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SOAH DOCKET NO. 473-18-3008.WS
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PUBLIC UTILITY COMMISSION
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APPLICATION OF FOREST GLEN
UTILITY COMPANY FOR AUTHORITY
TO CHANGE RATES

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BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE
HEARINGS



DIRECT TESTIMONY OF
DEBI LOOCKERMAN
WATER UTILITY REGULATION
PUBLIC UTILITY COMMISSION OF TEXAS
AUGUST 23, 2018

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ATTACHMENTS

Attachment DL-1 – Resume
Attachment DL-2 – Testimonies

1 **I. INTRODUCTION OF WITNESS**

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

3 A. Debi Loockerman, Public Utility Commission of Texas, 1701 N. Congress Avenue, Austin,
4 Texas 78711-3326.

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

6 A. I am employed by the Public Utility Commission of Texas (Commission) as the manager of
7 the financial team in the Water Utility Regulation Division.

8
9 **Q. What are your principal responsibilities at the Commission?**

10 A. My responsibilities include managing the accounting/financial team for water and sewer
11 rates program, analyzing rate applications and annual reports, preparing written or oral
12 testimony, making recommendations on regulatory issues, and managing new rules and
13 forms creation in the Division.

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

15 A. I received a Bachelor of Business Administration degree with a major in Accounting from
16 the University of Texas at Austin in 1984. I have worked in water and sewer rate regulation
17 for over 25 years in Texas. I am a Certified Public Accountant (CPA) licensed in the State
18 of Texas. I have accounting experience in public practice, industry and state government.
19 Attachment DL-1 is a copy of my resume.

20 **Q. Have you previously testified before this Commission or the State Office of**
21 **Administrative Hearings (SOAH)?**

22 A. Yes. Attachment DL-2 is a list of my previous testimonies.

1 **II. PURPOSE AND SCOPE OF TESTIMONY**

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

3 A. The purpose of my testimony is to present a recommendation with regard to Forest Glen
4 Utility Company's (Forest Glen or Company) application for authority to increase sewer
5 rates and associated information provided therein with regard to proposed revenues held in
6 abeyance.

7 **Q. What is the scope of your review?**

8 A. I reviewed the application, testimonies, and replies to requests for information of Forest Glen
9 which pertained to proposed revenues held in abeyance. My review was very general except
10 with respect to proposed revenues held in abeyance and accounting issues. For this issues, I
11 searched through the filings for testimony and information directly related to the topics of
12 revenues held in abeyance and accounting issues.

13

14 **III. REVENUES HELD IN ABEYANCE**

15 **Q. What do the Texas Water Code and the Commission rules say about revenues held in**
16 **abeyance?**

17 A. The Texas Water Code (TWC) and the Commission rules do not mention revenues held in
18 abeyance.

19 **Q. What is Forest Glen's definition of revenues held in abeyance?**

20 A. Forest Glen stated that it is a portion of the revenue requirement meant to be suspended or
21 set aside and not included in the development of rates. Said another way, it represents costs

1 that will not currently be recovered in rates.¹

2 **Q. What is the definition of “revenues held in abeyance”?**

3 A. I reviewed the National Association of Regulatory Utility Commissioners’ (NARUC)
4 website and found no definition of this term. I also reviewed the glossary of *Principles of*
5 *Water Rates, Fees, and Charges, Manual of Water Supply Practices* (Manual M1) and found
6 no definition.

7 My understanding of Forest Glen’s use of the term “revenues held in abeyance” in the
8 testimony is that it is comprised of the cumulated difference between revenues proposed to
9 be collected in Forest Glen’s current application and the revenues produced by the proposed
10 rates in this case.

11 However, if one dissects the term, “revenues” would be recognized by Generally Accepted
12 Accounting Principles (GAAP) when they are (a) realized or realizable; and (b) earned.
13 “Abeyance is also defined in the dictionary as “a condition of being temporarily set aside.”

14 By using the term, Forest Glen appears to claim that revenues have been realized or are
15 realizable, (2) have been earned, and (3) should be temporarily set aside. The revenue would
16 only be realizable if the Commission approved a regulatory asset.

17 **Q. What is Forest Glen’s position on revenues held in abeyance?**

18 Forest Glen has proposed to defer “this amount” for recovery in the future with a carrying
19 charge of 5% in testimony² or 7% in the application.³

¹ Direct Testimony of Steven Greenberg at 13, lines 19-22 (Jul. 7, 2018) (Greenberg Direct).

