

### **Notice of Pass-Through Charge**

Notice is hereby given that the Commission may approve a pass-through formula and may approve pass through rates for Northtown Acres to recover all or a portion of the purchased water costs incurred by Northtown Acres from the City of Corsicana. Although the mechanics of the pass-through clause will be an issue to be addressed in this case, two alternative proposals are provided in the application. The first proposal, requested by Northtown Acres, would only recover through a future pass through adjustment the incremental increases in the \$4.15 third-tier rate approved by the City of Corsicana. The second proposal would remove all purchased water costs from the base rates in this proceeding and recover them through a separate pass-through charge. The two proposal are described in more detail below.

#### **Recovery of Incremental Amounts through Pass-Through**

Northtown Acres requests a pass-through clause that would collect from customers any future increase that the City of Corsicana adopts in excess of the current \$4.15 charge for volumes sold in excess of 25,000 gallons per month. Initially, the pass-through charge would be \$0 and would only change if Northtown Acres were to file, and the Commission were to approve, a pass-through adjustment under 16 Texas Administrative Code (“TAC”) § 25.25(b)(2)(C). The pass-through formula requested is as follows:

### VI-6(a): PASS-THROUGH SURCHARGE CALCULATION

	A	B	C
Line No.	Description	Fixed/Variable/Calculated	Example (\$0.35 increase)
1.	Corsicana Tier 3 Volumetric Rate 2019	\$4.15	\$4.15
2.	Corsicana Tier 3 Volumetric Rate 20XX	\$X	\$4.50
3	Incremental Rate (Line 2 - Line 1)	Calculated	\$0.35
4	20XX Line Loss %	Y%	4.58%
5	<b>Pass Through Rate</b>	<b>Calculated</b>	<b>\$0.37</b>
	<b>Line 5= Line 3 * (1/(1- Line 4))</b>		

### VI-6(b): LINE LOSS

	A	B	C
Line No.	Description	Fixed/Variable/Calculated	Example
1.	Corsicana Volumes Purchased 20XX	XX gallons	\$20,753,000.00
2	Volumes Built into Base Rates	600,000	\$600,000.00
3	Adj'd Purchased Volumes (Ln. 1- Ln. 2)	Calculated	\$20,153,000.00
4	Northtown Metered Volumes 20XX	YY gallons	\$19,230,000.00
5	20XX Line Loss Volumes (Ln 3 - Ln 4)	Calculated	\$923,000.00
6	20XX Line Loss % (Ln 5 / Ln 3)	Y% Calculated	4.58%

The variables to be used in each adjustment under 16 TAC § 25.25(b)(2)(C) would be 1) the City of Corsicana 25,001 and up volumetric rate, 2) the annual gallons purchased, 3) the annual gallons sold.

## Recovery of All Purchased Water Costs through Pass-Through

The alternative pass through charge is designed to remove all purchased water charges incurred by the Northtown Acres from the City of Corsicana and collect such charges from customers through a pass-through charge. A pass-through charge to collect all charges from the City of Corsicana would collect the meter charge and the charges for the first 25,000 gallons in a customer charge and the charges for all gallons purchase after the first 25,000 in a volumetric charge. These costs would be removed from base rates, charged separately on customer bills, and subject to change for any changes in rates approved by the City of Corsicana in a proceeding filed under 16 TAC § 25.25(b)(2)(C).

The customer charge would be calculated as follows:

### VI-5(a): CUSTOMER PASS-THROUGH SURCHARGE CALCULATION

A		B	C
Line No.	Description	Calculation	Amount
1.	Meter Charges = $\$321.80 * 2$	4" meter charge (\$321.80) by City of Corsicana * 2 meters * 12 months	\$7,723
2	First 10,000 Gallons	0-10k Gallon Charge (\$3.90) * 10 * 2 * 12	\$936
3	10,001 - 25,000 Gallons	10-25k Gallon Charge (\$4.05) * 15 * 2 * 12	\$1,458
3.	Annual Meters		2,532
4.	<b>Base Pass-Through Surcharge Calculation ((Line 1+Line 2+Line 3)/Line 4)</b>		<b>\$4.00</b>

And the volumetric charge would be calculated as follows:

**VI-5(b): VOLUMETRIC PASS\_THROUGH SURCHARGE  
CALCULATION**

	A	B	C
Line No.	Description	Calculation	Amount
1.	Volumetric Rate	Corsicana Third Tier = \$4.15/ (1- Line Loss .0734)	\$4.48
2.	Adjustment for Volumes under 25K	Corsicana Volumes – 600,000 gal./ Corsicana Volumes	0.97109
3.	Pass Through Volumetric Rate (Line 1 * Line 2)		4.35
4.	<b>Line Loss = (Gallons Purchased – Gallons Sold)/ Gallons Purchased</b>		.0743

The variables to be used in each adjustment under 16 TAC § 25.25(b)(2)(C) would be 1) the City of Corsicana Meter Charge, 2) the City of Corsicana 0-10,000 volumetric rate, 3) the City of Corsicana 10,001 – 25,000 volumetric rate, 4) the City of Corsicana 25,001 and up volumetric rate, 5) the annual gallons purchased, 6) the annual gallons sold, and 7) the annual customer count.

## **EXHIBIT NO. 4**

SOAH DOCKET NO. 473-20-1674.WS

PUC DOCKET NO. 48819

2021 MAY 17 PM 3:01

APPLICATION OF NORTHTOWN  
ACRES WATER SUPPLY FOR  
AUTHORITY TO CHANGE RATES

§  
§  
§

BEFORE THE STATE OFFICE  
OF  
ADMINISTRATIVE HEARINGS

DIRECT TESTIMONY OF

SHEROLL RICHARDSON

ON BEHALF OF

NORTHTOWN ACRES WATER SUPPLY

May 17, 2021

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**DIRECT TESTIMONY OF SHEROLL RICHARDSON ON BEHALF OF  
NORTHTOWN ACRES WATER SUPPLY**

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1       **I. EXECUTIVE SUMMARY**

2               Northtown Acres has not had an increase to its base rates in over a decade. The major  
3       cost drivers for Northtown Acres are the cost of purchasing water from the City of Corsicana;  
4       operating labor, maintenance labor, and administrative labor expense; and the return on and  
5       depreciation of the water system. These three groups of costs make up 82% of Northtown  
6       Acres' cost of service .

7               The current interim rates generate \$162,795 annually, ***an under-recovery of \$129,630.***  
8       Thus, Northtown Acres is not earning sufficient revenues to cover its reasonable expenses,  
9       much less earn a return.

10              Northtown Acres' cost of service has been steadily increasing over the last decade, with  
11      little to no corresponding increase in revenues. The purpose of this case is to bring the rates  
12      of Northtown Acres into compliance with state law as being sufficient to recover a reasonable  
13      return on invested capital used and useful in excess of the reasonable expenses incurred in  
14      providing service.



1       **II.     INTRODUCTION**

2       **Q.     PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.**

3       A.     My name is Sheroll Richardson. I, along with my husband Roger, own, operate and  
4             manage Northtown Acres Water Supply ("Northtown Acres"). My business address is  
5             18770 FM 709 North, Dawson Texas 76639.

6       **Q.     PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

7       A.     I have worked for Northtown Acres for more than 30 years.

8       **Q.     PLEASE DESCRIBE NORTHTOWN ACRES.**

9       A.     Northtown Acres is a small, family-owned Class D water utility that has been serving its  
10            approximate 150 to 211 customers in the outskirts of Corsicana, Texas, since the 1970s.

11      **Q.     HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY TO THE PUBLIC**  
12      **UTILITY COMMISSION OF TEXAS ("PUCT" OR "COMMISSION")?**

13      A.     I have not.

14      **III.    PURPOSE OF TESTIMONY**

15      **Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16      A.     The purpose of my testimony is to support Northtown Acres' amended application for  
17             authority to change rates.

