



Filing Receipt

Received - 2021-07-16 01:30:52 PM
Control Number - 48819
ItemNumber - 220

**SOAH DOCKET NO. 473-20-1674.WS
PUC DOCKET NO. 48819**

**APPLICATION OF NORTHTOWN
ACRES WATER SUPPLY FOR
AUTHORITY TO CHANGE RATES**

**§
§
§**

**BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS**



**DIRECT TESTIMONY OF
KATHRYN EILAND
RATE REGULATION DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS
JULY 16, 2021**

TABLE OF CONTENTS

I. INTRODUCTION OF WITNESS	3
II. PURPOSE AND SCOPE OF TESTIMONY	4
III. BACKGROUND	6
IV. NORTHTOWN ACRES' REQUESTED REVENUE REQUIREMENT	9
V. ADJUSTMENTS TO THE REVENUE REQUIREMENT	11

ATTACHMENTS:

KE-1	Résumé
KE-2	List of Previous Testimony
KE-3	Staff Schedules
KE-4	Northtown Acres' Response to Staff 5-10
KE-5	Northtown Acres' Response to Staff 5-11
KE-6	Northtown Acres' Response to Staff 5-7
KE-7	Northtown Acres' Response to Staff 5-6
KE-8	Northtown Acres' Response to Staff 5-8
KE-9	Northtown Acres' Confidential Response to Staff 1-6
KE-10	Northtown Acres' Response to Staff 5-12
KE-11	Northtown Acres' Response to Staff 5-13
KE-12	Northtown Acres' Response to Staff 5-14
KE-13	Northtown Acres' Response to Staff 5-15

I. INTRODUCTION OF WITNESS

Q. Please state your name and business address.

A. My name is Kathryn Eiland. My business address is 1701 N. Congress Avenue, Austin, Texas 78711-3326.

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

A. I am employed by the Public Utility Commission of Texas (Commission) as a Financial Analyst in the Rate Regulation Division.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of the Commission Staff, whose duty it is to represent the public interest in proceedings related to the rates and services of retail public utilities.¹

Q. What are your principal responsibilities at the Commission?

A. I am responsible for reviewing the following matters: formal complaints; applications to obtain or amend a certificate of convenience and necessity (CCN), wherein I specifically review the financial and managerial capability of the applicant; sale, transfer, or merger applications; rate change request applications; rate change appeals; and stock transfer applications. I am also responsible for preparing testimony and exhibits in contested case matters involving investor-owned water and sewer retail public utilities and assisting with settlement negotiations in those matters.

¹ Tex. Water Code (TWC) § 13.002(a).

Q. Please state your educational background and professional experience.

A. I provide a summary of my educational background and professional experience at Attachment KE-1.

Q. Have you previously filed testimony before the Commission or the State Office of Administrative Hearings?

A. Yes. I provide a summary of my previously filed testimony in Attachment KE-2.

II. PURPOSE AND SCOPE OF TESTIMONY

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

A. The purpose of my testimony is to present a recommendation regarding the overall revenue requirement, net of my recommended accounting adjustments, for Northtown Acres Water Supply (Northtown Acres). My testimony also includes a recommendation on Northtown Acres proposed recovery of purchased water expenses and rate-case expenses. Staff witness Emily Sears recommends the overall rate of return for Northtown Acres. Staff witness Heidi Graham addresses the original cost of invested capital and accumulated depreciation, which is included in Northtown Acres' rate base. Ms. Graham also recommends the annual depreciation expense included in the cost of service as well as the recommended base water rates associated with Staff's recommended revenue requirements.

Q. What is the scope of your review?

A. I reviewed Northtown Acres' amended application,² Northtown Acres' direct testimony, Northtown Acres' responses to requests for information (RFIs), Mr. Mark Parker's Statement of Position, Mr. Frank Marx III's Statement of Position, and Mr. Timothy F. Barnebee's Statement of Position. My recommendation addresses the following issues

² Amended Application of Northtown Acres Water Supply for Authority to Change Rates (Dec. 16, 2020) (Amended Application).

from the Commission's *Preliminary Order* that was filed on January 21, 2020 in this case:

9. What revenue requirement will give the utility a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses while preserving the utility's financial integrity as required by TWC § 13.183(a)(1) and (2) and 16 Texas Administrative Code (TAC) § 24.43(a)?
11. What is the reasonable and necessary cost of providing service consistent with 16 TAC § 24.41?
12. What adjustments, if any, should be made to the utility's proposed test-year data in accordance with TWC § 13.185(d)(1) and 16 TAC § 24.41(b) and (c)(5)?
20. What is the reasonable and necessary working capital allowance for the utility under 16 TAC § 24.41(c)(2)(C)?
25. What are the utility's reasonable and necessary operations and maintenance expenses under 16 TAC § 24.41(b)(1)(A)?
26. What are the utility's reasonable and necessary administrative and general expenses?
28. Are any expenses, including, but not limited to, executive salaries, advertising expenses, rate-case expenses, legal expenses, penalties and interest on overdue taxes, criminal penalties or fines, and civil penalties or fines – unreasonable, unnecessary, or not in the public interest in violation of TWC § 13.185(h)(3) and 16 TAC § 24.41(b)(2)(1)?
35. What is the reasonable and necessary amount, if any, for assessment and taxes other than federal income taxes under 16 TAC § 24.41(b)(1)(C)?
36. What is the reasonable and necessary amount for the utility's federal income tax expense under TWC § 13.185(f) and 16 TAC § 24.41(b)(1)(D)?
44. What are the utility's expenses incurred in this rate proceeding that are just, reasonable, necessary, and in the public interest under 16 TAC § 24.44? Does that amount include any prospective rate-case expenses to be incurred after the Commission's final order? Should the utility be able to recover its reasonable and necessary rate-case expenses from ratepayers? If so, how should such expenses, if any, be recovered by the utility?

Q. What regulatory standards did you rely upon in your review of Northtown Acres' application?

A. I based my analysis on the required regulatory standards set forth in TWC § 13.183(a), which states:

In fixing the rates for water and sewer services, the regulatory authority shall fix its overall revenues at a level that will:

- (1) permit the utility a reasonable opportunity to earn a reasonable return on its invested capital used and useful in rendering service to the public over and above its reasonable and necessary operating expenses; and
- (2) preserve the financial integrity of the utility.

In addition, I analyzed Northtown Acres' request under 16 TAC § 24.41(b), relating to a utility's cost of rendering service. The Commission rule states, in part, the following:

§ 24.41. Cost of Service.

...

(b) Allowable expenses. Only those expenses that are reasonable and necessary to provide service to the ratepayers may be included in allowable expenses. In computing a utility's allowable expenses, only the utility's test year expenses as adjusted for known and measurable changes may be considered. A change in rates must be based on a test year as defined in §24.3(72) of this title (relating to Definitions of Terms).

Further, I rely upon the language in 16 TAC § 24.44, which addresses a utility's recovery of rate-case expenses incurred as a result of filing a rate-change application. The Commission rule states, in part, the following:

§ 24.44. Rate-case Expenses.

