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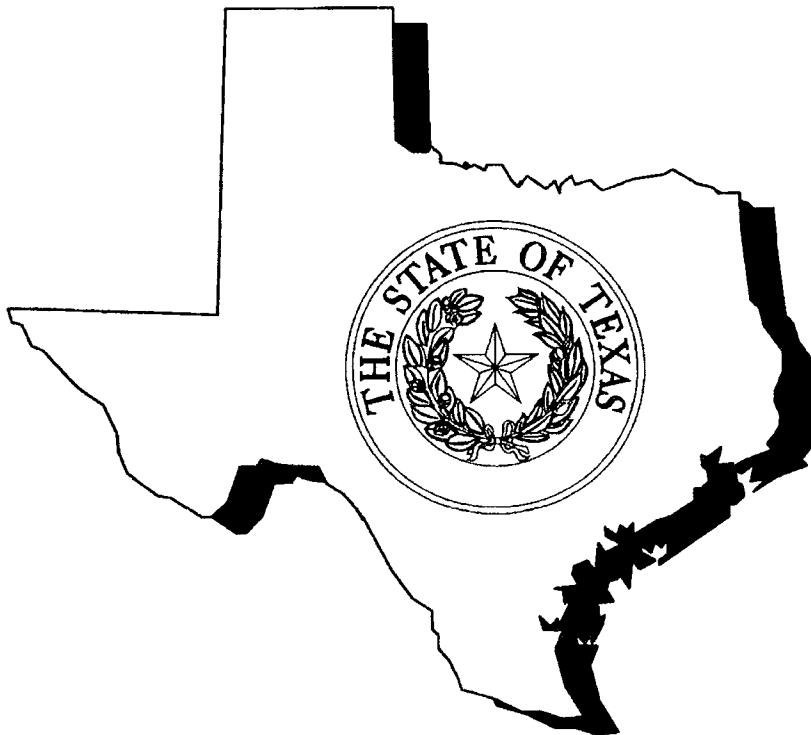
RATEPAYERS' APPEAL OF THE
DECISION BY BEAR CREEK SPECIAL
UTILITY DISTRICT TO CHANGE
RATES

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BEFORE THE STATE OFFICE

OF

ADMINISTRATIVE HEARINGS



DIRECT TESTIMONY OF
EMILY SEARS
RATE REGULATION
PUBLIC UTILITY COMMISSION OF TEXAS
OCTOBER 19, 2020

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1 **I. INTRODUCTION OF WITNESS**

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

3 A. Ms. Emily Sears, Public Utility Commission of Texas, 1701 N. Congress Avenue, Austin,
4 Texas 78711-3326.

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

6 A. I have been employed by the Public Utility Commission of Texas (Commission) since
7 January 1, 2015 as a Financial Analyst, currently in the Rate Regulation Division.

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

9 A. My principal responsibilities at the Commission are tariff and rate change applications and
10 appeals. I am also responsible for preparing testimony and exhibits for contested case
11 matters involving investor-owned, non-profit, and governmental water and sewer retail
12 public utilities and wholesale matters, and participating in settlement negotiations.

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

14 A. I have provided a summary of my educational background and professional experience in
15 Attachment ES-1 to my direct testimony.

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

18 A. Yes. I have also testified before the Pennsylvania Public Utility Commission. Attachment
19 ES-2 provides a summary of the cases in which I have testified or submitted testimony.

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

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

3 A. The purpose of my testimony is to address Bear Creek Special Utility District's (Bear Creek
4 SUD) debt service and debt service coverage in relation to the rates adopted by Bear Creek
5 SUD on October 9, 2018 that are appealed by the ratepayers in this proceeding.

6 **Q. If you do not address an issue or position in your testimony, should that be interpreted
7 as Staff supporting Bear Creek SUD's position on that issue?**

8 A. No. The fact that I do not address an issue in my testimony should not be construed as
9 agreeing, endorsing, or consenting to any position taken by Bear Creek SUD.

10
11 **III. DEBT SERVICE COVERAGE**

12 **A. DEBT SERVICE**

13 **Q. Please define debt service.**

14 A. Debt service is the annual amount of principal and interest due on outstanding loans.

15 **Q. What is Bear Creek SUD's current debt service?**

16 A. According to Jay Joyce's testimony, Bear Creek SUD's total debt service is \$547,516.¹

17 **Q. Do you have any recommended adjustments to the debt service?**

18 A. No.

¹ Direct Testimony of Jay Joyce at 17, Exhibit JJJ-6 at 61 (Aug. 3, 2020).

