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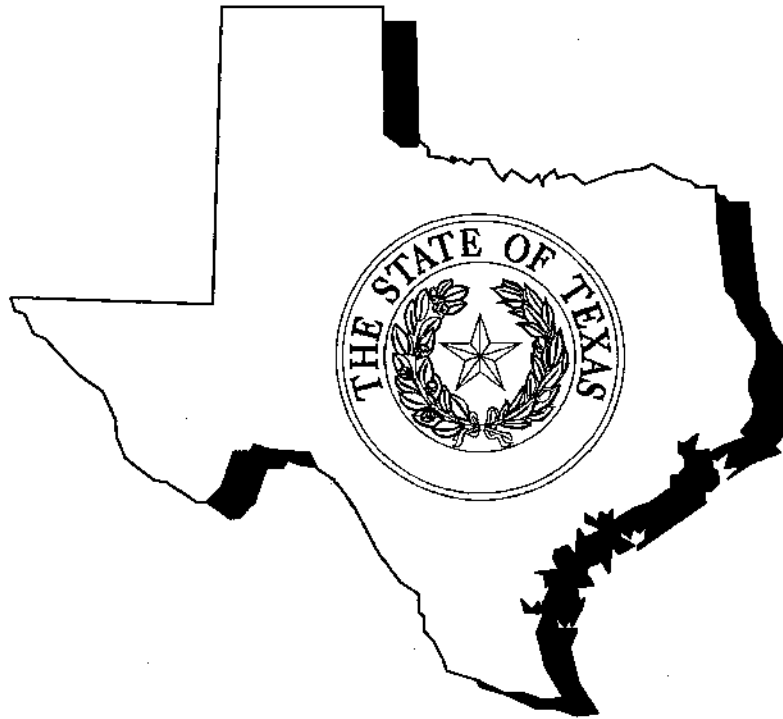
Item Number - 120

SOAH DOCKET NO. 473-22-0786.WS
PUC DOCKET NO. 52370

APPLICATION OF EAST HOUSTON
UTILITIES INC. FOR AUTHORITY TO
CHANGE RATES

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BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS



SUPPLEMENTAL DIRECT TESTIMONY OF
FREDERICK QUIJANO
RATE REGULATION DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS
FEBRUARY 12, 2024

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Supplemental Attachment FQ-6	Answers to Staff's RFIs on 1-5-2024 (January 8, 2024)

I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Frederick Quijano. My business address is 1701 N. Congress Avenue, Austin, Texas.

Q. Are you the same Frederick Quijano who previously filed testimony in this proceeding?

A. Yes. I authored the testimony filed on November 18, 2022.

II. PURPOSE AND SCOPE OF TESTIMONY

Q. What is the purpose of your supplemental testimony in this proceeding, Docket No. 52370, *Application of East Houston Utilities, Inc. for Authority to Change Rates*?

A. The purpose of my supplemental testimony is to provide an updated recommendation related to East Houston Utilities Inc.'s (East Houston) adjusted test year expenses as well as a model showing the effects of my recommended revenue requirement on its rates.

Q. Why is it necessary to supplement your testimony and recommended revenue requirement?

A. On November 18, 2022, I filed direct testimony where I recommended East Houston come into compliance regarding its affiliate expenses. I was unable to make a proper adjustment regarding affiliates due to a lack of information at the time of my direct testimony. This supplemental testimony provides an update to my previous testimony based upon my review of additional information and testimony provided by East Houston.

Q. Based upon your review, did you identify affiliates of East Houston?

A. In addition to reviewing the Application, I reviewed the annual report of Krebs Utilities filed in Project No. 52954, which identifies the multiple Certificates of Convenience and

1 Necessity (CCN) held by Stephen Krebs.¹ According to Krebs Utilities' 2021 Annual
2 Report for Class D Water and Sewer Utilities, Stephen Krebs owns East Houston Utilities
3 (CCN No. 12042), Krebs Utilities, Inc. (CCN No. 11984), and K Lake Water System and
4 Padok Utility (CCN No. 12598).² East Houston's reply to the Staff (Staff) of the Public
5 Utility Commission of Texas's (Commission) March 11, 2022 Supplemental
6 Recommendation on Administrative Completeness indicates that East Houston paid
7 \$38,434 in 2021 income directly to Roving Meadows Utilities (CCN No. 20781).³ In
8 East Houston's answers to Staff's First Request for Information (RFI) dated May 31,
9 2023, in Staff 1-4, East Houston admitted that all three CCNs are owned and operated by
10 East Houston (CCN Nos. 12042, 11984, and 12598).⁴ The CCNs were maintained under
11 one account and billing between the affiliates was not done.⁵

