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DOCKET NO. 47680

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APPLICATION OF BOLIVAR UTILITY §  
SERVICES, LLC TO AMEND TARIFF §  
AND CHANGE SEWER RATES IN §  
GALVESTON COUNTY §  
§

BEFORE THE  
PUBLIC UTILITY COMMISSION  
OF TEXAS

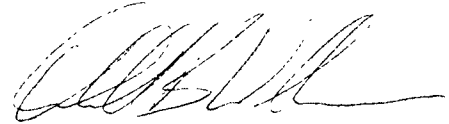
**BOLIVAR UTILITY SERVICES, LLC'S  
RESPONSE TO COMMISSION ORDER REQUIRING RESPONSES**

**TO THE PUBLIC UTILITY COMMISSION**, by and through Stephen D. Journey, Commission Counsel, Public Utility Commission of Texas, PO Box 13326, Austin, Texas 78711-3326.

COMES NOW, Bolivar Utility Services Company, LLC (“Bolivar” or “Utility”) and submit this Response to the Commission Order Requiring Responses. Pursuant to 16 TAC § 22.144(c)(2)(F), the Commission may treat these responses as if filed under oath.

On March 8, 2018, Bolivar and Undine Texas Environmental, LLC (“Undine”) filed an application for a sale, transfer, or merger of facilities and Certificate of Convenience and Necessity (CCN) rights in Galveston County, Texas, pending Docket No. 48151. As part of that application, Bolivar seeks to sell its sewer system and transfer the service area under CCN No. 21026 to Undine. The Commission Staff have reviewed the application in Docket No. 48151; however, Commission Staff have requested additional time before making a final recommendation regarding the sale, conditioned upon the Commission’s resolution of its concerns regarding the rate settlement in this docket. Therefore, Bolivar respectfully requests that the Commission Office of Policy & Docket Management place this item, Docket No. 47680, on the Commission’s Open Meeting Agenda scheduled for December 20, 2018.

Respectfully submitted,  
Randall B. Wilburn  
State Bar No. 24033342  
Helen S. Gilbert  
State Bar No. 00786263  
GILBERT WILBURN PLLC  
7000 N. MoPac Expwy, Suite 200  
Austin, Texas 78731  
Telephone: (512) 535-1661  
Telecopier: (512) 535-1678

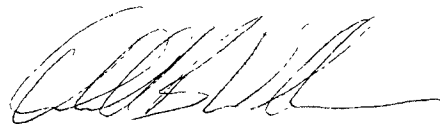


By: \_\_\_\_\_  
Randall B. Wilburn

**ATTORNEYS FOR BOLIVAR UTILITY  
SERVICES, LLC**

**CERTIFICATE OF SERVICE**

I hereby certify that I have or will serve a true and correct copy of the foregoing document via hand delivery, facsimile, electronic mail, overnight mail, U.S. mail, or Certified Mail Return Receipt Requested on all parties on the 28<sup>th</sup> day of November 2018.



\_\_\_\_\_  
Randall B. Wilburn

Questions regarding Bolivar

- 1. How can Bolivar not collect 70% of its revenue requirement and remain a viable operation that can provide continuous and adequate service to its customers when its rates cannot even cover its operating expenses?*

RESPONSE: Bolivar's parent company and financier is Allco LLC ("Allco"), which is a construction company in business for over 33 years. Allco's gross annual revenue averages between \$50 and \$60 million. Gross annual revenue has been as high as \$150 million and never lower than \$30 million. Allco has the financial capacity to provide interest free "loans" or cash equity infusions if needed to keep Bolivar financially whole. Bolivar provides the following, important background information that will help the Commission understand Bolivar's filing and its relationship to Allco:

Mr. Michael P. Lege, Secretary Treasurer of the Bolivar, stated the following in his Direct Testimony in this matter:

