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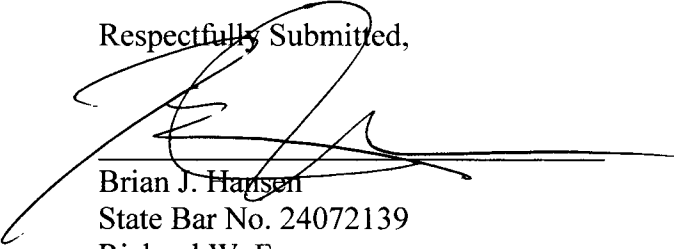
**DOCKET NO. 49154
SOAH DOCKET NO. 473-19-5677.WS**

RATEPAYERS' APPEAL OF THE	§	STATE OFFICE OF
DECISION BY LAGUNA MADRE	§	
WATER DISTRICT TO CHANGE	§	ADMINISTRATIVE HEARINGS
RATES	§	

**LAGUNA MADRE WATER DISTRICT'S RESPONSE TO
COMMISSION STAFF FIFTH SET OF REQUEST FOR INFORMATION
TO LAGUNA MADRE WATER DISTRICT
QUESTION NOS. STAFF 5-1 THROUGH 5-15**

COMES NOW, Laguna Madre Water District, Respondent in the above-referenced matter, and pursuant to the Tex. Admin. Code Ann. § 22.144 (TAC), makes and files this its Responses to Commission Staff's Fifth Set of Request for Information to Laguna Madre Water District, Question Nos. Staff 5-1 through 5-15.

Respectfully Submitted,



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LAGUNA MADRE WATER DISTRICT**

FILED
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LAGUNA MADRE WATER DISTRICT

CERTIFICATE OF SERVICE

A true and correct copy of the above and foregoing **Laguna Madre Water District's Responses to Commission Staff's Fifth Set of Request for Information to Laguna Madre Water District, Question Nos. Staff 5-1 Through 5-15** has been served on all parties of record on the 14th day of February, 2020 as follows:

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**SOAH DOCKET NO. 473-19-5677.WS
PUC DOCKET NO. 49154**

**LAGUNA MADRE WATER DISTRICT'S RESPONSES TO
COMMISSION STAFF'S FIFTH SET OF REQUEST FOR INFORMATION
TO LAGUNA MADRE WATER DISTRICT
QUESTION NOS. STAFF 5-1 THROUGH 5-15**

STAFF 5-1. Please refer to the spreadsheet entitled "Operational Input" in the model titled *2020 01 02 LMWD Rate Model Staff RFI* provided in response to Staff 2-1.

- a) Please provide all workpapers supporting the calculation of the accelerators used to determine the forecasted increase in operations and maintenance and administrative expenses in native excel format with all formulas intact.
- b) Please explain the rationale for all the accelerators used to calculate the forecasted increase in each operations and maintenance expense line item allocated to raw water.
- c) Please explain the rationale for all the accelerators used to calculate the forecasted increase in each administrative expense line item.

RESPONSE: To respond to this RFI the District presents the following:

2020 LMWD Rate Model RFI 4

This is the same model that was produced in response to PUC Staff's 4th Request for Information. This model has been modified to provide further data on the accelerators used to forecast costs over the ten-year period.

On the spreadsheet labelled *Operating Input*, the District has added a column shaded in green and labelled "Allocation Factors". For each of the 420 active and several hundred additional inactive and blank accounts, the District has inserted a key that explains the rationale for the line item's accelerator. Each account's accelerator is based on one of the following ten accelerators, also contained in the Operating Input spreadsheet. All accounts, both operating and administrative, have been labelled with this key for ease of understanding and analysis.

It should be noted that the accelerators are based on assumptions and forecasts about future cost behavior. Forecasts are not guarantees; they are predictions based on a series of reasonable assumptions. The District's principal assumption is that most costs will increase in the future based on a general inflation rate of 3.0%. Some costs will increase at greater rates, and others at lesser rates.

The specific accelerators are as follows:

1 – Inflation Rate – this is assumed to be 3.0% per year, which is in line with general inflationary trends in Texas and across the USA.

2 – Personnel Increases – This accelerator allows the District to increase personnel costs (salaries, etc.) by a factor greater than or less than inflation. It is based on Decisions of the Board as to the amount of salary and benefits increases to be awarded to staff. For the last two rate studies, the forecast increases in salaries is assumed to be the same as inflation (3.0%).

3 – Expense Increase Premium – the project team assumes that certain expenses will increase at rates greater than inflation. This includes such costs as electricity, gas, etc. By scrolling through the budget line items in Operating Input, staff can see which expense items the District forecasts will increase costs at an amount greater than inflation.

4 – Non-Rate Revenue Increase – this is the assumption for increases in non-rate revenues. Though the accelerator was set at 3.0%, the District's model overrode this assumption and inserted 0% increases for all non-rate revenues. The model contains the flexibility to override the accelerators at appropriate times, and the project team chose to do that in the last two rate studies.

5 -- Water Account Growth – certain expense items are forecast to increase as the number of water accounts increase. This total is calculated in the spreadsheet *Volume Input*.