12 **Q. From the time of your direct testimony to the time of this supplemental testimony,**
13 **has East Houston remedied its issues regarding affiliate expenses and demonstrated**
14 **compliance with Texas Water Code (TWC) § 13.185(e)?**

15 A. No. In October 2023, East Houston provided updated financials for all of its CCNs⁶ and a
16 document showing its cost allocation methods.⁷ However, on January 8, 2024, East
17 Houston responded to a second set of Staff's RFIs where it was determined that East
18 Houston has more affiliates than the three CCNs that are owned and operated by Stephen
19 Krebs. In its response to Staff 2-1, East Houston admitted to operating eleven transient

¹ *Krebs Utilities Class D Annual Financial Report*, Project No. 52954 at General Questions A and L (May 25, 2022).

² *See id.*

³ East Houston Utilities Inc.'s (East Houston) Reply to the Memorandum Dated March 11, 2022 at 12 (Apr. 5, 2022) (April Reply).

⁴ East Houston's Answers to Staff's RFIs (dated 5/30/2023 at 1 (May 31, 2023) (Supplemental Attachment FQ-3).

⁵ *See id.*

⁶ P&L 2020-All Companies (Oct. 22, 2023) (Supplemental Attachment FQ-4).

⁷ Cost Allocation Methods (Oct. 25, 2023) (Supplemental Attachment FQ-5).

non-community and non-transient, non-community water systems.⁸ In its response to Staff 2-3, East Houston stated that the building that houses the office space it rents is owned by Krebs Development.⁹ Krebs Development is a construction company owned and operated by Stephen Krebs that performs minor construction work and jobs for East Houston.¹⁰ Based on photo evidence provided in the testimony of Stacy Evans, a ratepayer of East Houston, the building also houses office space for Krebs Development, Inc. and Hannah Krebs' realty business.¹¹

III. STAFF'S RECOMMENDED COST OF SERVICE

Q. What cost of service do you recommend in this case?

A. I recommend a cost of service of \$18,670, before adjustments for other revenues. Supplemental Attachment FQ-1 provides the details for the cost of service and adjustments. The rate associated with my recommended cost of service equals a monthly minimum charge of \$38.31 and a volumetric rate of \$1.16 per 1,000 gallons.¹²

IV. STAFF'S RECOMMENDED ADJUSTMENTS

Q. What adjustments do you recommend for the revenue requirement?

A. As shown in Supplemental Table FQ-1, I recommend the following adjustments to East Houston's revenue requirement:

Supplemental Table FQ-1

<u>Account Name</u>	<u>Amount</u>
Operations and Maintenance (O&M)	(\$17,148)
Depreciation and Amortization Expense	(\$15,364)

⁸ East Houston's Answers to Staff's RFI dated January 5, 2024 at 1 (Jan. 8, 2024) (Supplemental Attachment FQ-6).

⁹ *See id.*

¹⁰ *See id.*

¹¹ Stacy Evans's Testimony and recommended rate request at 3 (September 29, 2023).

¹² Supplemental Attachment FQ-1 at Schedule VI-3.

Taxes other than income	\$282
Federal Income Taxes	(\$5,599)
Return on Invested Capital	(\$6,953)
Total Adjustments	(\$44,783)¹³

Q. Please explain the adjustments to Operations and Maintenance (O&M) expenses.

A. Adjustments to O&M expenses are shown on Staff Schedule II of Supplemental Attachment FQ-1. The adjustments to O&M expenses are due to lack of supporting documentation for the expense category, inconsistencies of financial information provided by East Houston, and my recommended change to the allocation factor.