(a) Recovery of rate-case expenses. A utility may recover rate-case expenses, including attorney fees, incurred as a result of filing a rate-change application pursuant to TWC §13.187 or TWC §13.1871, only if the expenses are reasonable and necessary.

Q. If you do not address an issue or position in your testimony, should that be interpreted as you supporting Northtown Acres' position on that issue?

A. No. The fact that I do not address an issue in my testimony should not be construed as agreeing, endorsing, or consenting to any of Northtown Acres' positions.

III. BACKGROUND

Q. What is meant by the terms "revenue requirement" or "cost of service"?

A. The American Water Works Association's (AWWA's) manual, titled, *Principles of Water Rates, Fees and Charges*, states that "[r]evenue requirements are the summation of the operation, maintenance, and capital costs that a utility must recover during the time period for which rates will be in place."³ I use the terms "revenue requirement" and "cost of service" synonymously within my testimony.

Q. What is the utility method of determining revenue requirements?

A. The AWWA manual, titled, *Principles of Water Rates, Fees and Charges*, states the following regarding the utility-basis approach:

The utility-basis approach to measuring revenue requirements is typically mandated for investor-owned water utilities and mandated or permitted for government-owned utilities in jurisdictions where the utility is regulated by a utility commission or other similar regulatory body. The utility-basis approach for determining revenue requirements consist of O&M expenses, taxes or transfer payments, depreciation expense, and a "fair" return on rate base investment.⁴

Q. What Commission rules govern the cost of service for an investor-owned utility?

A. Under 16 TAC § 24.41(a), the Commission's rule explains that "[r]ates are based upon a utility's cost of rendering service." The Commission rule further states that "[t]he two components of cost of service are allowable expenses and return on invested capital."⁵ The allowable expenses are further expressed in the following equation for determining revenue requirement under the utility-basis approach:

$$RR = E + D + T + (RB \times ROR), \text{ where}$$

RR = Revenue Requirement
E = Operations and Maintenance Expense
D = Depreciation Expense
T = Taxes
RB = Rate Base

³ *M1 Principles of Water Rates, Fees and Charges* at 5 (6th Ed. 2012).

⁴ *Id.* at 12.

⁵ 16 TAC § 24.41(a).

ROR = Overall Rate of Return

To avoid over-recovery, if the utility collects “other revenues,” the revenue requirement may be reduced at the rate design phase. “Other revenues” include a variety of fees collected by the utility, such as tap fees, late fees, and reconnect fees. These “other revenues” represent costs already paid for by the customers. Therefore, it is appropriate to design rates using a revenue requirement that subtracts out these “other revenues,” so that customers are not subject to double payment.

Q. What expenses are appropriate to include in a utility’s revenue requirement?

A. In Texas, using the utility method, a company’s revenue requirement is determined by assessing its costs over a historical test year. The provisions of 16 TAC § 24.41(b) provide guidance as to those expenses that are allowable when assessing a utility’s cost of service. Specifically, the Commission rule states that only expenses that are reasonable and necessary to provide service to the ratepayers are allowable expenses. Further, only the utility’s historical test year expenses, as adjusted for known and measurable changes, may be considered.

Q. What is the definition of “known and measurable” expenses?

A. Known and measurable (K&M) expenses are defined in the Commission’s Standard Class A Rate Filing Package. Specifically, for an expense to be deemed known and measurable, it must be “[v]erifiable on the record as to amount and certainty of effectuation”⁶ and it must be “[r]easonably certain to occur within 12 months of the end of the test year.”⁷

Q. What is a test year?

A. A test year is defined under 16 TAC § 24.3(37) as “[t]he most recent 12-month period,

⁶ Instructions for Rate/Tariff Change, Class A Water/Sewer Utilities (Sep. 17, 2015).

⁷ *Id.*

beginning on the first day of a calendar or fiscal year quarter, for which operating data for a retail public utility are available.”

Q. What test year did you use to review Northtown Acres’ requested revenue requirement?

A. I used Northtown Acres’ requested test year, ending December 31, 2019,⁸ as identified in its amended rate change application.

IV. NORTHTOWN ACRES’ REQUESTED REVENUE REQUIREMENT

Q. What is Northtown Acres’ requested revenue requirements?

A. Northtown Acres requests a total water revenue requirement of \$292,425.⁹ Table 1 (below) provides a summary of Northtown Acres’ requested revenue requirement, as stated in the Application.

Table 1 – Requested Revenue Requirement

Account Name	Amount
Total Operation Expenses	\$ 213,840
Amortization and Depreciation	\$ 30,195
Taxes Other than Income	\$ 6,032
Federal Income Tax Expense	<u>\$ 7,866</u>
Total Expenses	\$ 257,933
Add: Requested Return	<u>\$ 38,084</u>
Total Revenue Requirement	\$ 296,017
Less: Other Revenues	<u>(\$3,592)</u>
Requested Revenue for Rate Design	\$ 292,425

⁸ Amended Application at 14.

⁹ *Id.*

Q. What revenue requirement are you recommending for Northtown Acres in this case?

A. I recommend a revenue requirement of \$121,517.¹⁰ This revenue requirement incorporates my recommended adjustments in addition to those identified by Staff witnesses Heidi Graham and Emily Sears.

Q. How did you calculate the above revenue requirement?

A. I determined the \$121,517 revenue requirement after accounting for my recommended disallowances for administrative and general expenses, operations and maintenance expenses, cash working capital, and taxes. My proposed adjustments to the revenue requirement are presented on the schedules in Attachment KE-3. The revenue requirement is presented in a series of five schedules as described below.

- Schedule I presents the revenue requirement or cost of service. The subsequent schedules provide details of specific components contained within Schedule I.
- Schedule II details the adjustments to operations and maintenance expense.
- Schedule III shows the calculation of invested capital.
- Schedule IV details taxes other than income taxes.
- Schedule V details the calculation of normalized federal income tax.

Q. Please describe the format of each schedule.

A. As to Schedules I-IV, the first column of each schedule presents December 31, 2019 historical test year amounts, as calculated by Northtown Acres. The second column reflects the proposed known and measurable changes, as requested by Northtown Acres. The third column provides the sum of the values in the first two columns, which represents Northtown Acres' requested revenue requirement. The fourth column presents my recommended adjustments to the Northtown Acres' calculated revenue requirement. The final column presents my proposed revenue requirement. Schedule V presents my recommended federal

¹⁰ Attachment KE-3.

income tax expense.

