCKET NO. 473-17-0117.WS  
PUC DOCKET NO. 46245  
COMPANY NAME Double Diamond Utility Company, Inc. -The Cliffs Subdivision - Sewer  
TEST YEAR END 31-Dec-15

Attachment JR-3 ERRATA Staff Schedule IV  
Taxes Other Than FIT

	Test Year Total	Company Adjustments To Test Year	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
TAXES OTHER THAN FIT	(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
<b>Non-Revenue Related</b>					
Ad Valorem Taxes	\$ 721		\$ 721		\$ 721
Total Property	\$ 721	\$ -	\$ 721		\$ 721
<b>Payroll Taxes</b>					
FICA			\$ 5,391		\$ 5,391
MEDICARE			\$ 1,261		\$ 1,261
MEDICARE-Affordable Care Act			\$ -		\$ -
FUTA			\$ 147	\$ (102)	\$ 45
SUTA			\$ 473	\$ (460)	\$ 13
Total Payroll	\$ 11,692	\$ (4,420)	\$ 7,272	\$ (562)	\$ 6,710
<b>Other Taxes</b>					
Other taxes and Licenses	\$ 1,978		\$ 1,978		\$ 1,978
Total Other Taxes	\$ 1,978		\$ 1,978	\$ -	\$ 1,978
<b>TOTAL TAXES OTHER THAN INCOME</b>	<b>\$ 14,391</b>	<b>\$ (4,420)</b>	<b>\$ 9,971</b>	<b>\$ (562)</b>	<b>\$ 9,409</b>



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PUC DOCKET NO. 46245  
COMPANY NAME Double Diamond Utility Company, Inc. - The Cliffs Subdivision - Sewer  
TEST YEAR END 31-Dec-15

Attachment JR-3 ERRATA Staff Schedule V  
Federal Income Taxes

	Test Year Total (a)	Company Requested Test Year Total (c)=(a)+(b)	Staff Adjustments To Company Request (d)	Staff Adjusted Total (e)=(c)+(d)
<u>FEDERAL INCOME TAXES</u>				
Return	Total	\$ 93,091		\$ 71,889
Less				
Interest Included in Return		\$ 37,018		\$ 23,963
Plus				
Other Adjustments				
<u>TAXABLE COMPONENT OF RETURN</u>		\$ 56,073		\$ 47,926
TAX RATE		16%		25%
TAX FACTOR (1/(1-TR))*(TR)		0.191648077		0.333333333
<u>FEDERAL INCOME TAX BEFORE ADJUSTMENTS</u>		\$ 10,746	\$ -	\$ 15,975
LESS				
Surtax Exemption		\$ -		\$ (6,667.00)
<u>TOTAL FEDERAL INCOME TAXES</u>		\$ 10,746		\$ 9,308
Allocation Factor (Cliffs Sewer NI/Total Cliffs NI)		60.06%		50.36%
<u>Allocated to The Cliffs - Sewer</u>		\$ 6,454	\$ (1,767)	\$ 4,688

**SOAH DOCKET NO. 473-17-0119.WS  
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UTILITY COMPANY, INC. FOR A  
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CHANGE**

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**BEFORE THE STATE OFFICE  
OF  
ADMINISTRATIVE  
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**ERRATA TO THE DIRECT TESTIMONY OF  
JONATHAN RAMIREZ  
WATER UTILITY REGULATION  
PUBLIC UTILITY COMMISSION OF TEXAS  
SEPTEMBER 22, 2017**

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1                                   RR    =    Revenue Requirement

2                                   E     =    Operating Expense

3                                   D     =    Depreciation Expense

4                                   T     =    Taxes

5                                   RB    =    Rate Base

6                                   ROR  =    Overall Rate of Return

7   **Q.    WHAT IS THE BASIS FOR REVENUE REQUIREMENT?**

8   A.    In Texas, a utility method revenue requirement is determined by developing a cost of service  
9        based on a historical test year. Pursuant to 16 Tex. Admin. Code § 24.31(b) (TAC):

10            Only those expenses that are reasonable and necessary to provide service to the  
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15            Terms).

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17   **Q.    WHAT REVENUE REQUIREMENT IS THE CLIFFS REQUESTING IN THIS**  
18        **CASE?**

19   A.    DDU originally filed its application on August 1, 2016. DDU amended its application on  
20        August 4, 2016. In the amended application, The Cliffs is requesting a revenue requirement,  
21        expressed in the equation above, of  $\$429,016 = \$286,150 + \$78,443 + \$10,545 + \$5,576 +$

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Direct Testimony of Jonathan Ramirez

September 22, 2017

1 \$48,302 for its water system. The Cliffs is also requesting a revenue requirement \$319,774  
2 = \$230,581 + \$29,263 + \$9,970 + \$5,171 + \$44,789 for its sewer system.