Q. Please explain the adjustments to Insurance, Regulatory, and Miscellaneous (Bank Fees) categories of expenses.

A. Staff's RFI 1-2 asked East Houston to provide invoices and other supporting documentation for O&M expenses related to office services and rentals, office supplies and expenses, insurance, regulatory expense, and bank fees.¹⁴ In its response to Staff's RFI, East Houston did not provide invoices or receipts supporting the insurance, regulatory, and bank fee expenses. East Houston's testimony in this proceeding does not provide a reason as to why these expenses should be included in its revenue requirement and I am unable to verify the existence of these expenses. Therefore, I recommend an adjustment of (\$1,908)¹⁵ to remove the insurance, regulatory, and bank fee expenses from East Houston's requested O&M expenses.

Q. Please describe the allocation of office expenses as requested by East Houston in its Application.

A. Based upon East Houston's cost allocation methods, East Houston allocates its office

¹³ Within rounding.

¹⁴ Commission Staff's First Request for Information to East Houston Utilities, Inc. at Staff RFI 1-2 (May 30, 2023).

¹⁵ Supplemental Attachment FQ-3.

1 expenses (supplies, software, and other expenses) using a factor of one-third of the
2 supply consumption.¹⁶ East Houston recorded an annual expense of \$6,836.33 in its 2020
3 profit and loss statement.¹⁷

4 **Q. Do you agree that this allocation method is an appropriate allocation of expenses to**
5 **East Houston?**

6 A. No. East Houston failed to present documentation supporting the standards of TWC §
7 13.185(e) related to affiliates and failed to fully incorporate the effects of all entities
8 served by Stephen Krebs through his business model. Therefore, I am unable to
9 determine the appropriateness of this allocation method.

10 **Q. Do you recommend an adjustment to the revenue requirement related to affiliate**
11 **transactions for office supplies and expenses?**

12 A. Yes. Because office supplies and expenses represent costs to East Houston that should
13 vary based upon the number of customers that it serves, I recommend a change to the
14 allocation method so that it is based upon the number of East Houston's customer
15 connections as a percentage of all the customer connections served by Stephen Krebs. In
16 this proceeding, East Houston holds 35 customer connections out of a total of 367
17 customer connections served by Stephen Krebs.¹⁸ Using a percentage of customer
18 connections as my recommended allocation factor, I determined that the appropriate
19 amount of office supplies and expenses to allocate to East Houston is 9.54% (35 divided
20 by 367), which produces my recommendation of \$652.19 (\$6,836.33 multiplied by
21 9.54%). My recommendation results in a decrease of \$591.80 to East Houston's
22 requested office supplies and expense of \$1,243.99.

23 **Q. Please describe the allocation of the office rental expense as requested by East**

¹⁶ Supplemental Attachment FQ-5.

¹⁷ Supplemental Attachment FQ-4.

¹⁸ Supplemental Attachment FQ-6.

1 **Houston in its Application.**

2 A. Based upon its cost allocation methods, East Houston allocates its office rental expense
3 using a factor of one-third of the office usage. East Houston recorded an annual expense
4 in its updated 2020 profit and loss statement of \$14,400.¹⁹

5 **Q. Do you agree that this allocation method is an appropriate allocation of expenses to**
6 **East Houston?**

7 A. No. East Houston failed to present documentation supporting the standards of TWC §
8 13.185(e) related to affiliates and failed to fully incorporate the effects of all entities
9 served by Stephen Krebs through his business model. Therefore, I am unable to
10 determine the appropriateness of this allocation method.

11 **Q. Do you recommend an adjustment to the revenue requirement related to affiliate**
12 **transactions for office rental expense?**

13 A. Yes. Because office rental expense represent costs to East Houston that should vary
14 based upon the number of customers that it serves, I recommend a change to the
15 allocation method so that it is based upon the number of East Houston's customer
16 connections as a percentage of all the customer connections served by Stephen Krebs. In
17 this proceeding, East Houston holds 35 customer connections out of a total of 367
18 customer connections served by Stephen Krebs.²⁰ Using a percentage of customer
19 connections as my recommended allocation factor and using the amount of supported
20 office rental expense, I determined that the appropriate amount of office rental expense to
21 allocate to East Houston is 9.54% (35 divided by 367), which produces my
22 recommendation of \$1,373.76 (\$14,400 multiplied by 9.54%). My recommendation
23 results in a decrease of \$2,502.24 to East Houston's requested office rental expense.