V. ADJUSTMENTS TO THE REVENUE REQUIREMENT

A. Materials, Supplies, Repairs, and Rental Expenses

Q. What did Northtown Acres claim for Materials, Supplies, Repairs, and Rental Expenses?

A. Northtown Acres claimed Materials, Supplies, Repairs, and Rental Expenses of \$17,284.¹¹

Q. What adjustments do you recommend to Materials, Supplies, Repairs, and Rental Expenses?

A. I recommend removing \$5,129 from the revenue requirement. I recommend removing \$2,400 that is included in this amount because Northtown Acres did not provide actual invoices to support these amounts. Additionally, Northtown Acres indicated in a RFI response that it is withdrawing the request to recover the expenses. Specifically, in Staff RFI 5-10, I requested that Northtown Acres identify the person or entity that performed the work or provided the service described in each invoice that was labeled "Estimate" in the top right hand corner on pages 180, 181, 186, 207, 210, 211, 213, 215, and 216. Northtown Acres responded as follows:

The estimated invoices are documentation of repairs of leaks performed by Roger Richardson, at times assisted by Daniel Cope. The repairs are repairs to customer service lines, which requires flushing, or repairs in excess of \$100 on the water distribution system. Northtown Acres withdraws the request for recovery of these expenses as they would be recovered either as a subset of Northtown Acres' known and measurable adjustment for contract labor expense or as a subset of rate base invested capital.¹²

¹¹ Amended Application at 14.

¹² Northtown Acres' Response to Commission Staff's Fifth Request for Information, Staff RFI 5-10 at 14 (Jun. 28, 2021) (Attachment KE-4).

1 In Staff 5-11, I requested that Northtown Acres provide the actual invoices that corresponded
2 to the nine invoices labeled as “Estimate.” Northtown Acres responded, “see response to
3 Staff 5-10.”¹³

4 Additionally, I recommend removing \$1,290 for four tires¹⁴ and \$1,439 for a storage
5 cabinet¹⁵ from the revenue requirement. These purchases are not recurring yearly expenses,
6 and therefore, should be normalized to better reflect the appropriate level of costs to include
7 in the annual revenue requirement. Therefore, these expenses were capitalized and added
8 to rate base so that Northtown Acres may recover annual depreciation expenses of \$288 for
9 the tires and \$430 for the cabinet in the revenue requirement. These additions to rate base
10 are identified in Staff’s Adjusted Depreciation Schedule presented by Ms. Graham.
11

12 **B. CONTRACT WORK**

13 **Q. What amount did Northtown Acres claim for Contract Work?**

14 A. Northtown Acres requested a known and measurable change for contract work in the amount
15 of \$78,000.¹⁶
16

17 **Q. Please describe the adjustments that you recommend to the Contract Work category** 18 **of expenses.**

19 A. I recommend removing the entire \$78,000 from Contract Work and reclassifying \$33,800 as
20 salaries under Employee Labor Expense. Roger and Sheroll Richardson stated that they do
21 not currently receive compensation for their services.¹⁷ For this reason, Northtown Acres
22 was not able to provide Federal Forms W-2 and W-3 to support wages that the two may have

¹³ *Id.* at Staff RFI 5-11 at 15 (Attachment KE-5).

¹⁴ Amended Application at 248.

¹⁵ *Id.* at 221.

¹⁶ *Id.* at 14.

¹⁷ Northtown Acres’ Response to Commission Staff’s Fifth Request for Information, Staff RFI 5-7 at 9(Attachment KE-6).

1 earned. Both Sheroll and Roger Richardson have performed the needed operations,
2 maintenance and repairs on the system for the last decade or more.¹⁸ Sheroll Richardson
3 has also performed the administrative functions of the utility including the billing and
4 bookkeeping.¹⁹ Northtown Acres requested a \$150 weekly salary for Sheroll Richardson
5 and a \$500 weekly salary for Roger Richardson.²⁰ I agree with Northtown Acres' proposal
6 for a yearly salary of \$7,800 for Sheroll Richardson and \$26,000 for Roger Richardson to
7 preserve the financial integrity of the utility.

8 The remaining amount of \$44,200 for Contract Work Expense is for a part-time contractor
9 to assist in the maintenance of the facilities and a part-time accountant to assist with the
10 administrative accounting and to ensure the proper recordation of ongoing utility investments
11 and expenses. The requested salary for the part-time contractor is \$600 per week (\$600 *
12 52 weeks = \$31,200).²¹ The requested salary for the part-time accountant is \$250 per week
13 (\$250* 52 weeks = \$13,000).²² Northtown Acres did not fill these positions within the test
14 year, nor have these positions been filled within 12 months of the end of the test year.
15 Therefore, the remaining expense for contract labor of \$44,200 should not be included in
16 Northtown Acres' requested revenue requirement because it is not a known and measurable
17 change.

18
19 **C. OFFICE SUPPLIES AND EXPENSES**

20 **Q. What did Northtown Acres claim for Office Supplies and Expenses?**

¹⁸ Direct Testimony of Sheroll Richardson at 7:13-15 (May 17, 2021).

¹⁹ *Id.* at 7:18-19.

²⁰ Northtown Acres' Response to Commission Staff's Fifth Request for Information, Staff RFI 5-6 at 8 (Jun. 28, 2021) (Attachment KE-7).

²¹ *Id.*, Staff RFI 5-8 at 10 (Attachment KE-8).

²² *Id.*

A. Northtown Acres requests recovery of Office Supplies and Expenses in the amount of \$4,444.²³

Q. Do you recommend any adjustments to the Office Supplies and Expenses?

A. Yes. I recommend removing \$527 from Office Supplies and Expenses. Northtown Acres provided invoices totaling \$189 for internet service from Rise Broadband that were in the name of the Richardsons' shaved ice truck business, Snobiz. Because this expense is not in the regulated utility's name and could result in an inappropriate subsidization of unregulated operations by ratepayers, it should not be allowed. Additionally, Northtown Acres provided proof of payment totaling \$338 for AT&T Data. No other information was provided to document what these charges represent or how the charges are reasonable and necessary for the provision of water utility service.

D. INSURANCE EXPENSES

Q. What did Northtown Acres include in its request for Insurance Expenses?

A. Northtown Acres requests recovery of Insurance Expense in the amount of \$4,208.²⁴

Q. What adjustments do you recommend to the Insurance Expense category?

A. I recommend removing \$1,359 from Insurance Expenses. Northtown Acres provided proof of payment for monthly expenses of \$128.48 for a Farm Bureau life insurance policy²⁵ and \$98.04 for monthly expenses related to a Symetra life insurance policy.²⁶ Northtown Acres' General Ledger labeled these transactions as health and long-term insurance of \$382.52 each month. Additionally, one of the bank statements submitted by Northtown

²³ Amended Application at 14.

²⁴ *Id.*

²⁵ *Id.* at 347.

²⁶ *Id.*

Acres provides a handwritten notation of \$155.64 for Blue Cross, \$98.04 for Symetra, and \$128.48 for Farm Bureau.²⁷ In Response to Staff RFI 1-6, Northtown Acres provided copies of invoices or other supporting documents for the insurance expense for the test year. Northtown responded with information on truck, backhoe, health, and life insurance. Specifically, regarding life insurance, Northtown Acres responded:

[REDACTED]

Sheroll Richardson is identified as the beneficiary on both of the life insurance policies.²⁹ I recommend an adjustment to remove the expenses associated with the Farm Bureau and Symetra life insurance policies because it is unreasonable and unnecessary to ask ratepayers to pay for life insurance for Roger Richardson and for which the beneficiary is his spouse. The expenses of the life insurance policies are not reasonable and necessary for the provision of water utility service and should not be borne by ratepayers. Also, there is nothing that requires Ms. Richardson to use the funds from the policy to cover costs associated with Northtown Acres.

