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PUC DOCKET NO. 54940

APPLICATION OF INTEGRA WATER	§	PUBLIC UTILITY COMMISSION
TEXAS, LLC FOR AUTHORITY TO	§	
CHANGE RATES	§	OF TEXAS

**INTEGRA WATER TEXAS' RESPONSE TO
ORDER NO. 3 AND SUPPLEMENT TO APPLICATION**

COMES NOW, Integra Water Texas, LLC (Integra or Applicant), and files this Response to Order No. 3 and Supplement to Application as required by Order No. 3.¹ This Response and Supplement is timely filed.

On June 2, 2023, the Staff of the Public Utility Commission (Staff) filed its Recommendation on Administrative Completeness and Notice and Proposed Procedural Schedule, along with Staff's Memorandum of the same date. Staff's recommendations identify two deficiencies in Applicant's filing of April 27, 2023.² First, Staff directed Integra to file its Class D Annual Report for 2022 in PUC Project No. 54453.³ Second, Staff requested a schedule that "includes directly assigned costs, allocated costs, and any other changes between [Integra's] affiliates."⁴

Subsequently, on June 12, 2023, Integra filed its Class D Annual Report for 2022 in PUC Project No. 54453.⁵ Additionally, in the initial filing, Integra provided a separate schedule regarding affiliates and affiliated transactions confidentially and has asked Staff to review those documents to satisfy the request in its Memorandum.⁶ Through email correspondence, Staff refined its affiliated transactions request and asked whether (1) all of Integra's employees reside in Alabama and (2) Integra has a written policy regarding allocation calculations. Integra responded that, except for one employee who works remotely and resides in North Carolina, all

¹ Order No. 3 – Finding Application Incomplete, Establishing Opportunity to Cure, and Suspending Effective Date (Jun. 5, 2023).

² Commission Staff's Recommendation on Administrative Completeness and Notice and Proposed Procedural Schedule, Memorandum at 1 (June. 2, 2023).

³ *Id.*

⁴ *Id.*

⁵ Year-End 2022 Water and Sewer Utility Annual Reports in Accordance with 16 TAC § 24.129, Docket No. 54453, 2022 Class D Annual Financial Report (June. 12, 2023).

⁶ *Application of Integra Water Texas, LLC for Authority to Change Rates*, Docket No. 54940, Confidential – Integra Water Texas, LLC Financials at 5-13 (May 1, 2023).

Integra employee reside in Alabama. Finally, Integra has an Affiliate Support Service policy that defines the allocation process. It attaches this written policy hereto as **Attachment A**.

This filing supplements the Application filed herein on April 27, 2023. Specifically, attached as supplemental information are the following:

1. A copy of the Support Services Agreement between Integra Water, LLC, and its Affiliates as **Attachment A**.
2. Integra Water Texas, LLC's, Parent Company's 2022 financial statements as **CONFIDENTIAL Attachment B**.

Integra respectfully requests that its application be deemed administratively complete.

Respectfully submitted,

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**ATTORNEYS FOR INTEGRA WATER
TEXAS, LLC**

CERTIFICATE OF SERVICE

I certify that notice of the filing of this document was provided to all parties of record via electronic mail on June 20, 2023, in accordance with the Order Suspending Rules, issued in Project No. 50664.



JAMIE L. MAULDIN

SUPPORT SERVICES AGREEMENT
BETWEEN
INTEGRA WATER, LLC AND AFFILIATE

This Agreement is made between Integra Water, LLC (hereinafter "Integra"), and AFFILIATE.

1. WHEREAS, Integra maintains an organization whose officers and employees are familiar with the water and wastewater utility business, including the business and operations of AFFILIATE, and have experience and expertise in management, financing, accounting, customer service, rates and regulatory matters and the operation of water and wastewater utilities. The officers and employees of Integra are qualified to aid, assist and advise AFFILIATE in their business operations through the services to be performed under this Agreement; and
2. WHEREAS, AFFILIATE is a direct or indirect subsidiary of Integra; and
3. WHEREAS, AFFILIATE has been organized for and is presently engaged in the business of providing potable water and/or wastewater services as a public utility; and
4. WHEREAS, AFFILIATE is entering into this agreement with Integra to specifically define the types of services available to them as set forth in Exhibit A attached hereto and made a part hereof; and
5. WHEREAS, Integra has entered or proposes to enter into agreements similar to this agreement with other affiliated water companies that are direct or indirect subsidiaries of Integra; and
6. WHEREAS, Integra may engage or subcontract with other companies or persons, including other affiliated companies, to provide portions of the services hereunder; and
7. WHEREAS, the services to be rendered under this Agreement are to be rendered by Integra to AFFILIATE at their cost to Integra, as hereinafter provided.

