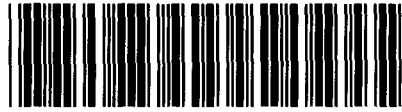




Control Number: 47976



Item Number: 1021

Addendum StartPage: 0

SOAH DOCKET NO. 473-18-3006WS  
PUC DOCKET NO 47976

RECEIVED

OCT -5 PM 3:09

FILED

APPLICATION OF LIBERTY SILVERLEAF UTILITIES (SILVERLEAF WATER) LLC (CCN NOS. 13131 AND 20815) TO CHANGE RATES FOR WATER AND SEWER SERVICE IN SMITH, WOOD, MONTGOMERY, AND COMAL COUNTIES, TEXAS.	§ § § § §	PUBLIC UTILITY COMMISSION  OF TEXAS
---	-----------------------	---

DIRECT TESTIMONY OF  
WILLIAM STANNARD

ON BEHALF OF  
SILVERLEAF RESORTS, INC.

OCTOBER 5, 2018

## TABLE OF CONTENTS

SECTION I. INTRODUCTION AND BACKGROUND .....	1
SECTION II. SUMMARY OF RECOMMENDATIONS .....	4
SECTION III. DOCKET NO. 46642 .....	5
SECTION IV: LIBERTY MISSOURI'S 2018 RATE CASE .....	9
SECTION V. REGULATORY TREATMENT OF \$2,245,000 INVESTED IN ADDITIONAL WASTEWATER TREATMENT FACILITIES AT CANYON PLANT.....	10
SECTION VI. COST OF SERVICE ISSUES .....	16
SECTION VII. RATE DESIGN .....	26

**DIRECT TESTIMONY OF WILLIAM STANNARD**

**SECTION I. INTRODUCTION AND BACKGROUND**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is William Stannard. My business address is 3013 Main Street, Kansas City, MO, 64108. I am testifying on behalf of Silverleaf Resorts, Inc. ("SRI").

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am Chairman of the Board of Raftelis Financial Consultants, Inc., a firm specializing in the provision of financial and management consulting services to the water and wastewater utility industry.

**Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

A. I graduated from Kansas State University in 1975 with Bachelor of Science degrees in Civil Engineering and Business Administration. I am a registered professional engineer in the states of Kansas, Massachusetts, Michigan and Ohio. My professional career has focused on the provision of financial planning, cost of service and rate design services for water, wastewater, and stormwater utilities throughout the United States and Canada. In addition to conducting more than 500 cost of service and rate studies on behalf of utility clients, I have also held leadership positions within the American Water Works Association ("AWWA") and the Water Environment Federation, national trade associations providing scientific and educational support for the water and wastewater industry. These positions include current membership in the AWWA Finance, Accounting and Management Controls Committee and the Rates and Charges Committee. I am a current member of the US Environmental Protection Agency's Environmental Finance Advisory Board. A detailed description of my education, my professional registrations and work experience is set forth in my CV in the attached Exhibit WS-1.

1    **Q.    HAVE YOU TESTIFIED BEFORE?**

2    A.    Yes. I have been a consulting and testifying expert on water utility rate issues for more  
3           than 30 years. A summary of my testimony experience both before state public utility  
4           commissions as well as before state and Federal courts is included in my CV.

5    **Q.    HAVE YOU EVER TESTIFIED IN A DOCKET INVOLVING LIBERTY**  
6           **SILVERLEAF OR ONE OF ITS AFFILIATES BEFORE?**

7    A.    Yes. Earlier this year I was a testifying witness on behalf of SRI before the Public  
8           Service Commission of Missouri in Docket No. WR-2018-0171, SR-2018-0171, *In the*  
9           *Matter of Liberty Utilities (Missouri Water) LLC's Application for a Rate Increase*. The  
10          Missouri Commission has ruled on Liberty Missouri's rate filing in open session, although  
11          the written order has not been issued yet, later the Missouri Commission has already ruled  
12          on contested issues, including capital structure.

13   **Q.    HAVE YOU EVER TESTIFIED BEFORE THE PUBLIC UTILITY**  
14          **COMMISSION OF TEXAS ("PUCT" OR "COMMISSION")?**

15   A.    No, but I have participated in a complaint docket before the PUCT on behalf of SRI  
16          against Liberty Silverleaf. As I describe in more detail below, I participated in PUC  
17          Docket No. 46642, *Complaint of Silverleaf Resorts, Inc. Against Liberty Utilities*  
18          *(Silverleaf Water) LLC*. In that docket I analyzed the Annual Reports filed by Liberty as  
19          well as responses to discovery in that docket. The Administrative Law Judge in that  
20          docket issued an order compelling Liberty Silverleaf to file this rate case before I was  
21          scheduled to file written testimony, and the docket was dismissed.

22   **Q.    WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT**  
23          **SUPERVISION?**

24   A.    Yes.

1 **Q. DO YOU SPONSOR ANY EXHIBITS?**

2 A. Yes. I include the following exhibits to my testimony:

3 Exhibit WS-1 Stannard CV

4 Exhibit WS-2 Liberty Silverleaf RFI responses from PUC Docket No. 46642

5 Exhibit WS-3 Comparison of Annual Report data

6 Exhibit WS-4 Comparison of Annual Reports to Application

7 Exhibit WS-5 Liberty Silverleaf response to OPUC RFI 3-5

8 Exhibit WS-6 Liberty Silverleaf response to OPUC RFI 3-15

9 Exhibit WS-7 Capital Structure Analysis

10 Exhibit WS-8 Sales volumes for water from 2014 to 2017

11 Exhibit WS-9 Sales volumes for sewer from 2014 to 2017

12 **Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECT**  
13 **SUPERVISION?**

14 A. Yes.

15 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

16 A. My testimony will address the following topics and is organized by section:

17 Section II. Summary of Recommendations

18 Section III. PUC Docket No. 46642

19 Section IV. Liberty Missouri's 2018 Rate Case

20 Section V. Regulatory treatment of the \$2,245,000 in capital invested by SRI in  
21 additional wastewater treatment facilities at the Canyon Plant

22 Section VI. Cost of Service Issues

23 A. Cost of Capital

1 B. Depreciation Expense

2 C. Tax Expense

3 Section VII. Rate Design

4 **SECTION II. SUMMARY OF RECOMMENDATIONS**

5 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING LIBERTY**  
6 **SILVERLEAF'S PROPOSED RATE BASE.**

7 A. I recommend the following for the rate base:

- 8 • Inclusion of the \$2,245,000 invested in expanded wastewater treatment facilities at the  
9 Guadalupe-Blanco River Authority's ("GBRA's") Canyon Plant;
- 10 • Inclusion of annual amortization related to this asset of \$112,250 and a total of \$841,875  
11 accumulated amortization added to rate base;
- 12 • Disallowance of any proposed post-test year plant additions, including the proposed  
13 \$429,999 for a speculative asset that is not currently used and useful.

14 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED CHANGES TO LIBERTY**  
15 **SILVERLEAF'S PROPOSED COST OF CAPITAL.**

16 A. I recommend the following as it relates to the cost of capital:

- 17 • capital structure that is 57.17% debt and 42.83% equity, consistent with the capital  
18 structure imputed to Liberty Utility's Missouri affiliate serving SRI resorts.
- 19 • A return on equity within the range of 8.25% and 9.50%.
- 20 • An overall rate of return of 6.6% .

21 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED CHANGES TO LIBERTY**  
22 **SILVERLEAF'S OPERATING EXPENSES.**

23 A. I recommend the following as it relates to the Operating Expenses:

- Disallowance of the purchased water expense for Piney Shores in the amount of \$76,598;
- Reduction of the Purchased Water and Purchased Wastewater Expense to \$3,560 consistent with Liberty Silverleaf's sworn 2017 Annual Report;
- Reduction of depreciation expense to reflect the depreciation in Liberty Silverleaf's sworn 2017 Annual Report.

**Q. WHAT IS THE RESULTING REVENUE REQUIREMENT IMPACT OF THESE CHANGES?**

A. The revenue requirement would be reduced to \$3,447,477 with these changes. For water, the revenue requirement would be reduced to \$1,571,926 and \$1,620,632 for sewer.

**Q. PLEASE SUMMARIZE YOUR RECOMMENDED CHANGES TO LIBERTY SILVERLEAF'S COST ALLOCATION AND RATE DESIGN.**

A. I recommend the following as it relates to the rate design:

- Reduction of the amount of revenue to be collected through the fixed monthly service charge for both water and sewer service to 35%;
- Use of a uniform rate for commercial customers;
- Denial of the proposed fixed monthly service charges to each unit behind the customer's meter in multi-unit buildings;
- Using a four-year average of water sales to calculate volumetric to reduce the risk of an anomalous year causing inaccuracies.

**SECTION III. DOCKET NO. 46642**

**Q. YOU MENTIONED THAT YOU PARTICIPATED IN DOCKET NO. 46642. CAN YOU PLEASE DESCRIBE THAT DOCKET?**



1 A. Yes. Docket No. 46642 involved SRI's complaint that Liberty Silverleaf had filed  
2 multiple inaccurate Annual Reports with the PUCT and that, contrary to these filed  
3 reports, Liberty Silverleaf was significantly over-earning. SRI asked that the PUCT  
4 compel Liberty to file a rate case to address this over-earning. The PUCT entered an  
5 order in that docket requiring Liberty Silverleaf to file a rate case, and this case is the  
6 result of that order.

7 **Q. WHY WAS IT NECESSARY TO COMPEL LIBERTY TO FILE A RATE CASE?**

8 A. Under Texas law, only the utility or the PUCT can initiate a rate case. Typically, a  
9 utility will initiate a rate case only when it is under-earning (earning less than its allowed  
10 return) in order to reset its cost of service and increase profits. If a utility is earning its  
11 allowed return or in excess of its allowed return, there is no financial incentive for the  
12 utility to initiate a new rate case. In fact, the financial incentive is the opposite. You see  
13 that incentive in action in this case. As SRI witness Mr. Michael Brown testifies, since  
14 2010 Liberty Silverleaf has been under a contractual obligation to file for a new case "at  
15 the earliest possible date," yet it has refused to file for a new rate case for eight years despite  
16 this obligation. One can only assume that the financial rewards from keeping its rates in  
17 place outweighed the cost of service impact of adding more than \$2 million to its rate base  
18 and the potential liability from breaching its contractual obligation to file a new case.  
19 Because Liberty refused to file a new case on its own motion, it was necessary for the  
20 PUCT to compel Liberty to file this case.

21 **Q. DID YOU REACH ANY CONCLUSIONS AS A RESULT OF YOUR**  
22 **PARTICIPATION IN DOCKET NO. 46642?**

1 A. Yes. The PUCT abated and dismissed the docket before SRI could complete its  
2 discovery or schedule depositions, but from the information I reviewed I formed the  
3 following conclusions:

- 4 • Liberty filed multiple inaccurate Annual Reports, a point Liberty acknowledged in the  
5 attached response to Staff RFI 1-1 in Docket NO. 46642, attached as Exhibit WS-2. This  
6 response indicates Annual Reports for calendar years 2005-2014 were inaccurate. I should  
7 note that my review suggests that the inaccuracies in the filed Annual Reports went far  
8 beyond the errors acknowledged by Liberty Silverleaf. But there is no doubt that Liberty  
9 Silverleaf filed multiple inaccurate Annual Reports.
- 10 • Liberty accounting processes are unreliable. As evidenced by the attached emails produced  
11 in response to Staff RFI 1-4 in Docket No. 46642, attached as Exhibit WS-2, Liberty's own  
12 accountants deemed its tracking of plant balance to be unreliable and had to resort to hard-  
13 coding a new plant balance in order to file its Annual Report.
- 14 • Liberty's historic depreciation expense makes no sense and is all over the board. Attached  
15 as Exhibit WS-3 to my testimony is a summary of the categories of expense filed by Liberty  
16 Silverleaf in its Annual Reports. Depreciation expense, because it must by law happen in  
17 a straight line, should not significantly increase and decrease from year to year as it appears  
18 to. Also as can be seen in the Exhibit, depreciation expense is hardly the only category of  
19 expense that dramatically fluctuates from year to year.

20 **Q. DO THESE CONCLUSIONS INFORM YOUR OPINIONS IN THIS CASE?**

21 A. Though not dispositive these conclusions are indeed relevant in this case. This case looks  
22 at 2017 as its historic test year. The information I reviewed as part of PUC Docket No.  
23 46642 described calendar year 2015 and prior years. So, the specific amounts will

1 obviously be different. But going into this case my misgivings about the rigorousness  
2 and accuracy of Liberty's accounting processes that gave rise to the many issues raised in  
3 Docket No. 46642 have made me skeptical of the accuracy of the test year data submitted  
4 in this docket.

5 **Q. DID YOU REVIEW LIBERTY SILVERLEAF'S 2016 AND 2017 ANNUAL**  
6 **REPORTS FILED WITH THE PUCT IN PREPARATION FOR YOUR**  
7 **TESTIMONY?**

8 A. Yes. As can be seen from my Exhibit WS-4, I included the information from those  
9 calendar years in my comparison analysis as well. I was especially interested in Liberty  
10 Silverleaf's filed 2017 Annual Report because it looks at the same cost of service  
11 information relied upon by Liberty Silverleaf in this rate case. Being the same time period,  
12 the expense and other data should match. I should note that each Annual Report is sworn  
13 to be accurate by Liberty Silverleaf. As part of my analysis in the following sections I  
14 utilize comparisons between Liberty Silverleaf's proposed cost of service in this case to  
15 its cost of service reported to the PUCT in its sworn Annual Reports.

16 **Q. WHAT DID YOU DISCOVER IN COMPARING THE 2017 TEST YEAR DATA IN**  
17 **THIS DOCKET OF THE 2017 ANNUAL REPORT DATA TO WHICH LIBERTY**  
18 **ATTESTED?**

19 A. The primary discrepancies between the 2017 Annual Report and this Application relate to  
20 O&M salaried labor, materials and supplies, contract work, O&M contract labor, purchased  
21 water, testing expense, contract accounting, legal and management and other miscellaneous  
22 expense. As can be seen from this list, Liberty Silverleaf seeks increases in expense related  
23 to each of these categories from the amounts it swore to the Commission represented its

1 actual 2017 expenditures. Liberty Silverleaf has not provided any explanation for these  
2 discrepancies or justification for including more than the actual test year amounts as  
3 reflected in the 2017 Annual Report. Accordingly, my recommendation in these  
4 instances is to use the 2017 Annual Report figures.

5 **SECTION IV: LIBERTY MISSOURI'S 2018 RATE CASE**

6 **Q. PLEASE DESCRIBE LIBERTY'S MISSOURI WATER UTILITY AND STATE**  
7 **WHETHER YOU THINK THERE ARE ANY SIMILARITIES TO THIS**  
8 **DOCKET.**

9 A. I think Liberty's Silverleaf Water affiliate in Texas and its Missouri affiliate share many  
10 similarities. Both were initially formed when the Silverleaf resorts in Texas and Missouri  
11 sold to Liberty their resorts' water and wastewater facilities in the 2004 Asset Purchase  
12 Agreement, three in Missouri and four in Texas. The number of connections in each state  
13 is similar, as is the corporate structure providing service. Both rely heavily on contract  
14 labor and affiliate service personnel and management. So the cost of service should be  
15 calculated in a very similar manner in Texas as Missouri.

16 One distinction is that Liberty in Missouri has since acquired new systems in  
17 addition to the original Silverleaf systems, whereas the service areas in Texas have  
18 remained consistent. So, there are some distinctions in rate design to account for this..

19 **Q. HAS THE PUBLIC SERVICE COMMISSION IN MISSOURI ISSUED ITS**  
20 **ORDER IN THE LIBERTY RATE CASE?**

21 A. The Missouri Commission discussed and acted on the disputed issues at an open meeting  
22 on September 27, 2018. To date, the written order has not issued. I will supplement my

1 testimony with the written order upon its issuance. But I'd like to draw attention to  
2 the Missouri Commission's decision on capital structure.