1 **B. DEBT SERVICE COVERAGE AND RATIO**

2 **Q. Please define debt service coverage.**

3 A. Debt service coverage is a ratio of annual funds available to cover annual debt service divided
4 by the annual debt service requirement (principal and interest).

5 **Q. What debt service coverage ration (DSCR) did Bear Creek SUD include in its rates?**

6 A. Bear Creek SUD included a debt service coverage ratio (DSCR) of 1.0x in its rates.²
7 However, Jay Joyce recommends including a DSCR of 1.25x in the revenue requirement.³

8 **Q. What is your recommended DSCR for Bear Creek SUD?**

9 A. I recommend a DSCR of 1.0x.

10 **Q. What is the basis for your recommendation?**

11 A. A DSCR of 1.0x is in line with what Bear Creek SUD included in its rates, takes into
12 consideration Bear Creek SUD's ability to pay its debts with cash on hand, Greater Texoma
13 Utility Authority's (GTUA) reserve, and the ability of Bear Creek SUD to change its rates at
14 any time.

15 **Q. Please discuss the consideration of Bear Creek SUD's ability to pay its debts with cash
16 on hand.**

17 A. As noted by Jay Joyce, Bear Creek SUD's operating accounts have a total balance of
18 \$1,837,898.45.⁴ Using the total debt service of \$547,216, this allows Bear Creek SUD to

² Direct Testimony of Jay Joyce at 21, Exhibit JJJ-10 at 76.

³ Direct Testimony of Jay Joyce at 25-27.

⁴ Direct Testimony of Jay Joyce at 19, Exhibit JJJ-8 at 69.

1 be able to pay its debts 3.36x, or over three years, with cash on hand. This is above the two-
2 year period Mr. Joyce describes in his testimony regarding a utility's financial fitness.⁵

3 **Q. Why have you taken into account GTUA's reserve?**

4 A. GTUA is required to have a reserve fund equal to the average annual debt service on the
5 bond.⁶ I have taken this into consideration because it is one of the mechanisms that is
6 funded by Bear Creek SUD's rates and that ensures the bond is repaid.

7 **Q. Why have you considered that Bear Creek SUD can change its rates at any time?**

8 A. I have taken into consideration that Bear Creek SUD can change its rates at any time because
9 if, at any time in the future, the 1.0x DSCR is not sufficient or its financial integrity becomes
10 jeopardized, Bear Creek SUD can increase its rates to cover its needs. This means that Bear
11 Creek SUD does not have to receive approval from the Commission to changes rates and can
12 therefore implement new rates that go into effect sooner.

13 **Q. Mr. Joyce describes the Texas Water Development Board (TWDB) requiring a 1.25x**
14 **DSCR for its bond issuances.⁷ Do you agree?**

15 A. I agree in part. The TWDB does not require an ongoing 1.25x DSCR for current debt;
16 rather, it requires a 1.25x DSCR if the current bond holder requests a second issuance from
17 the TWDB.

⁵ Direct Testimony of Jay Joyce at 26-27.

⁶ *Id* at 15.

⁷ *Id* at 26.

1 **Q. Does Bear Creek SUD currently have debt outstanding with the TWDB?**

2 A. No.

3 **Q. Why is your recommendation of a 1.0x DSCR appropriate?**

4 A. For all the reasons stated above, Bear Creek SUD has many mechanisms available to ensure
5 that it can repay its bond. Requiring a 1.25x DSCR at this time is unnecessary, as there is a
6 reserve fund, it has a 3.36x coverage through current cash on hand, and it can change its rates
7 at any time. A 1.0x DSCR will not affect Bear Creek SUD's current financial integrity.
8 Thus, I do not recommend any adjustments to Bear Creek SUD's debt service coverage.

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

10 A. Yes. I reserve the right to supplement this testimony during the course of the proceeding if
11 new evidence becomes available.

Attachment ES-1
Emily Sears Resume

Emily Sears

Professional Experience

- **Public Utility Commission of Texas**
Utility Rates Analyst
Water Utilities Division
January 2015 - Present
- **Commonwealth of Pennsylvania, Public Utility Commission**
Fixed Utility Financial Analyst
Bureau of Investigation and Enforcement
May 2009 – December 2014
- **Commonwealth of Pennsylvania, Public Utility Commission**
Fixed Utility Financial Analyst
Bureau of Fixed Utility Services
April 2008 – May 2009
- **Nationwide Insurance Company**
Personal Lines Underwriting Screener
October 2004 – May 2007