² Greenberg Direct at 14, lines 1-6.

³ Amended Application at 47, Exhibit SAG-3, bates page FGU0651 (Feb. 23, 2018).

1 **Q. Does Forest Glen state what “this amount” is?**

2 A. The testimony does not. The revised application states that it is Forest Glen’s intent to recover
3 the “\$125,000 in recovered rates for 2017 and place the amount into a balancing account
4 earning interest at 7%...and recover the \$125,000 plus interest beginning in 2020 over a five
5 year period through a surcharge.⁴ Forest Glen is asking for the Commission to approve a
6 regulatory asset with a carrying charge.

7 **Q. Please discuss the statutory and rule implications inherent in the approval of this**
8 **regulatory asset and attendant surcharge.**

9 A. The Commission has approved regulatory assets previously in the electric industry, but only
10 for specific, extraordinary situations such as the costs pertaining to a hurricane or for rate
11 case expense recovery. Forest Glen proposes a regulatory asset for recovery of a portion of
12 the general cost of service that is not recovered by the requested rates. If the Commission
13 approves the proposed regulatory asset and attendant surcharge, Forest Glen could apply for
14 another increase in a year and the surcharge would be added to that rate. If that second rate
15 is approved lower than what is justified by the future revenue requirement, Forest Glen would
16 have precedence to request yet another surcharge on top of the justified rate plus the
17 surcharge approved in this case. Forest Glen’s application states that a sewer bill of \$123 is
18 not affordable or competitive.⁵ The future historical test year justified rate with the
19 surcharges added would be incrementally less affordable and less competitive.

20 The Texas Water Code requires rates to be set on an historical test year adjusted for known

⁴ Amended Application at 47, Exhibit SAG-3, bates page FGU0651.

⁵ *Id.*

1 and measurable changes.⁶ If the surcharge is allowed to recover this application's operations
2 and maintenance expense in the future, the future rates would be set based on an historical
3 test year plus parts of this application's proposed expenses. The future customers would be
4 paying for past operations and maintenance expense which was not used to provide service
5 for those customers.

6 **Q. What is Staff's position on revenues held in abeyance?**

7 A. Staff recommends that the Commission deny the request for a regulatory asset called
8 revenues held in abeyance.

9 **Q. If the Commission chooses to approve a regulatory asset for unrecovered operations**
10 **and maintenance and other expenses included in the cost of service, is the proposed**
11 **amount of the carrying charge appropriate?**

12 A No. The proposed \$125,000 is not based on the Commission-approved cost of service, but
13 on Forest Glen's proposed cost of service. I anticipate that the Commission will have some
14 adjustments, and the amount would need to be calculated once the Commission's approved
15 revenue requirement is known. As to a carrying charge, I would recommend zero because
16 the regulatory asset is a product of management's decision with regard to the proposed rate.
17 Should the Commission choose to allow a carrying charge, I would recommend the 2018
18 rate for electric overbillings and underbillings of 1.05%.

⁶ Texas Water Code Ann. § 13.185(d)(1).

IV. FOREST GLEN'S ACCOUNTING

Q. How does Forest Glen account for its sewer and reuse operations?

A. Forest Glen reported both sewer and reuse together in the income statements and balance sheets for 2016, on its tax return, and in the general ledger prior to preparing for this rate case.⁷ Once the rate increase process had begun, it appears that Forest Glen spent significant amounts of money to separate reuse.

Q. Do you believe the reuse should be separated from sewer in the books and records? Please explain.

A. No. I concur with Mr. Charles that the reuse revenues are only possible because of the existence of the sewer plant. I concur with Mr. Bednarski's treatment of net reuse revenues as other revenues taken as a reduction to the cost of service in order to determine the sewer rates, although the net reuse revenues were used only because Forest Glen attempted to separate the reuse costs and revenues. The treatment is analogous to treating a wholesale customer's revenues as a reduction to the cost of service for retail customer rates in a water rate case. SJWTX dba Canyon Lake adjusted its retail cost of service by wholesale revenues in State Office of Administrative Hearings Docket No. 582-11-1468, Commission Docket No. 43614, which was filed at the Texas Commission on Environmental Quality and fully litigated.

If the separation had not been presented, all the expenses would be in the cost of service and

⁷ *Application of Forest Glen Utility Company to Amend a Sewer Certificate of Convenience and Necessity in Medina County*, Docket No. 47389 at FGU-0045-50.