ARTICLE I - GENERAL SCOPE OF
PROVIDER SERVICES

1. Support Services: The principle underlying this section is the provision of services to AFFILIATE in a reasonable and efficient manner at the cost or market rates. Integra may provide such day-to-day operating services, at the request of AFFILIATE, as provided below, consistent with this principle.

(A) Specific Support Services:

- (1) Integra may, at the request of AFFILIATE, provide to AFFILIATE the services set forth in Exhibit A in such manner as AFFILIATE shall reasonably require from time to time, unless Integra is not reasonably able to perform or provide such services or is unable to do so in a manner consistent with applicable law. The choice to use Integra services must be based on the value of the service, including but not limited to the

price of the service, the experience of the personnel and the quality of the service to be provided, consistent with AFFILIATE's obligation to provide safe, reasonable and adequate service at rates which are just and reasonable to customers and the public utility.

(2) It is understood between the parties that personnel provided by Integra shall not be deemed employees of AFFILIATE but shall remain employees of Integra. Integra shall be responsible for the payment of and reporting of all taxes including, without limitation, employment, unemployment, social security tax, federal and state withholding tax, local tax and any other tax required by law.

(3) Integra shall have no obligation to provide any of these services if it chooses not to provide a quote or price. AFFILIATE shall have no obligation to request or purchase these services from Integra.

(B) Personnel and Services to be Provided:

(1) During the term of this Agreement as set forth in Article III and upon the terms and conditions hereinafter set forth, Integra will provide corporate management services for AFFILIATE. In addition to the management services provided by the officers and employees of Integra, the officers and employees of Integra shall furnish to AFFILIATE the Accounting, Administration, Corporate Secretarial, Customer Services, Financial, Operation, Rates and Regulatory, and Risk Management, as set forth on Exhibit A attached hereto, together with such other services as AFFILIATE and Integra may agree; provided, however, that AFFILIATE may perform any such services with its own personnel or engage another company or person to provide those services on its behalf. Integra may engage or subcontract with another company or person to provide such services on its behalf. If Integra engages other affiliates of Integra to provide any of the services hereunder, such services shall be charged to AFFILIATE on the same basis as the services provided by Integra.

(2) Integra shall employ qualified officers and employees to provide the services hereunder and those persons shall be available to serve as officers of AFFILIATE.

ARTICLE II - BILLING AND

PAYMENT FOR SERVICES

1. All the Support Services rendered under this Agreement by Integra shall be charged to AFFILIATE at Integra's actual cost or market rate as provided in Article II.

(A) The costs for services rendered by Integra personnel directly for AFFILIATE shall be charged to AFFILIATE based on such personnel's time sheets. The costs for services to AFFILIATE that are rendered in common with similar services to other Companies which cannot be identified and related exclusively to services rendered AFFILIATE, shall be allocated among all Companies so served, or, in the case of costs with respect to services rendered to a particular group of Companies (including AFFILIATE), among the members of such group, based on the ratio of the number of active residential equivalent customers served as of the immediately preceding year's July 1, by AFFILIATE to the total number of residential equivalent customers served at the immediately preceding calendar year end by such Companies or group of Companies.

(B) The amount for an Integra employee's costs to be billed shall be computed on the employee's total labor rate, including base pay and other compensation, payroll taxes and fringe benefits (calculated on a per hour basis), plus a general overhead factor as set forth in Article II Paragraph (D).

(C) All direct expenses of Integra incurred in connection with services rendered by Integra, which can reasonably be identified and related exclusively to AFFILIATE, shall be charged directly to AFFILIATE.