3 The Missouri Commission set Liberty Missouri's capital structure at 57.17% debt and  
4 42.83% equity. Since Liberty Missouri and Liberty Silverleaf are both subordinate  
5 affiliates to Algonquin Power & Utilities Corp. ("APUC") which is publicly traded on the  
6 Toronto and New York stock exchanges, the capital structure of the two entities should be  
7 identical.

8 **SECTION V. REGULATORY TREATMENT OF \$2,245,000 INVESTED IN**

9 **ADDITIONAL WASTEWATER TREATMENT FACILITIES AT CANYON PLANT**

10 **Q: PLEASE DESCRIBE SRI'S CAPITAL INVESTMENT IN GBRA'S**  
11 **CANYON WASTEWATER TREATMENT PLANT.**

12 A. SRI witness Mr. Brown was actively and directly involved in the design and  
13 construction of the expanded wastewater treatment facilities, and I would refer to  
14 him for specific details related to the construction of the facilities and the transfer  
15 of the rights to those facilities from SRI to Liberty Silverleaf. But it is my  
16 understanding that SRI invested \$2,245,000 into new facilities at the Guadalupe-  
17 Blanco River Authority's ("GBRA's") Canyon Wastewater Treatment Plant to  
18 address the need for additional sewer capacity resulting from an addition of time  
19 share units at SRI's Hill Country Resort. SRI's rights to the additional treatment  
20 capabilities from new facilities for a period of twenty (20) years was then transferred  
21 to Liberty Silverleaf, which is the sole utility having the right and obligation to provide  
22 wastewater service to SRI's Hill Country Resort. After reviewing Mr. Brown's  
23 testimony at page 11 that construction was completed and the project was permitted at

1 the time of the transfer of rights to Liberty Silverleaf, I believe the applicable used and  
2 useful date should be July 30, 2010.

3 **Q: IN YOUR EXPERIENCE RELATED TO WATER REGULATION, IS IT**  
4 **COMMON FOR UTILITIES TO BUY EXISTING FACILITIES TO SERVE**  
5 **THEIR CUSTOMERS?**

6 A. Yes. In fact, it happens frequently.

7 **Q. PLEASE PROVIDE SOME REASONS THAT A UTILITY MIGHT BUY**  
8 **EXISTING FACILITIES?**

9 A. Purchases of additional facilities can be a cost-effective option to avoid building  
10 new facilities. Existing facilities generally also have the advantage of being  
11 available for use more quickly than a new facility that might take time to build.

12 This saves the utility and its ratepayers carrying costs on the invested capital.

13 Given a utility's regulatory obligation to serve its retail customers, this timing  
14 element can be quite meaningful.

15 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY AN OBLIGATION TO SERVE.**

16 A. Liberty Silverleaf as the monopoly water and wastewater utility in its service  
17 territory has an obligation to serve all retail water and wastewater customers  
18 in the service territory, including SRI and the residential owners of units at the resort.

19 The concept of a regulatory compact under which a monopoly service  
20 territory is conferred by a regulator in exchange for a commitment to provide  
21 service to all customers at a reasonable rate has been the foundation of cost of  
22 service regulation for more than a hundred years.

1 Q. IS THERE A RELATIONSHIP BETWEEN LIBERTY SILVERLEAF'S  
2 OBLIGATION TO SERVE AND THE PURCHASE OF THE GBRA  
3 FACILITIES?

4 A. Yes. I understand that Liberty Silverleaf relies on the expanded facilities at the  
5 Canyon Plant to provide service to the increased load at the Hill Country  
6 Resort, which is consistent with Liberty Silverleaf's obligation to serve.

7 Q: DO YOU BELIEVE THAT LIBERTY SILVERLEAF SHOULD BE ABLE TO  
8 RECOVER THE COSTS ASSOCIATED WITH THE INVESTMENT IN  
9 FACILITIES AT THE CANYON PLANT?

10 A. Yes. Although SRI made the investment, Liberty Silverleaf is contractually bound to  
11 reimburse SRI for that investment, making it effectively Liberty Silverleaf's own  
12 investment for purposes of rate base analysis. The capital invested in expanded wastewater  
13 treatment facilities ties directly to Liberty Silverleaf's obligation to meet the increased  
14 demand at the Hill Country Resort. As the incumbent utility and holder of the CCN,  
15 Liberty Silverleaf must meet SRI's increased demand; so it is appropriate that the capital  
16 invested in the facilities necessary to meet this demand are included in rate base.

17 Q: DOES THIS FIT WITH THE CONCEPT OF COST-OF-SERVICE  
18 RATEMAKING?

19 A. Yes. Assets which are used and useful in the provision of regulated utility service should  
20 be included in rate base and therefore included in the calculation of cost-of service  
21 rates. As I detail below, the original capital investment should be amortized or depreciated  
22 over its useful life, and the amount, net of accumulated depreciation/amortization, should  
23 be included in rate base.

1 **Q: SHOULD LIBERTY SILVERLEAF DESIGN ITS RATES TO DIRECTLY**  
2 **ASSIGN THE COSTS OF THE GBRA RELATED FACILITIES TO SRI?**

3 A. No. Direct assignment of costs related to a particular facility is not required and, in  
4 fact, can have serious adverse consequences. As a general matter, direct assignment of  
5 costs with particular equipment is the exception, not the rule, for rate setting by  
6 regulated utilities.

7 **Q: PLEASE ELABORATE ON THE POTENTIAL CONSEQUENCES OF**  
8 **DIRECTLY ASSIGNING THE COSTS ASSOCIATED WITH PARTICULAR**  
9 **PROJECTS TO PARTICULAR CUSTOMERS.**

10 A. There can be several undesirable consequences from such a policy. First, as a policy  
11 matter, directly assigning plant to individual customers in a service area runs contrary to  
12 the policy goal of universal service. Under a direct assignment approach, hard to reach  
13 customers could have cost-prohibitive water bills because of the expense of the  
14 facilities needed to reach them.

15 Second, direct assignment can cause the cost-of-service rates charged to a customer to  
16 be quite volatile. For example, if a large capital project is needed to serve a small set  
17 of customers, direct assignment would cause significant rate shock. Blending the cost  
18 across the service area mitigates the volatility of rate changes.

19 Third, direct assignment can create peculiar incentives for customers to move to the  
20 cheapest part of a utility's system, *i.e.*, to the parts of the system where the utility has  
21 not invested capital. To the extent that a customer is mobile, especially true for new  
22 customers moving into the service territory, direct assignment encourages customers to  
23 move to areas on the system where the capital investment has been least in order to get



1 the cheapest rates. Once the customer has made such a move, the utility's recent  
2 capital investment becomes less used and useful because customers move away from it  
3 in order to get cheaper rates. Additionally, by moving to the parts of the system with  
4 the weakest investment, customers can necessitate additional capital investment in  
5 those regions, which in turn, only causes the rates in those regions to increase as a  
6 result of the directly assigned costs.

7 Finally, directly assigning capital investment only to those customers specifically  
8 benefitted by that investment would create a patchwork of many different rates,  
9 increasing the administrative burden on both the utility and the Commission.

10 **Q. PLEASE EXPAND ON THIS LAST POINT.**

11 A. Direct assignment would cause rate shock and a peculiar rate discrimination  
12 between Liberty Silverleaf residential customers who receive service on a pass-  
13 through basis through SRI. Mr. Brown testifies that the Hill Country Resort  
14 currently has 447 residential units served by Liberty Silverleaf. Direct assignment  
15 would cause Liberty Silverleaf to, in effect, have two residential rate classes-one  
16 for customers serviced by the Canyon Plant and one for those who are not.  
17 Such a policy would also require that other large capital items be directly assigned.  
18 For instance, if a new well is constructed, the capital associated with that well  
19 would need to be applied directly only to those customers that receive water from  
20 that particular well. Followed to its logical conclusion, this policy could create as  
21 many separate rates as the number of customers. That is not good policy.

22 **Q: ARE YOU AWARE OF INSTANCES IN WHICH THE COMMISSION HAS**  
23 **INCLUDED PURCHASED ADDITIONS FOR COST RECOVERY IN RATES?**

1 A. Yes. Fairly recently, in approving the settlement in Docket No. 44526, the  
2 Commission allowed Enchanted Oaks to charge a capital improvement surcharge  
3 of \$7.50 per customer per month for 60 months for the purpose of installing a new  
4 water storage tank.

5 Somewhat similarly, in Docket No. 45418, the Commission expressly stated that  
6 "Corix may request in a future rate case to include in its cost of service any  
7 acquisition costs related to Corix's purchase of its water and sewer systems from  
8 LCRA. If Corix makes such a request in the future, the Commission will then  
9 consider whether to include such costs in Corix's cost of service and, if so, will  
10 review the costs for prudence, reasonableness, and necessity."

11 **Q: PLEASE COMPARE THE EXAMPLES THAT YOU PROVIDE TO**  
12 **LIBERTY SILVERLEAF'S ACQUISITION OF THE RIGHTS TO THE**  
13 **TREATMENT CAPACITY OF THE EXPANDED FACILITIES AT THE**  
14 **CANYON PLANT.**

15 A. These recent Commission decisions illustrate the fact that the Commission has  
16 found it in the public interest to allow cost recovery and/or inclusion in the cost of  
17 service for facilities that are reasonable and necessary for the provision of water or  
18 waste water service. Thus, the capital invested to meet expanded demand  
19 for wastewater service, as depreciated over time, should be included in  
20 rate base, consistent with the Corix and Enchanted Oaks decisions.

21 **Q: DO YOU HAVE ANY CONCERNS ABOUT HOW LIBERTY SILVERLEAF HAS**  
22 **DEPRECIATED OR AMORTIZED THE GBRA ASSET?**

1 A: It is unclear how the GBRA Asset has been depreciated. In the rate application the  
2 beginning balance of gross plant for the treatment and disposal equipment asset is only  
3 \$593,883. In 2015, the balance for that same asset increases to \$2,245,000, which  
4 Liberty Silverleaf has indicated references the GBRA plant. In the same year, the  
5 accumulated depreciation only equals \$486,444. In 2016, the asset increases to  
6 \$2,838,883 and the accumulated depreciation increases to \$1,054,699. In the 2017  
7 Application, the asset is now at \$2,839,139 with an accumulated depreciation of  
8 \$1,160,384. These entries appear contrary to the fundamental policy of straight-line  
9 depreciation.

10 **Q. WHAT AMOUNT OF DEPRECIATION OR AMORTIZATION EXPENSE DO**  
11 **YOU RECOMMEND BE INCLUDED IN RATE BASE?**

12 A. Given the confusion apparent in Liberty Silverleaf's tracking of depreciation expense and  
13 the twenty-year grant of rights to the GBRA facilities, I recommend that the \$2,245,000 be  
14 amortized over 20 years. This results in annual amortization expense of \$112,250. Based  
15 on the testimony that these facilities were used and useful when transferred to Liberty on  
16 July 30, 2010, I recommend that rate base also include \$841,875 in accumulated  
17 amortization expense.

18 **SECTION VI. COST OF SERVICE ISSUES**

19 **Q. HAVE YOU REVIEWED THE COST OF SERVICE FILINGS THAT**  
20 **LIBERTY SILVERLEAF HAS MADE IN THIS DOCKET?**

21 A. Yes. As I mentioned, I have reviewed Liberty Silverleaf's sworn Annual Reports filed with  
22 the PUCT in addition to Liberty Silverleaf's Application and supporting documentation.

1   **Q:   DO YOU HAVE ANY CONCERNS ABOUT LIBERTY SILVERLEAF'S COST**  
2   **OF SERVICE FILINGS?**

3   A.   Yes, I have a number of concerns. In particular, I question Liberty Silverleaf's  
4   computation of its depreciation expense because it appears to be erratic over the past  
5   several years. The amount of annual depreciation should remain fairly stable, varied  
6   only by changes in total plant. However, Liberty Silverleaf has reported varying  
7   depreciation expenses from year to year leading into this rate case and in the test year  
8   in this docket.

9   The last rate case in 2009 established a net plant of \$6,421,266 and an annual  
10   depreciation expense of \$578,125 with an accumulated depreciation expense of  
11   \$5,582,500 for the Water Division. Yet, in its annual reports, Liberty Silverleaf's  
12   depreciation expense goes from \$257,686 in 2014 to \$589,470 in 2015 in the originally  
13   filed Annual Report. In the corrected version of the 2015 Annual Report, the depreciation  
14   expense is \$569,927. Then in the 2016 Annual Report, it grows to \$642,581. But  
15   it reverts back to the exact depreciation expense reported for 2015, *i.e.*, \$589,470, for  
16   the 2017 test year for rate setting in this case. This is a highly unlikely coincidence.  
17   Moreover, it is hard to reconcile the depreciation expense in the test year with that  
18   reported as recently as 2014, which was less than half in size.

19   **Q.   DO YOU HAVE ANY OTHER GENERAL OBSERVATIONS?**

20   A.   Yes. Liberty Silverleaf likes to characterize itself as a "small utility" whenever it is  
21   confronted with discrepancies or in arguing for higher rates of return, most likely to seek  
22   the Commission's indulgence because of its supposed unsophistication. Liberty Silverleaf  
23   is not a small utility. As Mr. Garlick testifies, Liberty is a subsidiary of APUC, one of the

1 largest utilities in the country serving approximately 800,000 customers in twelve states  
2 across the United States. APUC is traded on both the Toronto and New York stock  
3 exchanges. This association with a large, publicly traded utility gives Liberty access to  
4 capital unlike a true small utility. I also note that, again unlike a true small utility,  
5 Liberty Silverleaf utilizes, and charges its ratepayers for, corporate services from its parent  
6 office in Canada and from other affiliates in other states. For instance, Liberty Silverleaf  
7 apparently has no actual employees as it includes \$0 for salaries. Everything is done by an  
8 affiliate or contract labor. Liberty Silverleaf has the same access to capital and expertise of  
9 a Class A utility, and should be held to the same standard of minimum competence.

10 **A. Operations and Management Expenses**

11 **Q. DO YOU HAVE ANY CONCERNS ABOUT THE OPERATIONS AND**  
12 **MAINTENANCE EXPENSES IN THE REVENUE REQUIREMENT OF THE**  
13 **APPLICATION?**

14 A. Yes. In comparing the Revenue Requirement in the 2017 Annual Report to the  
15 Application based on the same 2017 historical test year there is a \$500,000 unexplained  
16 increase in O&M costs. Some of these variances, such as Rate Case Expenses, can be  
17 disregarded as one would expect a change. Although I note that if the Commission  
18 surcharges rate case expenses rather than including them in base rates as appears to be  
19 Liberty Silverleaf's intent, any amount of rate case expenses should be removed from base  
20 rates. Other categories of expense, such as purchased water and purchased wastewater  
21 treatment, deserve some scrutiny. These differences raise concerns because it is unclear,  
22 and Liberty Silverleaf has not explained, the increase. Exhibit WS-4 provides a  
23 comparison of the 2017 Annual Report to the Application.

1     **Q.     WHAT PARTICULAR LINE ITEMS DO YOU HAVE CONCERNS ABOUT?**

2     A.     In particular, I looked at the Purchased Water and Purchased Wastewater Treatment  
3           expense, the Depreciation expense and the Contract Work expenses.

4     **Q.     WHAT WAS YOUR CONCERN ABOUT THE PURCHASED WATER EXPENSE?**

5     A.     In Table I-1 Revenue Requirement Summary for the Water Division, Liberty Utilities  
6           included a Purchased Water Expense in the amount of \$80,158. This expense includes  
7           purchased water expenses for Holly Ranch, Big Eddy and Piney Shores. The expense for  
8           Piney Shores is related to water purchased through an emergency interconnect from the  
9           City of Conroe. The cost of water was \$76,598. In OPUC RFI 3-5, attached as Exhibit  
10          WS-5, Liberty Utilities states that this expense was incurred in an emergency situation. By  
11          definition, an “emergency” is not a recurring cost. Accordingly, this proposed expense  
12          should be disallowed.

