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PUBLIC UTILITY COMMISSION  
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APPLICATION OF THE COMMONS  
WATER SUPPLY, INC. FOR  
AUTHORITY TO CHANGE RATES

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§

BEFORE THE STATE OFFICE

OF

ADMINISTRATIVE HEARINGS



DIRECT TESTIMONY OF  
GREG CHARLES  
WATER UTILITY DIVISION  
PUBLIC UTILITY COMMISSION OF TEXAS  
DECEMBER 18, 2017

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**ATTACHMENTS**

Attachment GC-1	Resume of Greg Charles
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Attachment GC-4	Revenue and Rate Calculations from Monthly Base and Gallonage Charges

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**I. PROFESSIONAL QUALIFICATIONS**

**Q. Please state your name and business address.**

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

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

A. I have been employed by the Public Utility Commission of Texas (PUC or Commission)  
since September 1, 2016, as an Engineer in the Water Utilities Regulation Division.

**Q. What are your principal responsibilities at the Commission?**

A. My responsibilities include reviewing rate filings for water and sewer tariff changes and  
Certificate of Convenience and Necessity applications. I also participate in negotiation of  
settlements and prepare testimony and exhibits for contested case matters involving investor-  
owned, non-profit and governmental water and sewer utilities. I am also responsible for  
conducting rate-related inspections of water or sewer utility systems within Texas.

**Q. Please state your educational background and professional experience.**

A. I provided a summary of my educational background and professional regulatory experience  
in Attachment GC-1.

**Q. Have you testified as a regulatory technical expert before the Commission or the State  
Office of Administrative Hearings (SOAH)?**

A. Yes. I have testified before SOAH.

**Q. Have you previously pre-filed testimony before the Commission SOAH?**

A. Yes. A list of the dockets I have previously testified in is included in Attachment GC-2.

**Q. On whose behalf are you testifying?**

A. I am testifying on behalf of the Staff of the Public Utility Commission (Staff).

**II. PURPOSE AND SCOPE OF TESTIMONY**

**Q. What is the purpose of your testimony in this proceeding?**

A. I will present Staff's recommendation for depreciation, original cost, accumulated depreciation, net plant used and useful, and a rate design for water service, primarily focusing on the technical aspects of the rate application. My testimony will address the following issues from the Commission's Preliminary Order:

1. What is the appropriate methodology to determine just and reasonable rates in this proceeding?
2. What are the just and reasonable rates for the utility that are sufficient, equitable, and consistent in application to each customer class and that are not unreasonably preferential, prejudicial, or discriminatory? TWC § 13.182, 13.1871(o); 16 TAC § 24.28(d).
4. Are the utility's proposed revisions to its tariffs and rate schedules appropriate?
9. What are the reasonable and necessary components of the utility's invested capital? 16 TAC § 24.31(c)(2).
11. What is the original cost of the property used and useful in providing water service to the public at the time the property was dedicated to public use? TWC § 13.185(b); 16 TAC § 24.31(c)(2)(A)-(B). What is the amount, if any, of accumulated depreciation on such property?
26. What is the reasonable and necessary depreciation expense? For each class of property, what are the proper and adequate depreciation rates (including service lives and salvage values) and methods of depreciation? TWC § 13.185(j); 16 TAC § 24.31(b)(1)(B).
35. What is the appropriate rate design for each rate class? 16 TAC § 24.32.
36. Should the utility use the current number of connections as of the date of the application as opposed to using the number of test-year-end connections in designing rates?

**Q. Please describe the scope of your participation in this proceeding.**

A. I reviewed the rate application filed by The Commons, as well as discovery responses. I also reviewed the direct testimony and exhibits presented by The Commons' witness Mr. Bret Fenner and analyzed the depreciation schedule and proposed rate design. Finally, I calculated Staff's recommended water rates using the revenue requirement recommended by Staff witness Mr. Andrew Novak.

