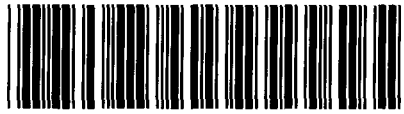


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Addendum StartPage: 0

SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200

RECEIVED  
2020 MAR 23 AM 11:41  
PUBLIC UTILITY COMMISSION  
LLOYD GOSSELINK, LLC

APPLICATION OF UNDINE TEXAS, §  
LLC AND UNDINE TEXAS §  
ENVIRONMENTAL, LLC FOR §  
AUTHORITY TO CHANGE RATES §

BEFORE THE  
PUBLIC UTILITY COMMISSION  
OF TEXAS

**UNDINE TEXAS, LLC AND UNDINE TEXAS  
ENVIRONMENTAL, LLC'S RESPONSE TO COMMISSION STAFF'S  
FIRST REQUEST FOR INFORMATION**

Undine Texas, LLC and Undine Texas Environmental, LLC (Undine) files this Response to the First Request for Information (RFI) filed by the Staff of the Public Utility Commission of Texas (Staff). The discovery request was received by Undine on March 3, 2020; therefore these responses are timely filed. Pursuant to 16 Tex. Admin. Code (TAC) § 22.144(c)(2)(F), these responses may be treated as if they were filed under oath.

**The following files are confidential and will be provided electronically on the CD attached to this filing:**

- CONFIDENTIAL Attachment Staff 1-12 Undine Group LLC Income Tax Return 2018 Form 1065
- CONFIDENTIAL Attachment Staff 1-13(a) Undine Operating, LLC - 2018 W-2's and Earnings Summary
- CONFIDENTIAL Attachment Staff 1-13(b) Undine Operating, LLC - 2019 W-2's and Earnings Summary
- CONFIDENTIAL Attachment Staff 1-13(c) 2018 1099's
- CONFIDENTIAL Attachment Staff 1-13(d) 2019 1099's
- CONFIDENTIAL Attachment Staff 1-15(a) Undine Group, LLC - Texas Franchise Tax Report for 2018

If a responsive document exceeds 99 pages, the response will indicate that the attachment is voluminous, and pursuant to 16 TAC § 22.144(h)(2), the document will be provided electronically on the CD attached to this filing and made available for inspection at the offices of Undine's attorneys, Lloyd Gosselink Rochelle and Townsend, P.C., located at 816 Congress

1880

Avenue, Suite 1900, Austin, Texas 78701. Please call Hanna Campbell at 512-322-5871 during regular business hours, to make an appointment to review the documents.

Pursuant to 16 TAC § 22.144(h)(4), an index of the voluminous documents is provided, below.

### VOLUMINOUS INDEX

#### 1. Voluminous Attachments to Undine's Response to Staff's First RFI

No.	Date	Title or Description	Preparer or Sponsor	Page Range	No. of Pages
1-10	03/23/2020	Attachment Staff 1-10(a) 2018 & 2019 Transaction Details.xlsx	Prepared by Benny Wilkinson; Sponsored by Edward R. Wallace, Sr.	1-2,385	2385
1-10	03/23/2020	Attachment Staff 1-10(b) Consolidating Balance Sheets.xlsx	Prepared by Benny Wilkinson; Sponsored by Edward R. Wallace, Sr.	2,386 - 2,387	2
1-12	03/23/2020	CONFIDENTIAL Attachment Staff 1-12 Undine Group LLC Income Tax Return 2018 Form 1065.pdf	Prepared by Benny Wilkinson; Sponsored by Edward R. Wallace, Sr.	1-159	159
1-20	03/23/2020	Attachment Staff 1-20(a) Support Documentation.pdf	Prepared by Benny Wilkinson; Sponsored by Edward R. Wallace, Sr.	1-56	56
1-20	03/23/2020	Attachment Staff 1-20(b) Support Documentation.pdf	Prepared by Benny Wilkinson; Sponsored by Edward R. Wallace, Sr.	57-130	74
1-20	03/23/2020	Attachment Staff 1-20(c) Support Documentation.pdf	Prepared by Benny Wilkinson; Sponsored by Edward R. Wallace, Sr.	131-205	75
1-20	03/23/2020	Attachment Staff 1-20(d) Support Documentation.pdf	Prepared by Benny Wilkinson; Sponsored by Edward R. Wallace, Sr.	206-293	88

Respectfully submitted,

**LLOYD GOSSELINK ROCHELLE  
& TOWNSEND, P.C.**

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GEORGIA M. CRUMP

State Bar No. 05185500

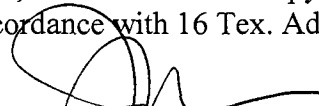
JAMIE L. MAULDIN

State Bar No. 24065694

ATTORNEYS FOR UNDINE TEXAS, LLC AND  
UNDINE TEXAS ENVIRONMENTAL, LLC

**CERTIFICATE OF SERVICE**

I hereby certify that on March 23, 2020, a true and correct copy of the foregoing document has been served on all parties of record in accordance with 16 Tex. Admin. Code § 22.74.



