

TCEQ DOCKET NOS. 2004-1671-UCR and 2004-1120-UCR

TEXAS  
COMMISSION  
ON ENVIRONMENTAL  
QUALITY

SOAH DOCKET NOS. 582-05-2771 and 582-05-2770

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APPLICATION BY AQUA UTILITIES, INC. AND AQUASOURCE	§	BEFORE THE STATE OFFICE
DEVELOPMENT COMPANY d/b/a	§	
AQUA TEXAS, INC., TO CHANGE	§	
THEIR WATER AND SEWER TARIFFS	§	OF
AND RATES IN VARIOUS COUNTIES,	§	
AND APPEAL OF RATE-MAKING	§	
ACTIONS OF VARIOUS	§	
MUNICIPALITIES DENYING	§	
REQUESTED CHANGES TO WATER	§	
AND SEWER TARIFFS AND RATES	§	ADMINISTRATIVE HEARINGS

CHIEF CLERKS OFFICE

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**AQUA TEXAS' RESPONSE TO THE EXECUTIVE DIRECTOR'S  
EXCEPTIONS TO THE PROPOSAL FOR DECISION**

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TO THE HONORABLE COMMISSIONERS OF THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY:

Aqua Utilities, Inc. and Aqua Development, Inc., d/b/a Aqua Texas, Inc. ("Aqua Texas"), respectfully submit this Response to the Executive Director's ("ED") Exceptions to the Administrative Law Judges' ("ALJs") Proposal for Decision ("PFD") and in support thereof would show the following:

**I. INTRODUCTION AND SUMMARY OF RESPONSE**

On July 25, 2007, the ED presented its Response to the ALJs' Order No. 49 and its Exceptions to the PFD ("ED's Exceptions"). Aqua Texas makes the following Reply to the ED's Response to Order No. 49 and Response to the ED's Exceptions to the PFD:

1. The unphased rates the ED presented in response to Order No. 49 do not reflect appropriate rate setting data and if implemented, would result in significant undercollection based upon the ED-recommended revenue requirement. ED's Exceptions at 1-2.

2. The ED incorrectly concludes that Aqua Texas is not entitled to a deferred expense surcharge. ED's Exceptions at 6-9. It reaches that erroneous conclusion by confusing *deferred expenses* with *undercollected revenues*. As the ALJs correctly noted, the value of Aqua Texas' regulatory asset to be recovered is "not the difference between the amount it was entitled to start charging customers and the amount it actually did charge customers," as the ED alleges. PFD at 54. On the basis of deferred expenses, not undercollected revenue, Aqua Texas is entitled to a deferred expense surcharge. Moreover, the ED's undercollected revenue analysis understates Aqua Texas' actual undercollected revenue by more than \$10,000,000.

3. The ED's proposed disallowance of Aqua Texas' purchased water expense and reduction of its bad debt expense should be rejected, as the ALJ's concluded. ED's Exceptions at 4-5; PFD at 50-51.

4. The ED's proposed exclusion of certain rate case expenses (miscellaneous rate design expenses and corporate charges) should be rejected, as the ALJs correctly concluded. ED's Brief at 9-11; PFD at 72-74.

5. Aqua Texas should be allowed to recover its post-hearing rate case expenses.

## **II. AQUA TEXAS' REPLY TO ED'S RESPONSE TO ORDER NO. 49.**

### **A. The ED's recommended unphased rates.**

In Order No. 49, the ALJs asked the ED to "calculate rates consistent with the recommendations contained in the PFD." Order No. 49. The ED made its response to that request along with its Exceptions to the PFD. ED's Brief at 1-2. The ED recommended the following unphased rates:

**TABLE 1: ED'S RECOMMENDED UNPHASED RATES**

	Unphased Water Base Rate	Unphased Gallonage Rate	Unphased Sewer Flat Rate
N Region	\$33.41	\$3.27	\$71.93
SE Region	\$18.99	\$2.95	\$58.46
SW Region	\$36.86	\$3.61	\$82.49

The ED's response to Order No. 49 only provides the final rates; it does not provide the assumptions and rate-setting data and methodology it relied upon in recommending the above rates. It is, therefore, not clear what billing determinants the ED applied to its rate-setting data to generate its recommended rates. Billing determinants are simply the gallons consumed and billed (from customer bills) and active connections, which are divided into costs (*i.e.* the revenue requirement) to calculate rates. Total connection counts (which include inactive connections that are not billed) may not be substituted in place of the number of active connections. If they are, the resulting rates will fail to recover a utility's revenue requirement. The selection of appropriate billing determinants therefore has a significant impact on the rates that must be charged to fully recover a utility's revenue requirement. It is not possible for Aqua Texas to fully analyze the rates the ED has recommended without the disclosure of the billing determinants the ED used.

**B. Aqua Texas' recommended unphased rates.**

The rate setting data proposed by the ED and Aqua Texas results in very similar revenue requirements. In its Exceptions to the PFD, Aqua Texas requested that the Commissioners rely on the NARUC-formatted accounting data presented by Aqua Texas in support of its rates, as opposed to that proposed by the ED and accepted by the ALJs in the PFD. Aqua Texas' Exceptions at 14-15. If the Commissioners are inclined to rely on the ED's accounting methodology and rate setting data,

however, two issues must be addressed. First, as discussed in Aqua Texas' Exceptions, significant errors in the ED's data must be addressed, most notably its exclusion of working capital allowance as an element of rate base. The ED noted that Aqua Texas should be allowed that working capital allowance in its own Exceptions to the PFD. ED's Exceptions at 9. Thus, it appears that the ED's exclusion of working capital allowance was merely an oversight. With that assumption, Aqua Texas has included working capital allowance in the calculations it presents herein. Second, if the ED's accounting methodology and rate setting data are to be used to set rates, appropriate billing determinants (*i.e.* gallons used and active connections) must be applied in order to allow for a full recovery of Aqua Texas to fully recover its revenue requirement in each region.

