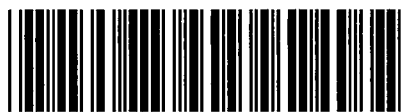




Control Number: 50788



Item Number: 106

Addendum StartPage: 0

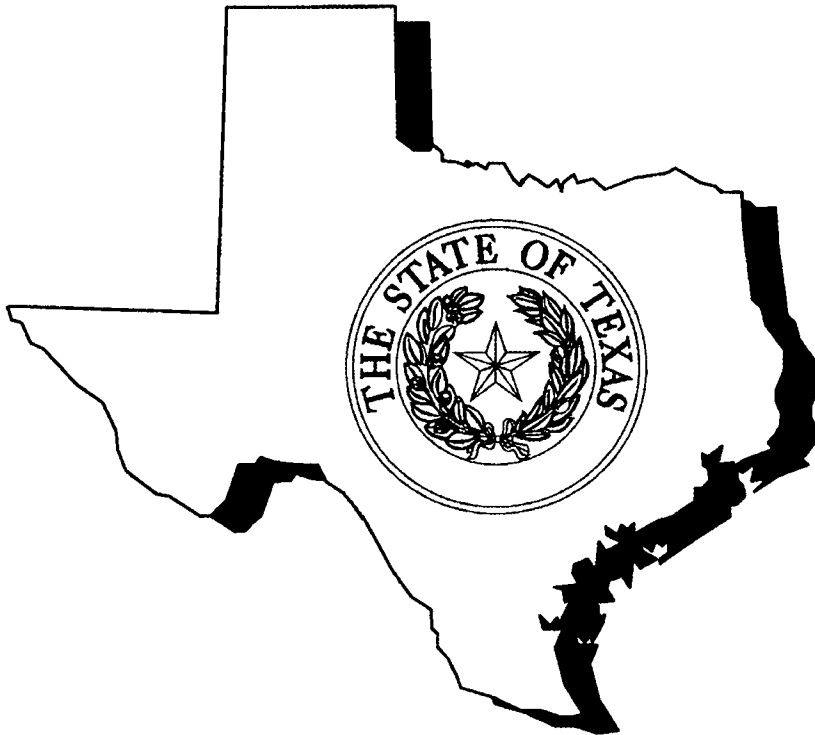
SOAH DOCKET NO. 473-20-4071.WS
PUC DOCKET NO. 50788

RECEIVED
2021 MAY -5 PM 2:56

RATEPAYERS APPEAL OF THE
DECISION BY WINDERMERE OAKS
WATER SUPPLY CORPORATION TO
CHANGE WATER AND SEWER
RATES

§
§
§
§
§

BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS



DIRECT TESTIMONY OF
SPENCER ENGLISH
RATE REGULATION DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS
MAY 5, 2021

150

Table of Contents

I. INTRODUCTION OF WITNESS 1
II. PURPOSE AND SCOPE OF TESTIMONY..... 1
III. DEBT SERVICE COVERAGE..... 2
 A. DEBT SERVICE 2
 B. CAPITAL EXPENDITURE RESERVE 2
 C. DEBT SERVICE COVERAGE AND RATIO..... 3

Attachment SE-1 – Resume

Attachment SE-2 – Previous Testimonies and Dockets

1 **I. INTRODUCTION OF WITNESS**

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

3 A. Spencer English, 1701 N. Congress Avenue, Austin, Texas 78701.

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

5 A. I have been employed by the Public Utility Commission of Texas (Commission) since
6 February 11, 2019 as a Financial Analyst, currently in the Rate Regulation Division.

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

8 A. My principal responsibilities at the Commission are the review of tariff and rate change
9 applications and ratepayer appeals. I am also responsible for preparing testimony and
10 exhibits for contested case matters involving investor-owned, non-profit, and governmental
11 water and sewer retail public utilities and wholesale matters, as well as participating in
12 settlement negotiations. In addition, I review applications to obtain or amend certificates of
13 convenience and necessity, sale, transfer, or merger applications, and applications for
14 approval of stock transfers.

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

16 A. I hold a Bachelor of Business Administration degree in finance from Texas State University.
17 Attachment SE-1 to my direct testimony provides a summary of my educational background
18 and professional experience.

19 **Q. Have you previously testified before the Commission?**

20 A. Yes. Attachment SE-2 presents a summary of the dockets in which I have testified.

21 **Q. On whose behalf are you testifying?**

22 A. I am testifying on behalf of the Commission Staff.

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

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

25 A. The purpose of my testimony is to address Windermere Oaks Water Supply Corporation's

1 (Windermere) debt service, debt service coverage, and reserve funds in relation to the rates
2 adopted by Windermere on March 23, 2020 that are the subject of the appeal in this
3 proceeding.

4 **Q. If you do not address an issue or position in your testimony, should that be interpreted**
5 **as your support of Windermere's or the Ratepayers' position on that issue?**

6 A. No. The fact that I do not address an issue in my testimony should not be construed as
7 agreeing, endorsing, or consenting to any position taken by a party.

8
9 **III. DEBT SERVICE COVERAGE**

10 **A. DEBT SERVICE**

11 **Q. Please define debt service.**

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

13 **Q. What is Windermere's current debt service?**

14 A. According to the testimony of Windermere witness Mike Nelson, Windermere's total debt
15 service for 2019 was \$532,283.¹

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

17 A. No.

18 **B. CAPITAL EXPENDITURE RESERVE**

19 **Q. Please define capital expenditure reserve.**

20 A. A Capital Expenditure Reserve is an amount of cash reserved for future capital expenditures.
21 Maintaining such a reserve allows a utility to fund future plant-in-service with cash. These
22 funds are contributed by customers and should be treated as customer-contributed capital.