Bolivar is a 20-mile-long peninsula that is a beach community with a main highway that runs right down the middle of it. Bolivar Utility Service was started with 36 customers by a group of developers to provide sewer service to newly developed subdivisions in 2003. Water service to Bolivar's customers is provided by Bolivar Peninsula Special Utility District (BPSUD). After Hurricane Ike in 2008, Galveston County asked Bolivar to provide sewer service only to the entire peninsula. Customers have been increasingly added since that time. About half of the 8,000 lots have been developed. A large percentage of the community consists of vacation homes and rentals. As in most coastal communities along the Gulf, Bolivar's water table is very close to the surface. To accommodate growth and maintain water quality, sewer service is critical and a much more environmentally protective choice than septic. Without Bolivar, the peninsula would be left with

just septic systems and a growing threat of E. coli contamination to both the water and soil, which would most likely result in reduced growth and development.<sup>1</sup>

Charles Loy, a Principal in the rate consulting firm of GDS Associates, Inc., testified to the following:

Bolivar Peninsula's water system was installed years before Bolivar's sewer system. Constructing or installing a sewer system in an area with an existing water system complicates and increases installation costs. Since Allco LLC installed most of the peninsula's water system, it is uniquely qualified to install the sewer system, because it knows the location of existing water lines. Further, Mr. Lege states that Allco LLC bills Bolivar for actual construction costs plus a small markup to recover overhead costs. In my discussions with Mr. Lege, he indicated that the Allco LLC's overhead charges ranged from 3% to 5% of the actual construction costs billed. Since contracting firms will mark up their costs as high as 30%, I believe, based on Mr. Lege's Direct Testimony, the affiliate transactions regarding the Allco construction costs are reasonable and meet the affiliate transaction standard.<sup>2</sup>

Mr. Loy went on to testify as follows:

From the additional cash flow from this increase, existing billings and developer payments, combined with interest free loans from its parent Allco LLC, Bolivar will easily be able to maintain the quality of service and operation it has in the past. As discussed in Mr. Lege's Direct Testimony, Bolivar has not experienced operational problems with the Texas Commission on Environmental Quality or the Galveston County Health Department.<sup>3</sup>

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<sup>1</sup> Direct Testimony of Michael Lege, BUS Exhibit 1, at 3, ll. 9-15 (AIS No. 134).

<sup>2</sup> Direct Testimony of Charles E. Loy, BUS Exhibit 2, at p.8, ll.19 thru p. 9, ll.2 (AIS No. 134).

<sup>3</sup> *Id.*, at p. 4, ll.27 thru p. 5, ll.4.

Bolivar notes that the Commission Staff did a very thorough investigation of its filing. Bolivar provided over 700 pages of information for Staff review and analysis during the course of the its investigation.

*2. Has Bolivar been operating in this revenue short position since its last rate case in 2016?*

RESPONSE: The brief answer is yes. Regarding the short position, Mr. Charles Loy testified as follows:

Bolivar submitted a similar request in 2015 under Docket 44911. . . . In addition, Monarch Utilities and Canyon Lake Water Service Company have filed requests in the past that were significantly less than what their documented revenue requirements supported. This approach is taken to mitigate the impact of the rate increases by stalling recovery of the full revenue requirement and allow future growth to help bridge the gap before a full and reasonable rate increase can be requested in the future. Bolivar is part of the peninsula community devastated by Hurricanes Rita, Ike, and Harvey. If rates were raised to cover the full revenue requirements, most of the customers would have difficulty covering the bills. Since Bolivar has installed a modern, fully-contained sewer system that protects the water table and soil much better than septic systems, more lots can be sold and thus more customers will be able to hook on to the system in the future. This future customer growth will ultimately help keep rates at a reasonable level. Bolivar expects the utility to break-even in the next few years based on recent years customer growth.<sup>4</sup>

*3. What amount of loans has Bolivar taken from its parent and what are the terms of repayment, including repayment obligations? How often has it received such loans and in what amounts?*

RESPONSE: Bolivar has not taken any loans from its parent, and it does not have any loans with its parent or another lender. As a small sewer utility, Bolivar lacks the ability to obtain loans at

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<sup>4</sup> Direct Testimony of Charles E. Loy, BUS Exhibit 2, at p.4, ll.10 thru 24 (AIS No. 134).

favorable terms in the private marketplace.<sup>5</sup> Any future, hypothetical loan would come from its parent with terms favorable to the utility.