With its Exceptions, Aqua Texas presented a table reflecting the ED's rate setting data that included working capital allowance as an element of rate base. *See* Aqua Texas' Exceptions, Attachment D. An identical copy of that table is included with this Brief as Attachment A. Relying on the ED's rate setting data, Aqua Texas has calculated unphased rates that it respectfully requests the Commission should approve in the alternative to those proposed by the ED.<sup>1</sup> Those rates are as follows:

**TABLE 2: AQUA TEXAS' RECOMMENDED UNPHASED RATES**

	Unphased Water Base Rate	Unphased Gallonage Rate	Unphased Sewer Flat Rate
N Region	\$36.89	\$3.27	\$73.30
SE Region	\$20.83	\$2.95	\$63.80
SW Region	\$38.92	\$3.61	\$87.96

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<sup>1</sup> Aqua Texas has consistently contended and still maintains that it is entitled to phased rates as approved by the ED (AT-60) and as charged by Aqua Texas since July 2004. *See, e.g.*, Aqua Texas' Closing Argument at 13-15; Aqua Texas' Exceptions at 2-9. Aqua Texas only recommends the unphased rates in Table 2 as an alternative to those recommended by the ED, in the event the Commission is inclined to authorize an unphased rate in this case.

The above rates reflect the agreement of Aqua Texas and the ED on: 1) volumetric rates (as proposed by Aqua Texas and adopted by the ED); 2) test-year customer usage (*i.e.*, gallons consumed)<sup>2</sup>; 3) rate base as identified on Attachment A;<sup>3</sup> and, 4) the ED's revenue requirements identified for each region on Attachment A.

Given the broad and substantial areas of agreement with the ED, the question may be asked how Aqua Texas arrived at higher recommended unphased rates than the ED. Answering that question is difficult, because as noted, the ED did not "show its work" in proposing its unphased rates. Assuming that the ED used the test year consumption detailed in Aqua Texas' Rate Application,<sup>4</sup> the only variable that could account for the difference would be the billing determinants (number of connections) the ED used in generating its unphased rates. Given that the ED's rates are uniformly lower than those proposed by Aqua Texas, it is likely that the ED used connection counts that were larger than appropriate in calculating its proposed rates. One possible source of the error could be the ED's use of *total* connection counts (active and inactive connections), as opposed to the number of *active* connections within each region. Rates cannot be set based upon total connection counts because, if they are, a utility will be presumed to recover its revenue requirement from 100% of its total connections. Because a utility the size of Aqua Texas

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<sup>2</sup> Aqua Texas adjusted the test year customer usage used to calculate its unphased water rate for the North Region in response to the ED's concern that the stated usage in the Rate Application reflected excessive water loss.

<sup>3</sup> As noted in Aqua Texas' Exceptions and the PFD, there is an approximately \$700,000 discrepancy between the rate base proposed by the ED and that proposed by Aqua Texas, based on Aqua Texas' use of NARUC accounting. Aqua Texas' Exceptions at 16. The lower rate base recommended by the ED reflects disagreements over various items excluded from rate base. *Id.*; *see also* Aqua Texas' Response to Order No. 48; Aqua Texas' Closing Argument at 41-44. Aqua Texas excepts to and disputes the exclusion of those rate base items. Those excluded rate base items are not, however, reflected in the rate base that Aqua Texas relied upon in generating the unphased rates in Table 2. Instead, Aqua Texas adopted and relied upon the rate base figures advocated by the ED and as reflected on Attachment A.

<sup>4</sup> *See, e.g.*, AT-1 (Production and Consumption, Attachment #13a, AT 103200-214).  
*Aqua Texas' Response to the ED's  
Exceptions to the Proposal for Decision*

always has higher total connections than active connections, basing rates on total connection counts will result in significant underrecovery of the utility's revenue requirement. Stated alternatively, rates are presumed to be earnable. If use by customers whose homes are vacant or who do not exist is assumed in setting rates, rates will be established at a lower level than will allow for full recovery of a utility's revenue requirement.

Attachments B, C and D to this Brief fully demonstrate how Aqua Texas derived the unphased rates set forth in Table 2, above. For each tariff (water and sewer), Aqua Texas used its *active* connection count, its test year consumption data, the revenue requirements established by the ED (Attachment A) and the gallonage rates proposed by Aqua Texas and adopted by the ED. Using simple subtraction and division, Aqua Texas took the ED's proposed revenue requirements, less the revenue generated by usage (based on the agreed-upon gallonage charges and test year usage), divided the remainder (revenue to be recovered through base rates) by active connections and divided again by twelve to arrive at monthly base rates per connection per month.

Attachments B, C and D also reconcile the revenue generated by Aqua Texas' proposed unphased rates, and compared that revenue to the revenue generated by ED's proposed unphased rates. As those charts reflect, using active test year customer connections and actual consumption, the ED's proposed unphased rates would fail to allow Aqua Texas to recover the revenue requirements the ED has proposed. For instance, charging the ED's proposed unphased water rate for North Region water customers would result in collected revenue of only \$9,711,839. The ED has proposed a North Region water revenue requirement of \$10,298,752. Thus, if the Commission approved the ED's proposed unphased water rates for Aqua Texas' North Region water customers, Aqua Texas would fail to recover \$586,913 of the ED-recommended revenue requirement for that region. In *every case*, the ED's proposed unphased rates would result in significant undercollections

of the ED-recommended revenue requirements, as summarized below:

**TABLE 3: REVENUE UNDERCOLLECTIONS CAUSED BY THE ED'S PROPOSED RATES**

	ED-Proposed Revenue Requirement (Att. A)	Revenue Generated by ED's Proposed Rates (Atts. B, C and D)	Undercollected Revenue
N Water	\$10,298,752	\$9,711,839	\$586,913
SE Water	\$8,861,475	\$8,518,310	\$343,165
SW Water	\$8,444,385	\$8,202,872	\$241,513
N Sewer	\$648,270	\$636,149	\$12,121
SE Sewer	\$6,254,310	\$5,731,068	\$523,242
SW Sewer	\$1,966,102	\$1,843,652	\$122,450

By contrast, Aqua Texas' unphased rates set forth in Table 2 would allow it to recover the entire ED-recommended revenue requirement in each region. *See Attachments B, C and D.* In no case do Aqua Texas' unphased rates in Table 2 create a threat of material over or underrecovery of the ED-recommended revenue requirements. Because it is impossible to exactly match customer billing to the ED-recommended revenue requirement, Aqua Texas' revenue reconciliations on Attachments B, C and D reflect that its unphased rates would very slightly undercollect or overcollect its revenue requirements in each region. In no case do those undercollections or overcollections exceed \$1,000 of the ED-recommended revenue requirements. In other words, the undercollections and overcollections generated by Aqua Texas' unphased rates in Table 2 are significantly less than 0.1% of the revenue requirement the ED recommends for each region.