E. REGULATORY EXPENSE (RATE-CASE EXPENSES)

Q. What amount does Northtown Acres claim for Regulatory Expenses (Rate Case)?

A. Northtown Acres requests Regulatory Expenses (Rate Case) of \$1,202 for the test year and a known and measurable change of \$4,000.³⁰ The sum produces a total request of \$5,202.

²⁷ *Id.* at 307.

²⁸ Northtown Acres' Confidential Response to Commission Staff's First Request for Information, Staff RFI 1-6 at 59 (Oct. 2, 2019) (Attachment KE-9).

²⁹ Northtown Acres' Response to Commission Staff's Fifth Request for Information, Staff RFI 5-12 at 16 (Attachment KE-10); Staff RFI 5-13 at 17 (Attachment KE-11).

³⁰ Amended Application at 14.

Q. What adjustments do you recommend to Regulatory Expenses (Rate Case)?

A. I recommend removing the entire \$5,202 from the revenue requirement. Northtown Acres did not support the \$1,202 incurred during the test year by providing invoices or other documentation. Similarly,, Northtown Acres did not support the known and measurable change amount of \$4,000, and in response to Staff 5-14, Northtown Acres stated that this amount is “intended to approximate annual regulatory expenses for professional assistance with reports and incremental rate proceedings going forward.”³¹ This type of estimate does not qualify as a known and measurable change. Further, because 16 TAC § 24.44, only allows for the recovery of rate-case expenses incurred as a result of filing a rate-change application pursuant to TWC § 13.187 or TWC § 13.1871, I am unable to recommend recovery of rate-case expenses “incremental rate proceedings.”

F. CASH WORKING CAPITAL

Q. What is cash working capital?

A. Cash working capital (CWC) is the amount of money that investors of the utility have provided to enable the utility to bridge the gap between the time when the expenses of rendering utility service are paid and the time when revenues for that service are collected from the utility’s customers. A lead-lag study may be performed to determine the correct amount of cash working capital. Additionally, a reasonable amount of cash working capital is allowed in a utility’s rate base and is set by Commission rule.

Q. What is your recommended cash working capital?

A. I recommend a cash working capital allowance of \$7,148, which is 1/8th of the total operations and maintenance expense, in accordance with 16 TAC § 24.41(c)(2)(D)(iii)(III) for Class C and D utilities. This adjusted amount is the result of the flow-through of my

³¹ Northtown Acres’ Response to Commission Staff’s Fifth Request for Information, Staff RFI 5-14 at 18 (Attachment KE-12).

recommended reductions in operations and maintenance expense.

G. TAXES

Q. Please describe the taxes that are included in Northtown Acres' cost of service?

A. A utility includes the following taxes in its requested cost of service: income-related taxes, such as federal income taxes; and non-revenue-related taxes, such as payroll taxes, property taxes, and franchise taxes.

Q. Please explain your adjustments to federal income taxes.

A. I calculated federal income tax expense using Tax Method One, which is based on the return calculation. Any adjustments to the utility's calculated return on investment therefore impact the federal income tax expense calculation. Staff witness Emily Sears recommends an overall rate of return equal to 6.51%, which is lower than Northtown Acres' requested rate of return. Applying this rate of return to Staff's recommended rate base results in a return amount of \$24,392. Using this return amount, I recommend a \$3,494 reduction to Northtown Acres' requested federal income taxes of \$7,866,³² which results in my recommended federal income tax expense of \$4,372. Schedule V presents this recommendation.

Q. Please explain your adjustments to taxes other than income.

A. Northtown Acres requested \$6,032 for taxes other than income taxes. This amount consists of a \$4,558 known and measurable change to the test year expense of \$1,474. In RFI Staff 5-15, I requested that Northtown Acres provide detailed statements and proof of payment for taxes other than income for the test year, as well as for the known and measurable changes. Northtown Acres responded that these amounts represent gross receipts taxes.³³ Northtown

³² Amended Application at 14.

³³ Northtown Acres' Response to Commission Staff's Fifth Request for Information, Staff RFI 5-15 at 19

Acres further responded that gross receipts taxes are not payable by sole proprietorships.³⁴ Because Northtown Acres does not remit payment for the gross receipts tax, I recommend removing the amount requested from the revenue requirement. It is not reasonable and necessary for Northtown Acres to recover an amount from ratepayers related to an expense that it will not incur.

Additionally, I calculated employment taxes of \$2,586 on the \$33,800 for the salaries of Sheroll and Roger Richardson that I reclassified from Contract Work Expense to Employee Labor Expense. The inclusion of my calculated employment tax amount results in my recommended adjustment to remove \$3,446 from taxes other than income rather than the full \$6,032.

H. PASS-THROUGH PROVISION AND EXPENSES

Q. Please define the term “pass-through provision.”

A. A pass-through provision is a tariff provision that allows a utility to recover certain costs the utility has no ability to control. These provisions include an equation used to calculate a separate pass-through rate that is charged to customers. The Commission rules that govern pass-through provisions are encompassed in 16 TAC § 24.25.

Q. What types of costs are typically recovered using a pass-through provision?

A. Typical costs recovered through a pass-through provision include charges to the utility for purchased water, as well as production and permit fees charged by groundwater conservation districts (GCD).

Q. Are costs recovered using a pass-through provision included in the cost of service?

A. No. The cost of service is used to determine a utility’s base rates. Pass-through rates are

(Attachment KE-13).

³⁴ *Id.*

separate from base rates. Therefore, costs recovered via a pass-through provision are not included in the cost of service used to determine a utility's base rates. Instead, increases to pass-through rates are approved as a minor tariff change under 16 TAC § 24.25(b)(2).

Q. Is Northtown Acres subject to any fees typically recovered using a pass-through provision?

A. Yes. Based on Schedule II-2(a) of the amended rate application, Northtown Acres purchases water from the City of Corsicana (City).

Q. How is Northtown Acres proposing to recover expenses for purchased water?

A. Northtown Acres proposed to include the purchased water costs for the test year in the revenue requirement used to set its base rates. So, the initial pass through rate would be \$0. Additionally, Northtown Acres proposes a pass through formula that would permit it to request a pass through surcharge for the incremental increase in rates charged by the City in its third-tier volumetric rate, which is currently \$4.15 per 1,000 gallons.

Q. Do you agree with Northtown Acres' proposed purchased water pass-through clause and treatment of pass-through costs? Please explain.

A. No. Northtown Acres' proposal to recover the purchased water costs it incurred during the test year through base rates is not an appropriate method to recover purchased water costs. I recommend the recovery of all purchased water costs through a separate, fixed pass-through charge per meter and a volumetric pass-through charge per 1,000 gallons. Therefore, my recommended revenue requirement includes an adjustment that removes the \$95,302 for purchased water requested by Northtown Acres.