24 **Q. Please describe the allocation of office salaries expenses as requested by East**

¹⁹ Supplemental Attachments FQ-3 and FQ-5.

²⁰ Supplemental Attachment FQ-6.

Houston in its Application.

A. Based upon its cost allocation methods, East Houston allocates its total payroll expense in the following manner: 40% of total annual payroll for Hannah Krebs' salary, 15% for Stephen Krebs, and 11% for Bruce (employee).²¹ For the test year, East Houston recorded a total annual payroll amount of \$36,480.²²

Q. Do you agree that this allocation method is an appropriate allocation of expenses to East Houston?

A. No. East Houston failed to present documentation supporting the standards of TWC § 13.185(e) related to affiliates and failed to fully incorporate the effects of all entities served by Stephen Krebs through his business model. I am unable to determine the appropriateness of this allocation method.

Q. Do you recommend an adjustment to the revenue requirement related to affiliate transactions for office supplies and expenses?

A. Yes. Because payroll represents costs to East Houston that should vary based upon the number of customers that it serves, I recommend a change to the allocation method so that it is based upon the number of East Houston's customer connections as a percentage of all the customer connections served by Stephen Krebs. In this proceeding, East Houston holds 35 customer connections out of a total of 367 customer connections served by Stephen Krebs.²³ Using a percentage of customer connections as my recommended allocation factor, I determined that the appropriate amount of payroll expense to allocate to East Houston is 9.54% (35 divided by 367), which produces my recommendation of \$3,480.19 (\$36,480 multiplied by 9.54%). My recommendation results in a decrease of \$9,000 to East Houston's requested management salaries expense and a decrease of \$2,880 to the office salaries expense. To reflect this adjustment in Supplemental

²¹ Supplemental Attachment FQ-5.

²² Supplemental attachment FQ-4.

²³ Supplemental Attachment FQ-6.

1 Attachment FQ-1, I adjusted the office and management salaries expenses to \$0 and
2 added an adjustment to payroll expenses of \$3,480.19.

3 **Q. Please describe the allocation of transportation expenses as requested by East**
4 **Houston in its Application.**

5 A. Based upon its cost allocation methods, East Houston allocates its car and truck expenses
6 using a factor of 11.11% of the miles driven of the supported annual total of
7 \$10,076.32.²⁴

8 **Q. Do you agree that this allocation method is an appropriate allocation of expenses to**
9 **East Houston?**

10 A. No. East Houston failed to present documentation supporting the standards of TWC §
11 13.185(e) related to affiliates and failed to fully incorporate the effects of all entities
12 served by Stephen Krebs through his business model. Therefore, I am unable to
13 determine the appropriateness of this allocation method.

14 **Q. Do you recommend an adjustment to the revenue requirement related to affiliate**
15 **transactions for transportation expenses?**

16 A. Yes. Because transportation expenses represent costs to East Houston that should vary
17 based upon the number of customers that it serves, I recommend a change to the
18 allocation method so that it is based upon the number of its customer connections as a
19 percentage of all the customer connections served by Stephen Krebs. In this proceeding,
20 East Houston holds 35 customer connections out of a total of 367 customer connections
21 served by Stephen Krebs.²⁵ Using a percentage of customer connections as my
22 recommended allocation factor, I determined that the appropriate amount of office
23 supplies and expenses to allocate to East Houston is 9.54% (35 divided by 367), which
24 produces my recommendation of \$961.28 (\$10,076.32 multiplied by 9.54%).²⁶ My

²⁴ Supplemental Attachments FQ-3 and FQ-5.

²⁵ Supplemental Attachment FQ-6.

²⁶ Supplemental Attachment FQ-4.

1 recommendation results in a decrease of \$899.58 to East Houston's requested
2 transportation expenses.

