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APPLICATION OF PK-RE
DEVELOPMENT COMPANY, INC.
D/B/A GREENSHORES UTILITY
SERVICES AND D/B/A OAK SHORES
WATER SYSTEM FOR AUTHORITY
TO CHANGE RATES AND TARIFFS
IN TRAVIS COUNTY

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BEFORE THE STATE OFFICE

OF

ADMINISTRATIVE HEARINGS

DIRECT TESTIMONY

OF

DONALD J. CLAYTON

ON BEHALF OF

PK-RE DEVELOPMENT COMPANY, INC. D/B/A
GREENSHORES UTILITY SERVICES AND D/B/A
OAK SHORES WATER SYSTEM

MAY 9, 2017

145

**DIRECT TESTIMONY OF
DONALD J. CLAYTON**

TABLE OF CONTENTS

	Page
I. INTRODUCTION	3
II. PURPOSE OF TESTIMONY	4
III. REVENUE REQUIREMENT	5
A. Water	5
B. Sewer	7
IV. OPERATIONS AND MAINTENANCE	8
A. Water	8
B. Sewer	10
V. RATE BASE	11
A. Water	11
B. Sewer	14
VI. PROPOSED RATE DESIGN	15
VII. RATE CASE EXPENSES	19
VIII. CONCLUSION	20

ATTACHMENTS

- A Resume
- B History of Testimony
- C Invoices

APPLICATION OF PK-RE § BEFORE THE STATE OFFICE
DEVELOPMENT COMPANY, INC. §
D/B/A GREENSHORES UTILITY §
SERVICES AND D/B/A OAK SHORES § OF
WATER SYSTEM FOR AUTHORITY §
TO CHANGE RATES AND TARIFFS §
IN TRAVIS COUNTY § ADMINISTRATIVE HEARINGS

I. INTRODUCTION

13 A. I was retained by Undine Development LLC (“Undine”) to assist in preparation of the
14 Rate Application for PK-RE. Since the filing, I have also assisted in providing
15 responses to discovery in this case.

1 Q. PLEASE DESCRIBE THE WORK YOU DID IN THE PREPARATION OF
2 THE RATE APPLICATION.

3 A. I reviewed the books and records that were provided by Russell Eppright, his
4 accountant, and the system operator. I also interviewed Mr. Eppright and the
5 operator. Using the information they provided, I applied adjustments to the revenue
6 requirement, developed a proof of revenues, allocated expenses between the water
7 and sewer systems, developed the rate design, and completed the schedules required
8 for the Rate Application.

9 Q. HAVE YOU PREVIOUSLY TESTIFIED IN A COMMISSION
10 PROCEEDING?

11 A. Yes. My history of testimony is provided as Attachment B.

12 II. PURPOSE OF TESTIMONY

13 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

14 A. The purpose of my testimony is to support the application of PK-RE to change the
15 water and sewer rates for the utilities. I will address Schedules I (Revenue
16 Requirement), II (Operations & Maintenance), III (Rate Base), IV (Taxes other than
17 Income), V (Income Taxes), and VI (Rate Design), for both water and sewer. I also
18 address the reasonableness and necessity of my expenses as reimbursable rate case
19 expenses.

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1 Q. DID YOU PREPARE THE OTHER SCHEDULES SUPPORTING THE
2 WATER REVENUE REQUIREMENT AMOUNT?

3 A. Yes. Based upon information provided by Mr. Eppright and his accountant, I
4 prepared Schedule I-1, Historical Revenue Summary, showing revenues received
5 from metered connections base rates, metered connections gallonage rates, and
6 unmetered flat rates (none). Combined with other revenues (tap fees, late fees, meter
7 test fees, and Texas Commission on Environmental Quality ("TCEQ") fees), the
8 water utility received \$402,114.14 during the test year. I also prepared Schedules I-3
9 and I-4, using information provided by Mr. Eppright.

10 Q. IS THE COMPANY PROPOSING TO PHASE-IN ITS REQUESTED RATES?

11 A. Yes. The Company is proposing to implement rates in three phases. Phase I reflects
12 a 20% rate increase which is in line with the rate order from the Company's previous
13 case. Phase II reflects an additional 5% rate increase which would be implemented
14 one year after the Phase I rates take effect. Phase III reflects an additional 13.1% rate
15 increase which would be implemented one year after the Phase II rates take effect.

16 Q. WHAT RETURN ON RATE BASE IS THE COMPANY REQUESTING?

17 A. The Company is requesting just a 3.27% return on rate base which will only be
18 achieved after the Phase II rates take effect. The 3.27 % overall return on rate base
19 provides for debt interest but no equity return.

20 Q. DID YOU FOLLOW THE PUBLIC UTILITY COMMISSION'S
21 ("COMMISSION") INSTRUCTIONS IN PREPARING THESE SCHEDULES?

22 A. Yes, I did.

1 **B. Sewer**

2 **Q. PLEASE DESCRIBE YOUR WORK TO DETERMINE PK-RE'S REVENUE**
3 **REQUIREMENT FOR THE SEWER SYSTEM.**

4 A. I undertook the same activities as described above for the water revenue requirement
5 and prepared corresponding schedules for the sewer application.