Q. How does the City bill Northtown Acres for purchased water?

A. The City bills Northtown Acres \$321.80 per meter for two 4" meters. The City also bills

Northtown Acres the following volumetric rates for usage.

1-10,000 gallons	\$3.90 per 1,000 gallons
10,0001-25,000 gallons	\$4.05 per 1,000 gallons
25,000+ gallons	\$4.15 per 1,000 gallons

Q. How do you recommend passing through charges from the City to Northtown Acres?

A. Because approximately 98% of the water Northtown Acres purchases is based on the tier 3 rate of \$4.15 from the City, I recommend that this rate be used to calculate both the fixed and the volumetric pass-through rates. To prevent over recovery through the fixed rate, a credit should be applied to offset tier 1 and tier 2 lower volumetric rates. The calculation and equation below show how the credit is calculated.

Calculation of C, the Base charge credit for lower tier gallonage charged by the supplier:

$$C = K * (E-P) + L * (E-Q)$$

Where:

K = the number of gallons included in the first (lowest) tier divided by 1,000

L = number of gallons included in the second tier divided by 1,000

P = first tier gallonage rate (obtained from City of Corsicana's rate schedule)

Q = second tier gallonage rate (obtained from City of Corsicana's rate schedule)

E = third (highest) tier gallons rate (obtained from City of Corsicana's rate schedule)

$$K = 10,000 / 1000$$

$$K = 10$$

$$L = 15,000 / 1000$$

$$L = 15$$

Current calculation of C:

$$C = K * (E-P) + L * (E-Q)$$

$$C = 10 * (\$4.15-\$3.90) + 15,000 * (\$4.15-\$4.05)$$

$$C = 10 * (\$0.25) + 15 * (\$0.10)$$

$$C = \$2.50 + \$1.50$$

$$C = \$4$$

I recommend that the \$8 credit (\$4 for each meter) be applied in the calculation of the amount of the City's fixed meter charges of \$643.60 (\$321.80 * 2). The remaining \$635.60 should be billed as a pass-through to customers based on meter size. The following table shows

the fixed pass-through charge for each meter size.

Table 1 – Monthly Pass Through Based on Meter Size

Meter Size	Charge
5/8"	\$2.64
3/4"	\$3.96
1"	\$6.60
1 1/2"	\$13.20
2"	\$21.12
3"	\$39.60
4"	\$66.00

Northtown Acres does not currently have customers that use the 3/4", 3", or 4" meter sizes. Based on the customer counts for each meter size in the test year,³⁵ Northtown Acres would generate \$633.60 of \$635.60 to pass-through to customers. Northtown Acres should absorb the remaining \$2.00, which is a minimal amount.

Q. What is your recommended volumetric pass-through rate per 1,000 gallons?

A. My recommended volumetric pass-through rate is \$4.48 per 1,000 gallons. This amount is calculated as follows:

Pass-through gallonage rate calculation to account for line loss:

$$R = G / (1 - L)$$

Where:

R = is the utility's new proposed pass-through rate

G = the new gallonage charge by source supplier or conservation district

L = the actual line loss reflected as a percentage expressed in decimal format (for example,

³⁵ Amended Application at 16.

8.5% would be expressed as 0.085)

$$R = \$4.15 / (1-.0734)$$

$$R = \$4.15 / (.9266)$$

$$R = \$4.47873$$

$$R = \$4.48, \text{ rounded}$$

Northtown Acres identified line loss in the Amended Application as 7.34%.³⁶

Q. What happens to the pass-through rates you propose if the City maintains the same rate structure but increases the current rates to Northtown Acres?

A. If Northtown Acres chooses to pass-through the City's rate increases to customers, it will need to calculate new fixed pass-through charges per meter and new volumetric pass-through charges per 1,000 gallons, unless there is a change to the recommended equation. If the City's volumetric tiers remain unchanged, Northtown Acres' pass-through charges will always be based on the tier 3 volumetric charge from the City. The fixed pass-through is calculated using the formula Calculation of C, shown above. The Calculation of C will change the credit applied to the meter fee, which will in turn change the fixed pass-through charge based on meter size to the customer.

Q. What happens to the pass-through rates you propose if the City maintains the same pricing structure but decreases its current rates to Northtown Acres?

A. Because a pass-through provision may only pass through the actual costs charged to the utility, Northtown Acres should recalculate the pass through meter charges or credit for the lower tiers if the City decreases these rates.

Q. Would the current pass-through provision in Northtown Acres' tariff change?

A. Yes. The pass-through provision would change to incorporate the meter fee and volumetric

³⁶ *Id.* at 18.

1 charges from the City.

2
3 **Q. Can Northtown Acres change the pass through meter charge or pass through charge**
4 **without Commission approval?**

5 A. No. Northtown Acres will need to file a pass-through rate change application with the
6 Commission in order to modify the pass-through provision calculation in its tariff or to adjust
7 the current pass-through rates to reflect a change in the rates the City charges to Northtown
8 Acres.

9
10 **Q. Why do you recommend this particular method to recover pass-through expenses?**

11 A. Recovering pass-through expenses the way I recommend allows for the correct recovery of
12 the actual charges from the City. It also allows Northtown Acres to keep pace with rate
13 increases imposed by the City without having to file a full base rate proceeding.

14
15 **Q. Does this conclude your direct testimony?**

16 A. Yes. I reserve the right to supplement this testimony during the proceeding as new evidence
17 is presented.

Kathryn Eiland

Public Utility Commission of Texas
1701 North Congress Avenue
Austin, TX 78711-3326

REGULATORY EXPERIENCE:

Financial Analyst, Rate Regulation Division,
Public Utility Commission of Texas
Employed: February 1, 2018 to present.

Duties: Review formal complaints, certificate of convenience and necessity (CCN) applications and amendments, sale/transfer/merger applications, requests for authority to change rates, stock transfers, and financial and managerial reviews. Prepare testimony and exhibits for contested case matters involving investor-owned water and sewer retail public utilities and assisting with settlement negotiations.

Investigator IV/Team Lead, Complaints Section
Public Utility Commission of Texas, Customer Protection Division (CPD)
Employed: March 2016 – January 2018

Duties: Investigated and responded complex complaints and communicated findings to customers and service providers, reviewed and resolved complaint appeals submitted by customers or service providers, attended meetings with service provider representatives and Commission staff, represented agency at external functions and trainings, contributed to Legislative requests and inquiries, handled walk-in complaints and inquiries, identified, researched and reviewed trends within the industry and provided status reports to management, assisted Oversight and Enforcement with possible enforcement actions by providing information on informal complaints, acted as a team lead for Investigators in the absence of management, reviewed the investigative process and made improvement recommendations as appropriate, trained and mentored CPD staff, served on backup team for agency receptionist.

Investigator I, III, Complaints Section
Public Utility Commission of Texas, Customer Protection Division
Employed: July 2002 – March 2016

Duties: reviewed and processed customer complaints, inquiries and opinions, analyzed complaint issues and service provider responses, determined proper resolution of complaints and communicated findings to customers and service providers, handled customer and utility concerns from government officials and senior agency staff, participated in agency workshops and special projects with other agency divisions, coordinated and maintained record keeping system, served on backup team for agency receptionist.