**Q. What test year did you consider to prepare your testimony?**

A. The test year is 2016.

**III. RECOMMENDATION**

**A. DEPRECIATION AND INVESTED CAPITAL**

**Q. What is your recommended annual depreciation expense, accumulated depreciation, and net plant?**

A. After careful analysis, I recommend that the original cost and annual depreciation expense remain the same as that requested by The Commons. I recommend a slightly lower accumulated depreciation and net plant than the \$757,548 and \$1,478,719 that was requested. My recommendations are summarized in the table below.

Original Cost	Depreciation Expense	Accumulated Depreciation	Net Plant
\$2,236,267	\$53,216	\$754,955	\$1,481,312

**Q. Did you make any adjustments to the depreciation schedule (Schedule III-3a) submitted in the application?**

A. No. I recommend the revised depreciation schedule presented in Mr. Fenner's testimony as Exhibit K.

**Q. Did you include the \$48,837 requested by The Commons for construction work in progress related to damage caused by Hurricane Harvey in September of 2017?**

A. No. The requested amount was not included because no supporting receipts or invoices were

provided. Mr. Fenner's testimony states that these invoices are included in Exhibit L, but this exhibit only contains property tax documents.<sup>1</sup>

**B. RATE DESIGN**

**Q. Can you explain the rate increase requested by The Commons?**

A. The Commons has requested the following rates:

Monthly Base Charge (includes 0 gallons)		Gallonge Charges per 1,000 gallons	
Meter Size	Rate	Usage	Rate
5/8" or 3/4"	\$40.56	0 - 10,000	\$1.90
1"	\$40.56	10,001 -15,000	\$3.05
1 1/2"	\$202.80	15,001+	\$3.95
2"	\$324.48		
3"	\$608.40		
4"	\$1,014.00		
6"	\$2,028.00		

**Q. What should be noted about this rate change request?**

A. The Commons is proposing to change from a flat monthly base charge of \$35.50, which includes the first 5,000 gallons of water usage for all meter sizes, to a monthly base charge based on meter sizes, with no gallons of water included.

**Q. How did you determine the billed monthly gallonage?**

A. The billed monthly gallonage was taken from Exhibit O of Mr. Fenner's testimony, which includes the monthly Statistical Consumption Reports (SCRs) and the System Totals Reports (STRs) for the test year. The SCRs provide a column titled "Usage Range," but the ranges do not match with the usage tiers requested by The Commons. Instead of the 10,001 – 15,000 and 15,000+ tiers, the SCRs have a 10,001 – 20,000 gallon usage range. To determine the usage for the 10,001 – 15,000 tier, the usage in the 10,001 – 20,000 range was divided in half and equally distributed between the 10,001 – 15,000 and 15,001+ tiers. For example, the SCR for January 2016, dated 02/05/2016, lists the gallonage for the 10,001 – 20,000 range as

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<sup>1</sup> Direct Testimony of Bret Fenner at 20, Exhibit L.

366,000 gallons. The 366,000 gallons was divided by two, which equals 183,000 gallons.

Therefore, the usage for the 10,001 – 15,000 tier is 183,000 gallons. The other 183,000 gallons were included in the 15,001+ tier.<sup>2</sup>

A similar method was used to calculate the gallonage using the STRs, which provide a column titled “Usage Groups.” None of the usage groups match any of the usage tiers requested by The Commons. Instead, the STRs have usage groups in increments of 2,000 gallons starting with 1 – 2,000 and going up to 8,001 – 10,000. After that, the usage groups are in increments of 10,000 gallons starting with 10,001 – 20,000. To determine the usage for the 0 – 5,000 tier, usage in the 4,001 – 6,000 group was divided in half and added to the usage for the 1 – 2,000 and 2,001 – 4,000 groups. The other half of the usage for the 4,001 – 6,000 group was added to the usage for the 6,001 – 8,000 and 8,001 – 10,000 groups to determine the usage for the 5,001 – 10,000 tier. The usage for the 10,000 – 15,000 and 15,000+ tiers was calculated using the manner described in the previous paragraph on the SCRs. For example, using the STR for August, dated 9/30/2016, the usage for the 0 – 5,000 tier was calculated by totaling the usage for 1 – 2,000 and 2,001 – 4,000 groups and half of the usage for 4,001 – 6,000 group (60,000 + 452,000 + 385,000). Therefore, the usage for the 0 – 5,000 tier is 897,000 gallons. The usage for the 5,001 – 10,000 tier is 2,092,000 (385,000 + 867,000 + 840,000), and the usage for the 10,001 – 15,000 tier is 1,485,000 (2,970,000 / 2). The usage for the 15,000+ tier is 7,032,000 (1,485,000 + 2,492,000 + 1,258,000 + 722,000 + 1,075,000). The 0 – 5,000 usage range in the Commons existing tariff is included in the monthly base charge. The total usage for the 0 – 5,000 range from both Reports for the test year is 33,071,000 gallons, which is included in the usage range of 0 – 10,000 in Staff’s rate calculations.

