

Control Number: 46245



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Public Utility Commission of Texas

Memorandum

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PUBLIC UTILITY COMMISSION
DALLAS, TEXAS

TO: Darryl Tietjen, Rate Regulation

FROM: Stephen D. Journeay, Commission Counsel 

DATE: September 18, 2019

RE: Commission Request for Number Run Based on September 12, 2019 Open Meeting Discussion regarding Docket No. 46245, *Application of Double Diamond Utility Company, Inc. for Water and Sewer Rate/Tariff Change*

The purpose of this memorandum is to request Commission Staff to perform a number run and prepare schedules that reflect the decision of the Commission. The comments in this memorandum are based on Commission Staff's second number run, filed on October 31, 2018, Commission discussion and action at the August 29, 2019 and September 12, 2019 open meetings, and the Chairman Walker memorandum filed on August 28, 2019.

Please provide updated tariffs for White Bluff water system and White Bluff sewer system and file the tariffs in this docket. Also, prepare a second set of tariffs to be sent to Central Records after the final order is issued to be stamped *Approved* and retained by the Commission in its tariff book.

Please provide a response by October 2, 2019. If you need more time to prepare the number run, required schedules, and tariff updated tariffs, please advise.

In your response, please include the updated schedules along with the Excel worksheets containing the schedules. For each revision, please highlight or otherwise indicate the revision and cite to the basis for the revision.

In addition to the specific changes identified in this memorandum, please make all attendant changes related to the identified changes, including the cash working allowance amount and applicable tax schedules.

1. Employee Labor Expense—White Bluff water and sewer

Double Diamond Utilities initially requested a total of \$171,960 in employee labor expenses for its White Bluff water and sewer systems. This amount was for the test-year salaries of seven employees at White Bluff.¹ However, all seven employees did not work the entire year; there were only four employees working at the time of hearing. Double Diamond Utilities stated that it was not seeking a known and measurable change in employee labor expenses but that it had adjusted the amount requested to include the total annual salary of all seven employees. Double Diamond Utilities' witness, Mr. Gracy, testified, however, that the amounts actually paid to the seven employees during the test year was \$151,074. The ALJ agreed that Double Diamond Utilities had failed to show that a known and measurable change in employee labor expenses was reasonably

¹ See PFD at 21.

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certain to occur and that its employee labor expense must therefore be reduced by \$20,886 to \$151,074 to reflect the actual test-year expense.² The Commission adopted this recommendation by the ALJ.

The Commission also reduced Double Diamond Utilities' employee labor expense by a total of \$43,680 when it removed the \$20,800 salary of Mr. Whitworth and the \$22,880 salary of Mr. Keeton from Double Diamond Utilities' employee labor expense.³ Therefore, after the reductions made by the ALJ and the Commission, Double Diamond Utilities' total employee labor expense that may be included in base rates is \$107,394.⁴

The ALJ's reduction of \$20,886 is not reflected in Commission Staff's number run and schedules for White Bluff water and sewer that were filed on October 31, 2018. The White Bluff water schedule II shows a total employee labor expense of \$77,140, while White Bluff sewer shows a total employee labor expense of \$51,140, for a combined total of \$128,280. Therefore, the total employee labor expense for White Bluff must be reduced by an additional \$20,886 to arrive at the correct total.

The Commission determined that the appropriate allocation for the employee labor expense reduction is an even split between White Bluff water and White Bluff sewer. Although the Chairman Walker memorandum filed on August 28, 2019 referenced a \$20,800 disallowance for the salary of Jerry Whitworth, the disallowance amount for employee labor expense that was not reflected in the schedules for White Bluff water and sewer is \$20,866. Therefore, the employee labor expense for White Bluff water and White Bluff sewer must each be reduced by \$10,433 to address the allocation determined by the Commission.

2. Employee Labor Expense–White Bluff, attendant changes

Schedule IV for other taxes also does not reflect the \$20,886 disallowance or the proper allocation of that amount between the water and sewer systems. Further, schedule IV for the sewer system does not show the Commission's adjustments in column (d) and the amounts on the bottom line do not properly add up.

3. Grinder Pumps – White Bluff sewer

Double Diamond Utilities requested expenses for other plant maintenance at its White Bluff sewer system, including a request of \$79,590.73 for grinder-pump expenses for the White Bluff sewer system.

The Commission decided that Double Diamond Utilities must expense all test-year costs incurred to repair grinder pumps and capitalize all test-year costs to purchase new and replacement grinder pumps.⁵ Thus, \$76,409 must be treated as a capital expense and reflected in Double Diamond's

² See PFD at 22; see also ALJ's instructions to Commission Staff at 2 (Mar. 8, 2018) (AIS No. 659).

³ See Order at 3-4.

⁴ *Id.*

⁵ Order at 5 (Aug. 30, 2018).

plant in service and the remaining \$3,181.73 in other plant maintenance. Commission Staff's adjustment in Schedule II for the sewer system shows a reduction of \$79,590.73; the proper adjustment is a reduction of \$76,409 and the adjusted total should be \$24,545.97.

4. Invested Capital–White Bluff water

Double Diamond Utilities requested a rate base amount at the end of the test year of \$1,026,569, which is based on an original cost of water utility plant of \$3,791,956 (which includes amounts contributed by the utility and developer contributions), working cash of \$24,568, accumulated depreciation of \$1,603,728 (which includes amounts attributable to the utility's investment and developer contributions), and developer contributions of \$1,186,227, net of depreciation.⁶ The value for the original cost of its water utility plant of \$3,791,956 is based on the trending study performed by Ms. Harkins.⁷

The value for accumulated depreciation associated with the plant in service value is also based on the trending study. This amount should be the difference between the original cost and net book value based on the book values and not the trended study.