1 the gross reuse revenues would reduce the cost of service in order to calculate the sewer rate.
2 Forest Glen's attempt to separate revenues and costs for reuse in the books and records does
3 not make the reuse operations separate from sewer operations. Even if the separation was
4 acceptable, Forest Glen's attempt to separate the assets is also flawed because a portion, if not
5 all, of the sewer treatment plant is necessary to produce the reuse water sold. None of the
6 sewer plant was allocated to reuse, which understates reuse depreciation and return and
7 overstates sewer depreciation and return.

8 **Q. Do you have a recommendation with regard to this accounting issue?**

9 A. Yes. I recommend that the Commission order the utility to correct its books and records by
10 combining the sewer and reuse operations and record reuse revenues as other revenues.

11 **Q. Does this conclude your direct testimony?**

12 A. Yes. I reserve the right to supplement this testimony during the course of the proceeding as
13 new evidence is presented.

Attachment DL-1
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Debi Loockerman, CPA
Professional Experience

Manager, Financial Team (5/1/15 to current)

Public Utility Commission of Texas

- Manage programs and activities related to water and sewer rate program. Oversee staff engaged in rulemaking projects and contested cases.
- Recommend changes to program area and develop procedures for new law and rule implementation.
- Perform highly advanced rate making, financial, and managerial work including reviews of rate and tariff change applications, rate appeals, and financial and managerial reviews of water and sewer utility providers.
- Managed rule making projects and revise forms for rate case submissions.
- Review applications and provide expert witness testimony in rate cases, and certificate of convenience and necessity cases.

Financial Examiner IV

Public Utility Commission of Texas (1/14-5/15)

- Provided expert witness testimony for electric utility rate making proceedings.
- Reviewed, analyze, and make recommendations on cost of service issues and rate treatment issues in electric rate proceedings.
- Provided guidance and knowledge for the transfer of water utility rate regulation from the TCEQ to the PUC.

Auditor V – Financial Review and Rate Analysis

Texas Commission on Environmental Quality (6/10-12/13)

- Reviewed, analyzed and prepared comprehensive reports of complex business plans and/or financial, managerial and technical capacity information for public water systems and retail public water or sewer utilities.
- Provided customer service and utility assistance for public water systems and retail public water or sewer utilities in developing business plans; financial, managerial, and technical information; and in following the strategies set forth in the plans.
- Assisted in the development of program policies, procedures, and rules for the review of complex business plans or financial and managerial information submitted by public water systems and/or retail public water or sewer utilities.
- Provided assistance, gave professional advice and/or review and process rate/tariff change applications submitted by utilities for approval.
- Assisted with staff training, staff development and coordination of work assignments regarding business plans and financial, managerial and technical review for public water systems and/or retail water or sewer utilities.
- Provided expert oral and written testimony and present information on cost of providing water service and the financial and managerial position of utilities.

Auditor V

Texas Commission on Environmental Quality (11/08 through 6/10)

- Reviewed and analyzed audited financial statements of Districts for regulatory compliance and preparation in accordance with generally accepted accounting principles.
- Prepared and implemented procedures for audit processing.
- Special projects, including assistance with legislative questions and analysis in the districts arena.

Attachment DL-1

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Owner, Debi Loockerman CPA dba Debi Carlson CPA (7/97 through 6/08)

- Provided consulting services and expert witness testimony in the rate making arena.
- Implemented accounting systems, including utility billing systems for privately owned water systems in Texas.
- Reviewed and analyzed financial statements of water utility companies to determine internal control issues and sufficiency of accounting procedures and ratemaking procedures.
- Income tax and monthly accounting services.

B & D Environmental, Inc. (7/97 through 06/08)

Partner/Controller

- Prepared and defended costs of service for clients through the regulatory process for privately owned utilities.
- Worked with clients to negotiate the regulatory process to successfully obtain rate increases.
- Provided expert witness testimony in several cases and assisted in negotiation settlements for rate cases throughout this period.
- Prepared internal financial statements and tax returns.
- Managed cash flow and all tax reporting requirements including payroll.
- Provided billing, monthly statements, internal accounting and reports, accounts payable and receivable for water systems.