18      **Q.     WHAT IS THE BASIS OF THE NEED FOR A RATE INCREASE?**

19      A.     Northtown Acres has not had an increase to its base rates in over a decade. The major cost  
20             drivers for Northtown Acres are the cost of purchasing water from the City of Corsicana;  
21             operating labor, maintenance labor, and administrative labor expense; and the return on  
22             and depreciation of the water system. These three groups of costs make up 82% of  
23             Northtown Acres' cost of service as set out below:

Three Major Cost Categories		
	Cost	% of Cost of Service
<b>Revenue Requirement</b>	<b>\$296,017</b>	<b>100%</b>
Purchased Water	\$95,302	32%
Labor	\$78,000	26%
Return on/of Investment	\$68,279	23%
<b>Total of Three Major Cost Categories</b>	<b>\$241,581</b>	<b>82%</b>

The current interim rates generate \$162,795 annually, *an under-recovery of \$129,630*. Thus, Northtown Acres is not earning sufficient revenues to cover its reasonable expenses, much less earn a return.

Northtown Acres' cost of service has been steadily increasing over the last decade, with little to no corresponding increase in revenues.

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

A. My testimony generally follows the order of issues required in the rate filing package. Those issues are revenue requirement, expenses, invested capital, and rate design. I will also address purchased water expense and a pass through for purchased water expense. Finally, I will address rate case expenses for this proceeding.

**IV. THE REVENUE REQUIREMENT**

**Q. WHAT IS NORTHTOWN ACRES TOTAL REVENUE REQUIREMENT?**

A. Northtown Acres' total annual revenue requirement is \$296,017. The total annual requirement is netted against other revenues of \$3,592, to determine the revenues needed

1 to be collected through rates, or 292,425, which includes \$95,302 in purchased water  
2 expense.

3 **Q. WHAT ARE THE VARIOUS COMPONENTS OF THE REVENUE**  
4 **REQUIREMENT?**

5 A. The various components of the revenue requirement are summarized in Schedule I-1 of the  
6 amended rate filing package. They consist of adjusted test year levels of operating  
7 expenses, depreciation expense, taxes, and return on investment. I will address each  
8 component of the revenue requirement in turn.

9 **V. OPERATING EXPENSE**

10 **Q. WHAT IS THE ADJUSTED TEST YEAR LEVEL OF OPERATING EXPENSE**  
11 **REQUESTED FOR RECOVERY?**

12 A. Northtown Acres' total adjusted test year operating expense is set forth on Schedule I-1,  
13 line 21, column F. The two cost drivers of Northtown acres' operating expense are the  
14 costs of purchased water and contract work.

15 **Q. HOW IS THE COST OF PURCHASED WATER DETERMINED?**

16 A. The cost of purchased water makes up almost half of the operating expense of the utility.  
17 Northtown Acres purchases 100% of its water from the City of Corsicana. Northtown  
18 Acres used the actual 2019 purchased water expense incurred as the cost of purchased  
19 water to be recovered through rates. Northtown Acres purchased water expense is  
20 provided in Schedule I-1, line 1, column F in the amended rate filing package.

21 The recovery of purchased water expense is discussed further in the rate design  
22 testimony below.

1   **Q.    WHAT STEPS DOES NORTHTOWN ACRES TAKE TO MANAGE THE COST**  
2   **OF PURCHASED WATER?**

3    A.    Because the cost of purchased water is such a large component of customer bills, we are  
4           very active in monitoring usage to detect potential leaks on the system and promptly  
5           repairing the leaks to avoid excessive purchased water expense. As a result of our  
6           activities, Northtown Acres water loss is less than 7.5%, which I understand is less than  
7           half of what has traditionally been acceptable levels of water loss. The savings to North  
8           Town Acres' customers resulting from these efforts as compared to a utility with 15%  
9           water loss is approximately \$7,147 annually.

10   **Q.    HOW IS THE COST OF CONTRACT WORK DETERMINED?**

11   A.    Northtown Acres, like any utility or business enterprise, incurs labor expense for  
12           operations, maintenance and administrative activities. Northtown Acres' water operator is  
13           Roger Richardson, who holds a Class D water operator license. Both Mr. Richardson and  
14           and I have performed the needed operations, maintenance, and repairs on the system for  
15           the last decade or more. Currently, we are also in need of the assistance of a part time  
16           construction and maintenance contract worker to assist in performing routine maintenance,  
17           repairs, and construction on the system as it ages.

18                 Currently, I perform the administrative functions of the utility including the billing  
19           and bookkeeping. We are also in need of the assistance of a part time contract accountant  
20           to help develop a capitalization plan for the utility and a method of recording and maintain  
21           the books for ongoing capital improvements on the system. As will be discussed later in  
22           the testimony, there are neither records of the original costs of the system nor the ongoing  
23           capital improvements of the system. As such, we have retained assistance in performing a

1 trending analysis to determine the original costs of the system. However, the trending  
2 analysis does not include the ongoing capital improvements made in the system over the  
3 years. Thus, as the system is on the back end of the depreciable investment life, a large  
4 quantity of the ongoing capital improvements are not reflected in the capital investment  
5 used in setting rates. A part time contract accountant is necessary to ensure that ongoing  
6 capital expenditures, post-test year, are properly recorded and included in invested capital  
7 for future rate recovery for the financial integrity of the utility.

8 Northtown Acres' current rates do not recover sufficient revenues to pay *any* labor  
9 expense. As may be seen in Schedule I-1, Line 7, no test year contract or employee labor  
10 was paid. To date, Roger Richardson and I have been operating and maintaining the water  
11 system, as well as fulfilling the administrative roles of the utility without pay for our time  
12 and efforts. Thus, the ongoing operating labor, maintenance labor, and administrative labor  
13 are requested as a known and measurable adjustment to test year expenses. Northtown  
14 Acres is requesting a known and measurable change in expense from \$0 to \$78,000 to  
15 cover expenses for Roger Richardson and me who have been for the past 20 years operating  
16 and maintaining the system and fulfilling the administrative roles of the utility. We also  
17 need, and with a revenue increase plan on hiring, part time contractors to assist in the  
18 maintenance of the utility as the facilities are ageing. We are also planning on hiring, with  
19 an increase in revenues, a part time contract accountant to assist with the administrative  
20 accounting of expense and to ensure the proper recordation of ongoing utility investment,  
21 which has not been properly accounted for and will not be recovered otherwise, as will be  
22 explained below.

1 Northtown Acres is providing workpapers to Schedule I-1 supporting the  
2 reasonableness of its requested expenses for these four positions. The Highly Confidential  
3 workpapers identify the annual expense for similar contact labor for a similarly sized  
4 utility in the same geographic region as Northtown Acres. In order to be competitive,  
5 Northtown Acres must be able to provide at least a comparable level of compensation.

6 **Q. ARE THERE ANY OTHER OPERATING EXPENSES FOR WHICH**  
7 **NORTHTOWN ACRES IS REQUESTING A KNOWN AND MEASURABLE**  
8 **CHANGE?**

9 A. Yes. For annual regulatory expenses, Northtown Acres is requesting a total adjusted test  
10 year amount of \$5,202, which includes a known and measurable increase to test year  
11 expense of \$4,000. The annual regulatory expenses are anticipated to increase once final  
12 rates are set and Northtown Acres may be able to take advantage of streamlined rate filings  
13 including Class D rate adjustments and purchased water pass through adjustments.  
14 Because Northtown Acres has yet to be able to take advantage of these rate adjustment  
15 mechanism, Northtown Acres does not have historical expenses levels and estimated the  
16 expense levels necessary to recover the costs of these filings based on past regulatory  
17 expense incurred. Northtown Acres has provided in workpapers the back-up support used  
18 as the basis of its estimate.

19 **Q. WHAT ARE THE REMAINING EXPENSES INCLUDED IN OPERATING**  
20 **EXPENSE AND HOW WERE THEY CALCULATED?**

21 A. The remaining expenses sought for inclusion in rates are materials and supplies,  
22 transportation expenses, office services and rentals, office supplies and expenses,  
23 insurance, lab work and testing and other regulatory expenses. These expenses are all

1 reasonable and based on test year expense levels and the supporting documentation is  
2 provided in workpapers to Schedule I-1.