6 **Q. WHAT DID YOU DETERMINE ABOUT THE SEWER UTILITY'S**
7 **REVENUE REQUIREMENT?**

8 A. Based upon the information provided to me, I determined that historic test year total
9 expenses were \$491,694, and total revenues were \$332,884. This means that
10 PK-RE's sewer utility failed to cover its revenue requirement in the test year by the
11 amount of \$158,810. Adjusted test year expenses were even higher, meaning that
12 without rate relief, the sewer utility would continue to fail to cover its revenue
13 requirement by an even greater amount.

14 **Q. DID YOU PREPARE THE OTHER SCHEDULES SUPPORTING THE**
15 **SEWER REVENUE REQUIREMENT AMOUNT?**

16 A. Yes. I prepared the same supporting schedules for sewer as I did for water.

17 **Q. IS THE COMPANY PROPOSING TO PHASE-IN ITS REQUESTED RATES?**

18 A. Yes. The Company is proposing to implement rates in three phases. Phase I reflects
19 a 20% rate increase which is in line with the rate order from the Company's previous
20 case. Phase II reflects an additional 5% rate increase which would be implemented
21 one year after the Phase I rates take effect. Phase III reflects an additional 42.53%
22 rate increase which would be implemented one year after the Phase II rates take
23 effect.

1 Q. WHAT RETURN ON RATE BASE IS THE COMPANY REQUESTING?

2 A. The Company is requesting just a 3.32% return on rate base which will only be
3 achieved after the Phase II rates take effect. The 3.32 % overall return on rate base
4 provides for debt interest but no equity return.

5 Q. DID YOU FOLLOW THE COMMISSION'S INSTRUCTIONS IN
6 PREPARING THESE SCHEDULES?

7 A. Yes, I did.

8 IV. OPERATIONS AND MAINTENANCE

9 A. Water

10 Q. DID YOU PREPARE THE SCHEDULES ADDRESSING THE UTILITY'S
11 WATER OPERATIONS AND MAINTENANCE ("O&M") EXPENSES, AND
12 KNOWN AND MEASURABLE CHANGES?

13 A. Yes, I prepared Schedules II-1(a), II-3(a) and (b), II-4(a), II-5, II-8(a) and (b), II-10(a)
14 and (b), II-12(a), II-14(a) and (b), II-15(a) and (b), II-16, II-17(a) and (b), II-18(a) and
15 (b), and II-19(a) and (b). The information I used to prepare these schedules was
16 provided to me by Mr. Eppright and his accountant. These schedules support the
17 Revenue Requirement Summary Schedule I have described previously.

18 Q. PLEASE ADDRESS EACH OF THE KNOWN AND MEASURABLE
19 ADJUSTMENTS TO O&M EXPENSES ON SCHEDULE I-1.

20 A. The only known and measurable changes which were reflected in the revenue
21 requirements were for rate case preparation expenses and increases in bad debts,
22 Commission fees, and Taxes Other than Income Taxes related to the requested
23 revenue increase. The rate case preparation expenses of \$20,000 were amortized over

1 a 3-year period and were allocated equally between water and sewer. Bad debts
2 expenses for water service of \$2,308 were added and reflect just 0.42% of the total
3 (Phase III) requested revenue requirement. The increase in Commission fees was
4 \$1,976 and the increase in non-income related taxes was \$200.

5 **Q. WHAT IS THE TOTAL AMOUNT OF ADJUSTMENTS TO O&M AND**
6 **OTHER TAXES YOU ARE RECOMMENDING. THE COMMISSION**
7 **APPROVE FOR PK-RE?**

8 A. The total amount of adjustment is \$9,291.

9 **Q. WHAT INCOME TAX EXPENSE DID YOU REFLECT IN THE REVENUE**
10 **REQUIREMENT?**

11 A. No income taxes were reflected in the revenue requirements as no return in equity is
12 being requested.

13 **Q. HOW DID YOU ALLOCATE EXPENSES BETWEEN WATER AND SEWER**
14 **SERVICE?**

15 A. I allocated expenses based on the total water and sewer usage. This was the same
16 procedure that was followed in the Company's most recently completed rate case.

17 **Q. DID YOU FOLLOW THE COMMISSION'S INSTRUCTIONS IN**
18 **PREPARING THESE SCHEDULES?**

19 A. Yes, I did.

1 **B. Sewer**

2 **Q. DID YOU PREPARE THE SCHEDULES ADDRESSING THE UTILITY'S**
3 **SEWER OPERATIONS AND MAINTENANCE EXPENSES, AND KNOWN**
4 **AND MEASURABLE CHANGES?**

5 A. Yes, I prepared Schedules II-1(a), II-3(b), II-4(a), II-5, II-8(a) and (b), II-10(a) and
6 (b), II-12(a), II-14(a) and (b), II-15(a) and (b), II-16, II-17(a) and (b), II-18(a) and (b),
7 and II-19(a) and (b). The information I used to prepare these schedules was provided
8 to me by Mr. Eppright and his accountant. These schedules support the Revenue
9 Requirement Summary Schedule I have described previously.

10 **Q. PLEASE ADDRESS EACH OF THE KNOWN AND MEASURABLE**
11 **ADJUSTMENTS TO O&M EXPENSES ON SCHEDULE I-1.**

12 A. The only known and measurable changes which were reflected in the revenue
13 requirements were for rate case preparation expenses and increases in bad debts,
14 Commission fees, and Taxes Other than Income Taxes related to the requested
15 revenue increase. The rate case preparation expenses of \$20,000 were amortized over
16 a three year period and were allocated equally between water and sewer. Bad debts
17 expenses for sewer service of \$2,308 were added and reflect just 0.42% of the total
18 (Phase III) requested revenue requirement. The increase in Commission fees was
19 \$1,430 and the increase in non-income related taxes was \$2,114.