Senior Rate Analyst, Texas Natural Resource Conservation Commission (11/89 through 7/97)

- Analyzed rate filings by private and publicly owned utilities to determine the cost of providing retail and wholesale water and sewer service.
- Prepared written and oral expert witness testimonies on wholesale and retail water and sewer rate methodologies in administrative hearings proceedings.
- Assisted in mediating informal rate hearings using effective oral and written communication skills, and negotiated agreements. Most agreements included utility rate increases and improved utility service issues.
- Designed a regulatory accounting system for small public water and wastewater utilities to enhance uniformity in accounting, viability determination, and compliance with regulatory requirements.

Accounting Manager, Service Life and Casualty Insurance (11/87 through 8/89)

- Assisted the chief financial officer in the supervision of four staff members.
- Interviewed, selected and trained new personnel.
- Prepared reconciliations between cash accounts, payroll accounts, and pension plan accounts and the general ledger.
- Prepared month end adjusting entries and year end adjusting entries for general ledger.
- Prepared and analyzed internal financial statements under supervision of the chief financial officer.
- Reviewed annual regulatory filings.

Senior Accountant, Eugene McCartt, C.P.A. (3/85 through 11/87)

- Prepared monthly financial statements for all write up clients.
- Prepared individual, corporate, not for profit, and partnership tax returns.
- Communicated extensively with clients during all phases of work.

Education

Bachelor of Business Administration issued from the University of Texas at Austin in 1984, major in Accounting.

Attachment DL-2
SOAH Docket 473-18-3008.WS
PUC Docket 47897

Debi Loockerman CPA
Public Utility Commission of Texas (PUC)
List of Previous Testimonies and filings

Written Testimony

<u>Docket</u>	<u>Company</u>	<u>Subject</u>
PUC Docket 46245	Double Diamond Utility Co	ADFIT
PUC Docket 45720	Rio Concho Aviation	Cost of service
PUC Docket 45570	Monarch Utilities I, L.P.	Revenues, Gain on Sale
PUC Docket 44809	Quadvest, LP	Cost of Service
PUC Docket 44657	Interim La Ventana	Financial/Managerial ability
PUC Docket 43695	Southwestern Public Service Company	Property tax
PUC Docket 42469	Lone Star Transmission	Support of Stipulation
SOAH 582-12-6250	BFE Water Company	Cost of Service
SOAH 582-08-2863	Lower Colorado River Authority	Cost of Service
SOAH 582-08-4353	Interim-La Ventana acquisition	Financial/Managerial ability
TCEQ 30077-R	Highsaw Water Corp	Cost of Service
TCEQ 30089-R	Technology/Hydraulics	Cost of Service
TCEQ 9152-A	City of Point Blank	Cost of Service
TCEQ 8819-R	Oakridge Water Co.	Cost of Service
TCEQ 9271-A	City of Lewisville,	Cost of Service
TCEQ 9300-W	Evant Water Supply Corp	Cost of Service
TCEQ 8496-W	City of Winters	Cost of Service
TCEQ 8479-R	Engel Utility Company	Cost of Service

Memoranda in Lieu of Testimony

<u>PUC Docket</u>	<u>Company</u>	<u>Subject</u>
45570	Monarch Utilities I, L.P.	Support of stipulation
43069	Inline Development LLC	Support of stipulation
42104	AEP Texas Central Company	Interim Wholesale Trans. Rate
42133	Sharyland Utilities	Interim Wholesale Trans. Rate
42134	Electric Transmission Texas	Interim Wholesale Trans. Rate
42181	Texas-New Mexico Power	Interim Wholesale Trans. Rate
42200	Cross Texas Transmission	Interim Wholesale Trans. Rate

Other testimony and applications

While affiliated with B & D Environmental, Inc. I prepared cost of service studies and revenue requirements for the following entities to the TCEQ or predecessor agencies:

- Patrick C. King, Receiver for Lamar Water Supply Corp
- Greenwood Water Corporation (written testimony)
- Brighton Water Systems, Inc. dba Wise Service Company
- Country Terrace Water Company, Inc.
- Midway Water Utilities, Inc.
- Cindy Riley
- North Orange Water & Sewer, LLC (written testimony)

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- Tapatio Springs Services Company & Kendall County Utility Company
PUC Docket No. 47897

- P & B Water Corporation
- Decker Utilities (written testimony)
- Bret W. Fenner, Receiver for Twin Creek Park Water System
- Bret W. Fenner, Receiver for Bertram Woods Water System
- Bret Fenner, Receiver for High Sierra Water System