3 **Q. WHAT LEVEL OF DEPRECIATION EXPENSE IS BEING REQUESTED?**

4 A. Northtown Acres requests the depreciation expense calculated in accordance with the  
5 formula in the rate filing package for its requested invested capital used and useful in  
6 providing service. The depreciation expense is calculated on Schedule III-3. The known  
7 and measurable adjustments to the test year level of depreciation expense are attributable  
8 to the including in invested capital of the original costs of the water distribution system,  
9 which was previously left out of the rate filing package and is addressed in more detail  
10 below.

11 **Q. WHAT ARE NORTHTOWN ACRES' TAXES OTHER THAN INCOME TAXES?**

12 A. Northtown Acres' taxes other than income taxes are calculated on Schedule IV-2 and are  
13 representative of the grossed-up revenue related taxes that would be incurred at the  
14 adjusted test year level of revenues.

15 **Q. WHAT ARE THE FEDERAL INCOME TAXES AND HOW ARE THEY**  
16 **CALCULATED?**

17 A. Northtown Acres' Federal Income Taxes are calculated on Schedule V based on the  
18 Commission's return method of calculating federal income taxes using a corporate rate of  
19 return of 21%. In the event that the Corporate Federal income tax rate were to be increased  
20 during the pendency of this case, Northtown Acres requests that the calculation of Federal  
21 income taxes reflect the increased corporate tax rate.

1   **VI.   INVESTED CAPITAL**

2   **Q.   WHAT IS NORTHTOWN ACRE'S REQUESTED TEST-YEAR-END INVESTED**  
3   **CAPITAL?**

4   A.   Northtown Acres' requested test-year-end invested capital includes gross investment of  
5       \$985,276, accumulated depreciation of \$590,816, for a net investment of \$364,459.  
6       Northtown Acres' Invested capital is detailed on Schedule III-3 of the rate filing package  
7       and the supporting documentation is provided in workpapers to Schedule III-3. The  
8       original cost of the distribution system is based on a trending analysis, as permitted by the  
9       Commission's rules when the historical cost of investment is unavailable. All other  
10      investment is supported by records of actual cost.

11   **Q.   WHY IS THE ORIGINAL COST OF THE DISTRIBUTION SYSTEM BASED ON**  
12   **A TRENDING STUDY?**

13   A.   Utilities are permitted to recover a return on and depreciation of the original cost of  
14      invested capital in order to recover its costs and be positioned to invest for its future. The  
15      financial integrity of a utility depends on the ability to recover its capital costs and a  
16      reasonable return. Where the original cost records are not available for a utility, the rules  
17      permit a trending analysis to be used to calculate the original cost of the system at the time  
18      it was placed in service. Northtown Acres contracted for a trending analysis to be  
19      performed in this case and has provided the analysis as a workpaper to Schedule III-3.

20   **Q.   WHY IS A TRENDING ANALYSIS REQUIRED IN THIS CASE?**

21   A.   Northtown Acres financial records do not contain the original cost of invested capital. The  
22      water utility was originally established by my father, Herb Madison, in the 1970's. Mr.  
23      Richardson and I have been operating the water utility for many decades and performed



1 much of the original trenching and assisted in the construction of the system. When my  
2 father passed away, I inherited the water utility without any records of original costs of the  
3 utility investment and had to rely on the trending study to provide the original cost.

4 **Q. DOES THE TRENDING STUDY PROVIDE AN ACCURATE AMOUNT FOR THE**  
5 **ORIGINAL COST AND INVESTED CAPITAL IN THE DISTRIBUTION**  
6 **SYSTEM?**

7 A. Yes, for original cost. Based on my experience in the cost of materials and labor involved,  
8 as well as my knowledge of the Northtown Acres' water system and its development over  
9 the years, the trending study provides an accurate amount for the original cost of the  
10 system. However, the invested capital, based on the trended original cost of investment is  
11 very conservative in favor of customers as it does not include any of the annual capital  
12 improvements made over the several decades that the system has been in service. In order  
13 to limit the amount of issues in this case, we have limited the requested recovery to the  
14 original cost of the distribution system as calculated in the trending study and request that  
15 the Commission recognize that the amount requested is more than reasonable given that  
16 much of the investment is near the end of its depreciable life and contains multiple capital  
17 improvements over the years that are not reflected in the cost of service.

18 **Q. GOING FORWARD, HOW DOES NORTHTOWN ACRES PROPOSE TO**  
19 **ACCOUNT FOR THE INVESTED CAPITAL AND ONGOING CAPITAL**  
20 **IMPROVEMENTS NECESSARY TO MAINTAIN AND REPLACE THE WATER**  
21 **SYSTEM?**

22 A. Northtown Acres requests that the Commission determine the reasonable and necessary  
23 and used and useful invested capital in this case as the amounts included in Schedule III-

1 3. As stated above, Northtown Acres is also requesting an increase in operating expense  
2 to be able to retain a part time contract accountant to assist with developing a capitalization  
3 policy and ensuring that any capital investments or improvements incurred subsequent to  
4 the test-year-end are properly recorded and included in rate base to be requested for  
5 recovery in future rate cases.

6 **VII. COST OF CAPITAL**

7 **Q. WHAT IS NORTHTOWN ACRE'S REQUESTED COST OF CAPITAL?**

8 A. Northtown Acres' requests an overall cost of capital of 9.04% based on a proposed  
9 regulatory capital structure of 40% debt and 60% equity, a cost of debt of 5.04%, and a  
10 cost of equity of 11.71%. Northtown Acres' requested cost of capital is calculated on  
11 Schedule III-1.

12 **Q. WHAT IS THE BASIS FOR NORTHTOWN ACRES' PROPOSED OVERALL**  
13 **COST OF CAPITAL?**

14 A. Northtown Acres' proposed overall cost of capital is based in large part on the real-world  
15 risks of small water utilities such as Northtown Acres and on Commission precedent.

16 **Q. WHAT IS THE BASIS FOR THE REQUESTED CAPITAL STRUCTURE?**

17 A. Northtown Acres' actual capital structure is consistently 100% equity, excluding short term  
18 debt. As a small utility, Northtown Acres incurs a great deal of business and regulatory  
19 risk in providing service to its customers. With the regulatory cost involved in increasing  
20 rates, any needed increase in revenues could easily be outpaced from the customers'  
21 perspective just for the incurrence of rate case expenses. And, as borne out by this  
22 proceeding alone, any needed increase in rates may take multiple years to realize. For  
23 multiple years, Northtown Acres has been unable to recover a reasonable level of expense,

1 much less any return on investment. If Northtown Acres had any material level of debt, it  
2 would be in risk of default given the degree of revenue shortfall and the time in which it  
3 takes to adjust rates. Under these operating conditions, in my opinion, a small utility could  
4 not survive with any material level of debt. In my opinion, the capital structure of  
5 Northtown Acres should be the actual capital structure of 100% equity to reflect the risk  
6 involved in operating and the recovery of revenues. The requested regulatory capital  
7 structure of 40% debt is requested solely to comply with the rate filing package requirement  
8 that seems to state that debt may not be less than 40% of the capital structure.

9 **Q. WHAT IS THE BASIS FOR THE REQUESTED COST OF DEBT?**

10 A. As previously stated, Northtown Acres does not have long-term debt. Northtown Acres'  
11 proposed cost of debt is based the industry cost of debt recommended by Staff and  
12 approved by the Commission in recent water utility cases.

13 **Q. WHAT IS THE BASIS FOR THE REQUESTED RETURN ON EQUITY?**

14 A. The requested return on equity was not updated in the amended application and still reflects  
15 the rate of return calculated according to the method accepted by the rate filing package in  
16 effect when this case was originally filed. I understand that the cost of equity is a subjective  
17 issue. As such, Northtown Acres' requests that the cost of equity originally requested and  
18 supported by the then effective rate filing package be approved in recognition of the  
19 business and regulatory risk of the utility as described above with respect to the capital  
20 structure. In the alternative, if the cost of equity contemplated by the original rate filing  
21 package instructions is not approved to account for Northtown Acres' business and  
22 regulatory risks, Northtown Acres requests that the capital structure contemplated by the  
23 rate filing package instructions also be modified so that Northtown Acres may recover the

1 cost of capital based on its actual capital structure and risk profile. Northtown Acres also  
2 specifically reserves the right to provide expert testimony on cost of capital in the event  
3 any party seeks to contest the issue.