20 **Q. WHAT IS THE TOTAL AMOUNT OF ADJUSTMENTS TO O&M AND**
21 **OTHER TAXES YOU ARE RECOMMENDING THE COMMISSION**
22 **APPROVE FOR PK-RE?**

23 A. The total amount of adjustment is \$9,186.

1 Q. DID YOU FOLLOW THE COMMISSION'S INSTRUCTIONS, IN
2 PREPARING THESE SCHEDULES?

3 A. Yes, I did.

4 V. RATE BASE

5 Q. PLEASE PROVIDE AN OVERVIEW OF RATE BASE, OR INVESTED
6 CAPITAL, COMPONENT OF THE COST OF SERVICE CALCULATION.

7 A. Schedule III-3, for both the water and sewer systems, is the listing of invested capital
8 items that are used and useful in providing the utility services and upon which the
9 utility should be able to earn a reasonable return. I prepared these schedules using
10 information provided to me by Mr. Eppright, as well as the rate base schedules that
11 had been prepared for the prior rate case for PK-RE in 2012.

12 Q. WHAT ARE THE KEY COMPONENTS USED IN PK-RE'S RATE BASE
13 CALCULATIONS APPEARING IN SCHEDULES III-2 OF THE
14 APPLICATION?

15 A. For both the water and sewer systems, the key components are utility plant, working
16 cash, and reserve for depreciation.

17 A. Water

18 Q. PLEASE DESCRIBE HOW YOU PREPARED SCHEDULE III-3 FOR THE
19 WATER SYSTEM.

20 A. I initially used the corresponding schedule from the prior rate case for this water
21 utility. I then added plant that had been installed after that rate case, and applied the
22 Commission's recommended service lives to the new plant to determine the annual
23 depreciation expense. I then computed the accumulated depreciation reserve for all

1 plant in service to determine the net book value of all plant in service. In the course
2 of preparing this schedule, we identified some capitalized plant items that had
3 inadvertently been omitted from the application from two rate cases ago. I explained
4 this inadvertent omission in response to discovery from Commission Staff. The items
5 are: (1) trench cut of \$46,694; (2) main line engineering and legal of \$116,348;
6 (3) 350,000 gallon GST Engineering and Legal – Greenshores, of \$91,688; and (4)
7 new water main of \$38,070.

8 **Q. DID YOU DETERMINE THAT ANY OF THE LISTED PLANT ITEMS**
9 **SHOULD BE ACCOUNTED FOR AS CONTRIBUTIONS IN AID OF**
10 **CONSTRUCTION (“CIAC”)?**

11 A. Yes. Since 2015, a number of Meters and Services have been accounted for as CIAC,
12 as shown on Schedule III-3, in the total amount of \$12,750.00. These contributed
13 items are not included in the accumulated reserve for depreciation, and they are also
14 not included in total rate base upon which a return may be earned.

15 **Q. WERE YOU ABLE TO DETERMINE WHETHER ANY OTHER PLANT**
16 **ITEMS WERE CONTRIBUTED BY DEVELOPERS OR CUSTOMERS?**

17 A. Based upon the information I have received from Mr. Eppright, there are no other
18 items of contributed capital. It is also my understanding that the lots developed and
19 sold that are served by the water system did not have any portion of these rate base
20 items included in the lot prices, nor were there any other reimbursements to the utility
21 made by customers or developers.

1 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS ON SCHEDULE III-3**
2 **WATER PLANT BALANCES.**

3 A. I have determined that the beginning plant balance, from the prior rate case, or
4 \$4,941,811.89, should be adjusted for plant additions since that proceeding in the
5 amount of \$117,375.07, for a total ending balance of \$5,059,186.96, as shown on
6 Schedule III-3(a) – Water.

7 **Q. PLEASE EXPLAIN THE WORKING CASH BALANCE APPEARING IN**
8 **WATER RATE BASE?**

9 A. According to the Commission's instructions and rules, a utility may include a
10 working cash allowance, which is one-eighth (1/8) of its annual O&M Expenses.
11 Using the adjusted test year O&M amount of \$300,705, I calculated one-eighth (1/8)
12 of this amount to result in a working cash allowance in the amount of \$37,588.11,
13 shown on Schedule III-2, line 5.

14 **Q. WHAT IS THE WATER RATE BASE, OR INVESTED CAPITAL, AMOUNT**
15 **THAT YOU ARE RECOMMENDING THE COMMISSION APPROVE FOR**
16 **PK-RE?**

17 A. As shown on Schedule III-3, the total invested capital for PK-RE's water utility is
18 \$5,071,936.96. With working cash allowance added, and reserve for depreciation
19 deducted, the total rate base for PK-RE water utility is \$4,188,019.85.

1 **B. Sewer**

2 **Q. PLEASE DESCRIBE HOW YOU PREPARED SCHEDULE III-3 FOR THE**
3 **SEWER SYSTEM.**

4 A. I initially used the corresponding schedule from the prior rate case for this water
5 utility. I then added plant that had been installed after that rate case, and applied the
6 Commission's recommended service lives to the new plant to determine the annual
7 depreciation expense. I then computed the accumulated depreciation reserve for all
8 plant in service to determine the net book value of all plant in service.