6 -- Water Volumes Growth – certain expense items are forecast to increase as the volume of consumed water increases. This total is calculated in the spreadsheet *Volume Input*.

7 -- Wastewater Account Growth – certain expense items are forecast to increase as the number of wastewater accounts increase. This total is calculated in the spreadsheet *Volume Input*.

8 -- Wastewater Account Growth – certain expense items are forecast to increase as the number of wastewater billing units increase. This total is calculated in the spreadsheet *Volume Input*.

9 – FTEs – certain accounts increase by the forecast number of new FTEs over the ten-year period.

Pension – certain line items were overridden and replaced by assumptions concerning the significant increase in Pension liability the District forecast to incur in the coming years.

STAFF 5-2 Please provide the District's cost of service models used to develop the base rates for retail customers in Laguna Madre WD's last two rate changes in native excel format with all formulas intact.

RESPONSE: The District has provided workpapers and models related to the 2014 and 2018 rate studies as part of this response. This includes the rate models that were used as the basis for the rate studies. This includes the following rate models:

2015 02 27 LMWD Rate Model Alt 1
2018 08 16 LMWD Rate Model Scen 1
2018 08 16 LMWD Rate Model Scen 2
2020 LMWD Rate Model RFI 4

STAFF 5-3 Please provide the functional allocation factors used to allocate all line items within the cost of service models referenced in Staff 5-2.

RESPONSE: Each model provided in Staff 5-2 contains a spreadsheet entitled *Operating Input*. This spreadsheet contains the functional allocation factors for every line item in the District's budget, which was used as the basis for the raw water and the retail cost of service calculation.

STAFF 5-4 For the items that were allocated among the functions in the cost of service models referenced in Staff 5-2, please explain the rationale for the functional allocation factor that was used.

RESPONSE: Using the model *2020 LMWD Rate Model RFI 4*, the District offers the following rational:

Department 01 – Water Plant

In Staff's RFI #4 the District provided extensive justification for the use of a 25% allocation factor for Supply/Transmission. For brevity's sake we will not repeat that in this response. All non-Supply/Transmission costs are allocated to Treatment (75%). There are no administrative or customer costs in this Department.

Department 03 – Water Distribution

In Staff's RFI #4 the District provided extensive justification for the use of a 25% allocation factor for Supply/Transmission. For brevity's sake we will not repeat that in this response. All non-Supply/Transmission costs are allocated to Distribution (75%). There are no administrative or customer costs in this Department.

Department 04 – Wastewater Collection

All costs in this department are allocated 100% to wastewater collection. None of these costs are raw water related. There are no administrative or customer costs in this Department.

Department 05 – Maintenance

This department serves both water and wastewater. Costs are allocated to water and wastewater based on percent of total accounts. Costs are functionalized 50% to treatment and 50% to distribution. At this time the District has chosen to allocate none of these costs to raw water. District staff believes that some portion of this cost is used to support raw water. However, given the uncertainty of an appropriate allocation factor to use at this time, the District has chosen to waive its privilege to allocate any of these costs, a decision that benefits its Raw Water Customers. The District reserves the right to revisit this assumption if circumstances warrant.

Department 07 – Laboratory

This department serves both water and wastewater. Costs are allocated to water and wastewater based on percent of total accounts. Costs are functionalized 50% to treatment and 50% to distribution. At this time the District has chosen to functionalize none of these costs to raw water. District staff believes that some portion of this cost is used to support raw water, given that the District must treat its reservoir with potassium permanganate and conduct occasional tests. However, given the uncertainty of an appropriate allocation factor to use at this time, the District has chosen to waive its privilege to allocate any of these costs, a decision that benefits its Raw Water Customers. The District reserves the right to revisit this assumption if circumstances warrant.

Department 07 – Administration

This department serves both water and wastewater. Costs are allocated to water and wastewater based on percent of total accounts. Costs are functionalized 75% to general administration and 25% to customer billing. This allocation is based on discussions with

senior District management, who estimated that District senior staff and clerical personnel spend approximately 25% of their professional time dealing specifically with customer-driven issues. No customer billing costs are allocated to raw water.

LMWD is a small District. The General Manager, Director of Operations, and other senior staff often become directly involved in customer-related issues, from service issues to billing questions, etc.

Department 08 – Wastewater Plant

All costs in this department are allocated 100% to wastewater treatment. None of these costs are raw water related. There are no administrative or customer costs in this Department.

Department 10 – Finance

This department serves both water and wastewater. Costs are allocated to water and wastewater based on percent of total accounts. Costs are functionalized 75% to general administration and 25% to customer billing. This allocation is based on discussions with senior District management, who estimated that District senior staff and clerical personnel spend approximately 25% of their professional time dealing specifically with customer-driven issues. No customer billing costs are allocated to raw water.

Department 11 – Electrical

This department serves both water and wastewater. Costs are allocated to 50% to water and 50% to wastewater. Costs are functionalized 50% to treatment and 50% to distribution. At this time the District has chosen to functionalize none of these costs to raw water. District staff believes that some portion of this cost is used to support raw water. However, given the uncertainty of an appropriate allocation factor to use at this time, the District has chosen to waive its privilege to allocate any of these costs, a decision that benefits its Raw Water Customers. The District reserves the right to revisit this assumption if circumstances warrant.