4 **VIII. RATE DESIGN**

5 **Q. WHAT IS NORTHTOWN ACRES PROPOSING FOR RATE DESIGN?**

6 A. Northtown Acres' proposed rate design is provided in Schedule VI-2. The rate design is  
7 accomplished by setting the customer charge for a 5/8" meter at \$35.00. The customer  
8 charges for larger meters are increased by a set factor depending on the size of the meter.  
9 The remaining revenues not recovered through the customer charges are recovered through  
10 volumetric rates. Schedule VI-1 is provided only to show the allocation of costs to fixed  
11 and variable under a traditional allocation method.

12 **Q. WHY DID YOU CHOOSE THIS ALLOCATION METHOD?**

13 A. In my experience, the customers prefer a lower fixed customer charge. If the cost allocation  
14 between fixed and variable charges shown in Schedule VI-1 were reflected in rates in  
15 Schedule VI-2, the customer charge would be much higher.

16 **IX. PURCHASED WATER PASS THROUGH**

17 **Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.**

18 A. Purchased water expense is, by far, the largest expense of Northtown Acres. Northtown  
19 Acres purchases its water from the City of Corsicana and delivers it to its customers on the  
20 Northtown Acres water system. Northtown Acres proposes to include the purchased water  
21 costs in base rates.

22 In order to permit Northtown Acres to expeditiously file and recover increases in  
23 the cost of purchased water, Northtown Acres proposes that the below pass-through

formula be approved and included in its tariff. Northtown Acres proposes a simplified pass through formula that is similar to multiple approved formulas and the formula Northtown Acres is accustomed to using. The initial pass through rate would be \$0. The proposed formula would permit Northtown Acres to request a pass-through surcharge *solely for the incremental increase in rates charged by the City of Corsicana in its third-tier rate*, which is currently \$4.15 per 1000 gallons. Northtown Acres proposed pass through formula is set out below:

Proposed Pass Through Calculation			
	Description	Constant	Variable
1	Corsicana Tier 3 Volumetric Rate 2019	\$4.15	
2	Corsicana Tier 3 Volumetric Rate 20XX	\$X	Yes
3	Incremental Rate (Line 2 - Line 1)	Calculated	
4	20XX Line Loss %	Y%	
5	Pass Through Rate	Calculated	
Line 5= Line 3 * (1/(1- Line 4))			

Where line losses are calculated as follows:

Pass Through Line Loss Calculation			
	Description	Constant	Variable
1	Corsicana Volumes Purchased 20XX	XX gallons	Yes
2	Volumes Built into Base Rates	600,000	
3	Adj'd Purchased Volumes (Ln. 1- Ln. 2)	Calculated	
4	Northtown Metered Volumes 20XX	YY gallons	Yes
5	20XX Line Loss Volumes (Line	Calculated	
6	Northtown Metered Volumes 20XX	Y% Calculated	

1  
2 If Corsicana were to raise its third tier rates today to go into effect next month,  
3 Northtown Acres pass through rate would be calculated using 1) the new tier 3 rate  
4 approved by the City of Corsicana, 2) the annual volumes purchased from the City of  
5 Corsicana for the last year, and 3) the volumes sold by Northtown Acres to customers for  
6 the last year.

7 Northtown Acres has been in discussions with Commission Staff, who may have a  
8 different recommendation on the pass-through formula. Northtown Acres proposes the  
9 above formula as the most effective at the least administrative expense to implement, for  
10 the benefit of both Northtown Acres and its customers. Northtown Acres has also provided  
11 a schedule calculating the pass through consistent with Staff's proposal. Both proposals  
12 were included within the notice provided in this case.

13 **Q. DOES ONE METHOD OF RECOVERY RESULT IN GREATER RATES OR**  
14 **REVENUES FOR NORTHTOWN ACRES?**

15 A. No. Both methods of rate recovery produce the same rates for customers. The only  
16 difference will be that one requires a separate surcharge while the other is built into the  
17 volumetric rates.

1  
2 **X. RATE CASE EXPENSES**

3 **Q. IS NORTHTOWN ACRES PROPOSING THE RECOVERY OF RATE CASE**  
4 **EXPENSES IN THIS PROCEEDING?**

5 A. Yes. Northtown Acres requests that the Commission approve the reasonable rate case  
6 expenses incurred by Northtown Acres in this proceeding. Northtown Acres has made  
7 every attempt to maintain rate case expenses at a minimum, for the benefit of its customers,  
8 and is not seeking recovery of hourly attorney's fees. Northtown Acres is seeking recovery  
9 of expenses and contract work incurred in the processing of this case. Northtown Acres  
10 will provide updated rate case expense data with rebuttal testimony or in subsequent filings.

11 **Q. HOW DO YOU PROPOSE THAT NORTHTOWN ACRES RECOVER THE RATE**  
12 **CASE EXPENSES INCURRED?**

13 A. Rate case expenses incurred for this proceeding should be recovered through a surcharge  
14 to customers in addition to the proposed base charge, volumetric rates, and pass through.  
15 The recovery of rate case expenses incurred in this proceeding should be incremental to  
16 the known and measurable annual regulatory expense requested for recovery through rates  
17 as they are the expenses that are apt to prevail into the future, whereas the amount of rate  
18 case expenses to be included in the surcharge are the expenses actually on a historical basis,  
19 which are not recovered through rates.

20 **X. CONCLUSION**

21 **Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.**

22 A. Northtown Acres requests a rate increase to cover the increases in the cost of service  
23 incurred over the last decade. Specifically, Northtown Acres requests:

- Approval of its operating expenses, including contract labor expenses, which Northtown acres has not been able to pay;
- Approval of Northtown Acres' proposed depreciation and tax expense;
- A rate base determination of its invested capital used and useful in providing service;
- Approval of Northtown Acres proposed cost allocation and rate deign including the purchased water pass-through; and
- Recovery of reasonable rate case expenses.

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

**A.** Yes, it does.



**AFFIDAVIT**

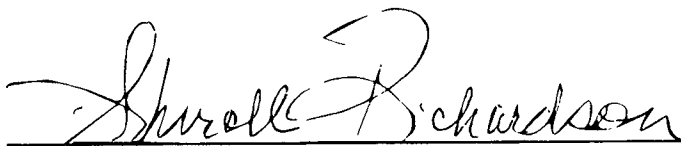
STATE OF Texas §

§

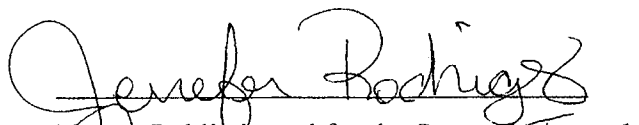
COUNTY OF Navarro §

BEFORE ME, the undersigned notary public, this day personally appeared Sheroll Richardson to me known, who being duly sworn according to law, deposes and says:

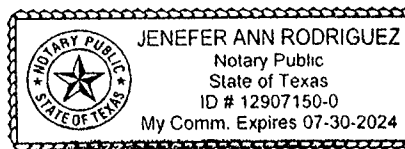
“My name is Sheroll Richardson. I am of legal age and a resident of the State of Texas. I certify that the foregoing testimony and exhibits are true and correct to the best of my knowledge and belief.”

  
Sheroll Richardson

Subscribed and sworn to before me, notary public, on this the 12 day of May, 2021.