9 **Q. DID YOU DETERMINE THAT ANY OF THE LISTED PLANT ITEMS**
10 **SHOULD BE ACCOUNTED FOR AS CIAC?**

11 A. Yes. Since 2015, a number of tap fees been accounted for as CIAC, as shown on
12 Schedule III-3, in the total amount of \$12,750. These contributed items are not
13 included in the accumulated reserve for depreciation, and they are also not included in
14 total rate base upon which a return may be earned.

15 **Q. WERE YOU ABLE TO DETERMINE WHETHER ANY OTHER SEWER**
16 **PLANT ITEMS WERE CONTRIBUTED BY DEVELOPERS OR**
17 **CUSTOMERS?**

18 A. Based upon the information I have received from Mr. Eppright, there are no other
19 items of contributed capital. It is also my understanding that the lots developed and
20 sold that are served by the sewer system did not have any portion of these rate base
21 items included in the lot prices, nor were there any other reimbursements to the utility
22 made by customers or developers.

1 Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS ON SCHEDULE III-3
2 SEWER PLANT BALANCES.

3 A. I have determined that the beginning plant balance, from the prior rate case, or
4 \$3,043,939.55, should be adjusted for plant additions since that proceeding in the
5 amount of \$45,247.61, for a total ending balance of \$3,089,187.16, as shown on
6 Schedule III-3(a) – Sewer.

7 Q. PLEASE EXPLAIN THE WORKING CASH BALANCE APPEARING IN
8 SEWER RATE BASE?

9 A. According to the Commission's instructions and rules, a utility may include a
10 working cash allowance, which is one-eighth (1/8) of its annual O&M Expenses.
11 Using the adjusted test year O&M amount of \$364,909, I calculated one-eighth (1/8)
12 of this amount to result in a working cash allowance in the amount of \$45,614, shown
13 on Schedule III-2, line 5.

14 Q. WHAT IS THE SEWER RATE BASE, OR INVESTED CAPITAL, AMOUNT
15 THAT YOU ARE RECOMMENDING THE COMMISSION APPROVE FOR
16 PK-RE?

17 A. As shown on Schedule III-3, the total invested capital for PK-RE's sewer utility is
18 \$3,089,187.16. With working capital allowance added, and reserve for depreciation
19 deducted, the total rate base for PK-RE sewer utility is \$1,708,037.27.

20 VI. PROPOSED RATE DESIGN

21 Q. DID YOU PREPARE THE RATE DESIGN SCHEDULES FOR WATER AND
22 SEWER?

23 A. Yes, I did.

1 Q. PLEASE EXPLAIN WHY YOU PROPOSED RATE INCREASES IN THREE
2 PHASES?

3 A. As I have previously described, both the water and sewer utilities do not come close,
4 under existing rates, to recovering the utilities' revenue requirements, much less earn
5 a reasonable return on invested capital—test year returns for water and sewer were
6 negative \$6,964 and negative \$158,810, respectively. This is quite a bit of ground to
7 make up in one Rate Application, so in discussions with Mr. Eppright, he determined
8 to seek a phased-in increase in rates over a 3-year period.

9 The rates in the initial phase are designed to recover additional revenues to
10 allow the water utility to earn a return of \$64,272. Under the phase I rates the sewer
11 utility would show a loss of \$101,524.

12 Phases 2 and 3 increases also produce additional revenues, but even after the
13 full phase-in of the rate increases, the return for water and sewer would only be
14 3.27% and 3.32%, respectively.

15 Q. DO YOU BELIEVE THAT RETURNS OF 3.27% AND 3.32% ARE
16 REASONABLE?

17 A. In my experience, regulatory agencies have allowed overall after tax returns in a
18 range of 8% to 9% for small utilities such as PK-RE. In my opinion, the returns
19 produced by the 3-phase rate increases still fall short of providing a reasonable return
20 for the utilities. On the other hand, after the systems are purchased by Undine, when
21 one considers the return to Undine based on the proposed combined water and sewer
22 utility proposed purchase price of \$1.8 million, something close to a reasonable return
23 can be achieved after the Phase II rates take effect.

1 **Q. PLEASE EXPLAIN THE RATE DESIGN PRESENTED ON SCHEDULE VI-1**
2 **OF THE WATER AND SEWER APPLICATION.**

3 A. As originally filed, the proposed rate design for water included a base service charge
4 that varied by meter size, and a volumetric gallonage charge that was a flat rate,
5 regardless of the level of consumption. However, after the application was filed,
6 discussions were held with a representative of the Office of Public Utility Counsel,
7 who recommended that tiered volumetric rates should be used in order to encourage
8 conservation, and place a higher burden on customers whose higher usages place a
9 greater burden on the system. We took this suggestion to heart, and I revised the rate
10 design to produce the same revenues in each phase, but using a tiered usage rate for
11 the volumetric portion of each phase. As shown in the First Errata filed on
12 November 30, 2016, this revision kept the same proposed base service charge, but
13 proposes inclining block rates for consumption. I prepared the proof of revenues
14 included with that First Errata that demonstrate that the revenues produced by the
15 tiered volumetric rates will result in the same additional revenues as the rates
16 originally designed.