3 **Q. Please explain your adjustment to Plant in Service and Depreciation expense.**

4 A. East Houston's 2021 annual report filed in docket number 52954²⁷ shows that East
5 Houston recorded \$0 in plant in service. East Houston's 2020 balance sheet shows an
6 asset for the Whitewing subdivision with a net value of \$2,000 with no other assets
7 related to a water utility.²⁸ Schedule III of this Application shows a total plant in service
8 amount of \$250,006.84. With no evidence of a proper cost allocation manual, I am unable
9 to determine if the plant in service in Schedule III actually belongs to CCN No. 12042,
10 Whitewing subdivision, the water system that is the subject of this rate case. I
11 recommend that East Houston provide rebuttal testimony that includes supporting details
12 as to the existence of the plant in service and if the assets are used by the other water
13 systems that Stephen Krebs owns or operates. Because my recommended plant in service
14 amount is \$0, I also recommend that the depreciation expense be adjusted to \$0 as the
15 two components are directly related. It is not reasonable and necessary for East Houston
16 to claim depreciation expense if it does not have depreciable assets.

17 **Q. Do you recommend an adjustment to East Houston's cash working capital?**

18 A. Yes. I recommend an adjustment of (\$2,218) to East Houston's requested cash working
19 capital of \$4,422.²⁹ This adjustment is a flow-through effect from the adjustments to
20 O&M expenses, using the one-eighth method identified in 16 TAC §
21 24.41(c)(2)(D)(iii)(II). Applying one-eighth to my recommended O&M expenses
22 produces my adjusted cash working capital allowance of \$2,204, which is \$2,218 less
23 than East Houston's request.

²⁷ *Year-End 2021 Water and Sewer Utility Annual Reports in Accordance with 16 TAC § 24.129*, Docket No. 52954, Item No. 85 (May 25, 2022).

²⁸ East Houston's Balance Sheet & Profit and Loss Statement for 2020 at 13 (Sept. 21, 2021).

²⁹ Application at Schedule III-2.

1 **Q. Please explain your recommended adjustment to East Houston's taxes other than**
2 **income taxes.**

3 A. I recommend an increase of \$282 to East Houston's annual taxes other than income taxes
4 for evidence supporting a higher ad valorem tax and to cover payroll taxes associated
5 with my recommended payroll expense of \$3,480.19.³⁰ I applied the rate of 7.65%
6 (which includes the Medicare Hospital Insurance, Old Age and Survivors Insurance, and
7 Disability Insurance)³¹ to East Houston's requested salary expenses, which produces my
8 recommended adjustment of \$266.

9 **Q. Please explain East Houston's increase to Ad Valorem taxes.**

10 A. In East Houston's response to Staff RFI 1-3, East Houston provided property tax
11 statements for the test year 2020 indicating a total amount of \$612, which is an increase
12 of \$15 to the amount shown on their application.³²

13 **Q. Please explain your adjustment to federal income tax expense.**

14 A. My recommended adjustment to federal income tax results from flow through changes
15 based on adjustments to rate of return, synchronized interest, and a recalculation of
16 federal income tax using the correct federal income tax factor. I applied the same
17 methodology described in my November 18, 2022 direct testimony. Staff witness Mark
18 Filarowicz recommends a rate of return equal to 6.13%.³³ Applying his rate of return to
19 the Staff recommended rate base results in a return amount of \$135. Using Tax Method
20 One and the current corporate Federal Income Tax rate of 21% results in my
21 recommended federal income tax expense of \$25.95.

³⁰ Application at Schedule I-1.

³¹ Supplemental Attachment FQ-1 at Payroll Taxes.

³² Supplemental Attachment FQ-3.

³³ Direct Testimony of Mark Filarowicz at 8 (Nov. 18, 2022).

V. RATE-CASE EXPENSES

Q. What amount of rate-case expenses does East Houston seek to recover in this proceeding?

A. At the time of this supplemental testimony, East Houston has not requested recovery of any rate-case expenses associated with the processing of this Application.³⁴

Q. Please explain your recommendation on East Houston's recovery of rate case expenses.

A. I recommend that East Houston provide rebuttal testimony that includes third-party documentation supporting the costs incurred to date for processing this Application. Further, I recommend that East Houston follow the requirements of 16 TAC § 24.44 in preparing its request. To the extent that East Houston provides rate-case expense documentation, I plan to supplement this testimony to update my recommendation.

VI. ONGOING REQUIREMENTS

Q. Do you recommend additional procedures related to affiliate transactions that East Houston must follow going forward in order to comply with the standards of TWC § 13.185(e)?