(D) Allowance for Overhead - In determining the cost for services rendered by Integra to AFFILIATE as herein provided, there shall be added to the base pay rate of all officers and employees for whose services charges are to be made, a percentage sufficient to cover the overhead of Integra, as defined below, allocable to each such officer or employee. The overhead shall be calculated each year and shall be based on the ratio of the total overhead of Integra for the year to the total salaries of the employees for whose service charges are to be made to the Companies, including AFFILIATE. No general overhead or other markups by Integra shall be added to costs incurred for services of consultants or other third parties employed by Integra.

(1) The term "overhead" shall include, but not be limited to:

a) building costs, lease costs, depreciation, utilities, and other costs associated with office space and equipment, and

b) taxes other than payroll taxes

2. Integra shall submit itemized invoices for services rendered to AFFILIATE, including, when requested or required by AFFILIATE, all sales, use, excise, or similar taxes which may be applicable to such services, as soon as practicable after the close of each month.

3. All invoices submitted by Integra shall have adequate documentation (a) to identify the specific services, the cost of direct billed and allocated services, and the person providing the service, and (b) to justify all labor and materials costs. In addition, Integra shall provide adequate documentation showing how it calculates its direct and allocated costs (i) each time it submits an invoice reflecting a type of service for which it has not previously documented its methodology, and (ii) each time it changes any material element of the calculation. The parties agree that they will comply with the requirements of Chapter 62, and NCUC rules, regulations, and orders issued pursuant thereto, except as the NCUC has expressly waived such requirements.

4. Integra shall keep its time records and bills of service (including requests) in a manner that facilitates accurate and complete monitoring of specific charges and services under this agreement.

5. AFFILIATE shall pay each invoice within thirty (30) days after receipt to the extent the costs are not disputed. Such disputes must be raised by written notice to Integra within six (6) months after receipt of the invoice with the disputed cost. AFFILIATE shall pay Integra interest at an annual rate equal to one and one-half percent (1.5%) per month, shall accrue on any undisputed invoice items not paid within thirty (30) days after receipt by AFFILIATE, such interest being computed from the thirtieth (30th) day following the date of receipt.

6. Upon the written request of AFFILIATE, Integra shall permit AFFILIATE or its authorized agent or its authorized regulatory official reasonable access to its books and records for the purpose of auditing charges billed by Integra to AFFILIATE.

ARTICLE VII PROVISION OF SERVICES,
INSURANCE AND INDEMNIFICATION

1. Integra shall provide well-qualified and experienced staff to perform services covered by this Agreement. Names and backgrounds of said personnel shall be provided to AFFILIATE on request. Services provided by Integra hereunder shall be performed with due care, in a prudent, professional and workmanlike manner.
2. Integra shall purchase and maintain the following insurance with respect to the services performed under this Agreement, self-insure or obtain insurance coverage in at least the following amounts, and AFFILIATE shall, with respect to its facilities, maintain the following coverage as applicable:
 - a) Workers' Compensation Insurance or self insurance, naming AFFILIATE as an Alternate Employer, including the following extensions if necessary, Federal Longshoremen's and Harbor Worker Act, Jones Act or any similar employee benefit act that complies with the provisions of applicable federal and state law.
 - b) Employer's Liability Insurance with limits not less than \$100,000 for each occurrence;
 - c) Comprehensive General Liability insurance which insures AFFILIATE as an additional insured, with limits not less than \$1,000,000 combined bodily injury and property damage liability;
 - d) Automobile-Liability Insurance with limits not less than \$1,000,000 combined bodily injury and property damage liability. Integra shall provide AFFILIATE with certificates of insurance prior to execution of this agreement.

The certificates of insurance shall state that the carrier will endeavor to provide a thirty (30) day written notice of cancellation to AFFILIATE resulting from all causes other than failure to pay premiums, in which case the carrier will endeavor to provide ten (10) days written notice of cancellation to AFFILIATE.

3. Each party shall indemnify and hold the other party harmless from all damages, injuries, claims, demands, judgments, penalties, fines, liens, costs, and expenses, including reasonable attorneys' fees, of whatsoever kind or nature arising out of this Agreement, in any way contributed to by the negligence, act, omission, or fault of that party. To the extent that an employee of Integra, or a subcontractor or employee of an affiliate of Integra, brings an action against AFFILIATE, Integra agrees to waive its workers compensation immunity with respect to any claim of contribution or indemnification AFFILIATE may have against Integra.