17 **Q. HOW WERE THE SEWER RATES DESIGNED?**

18 A. The sewer rates are also proposed to be increased on a 3-year phased-in basis. The
19 base service charge is determined by the size of the water meter at the customer's
20 location. Then, a gallonage rate is applied, using the 3-month winter average water
21 consumption. The base service charge increases over the three phases, but the
22 gallonage charge remains the same through all three phases.

1 Q. WHY DID YOU DETERMINE TO INCREASE THE BASE SERVICE
2 CHARGE OVER THE THREE PHASES, BUT NOT THE GALLONAGE
3 CHARGE?

4 A. The gallonage charge is designed to recover expenses that vary with consumption.
5 Since the underlying expenses do not change from phase-to-phase only the base
6 charge was increased.

7 Q. DO YOU BELIEVE THE RATE DESIGN PROPOSED BY PK-RE IS
8 REASONABLE COMPARED TO OTHER WATER UTILITIES IN TEXAS?

9 A. Yes.

10 Q. WHY IS PK-RE PROPOSING A 3-PHASE RATE INCREASE?

11 A. As I have discussed previously, the water and sewer utilities are in dire need of
12 additional revenues. In order to avoid rate shock, which would result from a one-time
13 increase designed to recover the revenue requirement and produce a reasonable return
14 for the utility, Mr. Eppright determined to phase-in the increase over a period of three
15 years.

16 Q. DO YOU BELIEVE PK-RE'S 3-PHASE APPROACH OF RECOVERING
17 RATES IS REASONABLE?

18 A. Yes. It is quite common for a utility facing the need for an increase of the magnitude
19 as PK-RE, to phase-in a rate increase.

VII. RATE CASE EXPENSES

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR DIRECT TESTIMONY ON RATE CASE EXPENSES.

A. The purpose of my direct testimony on rate case expenses is to: (1) support Rate Filing Package Schedules II-17 Rate Case Expenses in the Rate Application, (2) explain the reasonableness of rate case expenses incurred in filing this application, and (3) explain how PK-RE is seeking to recover its rate case expenses.

Q. IN YOUR PROFESSIONAL EXPERIENCE, ARE THE RATE CASE EXPENSES INCURRED IN FILING THIS APPLICATION REASONABLE?

A. I believe the rate case expenses incurred in preparing this filing are entirely reasonable. Rate case expenses have largely been driven by the need to hire a consultant to aid in preparation of this application. I was retained by Undine as a consultant to help prepare this filing with the help of Mr. Eppright. In preparing this filing, I reviewed the books and records that were provided by Russell Eppright, his accountant, and the system operator. I also interviewed Mr. Eppright and the operator. Using the information they provided, I applied adjustments to the revenue requirement, developed a proof of revenues, allocated expenses between the water and sewer systems, developed the rate design, and completed the schedules required for the Rate Application. I charged a lump sum amount of \$15,000 for the preparation of the Rate Application, which is a common practice for me and allows me and the client to budget for the work that is needed. I believe this lump sum amount is reasonable. At my hourly rate of \$200, the lump sum invoice covered 75 hours of work. I estimate that I spent at least that amount of time in the preparation

1 of the Rate Application. My fee of \$200 per hour is reasonable and in line with the
2 rate I charge to other clients. Undine also retained counsel to aid in the preparation of
3 this filing, and those costs are supported in the Direct Testimony of Georgia N.
4 Crump.

5 The detail of rate case expense can be found in Schedule II-17 of both the
6 water and sewer applications. Cumulative rate case costs paid to consultants,
7 accountants, and others based on bills received from Lloyd Gosselink Rochelle &
8 Townsend, P.C. as of the date of filing are \$61,578.46. Supporting invoices as of the
9 date of filing for this amount can be found in the Direct Testimony of Georgia N.
10 Crump, Attachments B and C. Total rate case expense as of the date of filing is
11 \$61,578.46.

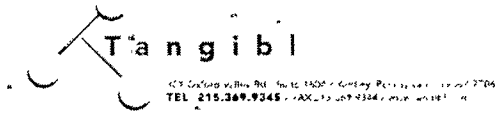
12 **Q. HOW IS PK-RE SEEKING TO RECOVER ITS RATE CASE EXPENSES?**

13 A. Pursuant to 16 Tex. Admin. Code § 24.33, PK-RE seeks to recover all reasonable and
14 necessary rate case expenses that it incurs in connection with this proceeding. PK-RE
15 proposes to recover reasonable and necessary rate case expenses through a surcharge
16 assessed over a 36-month period. PK-RE reserves the right to request that all rate
17 case expense issues be severed from this proceeding and considered in a separate
18 docket, if such severance would serve the interest of efficiency, and avoid the need to
19 estimate and update rate case expenses before the expenses are finalized.

20 **VIII. CONCLUSION**

21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

22 A. Yes it does.



DONALD J. CLAYTON/ Principal

Mr. Clayton has over 35 years' experience serving the utility industry as both a consultant and an executive. His consulting expertise includes public utility valuation, depreciation, plant, rate base, cost of service and rate design as well as economic analysis and financial modeling. His executive service includes Vice President and Treasurer of both DQE and its electric utility subsidiary, Duquesne Light Company, President of the AquaSource water and wastewater utility company and President and Chief Operating Officer of Conjunction LLC in New York State. In addition to his consulting practice Mr. Clayton is actively involved in Tangibl's electric generation and battery storage development activities.