EDUCATION:

October 2019	NARUC Eastern Rate School
June 2019	Utility Finance and Accounting for Financial Professionals
Seminar	
May 1994	Jackson State University, Jackson, MS
	Bachelor of Business Administration in Business Administration

Attachment KE-2 - List of Previous Testimony**Docket****Case**

PUC 48572

SOAH 473-19-0420.WS

Complaint of Ashutosh Sharma Against the Palmer
at Las Colinas Apartment Homes

PUC 48571

SOAH 473-19-2460

Application of the City of San Marcos to Amend a
Sewer Certificate of Convenience and Necessity in
Hays, Guadalupe, and Caldwell Counties

PUC 49887

SOAH 473-20-1116.WS

Application of Kendall West Utility, LLC for
Authority to Change Rates

PUC 49261

SOAH 473-20-1120.WS

Complaint of Michael E. Moore Against C Willow
Water Company

PUC 50200

SOAH 473-20-1120.WS

Application of Undine Texas, LLC and Undine Texas
Environmental, LLC for Authority to Change Rates

PUC 50367

SOAH 473-20-3820.WS

Complaint of Chad Swahn Against Shady Oaks Water
Supply Company, LLC

SOAH DOCKET NO. 473-20-1674.WS
PUC DOCKET NO. 48819
COMPANY NAME Northtown Acres Water Supply
TEST YEAR END 12/31/2019

Attachment KE-3
Staff Schedule I
Revenue Requirement

	Test Year Total	Company Adjustments To Test Year	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
REVENUE REQUIREMENT	(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
Operations and Maintenance	\$ 131,840	\$ 82,000	\$ 213,840	\$ (151,001)	\$ 62,839
Depreciation and Amortization Expense	\$ -	\$ -	\$ 30,195	\$ 718	\$ 30,913
Taxes Other Than Income	\$ -	\$ -	\$ 6,032	\$ (3,446)	\$ 2,586
Federal Income Taxes	\$ 1,270	\$ 6,596	\$ 7,866	\$ -	\$ 4,373
Return on Invested Capital	\$ 2,212	\$ 35,872	\$ 38,084	\$ (13,686)	\$ 24,398
TOTAL	\$ 135,322	\$ 124,468	\$ 296,017	\$ (167,416)	\$ 125,109
Other Revenues - Taps, Recon, late fee, Etc.	\$ (3,592)		\$ (3,592)		\$ (3,592)
Revenue Requirement Used to Set Rates	\$ 131,730	\$ 124,468	\$ 292,425	\$ (167,416)	\$ 121,517

SOAH DOCKET NO. 473-20-1674.WS
PUC DOCKET NO. 48819
COMPANY NAME Northtown Acres Water Supply
TEST YEAR END 12/31/2019

OPERATIONS AND MAINTENANCE EXPENSE		Test Year	Company	Company	Staff
		Total	Adjustments	Requested	Adjustments
Acct. No.	ACCOUNT	(a)	To Test Year	Test Year	To Company
			(b)	Total	Request
				(c)=(a)+(b)	(d)
610	PURCHASED WATER	\$ 95,302.00		\$ 95,302.00	\$ (95,302.00)
615	POWER EXPENSE-PRODUCTION ONLY			\$ -	
618	OTHER VOLUME RELATED EXPENSES			\$ -	
601-1	EMPLOYEE LABOR			\$ -	\$ 33,800.00
620	MATERIALS	\$ 17,284.00		\$ 17,284.00	\$ (4,411.00)
631-636	CONTRACT WORK		\$ 78,000.00	\$ 78,000.00	\$ (78,000.00)
650	TRANSPORTATION EXPENSES	\$ 5,140.00		\$ 5,140.00	
664	OTHER PLANT MAINTENANCE			\$ -	
601-2	OFFICE SALARIES			\$ -	
601-3	MANAGEMENT SALARIES			\$ -	
604	EMPLOYEE PENSIONS & BENEFITS			\$ -	
615	PURCHASED POWER-OFFICE ONLY			\$ -	
670	BAD DEBT EXPENSE			\$ -	
676	OFFICE SERVICES & RENTALS	\$ 3,009.00		\$ 3,009.00	
677	OFFICE SUPPLIES & EXPENSES	\$ 4,444.00		\$ 4,444.00	\$ (527.00)
678	PROFESSIONAL SERVICES			\$ -	
684	INSURANCE	\$ 4,208.00		\$ 4,208.00	\$ (1,359.00)
666	REGULATORY EXPENSE (RATE CASE)	\$ 1,202.00	\$ 4,000.00	\$ 5,202.00	\$ (5,202.00)
667	REGULATORY EXPENSE (OTHER)	\$ 200.00		\$ 200.00	
675	MISCELLANEOUS	\$ 1,051.00		\$ 1,051.00	
	TOTAL	\$ 131,840.00	\$ 82,000.00	\$ 213,840.00	\$ (151,001.00)

Staff Schedule II
O&M Expense

Staff	
Adjusted	
Total	
(e)=(c)+(d)	
\$	-
\$	-
\$	-
\$	33,800.00
\$	12,873.00
\$	-
\$	5,140.00
\$	-
\$	-
\$	-
\$	-
\$	-
\$	-
\$	3,009.00
\$	3,917.00
\$	-
\$	2,849.00
\$	-
\$	200.00
\$	1,051.00
\$	62,839.00

SOAH DOCKET NO. 473-20-1674.WS
PUC DOCKET NO. 48819
COMPANY NAME Northtown Acres Water Supply
TEST YEAR END 12/31/2019

	Test Year Total	Company Adjustments To Test Year	Company Requested Test Year Total	Staff Adjustments To Company Request
INVESTED CAPITAL	(a)	(b)	(c)=(a)+(b)	(d)
Plant in Service	\$ 985,276	\$ -	\$ 985,276	\$ 2,729
Accumulated Depreciation	\$ (620,816)		\$ (620,816)	\$ 271
Net Plant in Service	\$ 364,460	\$ -	\$ 364,460	\$ 3,000
Working Cash Allowance	\$ 26,730	\$ -	\$ 26,730	\$ (18,875)
Materials and Supplies			\$ -	
Prepayments			\$ -	
Customer Advances Construction			\$ -	
Developer Contribution in Aid of Construction			\$ -	
Customer Deposits			\$ -	
Regulatory Assets			\$ -	
ADFIT			\$ -	
Excess ADFIT			\$ -	
			\$ -	
TOTAL INVESTED CAPITAL (RATE BASE)	\$ 391,190	\$ -	\$ 391,190	\$ (15,875)
RATE OF RETURN			9.04%	
RETURN ON INVESTED CAPITAL	\$ 2,212	\$ 35,872	\$ 38,084	\$ (13,686)

Staff Schedule III
Invested Capital

Staff Adjusted Total
(e)=(c)+(d)
\$ 988,005
\$ (621,087)
\$ 366,917
\$ 7,855
\$ -
\$ -
\$ -
\$ -
\$ -
\$ -
\$ -
\$ -
\$ 374,772
6.51%
\$ 24,398