If the Commission is inclined to approve unphased rates, it should do so based upon clear, correct and verifiable rate setting data, including billing determinants. Thus, the Commission should adopt Aqua Texas' unphased rates in Table 2 above, which are amply supported by the calculations and data contained in Attachments B, C and D, rather than the unverified rates calculated by the ED.

### III. AQUA TEXAS' RESPONSE TO THE ED'S EXCEPTIONS

#### A. Aqua Texas should be allowed to recover the expense deferrals authorized in the Deferral/Recovery Plan [response to ED's exception "Deferred Expense/Regulatory Asset].

If the Commission is inclined to authorize Aqua Texas to recover its deferred expense regulatory asset through a surcharge rather than through rate base treatment,<sup>5</sup> two key issues must be addressed. First, the Commission must determine the value of Aqua Texas' deferred expense regulatory asset on which to base the surcharge. *See* Aqua Texas' Exceptions at 9-12. Second, the Commission must determine the appropriate rate of interest to apply to the deferred expenses to be recovered through a surcharge. *Id.* at 12-14.

The ED has contended that the answer to the first of these questions — the amount to be recovered — “must be calculated by comparing the utility’s phased-in rates to the final approved rates,” in both its Closing Argument at SOAH and in its Exceptions to the PFD. ED’s Exceptions at 7; *see also* ED’s Closing Argument at 23-27. The ED argues that “the recoverable amount of deferred expenses” is equal to “the difference between the rates that were charged and the utility’s final justified rates.” *Id.* As did the ALJs, the Commission should reject the ED’s revenue-based evaluation of the deferred expenses to be recovered, because Aqua Texas’ *deferred expenses* are not equal to the *undercollected revenue* generated by Aqua Texas’ phased-in rates. *See* PFD at 54.

#### 1. Deferred expenses are not equal to undercollected revenue.

The ED’s analysis of the deferred expense issue begins with a critical and fundamental misstep. The ED conflates Aqua Texas’ expense deferrals, undertaken with the ED’s approval, with

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<sup>5</sup> Aqua Texas has consistently contended that its deferred expense regulatory asset should be accorded rate base treatment consistent with the TCEQ’s rules, the ED’s approval of the expense Deferral/Recovery Plan and Statement of Financial Accounting Standards No 71 (“FAS No. 71”). *See* Aqua Texas’ Closing Argument at 49-61; Aqua Texas’ Response to Closing Argument at 10-15; Aqua Texas’ Exceptions at 5-9.

undercollected revenue associated with Aqua Texas' phased rate increase. The ED's misstep is revealed by how it names the issue. According to the ED's Closing Argument, the question is one of "deferred revenue," not deferred expenses. ED's Closing Argument at 23-24. While the ED has re-named the issue as "deferred expenses" in its Exceptions, it has not changed its position that the deferred expenses "must be calculated by comparing the utility's phased-in rates to the final approved rates." ED's Exceptions at 7. That measure, which relates to "deferred" or undercollected revenue, is *not equal* to the expenses Aqua Texas deferred in connection with the ED-approved expense Deferral/Recovery Plan. See AT-59; AT-81. That plan details the *actual expenses* the ED authorized Aqua Texas to defer, and that Aqua Texas paid and did defer in accordance with the Deferral/Recovery Plan.<sup>6</sup> Those expenses included depreciation, taxes purchased power and corporate overhead. AT-59, AT-81. Those expenses, which are not segregated by region, underscore the propriety of the per-connection statewide deferred expense surcharge advocated by Aqua Texas and adopted by the ALJs in the PFD. See Aqua Texas' Exceptions at 11-12; PFD at 57. Moreover, Aqua Texas' deferred expenses reflect actual, not hypothetical, expenses that Aqua Texas paid (but which were not recovered through the early phases of its rate increase) and that were part of Aqua Texas' cost of service. Aqua Texas paid those actual, reasonable and necessary operating expenses as "a loan to its customers," and must be allowed to recover them in some fashion. PFD at 54. The ED approved those actual expenses by including them in its recommended revenue requirements. See Attachment A.

The ALJs correctly observed that the value of Aqua Texas' deferred expenses are "not the

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<sup>6</sup> See Aqua Texas' Closing Argument at 49 - 51; AT-59 (correspondence from Robert L. Laughman to Glenn Shankle, dated July 7, 2004); AT-60 (correspondence from Michael D. Cowan to Robert L. Laughman, dated July 14, 2004); AT-81 (Deferral/Recovery Plan); Tr. 115, ln. 18 - 24 (Hugus - Aug. 21, 2006) (Aqua Texas capitalized appropriate expenses consistent with the ED's July 2004 approval of the expense Deferral/Recovery Plan).

difference between the amount it was entitled to start charging customers and the amount it actually did charge customers,” rejecting the ED’s undercollected revenue analysis. PFD at 54. Because the ED’s deferred expense analysis begins with a misstep, the ED reaches the incorrect and contrary conclusion that the Commission should not authorize a surcharge to recover those deferred expenses. ED’s Exceptions at 8-9. The ED specifically “projects that the total over collection for water service is around \$6 million and the total under collection for sewer service is also around \$6 million,” and therefore there is no undercollected *revenue* on which to base a deferred *expense* surcharge. ED’s Exceptions at 9. This is in contrast to the position the ED took in its Closing Argument. There, based on only an analysis of Aqua Texas’ *water* rates (but not sewer rates), the ED concluded that Aqua Texas had overcharged its customers \$2,757,143. ED’s Closing Argument at 28. In likely response to Aqua Texas’ objection that considering only water revenue failed to account for significant sewer revenue undercollections, the ED modified its position. ED’s Exceptions at 2. The ED now claims that Aqua Texas overcollected water revenues of \$6,187,804, compared to the \$2,757,143 of alleged water revenue overcollections the ED identified in its Closing Argument.<sup>7</sup> Compare ED’s Exceptions at 2, with ED’s Closing Argument at 28. The ED contends that Aqua Texas’ alleged water revenue overcollections of \$6,187,804 offset Aqua Texas’ alleged \$5,980,342 in sewer undercollections, and no surcharge is therefore justified. PFD at 2, 8-9.