Mr. Clayton holds a Bachelor of Science in Civil Engineering and a Master of Business Administration from Rensselaer Polytechnic Institute. He is a registered Professional Engineer in the Commonwealth of Pennsylvania, a Chartered Financial Analyst and a Certified Depreciation Professional.

Professional Experience

2007 – PRESENT TANGIBL GROUP, INC. (Formerly Tangibl, LLC)
PRINCIPAL
VICE PRESIDENT – CHIEF FINANCIAL OFFICER

As the Principal in charge of Rate Consulting at Tangibl Group, Inc., Mr. Clayton is responsible for a wide range of assignments including rate and depreciation studies for electric, gas, water, wastewater, thermal and railroad companies and cost of service and rate design studies for electric, gas and water utilities.

Mr. Clayton is also actively involved in Tangibl's development activities related to electric generating stations, and battery storage.

2005 – 2007 GANNETT FLEMING, INC.
DIRECTOR, REGULATORY ECONOMICS

In this position Mr. Clayton conducted depreciation and rate related studies for studies for electric, gas, thermal, water, wastewater and railroad companies.

2002 – 2005 CONJUNCTION, LLC
PRESIDENT AND CHIEF OPERATING OFFICER

Conjunction LLC was formed to develop a high voltage direct current transmission line from upstate New York to New York City.

- Responsible for day-to-day activities of the firm, raising equity capital to fund the project and negotiation of numerous contracts and agreements between the Company and its consultants, lawyers, land owners and investors.
- Responsible for preparation of the Company's transmission siting filing under Article VII before the New York Public Service Commission and the FERC filing for merchant transmission line status.

2000 – 2002 ENERGY LEADER CONSULTING, LLC
PARTNER

Energy Leader Consulting provided strategic consulting to energy companies concerning opportunities related to electric generating stations.

- Performed acquisition analysis for generating stations, identification of power plant development opportunities throughout the U.S. market and diagnostic studies for electric generators.

DONALD J. CLAYTON/ Principal
Page 2 of 3

- Led multi-million dollar study for Amtrak to determine the feasibility of using their railroad rights-of-way for electric transmission.

1985 – 2000 DQE
VICE PRESIDENT AND TREASURER
PRESIDENT – AQUASOURCE
MANAGER – VALUATION AND PROPERTY RECORDS DEPARTMENT

- Mr. Clayton developed and directed the AquaSource water and wastewater utility subsidiary where he managed all aspects of a rapidly growing business, including development of the initial business plan, integration of acquisition targets, recruitment of executive staff, and political and regulatory relations. He also headed the rate case filed in Texas for a statewide tariff related to the small water and wastewater companies acquired by AquaSource.
- As Vice President and Treasurer, Mr. Clayton was responsible for corporate finance, financial planning, corporate budgeting, cash management and investor and shareholder relations during a period of unprecedented organizational and marketplace changes. While he was Vice President and Treasurer, he was the stranded cost witness for Duquesne Light Company in their restructuring proceeding before the Pennsylvania Public Utility Commission.
- Mr. Clayton's first position with DQE was as Manager of the Valuation and Property Records (Fixed Assets) department, where he was responsible for the Company's \$5+ billion of fixed assets and the construction cost accounting system, at a time when two nuclear electrical generation plants were being built and added to rate base. While in this position, he was the company's rate base and depreciation witness in its two largest rate cases.

1980 – 1985 PRICE WATERHOUSE
MANAGER, PUBLIC UTILITY INDUSTRY SPECIALTY GROUP

- Performed numerous cost-of-service, rate design, depreciation and other valuation and rate related assignments for electric, gas, water and sewer clients in the public and private sectors.
- Developed a PC-based cost of service program and completed a program for evaluating street lighting.

1977 – 1980 GANNETT FLEMING, INC.

- Performed numerous studies in the areas of depreciation and cost of service for electric, gas, telephone, water, wastewater and railroad companies.
- Presented expert testimony before the Pennsylvania Public Utility Commission, the Alaska Public Utilities Commission and Monmouth County Court in New Jersey.
- Completed assignments for more than 50 companies, including electric, gas, water, and telephone and railroad clients.
- Participated in the valuation related to the \$2.1 Billion conveyance of the former Penn Central Railroad to Conrail and provided the analytics for three successful tax cases involving more than \$300 million in tax depreciation for the Union Pacific, the Burlington Northern and the Chesapeake & Ohio Railroads.

DONALD J. CLAYTON/ Principal
Page 3 of 3

Continuing Education

- All programs offered by Depreciation Programs, Inc.
- Management training courses offered by the Edison Electric Institute.
- Utility accounting seminars offered by Salomon Brothers.

Professional Societies

Mr. Clayton is an active member of the Society of Depreciation Professional where he has served as Treasurer and as a Board Member. He is an instructor at their annual depreciation training sessions where he has taught the basic and intermediate life analysis courses and the advanced course on preparing and defending a depreciation study.