13    **Q.     WHAT IS YOUR CONCERN ABOUT THE PURCHASED WASTEWATER**  
14    **TREATMENT?**

15    A.     It appears that based on OPUC RFI 3-15, attached as Exhibit WS-6, the invoices  
16           included in the Application appear to be wastewater treatment expenses. My concern  
17           relates to why the numbers are so different from those shown in the sworn 2017 Annual  
18           Report. As can be seen from Exhibit WS-3, there are no costs related to purchased  
19           wastewater treatment cost for the calendar year 2016 or 2015. The difference between the  
20           sworn Annual Report and the Application is an increase of \$199,997. As I have previously  
21           noted, Liberty Silverleaf swore to the Commission that the costs included in its 2017  
22           Annual Report were true and accurate. Any increase from the reported amount is therefore  
23           a proposed change to test year expense. Liberty Silverleaf has offered no explanation why

1 ratepayers should pay for \$200,000 more per year for wastewater treatment expense from  
2 the amount it actually incurred in 2017. The burden in this case is on Liberty Silverleaf to  
3 justify any increase over its actual expenses, and Liberty Silverleaf has offered no  
4 explanation or justification. Accordingly, I recommend that the Commission establish rates  
5 based on the sworn 2017 Annual Report figures and that the purchased water expense be  
6 reduced to \$3,560 based on the 2017 Annual Report.

7 **Q. WHAT IS THE AMOUNT OF THE DEPRECIATION EXPENSE BEING**  
8 **INCLUDED IN LIBERTY'S REVENUE REQUIREMENT?**

9 A. Liberty Silverleaf has included a depreciation expense of \$589,740 and \$585,926 for water  
10 and sewer, respectively, for a total expense of \$1,176,666.

11 **Q. DO YOU HAVE ANY CONCERNS RELATED TO THE AMOUNT OF THIS**  
12 **EXPENSE?**

13 A. It appears based on Schedules III-3 of the water and sewer applications that the annual  
14 depreciation is calculated correctly based on the service life of the plant in service, but the  
15 question arises when one compares the annual depreciation in the Application to that in the  
16 filed Annual Reports. In the 2017 Annual Report, the total depreciation expense for the  
17 water system was \$411,623 and \$338,383 for the sewer system for a total of \$750,006, but  
18 the application has a depreciation expense in the amount of \$1,175,666. It is unclear  
19 what caused this difference. My recommendation is to use the figures included in the  
20 sworn 2017 Annual Report filed with the PUCT.

21 **Q. WHAT IS YOUR CONCERN AS IT RELATES TO THE CONTRACT WORK**  
22 **CATEGORY OF EXPENSE?**

1 A. Again, I have two concerns in relation to the Contract Work expense. To the extent that  
2 most of the costs from Contract Work are not direct costs but allocations, it is interesting  
3 that in the 2017 Annual Report about \$2 million of expense was categorized into O&M  
4 Salaried Labor, O&M Contract Labor and Contract Accounting, Legal, Management. In  
5 the Application, most of the costs in the O&M Contract Labor and Contract Accounting,  
6 Legal, Management have been moved into allocated categories. It seems strange that the  
7 accounting for expenses incurred in the same year, 2017, would be so different. Again,  
8 this change is left unexplained. In addition, when looking at the Contract Work Expense  
9 for Water from 2015 to 2017, we see a \$315,730 increase in costs and a \$201,966 increase  
10 from 2016 to 2017.

11 **Q. WHAT IS YOUR RECOMMENDATION AS IT RELATES TO CONTRACT**  
12 **WORK EXPENSE?**

13 A. It appears that based on the past 3-years of costs related to Contract Work that at least  
14 \$300,000 are questionable. Mr. Garlick, in his testimony, states that the Corporation  
15 Allocation Manual (CAM) was “updated in January 2017 following acquisition of the  
16 Empire Electric District Company by Liberty Utilities.” Empire Electric District Company  
17 is not based in Texas and services no Texas ratepayers. Texas ratepayers should not pay  
18 more than the actual costs incurred as represented by the sworn 2017 Annual Report  
19 because Liberty Silverleaf’s parent decided to acquire an electric utility in a different state.  
20 Given the discrepancies in the accounting treatment in these categories and the drastic  
21 increase in expense over the last three years, I recommend that the Commission utilize a  
22 three-year average of Contract Work as reported in the sworn Annual Reports filed Liberty  
23 Silverleaf.



**B. Capital Structure and Cost of Capital**

**Q. HOW HAS LIBERTY UTILITIES REPRESENTED ITS CAPITAL STRUCTURE IN THIS DOCKET?**

A. Mr. Thomas J. Bourassa, witness for Liberty Silverleaf, proposes a capital structure of 70% equity and 30% long-term debt.

**Q. DOES MR. BOURASSA PROVIDE ANY RATIONAL BASIS FOR THIS RECOMMENDATION?**

A. No. Mr. Bourassa appears to have chosen 30% without any justification or analysis. This recommendation does not appear to be based on any analysis. Without any reasonable basis, the recommendation should be accorded no value.

**Q. WHAT IS YOUR OPINION OF THIS CAPITAL STRUCTURE?**

A. The capital structure as proposed is not reasonable. The equity layer proposed by Liberty Silverleaf is higher than is normal for water and wastewater utilities. In my experience, an equity layer for water and sewer utilities ranging from 30% to 50% is common. In fact a recent analysis of investor owned water utilities, which is attached as Exhibit WS-7 supports this equity layer range.

**Q. WHAT IS A MORE APPROPRIATE CAPITAL STRUCTURE?**

A. Given the recent determination by the Missouri Commission on the capital structure of Liberty Silverleaf's similarly situated affiliate, I recommend this Commission utilize the same capital structure, which is 42.83% equity to 57.17% debt.

**Q. DO YOU HAVE ANY CONCERNS REGARDING LIBERTY SILVERLEAF'S PROPOSED RETURN ON EQUITY.**

1 A. Yes. I believe that the return on equity requested by Liberty Silverleaf is excessive and  
2 would yield unreasonable water and sewer rates for the customers of the utility.

3 **Q. WHAT IS THE BASIS FOR THIS CONCERN?**

4 A. First, return on equity is basically a quantification of risk. And Liberty Silverleaf has  
5 very little risk. Liberty Silverleaf is proposing a water and sewer rate structure that is  
6 heavily weighted towards the fixed service charge. Such a structure significantly  
7 mitigates risk related to weather and other factors which causes customer usage to vary.

8 Second, the customers served by Liberty Silverleaf have virtually no viable alternatives  
9 for the water and sewer services they receive. Unlike an electric utility where customers  
10 can easily convert to solar or in some cases to natural gas for much of their energy needs,  
11 alternative water and sewer service is neither available nor financially feasible.

12 Third, Liberty Silverleaf is a subsidiary of a an extremely large publicly traded  
13 corporation which financially supports its operations, further mitigating any risk it may  
14 face. Liberty Silverleaf's parent company is a multi-national corporation traded on the  
15 New York and Toronto stock exchanges. Liberty Silverleaf itself does not have to  
16 raise capital from investors, rather it can simply acquire the necessary capital from its  
17 upstream affiliate.

18 **Q. WHAT WOULD BE A MORE APPROPRIATE RETURN ON EQUITY?**

19 A. I am not a cost of capital expert, although I certainly have a lot of experience with rate  
20 cases establishing a rate of return. But in my view, a more appropriate return on equity  
21 would take the long-term risk-free rate and apply to it a risk premium reflecting the risk  
22 inherent in financial markets. Duff & Phelps is a financial services firm that provides  
23 periodic guidance on the equity risk premium which can be applied to the risk-free rate for

1 the purposes of cost of capital determinations. In September 2017, the firm established a  
2 new equity risk premium of 5.00%.<sup>1</sup> Adding this premium to the current 30-year  
3 treasury rate (3.21 percent<sup>2</sup>) yields an overall return on equity of 8.21%. Utilizing this  
4 approach, a more appropriate return on equity would lie between 8.25% and 9.50%.

5 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COST OF DEBT**  
6 **FOR LIBERTY SILVERLEAF?**

7 A. As with capital structure, I recommend that this Commission use the same cost of debt  
8 recently established for Liberty Silverleaf's similar affiliate in Missouri which is 4.65%.

9 **Q. USING THE ASSUMPTIONS ABOVE, WHAT WOULD BE YOUR**  
10 **CALCULATED RATE OF RETURN?**

11 A. Based on the assumptions above, the rate of return would be 6.6% assuming a return on  
12 equity at the mid-range of 9.0%.

13 **C. Additions to Rate Base**

14 **Q. DO YOU HAVE ANY CONCERNS ABOUT THE POST-TEST YEAR PLANT**  
15 **THAT LIBERTY IS INCLUDING IN ITS RATE BASE?**

16 A. Yes. My concerns focus on two principal areas, first is the proposed net cost of the  
17 wastewater treatment asset that was built by SRI and transferred to GBRA, which was  
18 discussed earlier in my testimony. The second item is the inclusion of a proposed major  
19 asset that has yet to be constructed and as such does not meet the test that plant be used in  
20 useful during the test year in order to be included in rate base.

---

<sup>1</sup> <https://www.duffandphelps.com/insights/publications/cost-of-capital-us-equity-risk-premium-recommendation-2017>

<sup>2</sup> As of September 20, 2018

1 With regard to the first item, the cost of this wastewater treatment facility was \$2,245,000  
2 which was designed and constructed under contract by SRI and was available for service  
3 at the time SRI transferred the asset to Liberty Silverleaf on July 30, 2010. SRI's capital  
4 investment entitled SRI to the treatment capacity of the expanded facilities for twenty  
5 years, and SRI transferred these rights to Liberty Silverleaf. Based on my review of the  
6 Liberty Silverleaf Application and supporting documents, it appears that Liberty Silverleaf  
7 has used a 25-year useful life for the depreciation of this asset. Given that the agreement  
8 with GBRA limits the use of this asset to 20 years, I believe that the more reasonable  
9 method is to amortize the investment over the twenty-year life of the rights to those  
10 facilities. According to this method, the test year rate base impact of the \$2,245,000 capital  
11 investment is \$1,232,550.

12 With regard to the second item, Liberty Silverleaf has proposed including in its rate base a  
13 possible new water well at an estimated cost of \$429,999. There is no guarantee when this  
14 well will be constructed, if ever. In my opinion, it is inconsistent with regulatory policy  
15 and unfair to the rate payers of Liberty Silverleaf for the utility to earn return on an asset  
16 that has not been constructed and is not used and useful in providing service to those  
17 ratepayers. At this point there is no guarantee that the asset will ever be constructed, and  
18 yet Liberty Silverleaf would continue to earn a return on an investment never made. As  
19 such, I recommend that the Commission exclude this item from Liberty Silverleaf's rate  
20 base in this docket.

#### 21 **D. Rate Case Expenses**

22 **Q. DO YOU HAVE AN OPINION ABOUT THE COLLECTION OF THE RATE CASE**  
23 **EXPENSES?**

1 A. Yes. Liberty Utilities has included the rate case expenses in the revenue requirement and  
2 proposes to collect them through a surcharge over a 2-year period. I believe that the  
3 proposed 2-year period for the surcharge is much too short given Liberty Silverleaf's past  
4 history of filing rate change applications. For instance, it has been eight years since the  
5 last case. If Liberty Silverleaf stayed out that long, their proposal would over-recover for  
6 rate case expenses by four times. Also, surcharging over such a short time increases the  
7 burden of the rate case expenses on an already significant proposed increase in rates  
8 exacerbating rate shock in consumers. I recommend that rate case expenses be removed  
9 from the revenue requirement and surcharged by separate rider over a period of no less  
10 than four years.

#### 11 **SECTION VII. RATE DESIGN**

#### 12 **Q. CAN YOU DESCRIBE THE RATE DESIGN PROPOSED BY LIBERTY** 13 **SILVERLEAF UTILITIES?**

14 A. Yes. The rate application proposes to recover 64.42% and 90% of the fixed costs for  
15 water and sewer, respectively, through a charge based on the size of the water meters  
16 serving each account. In addition, Liberty has proposed an inverted tiered rate for water  
17 that includes three tiers for ¾" or smaller meters and two tiers for meters for 1" or larger  
18 meters. For sewer, the current single tier, or uniform, rate design is proposed.

#### 19 **Q. DO YOU HAVE ANY CONCERNS REGARDING THE PROPOSED RATE** 20 **STRUCTURE?**

21 A. Yes, I have four principal concerns regarding Liberty Silverleaf's proposed rate structure.  
22 First is the excessive level of revenue recovered through the fixed monthly service charge  
23 based on meter size. Second is the proposed increasing tiered block rate for commercial

1 water accounts. Third is the proposal to charge each unit behind the customer meter in a  
2 multi-unit building a separate fixed customer charge. Fourth is the reliance solely on what  
3 appears to be atypical test year sales volumes to determine the volumetric rate.

4 **Q. PLEASE PROVIDE MORE DETAIL ABOUT YOUR CONCERNS AND YOUR**  
5 **RECOMMENDATIONS TO THE COMMISSION REGARDING RATE DESIGN.**

6 A. Utility rate design is the aspect of rate making that is more art than science, balancing cost  
7 of service principles with important local and regional objectives that can be achieved  
8 through rate design. Nevertheless, cost causation is the fundamental overarching principle  
9 that is followed by regulatory bodies such as this Commission when designing rates. My  
10 biggest concern is the excessive level of costs that are proposed to be recovered through  
11 the fixed monthly service charge based on meter size. Liberty Silverleaf proposes to  
12 recover 64.42% of water revenues and 90% of sewer revenues through the fixed customer  
13 charge. This percentage far exceeds the typical allocation of revenues between fixed and  
14 volumetric rates, which usually is somewhere around 30% fixed and 70% volumetric.  
15 Since the introduction of retail water meters, it has been a long-standing practice to provide  
16 a proper price signal to customers to incentivize conservation and achieve efficient use of  
17 valuable resources. Liberty Silverleaf witness Mr. Bourassa himself cites conservation as  
18 a goal of rate design. Liberty Silverleaf's proposal to recover 64.42% of the water revenue  
19 requirement and 90% of the sewer revenue requirement from the fixed monthly service  
20 charge obliterates any price signal from volumetric rates because the vast majority of a  
21 customer's bill will remain the same whether or not a customer chooses to consume less  
22 water. Even though Liberty Silverleaf has noted a desire to achieve revenue stability, it is  
23 crucial that this be balanced with the important factors of achieving efficient water use and

1 providing customers the ability to have some control over the size of their utility bills. In  
2 my long experience designing rates, 90%, or even 60%, of recover from fixed customer  
3 charges is excessive. I recommend that the Commission limit the proportion of revenues  
4 recovered through the fixed customer charge to 35%, more consistent of industry norm.

5 **Q. PLEASE EXPAND ON YOUR RECOMMENDATION REGARDING THE**  
6 **PROPOSED INCREASING BLOCK RATE FOR COMMERCIAL CUSTOMERS.**

7 A. I object to Liberty Silverleaf's proposal to include an increasing block rate for commercial  
8 customers. Although the application of an increasing tiered water rate for residential  
9 customers is becoming more prevalent in the particularly arid regions of the  
10 country as well as areas with limited water supplies, this can be supported by the desire to  
11 send a stronger price signal to incentivize conservation. This same rationale cannot apply  
12 to commercial customers, and especially commercial customers in the Piney Woods of  
13 East Texas where water is abundant. The application of the increasing tiered water rate  
14 for residential customers, when properly designed, can fairly reflect cost causation  
15 principles associated with customer class load factors and the higher demands caused by  
16 outdoor discretionary water use. I do not, however, agree with applying an increasing  
17 tiered water rate to commercial customers of Liberty Silverleaf as this will unfairly punish  
18 business use of water which cannot be deemed discretionary use. In addition, Liberty  
19 Silverleaf has not incorporated customer class demand factors in its cost of service analysis  
20 and as such there is not a cost causation basis for the proposed tiered water rate for  
21 commercial customers. Therefore, I recommend that this Commission reject the  
22 increasing tiered rate block for Liberty Silverleaf's commercial customers.