3 **Q. WHAT REVENUE REQUIREMENT IS STAFF RECOMMENDING IN THIS**  
4 **CASE?**

5 A. Staff recommends a revenue requirement of \$391,091 = \$264,438 + \$75,905 + \$14,547 +  
6 (\$520,143 x 6.96%) for water, and \$288,713 = \$210,674 + \$28,256 + \$14,097 + (\$512,752  
7 x 6.96%) for sewer.<sup>1</sup>

8 **Q. WHAT PRINCIPLES AND REQUIREMENTS WERE USED AS THE BASIS FOR**  
9 **YOUR RECOMMENDATION?**

10 A. My recommendation is based on regulatory requirements included in Texas Water Code §  
11 13.185 (TWC), 16 TAC §§ 24.31 and 24.33, my experience, and utility practices in Texas.

12

13 **IV. EXPENSE ADJUSTMENT SUMMARY FOR THE CLIFFS**

14 **Q. PLEASE SUMMARIZE STAFF'S RECOMMENDED ADJUSTMENTS TO**  
15 **OPERATION AND MAINTENANCE EXPENSES.**

16 A. Staff recommends adjusting the following for water:

17

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<sup>1</sup> Attachment JR-2

Direct Testimony of Jonathan Ramirez

September 22, 2017

Account Name	The Cliffs' Request	Staff's Adjustment	Staff's Recommended Allowance
Transportation	\$15,924	(\$1,637)	\$14,287
Miscellaneous	\$22,432	(\$20,075)	\$2,357
<b>Total O&amp;M Adjustments</b>		<b>(\$21,712)</b>	

1

2 Staff recommends adjusting the following for sewer:

Account Name	The Cliffs' Request	Staff's Adjustment	Staff's Recommended Allowance
Transportation	\$13,261	(\$1,637)	\$11,624
Miscellaneous	\$18,681	(\$18,270)	\$411
<b>Total O&amp;M Adjustments</b>		<b>(\$19,907)</b>	

3

4 **V. EXPENSE ADJUSTMENTS FOR THE CLIFFS**

5 **A. OTHER VOLUME RELATED EXPENSES**

6

7

8

9

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Direct Testimony of Jonathan Ramirez

September 22, 2017

1

2

3 **Q. WHAT DOES STAFF RECOMMEND FOR OTHER VOLUME RELATED**  
4 **EXPENSES?**

5 A. Staff has been provided additional information in rebuttal that addresses its concerns;  
6 therefore, Staff no longer recommends these adjustments.

7

8

9

10 **B. TRANSPORTATION**

11 **Q. WHAT IS THE CLIFFS' TRANSPORTATION EXPENSE CLAIMED?**

12 A. The Cliffs is claiming \$15,924 for water, and \$4,593 for sewer.

13 **Q. WHAT IS THE COMPANY'S BASIS FOR ITS TRANSPORTATION EXPENSE**  
14 **CLAIMED?**

15 A. The Cliffs Transportation Expense includes vehicle expense, vehicle fuel expense, and  
16 vehicle lease.

17

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Direct Testimony of Jonathan Ramirez

September 22, 2017

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1 **Q. WHAT DOES STAFF RECOMMEND FOR TRANSPORTATION EXPENSE?**

2 A. Staff recommends removing \$1,637 from water, and \$1,637 from sewer.

3 **Q. WHAT IS THE BASIS FOR STAFF'S REMOVAL OF THESE AMOUNTS?**

4 A. Staff recommends removing these amounts because there were several journal entries  
5 represented by these amounts that were marked with dates outside the test year. Staff  
6 recommends removal of these amounts from the cost of service.<sup>2</sup>

7 **C. MISCELLANEOUS**

8 **Q. WHAT IS THE CLIFFS' CLAIM FOR MISCELLANEOUS EXPENSES?**

9 A. The Cliffs is claiming miscellaneous expenses of \$22,432 for water and \$18,681 for sewer.

10 **Q. WHAT IS THE CLIFFS' BASIS FOR MISCELLANEOUS EXPENSES?**

11 A. The Cliffs miscellaneous expenses included equipment leases, training and education, sewer  
12 tap expense, allocated resort overhead, and "allocated resort G&A".

13 **Q. WHAT IS STAFF'S RECOMMENDATION FOR MISCELLANEOUS EXPENSES?**

14 A. Staff recommends removing \$20,075 for water, and \$18,270 for sewer which includes the  
15 allocation for both resort overhead and resort G&A.