23 **Q. What Capital Expenditure Reserve did Windermere include in its rates?**

24 A. Windermere did not include a Capital Expenditure Reserve in its rates, but Windermere did

¹ Direct Testimony of Mike Nelson, Attachment MN-1 at Sheet 3 (Mar. 10, 2021) (Nelson Direct).

1 include depreciation expenses of \$56,273.²

2 **Q. What is the basis of recommending a reclassification of depreciation expenses to the**
3 **Capital Expenditure Reserve?**

4 A. Because the revenue requirement used to set Windermere's rates was determined utilizing
5 the cash-needs method and because depreciation is not considered for rate-making purposes
6 under this method,³ I recommend that Windermere reserve this balance for future capital
7 expenditures. Further, I recommend that Windermere treat the balance as customer-
8 contributed capital.

9 **Q. Do you recommend any adjustments to the amount of the depreciation expense that is**
10 **to be reclassified as Capital Expenditure Reserve?**

11 A. No.

12 **C. DEBT SERVICE COVERAGE AND RATIO**

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

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

16 **Q. What debt service coverage ratio (DSCR) did Windermere reflect in its rates?**

17 A. Windermere's rates reflect a DSCR of 1.0x.⁴

18 **Q. What is your recommended DSCR for Windermere?**

19 A. I recommend a DSCR of 1.0x.

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

21 A. A DSCR of 1.0x aligns with what Windermere incorporated into its rates, takes into
22 consideration the amount of Windermere's Capital Expenditure Reserve Fund, and

² *Id.*, Attachment MN-1 at Sheet 1.

³ Staff witness Maxine Gilford provides an explanation of the components used to set rates using the cash needs method.

⁴ Nelson Direct, Attachment MN-1 at Sheet 1.

1 recognizes the ability of Windermere to change its rates at any time via a vote of the Board.

2 **Q. Why is it appropriate to consider Windermere's Capital Expenditure Reserve?**

3 A. The Capital Expenditure Reserve is an additional account that Windermere has available to
4 fund capital projects without additional debt issuances. I have taken this into consideration
5 because the reserve is funded by Windermere's rates, and its existence ensures that other
6 balances and reserves are available to repay current issuances.

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

8 A. I have taken into consideration that Windermere can change its rates at any time because if,
9 in the future, the 1.0x DSCR is not sufficient, or its financial integrity is suddenly in
10 jeopardy, Windermere can increase its rates to cover its financial needs. This means that
11 Windermere does not have to receive approval from the Commission to changes rates, and
12 therefore, it can implement new rates that go into effect sooner than investor-owned utilities.

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

14 A. For all the reasons stated above, Windermere has many mechanisms available to ensure that
15 it can repay its loan. A 1.0x DSCR is appropriate at this time, as there is a reserve fund for
16 future capital expenditures, and it can change its rates at any time. Additionally, a DSCR less
17 than 1.25x will not affect Windermere's current financial integrity. Windermere maintained
18 a 1.11x DSCR for 2019,⁵ and it is pre-approved for additional debt of \$300,000 from
19 CoBank.⁶ Thus, I do not recommend any adjustments to Windermere's debt service
20 coverage.

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

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

⁵ Direct Testimony of Joe Gimenez III, Attachment JG-6 at Bates Page 88 (Mar. 10, 2021).

⁶ *Id.* at Bates Page 22.

Spencer English

Professional Experience

- **Public Utility Commission of Texas**
Utility Rates Analyst
Rate Regulation Division
February 2019 - Present
- **Texas Civil Rights Project**
Finance Intern
February 2017 – April 2017
- **International Legal Technology Association**
Marketing Intern
June 2016 – November 2016

Education

- **Texas State University, McCoy College of Business**
Bachelor of Business Administration
Major – Finance
August 2018

Training

- **NARUC Rate School**
National Association of Regulatory Utility Commissioners
October 2019
- **Credit and Collateral Training**
ERCOT
October 2019
- **Utility Finance and Accounting for Financial Professionals**
Financial Accounting Institute
June 2019
- **MAC Training Day**
Municipal Advisory Council of Texas
February 2019

PREVIOUS TESTIMONY:

I have testified the following dockets before the Public Utility Commission of Texas:

- Woodland Hills Water, LLC for Authority to Change Rates, Docket No. 49337
- Kendall West, LLC for Authority to Change Rates, Docket No. 49887
- Undine Texas, LLC and Undine Texas Environmental for Authority to Change Rates, Docket No. 50200

PREVIOUS RATE CASES:

I have provided financial analysis for the following rate cases before the Public Utility Commission of Texas:

- City of Austin dba Austin Water for Authority to Change Rates, Docket No. 49189
- Petition by Outside City Ratepayers Appealing the Water Rates Established by the City of Celina, Docket No. 49225
- Copano Cove Water Company, Inc. for Authority to Change Rates, Docket No. 49334
- Timbercrest Partners, LLC for Authority to Change Rates, Docket No. 50197
- Petition of City of Star Harbor Appealing the Decision by the City of Malakoff to Increase Wholesale Sewer Rates, Docket No. 50433
- San Pedro Estates Water, LLC for Authority to Change Rates, Docket No. 50551
- Crystal Clear Water, Inc. for Authority to Change Rates, Docket No. 50721