1   **Q.     PLEASE EXPLAIN YOUR RECOMMENDATION TO REJECT THE PROPOSAL**  
2       **TO APPLY FIXED MONTHLY CHARGES TO INDIVIDUAL UNITS BEHIND**  
3       **THE CUSTOMER METER IN A MULTI-UNIT BUILDING.**

4   A.    I do not agree with Liberty Silverleaf's proposal to apply the fixed monthly service  
5       charge to multi-unit residential accounts in spite of the fact that these buildings are master  
6       metered. There is no cost of service basis for such an approach and in fact it produces a  
7       discriminatory rate that also creates a substantial intra-class subsidy. For example, assume  
8       two accounts each with a 1-inch water meter. One building does not have multiple units  
9       while the other one has 12 units. The building without multiple units would be charged  
10      one fixed customer charge per month. The building with 12 units would be  
11      charged twelve separate fixed customer charges per month. The meter reading, billing and  
12      collections costs incurred by the utility are the same since each account only has one meter.  
13      The investment in plant to serve the meter is the same. But the multi-unit building ends up  
14      paying significantly more for the same service—delivering water to the meter, especially  
15      when you consider that Liberty Silverleaf proposes to recover 60-90% of its entire cost of  
16      service through the fixed customer charge. In addition, the limiting factor in the amount  
17      of water that could be delivered by the utility is the capacity of the individual meter, not  
18      the number of units beyond that meter. Under the proposal by Liberty Silverleaf, the  
19      account with 12 units will pay nearly twelve times the fixed monthly service charge when  
20      compared to the other account with the same sized water meter. This discriminatory rate  
21      structure runs counter to fundamental cost causation principles and should be rejected by  
22      this Commission. This would also result in SRI's time-share owners significantly  
23      subsidizing other residential customers. In the example above, a multi-unit building with



1 12 units would pay the same amount of fixed monthly charges as 12 individual houses.  
2 Yet, Liberty Silverleaf's costs incurred to serve 12 individual houses are significantly  
3 higher, including the investment in service lines to each home, 12 separate meters, and the  
4 meter reading and billing and collection costs for each house instead of just a single master  
5 meter. This reflects a substantial intra-class subsidy from SRI's resorts to individual homes  
6 within Liberty Silverleaf's residential class of customers.

7 **Q. PLEASE EXPLAIN YOUR COMMENT ABOUT RELYING SOLELY ON TEST**  
8 **YEAR SALES TO ESTABLISH THE BILLING DETERMINANTS FOR THE**  
9 **VOLUMETRIC RATE.**

10 A. Rates should be set to approximate as closely as possible the actual costs and revenues that  
11 will be experienced when the rates go into effect. When setting volumetric rates, the goal  
12 is to anticipate how much water will be sold during a typical single year in order to spread  
13 the costs over that number of units. Liberty Silverleaf has relied on the actual test year  
14 sales to establish the volumetric billing determinants. I recommend to instead look at an  
15 average of the last four years of sales because there has been a lot of variation over this  
16 time, and 2017 appears to be an artificially low outlier. I compare the actual sales over this  
17 time period in my Exhibit WS-8. Looking at the data, the consumption in calendar year  
18 2017 is much lower than the previous 3 years in each of the four resort areas. For these  
19 reasons, I recommend using a 4-year consumption average to calculate the volume charges.  
20 For wastewater, the 2017 usage is lower than the previous three years for Holly Ranch,  
21 Piney Shores and Hill Country. I also recommend using a 4-year consumption average for  
22 wastewater (Exhibit WS-9). These changes will reduce the volume rates in the proposal.

1           This results in volumetric billing determinants of 220,533,705 gallons for water and  
2           69,913,461 gallons for sewer.

3   **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

4   **A.    Yes.**

5

6

SOAH DOCKET NO. 473-18-3006.WS  
PUC DOCKET NO 47976

APPLICATION OF LIBERTY SILVERLEAF UTILITIES (SILVERLEAF WATER) LLC (CCN NOS. 13131 AND 20815) TO CHANGE RATES FOR WATER AND SEWER SERVICE IN SMITH, WOOD, MONTGOMERY, AND COMAL COUNTIES, TEXAS.	§ § § § § §	PUBLIC UTILITY COMMISSION  OF TEXAS
---	----------------------------	---

AFFIDAVIT OF WILLIAM G. STANNARD


STATE OF Missouri  
COUNTY OF Jackson

BEFORE ME, the undersigned notary public, personally appeared WILLIAM S. STANNARD,  
who, being first duly sworn, makes the following statement:

I, William S. Stannard, being mentally sound and capable of making this affidavit, affirm that the  
foregoing represents my testimony and was prepared by me or under my direct supervision. The facts  
asserted therein are true and correct to the best of my knowledge.

William S. Stannard

Sworn to and subscribed before me on this 4<sup>th</sup> day of October, 2018, by WILLIAM G.  
STANNARD, who is personally known to me or has produced \_\_\_\_\_ as  
Identification.

(Stamp Seal of Notary)  
  
(Signature of Notary)  
Jon M. McGraw

Notary Public State of Missouri

Commission Number 15186207

# **EXHIBIT WS-1**



#### TECHNICAL SPECIALTIES

- Cost of service and rate studies
- Financial planning studies
- Valuation and acquisitions
- Bond forecasts and examinations
- Regionalization studies
- Management policy and practice
- Environmental finance & accounting

#### PROFESSIONAL HISTORY

- Rafte Financial Consultants, Inc.  
Chairman of the Board (2017-present);  
Chief Executive Officer (2012-2016),  
President (2008-2016), Vice President  
(2002-2008)
- Black & Veatch: Senior Vice President  
(1996-2002); Vice President (1992-1996),  
Project Manager (1984-1992); Assistant  
Project Manager (1980-1984), Staff  
Consultant (1975-1980)

#### EDUCATION

- Bachelor of Science in Business  
Administration - Kansas State University  
(1975)
- Bachelor of Science in Civil Engineering -  
Kansas State University (1975)

#### PROFESSIONAL MEMBERSHIPS

- American Society of Civil Engineers
- American Water Works Association: Chair  
of Management and Leadership Division,  
Trustee of Technical and Education  
Council, Past-Chair of Finance, Accounting  
and Management Controls Committee,  
Texas Section Rates Committee
- Water Environment Federation: Past-Chair  
of Task Force on Wastewater Charges
- Listed in Best Lawyers in America -  
Directory of Expert Witnesses
- Listed in Who's Who in Science and  
Engineering

#### PROFESSIONAL REGISTRATIONS

- Registered Professional Engineer: MI  
(1201026796), OH (PE 57725), MA  
(58847), KS (1975-1986)

#### CERTIFICATIONS

- Series 30 Mutual Fund Representative

#### Chairman of the Board

Mr. Stannard has 40 years of experience providing consulting services to investor- and municipally-owned utilities covering management, operation, economic, and financial matters. His extensive experience encompasses formulation of financial systems and ordinances for compliance with regulations regarding the Clean Water Act and the Safe Drinking Water Act; comprehensive revenue requirements and cost of service studies; consulting engineers and financial feasibility reports related to the sale of revenue bonds; financial feasibility analyses, organizational and management reviews; and utility competitiveness studies. He has served as an expert witness in rate litigation matters in federal and state courts and before arbitration panels and state public service commissions. Mr. Stannard has also served as an arbitrator in resolving water and wastewater rate disputes. Mr. Stannard has been an active member of the WEF and AWWA. He served as chair of the WEF task force charged with the development of a *Manual of Practice, Financing and Charges for Wastewater Systems*. Mr. Stannard also authored a chapter entitled, "Selecting the Optimal Capital Financing Plan and Pricing Structure," for the Fourth Edition of the industry guidebook, *Water and Wastewater Finance and Pricing: The Changing Landscape*. This authoritative text is used by utility managers and consultants throughout the United States. He is the Chair of AWWA's Management and Leadership Division, a Trustee of AWWA's Technical & Education Council, and a past-Chair of AWWA's Finance, Accounting and Management Controls Committee.

#### EXPERT WITNESS AND LITIGATION SUPPORT EXPERIENCE

##### City of Detroit Water and Sewerage Board (MI)

##### United States District Court, Eastern District of Michigan

Mr. Stannard testified on behalf of the City of Detroit and its Water and Sewerage Department regarding its wastewater rates charged to its wholesale wastewater customers and its industrial retail customers on multiple occasions during the period 1977 through 1996. During this period, Mr. Stannard testified on twelve occasions in depositions and in hearings in Federal Court. In addition to his testimony Mr. Stannard was directly involved in the negotiation of four rate settlement agreements between the City of Detroit and the wholesale customers.

##### Oakland County Michigan Circuit Court

Mr. Stannard testified on behalf of the City of Detroit in support of the City's water rates charged to the City of Novi, Michigan. The Trial Court found in favor of the City of Detroit citing Mr. Stannard's testimony as a fundamental basis for the decision.

##### Kalamazoo (MI)

##### Kalamazoo County, Michigan Circuit Court

Mr. Stannard testified as an expert witness in support of the City in a wastewater rate dispute with its wholesale customers. Mr. Stannard's testimony was provided in deposition conducted by the plaintiff's attorney and helped facilitate a settlement agreement between the parties establishing a process and methodology for determination of future wastewater rates.

### **Holland (MI)**

#### **Arbitration between the City of Holland and the City of Zeeland**

Mr. Stannard served as an expert witness on behalf of the City of Holland, Michigan in its arbitration on water rates with the City of Zeeland, Michigan. His testimony was provided in depositions and during the arbitration hearings. The findings of the arbitration panel were principally in support of the City of Holland's water rates.

### **Bay City (MI)**

#### **Water Rate Arbitration between the City of Bay City and its wholesale customers Bay County and Hampton Township**

Mr. Stannard served as an arbitrator representing Bay County and Hampton Township in a challenge of the City of Bay City's wholesale water rates. The challenges to the water rates focused on the determination of the City's revenue requirements to be recovered from the water rates and the application of the "utility basis" in the determination of the wholesale cost of service. The neutral arbitrator agreed with the arguments presented by Mr. Stannard and found in favor of Bay County and Hampton Township.

### **Newark (NJ)**

#### **Essex County New Jersey Circuit Court**

Mr. Stannard served as an expert witness for the Seton Leather Company in a suit challenging the equity of the City of Newark's wastewater rates. Mr. Stannard testified in deposition and during the Trial Court hearing on this matter. At the conclusion of the trial the Judge found in favor of Seton leather recognizing the testimony of Mr. Stannard as a substantial basis for his decision. The City of Newark appealed the decision to the New Jersey Supreme Court who ruled in favor of the City due to the effect that implementing the Trial Court's decision would have on the residential customers of the City.

### **Lawrence (MA)**

#### **Essex County Massachusetts District Court**

Mr. Stannard served as an expert witness on behalf of the Merrimack Paper Company challenging the wastewater rates enacted by the City of Lawrence, Massachusetts. Mr. Stannard testified in deposition and in the hearing setting forth the results of his analyses and his opinions regarding the equity and fairness of the City's wastewater rates in relation to generally accepted wastewater rate making principles and industry standards. The District Court ruled in favor of the City which prompted Merrimack Paper to Appeal to the Commonwealth Supreme Court. Once the appeal was accepted for hearing by the Supreme Court the City agreed to enter into a settlement with Merrimack paper.

### **Billings (MT)**

#### **Water Rate Arbitration between the Billings Heights Water District and the City of Billings, Montana**

This matter started as a suit filed by the Billings Heights Water District against the City of Billings challenging water rates that had been adopted by the City. Mr. Stannard was retained as an expert witness on behalf of the District and presented testimony in deposition. After the parties had deposed the experts, the Trial Judge worked with them to enter into a new contract that provided for

arbitration to settle disputes. The City then revised its water rates incorporating many of the issues raised by Mr. Stannard but still left other items with which the District disagreed. The case then moved to arbitration which was conducted as "baseball" arbitration with a single arbitrator rather than three. Mr. Stannard testified in the arbitration hearing presenting his analyses and opinions regarding the rate issues. The Arbitrator concurred with many of Mr. Stannard's issues and opinions, but due to the nature of baseball arbitration the ultimate finding favored the City.

## **PUBLIC SERVICE COMMISSION APPEARANCES**

### **Indiana Regulatory Commission**

**Bloomington.** Mr. Stannard served as expert rate consultant on six separate water rate cases before the Commission. Three of the cases were across the board adjustments to the rate structure based on the overall revenue requirement for the water utility. The other three cases included detailed cost of service and rate design determinations.

**Columbus.** Mr. Stannard served as the expert rate consultant on two water rate cases before the Indiana Utility regulatory Commission on behalf of the City of Columbus. The first case included a comprehensive cost of service study and rate design and the second case was based solely on development of proposed revenue requirements.

**Evanston.** Mr. Stannard served as the expert rate consultant on behalf of the City of Evanston on two water rate cases heard by the Indiana Utility Regulatory Commission. Both cases included development of test year revenue requirements, comprehensive cost of service analyses and rate design.

### **Kentucky Public Service Commission**

**Boone County Kentucky Water District.** Mr. Stannard testified as an expert water rate consultant on behalf of Boone County before the Kentucky Public Service Commission in support of the Water District's proposed water impact fees. The Commission approved the District's application for implementation of these fees.

## **RELEVANT PROJECT EXPERIENCE**

### **Metropolitan St. Louis Sewer District (MO)**

Mr. Stannard served as Project Manager for Raftelis' engagement as rate consultant to the St. Louis MSD Rate Commission. As the Commission's rate consultant, Mr. Stannard was responsible for performing an independent review of MSD's proposed wastewater and stormwater rates covering the period 2008 through 2012. The project included a detailed evaluation of the cost of service studies supporting the wastewater and stormwater rates, an evaluation of proposed policies for implementation of the rates, and examination of the level and phasing of annual rate adjustments proposed during the five-year study period. Mr. Stannard was also responsible for submitting testimony and exhibits for the rate hearings conducted by the Rate Commission and assisted the Commission's Counsel in

cross examination of MSD witnesses and witnesses of the various interveners in the case.

#### **City of Saginaw (MI)**

Mr. Stannard served as the Project Manager for a water cost of service engagement for the City of Saginaw (City). The engagement included development of a comprehensive financial plan, cost of service analysis and design of water rates. In addition to its retail customers, the City also provides water service to 19 wholesale customers, which use approximately 60% of the water produced. A key element of the engagement involved meetings with each of the wholesale customers to explain in detail the cost of service allocation methodology and the effect on the customer's water rates.

#### **City of Wichita (KS)**

As Project Manager, Mr. Stannard assisted the City of Wichita (City) in performing an analysis of wholesale water rates by evaluating billing data for the past three years for all of the City's wholesale customers and provided recommendations to improve the recovery of revenue requirements from these customers. Raftelis has also performed a rate study to determine a raw water rate for a proposed new industrial customer seeking service from the City. Raftelis also analyzed the City's rate structure to determine its effectiveness for providing stable revenues during varying weather conditions.

#### **Little Rock Wastewater Utility (AR)**

Mr. Stannard is Project Manager for a comprehensive wastewater financial planning, cost of service and rate study for the City of Little Rock's Wastewater Utility (LRW). In addition to the cost of service analysis, this project includes a feasibility study of alternative system growth charges and a system value determination. LRW is in the midst of a major capital improvement program to address wet weather flow management issues. The program includes construction of a new wastewater treatment plant and, as such, LRW is interested in assessing the feasibility of instituting a system development charge to be applied to new customers. The system valuation element of the project will be an integral step in LRW's ongoing asset management program development.

#### **Fort Gratiot Township (MI)**

Mr. Stannard served as the Project Manager on an engagement for Fort Gratiot Township, Michigan (Township) to review proposed water rates from the City of Port Huron (City). The City provides wholesale water service to the Township and the Township was concerned about the level of proposed rate increases they were facing and, hence, engaged Raftelis to review the proposed rates to ensure they were appropriate.

#### **City of Detroit (MI)**

Mr. Stannard served as Project Manager/Principal-in-Charge for various projects for the City of Detroit (City), including comprehensive water and wastewater revenue requirements, cost of service and rate design studies; consulting engineers/feasibility reports for over \$2 billion of water and wastewater system revenue bonds; an automated capital improvement program management and tracking system, and an automated work order tracking system. The rate study engagements included development of user-friendly,

Windows-based, rate models, initially using Lotus 123 and, subsequently, Microsoft Excel® for use by the City's rate and finance staff.