Exhibit A

DESCRIPTION OF SUPPORT SERVICES

Without limitation, services to be provided by the Integra will include the following:

A. Accounting and Financial Services: Integra will assist in the preparation and implementation of accounting methods and procedures to determine that they conform fully to the requirements, rules and regulation of governmental authorities having jurisdiction over AFFILIATE and will review AFFILIATE monthly financial reports, annual reports and other reports, including those to any governmental authorities. Integra will advise and assist in the establishment and maintenance of current record keeping techniques; review accounting procedures, methods and forms; and evaluate systems of internal control for receipt and disbursement of funds, materials and supplies, and other assets. Integra will assist in the maintenance of accounting records as required by AFFILIATE. When appropriate, Integra will cooperate and consult with AFFILIATE's certified public accountants. Integra will provide assistance to AFFILIATE in the preparation of all financial reports and provide said financial reports to AFFILIATE Management on a monthly basis no later than the 10th of the following month. Integra will also provide services related to accounts payable, payroll, consolidation, budgeting and long-range planning.

Integra will assist in the preparation of operating and construction budgets and monitor the control over such budgets by comparing experienced costs to the projections.

Integra will prepare or assist in the preparation of federal, state and local tax returns for and to the extent required by AFFILIATE.

B. Administration: Integra will make qualified employees available to perform or assist in the performance of AFFILIATE's corporate activities. Those employees will keep themselves informed on AFFILIATE operations. They will make recommendations to AFFILIATE for operating expenditures and for additions to and improvements of property, plant and equipment. They will keep abreast of economic, regulatory, governmental and operational developments and conditions that may affect AFFILIATE; and advise AFFILIATE of such developments and conditions to the extent that they may be important to AFFILIATE.

C. Communications: Integra will recommend procedures to promote satisfactory relations with employees, customers, communities and the general public including plant tours, public exhibits and displays and other related services to inform the public.

D. Corporate Secretarial: Integra will maintain, in such places and manner as may be required by applicable law, documents of AFFILIATE, such as minute books, charters, by-laws, contracts, deeds and other corporate records. Integra will maintain, or arrange for the maintenance of, records of stockholders of AFFILIATE and perform other corporate secretarial functions as required including preparation of notices of stockholder and director meetings and the minutes thereof.

Integra will review and may assist in the preparation of documents and reports required by AFFILIATE such as deeds, easements, contracts, charters, franchises, trust indentures and PUC reports and filings.

E. Customer Service and Billing: Integra may provide customer service and billing services to AFFILIATE, including live and automated telephone service to customers, the rendering of periodic bills to customers based on AFFILIATE tariffs, collections, assisting customers with water service changes, resolving customer disputes and remittance processing.

F. Financial: Integra will assist in the development and implementation of financing programs for AFFILIATE, including the furnishing of advice from time to time on securities market conditions and the form and timing of financing; and assistance in the preparation of necessary papers, documents, registration statements, petitions, applications and declarations. Integra will prepare reports to be filed with, and reply to inquiries made by, security holders and bond and mortgage trustees.

Integra will assist AFFILIATE in treasury and cash management functions, including arrangements for bank credit lines, establishment of collection policies, and development of temporary investment programs.

G. Human Resources: Integra may assist in obtaining qualified personnel for AFFILIATE; in establishing appropriate rates of pay for those employees; and in negotiating with bargaining units, if any, representing AFFILIATE's employees. Integra may advise or assist and/ or carry out training programs for the development of personnel and advise and assist AFFILIATE regarding personnel. Integra may also advise and assist AFFILIATE in regard to group employee insurance, pension and benefit plans and in the drafting or revising of those plans when required. Integra may provide advice regarding employment laws and procedures and controls for compliance with such laws.

H. Information Systems: Integra will make available to AFFILIATE electronic data processing systems, networks, applications and services. Integra will maintain a computer network, data communications system, database and applications services, desktop and laptop computers, and peripheral equipment along with periodic upgrades, data backups and recovery procedures for the benefit of AFFILIATE.

I. Operation: Upon request, periodic operational reviews may be performed by Integra and recommendations for improvements will be reported to AFFILIATE.