The ALJ found that Double Diamond Utilities failed to meet its burden to show that the use of a trending study was appropriate to establish the original cost of its assets.⁸ The Commission adopted the ALJ's recommendation on this point.

However, it appears from Commission Staff's second number run that Commission Staff failed to adjust the plant in service, accumulated depreciation and net plant in service value for Double Diamond Utility's water system. The corrected number run should reflect the book value for these assets and not the trended study value.

The Commission determined that the original cost for applicable White Bluff water assets contributed by the utility is \$71,367.48⁹ and the net book value that should remain in rate base is \$68,355.48.¹⁰

5. Invested Capital –White Bluff sewer

Double Diamond Utilities requested a rate base amount at the end of the test year of \$1,527,950, which is based on an original cost of sewer utility plant of \$2,847,336 (which includes amounts contributed by the utility and developer contributions), working cash of \$23,152, accumulated depreciation of \$1,205,081 (which includes amounts attributable to the utility's investment and developer contributions), and developer contributions of \$137,457.¹¹ The value for the original

⁶ Double Diamond Utilities Exh. DDU-2 at 78.

⁷ Direct Testimony of Victoria Harkins, Double Diamond Utilities Exh. DDU-5 at 10.

⁸ PFD at 29.

⁹ Chairman Walker memorandum (Aug. 28, 2019) citing to White Bluff Ratepayers Group Exh. WBRG-1 at WBRG00002 through WBRG000023.

¹⁰ Order at 10.

¹¹ Double Diamond Utilities Exh. DDU-2 at 126.

cost of its sewer utility plant of \$2,847,336 is based on the trending study performed by Ms. Harkins.¹² This amount includes both plant paid for by Double Diamond Utility and developer contributions.

The value for accumulated depreciation associated with the plant in service value is also based on the trending study.

However, it appears from Commission Staff's second number run that Commission Staff also failed to adjust the plant in service, accumulated depreciation and net plant in service values for Double Diamond Utility's sewer system. The corrected number run should reflect the book value for these assets and not the trended study value.

The Commission determined that the original cost for applicable White Bluff sewer assets contributed by the utility is \$25,624.64¹³ and the net book value that should remain in rate base is \$24,029.64.¹⁴

6. Developer Contributions – White Bluff water

The original order reflected the Commission's decision to permit recovery of depreciation expense on developer-contributed assets. The Commission then determined that the original cost for developer-contributed assets for White Bluff water is \$429,978 and the net book value is \$209,877, resulting in accumulated depreciation of \$220,101.¹⁵

7. Developer Contributions – White Bluff sewer

The original order reflected the Commission's decision to permit recovery of depreciation expense on developer-contributed assets. The Commission then determined that the original cost for developer-contributed assets for White Bluff sewer is \$97,380 and the net book value is \$55,780, resulting in accumulated depreciation of \$41,600.¹⁶

8. Annual Depreciation Rate – White Bluff water

¹² Direct Testimony of Victoria Harkins, Double Diamond Utilities Exh. DDU-5 at 10.

¹³ Chairman Walker memorandum (Aug. 28, 2019) citing to the Direct Testimony and Workpapers of Nelisa Hedden, White Bluff Ratepayers Group Exh. WBRG-1 at WBRG00002 through WBRG000023.

¹⁴ Order at 10.

¹⁵ Chairman Walker memorandum (Aug. 28, 2019) citing to citing to the Direct Testimony and Workpapers of Nelisa Hedden, White Bluff Ratepayers Group Exh. WBRG-1 at WBRG000022 through WBRG000023.

¹⁶ Chairman Walker memorandum (Aug. 28, 2019) citing to citing to the Direct Testimony and Workpapers of Nelisa Hedden, White Bluff Ratepayers Group Exh. WBRG-1 at WBRG000022 through WBRG000023.

The Commission determined that the annual depreciation rate for developer-contributed assets should be determined by using an average annual amount based on the accumulated depreciation amount of \$220,101 and establishing the in-service date of 1996 based on the trending study.¹⁷ By factoring in the service life of 1996 through the 2015 test year and the accumulated depreciation amount, Commission Staff should derive the annual depreciation rate for the applicable developer-contributed assets. Using this 19-year period, the average annual depreciation expense for developer contributions would be \$11,584.26.

9. Annual Depreciation Rate – White Bluff sewer

The Commission determined that the annual depreciation rate for developer-contributed assets should be determined by using an average annual amount based on the accumulated depreciation amount of \$41,600 and establishing the in-service date of 1996 based on the trending study.¹⁸ By factoring in the service life of 1996 through the 2015 test year and the accumulated depreciation amount, Commission Staff should derive the annual depreciation rate for the applicable developer-contributed assets. Using this 19-year period, the average annual depreciation expense for developer contributions would be \$2,189.47.

10. Identification of Developer Contributions – White Bluff water and White Bluff sewer

In schedules provided in this case, plant in service, accumulated depreciation, and net plant in service have shown an amount that combines the utility's investments and developer contributions. In schedule III, please add lines so that the amount for plant in service, accumulated depreciation, and net plant in service shows a total amount, and the amount for the utility's investment and developer contributions. For example:

Plant in service	_____
Utility	_____
Developer contributions	_____

In addition, depreciation is shown only on schedule I. In Schedule I, please include additional lines that show the total annual depreciation amount, the annual depreciation amount for the utility's investment, and the annual depreciation amount for developer contributions.

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¹⁷ Open Meeting Tr. at 13:6 through 13:25 (D'Andrea) (Sept. 12, 2019).

¹⁸ *Id.*