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<sup>2</sup> Supplemental Workpapers of Jonathan Ramirez at 1-3.

Direct Testimony of Jonathan Ramirez

September 22, 2017

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1        **THIS CASE?**

2        A.    Yes. Both other taxes and federal income taxes were adjusted based on the flow-through  
3        calculations due to Staff's recommended changes to the cost of service.

4        **Q.    WHAT IS THE REDUCTION TO OTHER TAXES?**

5        A.    Other taxes were reduced by \$686 for water, and \$561 for sewer.

6        **Q.    WHAT IS THE REDUCTION TO FEDERAL INCOME TAXES?**

7        Federal income taxes were reduced by \$888 for water, and \$483 for sewer.

8        **VI.    RATE CASE EXPENSES FOR WHITE BLUFF AND THE CLIFFS**

9        **Q.    WHAT IS RATE CASE EXPENSES?**

10      A.    A utility may recover rate case expenses, including attorney fees, incurred as a result of  
11      filing a rate-change application pursuant to TWC §§ 13.187 or 13.1871, only if the expenses  
12      are just, reasonable, necessary, and in the public interest. Pursuant to 16 TAC § 24.33 a  
13      utility may not recover any rate case expenses if the increase in revenue generated by the just  
14      and reasonable rate determined by the Commission after a contested case hearing is less than  
15      51% of the increase in revenue that would have been generated by a utility's proposed rate.

16      **Q.    DO YOU RECOMMEND ANY ADJUSTMENTS TO RATE CASE EXPENSES?**

17      A.    Yes. At this point in time, Staff recommends recovery of zero (\$0) rate case expenses.

18

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Direct Testimony of Jonathan Ramirez

September 22, 2017



SOAH DOCKET NO. 473-17-0117.WS  
PUC DOCKET NO. 46245  
COMPANY NAME Double Diamond Utility Company, Inc. - The Cliffs Subdivision - Water  
TEST YEAR END 31-Dec-15

Attachment JR-2 ERRATA Staff Schedule I  
Revenue Requirement

	Test Year Total	Company Adjustments To Test Year	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
<b>REVENUE REQUIREMENT</b>	(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
Operations and Maintenance	\$ 260,326	\$ 25,824	\$ 286,150	\$ (21,712)	\$ 264,438
Depreciation and Amortization Expense	\$ 45,823	\$ 32,620	\$ 78,443	\$ (2,538)	\$ 75,905
Taxes Other Than Income	\$ 10,849	\$ (304)	\$ 10,545	\$ (686)	\$ 9,859
Federal Income Taxes	\$ -	\$ 5,576	\$ 5,576	\$ (888)	\$ 4,688
Return on Invested Capital	\$ 15,032	\$ 33,269	\$ 48,301	\$ (12,099)	\$ 36,202
<b>TOTAL</b>	<b>\$ 332,030</b>	<b>\$ 96,985</b>	<b>\$ 429,015</b>	<b>\$ (37,924)</b>	<b>\$ 391,091</b>
Other Revenues - Taps, Recon, late fee, Etc.				\$	-
Revenue Requirement Used to Set Rates	\$ 332,030	\$ 96,985	\$ 429,015	\$ (37,924)	\$ 391,091

SOAH DOCKET NO. 473-17-0117.WS  
PUC DOCKET NO. 46245  
COMPANY NAME Double Diamond Utility Company, Inc. - The Cliffs Subdivision - Water  
TEST YEAR END 31-Dec-15

Attachment JR-2 ERRATA Staff Schedule II  
O&M Expense

OPERATIONS AND MAINTENANCE EXPENSE		Test Year Total	Company Adjustments To Test Year	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
Acct. No.	ACCOUNT	(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
610	PURCHASED WATER			\$0		\$0
615	POWER EXPENSE-PRODUCTION ONLY	\$18,275		\$18,275		\$18,275
618	OTHER VOLUME RELATED EXPENSES	\$21,107		\$21,107		\$21,107
601-1	EMPLOYEE LABOR	\$61,126	\$25,824	\$86,950		\$86,950
620	MATERIALS	\$1,636		\$1,636		\$1,636
631-636	CONTRACT WORK	\$12,110		\$12,110		\$12,110
650	TRANSPORTATION EXPENSES	\$15,924		\$15,924	-\$1,637	\$14,287
664	OTHER PLANT MAINTENANCE	\$65,828		\$65,828		\$65,828
601-2	OFFICE SALARIES			\$0		\$0
601-3	MANAGEMENT SALARIES			\$0		\$0
604	EMPLOYEE PENSIONS & BENEFITS			\$0		\$0
615	PURCHASED POWER-OFFICE ONLY			\$0		\$0
670	BAD DEBT EXPENSE			\$0		\$0
676	OFFICE SERVICES & RENTALS			\$0		\$0
677	OFFICE SUPPLIES & EXPENSES	\$6,088		\$6,088		\$6,088
678	PROFESSIONAL SERVICES	\$21,231		\$21,231		\$21,231
684	INSURANCE	\$11,243		\$11,243		\$11,243
666	REGULATORY EXPENSE (RATE CASE)			\$0		\$0
667	REGULATORY EXPENSE (OTHER)	\$3,326		\$3,326		\$3,326
675	MISCELLANEOUS	\$22,432		\$22,432	-\$20,075	\$2,357
	<b>TOTAL</b>	<b>\$260,326</b>	<b>\$25,824</b>	<b>\$286,150</b>	<b>-\$21,712</b>	<b>\$264,438</b>