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JAMIE L. MAULDIN

**SOAH DOCKET NO. 473-20-3110.WS**  
**PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-1**      Reference bates pages 44 and 122 of the Application. Please describe the methodology utilized to determine the requested Return on Equity (ROE) of 9.75%. Include all workpapers in electronic spreadsheet format with cell references and formulae intact.

**RESPONSE:** The Return on Equity of 9.75% is based on judgment and experience with small water and sewer utilities. There are no workpapers related to the requested ROE for Undine.

Prepared by: Donald J. Clayton  
Sponsored by: Donald J. Clayton

**SOAH DOCKET NO. 473-20-3110.WS**  
**PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-2**      Reference bates page 44 of the Application. Please identify and describe any methodologies Edward Wallace has previously utilized to determine a requested ROE for other water and/or sewer systems.

**RESPONSE:** Mr. Wallace generally discusses the appropriateness of the ROE that the rate consultant suggested, and together they decided on the ROE to request in the rate filing. He has never determined an ROE to request without discussions with the rate consultant.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-3** For each methodology listed in response to Staff 1-2, please identify the state in which the ROE was requested.

**RESPONSE:** Mr. Wallace and rate consultant Donald J. Clayton have jointly determined the ROE in rate filings in Florida, South Carolina, and Texas.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-4** If the answer to Staff 1-3 includes a ROE requested in Texas, please provide the associated certificate of convenience and necessity number, docket number in which the ROE was requested, and connection count for the utility.

**RESPONSE:** The ROE requested in Texas (9.75%) is utilized in this rate application, Docket No. 50200. The CCN numbers affected are shown on Page 3 of the Statement of Intent.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.



**SOAH DOCKET NO. 473-20-3110.WS**  
**PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-5** Reference bates page 122, lines 12-14 of the Application. Please provide all "experience" referenced in this statement, including but not limited to, the following:

- i. Docket number;
- ii. Jurisdiction;
- iii. Name of utility/applicant;
- iv. Size of system, including customer count;
- v. Test Year used;
- vi. ROE approved by the regulatory authority;
- vii. Methods, including inputs and proxy group (if applicable), relied on by the regulatory authority to determine the authorized ROE;
- viii. Capital structure approved by the regulatory authority;
- ix. Debt cost rate approved by the regulatory authority;
- x. Date a final order was entered; and
- xi. In cases where Mr. Clayton testified as a witness:
  1. ROE requested by the applicant;
  2. Methods, including inputs and proxy group (if applicable), used to support the requested ROE;
  3. Capital structure requested by the applicant; and
  4. Debt cost rate requested by the applicant.

**RESPONSE:** Please see Attachment Staff 1-5 (provided on CD).

Prepared by: Donald J. Clayton  
Sponsored by: Donald J. Clayton

**SOAH DOCKET NO. 473-20-3110.WS**  
**PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-6** Reference bates page 122, lines 12-14 of the Application. Please provide all methodologies, including individual inputs, Mr. Clayton has used to determine a ROE in his "experience" that are not listed in response to Staff RFI 1-5.

**RESPONSE:** Mr. Clayton has used the Discounted Cash Flow Method (DCF), Capital Asset Pricing Model (CAPM), and Value Line ROE comparisons to support his recommendation of ROE for small gas companies in West Virginia. The inputs to the DCF model (single stage) are, as follows:

$$K = D/P + G$$

Where:

K = Investor's discount rate or expected return on equity

D = Annual dividend per share

P = Market price per share

G = Expected future dividend growth rate

For companies that are not publicly traded the above formula is applied to the historical results and dividend forecasts for a comparison (or proxy) group of publicly traded companies. The proxy group data can be found in the Value Line Investment Survey which is published periodically.

The inputs to the Capital Asset Pricing Model (CAPM) are as follows:

$$k_x = R_f + \beta_x(k_m - R_f)$$

Where:

$k_x$  = Required return on equity

$R_f$  = Risk free rate

$\beta_x$  = beta coefficient

$k_m$  = expected return on the market

Similar to the DCF model for non-publicly traded companies the CAPM is applied to data for a proxy group.