A. Yes. In addition to the documentation provided in this proceeding, I recommend that East Houston submit a report, made under oath, of "any information related to themselves and affiliated interests" as detailed under TWC § 13.132. I recommend that the Commission require East Houston to execute written agreements for services with each affiliate and to file a copy of each agreement with the Commission. I also recommend that East Houston provide an organizational chart listing all entities affiliated with East Houston and Stephen Krebs. Further, I recommend the opening of a compliance docket to allow East Houston to file such information.

1 **Q. Does this conclude your supplemental direct testimony?**

2 A. Yes. I reserve the right to supplement this testimony during the proceeding as new
3 evidence becomes available.

The following files are not convertible:

Supplemental Attachment FQ-1.xlsx

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

Contact centralrecords@puc.texas.gov if you have any questions.

FREDERICK QUIJANO
PUBLIC UTILITY COMMISSION OF TEXAS
LIST OF PREVIOUS TESTIMONY

Docket No. 48591

Review of Rate Case Expenses Incurred by Texas New Mexico Power Company and Municipalities in Docket Nos. 48401, 35038, and 41901

Testimony in support of stipulation filed October 2019.

Docket No. 48973

Application of Southwestern Public Service Company for Authority to Reconcile Fuel and Purchased Power Costs

Testimony of calculation of over-recovered fuel balance and interest filed May 2019.

Errata testimony for correction on application of Staff adjustments filed June 2019.

Docket No. 49148

Application of El Paso Electric Company for a Transmission Cost Recovery Factor

Testimony on Transmission Cost Recovery Factor Revenue Requirement filed April 2019.

Docket No. 49831

Application of Southwestern Public Service Company for Authority to Change Rates

Testimony on adjustments to revenue requirement and rate case expenses filed February 2020.

Docket No. 50714

Application of Entergy Texas Inc. to Amend its Distribution Cost Recovery Factor

Testimony on Staff's recommended adjustments to revenue requirement filed May 2020.

Docket No. 50886

Application of Oncor Electric Delivery Company LLC to Adjust its Energy Efficiency Cost Recovery Factor

Testimony in support of settlement and stipulation filed July 2020.

Docket No. 50940

Application of El Paso Electric Company to Implement an Interim Fuel Refund

Testimony providing Staff's recommendation regarding the Company's request to refund over-recovered fuel costs filed July 2020.

Docket No. 50997

Application of Southwestern Electric Power Company for Authority to Reconcile Fuel Costs

Testimony of calculation of over-recovered fuel balance and interest filed January 2021.

Docket No. 51959

Application of Texas-New Mexico Power Company to Amend its Distribution Cost Recovery Factor

Testimony in support of settlement filed July 2021.

Docket No. 52040

Application of El Paso Electric Company for Advanced Metering System Deployment Plan, AMS Surcharge, and Non-standard Metering Service Fees

Testimony regarding Staff's recommendation on the recovery of rate-case expenses filed September 2021.

Docket No. 53034

Application of Southwestern Public Service Company for Authority to Reconcile Fuel and Purchased Power Costs

Testimony of calculation of over-recovered fuel balance and interest filed July 2022.

Docket No. 54057

Application of Entergy Texas, Inc. for Authority to Reconcile Fuel and Purchased Power Costs

Testimony of calculation of under recovered fuel balance and interest filed March 2023.

Docket No. 52370

Application of East Houston Utilities, Inc. for Authority to Change Rates

Testimony on Staff's recommended adjustments to revenue requirement.

SOAH DOCKET NO. 473-22-07686 WS
PUC DOCKET NO. 52370

ANSWERS TO STAFF'S RFI's (dated 5/30/2023)

Staff 1-1 Please provide copies of federal income tax returns which include East Houston's operations filed with the Internal Revenue Service (IRS) for 2019, 2020, and 2021.

Answer: See attached tax returns.

Staff 1-2 Please provide copies of invoices and other supporting documents for the following expenses:

- a) Office Services & Rentals \$ 3,876.00
- b) Office Supplies & Expenses \$ 1,243.99
- c) Insurance \$ 64.00
- d) Regulatory Expense(other) \$ 600.00
- e) Bank Fees \$ 1,244.42

Answer: See attached Receipts.