As with the ED’s unphased rate calculations, the ED’s undercollected revenue analysis relies on incorrect billing determinants and thus results in an incorrect conclusion. See ED’s Exceptions at 2. (“Projected Over/Under collections” analysis.) Unlike its unphased rate calculations, the ED’s over/undercollection analysis sets forth its assumptions regarding customer counts. Based on *total*

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<sup>7</sup> Between the time it filed its Closing Argument and its Exceptions, the ED managed to identify an additional \$3,430,661 in alleged water revenue overcollections that it relies upon to roughly offset Aqua Texas alleged sewer revenue undercollections.

*connections*, not active connections, the ED projected the revenue Aqua Texas would have generated had it charged the ED's proposed unphased rates. Compare ED's Exceptions at 2, with Attachments B, C and D (detailing active customer connections by tariff).

While the ALJs have dismissed the ED's undercollected revenue analysis, a proper calculation of Aqua Texas' actual undercollections, based on test year usage and active connections, yields notable results. The ED incorrectly concluded that Aqua Texas has overcollected water revenues that are effectively offset by significant sewer revenue undercollections. ED's Exceptions at 2, 9. In fact, Aqua Texas has *significantly undercollected both water and sewer revenues* since 2004.

Aqua Texas has prepared a comparison of its actual revenues generated under each phase of its phased rate increase with the ED's recommended revenue requirement under each tariff. See Attachment E. Aqua Texas calculated its undercollections based upon the revenues generated using test year active connections and consumption, and compared those revenues to the ED's proposed revenue requirements. *Id.* Based upon that comparison, it is clear that Aqua Texas has *undercollected* water revenues by approximately \$2,856,201 since 2004, based upon the ED-proposed annual water revenue requirement of 27,604,612. *Id.* This is in comparison to the ED's claim that Aqua Texas *overcollected* water revenues by \$6,187,804 during that same time, yielding a total difference of \$9,044,005 between the water revenue over/undercollections noted by the ED and those demonstrated by Aqua Texas based upon proper billing determinants. *Id.*; ED's Exceptions at 2.

Similarly, Aqua Texas' analysis based upon active connections and actual test year usage indicates that it has *undercollected* sewer revenues by approximately \$8,119,430 since 2004. Attachment E. The ED claims that Aqua Texas only undercollected \$5,980,342 of sewer revenues

during that same time. ED's Exceptions at 2. Thus, the ED's undercollected revenue analysis fails to account for \$2,139,088 of Aqua Texas' actual sewer revenue undercollections since 2004.

Taken together, Aqua Texas has undercollected \$10,975,631 since 2004, based upon the ED's proposed annual revenue requirement of \$36,473,294. Attachment E. Thus, by *properly* applying the ED's own undercollected revenue analysis using correct billing determinants, it is possible to draw two conclusions: 1) the ED has incorrectly concluded that Aqua Texas has no net revenue undercollection, undermining its claim that no surcharge is appropriate; and 2) Aqua Texas' deferred expenses (which totaled \$11,453,00.00 as of July 31, 2006) are, in fact, comparable to its revenue undercollections since 2004 in the amount of \$10,975,631. *Compare* AT-81, with Attachment E. The remaining discrepancy between Aqua Texas' undercollected revenue and its deferred expenses can be accounted for by the application of interest to its deferred expenses, but not to the undercollected revenues detailed in Attachment E.

By making this comparison, Aqua Texas does not endorse the ED's incorrect undercollected revenue analysis as a means to measure the value of Aqua Texas' deferred expenses to be recovered through a surcharge. If the ED had looked to the appropriate measure of deferred expenses — the value of the deferrals authorized by the ED-approved expense Deferral/Recovery Plan — it would have reached the conclusion that Aqua Texas and the ALJs did: Aqua Texas should be allowed a statewide deferred expense surcharge.

**2. Aqua Texas should recover the full value of the deferral authorized by the expense Deferral/Recovery Plan.**

The ED recommends that the Commission not authorize a surcharge based on its undercollected revenue analysis. ED at 8-9. As described, the ED's undercollected revenue analysis is an inappropriate measure of the deferred expenses that Aqua Texas should be allowed to recover

through a surcharge. *See* PFD at 54. The value of Aqua Texas deferred expenses can easily be determined by referring to the expense Deferral/Recovery Plan.

The monthly values of Aqua Texas' expense deferrals can be derived from the seven-year expense Deferral/Recovery Plan the ED approved. *See* AT-60; AT-81; Attachment F (expense deferral amortization with 8.44% interest); Attachment G (expense deferral amortization with 6% interest). Aqua Texas should be allowed to recover 100% of the expenses it *actually* incurred and was authorized to defer according to the plan approved by the ED. *See* AT-59; AT-60; *see also* Aqua Texas' Exceptions at 11-12; Aqua Texas' Closing Argument at 54-55. These expenses were approved by both the ED and the ALJs because they are reflected in the total revenue requirement set forth in Attachment A. The Commission should authorize the recovery of interest on the expense deferrals at 8.44% interest — as reflected on Attachment F hereto — for the reasons articulated in Aqua Texas' Exceptions to the PFD. *See* Aqua Texas' Exceptions at 12-14. The use of an 8.44% rate of interest is consistent with the ALJs' characterization of Aqua Texas' expense deferrals as “a loan to its customers,” the normal rate base treatment for deferred expense regulatory assets and is justified in order to ensure that utilities continue to use phased rates to prevent rate shock in future cases. *Id.* Alternatively, if the Commission is not inclined to apply this rate, Aqua Texas suggests it should apply a 6% interest rate, which is the interest rate proposed by the ED following the hearing on the merits and is also the rate applied by the Commission to service deposits by customers.