#### **City of Grosse Pointe (MI)**

Mr. Stannard served as Project Manager to the City of Grosse Pointe, Michigan (City) performing a comprehensive water and wastewater cost of service study including benchmarking analysis allowing the City to compare their performance with respect to key performance criteria to the performance of other similar utilities. Mr. Stannard has also been responsible for the development of a ten-year financial plan for the City's Utilities Department, and creation of a financial planning and rate model for use by City staff in preparing annual updates to the water and wastewater rates.

#### **City of Philadelphia (PA)**

Mr. Stannard served as a water rate expert, assisting the City of Philadelphia in a water rate dispute with one of the City's major wholesale customers. Dispute resolution was accomplished through arbitration where Mr. Stannard provided expert testimony in support of the City's water cost of service analysis and rate design. He also assisted the City in developing the overall strategies for crafting the City's case.

#### **City of Baltimore (MD)**

Mr. Stannard serves as the Project Director on this multi-year engagement with the City of Baltimore's Bureau of Water and Wastewater (City). The engagement encompasses a variety of cost of service and rate studies for the City's water and wastewater systems. He is currently leading our Firm's wastewater cost of service analysis and development of high strength surcharge rates in accordance with EPA user charge regulations. Other components of our engagement with the City include review and evaluation of cost allocations to the City's wholesale water and wastewater customers in accordance with the water and sewer service agreements.

#### **City of Portland (OR)**

Mr. Stannard was Project Manager for an engagement for the City of Portland Water Bureau (Bureau) which provides retail water service to customers within the City and wholesale water service to 19 agencies under agreements that will expire within the next couple of years. Raftelis' scope of work was separated into two parts: assistance in developing wholesale rates and development of a robust modeling tool for ongoing rate calculation and financial planning use by the Bureau.

#### **Northeast Ohio Regional Sewer District (OH)**

Mr. Stannard served as Project Director in the development of a comprehensive financial plan for the five year period 2007-2011 and 2012-2016, as well as various other engagements for the District since 2004. The financial plan included projections of customers, water usage and revenues under the existing rates, projections of operating and maintenance expense, debt service on existing bonds and additional bonds necessary to fund the capital improvement program, and reserve fund deposits. In addition, Raftelis recommended a rate adjustment program over the five year study period to meet the projected revenue requirements and maintain the District's financial sustainability. A user-friendly

computer model was also developed for use by District staff to analyze different planning scenarios

#### **City of Los Angeles (CA)**

Mr. Stannard served as Principal-in-Charge for the best practices study for the Los Angeles Wastewater Program. This project built on the City's efforts conducted during the five years prior to the best practices study during which the City, working through its Labor Management Committee, had reduced the program's full-time employment by 28 percent. The best practices study covered every aspect of the organization including plants, collection system, engineering, finance, accounting, human resources, billing and collection, customer service, construction management, and many others. As a result, additional savings of nearly 20 percent were identified over the ensuing five-year period, utilizing normal attrition in lieu of layoffs. The projected savings incorporated business process changes that were identified and evaluated as part of the project with a significant portion of the savings to be achieved in the areas of support services and capital improvement programs.

#### **City of San Diego (CA)**

Mr. Stannard served as the Principal-in-Charge for a management review of the City's Water Department. This review was driven by City Council concerns about the overall management of the Department and several specific areas within the Department, as identified by the Council. The City Council directed a very tight time schedule for the project, which was completed within two months. In order to accomplish the goals of the project within this schedule, separate work teams were formed for each of the assigned areas. The systematic approach provided an efficient, thorough and comprehensive review of each functional area while allowing the project team to successfully conform to the tight schedule.

#### **City of Cincinnati (OH)**

Mr. Stannard served as the Partner-in-Charge for the project team engaged by Cincinnati Water Works (CWW) to work with CWW's Executive Management Team in development of their first Strategic Business Plan. The work on this project included a complete employee survey, outreach with key external stakeholders, multiple workshops with the Executive Team and staff representatives for development of CWW's vision and mission, as well as goals, objectives and strategies, and leading multi-disciplined CWW teams in development of specific action plans. The result of this engagement was a comprehensive business plan which established a road map for the utility over the coming decades.

#### **City and County of San Francisco (CA)**

Mr. Stannard served as Project Manager on an engagement with the San Francisco Public Utilities Commission (SFPUC) in the development of contract negotiation strategies regarding the renegotiation of SFPUC's wholesale water service agreements with its wholesale water customers. A major component of Mr. Stannard's work included the analysis of the impact of SFPUC's \$4.5 billion capital improvement program on the overall financial plan and the allocation of costs to the wholesale customers under the utility basis of cost allocation as

well as the cash basis to determine the short, mid, and long term impacts on retail rates and wholesale rates.

#### **City of Suffolk (VA)**

Mr. Stannard serves as Project Director for Raftelis' multi-year engagement with the City of Suffolk (City) to provide financial services to the City's Department of Public Utilities (DPU). The scope of services include an annual update of the ten-year comprehensive financial plan, determination of water and sewer costs of service, development of proposed water and sewer rates for the upcoming fiscal year, and an assessment of the City's water and sewer system availability fees. In addition, Raftelis also conducts an annual true-up analysis for wholesale water service to the Authority. The true-up analysis recalculates the water rates using actual cost and water usage data to determine the actual cost-of-service for the Authority during the prior year.

#### **Franklin Water Utility (WI)**

Franklin Water Utility (FWU) purchases water supplies on a wholesale basis from the adjacent City of Oak Creek (Oak Creek). Mr. Stannard provided extensive testimony on behalf of the wholesale intervenors in the 2011 rate increase application of the Oak Creek Water and Sewer Utility (PSCW Docket No. 4310-WR-104). Mr. Stannard's testimony focused on three key areas. First, was a refutation of Oak Creek's proposed use of coincident customer class peaking factors in its base-extra capacity cost of service study (something not previously done by the PSCW). Second, Mr. Stannard proposed that Oak Creek conduct a detailed analysis of customer class demand characteristics in lieu of their proposed use of demand factors that severely disadvantaged wholesale customers. Finally, Mr. Stannard filed extensive testimony regarding the allocation of public fire projection costs to the City of Franklin under the methodology approved for use by Milwaukee Water Works in PSC Docket No. 372-WR-107. The PSC issued a ruling affirming Mr. Stannard's position on these issues in the Commission's delegated Final Decision on July 23, 2012 (PSC Ref#: 168775). This ruling was upheld in the Commission's preliminary determination to modify the Final Decision made on October 3, 2012 (PSC Ref#: 173880).

#### **Northwest Water Commission (IL)**

Mr. Stannard has served as principal-in-charge for several engagements for the Northwest Water Commission (Commission). These engagements have included review of water rates charged to the Commission proposed by the City of Evanston (City) and assistance with negotiation of the rates to be charged under the terms of the Commission's contract with the City, and a determination of the current value of the Commission's water system assets. Currently, Raftelis is developing proposed water rates for potential service to new contract customers.

#### **City of Naperville (IL)**

Mr. Stannard served as Project Director for a comprehensive water and wastewater rate study for the City of Naperville (City). The scope of work included development of financial plans for the



water and wastewater utilities, cost of service analyses, and design of proposed rates to fund the projected revenue requirements for the two utilities. The findings of the study were presented to the City Council which approved the proposed changes in rates including a purchased water component which will serve as a pass through to reflect the rates for water purchased from the Du Page County Water Commission.

#### **Loudoun County Sanitation Authority (VA)**

Mr. Stannard served as the Project Director on two engagements for Loudoun County Sanitation Authority (Authority), a cost of service rate study and a bond feasibility study. The Authority's goal for the rate study was to maintain the current rate structure and minimize rate increases while still preserving a sufficient fund balance to meet all internal coverage requirements. The follow-up bond feasibility study used the newly developed rate model to ensure the Authority's financial capability to issue new debt.

#### **City of Kansas City (MO)**

Mr. Stannard served as the Project Director for a wastewater financial planning and cost of service study for the City of Kansas City Water Services Department (Department). The project included development of a comprehensive financial plan, cost of service analysis and design of wastewater rates. In addition to its retail customers, the Department also provides wastewater service to more than 20 wholesale customers. A key element of the engagement involved a detailed analysis of the costs of the system components which serve the wholesale customers to serve as the basis for a move to cost of service based rates for the wholesale customers in place of the historic practice of tying the wholesale rates to the inside City retail rates.

#### **Tarrant Regional Water District (TX)**

Mr. Stannard served as Project Director on a project for the Tarrant Regional Water District (TRWD) to study the financial, economic, and policy impacts of a proposal that TRWD pay communities for wastewater effluent discharged into the Trinity River which would subsequently be used to augment TRWD's raw water supply.

#### **City of Hobbs (NM)**

Mr. Stannard has been the Project Manager on the City of Hobbs (City) water and wastewater rate study. The City was faced with significant capital expenditures to upgrade their wastewater treatment plant and wanted to ensure that the water and wastewater utilities were operating in a self-sufficient manner. Raftelis worked with City Staff as well as the City Council and Water Board to determine the City's rate setting goals. Raftelis then developed water and wastewater rate structures that addressed these goals, in particular, conservation, while providing for adequate capital financing.

#### **City of Lee's Summit (MO)**

As Project Manager, Mr. Stannard performed comprehensive water and wastewater cost of service studies for the City of Lee's Summit (City) as well as provided an update of the City's system develop-

ment charges collected from new customers.

#### **City of Olathe (KS)**

Mr. Stannard has been the Project Manager on a series of engagements for the City of Olathe (City). Raftelis first performed an analysis of the City's existing System Development Fee methodology and provided guidance on how the fees could be updated and improved. Raftelis provided the subsequent revisions and updates and presented these findings to City Council. Raftelis has subsequently been engaged by the City to analyze proposed wastewater impact fees that would supplement system development charge revenue, to update the City's cost of service computer model, and to assist with the determination of wholesale wastewater rates.

#### **City of Wyoming (MI)**

Mr. Stannard was the Project Manager for Raftelis' engagement with the City of Wyoming (City) to perform a water cost of service study and to provide assistance in the negotiation of new wholesale contracts for water and wastewater service. The City engaged Raftelis to perform a water cost of service study to support the negotiation of new wholesale water contracts. Raftelis also provided expertise in areas including rate of return, cost of service allocations, industrial surcharges, and rate design.

### **OTHER RELEVANT PROJECT EXPERIENCE**

- Allegheny County Sanitary Authority (PA) – Rate Study, Industrial SC Review
- Arlington County (VA) – Alternative Rate Structure Analysis, Financial Planning, Availability Fee Development, and Public Involvement Program
- City of Columbus (OH) – Water and Wastewater Rate Study
- City of Henderson (NV) – Water and Wastewater Rate Study
- City of Lexington (KY) – Water System Valuation
- City of Loveland (OH) – Evaluation of Wastewater Service Alternatives
- City of Kalamazoo (MI) – Wastewater Rate Review
- City of Macomb (MI) – Wastewater Rate Litigation Assistance and Feasibility Analysis for Acquisition
- Oakland County (MI) – Water and Wastewater Rate Review and Master Plan Financial Analysis
- San Antonio Water System (TX) – Water and Sewer Rate Study
- San Francisco Public Utilities Commission (CA) – Wholesale Contract Development, Reuse Water Pricing Review, Wheeling Rate Review
- City of Warren (MI) – Water Rate Litigation Support
- United States Navy, Norfolk (VA) – Water Rate Review

### **OTHER EXPERIENCE**

- Invited Instructor: University of Colorado School of Engineering – Graduate Course on Utility Management and Finance

## FULL CLIENT LIST

### Alabama

- Birmingham Water Works Board
- Jasper Water Board
- Jefferson County Wastewater

### Arizona

- City of Phoenix
- Pima County Wastewater

### California

- City of Los Angeles Bureau of Sanitation
- City of Los Angeles Department of Water and Power
- Metropolitan Water District of Southern California (Los Angeles)
- City of San Diego
- City of San Francisco Public Utilities Commission
- Armor Foods – Turlock, CA

### Colorado

- Town of Grand Lake
- Littleton Sewer Rate Coalition

### Illinois

- City of Peoria
- City of Carbondale
- Northwest Water Commission

### District of Columbia

- Water and Sewer Authority

### Georgia

- City of Atlanta
- City of Columbus
- Gwinnett County

### Indiana

- City of Bloomington
- City of Columbus
- City of Evansville
- Indianapolis Water Company

### Kansas

- City of Olathe
- City of Wichita
- City of Valley Center

### Kentucky

- Boone County Water District
- Hardin County Water District No. 1
- Lexington-Fayette Urban County Government

### Louisiana

- New Orleans Sewerage and Water Board

### Maryland

- City of Baltimore
- Howard County
- Washington Suburban Sanitary Commission
- Massachusetts
- Massachusetts Water Resources Authority
- Merrimack Paper Company – Lawrence, MA
- City of Saugus
- Michigan
- Bay County
- City of Detroit
- City of Flat Rock
- City of Flint
- City of Grand Rapids
- City of Holland
- City of Kalamazoo
- City of Lansing
- Macomb County
- Oakland County
- City of Saginaw
- City of Warren
- City of Wyoming

### Mississippi

- City of Jackson

### Missouri

- City of Columbia
- City of Gladstone
- City of Kansas City
- City of Jefferson
- City of Lee's Summit
- City of North Kansas City
- City of St. Joseph
- St. Louis Metropolitan Sewer District

### Montana

- County Water District of Billings Heights
- New Jersey
- Seton Leather Company – Newark, NJ

### New Mexico

- City of Hobbs

### Nevada

- City of Henderson

### New York

- City of New York

### North Carolina

- Orange County Water and Sewer Authority
- City of Winston-Salem

**Ohio**

- City of Cincinnati
- Cincinnati Metropolitan Sewer District
- City of Lakewood
- City of Loveland
- Northeast Ohio Regional Sewer District
- City of Mason
- City of Middletown

**Oregon**

- City of Portland

**Pennsylvania**

- Alleghany County Sanitary Authority
- City of Philadelphia

**South Carolina**

- City of Charleston

**Texas**

- City of Arlington
- City of Austin
- City of Dallas
- City of Denton
- City of Houston
- City of San Antonio
- Tarrant Regional Water District

**Virginia**

- Arlington County
- Chesterfield County
- Loudoun County
- City of Portsmouth
- City of Richmond
- City of Suffolk
- City of Virginia Beach

**Washington**

- City of Seattle

**Canada**

- Regional Water Customers Group, Edmonton, AB

**International**

- Bangkok – Trade Development Agency
- Cairo - USAid
- Lima, Peru – World Bank
- Oman
- Puerto Rico Water and Sewer Authority

**Federal**

- United States Navy

# **EXHIBIT WS-2**

**RESPONSE TO REQUEST FOR INFORMATION**

**STAFF RFI 1-1** Refer to Page 5 of Liberty Silverleaf's response in Docket No. 46642 where it states:

"Liberty Utilities has determined that part of the increase also resulted from understated depreciation expense in annual reports filed in prior years because certain plant items were recorded in those years on affiliate books instead of Liberty Utilities' books."

State:

- a. All the years in which there was purportedly an understated depreciation expense for Liberty Silverleaf.
- b. The affiliate(s) involved.
- c. For each year in which there was purportedly understated depreciation expense for Liberty Silverleaf, the amount of depreciation expense that was purportedly understated.

**RESPONSE:**

- a. See attached document AWRT TCEQ Annual Reports from 2005 to 2014 (Liberty 000001 – 000092).
- b. None.
- c. See attached file Depreciation 2005 to 2014.xlsx

Prepared by: Alysia Maya, Rates Analyst

Sponsored by: Crystal Greene, Sr. Accounting Manager

**RESPONSE TO REQUEST FOR INFORMATION**

**STAFF RFI 1-4** Refer to your responses to Staff RFI Nos. 1-1 and 1-2.

Produce all written or e-mail communications and any accompanying Documents between Liberty Silverleaf's employees regarding:

- a. The preparation of Liberty Silverleaf's 2015 annual report filed with the Commission.
- b. The purported understated depreciation expense for Liberty Silverleaf.
- c. Liberty Silverleaf's affiliates that purportedly had incorrect entries on their respective books and records.