Staff 1-3 Please provide copies of assessments and billing statements that support the requested property tax expense of \$596.87.

Answer: See attached Property Tax Statements. Please note the total amount **paid** in taxes for each year are:

2020- \$612.39

2021- \$755.34

2022- \$924.75

If this pattern continues each year, this is on average a **22.5% increase** in property taxes owed annually.

Staff 1-4 Please provide a list of any expenses included in the cost of service requested in this application that were allocated or directly billed to East Houston from an affiliate. Provide the information by NARUC account.

Answer: Since all 3 CCNs are operated by EHU on a single account, billing between affiliates was not done. When large expenditures occur, private loans were issued to the Whitewing subdivision from, indirectly, a third-party lender. See attached loan made personally by Stephen P. Krebs.

Staff 1-5 Please provide a list of specific benefits and/or services that East Houston receives from its affiliated companies in return for the costs allocated and/or direct billed from the affiliate. Please identify the specific costs with the specific benefit or service.

Answer: The use of the 2018 Promaster Utility Van, Bruce Lattea as maintenance, Hannah Krebs as records coordinator, Stephen Krebs as operator, office supplies, billing systems, etc...

Staff 1-6 Please provide the percentage and amount of every expense category (legal, human resources, IT, accounting, etc.) allocated and/or direct billed from the affiliated companies that were included in this rate change application.

Answer: About 20%. (80% comes from affiliated CCNs.)

Staff 1-7 Please provide a copy of East Houston's cost allocation manual. If the cost allocation manual is not available, please describe in detail the methodology used to allocate costs to the affiliates and the different water and wastewater systems.

Answer: The methodology we use is based on any contractors we need to hire specifically for the Whitewing Water System. We split costs and expenses for office rental, office supplies, salary, etc. between each of our CCN's.

Staff 1-8 Please provide a list of all companies owned by and the affiliates of East Houston, including but not limited to water and wastewater utility companies. Please include copies of an organizational chart demonstrating parent and affiliated companies, if any.

Answer: East Houston Utilities has a DBA with Krebs Utilities and affiliated CCNs are K Lake-Padok Utility. East Houston, nor any of its' affiliates, own wastewater systems. We collect for a wastewater system and pay any monies collected directly to the wastewater system, which is called Roving Meadows Utilities. Krebs Utilities holds the WW CCN.

Staff 1-9 Please provide a list of services, if any, provided by East Houston to any affiliate during the test year.

Answer: EHU provides operation, maintenance, and office support for all 3 CCNs.

Staff 1-10 For each of the expenses listed in response to Staff 1-4, please explain how the price charged to East Houston is no higher than the price charged to any third-party entity and provide supporting documentation demonstrating the prices charged to third party entities.

Answer: Example: Bear plumbing charged EHU \$1,650 for a repair on the main water line at Whitewing Subdivision, so we only paid \$1,650 to Bear Plumbing. See the invoice from Bear Plumbing and the credit card transaction for the same amount made to Bear Plumbing. (SQUARE: Jimmie Cullars, owner of Bear Plumbing).

All of these were answered by Hannah Krebs,
Records coordinator of EHU. 5/31/23

Hannah Krebs

The following files are not convertible:

Supplemental Attachment FQ-4.xlsx

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Contact centralrecords@puc.texas.gov if you have any questions.