J. Rates and Regulatory Support: Integra personnel may make recommendations for changes in rates, tariffs, rules and regulations and assist AFFILIATE in the conduct of proceedings before, and in their compliance with the rulings of PUC regulatory bodies having jurisdiction over AFFILIATE's operation. Accounting personnel may assist in the preparation of rate filings or applications and the supporting documents and exhibits requested or required by AFFILIATE and their respective regulatory commissions. Integra may also provide qualified personnel to testify on behalf of AFFILIATE as required during any regulatory proceedings.

K. Risk Management: Integra will provide a risk management program to review the exposures to accidental loss, recommend methods of protection, either through the purchase of insurance, self-insurance or other risk management techniques and arrange for the purchase of insurance coverage. Integra will also supervise investigation procedures, review claims and negotiate and assist in, and evaluate proposals for, settlement at the request of AFFILIATE. Integra will advise AFFILIATE on specific safety and security programs required to comply with insurance coverages.

L. Legal: Integra may assist AFFILIATE in retaining outside counsel retained to represent AFFILIATE. This may include finding qualified legal counsel for specific legal matters and assisting with negotiating fees and terms.

Corporate Charges Allocations Manual

Summary

Integra Water, LLC, (the "Integra") was formed on 10/27/2004. Integra consists of officers and employees ("employees") who are familiar with the water and wastewater utility business and have experience and expertise in management, financing, accounting, customer service, rates, and regulatory matters of water and wastewater utilities. The employees of Integra are qualified to aid, assist and advise Water and Wastewater Companies in their business. Integra employees provide corporate management services. Cost related to these services are collected and allocated to the appropriate subsidiaries and affiliated companies of Integra through an allocation process to be described in this document.

All officers, managers and employees of the Integra track and report the hours worked on a subsidiary or affiliated entity on their payroll timesheet. The employee's payroll timesheet is processed through our payroll with the appropriate hours recorded into our payroll database.

The expenses of the Integra are classified into two main categories under which a bill is produced. The expenses are classified as either a service expense or a sundry expense. Service expense is defined as labor and overheads of employees of Integra. Labor is defined as actual base pay of employees of Integra. Overhead is defined as costs incurred by the company, in order to obtain the services of said employees. They include, but are not limited to, healthcare, employer payroll taxes, retirement benefits, office rent, and employee incentive compensation. These overhead costs exclude any employee related contributions for employee payroll taxes and employee contributions to Simple IRA.

The employees of Integra Water, LLC can be categorized into the following types of services:

- Operations
- Accounting & Financial
- Customer Service

All service related expenses are billed to the subsidiaries and affiliates of Integra at cost, by using an employee specific billing rate. The billing rate for an employee is calculated by dividing total annual labor and overhead expenses by that employee's annual billable hours.

Sundry expenses are departmental costs associated with the normal operations of Integra and can also be categorized as listed above.

Employees are instructed to charge time directly to a system or group of entities for whom they are performing a service. Employees of Integra can allocate their billing hours as a direct allocation or as an indirect allocation. The employee makes this determination based upon the work they are performing and record this information on their bi-weekly timesheets. System and allocation codes have been developed to allow the employee to determine the most appropriate billing of their time. Allocation codes are created for AFFILIATE with a common factor. For example, an employee providing a service to AFFILIATE but not a

specific system would be considered an indirect allocation. However, an employee working specifically on a specific system would be a direct allocation to the individual system.

Direct allocations are charged 100% to the individual system identified on the employee's timesheet by the individual system managed by AFFILIATE. Indirect allocations are identified on the employee's timesheet by the appropriate allocation code. The billing time associated with these allocation codes are allocated to the individual utility systems identified.

The method used to allocate these indirect allocations is residential equivalent unit ("REU"). The REU is calculated by using year end customer totals of each subsidiary or affiliated company for the year immediately preceding the current year. REUs are not adjusted throughout the year unless there is a substantial acquisition during the year, at which time all allocations will be updated with the most current quarter end REUs.

Allocations

After the monthly closing and posting of payroll for the month is done, all service related costs will be appropriately distributed to the subsidiaries and affiliates of Integra, including AFFILIATE. These allocations are pooled by REUs and distributed to the subsidiary and affiliates based on a predetermined allocation method. Methods and REUs are adjusted from year to year as needed.

Attachment B
CONFIDENTIAL is
being provided in subsequent filing