**RESPONSE:**

- a. Please see attached files Emails AMaya.pdf (Liberty 000093 – 000148) and Staff 1-4 Emails CGreene.pdf (Liberty 000149-0001663).
- b. Please see response to (a) above
- c. None

Prepared by: Alysia Maya, Rates Analyst

Sponsored by: Gerry Becker, Manager Rates and Regulatory

PUC Docket No. 46642  
Ex. A to Silverleaf's 7-10-2017 Interim Appeal of Order No. 7

**Alysia Maya**

---

**From:** Alysia Maya  
**Sent:** Monday, September 12, 2016 6:22 AM  
**To:** Crystal Greene  
**Cc:** Gerry Becker  
**Subject:** SL Annual Report  
**Attachments:** SL Asset detail for 2008 RC.xls.xlsx; SL TX 2015 Class\_B\_Water-Sewer\_Annual\_Report\_2015\_and\_later.xls

Good Morning,

So I recalculated the report using the numbers from Friday. When I do that, I get 23% return and then I plugged in the formula from the TT/WM case and it increased it to 26% (still high). I highlighted all of my changes on the annual report in purple (balance sheet, plant, income). Please take a look and let me know if you have any questions. I still feel uneasy about adjusting these based on a spreadsheet.

Thanks,  
Alysia

Alysia Maya | Liberty Utilities (Arizona) | Rates Analyst  
P: 623-298-3773 | C: 623-224-7550 | E: [Alysia.Maya@libertyutilities.com](mailto:Alysia.Maya@libertyutilities.com)  
12725 W. Indian School Rd., D101, Avondale, AZ 85392

PUC Docket No. 46642  
Ex. A to Silverleaf's 7-10-2017 Interim Appeal of Order No. 7

**Alysia Maya**

**From:** Crystal Greene  
**Sent:** Thursday, December 22, 2016 10:30 AM  
**To:** Eric Joplin; Alysia Maya  
**Subject:** RE: SL ACQ ASSETS

I'm good with that. I think you should just import it in production. Alysia – You agree?

Crystal Greene | Liberty Utilities (Arizona) | Senior Accounting Manager  
P: 623-298-3739 | C: 623-208-2802 | E: [Crystal.Greene@libertyutilities.com](mailto:Crystal.Greene@libertyutilities.com)

**From:** Eric Joplin  
**Sent:** Thursday, December 22, 2016 10:29 AM  
**To:** Alysia Maya <[Alysia.Maya@libertyutilities.com](mailto:Alysia.Maya@libertyutilities.com)>; Crystal Greene <[Crystal.Greene@libertyutilities.com](mailto:Crystal.Greene@libertyutilities.com)>  
**Subject:** RE: SL ACQ ASSETS

I just got done running depreciation on the SL Acq Assets and I came up with 7.7M thru 1/1/16. I have attached screenshots showing the 10.2M in asset additions and the 7.7M of depreciation. Do you want me to run depreciation through 11/30/2016 to get that number as well? Also let me know if you want through production.

Thanks!

Eric Joplin | Liberty Utilities (Arizona) | Supervisor, Finance  
P: 623-298-3767 | C: 623-238-5129 | E: [eric.joplin@libertyutilities.com](mailto:eric.joplin@libertyutilities.com)

**From:** Alysia Maya  
**Sent:** Thursday, December 22, 2016 9:42 AM  
**To:** Eric Joplin  
**Subject:** RE: ACQ ASSETS

I am crossing mine too!

Alysia Maya | Liberty Utilities (Arizona) | Rates Analyst  
P: 623-298-3773 | C: 623-224-7550 | E: [Alysia.Maya@libertyutilities.com](mailto:Alysia.Maya@libertyutilities.com)

**From:** Eric Joplin  
**Sent:** Thursday, December 22, 2016 9:39 AM  
**To:** Alysia Maya  
**Subject:** RE: ACQ ASSETS

Haha, I will. Fingers crossed this time.

Eric Joplin | Liberty Utilities (Arizona) | Supervisor, Finance  
P: 623-298-3767 | C: 623-238-5129 | E: [eric.joplin@libertyutilities.com](mailto:eric.joplin@libertyutilities.com)

**From:** Alysia Maya  
**Sent:** Thursday, December 22, 2016 9:38 AM  
**To:** Eric Joplin  
**Subject:** RE: ACQ ASSETS

You go with your bad self! Let me know how it works.



PUC Docket No. 46642  
Ex. A to Silverleaf's 7-10-2017 Interim Appeal of Order No. 7

Alysia Maya | Liberty Utilities (Arizona) | Rates Analyst  
P: 623-298-3773 | C: 623-224-7550 | E: [Alysia.Maya@libertyutilities.com](mailto:Alysia.Maya@libertyutilities.com)

From: Eric Joplin  
Sent: Thursday, December 22, 2016 9:37 AM  
To: Alysia Maya  
Subject: RE: ACQ ASSETS

I already am working on it. I had Sam re-upload with new numbers. I just did the mass change and now I'm going to run depreciation.

Eric Joplin | Liberty Utilities (Arizona) | Supervisor, Finance  
P: 623-298-3767 | C: 623-238-5129 | E: [eric.joplin@libertyutilities.com](mailto:eric.joplin@libertyutilities.com)

From: Alysia Maya  
Sent: Thursday, December 22, 2016 9:37 AM  
To: Eric Joplin  
Subject: RE: ACQ ASSETS

We can try that. Want me to resave the file with new numbers?

Alysia Maya | Liberty Utilities (Arizona) | Rates Analyst  
P: 623-298-3773 | C: 623-224-7550 | E: [Alysia.Maya@libertyutilities.com](mailto:Alysia.Maya@libertyutilities.com)

From: Eric Joplin  
Sent: Wednesday, December 21, 2016 8:56 PM  
To: Alysia Maya  
Subject: ACQ ASSETS

Alysia,

I worked with the mass change on those assets, but the GL posting is nasty and can't tell what the true entry would look like. I can't post it due to the inactive accounts. I suggest we re-upload the assets tomorrow. How do we go about updating the upload file? We can just make all of the assets be 81XX-002XXXXXX instead of them currently being 81XX-001XXXXXX? We can re-upload the assets with new asset id's. Then we can do a mass change to change the depreciation method. Then we can run the depreciation. That should bring us close to the 7.8M. Thoughts?

-Thanks!

Eric Joplin | Liberty Utilities (Arizona) | Supervisor, Finance  
P: 623-298-3767 | C: 623-238-5129 | E: [eric.joplin@libertyutilities.com](mailto:eric.joplin@libertyutilities.com)  
12725 W. Indian School Rd., D101, Avondale, AZ 85392

PUC Docket No. 46642  
Ex. A to Silverleaf's 7-10-2017 Interim Appeal of Order No. 7

Alysia Maya

**From:** Crystal Greene  
**Sent:** Wednesday, September 07, 2016 2:19 PM  
**To:** Alysia Maya  
**Subject:** Re: SL Annual Report - Issues

Yep! Spoke to Mini. Gonna talk to Luisa tonight.

Sent from my iPhone

On Sep 7, 2016, at 3:09 PM, Alysia Maya <[Alysia.Maya@libertyutilities.com](mailto:Alysia.Maya@libertyutilities.com)> wrote:

'Did they have to shock you with the AED machine??

Alysia Maya | Liberty Utilities (Arizona) | Rates Analyst  
P: 623-298-3773 | C: 623-224-7550 | E: [Alysia.Maya@libertyutilities.com](mailto:Alysia.Maya@libertyutilities.com)

**From:** Crystal Greene  
**Sent:** Wednesday, September 07, 2016 12:08 PM  
**To:** Alysia Maya  
**Cc:** Gerry Becker  
**Subject:** Re: SL Annual Report - Issues

OMG! Gonna discuss with Luisa and Mini tonight.

'Sent from my iPhone

On Sep 7, 2016, at 12:14 PM, Alysia Maya <[Alysia.Maya@libertyutilities.com](mailto:Alysia.Maya@libertyutilities.com)> wrote:

Hi Crystal,  
I hope Canada is lovely!

I have recalculated the plant for SL TX for the 2008 rate case and everything I can think of. My net plant movement from consolidated to Regulatory is over by 90K. However, the Companies have a large swing from what was recorded at acquisition.

I have adjusted for multiple items: ( I think I got everything)

1. Accum Depreciation from Acquisition Date 8/1/04 to 12/31/08 in this case
2. Accum Depreciation from 1/1/09 to 12/31/15
3. Removed Accruals
4. Removed and calculated separately the entries for the Positive PAA Amortization
5. Recalculated for the Interest Assets added into the 2008 rate case that was reversed in 2009 and never re-entered

Liberty 000129

0018

PUC Docket No. 46642  
Ex. A to Silverleaf's 7-10-2017 Interim Appeal of Order No. 7

Net impact to depreciation expense as of 12/31/15 is 2.33M (3.80M calculated minus the consolidated 1.46M).

Hopefully you are still breathing.

I have recalculated the annual report and it indicated that we would be reporting a 14% ROR (if I did it correctly).

If you would like to review, please see the attached files. When looking at the file SL Asset detail for 2008 RC.xlsx please look at the green tabs for v2.

I will put this on hold until you return and we can discuss with the team.

Let me know if you have any questions.

Thanks,  
Alysia

Alysia Maya | Liberty Utilities (Arizona) | Rates Analyst  
P: 623-298-3773 | C: 623-224-7550 | E: [Alysia.Maya@libertyutilities.com](mailto:Alysia.Maya@libertyutilities.com)  
12725 W. Indian School Rd, Avondale, AZ 85392

<SL Asset detail for 2008 RC.xls.xlsx>

<SL TX 2015 Class\_B\_Water-Sewer\_Annual\_Report\_2015\_and\_later.xls>

PUC Docket No. 46642  
Ex. A to Silverleaf's 7-10-2017 Interim Appeal of Order No. 7

**Crystal Greene**

---

**From:** Luisa Read  
**Sent:** Wednesday, September 28, 2016 11:42 AM  
**To:** Garfield Neufville; Markus Mueller; Sam Zawawi  
**Cc:** Crystal Greene; Mini Samuel; Ronald Rodil  
**Subject:** FW: ASSET UPLOAD IN TEST ENVIRONMENT

Garfield/Markus/Sam,

Are you able to get back to us on this. There is some urgency to this as we are approaching quarter end and would like this done before we close.

Thank you  
Luisa

Luisa Read | Liberty Algonquin Business Services | Vice President, Finance  
P: 905-465-4505 | C: 416-988-0071 | E: [Luisa.Read@libertyutilities.com](mailto:Luisa.Read@libertyutilities.com)

**From:** Crystal Greene  
**Sent:** Wednesday, September 28, 2016 2:27 PM  
**To:** Mini Samuel <[Mini.Samuel@libertyutilities.com](mailto:Mini.Samuel@libertyutilities.com)>; Luisa Read <[Luisa.Read@libertyutilities.com](mailto:Luisa.Read@libertyutilities.com)>  
**Cc:** Ronald Rodil <[Ronald.Rodil@libertyutilities.com](mailto:Ronald.Rodil@libertyutilities.com)>  
**Subject:** FW: ASSET UPLOAD IN TEST ENVIRONMENT

Hi Mini & Luisa,

We are getting the asset upload ready for the Silverleaf companies. Eric Joplin needs access to the "special" test environment so we can test the upload. We are worried about the depreciation catching up from 2005 and feel that we really need to test it before we import it in to FA within Central.

I will greatly appreciate any help you can provide on pushing this along.

We are hoping we can test and upload on Monday or Tuesday giving us enough time to do additional journal entries in the Regulatory and Consolidated companies. I will touch base with you on Tuesday or Wednesday so we can work on it.

Best Regards,

Crystal Greene | Liberty Utilities (Arizona) | Senior Accounting Manager  
P: 623-298-3739 | C: 623-208-2802 | E: [Crystal.Greene@libertyutilities.com](mailto:Crystal.Greene@libertyutilities.com)

**From:** Eric Joplin  
**Sent:** Wednesday, September 28, 2016 11:22 AM  
**To:** Crystal Greene <[Crystal.Greene@libertyutilities.com](mailto:Crystal.Greene@libertyutilities.com)>  
**Subject:** FW: ASSET UPLOAD IN TEST ENVIRONMENT

Eric Joplin | Liberty Utilities (Arizona) | Supervisor, Finance  
P: 623-298-3767 | C: 623-238-5129 | E: [eric.joplin@libertyutilities.com](mailto:eric.joplin@libertyutilities.com)

**From:** Eric Joplin  
**Sent:** Friday, September 16, 2016 8:33 AM

PUC Docket No. 46642  
Ex. A to Silverleaf's 7-10-2017 Interim Appeal of Order No. 7

**To:** Markus Mueller  
**Cc:** Ronald Rodil; Miles Bollinas  
**Subject:** RE: ASSET UPLAOD IN TEST ENVIRONMENT

I just wanted to follow up and get a status update on this?

Eric Joplin | Liberty Utilities (Arizona) | Supervisor, Finance  
P: 623-298-3767 | C: 623-238-5129 | E: [eric.joplin@libertyutilities.com](mailto:eric.joplin@libertyutilities.com)

---

**From:** Eric Joplin  
**Sent:** Thursday, September 15, 2016 12:07 PM  
**To:** Markus Mueller  
**Cc:** Ronald Rodil; Miles Bollinas  
**Subject:** RE: ASSET UPLAOD IN TEST ENVIRONMENT

Thanks for checking on this Markus. How do you guys want to handle?

Eric Joplin | Liberty Utilities (Arizona) | Supervisor, Finance  
P: 623-298-3767 | C: 623-238-5129 | E: [eric.joplin@libertyutilities.com](mailto:eric.joplin@libertyutilities.com)

---

**From:** Markus Mueller  
**Sent:** Wednesday, September 14, 2016 6:49 PM  
**To:** Eric Joplin  
**Cc:** Ronald Rodil; Miles Bollinas  
**Subject:** RE: ASSET UPLAOD IN TEST ENVIRONMENT

Ronald\Eric

I did find a smartconnect server in LU DR1. We do not have a client server so if we need to get users access to the admin server or build a client server. If this is limited and temporary I would say we just give access to the server. We will need approval from Sam\Garfield on this.

Markus Mueller | Liberty Algonquin Business Services (California) | Sr. Network Engineer  
P: 530-546-1706 | C: 530-214-9046 | E: [Markus.Mueller@libertyutilities.com](mailto:Markus.Mueller@libertyutilities.com)

---

**From:** Eric Joplin  
**Sent:** Wednesday, September 14, 2016 11:19 AM  
**To:** Markus Mueller <[Markus.Mueller@libertyutilities.com](mailto:Markus.Mueller@libertyutilities.com)>  
**Cc:** Ronald Rodil <[Ronald.Rodil@libertyutilities.com](mailto:Ronald.Rodil@libertyutilities.com)>; Miles Bollinas <[Miles.Bollinas@libertyutilities.com](mailto:Miles.Bollinas@libertyutilities.com)>  
**Subject:** RE: ASSET UPLAOD IN TEST ENVIRONMENT

Couple days or so?

Eric Joplin | Liberty Utilities (Arizona) | Supervisor, Finance  
P: 623-298-3767 | C: 623-238-5129 | E: [eric.joplin@libertyutilities.com](mailto:eric.joplin@libertyutilities.com)

---

**From:** Markus Mueller  
**Sent:** Wednesday, September 14, 2016 11:06 AM  
**To:** Ronald Rodil; Eric Joplin  
**Cc:** Miles Bollinas  
**Subject:** RE: ASSET UPLAOD IN TEST ENVIRONMENT

I think there is still the one in DR. I can take a look. How urgent is this request?

Markus Mueller | Liberty Algonquin Business Services Sr. Network Engineer  
P: 530-546-1706 | C: 530-214-9046 | E: [Markus.Mueller@libertyutilities.com](mailto:Markus.Mueller@libertyutilities.com)

---

**From:** Ronald Rodil  
**Sent:** Wednesday, September 14, 2016 10:57 AM

PUC Docket No. 46642  
Ex. A to Silverleaf's 7-10-2017 Interim Appeal of Order No. 7

To: Eric Joplin <[Eric.Joplin@libertyutilities.com](mailto:Eric.Joplin@libertyutilities.com)>; Markus Mueller <[Markus.Mueller@libertyutilities.com](mailto:Markus.Mueller@libertyutilities.com)>  
Cc: Miles Bolinas <[Miles.Bolinas@libertyutilities.com](mailto:Miles.Bolinas@libertyutilities.com)>  
Subject: RE: ASSET UPLAOD IN TEST ENVIRONMENT

Hi Markus,

Per request of Eric Joplin of Arizona, they need to have SmartConnect environment that can connect to DR1 test environment reason as stated below.