  
Notary Public in and for the State of Texas

My Commission expires: 07-30-2024



## **EXHIBIT NO. 5**



## Filing Receipt

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

<b>APPLICATION OF NORTHTOWN</b>	<b>§</b>	<b>BEFORE THE STATE OFFICE</b>
<b>ACRES WATER SUPPLY FOR</b>	<b>§</b>	<b>OF</b>
<b>AUTHORITY TO CHANGE RATES</b>	<b>§</b>	<b>ADMINISTRATIVE HEARINGS</b>

**REBUTTAL TESTIMONY AND  
TESTIMONY IN SUPPORT OF A NON-UNANIMOUS STIPULATION**

**OF**

**SHEROLL RICHARDSON**

**ON BEHALF OF**

**NORTHTOWN ACRES WATER SUPPLY**

July 30, 2021

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

<b>APPLICATION OF NORTHTOWN ACRES WATER SUPPLY FOR AUTHORITY TO CHANGE RATES</b>	<b>§ § §</b>	<b>BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS</b>
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**REBUTTAL TESTIMONY AND TESTIMONY IN SUPPORT OF A NON-UNANIMOUS  
STIPULATION OF SHEROLL RICHARDSON ON BEHALF OF  
NORTHTOWN ACRES WATER SUPPLY**

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1       **I. EXECUTIVE SUMMARY**

2               Sheroll and Roger Richardson d.b.a. Northtown Acres Water Supply (“Northtown  
3       Acres”) and Staff of the Public Utility Commission of Texas (“Staff”) have entered into a non-  
4       unanimous settlement in this proceeding. Only two intervenors timely filed statements of  
5       position, which I understand are not evidence. As of the filing of this testimony, those two  
6       intervenors have not agreed to the NUS.

7               The purpose of this testimony is to rebut Staff testimony, describe the NUS, and  
8       provide support for the NUS positions.

9               Northtown Acres has not had an increase to its base rates in over a decade. Currently  
10      Northtown Acres is not earning sufficient revenues to cover its reasonable expenses, much less  
11      earn a return.

12              Northtown Acres’ cost of service has been steadily increasing over the last decade, with  
13      little to no corresponding increase in revenues. The purpose of this case is to bring the rates  
14      of Northtown Acres into compliance with state law as being sufficient to recover a reasonable  
15      return on invested capital used and useful in excess of the reasonable expenses incurred in  
16      providing service.

1       **II.     INTRODUCTION**

2       **Q.     ARE YOU THE SAME SHEROLL RICHARDSON THAT FILED DIRECT**  
3       **TESTIMONY IN THIS CASE?**

4       A.     I am. I, along with my husband Roger, own, operate and manage Northtown Acres. My  
5       business address is 18770 FM 709 North, Dawson Texas 76639.

6       **III.    PURPOSE OF TESTIMONY**

7       **Q.     WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

8       A.     The purpose of my rebuttal testimony is to address issues raised by the direct testimony of  
9       Staff, to describe the NUS, and to provide additional support for the NUS.

10      **Q.     WHAT ARE THE TERMS OF THE NUS?**

11      A.     Northtown Acres and Staff have reached a reasonable compromise between their respective  
12      positions, as will be more fully described below. The terms of the NUS are as follows:

13           1.     **Application.** The Signatories agree to approval of Northtown Acres' Application  
14           consistent with the terms of this Stipulation.

15           2.     **Base Rate Revenue Requirement.** The Signatories agree to an annual base rate  
16           revenue requirement, exclusive of the purchase water pass-through, of \$158,534.

17           3.     **Purchase Water Pass-Through.** The Signatories agree that a purchase water pass-  
18           through is reasonable to collect the cost of purchased water, adjusted for line loss.  
19           Signatories agree that the pass-through formula, attached as Exhibit A to my  
20           testimony, is reasonable.

21           4.     **Invested Capital.** The Signatories agree that Northtown Acres' rate base invested  
22           capital is approved with the adjustment recommended in Staff testimony to  
23           capitalize tires and a cabinet. Signatories agree that the updated test-year-end

invested capital is reasonable, necessary, and used and useful in the provision of water service.

5. **Rate of Return.** Signatories agree to the approval of Staff's proposed overall rate of return of 6.51%.

6. **Employee Expense and Contract Labor.** Signatories agree to Staff's recommendation for salary expense for Sheroll and Roger Richardson. Signatories further agree to contract labor in the amount of \$24,000 annually for operation and maintenance assistance and \$12,000 annually for accounting assistance with the requirement that Northtown Acres files proof of the contract labor expense within 30 days from an Order approving settlement and the effective date of agreed rates.

7. **Tariff Rates.** Signatories agree to the following base rates and pass-through charges:

Meter Charge		
Meter Size	Base	Pass-Through
5/8"	\$28.30	\$2.23
3/4"	\$42.45	\$3.35
1"	\$70.75	\$5.58
1 1/2"	\$141.50	\$11.16
2"	\$226.40	\$17.86
Volumetric Charge		
Volumes	Base	Pass-Through
0 to 10,000 gallons	\$3.00	4.48
10,001 to 25,000 gallons	\$3.45	4.48
25,000 gallons and on	\$3.60	4.48

8. **Rate Case Expenses:** The Signatories agree Northtown Acres should recover through a surcharge over a period of 12 months its actual rate case expenses incurred in this case up to and including the date of replies to exceptions or the date a unanimous agreement is signed. Signatories agree to support a Final Order directing Northtown Acres to file receipts of actual rate case expenses, a proof of



revenues to collect the total costs of actual receipts, and a Rate Case Expense Tariff in a compliance docket.

9. **True-Up of Interim Rates to Final Rates.** Signatories agree to support the recovery, through a compliance filing, of a true-up to recover from customers the difference between the current interim rates and the agreed rates and pass-through, once approved by the Commission, between December 16, 2020 (the date of filing of the amended application) and the effective date of the agreed rates. Signatories agree to support a final order directing Northtown Acres to file a true-up of interim rates, a proof of revenues of the true-up amount, and a True-Up Surcharge Tariff to recover the true-up amount from customers in a compliance docket.

10. **Miscellaneous Service Charges.** Signatories agree to the miscellaneous service charges included in Northtown Acres' Affidavit of Second Notice filed on March 4, 2021.

#### **IV. THE REVENUE REQUIREMENT**

##### **Q. HOW DOES THE NUS REVENUE REQUIREMENT COMPARE TO THE FILED REVENUE REQUIREMENT?**

A. Northtown Acres' amended application requested a revenue requirement that included the cost of purchased water. However, Staff recommended that all purchased water be passed through to customers in a purchased water pass-through, to which Northtown Acres agreed. Therefore, in order to provide an apples-to-apples comparison of revenue requirements, one would have to remove the costs of purchased water from Northtown Acres' base rate revenue requirement. After making that adjustment, Northtown Acres' revenue

1 requirement as proposed in its amended application was \$197,123. The NUS revenue  
2 requirement is \$158,534, a reduction of \$38,589 or 19.6%.

3 **Q. IS THE NUS REVENUE REQUIREMENT REASONABLE?**

4 A. Although the NUS revenue requirement is much less than the amount we requested as  
5 necessary to operate and maintain the water system, we have been operating the water  
6 system at a huge deficit for years and feel comfortable adjusting expenses to meet the NUS  
7 revenue requirement, as will be explained in more detail below.

8 **V. OPERATING EXPENSE**

9 **Q. WHAT DO YOU ADDRESS IN THIS PORTION OF YOUR TESTIMONY?**

10 A. In this portion of my testimony I address each of Staff's recommended adjustments to  
11 Northtown Acres' operating expense.

12 **Q. WHAT IS STAFF'S RECOMMENDATION ON THE COST OF PURCHASED**  
13 **WATER?**

14 A. Staff witness Kathryn Eiland recommends removing the costs of purchased water from  
15 base rates and the creation of a pass-through formula to recover the actual costs of water  
16 purchased from the City of Corsicana directly from customers through a separate charge.