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<sup>2</sup> Attachment GC-3.



1 **Q. What connection count did you use for your rate design?**

2 A. I used a connection count of 937.

3 **Q. What revenue requirement did you used in your rate design?**

4 A. I used Mr. Novak's recommended revenue requirement less other revenues of \$431,605. My  
5 rate calculation is provided in Attachment GC-4.

6 **Q. How did you calculate the total revenue that would be generated by the proposed**  
7 **volumetric usage charges?**

8 A. I calculated the revenue generated by the volumetric usage (gallorage) charges by  
9 multiplying the requested tiered rates listed in Exhibit P of Mr. Fenner's testimony by the  
10 volumetric usage gallons billed for each tier listed in Attachment GC-3. For example, the 0  
11 – 10,000 tier, the total billed amount is 55,691,000 (33,071,000 plus 22,620,000) gallons. At  
12 \$1.90/1,000 gallons, the 0 – 10,000 gallons tier will generate \$105,813. Adding the values  
13 for all tiers, the total revenue that would be generated is \$261,871.<sup>3</sup>

14 **Q. How did you calculate the total revenue that would be generated by the proposed**  
15 **monthly base charges?**

16 A. I multiplied the total number of customers for each meter size by the corresponding monthly  
17 base charge times twelve months times Staff's monthly base charge. For example, a 5/8-inch  
18 meter with a monthly base charge of \$8.15, would generate \$39,511 over twelve months.  
19 Adding the values for all meter sizes and equivalent monthly base charge, the total revenue  
20 generated would be \$169,830.<sup>4</sup>

21 **Q. What is the total revenue generated by the monthly base charges and the gallorage**  
22 **charges recommended by Staff?**

23 A. The total revenue generated by the monthly base charges and the gallorage charges is

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<sup>3</sup> Attachment GC-4.

<sup>4</sup> *Id.*

1 \$431,700.00.

2 **Q. What are your recommended rates?**

3 **A.** The table below provides Staff's recommended rates:

Monthly Base Charges (includes 0 gallons)		Gallonge Charges per 1,000 gallons	
Meter Size	Rate	Usage	Rate
5/8" or 3/4"	\$8.15	0 - 10,000	\$1.90
1"	\$20.38	10,001 -15,000	\$3.05
1 1/2"	\$40.75	15,001 +	\$3.95
2"	\$65.20		
3"	\$122.25		

4 **Q. The Commons rate design applied the same rate for customers with 5/8" or 3/4" meters**  
5 **and 1" meters. Do you agree with the requested rate design?**

6 **A.** Typically the smallest meter size is used to set the standard monthly base charge. The rates  
7 for all other meter sizes are calculated by multiplying the monthly base charge by the  
8 equivalent meter ratios recommended by the American Water Works Association. This is the  
9 methodology used by the Commission, and The Commons did not explain what methodology  
10 they used, other than to state that they reached an agreement with the customers to charge  
11 the same rates for 5/8" or 3/4" and 1" meters.<sup>5</sup>

12 **IV. CONCLUSION**

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

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

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<sup>5</sup> Direct Testimony of Bret Fenner at 25.

**Greg Charles**

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**Work Experience**

**Engineer IV**

9/1/2016 - Present Public Utility Commission, Austin, TX

Process Certificates of Convenience and Necessity (CCN) applications. Perform depreciation studies, quality of service evaluations, design rates for rate applications and testify in hearings.