Department 12 – Construction and Maintenance

This department serves both water and wastewater. Costs are allocated to 50% to water and 50% to wastewater. Costs are functionalized 50% to treatment and 50% to distribution. At this time the District has chosen to functionalize none of these costs to raw water. District staff believes that some portion of this cost is used to support raw water. However, given the uncertainty of an appropriate allocation factor to use at this

time, the District has chosen to waive its privilege to allocate any of these costs, a decision that benefits its Raw Water Customers. The District reserves the right to revisit this assumption if circumstances warrant.

STAFF 5-5 Please indicate which items were directly assigned to each function within the cost of service models referenced in Staff 5-2.

RESPONSE: Please see response to Staff 5-4 above. The only departments directly assigned to one function are wastewater treatment and wastewater collection, neither of which are applicable to the raw water rate. The reason for the 100% direct allocation is self-evident. All other costs used general allocation factors, the justification for which is outlined in the response to Staff 5-4.

It should further be noted that the District's accounting system separates out all administration costs from the functional departments, so there are no administration costs in these departments.

STAFF 5-6 For each item referenced in Staff 5-5, please justify why direct assignment is preferable to an allocation treatment.

RESPONSE: Please see response to Staff 5-4 and Staff 5-5. The only departments directly assigned to one function are wastewater treatment and wastewater collection, neither of which are applicable to the raw water rate. The reason for the 100% direct allocation of wastewater treatment and wastewater collection is self-evident, as each department captures costs directly related to its associated function. All other costs used general allocation factors, the justification for which is outlined in the response to Staff 5-4.

It should further be noted that the District's accounting system separates out all administration costs from the functional departments, so there are no administration costs in these departments.

STAFF 5-7 Please provide all workpapers supporting the calculation of the billing determinants used to set the base rates for retail customers in the District's last two rate changes in native excel format with all formulas intact. Please include any adjustments made to billing determinates.

RESPONSE: The District has provided workpapers related to its 2014 and 2018 rate studies in response to this question. The following Excel workbooks are most notable in response to this question:

2015 02 27 LMWD Volume Model

2018 08 16 Consumption Summary

STAFF 5-8 Please provide all workpapers supporting the calculation of the accelerators used to determine the forecasted increase in operations and maintenance and administrative expenses in the Laguna Madre WD's cost of service models used to develop the base rates for retail customers in the District's last two rate changes. Please provide workpapers in native excel format with all formulas intact.

RESPONSE: Please see response to Staff 5-1.

STAFF 5-9 Please provide all budgets, projections, financial statements and workpapers supporting the water cost of service used in the rate models for the retail customers for the District's last two rate changes approved by the Board of Directors. Also provide a key that shows what accounts in the budgets and financial statements are combined into the expense categories included in the rate models for each rate change.

RESPONSE: The District has provided workpapers from the 2014 and 2018 rate studies in response to this RFI.

The District directs staff to the following spreadsheets in each of its rate models:

Operating Input
Test Year W1
Forecast W4

Each of these spreadsheets lists all individual budget line items from each of the District's budget, along with the associated account code. The spreadsheet *Test Year W1* summarizes each line item of the District's expenses into Functionalized Transmission/Treatment/Distribution/Administration/Customer Billing. The allocation percentages calculated in *Test Year W1* are then used to functionalize all costs for the ten-year period in *Forecast W4*. Therefore, the accounts in *Test Year W1* serve as a "key" to the allocation of every line item of cost.

STAFF 5-10 Please provide general ledgers for the two historical periods coinciding with the budgets used in the last two rate changes.

RESPONSE: Please find attached Financial Reports for the Fiscal Years ending 9-30-2015 and 9-30-2018.

STAFF 5-11 What is the maximum amount of raw water the District is capable of delivering?

RESPONSE: 8 Million Gallons per Day (MGD)

STAFF 5-12 What is the maximum amount of raw water the District is capable of delivering to South Padre Island Golf Course?

RESPONSE: 1 Million Gallons per Day (MGD)

STAFF 5-13 Please provide the billing determinants for all raw water customers that coincide with the test year used to set the retail base rates in the last two retail base rate changes within the Laguna Madre Water District.

RESPONSE: The District provided this data in response to Staff 4-1.

STAFF 5-14 Please identify what percentage of all operations and maintenance expenses and administrative expenses constitutes either a volumetric or a fixed expense.

RESPONSE: The District is unable to answer this question, because the District does not classify its expenses as volumetric or fixed, either in its budgets or in the rate studies that have been completed.

STAFF 5-15 Does the South Padre Island Golf Course have minimum bill requirement? If so, please provide state what is the minimum bill requirement.

RESPONSE: SPI Golf does not have a minimum bill requirement.

FLASH DRIVE
ATTACHED

TO VIEW PLEASE CONTACT
CENTRAL RECORDS
512-936-7180