Regulatory Cases			Company		Utility Type	Primary Issue
State / Fed	Agency	Docket Number				
AK	RCA	U-04-22	Anchorage Water and Wastewater Utility	Water/Wastewater	Contributed water/wastewater plant and depreciation	
AK	RCA	U-04-23	Anchorage Water and Wastewater Utility	Water/Wastewater	Contributed water/wastewater plant and depreciation	
AR	APSC	13-028-U	Entergy Arkansas, Inc.	Electric	Depreciation	
IN	IURC	Cause No. 43201	Citizens Thermal	Steam, Thermal	Depreciation	
IN	IURC	Cause No. 43463	Citizens Gas & Coke Utility	Gas	Depreciation	
IN	IURC	Cause No. 43624	Citizens Gas of Westfield	Gas	Depreciation	
KY	KYPSC	2006-00236	East Kentucky Power Cooperative	Electric	Depreciation	
Fed	FERC	ER-07-562-004	Trans-Allegheny Interstate Line Company (Allegheny)	Electric	Depreciation and Net Salvage for Static Var Compensator	
Fed	FERC	ER-08-386-000	Potomac-Appalachian Transmission Highline, LLC (AEP/Allegheny Energy)	Electric	Depreciation and Net Salvage of Transmission Plant	
Fed	FERC	ER-09-35-000	Tallgrass Transmission, LLC (AEP/MidAmerican/OGE)	Electric	Depreciation and Net Salvage of Transmission Plant	
Fed	FERC	ER-09-36-000	Prairie Wind Transmission, LLC (AEP/MidAmerican/Westar)	Electric	Depreciation and Net Salvage of Transmission Plant	
Fed	FERC	ER-09-75-000	Pioneer Transmission, LLC (AEP/Duke Energy)	Electric	Depreciation and Net Salvage of Transmission Plant	
LA	LPSC	U-32707	Entergy Gulf States Louisiana, L.L.C.	Electric	Depreciation	
LA	LPSC	U-32708	Entergy Louisiana, L.L.C.	Electric	Depreciation	
MS	MPSC	EC-123-0082-00	Entergy Mississippi, Inc.	Electric	Depreciation	
OK	OCC	Cause Nos. PUD 200800144	Public Service Company of Oklahoma (AEP)	Electric	Net salvage and support for company study	
OR	ORPUC	UG 201	Avista Corporation	Gas	Cash working capital	
PA	PAPUC	R-860378	Duquesne Light Company	Electric	Rate base and depreciation	
PA	PAPUC	R-870651	Duquesne Light Company	Electric	Rate base and depreciation	
PA	PAPUC	R-00974041	Duquesne Light Company	Electric	Stranded cost and electric industry restructuring	
SC	SCPSC	2011-24-S	Palmetto Utilities, Inc.	Wastewater	Rate base and revenue requirements	
SC	SCPSC	2012-94-S	Apline Utilities	Wastewater	Rate base and revenue requirements	
SC	SCPSC	2013-42-S	Palmetto Utilities, Inc.	Wastewater	Rate base and revenue requirements	
SC	SCPSC	2014-69-S	Apline and Woodland Utilities	Wastewater	Rate base and revenue requirements	
TX	TCEQ	(SOAH) 582-09-4290	Country Vista	Wastewater	Revenue requirements, cost of service, cost of capital, rate design	
TX	TCEQ	(SOAH) 582-08-0702	Shaded Lane Water Company	Water	Revenue requirements, cost of service, cost of capital, rate design	
TX	TCEQ	(TCEQ) 36926-R	Ni Texas, LLC	Wastewater	Revenue requirements, cost of service, cost of capital, rate design	
TX	TCEQ	(SOAH) 582-12-1634	D & K Development Corp.	Wastewater	Revenue requirements, cost of service, cost of capital, rate design	
TX	TCEQ	(TCEQ) 2013-0045-UCR	Grand Ranch	Wastewater	Revenue requirements, cost of service, cost of capital, rate design	
TX	TRRC	(Gas Utilities) 10190	Huges Natural Gas	Gas	Depreciation	
WV	WVPSC	06-0445-G-42T	East Resources	Gas	Rate base, cost of service, cost of capital, working capital and revenue requirements	
WV	WVPSC	08-0275-G-42T	East Resources	Gas	Rate base, cost of service, cost of capital, working capital and revenue requirements	
WV	WVPSC	09-2069-G-42T	Megan Oil & Gas Company	Gas	Rate base, cost of service, cost of capital, working capital and revenue requirements	
WV	WVPSC	10-0757-G-D	Megan Oil & Gas Company	Gas	Rate base and accumulated depreciation related to request for change in depreciation rates	
WV	WVPSC	05-0420-E-CN	Monongahela Power Company and The Potomac Edison Company (Allegheny Energy)	Electric	Depreciation, cost of removal, net salvage	
WV	WVPSC	11-0410G-42T	Bluefield Gas Company	Gas	Rate base, cost of service and revenue requirements, income tax normalization	
WV	WVPSC	11-0532-G-42T	Megan Oil & Gas Company	Gas	Rate base, cost of service and revenue requirements	
WV	WVPSC	11-1321-G-42T	Blacksville Oil & Gas Company	Gas	Rate base, cost of service and revenue requirements	

History of Testimony - Donald J. Clayton

October 2015

Regulatory Cases, Cont.