17 **Q. DOES NORTHTOWN ACRES' ACCEPT STAFF'S RECOMMENDATION FOR A**  
18 **PASS-THROUGH PROVISION TO RECOVER PURCHASED WATER COSTS?**

19 A. Yes, subject to some adjustment. Northtown Acres has agreed with Staff's  
20 recommendation to pass through the costs of purchased water directly to customers.  
21 However, Northtown Acres and Staff have collaborated to create a pass-through formula  
22 that should be able to be easily implemented while still providing accurate cost recovery.  
23 Northtown Acres' original objection to a pass-through to recover all water costs was the

1 potential difficulty in creating a calculation that would not be subject to reasonable dispute  
2 in a future pass-through proceeding, which would only delay the recovery of increases in  
3 purchased water expense. With the pass-through provision agreed upon in the NUS, we  
4 have collaborated to create an Excel worksheet that will automatically create pass-through  
5 rates with all future potential changes to the City of Corsicana's rate as inputs.

6 The specific mechanics of the pass-through is discussed further in the rate design  
7 testimony below.

8 **Q. WHAT STEPS DOES NORTHTOWN ACRES TAKE TO MANAGE THE COST**  
9 **OF PURCHASED WATER?**

10 A. Because the cost of purchased water is such a large component of customer bills, we are  
11 very active in monitoring usage to detect potential leaks on the system and promptly  
12 repairing the leaks to avoid excessive purchased water expense. As a result of our  
13 activities, Northtown Acres water loss is less than 7.5%, which I understand is less than  
14 half of what has traditionally been acceptable levels of water loss. The savings to North  
15 Town Acres' customers resulting from these efforts as compared to a utility with 15%  
16 water loss is approximately \$7,147 annually.

17 **Q. WHAT IS THE LEVEL OF LABOR AND SALARIES IN THE NUS?**

18 A. As stated above, Northtown Acres and Staff have agreed to Staff's recommendation for  
19 salary expense for Sheroll and Roger Richardson. Northtown Acres and Staff further agree  
20 to contract labor in the amount of \$24,000 annually for operation and maintenance  
21 assistance and \$12,000 annually for accounting assistance with the requirement that  
22 Northtown Acres files proof of the contract labor expense within 30 days from an Order  
23 approving settlement and the effective date of agreed rates.

1 Northtown Acres, like any utility or business enterprise, incurs labor expense for  
2 operations, maintenance and administrative activities. Northtown Acres' water operator is  
3 Roger Richardson, who holds a Class D water operator license. Both Mr. Richardson and  
4 and I have performed the needed operations, maintenance, and repairs on the system for  
5 the last decade or more. Currently, we are also in need of the assistance of a part time  
6 construction and maintenance contract worker to assist in performing routine maintenance,  
7 repairs, and construction on the system as it ages.

8 Currently, I perform the administrative functions of the utility including the billing  
9 and bookkeeping. As was discussed in my direct testimony, we are also in need of the  
10 assistance of a part time contract accountant to help develop a capitalization plan for the  
11 utility and a method of recording and maintaining the books for ongoing capital  
12 improvements on the system. The water system is on the back end of the depreciable  
13 investment life and a large quantity of the ongoing capital improvements are not reflected  
14 in the capital investment used in setting rates. A part time contract accountant is necessary  
15 to ensure that ongoing capital expenditures, post-test year, are properly recorded and  
16 included in invested capital for future rate recovery for the financial integrity of the utility.

17 **Q. WHAT WAS STAFF'S RECOMMENDATION REGARDING CONTRACT**  
18 **LABOR?**

19 A. Staff did not dispute that Northtown Acres needed the services of two contract labor  
20 positions, one to provide operation and maintenance assistance and one, an accountant, to  
21 provide administrative assistance and provide needed accounting expertise.

1           Instead, Staff recommended excluding \$44,200 for these two contract labor  
2           positions as they were not filled in the test year nor within 12 months of the test-year end.

3           In other words, they stated that it was not a known and measurable change.

4   **Q.   HOW WAS THIS ISSUE RESOLVED IN THE NUS?**

5   A.   As stated in my direct testimony, Northtown Acres' current rates do not recover sufficient  
6           revenues to pay *any* labor expense, so it should not be any surprise that we could not hire  
7           the needed contract labor during, or subsequent to, the test year.

8           In order to address both Northtown Acres' need for part-time operation and  
9           maintenance assistance and part-time accounting assistance, while also addressing Staff's  
10          concern for certainty, Northtown Acres has agreed to fill the two positions within 30 days  
11          of the effective date of agreed rates.

12          Moreover, Northtown Acres and Staff agreed to a reduced annual amount for  
13          contract labor expense.

14          Northtown Acres provided workpapers to Schedule I-1 supporting the  
15          reasonableness of its requested expenses for these two positions. The Highly Confidential  
16          workpapers identify the annual expense for similar contract labor for a similarly sized  
17          utility in the same geographic region as Northtown Acres. In order to be competitive,  
18          Northtown Acres must be able to provide a comparable level of compensation. These  
19          competitive rates support the NUS contract labor expense.

1 **Q. ARE THERE ANY OTHER OPERATING EXPENSES FOR WHICH**  
2 **NORTHTOWN ACRES IS REQUESTING A KNOWN AND MEASURABLE**  
3 **CHANGE?**

4 A. Yes. For annual regulatory expenses, which is a cost of service item and is separate from  
5 rate case expenses, Northtown Acres requested a total adjusted test year amount of \$5,202.  
6 The annual regulatory expenses are anticipated to increase once final rates are set and  
7 Northtown Acres may be able to take advantage of streamlined rate filings including Class  
8 D rate adjustments and purchased water pass-through adjustments. Because Northtown  
9 Acres has yet to be able to take advantage of these rate adjustment mechanism, Northtown  
10 Acres does not have historical expense levels and estimated the expense levels necessary  
11 to recover the costs of these filings based on past regulatory expense incurred. Northtown  
12 Acres has provided in workpapers the back-up support used as the basis of its estimate.

13 **Q. WHAT DID STAFF RECOMMEND REGARDING ANNUAL REGULATORY**  
14 **EXPENSE?**

15 A. Staff recommended removing all regulatory expense, combining this issue with rate case  
16 expenses.

17 **Q. HOW WAS THIS ISSUE RESOLVED IN THE NUS?**

18 A. Northtown Acres and Staff agreed on a compromise figure of regulatory expense to reflect  
19 that after this proceeding, Northtown Acres will have ongoing regulatory obligations, such  
20 as creating and filing annual reports with the Commission and regulatory filings and  
21 activities with the Texas Commission on Environmental Quality, and the need for periodic  
22 streamlined rate proceedings so that its rates may keep pace with inflation and future  
23 changes in the cost of purchased water.

1 **Q. WHAT ARE THE REMAINING EXPENSES INCLUDED IN OPERATING**  
2 **EXPENSE AND HOW WERE THEY CALCULATED?**

3 A. The remaining expenses sought for inclusion in rates are materials and supplies,  
4 transportation expenses, office services and rentals, office supplies and expenses,  
5 insurance, lab work and testing and other regulatory expenses. These expenses are all  
6 reasonable and based on test year expense levels and the supporting documentation is  
7 provided in workpapers to Schedule I-1.

8 **Q. WHAT DID STAFF RECOMMEND REGARDING THESE REMAINING**  
9 **EXPENSES?**

10 A. Staff made several recommendations to reduce some expenses, remove some expenses,  
11 and reclassify certain expense from expense to capital costs.

12 **Q. HOW WAS THIS ISSUE RESOLVED IN THE NUS?**

13 A. Northtown Acres accepted Staff's recommendations.

14 **Q. WHAT LEVEL OF DEPRECIATION EXPENSE IS BEING REQUESTED?**

15 A. Northtown Acres requests the depreciation expense calculated in accordance with the  
16 formula in the rate filing package for its requested invested capital used and useful in  
17 providing service.

18 **Q. WHAT DID STAFF RECOMMEND REGARDING DEPRECIATION?**

19 A. The only difference in Staff's recommendation for depreciation expense is an adjustment  
20 to reflect Staff's recommended reclassification of certain expenses as capital investment,  
21 to which Northtown Acres has agreed.

1   **Q.    WHAT ARE NORTHTOWN ACRES' TAXES OTHER THAN INCOME TAXES?**

2    A.    Northtown Acres' taxes other than income taxes are calculated on Schedule IV-2 and are  
3       representative of the grossed-up revenue related taxes that would be incurred at the  
4       adjusted test year level of revenues.