4. *What sources of revenue, other than rates, has been available to Bolivar and what is the amount of that revenue? What assurance that such revenue sources will remain at those levels in the next few years? Is any of this revenue restrict to certain uses, and if so, what are those uses?*

RESPONSE: As noted in response to Question No. 1, the utility receives from Allco varying amounts of cash infusion from year to year. Bolivar has not determined the specific amount that Allco infused for operations over time; however, Bolivar estimates that the total amount contributed to Bolivar's balance sheet is between \$200,000 and \$300,000. Allco is financially stable, it has been in business for 33 years, and it provides additional cash infusions as needed. The requested rate increase will allow Bolivar to "cash flow" day-to-day operational expenses. There are not any restrictions on how Bolivar may use this revenue. Bolivar must use capacity fees from developers and line extension fees from customers and developers for those purposes.

#### Questions regarding Allco LLC

5. *What is Allco's financial ability and standing?*

RESPONSE: As noted above, Allco is in good financial standing, with annual gross revenues averaging between \$30 and \$50 million.

6. *Does Allco have a standing line of credit to cover any loans to Bolivar? If so, what are the terms of that credit line? If not, what funds are available to make loans to Bolivar? What assurances exist that such funds will be available in the future?*

RESPONSE: Allco does not have a standing line of credit to cover any future loans to Bolivar. Instead, Allco makes available its current and future cash earnings to cover any possible cash needs of Bolivar. To date, Allco has not made any loans to Bolivar. Bolivar's parent company, Allco,

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<sup>5</sup> See Direct Testimony of Charles E. Loy, BUS Exhibit 2, at p. 6, ll. 3 thru 4 (AIS No. 134).

has been in business for 33 years. With its financial stability, Allco is in a position to provide any needed loans to Bolivar in the future.

7. *How much can Allco loan Bolivar in any one year? In total?*

RESPONSE: As stated above, Allco has never made any loans to Bolivar. Allco has sufficient cash on hand and cash flow to cover Bolivar's expenses for any given year.

Questions regarding contributions in aid of construction

8. *What is the nature of Bolivar's identified developer contributions in aid of construction? What were the annual amounts collected over the past four years and who is paying them? What have these fees been used for? Are there any restrictions on the use of these funds?*

RESPONSE: These funds represent extension fees and capacity fees that the developers contributed to expand Bolivar Peninsula's residential development. Developers contributed the following amounts over the last four years of record:

2013 - \$295,000  
2014 - \$118,000  
2015 - \$203,000  
2016 - \$326,000

Bolivar uses these fees to pay for extensions of lines to connect residences to its collection mains and for sewer treatment plant capacity costs.

9. *How much money has been collected by Bolivar for line extension fees over the past four years and how has paid them? What have these fees paid for? Are there any restrictions on the use of these fees? What assurances exist that such payments will continue in the future?*

RESPONSE: Typically, developers or lot owners pay line extension fees. Bolivar has received the following amount of extension fees for the last four years of record:

2013 - \$175,000  
2014 - \$300,000  
2015 - \$357,000



2016 - \$335,000

These fees paid for the cost of materials and labor necessary to install the extension of lines from the collection mains to the individual lots. There are not any restrictions on the use of these fees. These fees will continue as the Bolivar Peninsula is built-out. As stated above, over 4,000 lots are available today for future expansion of Bolivar's system as well as the possibility of connecting future developments.

*10. How much money has been collected by Bolivar for low pressure installation fees and how has paid them? What are these funds used for? Are there any restrictions on the use of such funds? What assurances exist that such payments will continue in the future?*

RESPONSE: New residential customers pay at or below cost for the installation of the low-pressure system. The amount collected for these installations over the last four years of record are as follows:

2013 - \$177,000  
2014 - \$193,000  
2015 - \$310,000  
2016 - \$249,000

Bolivar uses these funds to cover the cost of labor and materials for the installation of the low-pressure system. There are not any restrictions on the use of these funds. As stated above, over 4,000 lots are available today for future expansion of Bolivar's system as well as the possibility of connecting future developments.