SOAH DOCKET NO. 473-20-1674.WS
PUC DOCKET NO. 48819
COMPANY NAME Northtown Acres Water Supply
TEST YEAR END 12/31/2019

Staff Schedule IIIA
Water Plant In Service
(Original Cost to Install or Construct)

WATER PLANT IN SERVICE (Original Cost to Install or Construct)		Test Year	Company	Company	Staff	Staff
		Total	Adjustments	Requested	Adjustments	Adjusted
Acct. No.	ACCOUNT	(a)	To Test Year	Test Year	To Company	Total
		(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
303	LAND AND LAND RIGHTS			\$ -		\$ -
307	WELLS			\$ -		\$ -
	WELL PUMPS:					
311	5 HP OR LESS			\$ -		\$ -
311	GREATER THAN 5 HP			\$ -		\$ -
	BOOSTER PUMPS:					
311	5 HP OR LESS			\$ -		\$ -
311	GREATER THAN 5 HP			\$ -		\$ -
320	CHLORINATORS			\$ -		\$ -
	STRUCTURES:					
304	WOOD			\$ -		\$ -
304	MASONRY			\$ -		\$ -
305	STORAGE TANKS			\$ -		\$ -
311	PRESSURE TANKS			\$ -		\$ -
331	DISTRIBUTION SYSTEM			\$ -		\$ -
334	METERS AND SERVICE			\$ -		\$ -
340	OFFICE EQUIPMENT			\$ -		\$ -
341	VEHICLES			\$ -		\$ -
343	SHOP TOOLS			\$ -		\$ -
345	HEAVY EQUIPMENT			\$ -		\$ -
348	sub-total			\$ 985,276.00	\$ 2,728.69	\$ 988,004.69
TOTAL		\$ -	\$ -	\$ 985,276.00	\$ 2,728.69	\$ 988,004.69

SOAH DOCKET NO. 473-20-1674.WS
PUC DOCKET NO. 48819
COMPANY NAME Northtown Acres Water Supply
TEST YEAR END 12/31/2019

Staff Schedule IIIB
Depreciation Expense

WATER PLANT IN SERVICE		Test Year	Company	Company	Staff	Staff
		Total	Adjustments	Requested	Adjustments	Adjusted
		(a)	To Test Year	Test Year	To Company	Total
Acct. No.	ACCOUNT	(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
303	LAND AND LAND RIGHTS			\$ -		\$ -
307	WELLS			\$ -		\$ -
	WELL PUMPS:					
311	5 HP OR LESS			\$ -		\$ -
311	GREATER THAN 5 HP			\$ -		\$ -
	BOOSTER PUMPS:					
311	5 HP OR LESS			\$ -		\$ -
311	GREATER THAN 5 HP			\$ -		\$ -
320	CHLORINATORS			\$ -		\$ -
	STRUCTURES:					
304	WOOD			\$ -		\$ -
304	MASONRY			\$ -		\$ -
305	STORAGE TANKS			\$ -		\$ -
311	PRESSURE TANKS			\$ -		\$ -
331	DISTRIBUTION SYSTEM			\$ -		\$ -
334	METERS AND SERVICE			\$ -		\$ -
340	OFFICE EQUIPMENT			\$ -		\$ -
341	VEHICLES			\$ -		\$ -
343	SHOP TOOLS			\$ -		\$ -
345	HEAVY EQUIPMENT			\$ -		\$ -
348	FENCING			\$ -		\$ -
	sub-total			\$ 30,195.00	\$ 718.00	\$ 30,913.00
TOTAL		\$ -	\$ -	\$ 30,195.00	\$ 718.00	\$ 30,913.00

SOAH DOCKET NO. 473-20-1674.WS
PUC DOCKET NO. 48819
COMPANY NAME Northtown Acres Water Supply
TEST YEAR END 12/31/2019

Staff Schedule IV
Taxes Other Than FIT

	Test Year Total	Company Adjustments To Test Year	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
TAXES OTHER THAN FIT	(a)	(b)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
Non-Revenue Related					
Ad Valorem Taxes	\$ -		\$ -		\$ -
Total Property	\$ -	\$ -	\$ -		\$ -
Payroll Taxes					
FICA			\$ -	\$ 2,096	\$ 2,096
MEDICARE			\$ -	\$ 490	\$ 490
MEDICARE-Affordable Care Act			\$ -	\$ -	\$ -
FUTA			\$ -	\$ -	\$ -
SUTA			\$ -	\$ -	\$ -
Total	\$ -	\$ -	\$ -	\$ 2,586	\$ 2,586
LESS Capitalized				\$ -	\$ -
Total Payroll	\$ -		\$ -	\$ 2,586	\$ 2,586
Other Taxes					
Other taxes and Licenses	\$ 1,474	\$ 4,558	\$ 6,032	\$ (6,032)	\$ -
Total Other Taxes	\$ 1,474		\$ 6,032	\$ (6,032)	\$ -
TOTAL TAXES OTHER THAN INCOME			\$ 6,032	\$ (3,446)	\$ 2,586

SOAH DOCKET NO. 473-20-1674.WS
PUC DOCKET NO. 48819
COMPANY NAME Northtown Acres Water Supply
TEST YEAR END 12/31/2019

Staff Schedule V
Federal Income Taxes

	Test Year Total	Company Requested Test Year Total	Staff Adjustments To Company Request	Staff Adjusted Total
FEDERAL INCOME TAXES	(a)	(c)=(a)+(b)	(d)	(e)=(c)+(d)
Return	Total	\$ 38,084.00		\$ 24,397.68
Less				
Interest Included in Return		\$ 8,491.00		\$ 7,945.17
Plus				
Other Adjustments				
TAXABLE COMPONENT OF RETURN		\$ 29,593.00		\$ 16,452.50
TAX RATE		21%		21%
TAX FACTOR (1/(1-TR))*(TR)		0.265822785		0.265822785
FEDERAL INCOME TAX BEFORE ADJUSTMENTS		\$ 7,866.49	\$ -	\$ 4,373.45
LESS				
Adjustments		\$ -		\$ -
TOTAL FEDERAL INCOME TAXES		\$ 7,866.49		\$ 4,373.45

SOAH DOCKET NO. 473-20-1674.WS
PUC DOCKET NO. 48819
COMPANY NAME Northtown Acres Water Supply
TEST YEAR END 12/31/2019

		Tax Rate	Taxable Wages	Staff Adjusted Total	
PAYROLL TAXES				(e)=(c)*(d)	
FICA	All Wages	6.20%	\$ 33,800	\$ 2,096	(Base limit of \$127,200)
MEDICARE	All Wages	1.45%	\$ 33,800	\$ 490	
MEDICARE-Affordable Care Act		0.00%	\$ 33,800	\$ -	
FUTA	Wages to \$7000	0.60%		\$ -	
SUTA	Wages to \$9000	1.50%		\$ -	
TOTAL TAXES				\$ 2,586	
LESS:	Capitalized Wages	0.00%		\$ -	
TOTAL PAYROLL				\$ 2,586	

**NORTHTOWN ACRES' RESPONSES TO
STAFF'S FIFTH REQUEST FOR INFORMATION
DOCKET NO. 48819**

Staff 5-10 Please refer to the Northtown Acres invoices labeled "Estimate" in the top right hand corner on pages 180, 181, 186, 207, 210, 211, 213, 215 and 216 of the amended application. Please identify the person or entity that performed the work or provided the service described in each invoice.