5   **Q.    WHAT DID STAFF RECOMMEND REGARDING TAXES OTHER THAN**  
6   **INCOME TAXES?**

7    A.    Staff recommended removing Northtown Acres' proposed revenue related taxes. Staff  
8       also adjusted taxes other than income to reflect its reclassification of contract labor to  
9       salary expense

10   **Q.    HOW WAS THIS ISSUE RESOLVED IN THE NUS?**

11   A.    Northtown Acres accepted Staff's recommendation.

12   **Q.    WHAT ARE THE FEDERAL INCOME TAXES AND HOW ARE THEY**  
13   **CALCULATED?**

14   A.    Northtown Acres' Federal Income Taxes are calculated on Schedule V based on the  
15       Commission's return method of calculating federal income taxes using a corporate rate of  
16       return of 21%. There was no dispute regarding the calculation of federal income tax  
17       expenses. However, the NUS federal income tax expenses are much lower than Northtown  
18       Acres' proposed federal income tax expense due to the changes to the overall rate of return,  
19       as describe below.



1 **VI. INVESTED CAPITAL**

2 **Q. WHAT IS NORTHTOWN ACRES' REQUESTED TEST-YEAR-END INVESTED**  
3 **CAPITAL?**

4 A. Northtown Acres' requested test-year-end invested capital includes gross investment of  
5 \$985,276, accumulated depreciation of \$590,816, for a net investment of \$364,459.  
6 Northtown Acres' Invested capital is detailed on Schedule III-3 of the rate filing package  
7 and the supporting documentation is provided in workpapers to Schedule III-3. The  
8 original cost of the distribution system is based on a trending analysis, as permitted by the  
9 Commission's rules when the historical cost of investment is unavailable. All other  
10 investment is supported by records of actual cost.

11 **Q. WHAT DID STAFF RECOMMEND REGARDING INVESTED CAPITAL?**

12 A. The only difference in Staff's recommendation for invested capital is an adjustment to  
13 reflect Staff's recommended reclassification of certain expenses as capital investment, to  
14 which Northtown Acres has agreed.

15 **Q. GOING FORWARD, HOW DOES NORTHTOWN ACRES PROPOSE TO**  
16 **ACCOUNT FOR THE INVESTED CAPITAL AND ONGOING CAPITAL**  
17 **IMPROVEMENTS NECESSARY TO MAINTAIN AND REPLACE THE WATER**  
18 **SYSTEM?**

19 A. Northtown Acres requests that the Commission determine the reasonable and necessary  
20 and used and useful invested capital in this case. As stated above, Northtown Acres is also  
21 requesting an increase in operating expense to be able to retain a part time contract  
22 accountant to assist with developing a capitalization policy and ensuring that any capital

investments or improvements incurred subsequent to the test-year-end are properly recorded and included in rate base to be requested for recovery in future rate cases.

**VII. COST OF CAPITAL**

**Q. WHAT IS NORTHTOWN ACRES' REQUESTED COST OF CAPITAL?**

A. Northtown Acres' requests an overall cost of capital of 9.04% based on a proposed regulatory capital structure of 40% debt and 60% equity, a cost of debt of 5.04%, and a cost of equity of 11.71%. Northtown Acres' requested cost of capital is calculated on Schedule III-1.

**Q. WHAT IS THE BASIS FOR NORTHTOWN ACRES' PROPOSED OVERALL COST OF CAPITAL?**

A. Northtown Acres' proposed overall cost of capital is based in large part on the real-world risks of small water utilities such as Northtown Acres.

**Q. WHAT IS THE BASIS FOR THE REQUESTED CAPITAL STRUCTURE?**

A. Northtown Acres' actual capital structure is consistently 100% equity, excluding short term debt. As a small utility, Northtown Acres incurs a great deal of business and regulatory risk in providing service to its customers. With the regulatory cost involved in increasing rates, any needed increase in revenues could easily be outpaced from the customers' perspective just for the incurrence of rate case expenses. And, as borne out by this proceeding alone, any needed increase in rates may take multiple years to realize. For multiple years, Northtown Acres has been unable to recover a reasonable level of expense, much less any return on investment. If Northtown Acres had any material level of debt, it would be in risk of default given the degree of revenue shortfall and the time in which it takes to adjust rates. Under these operating conditions, in my opinion, a small utility could

1 not survive with any material level of debt. In my opinion, the capital structure of  
2 Northtown Acres should be the actual capital structure of 100% equity to reflect the risk  
3 involved in operating and the recovery of revenues. The requested regulatory capital  
4 structure of 40% debt is requested solely to comply with the rate filing package  
5 requirement that seems to state that debt may not be less than 40% of the capital structure.

6 **Q. WHAT DID STAFF RECOMMEND REGARDING COST OF CAPITAL?**

7 A. Staff recommended an overall rate of return of 6.51%. Although I do not agree with Staff's  
8 recommendation, especially the amount of debt imputed in the capital structure for the  
9 reasons discussed above, Northtown Acres has accepted Staff's recommendation.

10 **VIII. RATE DESIGN**

11 **Q. WHAT IS THE RATE DESIGN EMPLOYED IN THE NUS?**

12 A. Once the costs of purchased water were removed from base rates and the further  
13 adjustments were made, there was no real dispute regarding rate design. The meter charges  
14 and volumetric tiers are generated by a formula from the NUS revenue requirement.

15 **IX. PURCHASED WATER PASS-THROUGH**

16 **Q. HOW DOES THE NUS ADDRESS A PURCHASED WATER PASS-THROUGH.**

17 A. Northtown Acres and Staff collaborated on a pass-through formula designed to permit  
18 Northtown Acres to expeditiously file and recover actual increases in the cost of purchased  
19 water from the City of Corsicana. The pass-through formula and an Excel spreadsheet that  
20 may be used in calculating and verifying future pass-through adjustments is attached to my  
21 testimony as Exhibit A. The formula includes inputs for changes in the rates charged by  
22 the City of Corsicana, the number of meters with the City of Corsicana, the number of  
23 customer meters for each size meter, the annual volumes purchased from Corsicana and

1 the annual volumes sold by Northtown Acres. The end result is a formula that is easy to  
2 use and accurately reflects changes in, and permits recovery of, the cost of purchased water  
3 and the customer components that impact the recovery of the purchased water.

4 **X. RATE CASE EXPENSES**

5 **Q. IS NORTHTOWN ACRES PROPOSING THE RECOVERY OF RATE CASE**  
6 **EXPENSES IN THIS PROCEEDING?**

7 A. Yes. Northtown Acres requests that the Commission approve the reasonable rate case  
8 expenses incurred by Northtown Acres in this proceeding. Northtown Acres has made  
9 every attempt to maintain rate case expenses at a minimum, for the benefit of its customers,  
10 and is not seeking recovery of hourly attorney's fees. Northtown Acres is seeking recovery  
11 of expenses and contract work incurred in the processing of this case. Northtown Acres  
12 will provide updated rate case expense data in subsequent filings.

13 **Q. HOW DOES THE NUS TREAT RATE CASE EXPENSES?**

14 A. Northtown Acres and Staff have agreed that Northtown Acres should recover through a  
15 surcharge over a period of 12 months its actual rate case expenses incurred in this case up  
16 to and including the date of replies to exceptions or the date a unanimous agreement is  
17 signed. Northtown Acres and Staff agree to support a Final Order directing Northtown  
18 Acres to file receipts of actual rate case expenses, a proof of revenues to collect the total  
19 costs of actual receipts, and a Rate Case Expense Tariff in a compliance docket.

20 **XI. TRUE UP OF INTERIM RATES**

21 **Q. IS NORTHTOWN ACRES REQUESTING A TRUE-UP OF INTERIM RATES?**

22 A. Yes. Northtown Acres requests that the Commission approve a true-up of the difference  
23 between the final rates approved and the interim rates.