The Value Line Investment Survey also publishes equity return data for publicly traded companies which can be compiled for a proxy group and compared to the DCF and CAPM results.

Prepared by: Donald J. Clayton  
Sponsored by: Donald J. Clayton

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-7** Reference bates page 122, lines 12-14 of the Application. Please provide all documentation relied on to support the statement that small companies are “far more risky than companies with larger balance sheets.”

**RESPONSE:** It is well known that small companies tend to be more risky than large companies. The attached article by Tony Segal gives a simple explanation of why this is true. Duff & Phelps publication *Stocks, Bonds, Bills and Inflation* (SBBI) quantifies the risk premium associated with publicly traded stocks. SBBI divides publicly traded stocks divided into 10 groups by market capitalization. Historically there has been a more than 400 basis point premium for the smallest market cap group when compared with the largest market cap group. The reason for the premium is that the certainty of the return, or volatility, for the small cap group is higher than for the large cap group. The following table, which addresses the size premium, was derived from the SBBI data for the period from 1926 to 2018.

Market Capitalization	1926-1949	1950-1974	1975-2018
Large Cap Stocks	11.9%	11.9%	14.8%
Small Company Stocks	11.8%	16.2%	31.6%
Large Cap Bonds	5.4%	5.9%	9.8%
Small Company Bonds	3.3%	3.4%	3.1%
Large Cap Cash	2.9%	3.6%	4.0%

**Source:** <https://www.perritcap.com/the-micro-cap-advantage-how-microcap-equities-help-enhance-return-and-lower-correlation-in-client-portfolios/>

In addition to the size premium discussed above there is also a liquidity premium that is demanded for small non-publicly traded companies such as Undine. The liquidity premium reflects the risk associated with not being able to readily convert an investment into cash at fair market value. Other risks for small companies include lack of access to the bond market, lost revenue related to loss of a large customer, less economy of scale and greater impact of a localized disaster.

See Attachment Staff 1-7 (provided on CD).

Prepared by: Donald J. Clayton  
Sponsored by: Donald J. Clayton

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE’S RESPONSE TO STAFF’S FIRST RFI**

**Staff 1-8** Reference bates page 44 of the Application. Is Mr. Wallace aware of any PUC docket numbers that support the 9.75% ROE requested in this case? If the answer is yes, please provide the docket numbers.

**RESPONSE:** Yes. See the following docket numbers, utilities, and ROEs. Undine provides exemplary customer service and believes that it should be recognized for doing so, and for acquiring systems in need of repairs and bringing them up to TCEQ standards, thereby improving the infrastructure of the state’s water/wastewater systems. This recognition would result in a ROE higher than those given in this list.

Docket No. 46747	Cypress Gardens	9.07%
Docket No. 46245	Double Diamond	8.79%
Docket No. 45720	Rio Concho	8.48%

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-9**      Reference bates page 122 of the Application. Is Mr. Clayton aware of any PUC docket numbers that support the 9.75% ROE requested in this case? If the answer is yes, please provide the docket numbers.

**RESPONSE:** Yes. See the following docket numbers, utilities, and ROEs.

Docket No. 46747	Cypress Gardens	9.07%
Docket No. 46245	Double Diamond	8.79%
Docket No. 45720	Rio Concho	8.48%

Prepared by: Donald J. Clayton  
Sponsored by: Donald J. Clayton

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-10** Please provide the test year general ledger for UT and UTE in Microsoft Excel format.

**RESPONSE:** This RFI requests Undine to provide the test year general ledger for UT and UTE in a Microsoft Excel format. Undine assumes the request for a "general ledger" implies a request for a working trial balance for the test year. While providing a response to that request is not impossible, it is extremely difficult for the following reasons:

(a) A general ledger has for each account a beginning balance, all transactions for that period, and an ending balance, then it moves on to the next account-by each utility. If Undine were to run a general ledger for the test year, it will have a beginning balance for the balance sheet accounts, twelve months of transactions, and an ending balance, but for the income accounts (revenue and expenses) it will only have the Jan-Sep transactions and ending balance (for 9 months of transactions) because the income accounts close to retained earnings after December 2018.

(b) To provide a single working trial balance would require a combination of the entities; Undine is combining six water utilities and five sewer utilities, each utility has a separate general ledger and they must be put together to get the information needed for UT and UTE. It is not one general ledger for each.