Tables reflecting expense deferrals consistent with the ED-approved expense Deferral/Recovery Plan, and including interest at both an 8.44% and 6% rate, are included with this brief as Attachments F and G. Both Attachments F and G reflect an appropriate surcharge amount at each respective interest rate, assuming a surcharge were applied over a sixty month period commencing in August 2007. Using an 8.44% interest rate, an appropriate surcharge would be \$5.64

per connection (*i.e.*, per each water and sewer connection) per month. *See Attachment F.* Using the 6% interest rate advocated by the ED, an appropriate surcharge would be \$5.02 per connection per month. *See Attachment G.* The Commission should authorize a surcharge with either 8.44% or 6% interest as reflected on Attachments F or G.

The ED alleges that “Aqua Texas has not shown that \$8,000,000.00 is an appropriate amount to recover” through a deferred expense surcharge. ED’s Exceptions at 7. Aqua Texas is not seeking to recover the \$8,000,000.00 average balance of its expense deferrals *if unphased rates are approved in this case*. Aqua Texas’ Closing Argument at 18-19; Aqua Texas’ Exceptions at 10-12. The ED’s emphasis on the \$8,000,000.00 average value of the deferral, that was calculated and included in rate base in Aqua Texas’ Rate Application, is misplaced. *See AT-1 (Combined Water and Sewer Rate Base Summary, AT 103167).* Aqua Texas used that calculated average value and included it in rate base based upon the assumptions that: 1) its deferred expenses would be afforded proper rate base treatment; and, 2) that Aqua Texas would be allowed to recover its deferred expenses through the returns generated by such rate base treatment. Because the ALJs have instead proposed non-rate base surcharge recovery of Aqua Texas deferred expenses, the *actual* value of those expenses must be used to establish such a surcharge, in order that Aqua Texas be made whole on its loan to its customers. *See Aqua Texas’ Exceptions at 10-14.* Aqua Texas included the \$8,000,000 average value in rate base because the actual value of Aqua Texas’ deferred expenses changes over time as those expenses are paid and deferred and later recovered. *See AT-59; AT-81.* Thus, the actual value of the asset could not be included as an item of rate base, only its average could. If Aqua Texas is to recover its actual deferred expenses through a surcharge, their actual value must form the basis for that surcharge. *See Aqua Texas’ Exceptions at 10-14.* Aqua Texas respectfully requests that the Commission establish a deferred expense recovery surcharge based

upon the actual value of the deferral authorized by the ED.

The ED challenges the ALJs' proposed findings of fact that "[t]he average value of Aqua Texas' expense deferrals during the seven year term of its Deferral/Recovery Plan is \$8,000,000.00," and that "Aqua Texas included the calculated average value of \$8,000,000 balance of its expense deferrals in rate base in its Application and assigned the overall rate of return of 8.44% to it."<sup>8</sup> Those findings do not, however, reflect the amount on which the Commission should base a deferred expense surcharge. Aqua Texas included the \$8,000,000.00 average value of the deferrals in rate base on the expectation that its deferred expense regulatory asset would be given rate base treatment consistent with the TCEQ's rules, the ED's approval, FAS No. 71 and normal utility ratemaking practices.<sup>9</sup> Ultimately, the ALJs adopted the surcharge recovery model Aqua Texas proposed, and recommended that Aqua Texas' deferred expense regulatory asset not be afforded rate base treatment. PFD at 53-54 (proposing non-rate base treatment), 57 (stating that "Aqua Texas' brief recognizes how [surcharge recovery] can be implemented and, in fact, that is the approach recommended by the ALJs.").

Aqua Texas proposed a surcharge recovery model that provides for recovery of the *total outstanding balance* of authorized deferrals through a surcharge. In adopting Aqua Texas surcharge model, the ALJs recognized the difference between the \$8,000,000.00 Aqua Texas included in rate base and the "full amortization schedule of the deferred asset." PFD at 54, n. 147. It is based on that

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<sup>8</sup> PFD, Proposed Order at 13, ¶58-59. Those two findings of fact are supported by ample evidence in the record. *See, e.g.*, Tr. 984, ln. 8 – 22 (Hugus – Aug. 28, 2006) (Aqua Texas analyzed accumulated deferral over its entire seven year life cycle and included the 8,000,000.00 average value in rate base); AT-1 (Combined Water and Sewer Rate Base Summary, AT 103167).

<sup>9</sup> Tr. 984, ln. 8 – 22 (Hugus – Aug. 28, 2006) (Aqua Texas analyzed accumulated deferral over its entire seven year life cycle and included the 8,000,000.00 average value in rate base); AT-1 (Combined Water and Sewer Rate Base Summary, AT 103167) (reflecting inclusion of average value in rate base); *see also* Aqua Texas' Exceptions at 5-9.

full amortization schedule that the Commission should base a deferred expense surcharge. *See* Aqua Texas' Exceptions at 11-12; Attachment F (amortization of expense deferral including 8.44% interest, yielding a \$5.64/month/connection surcharge); Attachment G (amortization of expense deferral including 6% interest, yielding a \$5.02/month/connection surcharge). Again, the ED's concern regarding the \$8,000,000.00 average value of the deferred expense included in rate base is misplaced, because that is not the amount of deferrals that Aqua Texas should be allowed to recover as the ALJs recognized. PFD at 54, 57. Aqua Texas' expense deferrals reflect "a loan to its customers." PFD at 54. The actual monthly balance of that loan may be determined by reference to the approved expense Deferral/Recovery Plan, and Aqua Texas's authorized deferrals based on that plan. *See* AT-59; Attachment F (amortization of expense deferral including 8.44% interest, yielding a \$5.64/month/connection surcharge); Attachment G (amortization of expense deferral including 6% interest, yielding a \$5.02/month/connection surcharge).