1   **Q.     HOW DOES THE NUS TREAT THE TRUE-UP?**

2    A.   Northtown Acres and Staff have agreed to limit the true-up time period by removing more  
3       than six months from the potential true-up period. Specifically, Northtown Acres and Staff  
4       have agreed to support the recovery, through a compliance filing, of a true-up to recover  
5       from customers the difference between the current interim rates and the agreed rates and  
6       pass-through, once approved by the Commission, between December 16, 2020 (the date of  
7       filing of the amended application) and the effective date of the agreed rates. Northtown  
8       Acres and Staff agree to support a Final Order directing Northtown Acres to file a true-up  
9       of interim rates, a proof of revenues of the true-up amount, and a True-Up Surcharge Tariff  
10      to recover the True-Up amount from customers in a compliance docket.

11   **XII.   MISCELLANEOUS EXPENSES**

12   **Q.     IS NORTHTOWN ACRES REQUESTING A CHANGE IN MISCELLANEOUS**  
13   **EXPENSES?**

14   A.   Yes. Northtown Acres proposed a change in miscellaneous expenses to recover the  
15      increased costs of materials in interconnection and relocations. Northtown Acres and Staff  
16      agree to the miscellaneous service charges included in Northtown Acres' Affidavit of  
17      Second Notice filed on March 4, 2021.

18   **XIII. CONCLUSION**

19   **Q.     PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.**

20   A.   Northtown Acres requests a rate increase to cover the increases in the cost of service  
21      incurred over the last decade. Specifically, Northtown Acres requests that the Commission  
22      approve the terms, rates, and tariffs agreed to in the NUS.

1    **Q.     DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

2    A.     Yes, it does.

**AFFIDAVIT**

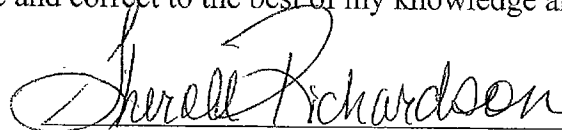
**STATE OF TEXAS §**

**§**

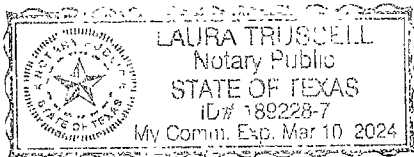
**COUNTY OF NAVARRO §**


BEFORE ME, the undersigned notary public, this day personally appeared Sheroll Richardson to me known, who being duly sworn according to law, deposes and says:

“My name is Sheroll Richardson. I am of legal age and a resident of the State of Texas. I certify that the foregoing testimony is true and correct to the best of my knowledge and belief.”

  
Sheroll Richardson

Subscribed and sworn to before me, notary public, on this the 28 day of July, 2021.



  
Notary Public in and for the State of Texas

My Commission expires: 3-10-2024

### **Northtown Acres Purchased Water Pass-Through Surcharge**

Northtown Acres may file a case to adjust the Pass-Through rates under 16 TAC § 25.25 at any time that the rates charged to Northtown Acres changes. The Purchased Water Pass-Through rates consist of tiered fixed charges and a volumetric charge. The tiered fixed charges will include a credit in the calculation to offset tier 1 and tier 2 lower volumetric rates charged to Northtown Acres by the City of Corsicana. The volumetric rate will include in the calculation an adjustment for line loss, and the resulting rate would be the pass-through volumetric rate.

The below equations and calculations show how the Pass-Through Rates are calculated:

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

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

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:**

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

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

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

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

$$C = \$4$$

**Calculation of Meter Charge, the Base Revenues to charge to Northtown Acres' Customers:**

$$M = (CM * CN) - C$$

M = Monthly Pass-Through Meter Revenues Needed

CM = Meter Charge to Northtown Acres by City of Corsicana

CN = Number of Northtown Acres' Meters with City of Corsicana

C = Base Charge Credit calculated above



The Monthly Pass-Through Meter Revenues will be engineered into tiered rates for the following meter sizes and using the following variables and factors:

Meter Size	Charge	No. of Meters	Revenues by Meter Size
	Col. a	Col. b	Col. c
5/8"	X	Y	Col. a * Col. b
3/4"	X*1.5	YY	Col. a * Col. b
1"	X*2.5	YYY	Col. a * Col. b
1 1/2"	X*5	YYYY	Col. a * Col. b
2"	X*8	YYYYY	Col. a * Col. b
3"	X*15	YYYYYY	Col. a * Col. b
4"	X*25	YYYYYYY	Col. a * Col. b
Sum to equal M			Sum of Revenues by Meter Size

#### **Current calculation of M and Tiered Charges:**

The \$4 credit will be applied in the calculation of the pass-through meter charges of \$643.60 ( $\$321.80 * 2$ ). The remaining \$639.60 should be billed as a pass-through to customers based on meter size as follows:

Meter Size	Charge
5/8"	\$2.23
3/4"	\$3.35
1"	\$5.58
1 1/2"	\$11.16
2"	\$17.86

3"	\$33.49
4"	\$55.81

The volumetric pass-through per 1,000 gallons is \$4.48 calculated as follows:

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

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

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

G = the new highest tier gallonage charge by City of Corsicana

L = the actual line loss for historical 12 month period reflected as a percentage expressed in decimal format (for example, ((Volumes purchased from City of Corsicana – Volumes Sold by Northtown Acres) / Volumes Sold by Northtown Acres)

**Current calculation of Volumetric Rate:**

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

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

$$R = \$4.47873$$

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

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

**Formula Input**

Corsicana 1st Tier Rate	\$ 3.90
Number of 1k Gallons included in 1st Tier	10
Corsicana 2nd Tier Rate	\$ 4.05
Number of 1k Gallons included in 2nd Tier	15
Corsicana 3rd Tier Rate	\$ 4.15
Corsicana Meter Charge	\$ 321.80
Number of Corsicana Meters	2
Number of NTA 5/8" Meters	173
Number of NTA 3/4" Meters	
Number of NTA 1" Meters	33
Number of NTA 1 1/2" Meters	3
Number of NTA 2" Meters	2
Number of NTA 3" Meters	
Number of NTA 4" Meters	
Most Recent Historical Annual Volumes Purchased From Corsicana	20,642
Most Recent Historical Annual Volumes Sold	19,230

**Formula Output****Tier Rates**

5/8"	\$ 2.23
3/4"	\$ 3.35
1"	\$ 5.58
1 1/2"	\$ 11.16
2"	\$ 17.86
3"	\$ 33.49
4"	\$ 55.81

**Volumetric Rate**

4.48

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

C=	K*	(E-P)	+	L*	(E-Q)
	10	0.25	+	15	0.1
		2.5	+	1.5	
Lower Tier Credit				4	

Calculation of Meter Charge, the Base Revenues to charge to Northtown Acres' Customers:

M=	(CM * CN) -	C
	643.6 -	4
	639.6	

The Monthly Pass-Through Meter Revenues will be engineered into tiered rates for the following meter sizes and using the following variables and factors:

Meter Size	Charge	Meter Equivalents	Revenues by Meter Size
	Col a	Col b	Col c
5/8"	\$ 2 23	173	\$ 386 22
3/4"	\$ 3 35	0	\$ -
1"	\$ 5 58	82 5	\$ 184 18
1 1/2"	\$ 11 16	15	\$ 33 49
2"	\$ 17 86	16	\$ 35 72
3"	\$ 33 49	0	\$ -
4"	\$ 55 81	0	\$ -
Sum to equal M			\$ 639.60

639.6

286.5

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

R=	G/	(1-L)
	4.15	92.66%
Volumetric Rate		4.48

The following files are not convertible:

Exhibit A (Native File) to Rebuttal  
Testimony - Purchased Water Pass-Through Calculation.XLSX

Please see the ZIP file for this Filing on the PUC Interchange in order to access these files.

Contact [centralrecords@puc.texas.gov](mailto:centralrecords@puc.texas.gov) if you have any questions.

The following files are not convertible:

	Exhibit 5 - Native File to Rebuttal
Testimony - Purchased Water Pass-Through Calculation.XLSX	
	Exhibit 1 - Native File to Amendment to
Application.XLSX	

Please see the ZIP file for this Filing on the PUC Interchange in order to access these files.

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