(c) The accounting system automatically transfers earnings into retained earnings at the fiscal year end. To calculate pristine test year transactions two trial balances would have to be prepared for each system; one for the period January 1, 2019 through September 30, 2019 and another for the short period of October 1 2018 through December 31, 2018

(d) All regulatory accounts relating to plant and equipment (accounts 101, 108, 114, 271, and 272) are accounted for in subledgers maintained on a NARUC basis not a regulatory basis, therefore Undine would have to substitute the regulatory basis for the GAAP basis for these accounts for rate filing purposes.

In an effort to comply with this request, Undine is attaching all detailed transactions during the test year by Company and Consolidating Balance Sheets by Company at September 30, 2018 and September 30, 2019.

See Attachment Staff 1-10(a) and (b) for detailed transactions and Consolidating Balance Sheets at September 30, 2018 and September 30, 2019. This response is VOLUMINOUS and will be provided on CD.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-11** If the accounting classifications in the general ledger are different from the application, please provide a detailed mapping of the expense accounts in the general ledger to the expense accounts on Schedule I-1 of the application using the following format.

NARUC Account Number (Schedule I-1)	NARUC Account Title (Schedule I-1)	Undine Account Number	Undine Account Title

**RESPONSE:** Undine does not know of any instances where the General Ledger accounting classifications do not agree with the expense accounts used on Schedule I-1 of the application.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS**  
**PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-12** Please provide copies of the federal income tax return(s) that include the Company's utility operations for 2018 and 2019 for both water and sewer.

**RESPONSE:** This response is VOLUMINOUS and CONFIDENTIAL and will be provided on CD. Undine Group, LLC Federal Tax Return on Form 1065 for 2018 is provided in Attachment STAFF 1-12. The 2019 return is not currently available.

See CONFIDENTIAL Attachment Staff 1-12 for Federal Income Tax Return for 2018 provided under seal.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.



**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-13** Please provide copies of federal forms W-2, W-3, 1099, and 1096 for 2018 and 2019 for both water and sewer for the entity that paid any person providing contract services to UT or UTE during the test year.

**RESPONSE:** This response is CONFIDENTIAL and will be provided on CD. Undine's W-2, W-3, 1099s, and 1096s for 2018 and 2019 are included in the attachment to this response.

See CONFIDENTIAL Attachments Staff 1-13(a) through 1-13(d) provided under seal.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-14** Please provide copies of contracts supporting the test year Contract Work expense and the known and measurable changes for both water and sewer. Please do not include the contract with Utility Partners requested in OPUC 1-5.

**RESPONSE:** See Attachment Staff 1-14 for the following contracts (provided on CD):

A&P Realty Investment, LLC

AVR Professional Billing Services

BioChem Sampling

Biowest Testing

eMaint Work Order System

Prepared by: Benny Wilkinson

Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS**  
**PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-15** Please provide copies of invoices or other documentation supporting the amounts claimed in the application for Texas margins tax and other related revenue taxes as well as the known and measurable changes for both water and sewer. Include any workpapers showing the calculations.

**RESPONSE:** This response is CONFIDENTIAL and will be provided on CD. The only revenue related tax is the Texas Franchise Tax (margin tax). However, Bad Debt Expense is also a revenue related expense. The amount of Texas Franchise Tax included in the test year is \$22,144.23. This includes the 2018 Texas Franchise Tax return amount of \$9,445.40, and estimates of the tax for January through September 2019. Of the total amount, \$15,550.71 is included in this rate filing for water and \$4,312.26 is included in this rate filing for sewer, with the remaining amount (\$2,281.26) related to the Greenshores water and sewer systems which are excluded from this rate filing.

The known and measurable changes are calculated in Schedules IV-2 W & S based on the PUC's methodology contained in those schedules.

See CONFIDENTIAL Attachment Staff 1-15(a) for 2018 Texas Franchise Tax Report provided under seal.

See Attachment Staff 1-15(b) (provided on CD).

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-16** Please admit or deny that UT shares office space with an affiliate. If admit, please provide the name of the affiliate and the physical measurements of the office.

**RESPONSE:** Admit.

Undine Group, LLC has the following subsidiaries: (1) Undine Operating, LLC, (2) Undine, LLC, (3) Undine Texas, LLC, (4) Undine Texas Environmental, LLC, (5) Undine Development, LLC, and (6) Undine Management, LLC. All of these companies are under common ownership and are therefore affiliates.

Undine Operating, LLC is generally the overhead company whose books maintain payroll, benefits, office expenses, due diligence expenses, etc. Undine considers all of these expenses overhead for rate case purposes.