Do we still have the DR1- SmartConnect Server (10.89.71.34 - DR1 SmartConnect LU) available? If so, how can we proceed?

If not can we build a DR1-SmartConnect? I can do the installation and setup.

Ronald Rodil | Liberty Algonquin Business Services | Financial Application Technical Analyst  
P: 905-465-6759 | C: 289-218-7977 | E: [Ronald.Rodil@libertyutilities.com](mailto:Ronald.Rodil@libertyutilities.com)

From: Eric Joplin  
Sent: Wednesday, September 14, 2016 1:46 PM  
To: Ronald Rodil  
Subject: RE: ASSET UPLAOD IN TEST ENVIRONMENT

Thanks Ronald. Would it be possible to create a new one? I'm not sure what all goes into setting one up.

Eric Joplin | Liberty Utilities (Arizona) | Supervisor, Finance  
P: 623-298-3767 | C: 623-238-5129 | E: [eric.joplin@libertyutilities.com](mailto:eric.joplin@libertyutilities.com)

From: Ronald Rodil  
Sent: Wednesday, September 14, 2016 10:45 AM  
To: Eric Joplin  
Subject: RE: ASSET UPLAOD IN TEST ENVIRONMENT

Hi Eric,

Currently there is no test environment for SmartConnect that can connect to one of the test GP database. The one we used for GP DR1 and DR2 during the upgrade has been removed.

Ronald Rodil | Liberty Algonquin Business Services | Financial Application Technical Analyst  
P: 905-465-6759 | C: 289-218-7977 | E: [Ronald.Rodil@libertyutilities.com](mailto:Ronald.Rodil@libertyutilities.com)

From: Eric Joplin  
Sent: Wednesday, September 14, 2016 12:43 PM  
To: Ronald Rodil  
Subject: ASSET UPLAOD IN TEST ENVIRONMENT

Ronald,

Would it be possible to have an asset upload that we could use in the test environment? We have a decent size acquisition fixed asset entry that we will have to make and we wanted to do it in the test environment to ensure it is done correctly before we upload it into the production version and muddy everything up.

Eric Joplin | Liberty Utilities (Arizona) | Supervisor, Finance  
P: 623-298-3767 | C: 623-238-5129 | E: [eric.joplin@libertyutilities.com](mailto:eric.joplin@libertyutilities.com)  
12725 W. Indian School Rd., D101, Avondale, AZ 85392

**PUC Docket No. 46642**  
**Ex. A to Silverleaf's 7-10-2017 Interim Appeal of Order No. 7**

**RESPONSE TO REQUEST FOR INFORMATION**

**SILVERLEAF RFI 2-28** Confirm that there were no email communications discussing the preparation and filing of the 2015 Annual Report between the dates of September 12, 2016 (Bates #117) and October 3, 2016 (Bates# 116). If there are responsive emails between these dates, please provide.

**RESPONSE:** Yes, to best of Liberty Silverleaf's knowledge.

Prepared by: Alysia Maya, Rates Analyst

Sponsored by: Crystal Greene, Sr Manager, Financial Planning and Analysis

# **EXHIBIT WS-3**



Comparison of 2016 & 2017 Annual Report to Application

	Total Water and Sewer									
	2016 Annual Report	2017 Annual Report	Application			Variance 2017-App				
			Test Year	K&M	Adj Test Year					
Revenue	\$ 4,714,074	\$ 4,196,086	\$ 4,049,708	\$ -	\$ 4,049,708	\$ 146,378				
Operating Expenses										
O&M Salaried Labor	\$ 557,168	\$ 544,659	\$ -	\$ -	\$ -	\$ 544,659	\$ -			
Materials & Supplies			\$ 66,893	\$ -	\$ 66,893	\$ (66,893)	\$ 66,893			
Contract Work			\$ 1,777,703	\$ 41,721	\$ 1,819,424	\$ (1,819,424)	\$ 1,519,424			
O&M Contract Labor	\$ 904,977	\$ 611,776	\$ -	\$ -	\$ -	\$ 611,776	\$ -			
Operating/Maint Supplies	\$ 62,752	\$ 66,893	\$ -	\$ -	\$ -	\$ 66,893	\$ -			
Purchased WW Treatment			\$ 241,061	\$ -	\$ 241,061	\$ (241,061)	\$ -			
Purchased Water	\$ 295,125	\$ 121,222	\$ 80,158	\$ -	\$ 80,158	\$ 41,064	\$ 3,560	\$ 3,560	\$ 117,662	
Purchased Power	\$ 192,626	\$ 185,794	\$ 188,714	\$ -	\$ 188,714	\$ (2,920)	\$ 188,714			
Sludge Removal Expense			\$ 35,253	\$ -	\$ 35,253	\$ (35,253)	\$ 35,253			
Testing Expense	\$ 34,251	\$ 53,566	\$ -	\$ -	\$ -	\$ 53,566	\$ -			
Chemicals	\$ 75,429	\$ 71,244	\$ 71,244	\$ -	\$ 71,244	\$ -	\$ 71,244			
Insurance		\$ 15,531	\$ 15,531	\$ -	\$ 15,531	\$ -	\$ 15,531			
Transportation	\$ 28,793	\$ 35,582	\$ 35,581	\$ -	\$ 35,581	\$ 1	\$ 35,581			
Rental of Equipment			\$ 1,733	\$ -	\$ 1,733	\$ (1,733)	\$ 1,733			
Rental of Building/Real Prop			\$ 29,599	\$ -	\$ 29,599	\$ (29,599)	\$ 29,599			
Contract Acctg, Legal, Mgmt	\$ 1,800	\$ 797,380	\$ -	\$ -	\$ -	\$ 797,380	\$ -			
Bad Debt Expense			\$ 1,406	\$ -	\$ 1,406	\$ (1,406)	\$ 1,406			
Amortization - Rate Case Expense	\$ 56,058	\$ 19,036	\$ -	\$ -	\$ -	\$ 19,036	\$ -			
Depreciation Expense	\$ 642,581	\$ 750,006	\$ 1,175,666	\$ -	\$ 1,175,666	\$ (423,660)	\$ 750,006			
Regulatory Expense (Rate Case)			\$ -	\$ 199,422	\$ 199,422	\$ (199,422)	\$ 199,422			
Regulatory Expense (Other)			\$ 91,443	\$ (91,443)	\$ -	\$ -	\$ -			
Other Misc Expense	\$ 144,161	\$ 115,802	\$ 8,737	\$ -	\$ 8,737	\$ 108,065	\$ 8,737			
Subtotal excluding taxes	\$ 2,995,721	\$ 3,389,491	\$ 3,820,722	\$ 149,700	\$ 3,970,422	\$ (580,931)	\$ 2,927,103			
Taxes										
Federal Income Taxes	\$ 423,251	\$ 274,751	\$ -	\$ 211,901	\$ 211,901	\$ 62,850	\$ -			
State Franchise Taxes/Reg Assess			\$ -	\$ -	\$ -	\$ -	\$ -			
All Other Taxes	\$ 97,263	\$ 80,481	\$ 80,481	\$ 153,525	\$ 234,006	\$ (153,525)	\$ -			
Total Expenses	\$ 3,516,235	\$ 3,744,723	\$ 3,901,203	\$ 515,126	\$ 4,416,329	\$ (671,606)				
Net Operating Income	\$ 697,839	\$ 451,363	\$ 148,505	\$ (515,126)	\$ (366,621)	\$ 817,984				
Non-Operating Income	\$ 88,736	\$ 59,392				\$ 59,392				
Non-Operating Deductions:										
Other										
Interest	\$ 538	\$ 502				\$ 502				
Net Income	\$ 786,037	\$ 510,253	\$ 148,505	\$ (515,126)	\$ (366,621)	\$ 876,874				

Comparison of 2016 & 2017 Annual Report to Application - Water

	Water				
	2016 Annual Report	2017 Annual Report	Test Year	Application K&M	Adj. Test Year Variance
Revenue	\$ 1,888,950	\$ 1,876,864	\$ 1,761,898	\$ 1,761,898	\$ 114,966
Operating Expenses					
O&M Salaried Labor	\$ 361,812	\$ 372,578	\$ -	\$ -	\$ 372,578
Materials & Supplies			\$ 38,308	\$ 38,308	\$ (38,308)
Contract Work			\$ 1,067,731	\$ 27,464	\$ 1,095,195
O&M Contract Labor	\$ 492,775	\$ 209,946			\$ 209,946
Operating/Maint Supplies	\$ 35,322	\$ 38,308			\$ 38,308
Purchased WW Treatment					\$ -
Purchased Water	\$ 3,401	\$ 3,560	\$ 80,158	\$ 80,158	\$ (76,598)
Purchased Power	\$ 129,940	\$ 122,084	\$ 124,895	\$ 124,895	\$ (2,811)
Sludge Removal expense					\$ -
Testing Expense	\$ 7,664	\$ 20,190			\$ 20,190
Chemicals	\$ 56,762	\$ 53,788	\$ 53,788	\$ 53,788	\$ -
Insurance		\$ 8,878	\$ 8,878	\$ 8,878	\$ -
Transportation	\$ 23,596	\$ 28,420	\$ 28,419	\$ 28,419	\$ 1
Rental of Equipment			\$ 788	\$ 788	\$ (788)
Rental of Building/Real Prop			\$ 20,753	\$ 20,753	\$ (20,753)
Contract Acctg, Legal, Mgmt	\$ 1,800	\$ 467,649			\$ 467,649
Bad Debt Expense			\$ 1,203	\$ 1,203	\$ (1,203)
Amortization - Rate Case Expense	\$ 56,058	\$ 19,036			\$ 19,036
Depreciation Expense	\$ 312,828	\$ 411,623	\$ 589,740	\$ 589,740	\$ (178,117)
Regulatory Expense (Rate Case)				\$ 124,295	\$ (124,295)
Regulatory Expense (Other)			\$ 91,443	\$ (91,443)	\$ -
Other Misc Expense	\$ 125,464	\$ 101,378	\$ 3,416	\$ 3,416	\$ 97,962
Subtotal excluding taxes	\$ 1,607,422	\$ 1,857,438	\$ 2,109,520	\$ 60,316	\$ 2,169,836
Taxes:					
Federal Income Taxes	\$ 108,776	\$ 9,734		\$ 124,732	\$ 124,732
State Franchise Taxes/Reg Assess.					\$ -
All Other Taxes	\$ 57,333	\$ 47,051	\$ 40,040	\$ 90,147	\$ 130,187
Total Expenses	\$ 1,773,531	\$ 1,914,223	\$ 2,149,560	\$ 275,195	\$ 2,424,755
Net Operating Income	\$ 115,419	\$ (37,359)	\$ (387,662)	\$ (275,195)	\$ (662,857)
Non Operating Income	\$ 87,131	\$ 55,938			\$ 22,114
Non-Operating Deductions:					
Other					
Interest	\$ 538	\$ 502			\$ 502
Net Income	\$ 202,012	\$ 18,077	\$ (387,662)	\$ (275,195)	\$ (640,743)

Comparison of 2016 & 2017 Annual Report to Application - Sewer

	2016 Annual Report	2017 Annual Report	Sewer			
			Application Test Year	K&M	Adj. Test Year	Variance
Revenue	\$ 2,325,125	\$ 2,319,222	\$ 2,287,810		\$ 2,287,810	\$ 31,412
Operating Expenses:						
O&M Salaried Labor	\$ 195,355	\$ 172,081			\$ -	\$ 172,081
Materials & Supplies			\$ 28,585		\$ 28,585	\$ (28,585)
Contract Work			\$ 709,972	\$ 14,257	\$ 724,229	\$ (724,229)
O&M Contract Labor	\$ 412,201	\$ 401,830			\$ -	\$ 401,830
Operating/Maint Supplies	\$ 27,430	\$ 28,585			\$ -	\$ 28,585
Purchased WW Treatment			\$ 241,061		\$ 241,061	\$ (241,061)
Purchased Water	\$ 291,724	\$ 117,662			\$ -	\$ 117,662
Purchased Power	\$ 62,686	\$ 63,710	\$ 63,819		\$ 63,819	\$ (109)
Sludge Removal expense			\$ 35,253		\$ 35,253	\$ (35,253)
Testing Expense	\$ 26,587	\$ 33,376			\$ -	\$ 33,376
Chemicals	\$ 18,667	\$ 17,456	\$ 17,456		\$ 17,456	\$ -
Insurance		\$ 6,653	\$ 6,653		\$ 6,653	\$ -
Transportation	\$ 5,196	\$ 7,162	\$ 7,162		\$ 7,162	\$ -
Rental of Equipment			\$ 945		\$ 945	\$ (945)
Rental of Building/Real Prop			\$ 8,846		\$ 8,846	\$ (8,846)
Contract Acctg, Legal, Mgmt		\$ 329,731			\$ -	\$ 329,731
Bad Debt Expense			\$ 203		\$ 203	\$ (203)
Amortization - Rate Case Expense					\$ -	\$ -
Depreciation Expense	\$ 329,753	\$ 338,383	\$ 585,926		\$ 585,926	\$ (247,543)
Regulatory Expense (Rate Case)				\$ 75,127	\$ 75,127	\$ (75,127)
Regulatory Expense (Other)					\$ -	\$ -
Other Misc Expense	\$ 18,697	\$ 15,424	\$ 5,321		\$ 5,321	\$ 10,103
Subtotal excluding taxes	\$ 1,388,296	\$ 1,532,053	\$ 1,711,202	\$ 89,384	\$ 1,800,586	\$ (268,533)
Taxes						
Federal Income Taxes	\$ 314,476	\$ 265,017		\$ 87,169	\$ 87,169	\$ 177,848
State Franchise Taxes/Reg Assess.					\$ -	\$ -
All Other Taxes	\$ 39,930	\$ 33,430	\$ 40,441	\$ 63,378	\$ 103,819	\$ (70,389)
Total Expenses	\$ 1,742,702	\$ 1,830,500	\$ 1,751,643	\$ 239,931	\$ 1,991,574	\$ (161,074)
Net Operating Income	\$ 582,423	\$ 488,722	\$ 536,167	\$ (239,931)	\$ 296,236	\$ 192,486
Non-Operating Income	\$ 1,605	\$ 3,454				\$ 3,454
Non-Operating Deductions:						
Other						\$ -
Interest						\$ -
Net Income	\$ 584,028	\$ 492,176	\$ 536,167	\$ (239,931)	\$ 296,236	\$ 195,940