\*Rounding

SOAH DOCKET NO. 473-17-0117.WS  
PUC DOCKET NO. 46245  
COMPANY NAME Double Diamond Utility Company, Inc. - The Cliffs - Water  
TEST YEAR END 31-Dec-15

Attachment JR -2 ERRATA Staff Schedule V  
Federal Income Taxes

	Test Year Total	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
FEDERAL INCOME TAXES	(a)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
Return	Total	\$ 93,091	\$ (21,202)	\$ 71,889
Less			\$ -	
Interest Included in Return		\$ 37,018	\$ (13,055)	\$ 23,963
Plus			\$ -	
Other Adjustments			\$ -	
<b>TAXABLE COMPONENT OF RETURN</b>		<b>\$ 56,073</b>	<b>\$ (8,147)</b>	<b>\$ 47,926</b>
TAX RATE		16%		25%
TAX FACTOR (1/(1-TR))*(TR)		0.191648077	0.14	0.333333333
<b>FEDERAL INCOME TAX BEFORE ADJUSTMENTS</b>		<b>\$ 10,746</b>	<b>\$ 5,229</b>	<b>\$ 15,975</b>
LESS			\$ -	
Surtax Exemption		\$ -	\$ (6,667.00)	\$ (6,667.00)
<b>TOTAL FEDERAL INCOME TAXES</b>		<b>\$ 10,746</b>	<b>\$ (1,438)</b>	<b>\$ 9,308</b>
Allocation Factor (Cliffs Sewer NI/Total Cliffs NI)		52%		50%
Allocated to The Cliffs - Water		\$ 5,576	\$ (888)	\$ 4,688

SOAH DOCKET NO. 473-17-0117.WS  
PUC DOCKET NO. 46245  
COMPANY NAME Double Diamond Utility Company, Inc. - The Cliffs Subdivision - Sewer  
TEST YEAR END 31-Dec-15

Attachment JR- 3 ERRATA Staff Schedule I  
Revenue Requirement

	Test Year Total	Company Adjustments To Test Year	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
	(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
<b>REVENUE REQUIREMENT</b>					
Operations and Maintenance	\$ 194,534	\$ 36,047	\$ 230,581	\$ (19,907)	\$ 210,674
Depreciation and Amortization Expense	\$ 38,159	\$ (8,896)	\$ 29,263	\$ (1,007)	\$ 28,256
Taxes Other Than Income	\$ 9,035	\$ 935	\$ 9,970	\$ (561)	\$ 9,409
Federal Income Taxes	\$ -	\$ 5,171	\$ 5,171	\$ (483)	\$ 4,688
Return on Invested Capital	\$ (36,428)	\$ 81,218	\$ 44,790	\$ (9,102)	\$ 35,688
<b>TOTAL</b>	\$ 205,300	\$ -	\$ 319,775	\$ (31,062)	\$ 288,713
Other Revenues - Taps, Recon, late fee, Etc.				\$ -	
Revenue Requirement Used to Set Rates	\$ 205,300	\$ 114,475	\$ 319,775	\$ (31,062)	\$ 288,713

SOAH DOCKET NO. 473-17-0117.WS  
PUC DOCKET NO. 46245  
COMPANY NAME Double Diamond Utility Company, Inc. - The Cliffs Subdivision - Sewer  
TEST YEAR END 31-Dec-15