Undine Texas, LLC includes all Undine Water systems.

Undine Texas Environmental, LLC includes all Undine Wastewater systems.

Undine Development, LLC includes the Greenshores Water and Wastewater systems.

None of the other companies listed above have any utility or other activities included in them.

Undine operates all companies as one entity. The Telge Road office has 15,005 sq. ft., with Undine occupying 10,057.66 sq. ft. and Utility Partners occupying 4,947.34 sq. ft.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-17** Please admit or deny that UTE shares office space with an affiliate. If admit, please provide the name of the affiliate and the physical measurements of the office.

**RESPONSE:** Admit.

Please see the response to Staff 1-16.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-18** Please provide copies of invoices and other documentation, including calculations and assumptions, supporting the known and measurable changes for office services and rentals of \$35,154 for water.

**RESPONSE:** Undine has two offices for its employees: 17681 Telge Road and a small office in College Station.

The Telge Road office serves as the corporate office and is under a lease with GBP Small Industrial Portfolio, LLC for \$17,389.67/month, including the common areas. Undine charges its third-party operator, Utility Partners, LLC, \$8,000.00/month, so the net lease cost is \$9,389.67.

The College Station lease is from an office owned by Chad Wootan and is \$400/month.

Thus, \$9,389.67 plus \$400.00, times 12 months, results in annual office lease costs of \$117,476.04. The Test Year office lease cost was \$68,086.37, so a total lease cost increase of \$49,389.67 was necessary. This increase was then allocated to Water (\$49,389.67 x 6,457.5 ERCs for Water/ 9,072.5 Total Company ERCs for an increase of \$35,153.90 for Water), and Sewer (\$49,389.67 x 2,035.0 ERCs for Sewer/ 9,072.5 Total Company ERCs for an increase of \$11,078.31 for Sewer).

The remaining amount was allocated to Greenshores Water (\$1,793.76) and Sewer (\$1,363.69) and these amounts are not included in this rate filing.

See Attachment Staff 1-18 for the details and calculation of this known and measurable change (provided on CD).

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS**  
**PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-19** Please provide copies of invoices and other documentation, including calculations and assumptions, supporting the known and measurable changes for office services and rentals of \$11,078 for sewer.

**RESPONSE:** See response to Staff 1-18 for the details and calculation of the known and measurable change related to office rent for both Water and Sewer. See Attachment Staff 1-18 (provided on CD).

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-20** Please provide copies of invoices and other documentation supporting the amount claimed for regulatory expense (other) for the test year and the known and measurable changes for water.

**RESPONSE:** The majority of regulatory expenses is related to permits for wells. The invoices and other supporting documentation for the test year level of expense is attached, as well as the adjustment for known and measurable changes.

See Attachments Staff 1-20(a) through 1-20(d) for invoices and other documentation support. This response is VOLUMINOUS and will be provided on CD.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.



**SOAH DOCKET NO. 473-20-3110.WS**  
**PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-21** Please provide copies of invoices and other documentation supporting the amount claimed for regulatory expense (other) for the test year and the known and measurable changes for sewer.

**RESPONSE:** The majority of regulatory expenses are related to permits for wastewater treatment plants. The invoices and other supporting documentation for the test year level of expense is attached, as well as the adjustment for known and measurable changes.

See Attachment Staff 1-21 for invoices and other documentation support (provided on CD).

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS**  
**PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-22** For each employee and officer listed in WP II-7(a), please provide the following:

- i. Name;
- ii. Title/Position and detailed job description;
- iii. Date hired and date of termination, if applicable;
- iv. Rate paid per month or per hour or yearly salary if applicable;
- v. Total number of hours and percentage of time worked per week for water, sewer, or both; and
- vi. Total number of hours and percentage of time worked per week for any affiliated companies and unaffiliated companies, if any. Please provide the name of the companies.

**RESPONSE:** Attached are employee and officer details of name, title, and date hired for all Undine Operating, LLC employees and officers. Each employee's and officer's salary are detailed in WP-II-7.

Undine does not track the number of hours spent by each employee or officer on water or sewer systems, nor the number of hours spent working on affiliated companies. All overhead, including payroll, payroll taxes, and employee benefits are allocated to water and sewer for rate filing purposes based on an ERC basis.

See Attachment Staff 1-22 for Name, Title, job description, and hire date for each employee and officer (provided on CD).

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-23** For all affiliated transactions in the application, please provide documentation demonstrating that the price charged to the utility is no higher than prices charged to other affiliates for the same item or items, or to unaffiliated persons.