Aqua Texas demonstrated that its deferred expenses were "appropriate and reasonable," as the ED contends is required. ED's Exceptions at 7. The ED's claim that Aqua Texas' deferred expenses were not reasonable and necessary expenses incurred in providing service is unfounded. ED's Exceptions at 8. This complaint appears based on the ED's erroneous undercollected revenue analysis. *Id.* Aqua Texas presented the ALJs *uncontroverted* evidence concerning Aqua Texas' request for the expense Deferral/Recovery Plan, the ED's approval of that plan and finally the nature and amount of Aqua Texas' deferred expenses. AT-1 (Combined Water and Sewer Rate Base Summary, AT 103167); AT-59; AT-60; AT-81 (Deferral/Recovery Plan); Tr. 143, ln. 9 – 151, ln. 1 (Hugus – Aug. 21, 2006); Tr. 978, ln. 2 – 992, ln. 8 (Hugus – Aug. 28, 2006). No party, including the ED, presented evidence that controverted the amount or reasonableness or necessity of the expenses that were ultimately paid and entitled to be deferred under the ED-approved expense

Deferral/Recovery Plan. The ED's concern regarding the reasonableness and necessity of Aqua Texas' deferred expenses flow from the same mistaken belief that leads it to conclude that a surcharge is not justified: that deferred expenses are the equivalent of undercollected revenue.

**B. The Commission should include the full value of Aqua Texas purchased water and bad debt expenses in setting rates [response to ED's exceptions "ED's Disallowance of Purchased Water Expenses" and "ED's Disallowance of Bad Debt Expenses"].**

The ED contends in its exceptions that the ALJs erred by proposing that Aqua Texas should:

1) recover purchased water expenses as an element of rates; and 2) recover bad debt expenses of \$329,376.00 as a reasonable. ED's Exceptions at 4-5. In each case, ample evidence supported the ED's conclusions. See PFD at 50-51. Accordingly, the Commission should adopt the ALJs' recommendations and reject the modifications suggested by the ED.

**1. Purchased Water Expenses.**

Both in its Closing Argument and in its Exceptions, the ED requested that purchased water expenses that Aqua Texas included as reasonable and necessary operating expenses be disallowed. See ED's Exceptions at 4; ED's Closing Argument at 13, 18; PFD at 50 & n. 142. The basis for the ED's request is its claim that allowing Aqua Texas to include purchased water costs as an element of rates, rather than through the continuation of a pass through surcharge, "could potentially result in a double charge to [] customers for the same expense." ED's Exceptions at 4. The ALJs correctly rejected the disallowance, citing the fact that Aqua Texas has not collected pass through charges since it implemented its phased rates in 2004. PFD at 50.

In the interim between the 1999 AquaSource case and this case, Aqua Texas applied for and received an emergency order from the Commission to pass through purchased water fees. On that basis, it charged purchased water pass-throughs *until it implemented its new rates* in 2004. The Executive Director's witness incorrectly contended that the emergency pass-through order would

continue in effect after the order adopting a new rate, and on that basis there existed a threat of Aqua Texas double charging its customers for the same purchased water expenses. *See* Tr. 741, ln. 17 – 742, ln. 24 (Pascua – Aug. 24, 2006). Since the Commissions’ emergency pass-through order will be superceded by the order issued in this case, Aqua Texas included its purchased water expenses as an element of rates in this case. As of the date that Aqua Texas implemented its proposed rates, it stopped including pass-through charges in billings, and instead charged the rates calculated with the purchased water charges included as a regular, allowable expense. *See* PFD at 50. In light of that fact, the ALJs correctly concluded that Aqua Texas was not “double dipping” as the ED’s witness feared, and that Aqua Texas should be allowed to recover its purchased water expenses as an ordinary, reasonable and necessary operating expense. *Id.* The Commissioners should adopt that recommendation.

## **2. Bad debt.**

Through Closing Arguments and its responses to Order No. 48, the ED and Aqua Texas arrived at an agreed total bad debt expense of \$332,336.00.<sup>10</sup> *See* Aqua Texas Response to Order No. 48, Exhibit A, n. 2. That total was derived from the actual bad debt expense presented by Aqua Texas, less the ED’s originally proposed disallowance. *Id.* The ED has requested by its Exceptions that Aqua Texas’ bad debt be further reduced to reflect “no more than 1% of the total annual water revenue requirement that is approved.” ED’s Exceptions at 5. In its Closing Argument, the ED took a contrary position. ED’s Closing Argument at 14. There, the ED contended that bad debts should be adjusted so as to not exceed “1% of the utility’s *gross revenue* billed.” *Id.* (emphasis added). The ED’s earlier position is consistent with the fact that bad debts are associated with both water *and*

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<sup>10</sup> The ED notes that the PFD incorrectly states that the ED and Aqua Texas agreed upon a total bad debt expense of 329,376.00, instead of the actual agreed-upon figure of \$332,336.00. ED’s Exceptions at 5.

sewer service, not just water service. While Aqua Texas does not concede that its bad debts should be limited to 1% of its total revenues, applying that standard (which the ED earlier used and which is consistent with the fact that bad debts are not exclusively water related) does not necessitate the further reduction in bad debt expense the ED advocates in its Exceptions.

The ED's rate setting data, as set forth in Attachment A, reflects a total annual revenue requirement of \$36,473,294.00. Applying the ED's bad debt standard of "1% of the utility's *gross revenue* billed," results in a total allowable bad debt expense of \$364,733.00. That amount exceeds the bad debt expense agreed upon by Aqua Texas and the ED of \$332,336.00. Thus, applying a *gross revenue*, instead of a *gross water revenue* standard as the ED later adopted, indicates that no further reduction of bad debt expense is warranted. Accordingly, the Commissioners should decline the ED's request to further reduce Aqua Texas' bad debt expense.