Education

- **University of Pittsburgh, College of Business Administration**
Bachelors of Science in Business Administration
Major – Finance
August 2004
- **Annual Regulatory Studies Program: Camp NARUC**
Week 1-Introduction to Regulation
August 2008
- **Pennsylvania Public Utility Commission Rate Case Training**
December 2008
- **Society of Utility and Regulatory Financial Analysts**
Certified Rate of Return Analyst
June 2010
- **Utility Finance and Accounting for Financial Professionals**
Seminar June 20-21, 2019

Presentations

- **Pennsylvania Public Utility Commission Rate Case Training**
Presented on Rate of Return/Return on Equity
October 2012, September 2014
- **Public Utility Commission of Texas – Rate of Return Training**
Presented on Rate of Return/Return on Equity
August 2017 – Present

Attachment ES-2
Emily Sears Testimonies

TESTIMONY SUBMITTED:

I have testified and/or submitted testimony in the following proceedings before the Pennsylvania Public Utility Commission:

- Duquesne Light Company, Docket No. M-2009-2093217
- West Penn Power Company d/b/a Allegheny Power, Docket No. M-2009-2093218
- Duquesne Light Company, Docket No. M-2009-2123948
- West Penn Power Company d/b/a Allegheny Power, Docket No. M-2009-2123951
- Utilities, Inc. – Westgate, Docket No. R-2009-2117389
- Utilities, Inc. of Pennsylvania, Docket No. R-2009-2117402
- PECO Energy Company - Electric Division, Docket No. P-2009-2143607
- PECO Energy Company – Gas Division, Docket No. P-2009-2143588
- Philadelphia Gas Works, Docket No. R-2009-2139884
- York Water Company, Docket No. R-2010-2157140
- City of Lancaster, Docket No. R-2010-2179103
- Columbia Gas of Pennsylvania, Inc., Docket No. R-2010-2215623
- CMV Sewage, Inc., Docket No. R-2011-2218562
- Pennsylvania American Water Company, Docket No. R-2011-2232243
- UGI Penn Natural Gas, Docket No. R-2011-2238943
- Aqua Pennsylvania, Inc., Docket No. R-2011-2267958
- Equitable Gas Company, LLC, Docket No. R-2012-2287044
- Peoples Natural Gas Company, LLC, Docket No. R-2012-2285985
- PPL Electric Utilities Corporation, Docket No. R-2012-2290597
- Columbia Gas of Pennsylvania, Inc., Docket No. R- 2012-2321748
- The City of Lancaster – Sewer Fund, Docket No. R-2012-2310366
- Columbia Gas of Pennsylvania, Inc., Docket No. R-2012-2321748 and M-2012-2323645
- UGI Penn Natural Gas, Docket No. R-2013-2361763
- City of DuBois – Bureau of Water, Docket No. R-2013-2350509
- Pennsylvania-American Water Company, Docket No. R-2013-2355276
- Duquesne Light Company, Docket No. R-2013-2372129
- Pike County Light and Power Company, Gas Division, Docket No. R-2013-2397353
- Pike County Light and Power Company, Electric Division, Docket No. R-2013-2397237
- UGI Penn Natural Gas, Docket No. R-2014-2420273
- Emporium Water Company, Docket No. R-2014-2402324
- City of Lancaster – Water Fund, Docket No. R-2014-2418872
- Peoples TWP, LLC, R-2014-2429613
- Peoples Natural Gas Company, LLC, R-2014-2429606

I have testified and/or submitted testimony in the following proceedings before the Public Utility Commission of Texas and the Texas State Office of Administrative Hearings:

- Custom Water Company, LLC., Docket No. 44236
- City of Austin water rate appeal, Docket No. 42857
- City of Austin wastewater rate appeal, Docket No. 42867 (consolidated with Dkt No. 42857)
- Consumers Water, Inc., Docket No. 43076
- Laguna Vista, LTD. and Laguna Tres, Inc., Docket No. 44046
- Quadvest, L.P., Docket No. 44809
- Monarch Utilities I, L.P., Docket No. 45570
- Corix Utilities (Texas), Inc., Docket No. 45418
- Double Diamond Properties Construction Co. dba Rock Creek, Docket No. 46247
- Liberty Utilities Corp., Docket No. 46256
- Double Diamond Utility Company, Inc., Docket No. 46245
- Wolfe Air Park Civic Club, Inc., Docket No. 46923
- Liberty Utilities, LLC, Docket No. 47976
- W. E. Vlasek, Docket No. 48640
- City of Austin, Docket No. 49189
- Corix Utilities (Texas), Inc, Docket No. 49923