**RESPONSE:** All affiliated transactions are done at cost and are allocated to each utility based on an ERC basis. Therefore, the prices are exactly the same for each utility, and none is associated with unaffiliated persons.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200

UNDINE'S RESPONSE TO STAFF'S FIRST RFI

- Staff 1-24** For any person that had a portion of their salary allocated to UT or UTE during the test year and is eligible for employee pensions and benefits, please provide the following:
- i. Name; and
  - ii. Amounts credited to the individual during the test year.

**RESPONSE:** All payroll and benefits costs in total are allocated to each utility on an ERC basis.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-25** For any person that had a portion of their salary allocated to UT or UTE during the test year and is not eligible for employee pensions and benefits, please provide the following:

- i. Name; and
- ii. Reason the person is not eligible.

**RESPONSE:** All employees are offered employee benefits on a non-discriminatory basis. Undine does not have a pension.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS**  
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**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-26** If the Company does not have a formal written capitalization policy that is responsive to OPUC 1-2, please describe the criteria used to determine whether an expense is capitalized.

**RESPONSE:** The formal written capitalization policy was provided in response to OPUC 1-2.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST REFI**

**Staff 1-27** Reference WP-III-2 at the "Post Test Year Additions" tab. For each asset listed, please answer the following:

- i. Admit or deny that the asset is appropriately recorded in NARUC account no. 101 or 102.
- ii. Admit or deny that the asset comprises at least 10% of the water or wastewater utility's requested rate base, exclusive of post-test year adjustments and CWIP.
- iii. Describe the attendant impacts on all aspects of the Company's operations (including but not limited to, revenue, expenses and invested capital) that can with reasonable certainty be identified, quantified and matched. Attendant impacts are those that reasonably result as a consequence of the post-test year adjustment being proposed.

**RESPONSE:**

- i. Admit that all assets would be appropriately recorded in NARUC Account 101.
- ii. Admit for water. All post-test year additions for water equal 13.7% of rate base. Deny for wastewater.
- iii. The attendant impacts are limited to return on rate base at 9.75% and Depreciation Expense at the appropriate depreciation rate for the specific asset classification. Undine is requesting that these projects be included in this rate filing so that regulatory lag does not impact its financial results. This request is partially due to Undine being in the middle of a \$17+ million construction program to repair and replace aging infrastructure for the systems it owns in Texas.

Prepared by: Benny Wilkinson  
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**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-28** Please admit or deny that UT is seeking to consolidate nine different water rate schedules (not including pass-through rates) under a single base rate. If deny, please identify the number of water rate schedules UT is seeking to consolidate under a single base rate and list all Public Water Systems (PWS) that will be subject to the proposed consolidated rate.

**RESPONSE:** Undine admits it is consolidating all of its water rate schedules (except Greenshores) under a single base rate, but puts the number of systems at ten rather than nine.

The ten water rate schedules are: Orbit, Suburban, Community (except Sweetgum Forest), Community-Sweetgum Forest, Consumers (except Pioneer Trails), Consumers-Pioneer Trails, Gulf Coast-Cold River Ranch, Gulf Coast-Magnolia Bend, Gulf Coast-Southwood Estates and Chuck Bell.

The Public Water Systems (PWS) that are being consolidated are listed in the proposed water tariff in Attachment 4 of the rate application Bates Stamp Numbers 374-376.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.



**SOAH DOCKET NO. 473-20-3110.WS**  
**PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-29** Please identify the most granular level at which the Company analyzed whether the water systems UT is seeking to consolidate under a single base rate are substantially similar in terms of facilities, quality of service, and cost of service. For example, did the Company perform this analysis at the former utility level (Suburban, Orbit, Consumers, etc.), by individual PWS, etc.

**RESPONSE:** Undine did not perform individual cost of service analyses for each former utility. Undine believes the actual costs incurred by Undine to serve these utilities are remarkably similar. All of these utilities are operated under the same contract with Utilities Partners using the same cost structure. Other significant costs such as chemicals, electricity, testing, insurance, and property taxes do not have any notable regional differences. Because Undine is in a major construction program, any significant depreciation differences are a result of timing issues where the capital expenditures have not been fully incurred at every system as of the end of the test year. Some systems have been repaired and others are about to be. Maintenance expense varies from site to site but we have noticed that it is inversely proportional to whether the new construction has been completed or not.