**C. The Commission should not adopt the ED's proposed rate case expense disallowances [response to ED's exception "Miscellaneous Rate Design Expenses"].**

The ED's Exceptions renew its objections to the recovery of certain rate case expenses that Aqua Texas proved were reasonable and necessary and that ALJs recommended should be recovered. ED's Exceptions at 9-10; PFD at 72. Those expenses relate to rate designs services provided by Mattias Jost and Peter Marek, and Severn Trent's implementation of a historic revenue analysis system to help Aqua Texas project pro forma revenue in connection with its Rate Application. Tr. 1249, ln. 4 – 1251, ln. 11 (Hugus – Feb. 16, 2007). The ED also contends that the ALJs wrongly recommended that Aqua Texas should be allowed to recover certain corporate charges that Aqua America billed Aqua Texas in connection with this case. ED's Exceptions at 10-11. The ALJs recommended that Aqua Texas be allowed to recover all of the disputed rate case expenses. PFD at 72 (Jost, Marek and Severn Trent), 73-74 (Aqua America corporate charges). Aqua Texas

respectfully requests that the Commission adopt the ALJs recommendations related to these expenses.

**1. Jost, Marek and Severn Trent.**

Aqua Texas presented uncontroverted evidence that Matthias Jost and Peter Marek provided Aqua Texas with bill analysis in connection with the rate design contained in Aqua Texas' Rate Application. Tr. 1522, ln.13 – 1525, ln.5 (Hugus – Feb. 19, 2007); AT-91; *see also* Tr. 1247, ln.23 – 1252, ln.15 (Hugus – Feb. 16, 2007). It also presented testimony explaining that Mattias Jost and Peter Marek assisted it in responding to the multitude of Requests for Information (“RFIs”) and other discovery requests received by Aqua Texas in the early stages of this case. Tr. 1299 ln.2-14 (Terrill – Feb. 19, 2007). Aqua Texas witness Rick Hugus further demonstrated the relevance and necessity of Mr. Jost’s time for bill analysis. Performing accurate bill analysis is needed to accurately determine the revenue required, and to make known and measurable changes, so as to determine what level of revenue will be produced by a given level of rates. Tr. 1522, ln.13 – 1525, ln.5 (Hugus – Feb. 19, 2007); AT-91; *see also* Tr. 1247, ln.23 – 1252, ln.15 (Hugus – Feb. 16, 2007). As Mr. Hugus explained, Aqua Texas’ “revenue and expenses versus the rate case pro forma were within \$10,000 – \$10,000 on \$36 million,”<sup>11</sup> as a result of Mr. Jost’s work. Tr. 1525 ln.2-4 (Hugus – Feb. 19, 2007). Clearly, Mr. Jost’s work was reasonable and necessary to this rate case.

Similarly, Aqua Texas presented uncontroverted evidence regarding the reasonableness and necessity of its rate case expenses related to Severn Trent. That company assisted Aqua Texas with gathering “the information for [its] rate analysis and rate design,” it “supplied the initial documents that [Aqua Texas] had to have to come up with a billing analysis,” and provided Aqua Texas with the ability to do necessary bill analysis to develop pro forma revenue projections in connection with

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<sup>11</sup> Referring to operating revenues under the initial phase of the rate increase.

its Rate Application.” Tr. 1134, ln. 21 – 22; Tr. 1135, ln. 12 – 13; Tr. 1249, ln. 4 – 1251, ln. 11(Hugus – Feb. 16, 2007).

The ALJs concluded that the expenses associated with Mattias Jost, Peter Marek and Severn Trent “represent[ed] allowable services that are directly related to this rate case” and that were therefore recoverable. PFD at 72. In doing so, they rejected the very same issues the ED has presented in its Exceptions. *Compare* ED’s Closing Argument at 30-31, *with* ED’s Exceptions at 9-10. The Commission should adopt the ALJs recommendations and authorize the recovery of Aqua Texas’ rate case expenses attributable to Mattias Jost, Peter Marek and Severn Trent.

## **2. Corporate Charges**

The ED also challenges the ALJs determination that certain corporate rate case expenses billed by Aqua Texas to Aqua America are allowable rate case expenses. ED’s Exceptions at 10-11. The ED seeks disallowance of \$62,015.61 of such expenses. *Id.* at 10. Aqua Texas again presented uncontroverted testimony that the expenses in question were: 1) not passed on as an item of expense in Aqua Texas’ requested cost of service; and, 2) were reasonable and necessary rate case expenses. Tr. 1517 ln. 13 – 1521, ln. 22 (Hugus – Feb. 19, 2007). Based on that evidence, the ALJs concluded that the corporate charges in question were reasonable and necessary rate case expenses that Aqua Texas should be permitted to recover. PFD at 74. Aqua Texas respectfully requests that the Commission adopt the ALJs’ recommendation.

## **D. Post-hearing rate case expenses.**

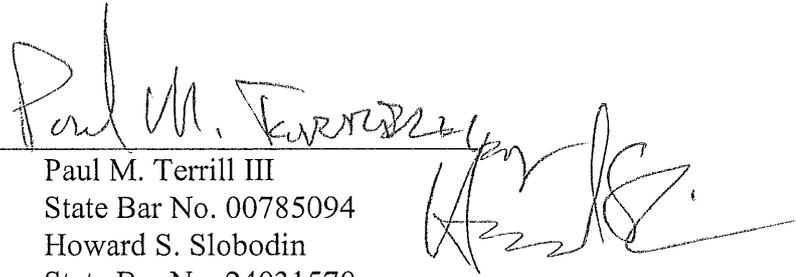
As stated in its Exceptions, Aqua Texas has specifically requested recovery of rate case expenses accruing between February 19, 2007 (the final evidentiary hearing in this matter concerning rate case expenses) and the issuance of a final order by the Commission. *See* Aqua Texas’ Exceptions at 20; AT-I at 4, ln. 12 – 15 (Terrill Prefiled); Tr. 1293, ln. 15 – 1294, ln. 5 (Terrill –

Aug. 21, 2006). Those expenses are significant, given the volume of briefing and analysis presented both to the ALJs and the Commission. Neither the PFD nor the ED's Exceptions account for that request, and Aqua Texas renews that request to the Commission. Recovery of rate case expenses accruing after the close of evidence is consistent with the Water Code and should be allowed. *See* TEX. WATER CODE §§ 13.043(e), 13.084, 13.185(d).