Attachment JR-3 ERRATA Staff Schedule II  
O&M Expense

OPERATIONS AND MAINTENANCE EXPENSE		Test Year Total	Company Adjustments To Test Year	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
Acct. No.	ACCOUNT	(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
610	PURCHASED WATER			\$0		\$0
615	POWER EXPENSE-PRODUCTION ONLY	\$3,292		\$3,292		\$3,292
618	OTHER VOLUME RELATED EXPENSES	\$373		\$373		\$373
601-1	EMPLOYEE LABOR	\$50,903	\$36,047	\$86,950		\$86,950
620	MATERIALS	\$1,363		\$1,363		\$1,363
631-636	CONTRACT WORK	\$10,084		\$10,084		\$10,084
650	TRANSPORTATION EXPENSES	\$13,261		\$13,261	-\$1,637	\$11,624
664	OTHER PLANT MAINTENANCE	\$57,231		\$57,231		\$57,231
601-2	OFFICE SALARIES			\$0		\$0
601-3	MANAGEMENT SALARIES			\$0		\$0
604	EMPLOYEE PENSIONS & BENEFITS			\$0		\$0
615	PURCHASED POWER-OFFICE ONLY			\$0		\$0
670	BAD DEBT EXPENSE			\$0		\$0
676	OFFICE SERVICES & RENTALS			\$0		\$0
677	OFFICE SUPPLIES & EXPENSES	\$5,069		\$5,069		\$5,069
678	PROFESSIONAL SERVICES	\$3,028		\$3,028		\$3,028
684	INSURANCE	\$9,363		\$9,363		\$9,363
666	REGULATORY EXPENSE (RATE CASE)			\$0		\$0
667	REGULATORY EXPENSE (OTHER)	\$21,886		\$21,886		\$21,886
675	MISCELLANEOUS	\$18,681		\$18,681	-\$18,270	\$411
	<b>TOTAL</b>	<b>\$194,534</b>	<b>\$36,047</b>	<b>\$230,581</b>	<b>-\$19,907</b>	<b>\$210,674</b>

\*Rounding

SOAH DOCKET NO. 473-17-0117.WS  
PUC DOCKET NO. 46245  
COMPANY NAME Double Diamond Utility Company, Inc. -The Cliffs Subdivision - Sewer  
TEST YEAR END 31-Dec-15

Attachment JR-3 ERRATA Staff Schedule IV  
Taxes Other Than FIT

	Test Year Total	Company Adjustments To Test Year	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
TAXES OTHER THAN FIT	(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
<b>Non-Revenue Related</b>					
Ad Valorem Taxes	\$ 721		\$ 721		\$ 721
Total Property	\$ 721	\$ -	\$ 721		\$ 721
<b>Payroll Taxes</b>					
FICA			\$ 5,391		\$ 5,391
MEDICARE			\$ 1,261		\$ 1,261
MEDICARE-Affordable Care Act			\$ -		\$ -
FUTA			\$ 147	\$ (102)	\$ 45
SUTA			\$ 473	\$ (460)	\$ 13
Total Payroll	\$ 11,692	\$ (4,420)	\$ 7,272	\$ (562)	\$ 6,710
<b>Other Taxes</b>					
Other taxes and Licenses	\$ 1,978		\$ 1,978		\$ 1,978
Total Other Taxes	\$ 1,978		\$ 1,978	\$ -	\$ 1,978
<b>TOTAL TAXES OTHER THAN INCOME</b>	<b>\$ 14,391</b>	<b>\$ (4,420)</b>	<b>\$ 9,971</b>	<b>\$ (562)</b>	<b>\$ 9,409</b>

SOAH DOCKET NO. 473-17-0117.WS  
PUC DOCKET NO. 46245  
COMPANY NAME Double Diamond Utility Company, Inc. - The Cliffs Subdivision - Sewer  
TEST YEAR END 31-Dec-15

Attachment JR-3 ERRATA Staff Schedule V  
Federal Income Taxes

	Test Year Total	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
	(a)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
<b>FEDERAL INCOME TAXES</b>				
Return	Total	\$ 93,091		\$ 71,889
Less				
Interest Included in Return		\$ 37,018		\$ 23,963
Plus				
Other Adjustments				
<b>TAXABLE COMPONENT OF RETURN</b>		\$ 56,073		\$ 47,926
<b>TAX RATE</b>		16%		25%
<b>TAX FACTOR (1/(1-TR))*(TR)</b>		0.191648077		0.333333333
<b>FEDERAL INCOME TAX BEFORE ADJUSTMENTS</b>		\$ 10,746	\$ -	\$ 15,975
<b>LESS</b>				
Surtax Exemption		\$ -		\$ (6,667.00)
<b>TOTAL FEDERAL INCOME TAXES</b>		\$ 10,746		\$ 9,308
Allocation Factor (Cliffs Sewer NI/Total Cliffs NI)		60.06%		50.36%
<b>Allocated to The Cliffs - Sewer</b>		\$ 6,454	\$ (1,767)	\$ 4,688