Docket 52370

CCN 11984

Test Year 2020

Cost Allocation Methodology

Utilities- Excludable to the system

Chemicals- Excludable to the system

Job Supplies- Excludable to the system

Labs/TCEQ- Excludable to the system

Samples- Excludable to the system

Bank Charges and Fees- 33.33% of Fee Benefit

Car & Truck- 33.33% of Miles Driven

Contractors- Excludable to the system

Equipment Rentals- Excludable to the system

Insurance- 33.33% of Miles Driven

Legal & Professional Services- 33.33% of time spent

Meals & Entertainment- Excludable to the system

Office Expenses, Supplies & Software- 33.33% of Supply Consumption

Payroll Expenses- 30% Hannah's Salary, 51% Stephen's Salary, 44% Bruce's Salary

Permits- Excludable to the system

Postage- Excludable to the system

Rent & Lease- 33.33% of Time and SqFt of Usage

Repairs & Maintenance- Excludable to the system

Storage- 33.33% of SqFt of Usage

Supplies- Excludable to the system

Taxes & Licenses- Excludable to the system

Telephone/Internet- 33.33% of hours of usage

Training and Seminars- 33.33% of hours benefit

Docket 52370

CCN 11984

Test Year 2020

Cost Allocation Methodology

Utilities- Excludable to the system

Chemicals- Excludable to the system

Job Supplies- Excludable to the system

Labs/TCEQ- Excludable to the system

Samples- Excludable to the system

Bank Charges and Fees- 33.33% of Fee Benefit

Car & Truck- 44.44% of Miles Driven

Contractors- Excludable to the system

Equipment Rentals- Excludable to the system

Insurance- 44.44% of Miles Driven

Legal & Professional Services- 33.33% of time spent

Meals & Entertainment- Excludable to the system

Office Expenses, Supplies & Software- 33.33% of Supply Consumption

Payroll Expenses- 30% Hannah's Salary, 51% Stephen's Salary, 44% Bruce's Salary

Permits- Excludable to the system

Postage- Excludable to the system

Rent & Lease- 33.33% of Time and SqFt of Usage

Repairs & Maintenance- Excludable to the system

Storage- 44.44% of SqFt of Usage

Supplies- Excludable to the system

Taxes & Licenses- Excludable to the system

Telephone/Internet- 33.33% of hours of usage

Training and Seminars- 33.33% of hours benefit

Docket 52370

CCN 12042

Test Year 2020

Cost Allocation Methodology

Utilities- Excludable to the system

Chemicals- Excludable to the system

Job Supplies- Excludable to the system

Labs/TCEQ- Excludable to the system

Samples- Excludable to the system

Bank Charges and Fees- 33.33% of Fee Benefit

Car & Truck- 11.11% of Miles Driven

Contractors- Excludable to the system

Equipment Rentals- Excludable to the system

Insurance- 11.11% of Miles Driven

Legal & Professional Services- 33.33% of time spent

Meals & Entertainment- Excludable to the system

Office Expenses, Supplies & Software- 33.33% of Supply Consumption

Payroll Expenses- 40% Hannah's Salary, 15% Stephen's Salary, 11% Bruce's Salary

Permits- Excludable to the system

Postage- Excludable to the system

Rent & Lease- 33.33% of Time and SqFt of Usage

Repairs & Maintenance- Excludable to the system

Storage- 11.11% of SqFt of Usage

Supplies- Excludable to the system

Taxes & Licenses- Excludable to the system

Telephone/Internet- 33.33% of hours of usage

Training and Seminars- 33.33% of hours benefit

DOCKET 52370

Answers to Staffs RFI dated January 5th, 2024

Staff 2-1 Does Stephen Krebs manage and/or operate a water utility in which Mr. Krebs does not have ownership of the CCN? If the answer is "yes", please include a copy of the service agreement detailing the types of services provided and the compensation for the services provided.

Answer: Yes, EHU operates 11 transient non-community and non-transient non-community water systems.

Staff 2-2 Please provide a current connection count for the following:

- **CCN 12042 :** 35
- **CCN 11984 :** 224
- **CCN 12598 :** 108

Staff 2-3 Please provide a list of any non-water utility businesses owned and operated by Stephen and/or Hannah Krebs that provide goods or services to East Houston. Please include a description of the types of goods or services provided to East Houston.

Answer: Stephen Krebs owns Krebs Development (KDI). KDI owns the office building in which EHU rents the office space from. KDI also does some minor construction work and jobs for EHU.

Stephen manages the roads for the communities that are in Padok and Roving Meadows and EHU collects road maintenance fees for the community or HOA on the water bills. EHU also collects the Trash Fees at Roving Meadows and the Sewer Billing (CCN 20781). EHU generates reports to show how much was collected for the specific fees, and then writes a check for that amount collected each month, payable to Stephen Krebs for the Road Maintenance or Roving Meadows Utilities for the Sewer Collections, or KDI for the trash collections. EHU charges \$1-2 per each collection for this.