# **EXHIBIT WS-4**

**Standard Exhibit 4**  
**Statement of Combined Water/Sewer Revenues and Expenses - Historical Forecast (1)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenues</b>													
Utility Services/Sales	\$ 2,371,270	\$ 2,483,721	\$ 2,408,510	\$ 2,791,541	\$ 4,349,161	\$ 4,375,16	\$ 4,305,346	\$ 4,151,125	\$ 4,159,233	\$ 4,221,675	\$ 4,196,014	\$ 4,027,592	\$ 3,371,850
Fees (all reconnection, etc.)	41,210	46,194	31,269	33,472	35,753	23,170	-	7,595	17,386	-	-	-	-
Other	5,097	-	-	-	-	-	-	12,520	-	15,637	18,060	22,114	22,124
<b>Total Revenues</b>	<b>2,417,577</b>	<b>2,529,915</b>	<b>2,439,779</b>	<b>2,825,013</b>	<b>4,384,914</b>	<b>4,398,336</b>	<b>4,305,346</b>	<b>4,171,240</b>	<b>4,225,619</b>	<b>4,243,312</b>	<b>4,214,074</b>	<b>4,049,706</b>	<b>3,393,964</b>
<b>Revenue Requirements</b>													
Salaries & Wages	\$ 434,176	\$ 444,335	\$ 1,147,953	\$ 1,045,797	\$ 1,036,919	\$ 1,189,614	\$ 1,111,296	\$ 1,198,317	\$ 1,446,680	\$ 552,339	\$ 557,167	\$ 1,777,703	\$ 1,819,424
Contract Labor	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchased Water	-	-	-	19,475	31,651	42,198	37,907	33,203	30,075	6,519	295,125	356,472	356,472
Chemicals	15,004	14,371	16,642	29,639	26,970	35,106	17,123	16,609	41,419	69,978	75,429	71,264	71,264
Tearing Expense	-	-	-	-	-	-	-	-	-	30,863	34,751	-	-
Utilities (contract)	208,846	171,254	204,818	185,876	195,631	212,159	205,062	196,371	195,394	200,743	192,826	188,714	188,714
Reparations/Supplies	445,344	481,158	47,584	60,757	79,032	82,696	231,486	261,779	52,548	50,271	67,752	68,626	68,626
Office Expenses	22,807	32,130	47,451	65,568	100,098	78,356	142,025	102,152	18,179	41,196	-	-	-
Professional Fees (Accounting, Legal)	77	8,619	88,007	179,419	68,618	752	5,338	78,930	404,517	404,517	1,800	-	-
Insurance	29,251	28,197	47,615	30,258	10,950	27,180	33,445	41,885	21,826	14,006	-	15,531	15,531
Gas Cost Expense	-	-	-	-	-	-	-	-	-	49,704	56,058	199,422	199,422
Miscellaneous	135,952	8,998	46,937	93,138	150,706	257,441	435,701	301,200	257,866	362,691	144,151	8,737	8,737
Depreciation & Amortization	242,545	109,648	319,647	-	-	-	-	-	-	589,927	642,581	1,175,666	1,175,666
Federal Income Taxes	122,086	53,214	49,567	52,538	62,177	62,177	77,641	68,643	82,505	494,716	423,752	211,901	211,901
Regulatory Expenses	16,899	-	-	-	12,588	26,446	6,315	35,076	46,845	87,502	97,263	80,481	234,006
Other	4,250	4,011	-	-	-	-	-	-	-	-	-	91,443	91,443
<b>Statistical Revenue Requirements</b>	<b>1,777,227</b>	<b>1,555,543</b>	<b>2,090,020</b>	<b>1,768,806</b>	<b>1,795,812</b>	<b>2,009,063</b>	<b>2,323,478</b>	<b>2,255,749</b>	<b>2,432,378</b>	<b>3,304,915</b>	<b>3,516,233</b>	<b>3,865,622</b>	<b>4,416,329</b>
<b>Less: Other Revenue</b>	<b>47,807</b>	<b>46,304</b>	<b>41,369</b>	<b>21,427</b>	<b>35,753</b>	<b>23,170</b>	<b>20,115</b>	<b>20,115</b>	<b>17,386</b>	<b>-</b>	<b>48,198</b>	<b>-</b>	<b>22,114</b>
<b>Total Revenue Requirements</b>	<b>1,729,420</b>	<b>1,509,239</b>	<b>2,048,651</b>	<b>1,790,233</b>	<b>1,831,565</b>	<b>2,032,233</b>	<b>2,343,593</b>	<b>2,275,864</b>	<b>2,449,764</b>	<b>3,325,030</b>	<b>3,564,431</b>	<b>3,885,732</b>	<b>4,394,215</b>
<b>Surplus/Deficit</b>	<b>688,157</b>	<b>1,020,676</b>	<b>391,128</b>	<b>1,034,780</b>	<b>2,593,349</b>	<b>2,396,073</b>	<b>1,981,852</b>	<b>1,923,046</b>	<b>1,800,637</b>	<b>918,340</b>	<b>767,979</b>	<b>161,970</b>	<b>977,635</b>

(1) Computed on a monthly basis, Annual Report to the Commission

**Standard Exhibit 4**  
**Statement of Water Revenues and Expenses - Historical Forecast (1)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenues</b>													
Utility Services/Sales	\$ 1,246,555	\$ 1,153,479	\$ 1,227,219	\$ 1,395,562	\$ 2,097,628	\$ 2,051,623	\$ 1,921,477	\$ 1,936,408	\$ 1,856,283	\$ 1,859,033	\$ 1,870,889	\$ 1,739,783	\$ 2,978,111
Fees (all reconnection, etc.)	40,622	34,209	26,308	23,401	33,263	33,170	-	7,595	17,355	-	-	-	-
Other	5,097	-	-	-	-	-	-	14,520	-	14,709	16,060	22,114	22,114
<b>Total Revenues</b>	<b>1,292,274</b>	<b>1,187,688</b>	<b>1,253,527</b>	<b>1,418,963</b>	<b>2,130,891</b>	<b>2,084,793</b>	<b>1,921,477</b>	<b>1,958,515</b>	<b>1,873,639</b>	<b>1,874,642</b>	<b>1,886,949</b>	<b>1,761,897</b>	<b>3,000,225</b>
<b>Revenue Requirements</b>													
Salaries & Wages	\$ 346,423	\$ 351,645	\$ 574,521	\$ 610,370	\$ 557,376	\$ 624,552	\$ 554,654	\$ 606,137	\$ 762,105	\$ 124,557	\$ 492,775	\$ 1,087,731	\$ 1,095,196
Contract Labor	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchased Water	-	-	-	1,901	3,389	1,424	377	382	382	6,519	3,401	80,158	80,158
Chemicals	10,761	9,608	9,795	8,549	8,792	12,525	10,412	9,581	31,232	57,083	56,762	53,786	53,786
Tearing Expense	-	-	-	-	-	-	-	-	-	7,543	7,664	-	-
Utilities (contract)	136,443	109,245	128,822	118,880	127,306	149,375	131,734	134,652	137,595	144,023	129,540	124,895	124,895
Reparations/Supplies	161,714	177,912	32,493	50,096	55,156	52,964	96,949	155,173	35,143	30,323	35,322	39,096	39,096
Office Expenses	16,470	19,315	41,161	57,569	70,939	65,225	91,565	59,897	17,092	20,641	-	-	-
Professional Fees (Accounting, Legal)	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	22,611	20,748	32,800	20,153	22,444	19,885	26,271	34,235	25,825	25,123	1,800	8,878	8,878
Rate Case Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortization	104,157	3,910	26,347	58,616	79,475	120,635	227,066	166,255	103,652	280,515	312,828	589,740	589,740
Federal Income Taxes	201,762	154,824	306,647	-	-	-	-	-	-	-	-	-	-

Property and Taxes	79,160	35,839	30,280	30,594	39,696	39,612	49,939	44,142	51,129	54,487	57,313	40,040	130,187
Regulation Expenses	3,859	-	-	-	12,598	26,446	3,835	35,070	46,885	-	-	91,443	-
Other	4,250	4,013	-	-	-	-	-	-	-	-	-	21,956	21,956
Subtotal Revenue Requirements	1,086,751	872,840	1,268,909	1,064,816	1,024,840	1,117,729	1,060,040	1,245,513	1,324,989	1,617,901	1,773,551	2,149,560	2,424,756
Less Other Revenue	46,719	34,209	26,308	73,401	41,785	23,170	-	20,115	17,355	-	86,593	-	22,114
Total Revenue Requirements	\$ 1,040,032	\$ 838,631	\$ 1,242,601	\$ 1,091,217	\$ 983,055	\$ 1,093,559	\$ 1,060,040	\$ 1,225,428	\$ 1,307,633	\$ 1,617,901	\$ 1,860,144	\$ 2,149,560	\$ 2,402,642
Surplus / (Deficit)	251,242	799,057	19,927	372,550	3,139,319	985,715	721,438	698,587	586,005	242,032	187,951	(409,777)	575,469

1) This report is submitted pursuant to the Commission's request for information regarding the proposed rate of return for the Commission.

#### Standard Exhibit 4 Statement of Sewer Revenues and Expenses - Historical Forecast (1)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>													
Utility Services/Supplies	\$ 1,124,715	\$ 1,130,742	\$ 1,181,400	\$ 1,395,879	\$ 2,251,533	\$ 2,323,193	\$ 2,281,869	\$ 2,234,725	\$ 2,341,950	\$ 2,363,742	\$ 2,375,225	\$ 2,387,809	\$ 2,393,719
Regulation Expenses	1,088	31,985	4,961	71	2,468	-	-	-	30	4,928	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	1,125,803	1,162,727	1,186,361	1,396,050	2,254,001	2,323,193	2,281,869	2,234,725	2,341,980	2,368,670	2,375,175	2,387,809	2,393,719
<b>Expenses</b>													
Salaries & Wages	\$ 87,753	\$ 92,550	\$ 96,432	\$ 435,427	\$ 479,543	\$ 565,062	\$ 556,642	\$ 592,431	\$ 684,575	\$ 194,575	\$ 196,355	\$ 709,972	\$ 724,228
Contract Labor	-	-	17,574	22,397	30,227	41,821	31,529	32,821	79,698	418,075	412,201	709,972	724,228
Purchased Water	-	-	-	-	-	-	-	-	-	-	-	-	-
Chemicals	4,243	4,763	6,847	21,090	18,178	22,581	6,711	7,028	10,187	12,945	18,657	17,456	17,456
Testing Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Utilities (Electricity, Gas, etc.)	72,403	62,009	77,996	66,996	68,245	62,823	73,318	61,720	57,799	56,720	62,686	61,819	63,819
Materials and Supplies	283,600	307,246	10,091	10,061	21,876	29,732	134,717	106,086	17,765	19,748	27,430	29,530	29,530
Transportation	-	-	-	-	-	-	-	-	-	-	-	-	-
Office Expenses	6,367	12,815	6,190	8,905	20,158	13,130	48,460	42,255	1,087	20,556	5,196	7,162	7,162
Insurance	77	2,070	25,751	72,855	33,118	19	19	-	53,105	145,394	-	-	-
Depreciation & Amortization	7,640	7,640	14,815	20,705	8,462	7,295	1,274	7,049	3,637	5,043	-	6,653	6,653
Rate Case Expense	-	-	21,417	-	-	-	-	-	-	-	-	-	-
Miscellaneous	31,745	5,088	20,590	34,482	71,231	131,806	276,534	134,945	154,034	97,857	18,697	5,321	5,321
Regulation Expenses	90,783	156,874	-	-	-	-	-	-	-	369,391	314,476	-	87,169
Property Maintenance	42,926	17,569	15,687	21,944	22,933	22,565	27,721	24,222	31,376	33,415	39,930	40,441	103,819
Other	12,949	-	-	-	-	-	2,500	-	-	-	-	-	-
Subtotal Revenue Requirements	640,416	682,703	795,110	794,052	770,972	696,834	1,123,438	1,030,226	1,107,349	1,087,014	1,742,702	1,751,043	1,991,573
Less Other Revenue	1,088	11,985	4,961	71	2,468	-	-	-	30	-	-	-	-
Total Revenue Requirements	\$ 641,504	\$ 694,688	\$ 799,071	\$ 794,123	\$ 773,440	\$ 696,834	\$ 1,123,438	\$ 1,030,226	\$ 1,107,379	\$ 1,087,014	\$ 1,742,702	\$ 1,751,043	\$ 1,991,573
Surplus / (Deficit)	484,315	491,509	400,113	602,069	1,480,561	1,426,359	1,158,431	1,204,499	1,234,601	1,281,656	632,473	636,766	402,146

1) Complied from submitted Annual Reports to the ICCO and to the Commission.

# **EXHIBIT WS-5**

**RESPONSE TO REQUEST FOR INFORMATION**

**OPUC RFI 3-5**      Referencing Schedule W-II-3, please explain the conditions that existed in the Test Year which necessitated the purchase of \$76,597 in water at the Piney Shores system via the Emergency Water Supply Contract with the City of Conroe. Please indicate if these conditions are anticipated to persist beyond the Test Year.

**RESPONSE:**      The water expense in the test year referenced below was an emergency situation. We experienced a well failure at this location resulting in the need to completely redrill the well. It was necessary to utilize City of Conroe water supplies, via the emergency connection, during this timeframe. We do not anticipate that this condition will persist beyond the test year, aside from normal and routine maintenance which may require the well to be taken off-line.

Prepared by: Steve Ruppenthal, Manager, Operations

Sponsored by: Matthew Garlick, President, AZ/TX



# **EXHIBIT WS-6**

**RESPONSE TO REQUEST FOR INFORMATION**

**OPUC RFI 3-15** Please provide invoices for the Test Year supporting the requested \$235,250.40 in purchased wastewater treatment expense at the Hill Country Resort, \$5,095.62 at Holly Ranch, and \$715.45 at Piney Shores.

**RESPONSE:** The invoice support for the purchased wastewater amounts is available for review at the Tyler office located at 16623 FM 2493, Tyler, TX 75703, Monday through Friday 8:00 am – 3:00 pm CDT.

Prepared by: Leticia Washington, Manager, Rates and Regulatory Affairs

Sponsored by: Matthew Garlick, President, AZ/TX

# **EXHIBIT WS-7**

Capital Structures

Company	Debt	Equity	Total Capitalization	Debt %	Equity %	Approved ROE	Approval Year	Source
Aqua Illinois	\$ 171,616,563	\$ 46,143,649	\$ 217,760,212	72.5%	27.5%	9.60%	2018	2017 IL Commerce Commission Annual Report (p. 51)
Aqua America	\$ 2,007,753,000	\$ 825,065,000	\$ 2,832,818,000	70.9%	29.1%	n/a		2017 Company Annual Report (p. 17)
Aquazion Water Company of New Hampshire	\$ 13,500,000	\$ 6,227,565	\$ 19,727,565	69.1%	30.9%	9.60%		2017 NH Public Utilities Commission Annual Report (p. 17)
Missouri American Water	\$ 566,563,872	\$ 353,789,909	\$ 920,353,781	61.6%	38.4%			2016 MO PSC Annual Report (p. F-11)
EPICOR Water New Mexico	\$ 21,085,871	\$ 13,322,040	\$ 34,407,911	61.3%	38.7%			2016 NM Public Regulatory Commission Annual Report (p. 4)
Illinois American Water	\$ 444,912,995	\$ 330,096,701	\$ 775,009,696	57.4%	42.6%	9.79%	2016	2017 IL Commerce Commission Annual Report (p. 51)
EPICOR Water Arizona	\$ 231,595,395	\$ 185,405,801	\$ 417,001,196	55.5%	44.5%	9.5% / 9.7%	2015 (Water)/2017 (Sewer)	2016 AZ Commerce Commission Annual Report (p. 9)
American Water	\$ 6,498,000,000	\$ 5,385,000,000	\$ 11,883,000,000	54.7%	45.3%			2017 Company Annual Report (p. 98)
Fortis Utilities	\$ 10,550,000	\$ 12,490,551	\$ 22,640,551	46.6%	53.4%	10.50%	2015	2017 PUCT Annual Report/2015 Rate Application
Aqua Texas	\$ 104,428,052	\$ 105,126,766	\$ 209,554,818	49.8%	50.2%	12.00%	2004	2017 PUCT Annual Report/TCEQ Docket 2004-1170-UCR

# **EXHIBIT WS-8**

**4-Year Average of Water Consumption**

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>4-Yr Average</b>
Holly Ranch	121,396,137	121,386,900	123,479,192	110,323,000	119,146,307
Big Eddy	63,164,912	63,568,492	61,965,988	53,975,000	60,668,598
Piney Shores	24,870,065	20,277,000	17,245,000	6,799,000	17,297,766
Hill Country	24,564,827	24,291,062	25,660,245	19,248,000	23,441,034
Total	233,995,941	229,523,454	228,350,425	190,345,000	220,553,705

# **EXHIBIT WS-9**

**4-Year Average of Water Consumption**

	2014	2015	2016	2017	4-Yr Average
Holly Ranch	2,759,884	4,850,324	3,212,172	2,697,735	3,380,029
Big Eddy	23,604,900	27,043,100	15,290,300	22,503,537	22,110,459
Piney Shores	15,258,000	18,393,000	15,408,301	6,466,224	13,881,381
Hill Country	34,198,102	34,409,836	30,963,240	22,595,190	30,541,592
Total	75,820,886	84,696,260	64,874,013	54,262,686	69,913,461