Response:

The estimated invoices are documentation of repairs of leaks performed by Roger Richardson, at times assisted by Daniel Cope. The repairs are repairs to customer service lines, which requires flushing, or repairs in excess of \$100 on the water distribution system. Northtown Acres withdraws the request for recovery of these expenses as they would be recovered either as a subset of Northtown Acres' known and measurable adjustment for contract labor expense or as a subset of rate base invested capital.

Prepared by: Sheroll Richardson
Sponsored by: Sheroll Richardson

**NORTHTOWN ACRES' RESPONSES TO
STAFF'S FIFTH REQUEST FOR INFORMATION
DOCKET NO. 48819**

Staff 5-11 Please refer to the invoices on the pages listed in Staff 5-10 and provide the actual invoices that correspond to the nine invoices labeled "Estimate."

Response:

See Northtown Acres' response to Staff 5-10.

Prepared by: Sheroll Richardson
Sponsored by: Sheroll Richardson

**NORTHTOWN ACRES' RESPONSES TO
STAFF'S FIFTH REQUEST FOR INFORMATION
DOCKET NO. 48819**

Staff 5-7 Please provide a contract, service agreement, or other documentation demonstrating that Northtown Acres has started obtaining service from the contract positions included in the requested revenue requirement.

Response:

As provided in direct testimony, Sheroll and Roger Richardson do not currently receive compensation for their services as the revenues of Northtown Acres do not currently support the ability to acquire contract labor. In addition, for the two additional part time positions requested, no current contract exists as Northtown Acres' revenues would not currently support such expense. However, Northtown Acres is entitled to recovery of reasonable and necessary expenses, such as labor expense for the positions requested, for the provision of water service.

Prepared by: Sheroll Richardson
Sponsored by: Sheroll Richardson

**NORTHTOWN ACRES' RESPONSES TO
STAFF'S FIFTH REQUEST FOR INFORMATION
DOCKET NO. 48819**

Staff 5-6 Please clarify if the requested revenue requirement includes (1) a salary for Sheroll Richardson only; (2) a salary for Roger Richardson only; or (3) a salary for Sheroll Richardson and a salary for Roger Richardson.

Response:

The application includes a salary for Sheroll Richardson of \$150 per week and a salary for Roger Richardson of \$500 per week.

Prepared by: Sheroll Richardson
Sponsored by: Sheroll Richardson

**NORTHTOWN ACRES' RESPONSES TO
STAFF'S FIFTH REQUEST FOR INFORMATION
DOCKET NO. 48819**

Staff 5-8 Please identify the amount of the total requested contract labor expense that is for:
(1) the part time contractors; and (2) the accountant.

Response:

The amount of the total requested contract labor expense that is for: (1) the part time contractors is \$600 per week; and (2) the accountant is \$250 per week.

Prepared by: Sheroll Richardson
Sponsored by: Sheroll Richardson

**NORTHTOWN ACRES' RESPONSES TO
STAFF'S FIFTH REQUEST FOR INFORMATION
DOCKET NO. 48819**

Staff 5-12 Please identify the beneficiary for the Farm Bureau life insurance policy.

Response:

The beneficiary is Sheroll Richardson.

Prepared by: Sheroll Richardson
Sponsored by: Sheroll Richardson

**NORTHTOWN ACRES' RESPONSES TO
STAFF'S FIFTH REQUEST FOR INFORMATION
DOCKET NO. 48819**

Staff 5-13 Please identify the beneficiary of the Symetra life insurance policy.

Response:

The beneficiary is Sheroll Richardson.

Prepared by: Sheroll Richardson
Sponsored by: Sheroll Richardson

**NORTHTOWN ACRES' RESPONSES TO
STAFF'S FIFTH REQUEST FOR INFORMATION
DOCKET NO. 48819**

Staff 5-14 Please refer to Schedule I-1 of the amended application. Please provide detailed invoices for rate case expenses for the test year and the known and measurable changes.

Response:

See the Direct Testimony of Sheroll Richardson at page 9 (Regulatory Expense) and 18 (Rate Case Expenses).

Regulatory Expenses:

The Regulatory Expenses on Schedule I-1 are intended to approximate annual regulatory expenses for professional assistance with reports and incremental rate proceedings going forward. To date, Northtown Acres has received legal regulatory assistance on a pro bono basis and only has been charged actual expenses so does not have invoices for professional legal services. As such it is necessary to estimate a known and measurable adjustment for future professional regulatory assistance.

Rate Case Expenses:

As stated in testimony, Northtown Acres will provide updated rate case expense data with rebuttal testimony or in subsequent filings. Although there are no rate case expenses associated with legal hourly fees, Northtown Acres has incurred legal expense items for mailing and contracting for non-legal professional reports. In addition, to the extent that any professional witness is needed to address any items in rebuttal, such expenses will be requested as rate case expenses in this proceeding.

Prepared by: Sheroll Richardson
Sponsored by: Sheroll Richardson

**NORTHTOWN ACRES' RESPONSES TO
STAFF'S FIFTH REQUEST FOR INFORMATION
DOCKET NO. 48819**

Staff 5-15 Please refer to Schedule I-1 of the amended application. Please provide detailed statements and proof of payment for taxes other than income for the test year and known and measurable changes.

Response:

Please see attached for payment of the TCEQ revenue assessment. The TCEQ assessment is not built into the revenue requirement as it is invoiced on customer bills and paid directly to TCEQ.

The taxes of other than income taxes lists on Schedule I-1 are gross receipt taxes, which are not payable by sole proprietorships. Consistent with required use of an imputed corporate federal income tax rate for purposes of calculating federal income taxes, which reduces the revenue requirement, Northtown Acres should also be permitted to recover imputed corporate gross receipts taxes paid by corporations to offset the reduction in revenue requirement. The known and measurable adjustment is based on the change in revenue related tax associated with the requested increase in revenues. See Schedule IV Rev Related Tax Exp. Any change in revenues would impact the calculation and associated requested known and measurable adjustment.

Prepared by: Sheroll Richardson
Sponsored by: Sheroll Richardson

NORTHTOWN ACHING WATER SUPPLY
1870 FM 703 N
DANSON, TX 76633

5737

08-826/1192

2/10/2020 Date

Pay to the
Order of

TCEA

\$ 1458.69

One Thousand Four Hundred Fifty Eight & 69/100



CITIZENS STATE BANK

DANSON, TEXAS 76633

for Acct. 89911704

A. Richardson

02/19/2020 5737 \$1,458.69