Undine reviewed the facilities in each system. Each system has a well(s), ground storage tank, pressure tank, pump house, chlorination equipment, and an intruder-resistant fence. Additionally, all Undine water systems are billed similarly with the same AVR billing system. Undine provides excellent customer service and the Undine construction program is making improvements to provide even better customer service.

Prepared by: Benny Wilkinson

Sponsored by: Edward R. Wallace, Sr. and William Andrew (Andy) Thomas

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-30** For each PWS UT requests to consolidate under a single base rate, please provide all analyses performed by the Company or other documentation that the Company believes shows that the systems are substantially similar in terms of facilities. If this information is not available by individual PWS, please provide it at the most granular level for which it is available.

**RESPONSE:** Undine reviewed the facilities in each system. Each system has a well(s), ground storage tank, pressure tank, pump house, chlorination equipment, and an intruder-resistant fence. Additionally, all Undine water systems are operated by the same third-party operator, Utility Partners, and are all billed the same way. Undine determined the Greenshores water system in Austin was not similar in that it has a surface water source (Lake Travis), has a membrane filtration system, and other area-specific pressures on prices for maintenance and construction projects.

Prepared by: Benny Wilkinson

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**SOAH DOCKET NO. 473-20-3110.WS**  
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**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-31** For each PWS UT requests to consolidate under a single base rate, please provide all analyses performed by the Company or other documentation that the Company believes shows that the systems are substantially similar in terms of cost of service. If this information is not available by individual PWS, please provide it at the most granular level for which it is available.

**RESPONSE:** Undine did not perform separate cost of service analyses for each PWS. However, it is apparent that the actual costs incurred by Undine to service these utilities are remarkably similar. All of these utilities are operated under the same contract with Utilities Partners using the same cost structure. Other significant costs such as chemicals, electricity, testing, insurance, and property taxes do not have any notable regional differences. Because Undine is in a major construction program, any significant depreciation differences are a result of timing issues where the capital expenditures have not been fully incurred at every system as of the end of the test year. Some systems have been repaired and others are about to be. Maintenance expense varies from site to site but we have noticed that it is inversely proportional to whether the new construction has been completed or not.

Prepared by: Benny Wilkinson

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**SOAH DOCKET NO. 473-20-3110.WS**  
**PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-32** For each PWS UT requests to consolidate under a single base rate, please provide the Test Year cost of service, with all components of cost of service broken out to the same level as the proposed system-wide information provided in the application. If this information is not available by individual PWS, please provide it at the most granular level for which it is available.

**RESPONSE:** Undine did not perform any separate cost of service analyses for each PWS. See, also, responses to Staff 1-29 through 1-31.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS  
PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-33** Please admit or deny that UTE is seeking to consolidate six different sewer rate schedules under a single flat rate. If deny, please identify the number of sewer rate schedules UTE is seeking to consolidate under a single fixed rate and list all subdivisions that will be subject to the proposed consolidated rate.

**RESPONSE:** Undine admits it is consolidating all of its wastewater rate schedules (except Greenshores) under a single base rate, but puts the number of systems at seven rather than six.

The seven wastewater rate schedules are; EMCAD-Country Vista, EMCAD-Grand Ranch, EMCAD-Mayfair, Sugartree, Orbit, Gulf Coast and Bolivar. The subdivisions that are provided sewer service by these systems are listed in the proposed sewer tariff in Attachment 4 of the rate application at Bates Stamped Page 405.

Prepared by: Benny Wilkinson  
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**SOAH DOCKET NO. 473-20-3110.WS**  
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**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-34** Please identify the most granular level at which the Company analyzed whether the sewer systems UTE is seeking to consolidate under a single fixed rate are substantially similar in terms of facilities, quality of service, and cost of service. For example, did the Company perform this analysis at the former utility level (EMCAD, Bolivar, etc.), by individual subdivision, etc.

**RESPONSE:** Undine did not perform any separate cost of service analyses for each sewer system. The actual costs incurred by Undine to service these utilities are remarkably similar. All of these utilities are operated under the same contract with Utilities Partners using the same cost structure. Other significant costs such as chemicals, electricity, testing, insurance, and property taxes do not have any notable regional differences. Because Undine is in a major construction program, any significant depreciation differences are a result of timing issues where the capital expenditures have not been fully incurred at every system as of the end of the test year. Some systems have been repaired and others are about to be. Maintenance expense varies from site to site but we have noticed that it is inversely proportional to whether the new construction has been completed or not.