**Engineer III – Project Manager**

1/1/2012 – 9/1/2016 Municipal Solid Waste, Waste Permits Division, Texas Commission on Environmental Quality, Austin, TX

Reviewed registration authorizations for landfills and transfer stations applications.

Reviewed authorizations for the scrap tire program, and compost and recycling facilities

**Engineer V - Project Manager**

6/1/2005 – 1/1/2012 Districts Review Team, Water Supply Division, Texas Commission on Environmental Quality, Austin, TX

Conducted technical reviews and evaluations of municipal district applications: district creations, district bond applications, purchase of facilities, fire plans, surplus funds requests, and district board appointments.

Conducted on the spot district inspections for district bond issues.

Provided expertise for contested cases before the Commission.

**Owner/Managing Partner**

3/2002 - 4/2004 Trig Inc. dba Golden Chick , Austin, TX

**Technical Staff Product/Test Engineer**

7/1981 - 3/2002 Product/Test Engineering

Product/Test Engineering at various technology companies including Motorola Inc., Advanced Micro Devices, Ross Technology Inc., Intel Corp, Agere Inc. (Lucent Technology).

**Education**

5/1980 Howard University, Washington, D.C.

Bachelor's Degree in Electrical Engineering

6/1981 Cornell University, Ithaca, NY

Master of Engineering

**List of Pre-filed Testimony**

<b>Docket</b>	<b>Case</b>
SOAH 473-17-0529.WS	Complaint of Playa Vista Conroe, a Condominium Association, Inc. Against C & R Water Supply, Inc.
SOAH 473-17-0067.WS	Application of Double Diamond Properties Construction for Water Rate/Tariff Change
SOAH 473-16-4745.WS	Complaint of Yanney Gurrusquieta Against Southern Utilities

**BILLED GALLONAGE**

	<b>0 - 5,000</b>	<b>5,001-10,000</b>	<b>10,001-15,000</b>	<b>15,001 +</b>	<b>Total*</b>
<b>Jan-16</b>	3,441,000	887,000	183,000	437,000	<b>4,948,000</b>
<b>Feb-16</b>	3,788,000	1,596,000	482,000	930,000	<b>6,796,000</b>
<b>Mar-16</b>	3,720,000	1,586,000	542,000	1,194,000	<b>7,042,000</b>
<b>Apr-16</b>	3,773,000	1,670,000	589,000	1,385,000	<b>7,417,000</b>
<b>May-16</b>	3,702,000	1,555,000	507,500	1,144,500	<b>6,909,000</b>
<b>Jun-16</b>	3,916,000	2,005,000	717,000	1,445,000	<b>8,083,000</b>
<b>Jul-16</b>	4,094,000	2,935,000	105,000	8,188,000	<b>15,322,000</b>
<b>Aug-16</b>	897,000	2,092,000	1,485,000	7,032,000	<b>11,506,000</b>
<b>Sep-16</b>	1,421,500	2,153,500	898,000	2,952,000	<b>7,425,000</b>
<b>Oct-16</b>	1,209,500	1,927,500	1,194,000	5,843,000	<b>10,174,000</b>
<b>Nov-16</b>	1,097,000	2,560,000	1,274,000	4,420,000	<b>9,351,000</b>
<b>Dec-16</b>	2,012,000	1,653,000	459,000	1,379,000	<b>5,503,000</b>
<b>Total</b>	<b>33,071,000</b>	<b>22,620,000</b>	<b>8,435,500</b>	<b>21,626,000</b>	<b>100,476,000</b>

\*Totals are taken from the monthly Statistical Consumption Reports and System Usage Reports included in the Direct Testimony of Mr. Bret Fenner, Exhibit O (They are not taken from the table at the beginning of Exhibit O.)