State / Fed	Agency	Docket Number	Company	Utility Type	Primary Issue
WV	WVPSC	12-0064-E-42T	Black Diamond Power Company	Electric	Rate base, cost of service and revenue requirements
WV	WVPSC	12-0427-G-42T	Bluefield Gas Company	Gas	Rate base, cost of service and revenue requirements
WV	WVPSC	12-0661-G-42T	Canaan Valley Gas Company	Gas	Rate base, cost of service, cost of capital, working capital and revenue requirements
WV	WVPSC	14-0537-G-42T	Union Oil & Gas Company	Gas	Rate base, cost of service, cost of capital, working capital and revenue requirements

Case Support (No testimony filed)

State	Agency	Docket Number	Company	Utility Type	Primary Issue
FL	FLPSC	090182	Ni Florida, LLC (Hudson)	Wastewater	Complete rate case preparation
FL	FLPSC	100126	CFAT H2O, Inc.	Water/Wastewater	Complete rate case preparation, including rate base, cost of service, cost of capital, working capital, billing analysis and revenue requirements
FL	FLPSC	100127	Tradewinds Utilities, Inc.	Water/Wastewater	Complete rate case preparation, including rate base, cost of service, cost of capital, working capital, billing analysis and revenue requirements
FL	FLPSC	100149	Ni Florida, LLC (Tamiham)	Water	Complete rate case preparation
FL	FLPSC	130010-WS	Ni Florida, LLC	Water & Wastewater	Complete rate case preparation
FL	FLPSC	150170-WS	Ni Florida, LLC	Water & Wastewater	Complete rate case preparation
ID	IPUC	AVG-10-01-E	Avista Corporation	Electric/Gas	Cash working capital study
ID	IPUC	AVG-10-01-G	Avista Corporation	Electric/Gas	Cash working capital study
KS	KSCC	08-GIMX-1142-GIV	Westar Energy	Electric	Comments on KSCC general investigation into depreciation issues.
WA	WUTC	UE-100467	Avista Corporation	Electric/Gas	Cash working capital study
WA	WUTC	UG-100468	Avista Corporation	Electric/Gas	Cash working capital study
WV	WVPSC	08-2030-E-PC	Black Diamond Power Company, Elk Power Company, Union Power Company, West Virginia Utility Company	Electric	Merger justification and support
WV	WVPSC	09-1985-E-42T	Black Diamond Power Company	Electric	Complete Rule 42 Exhibit preparation, including rate base, cost of service, cost of capital, working capital and revenue requirements
WV	WVPSC	09-1986-E-42T	Elk Power Company	Electric	Complete Rule 42 Exhibit preparation, including rate base, cost of service, cost of capital, working capital and revenue requirements
WV	WVPSC	09-1987-E-42T	Union Power Company	Electric	Complete Rule 42 Exhibit preparation, including rate base, cost of service, cost of capital, working capital and revenue requirements

Other Cases

State	Agency	Docket Number	Company	Utility Type	Primary Issue
NJ	N/A	N/A	International Flavors and Fragrances	Wastewater	Cost of service, rate design
Fed	RUS	N/A	East Kentucky Power Co-op	Electric	Depreciation
Fed	STB	N/A	Kansas City Southern Railroad	Railroad	Depreciation



301 Oxford Valley Rd / Suite 1604 / Yardley, Pennsylvania 19067-7706
TEL 215.369.9345 / FAX 215.369.9344 / www.tangibl.com

INVOICE

SOLD TO: Undine LLC
10913 Metronome Drive
Houston, TX 77043

DATE: June 10, 2016
INVOICE #: 40-35701.01
TERMS: Net 30 Days

ATTENTION: Mr. Ed Wallace

FORM OF CONTRACT:

REQUESTED BY: Ed Wallace

PROJECT: P&K Development

SCOPE OF SERVICES: Prepare base rate case as of 12-3-15.

PROFESSIONAL SERVICES

TERM: 04/01/16 THROUGH 05/31/16

	<u>AMOUNTS</u>
Lump Sum Quotation	\$15,000.00
Previous Amount Invoiced	\$0.00
Amount Due This Period	\$15,000.00
Remaining Amount	\$0.00

TOTAL AMOUNT DUE THIS INVOICE: \$15,000.00



INVOICE

Tangibl Group, Inc. | 201 King of Prussia Road | Suite 650 | Radnor, Pennsylvania 19087

Tangibl, LLC is now Tangibl Group, Inc. If paying by check please send to our new address above.

SOLD TO: Undine, LLC
10913 Metronome Drive
Houston, TX 77043

DATE: March 31, 2017

INVOICE #: 357001.002

TERMS: 1% 10 Net 30

ACH PAYMENT TO COVENANT BANK: 031919021,1100081106

ATTENTION: Ms. Carey Thomas

FORM OF CONTRACT: Verbal

REQUESTED BY: Mr. Ed Wallace

PROJECT: PK-RE Rate Case

SCOPE OF SERVICES: Provide litigation support for PK-RE Rate Case:
- Respond to Staff data requests – set 1 - 40 hours
- Develop settlement rates – 5 hours

PROFESSIONAL SERVICES

TERM: 02/27/17 THROUGH 03/31/17

LABOR:

<u>HOURS</u>	<u>CLASSIFICATION</u>	<u>AMOUNTS</u>
40	Executive @ \$200 CLAD01 = Donald J. Clayton, P.E.	\$8,000.00
5	Executive @ \$200 CLAD01 = Donald J. Clayton, P.E.	\$1,000.00

SUBTOTAL: \$9,000.00

TOTAL AMOUNT DUE THIS INVOICE: \$9,000.00