Undine reviewed the facilities in each system. Each sewer system has a digester, clarifier, chlorine contact chamber, de-chlorinator, and discharges to a public waterway. Additionally, all Undine sewer systems are billed similarly with the same AVR billing system. Undine provides excellent customer service and the Undine construction program is making improvements to provide even better customer service.

Prepared by: Benny Wilkinson

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**SOAH DOCKET NO. 473-20-3110.WS  
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**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-35** For each subdivision UTE requests to consolidate under a single fixed sewer rate, please provide all analyses performed by the Company or other documentation that the Company believes shows that the systems are substantially similar in terms of facilities. If this information is not available by individual subdivision, please provide it at the most granular level for which it is available.

**RESPONSE:** Undine reviewed the facilities in each system. Each sewer system has a digester, clarifier, chlorine contact chamber, de-chlorinator, and discharges to a public waterway. See the Response to Staff 1-38 for the reasons Greenshores wastewater is excluded from this rate application.

Prepared by: Benny Wilkinson

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**SOAH DOCKET NO. 473-20-3110.WS  
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**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-36** For each subdivision UTE requests to consolidate under a single fixed sewer rate, please provide all analyses performed by the Company or other documentation that the Company believes shows that the systems are substantially similar in terms of cost of service. If this information is not available by individual subdivision, please provide it at the most granular level for which it is available.

**RESPONSE:** Undine did not perform any cost of service analyses for each sewer system. However, it is apparent that the actual costs incurred by Undine to service these utilities are remarkably similar. All of these utilities are operated under the same contract with Utilities Partners using the same cost structure. Other significant costs such as chemicals, electricity, testing, insurance, and property taxes do not have any notable regional differences. Because Undine is in a major construction program, any significant depreciation differences are a result of timing issues where the capital expenditures have not been fully incurred at every system as of the end of the test year. Some systems have been repaired and others are about to be. Maintenance expense varies from site to site but we have noticed that it is inversely proportional to whether the new construction has been completed or not.

Prepared by: Benny Wilkinson

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**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-37** For each subdivision UTE requests to consolidate under a single fixed sewer rate, please provide the Test Year cost of service, with all components of cost of service broken out to the same level as the proposed system-wide information provided in the application. If this information is not available by individual subdivision, please provide it at the most granular level for which it is available.

**RESPONSE:** Undine did not perform any separate cost of service analyses for each sewer system. See, also, responses to Staff 1-34 through 1-36.

Prepared by: Benny Wilkinson  
Sponsored by: Edward R. Wallace, Sr.

**SOAH DOCKET NO. 473-20-3110.WS**  
**PUC DOCKET NO. 50200**

**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-38** Please provide a comprehensive explanation of the methodology UTE followed to determine that the wastewater system in Travis County was not suitable for consolidation with the Company's other wastewater systems and provide all analyses, reports, studies, or other documents that show that the cost of service for the wastewater system in Travis County is not substantially similar to the wastewater systems included in the application.

**RESPONSE:** Undine looked at the following physical wastewater plant operations to determine that the Greenshores wastewater system was not suitable for consolidation with Undine's other wastewater systems in this application:

- The Greenshores system requires pump-and-haul for wastewater from Woods of Greenshores Sections 1 & 2 because the Lift Station is not physically tied in to the Wastewater Treatment Plant. This results in extraordinary expenses of about \$30,000/month.
- The Wastewater Treatment Plant has a non-discharge permit from TCEQ to irrigate treated effluent onto a subsurface area drip dispersal system with mulch cover. The irrigation drip pipes need regular maintenance and replacement, and replacement of a 4" depth mulch cover.
- Construction costs are significantly higher due to environmental regulations from the City of Austin, Travis County, US Fish and Wildlife, Texas Forest Services, and Balcones Canyonlands Preserve. This includes the habitat protection of the Golden-Cheeked Warbler which causes disruptions and scheduling conflicts for maintenance and construction projects, such as the issues Undine Development, LLC has faced with the construction of a force main project.
- Significant costs of over \$1 million to construct approximately 2,300 feet of 4" Force Main to tie the Lift Station mentioned in the first bullet point above to the WWTP.

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**UNDINE'S RESPONSE TO STAFF'S FIRST RFI**

**Staff 1-39** Referencing the documents produced in response to the preceding question, please explain how UTE analyzed this information to reach the conclusion that the cost of service was not substantially similar for the Travis County system.

**RESPONSE:** Undine did not perform any separate cost of service analyses, but relied on the differences identified in the response to Staff 1-38 in determining that Greenshores was not similar to the other wastewater treatment plants and facilities included in this rate filing.

Prepared by: Benny Wilkinson

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