Revenue Generated by Existing Rates	
<b>RATES</b>	
<b>Monthly Base Charge</b>	
5/8" or 3/4"	\$ 35.50
1"	\$ 35.50
1 1/2"	\$ 35.50
2"	\$ 35.50
3"	\$ 35.50
<b>Gallonge Charge per tier</b>	
0 - 5,000	\$ -
5,001 -10,000	\$ 1.90
10,001 - 15,000	\$ 3.05
15,001 +	\$ 3.95
	\$ -
<b>No. of Meters</b>	
5/8" or 3/4"	404
1"	533
1 1/2"	
2"	
3"	
<b>Total</b>	937
<b>Gallonge Billed</b>	
0 - 5,000 (Recovered in base rate)	33,071
5,001 -10,000	22,620
10,001 - 15,000	23,159
15,001 +	21,626
<b>Total</b>	100,476
<b>REVENUE</b>	
<b>Monthly Base Charge</b>	
5/8"	\$ 172,104
1"	227,058
1 1/2"	-
2"	-
3"	-
<b>Total revenue generated by monthly base charges</b>	\$ 399,162
<b>Gallonge Revenue</b>	
0 - 5,000	-
5,001 -10,000	42,978
10,001 - 15,000	70,635
	85,423
<b>Total revenue generated by Gallonge</b>	\$199,036
<b>Revenue Generated by Existing rates</b>	\$ 598,198
Revenue Requirement in Application	\$ 552,377
Over / (Under) Recovery	\$ 45,821
Percentage of (Under) Recovery	8.30%

Revenue Generated by Proposed Rates	
<b>RATES</b>	
<b>Monthly Base Charge</b>	
5/8" or 3/4"	\$ 40.56
1"	\$ 40.56
1 1/2"	\$ 202.80
2"	\$ 324.48
3"	\$ 608.40
<b>Gallonge Charge per tier</b>	
0 - 10,000	\$ 1.90
10,001 -15,000	\$ 3.05
15001+	\$ 3.95
	\$ -
	\$ -
<b>No. of Meters</b>	
5/8" or 3/4"	404
1"	533
1 1/2"	
2"	
3"	
<b>Total</b>	937
<b>Gallonge Billed</b>	
0 - 10,000	55,691
10,001 -15,000	23,159
15001+	21,626
<b>Total</b>	100,476
<b>REVENUE</b>	
<b>Monthly Base Charge</b>	
5/8"	\$ 196,635
1"	259,422
1 1/2"	-
2"	-
3"	-
<b>Total revenue generated by monthly base charges</b>	\$ 456,057
<b>Gallonge Revenue</b>	
0 - 10,000	105,813
10,001 -15,000	70,635
15001+	85,423
	-
<b>Total revenue generated by Gallonge</b>	\$ 261,871
<b>Revenue Generated by Proposed rates</b>	\$ 717,927
Revised Revenue Requirement	\$ 599,715
Over / (Under) Recovery	\$ 118,212
Percentage of (Under) Recovery	20%

Revenue Generated by Staff's Recommended Rates	
<b>RATES</b>	
<b>Monthly Base Charge</b>	
5/8" or 3/4"	\$ 8.15
1"	\$ 20.38
1 1/2"	\$ 40.75
2"	\$ 65.20
3"	\$ 122.25
<b>Gallonge Charge per tier</b>	
0 - 10,000	\$ 1.90
10,001 -15,000	\$ 3.05
15001+	\$ 3.95
	\$ -
	\$ -
<b>No. of Meters</b>	
5/8" or 3/4"	404
1"	533
1 1/2"	
2"	
3"	
<b>Total</b>	937
<b>Gallonge Billed</b>	
0 - 10,000	55,691
10,001 -15,000	23,159
15001+	21,626
<b>Total</b>	\$ 100,476
<b>REVENUE</b>	
<b>Monthly Base Charge</b>	
5/8"	\$ 39,511
1"	130,319
1 1/2"	-
2"	-
3"	-
<b>Total revenue generated by monthly base charges</b>	\$ 169,830
<b>Gallonge Revenue</b>	
0 - 10,000	105,813
10,001 -15,000	70,635
15001+	85,423
	-
<b>Total revenue generated by Gallonge</b>	\$ 261,871
<b>Revenue Generated by Proposed rates</b>	\$ 431,700
Staff's Revenue Requirement	\$ 431,605
Over / (Under) Recovery	\$ 95
Percentage of (Under) Recovery	0%