**Respectfully submitted,**

**HAZEN & TERRILL, P.C.**

By:



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**ATTORNEYS FOR AQUA UTILITIES, INC.  
AND AQUA DEVELOPMENT, INC. d/b/a AQUA  
TEXAS, INC.**

CERTIFICATE OF SERVICE

I hereby certify that on August 8, 2007, a true and complete copy of the foregoing was sent to the following by the indicated method:

<b>Parties</b>	<b>Representative / Address</b>	
STATE OFFICE ADMINISTRATIVE HEARINGS	Craig R. Bennett Travis Vickery Administrative Law Judges State Office of Admin. Hearings 300 West 15th Street Suite 502 Austin, TX 78701	<i>via fax: 475-4994</i>
SOAH Docket Clerk	Docket Clerk State Office of Admin. Hearings 300 West 15th Street, Suite 502 Austin, TX 78701	<i>via fax: 475-4994</i>
TCEQ Chief Clerk	Office of the Chief Clerk, TCEQ 12100 Park 35 Circle Bldg. F/1, Room 1104 Austin, Texas 78753	<i>via fax: 239-3311 and hand delivery</i>
TCEQ Executive Director	Todd Galiga Executive Director, TCEQ MC-175 P.O. Box 13087 Austin, TX 78711-3087	<i>via fax: 239-0606</i>
Office of Public Interest Counsel of TCEQ	Scott Humphrey TCEQ, OPIC MC-103 P.O. Box 13087 Austin, TX 78711-3087	<i>via fax: 239-6377</i>
Estates of Shady Hollow HOA; Comanche Cliffs HOA; Kerr and Kendall Counties Falling Water POA; The Reserve at Falling Water POA; Cypress Springs Estates POA; Kendall Pointe POA; Onion Creek Meadows POA	Sheridan Gilkerson Jackson Sjoberg McCarthy & Wilson L.L.P. 711 West 7th St. Austin Texas 78701	<i>via fax: 225-5565</i>
Eagle Creek Ranch OA	Linda Lamberth 912 Eagle Creek Dr. Floresville, TX 78114	<i>via e-mail: sinanju@ix.netcom .com</i>

**Parties**

**Representative / Address**

Southeast Region Homeowners Group (CIA of Shadow Bay; Cedar Point HOA; Lake Conroe Village HOA; Brentwood Residents; Port Adventure HOA; Lake Livingston Village HOA; and numerous individual customers

Gayle Pierce  
14188 Shadow Bay Dr.  
Willis, TX 77318-7405

*via e-mail:*  
MGPierceRV@ms  
n.com

Sheridan Gilkerson  
Jackson Sjoberg McCarthy &  
Wilson L.L.P.  
711 West 7th St.  
Austin Texas 78701

*via fax: 225-5565*

Crighton Ridge Homeowners Association

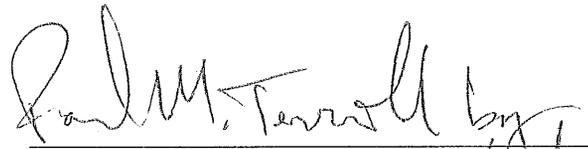
Judith Weidner  
13231 Ridgewater Way  
Conroe, TX 77302-3468

*via first-class mail*

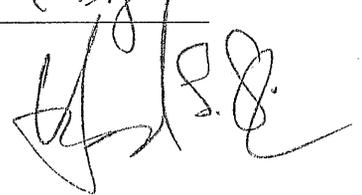
Barton Creek Lakeside POA

Byron Zinn  
120 Hidden Springs Ct.  
Spicewood, TX 78669

*via first-class mail*



Paul M. Terrill, III



**AQUA TEXAS RESPONSE TO PFD'S PROPOSED RATE-SETTING DATA (ALL REGIONS)**

Ln No.		NORTH		SOUTHEAST		SOUTHWEST		TOTAL		TOTAL
		Water	Wastewater	Water	Wastewater	Water	Wastewater	Water	Wastewater	Combined
<b><u>COST OF SERVICE</u></b>										
1	Salaries and Wages (1)	\$1,461,349	\$87,511	\$1,220,685	\$471,011	\$1,377,130	\$190,482	\$4,059,164	\$749,004	\$4,808,168
2	Contract Labor (1)	\$607,711	\$28,102	\$537,787	\$500,717	\$589,831	\$132,351	\$1,735,329	\$661,170	\$2,396,499
3	Purchased Sewer Service (1)		\$35,064		\$611,064		\$132,209	\$0	\$778,337	\$778,337
4	Purchased Water (1)	\$251,863	\$0	\$131,276	\$0	\$326,676	\$0	\$709,815	\$0	\$709,815
5	Chemicals for Treatment(1)	\$121,365	\$11,546	\$138,312	\$41,639	\$63,065	\$39,759	\$322,742	\$92,944	\$415,686
6	Utilities (electricity)(1)	\$828,722	\$71,527	\$533,070	\$521,412	\$423,436	\$127,036	\$1,785,228	\$719,975	\$2,505,203
7	Repairs/maint/supplies (1)	\$242,371	\$8,031	\$189,272	\$30,031	\$200,583	\$20,036	\$632,226	\$58,098	\$690,324
8	Office Expense (1)	\$242,380	\$0	\$180,248	\$0	(\$31,066)	\$0	\$391,562	\$0	\$391,562
9	Accounting & Legal fees (1)	\$96,845	\$4,284	\$96,619	\$39,687	\$138,037	\$26,853	\$331,501	\$70,824	\$402,325
10	Insurance (1)	\$30,801	\$2,462	\$33,167	\$22,520	\$215,684	\$43,323	\$279,652	\$68,305	\$347,957
11	Miscellaneous (1)	\$837,533	\$54,082	\$716,548	\$368,288	\$991,911	\$202,994	\$2,545,992	\$625,364	\$3,171,356
Other Taxes:										
12	Payroll Taxes	\$106,286 (2)	\$5,679 (3)	\$105,839 (4)	\$52,897 (5)	\$69,327 (6)	\$14,142 (7)	\$281,453	\$72,718	\$354,170
13	Property and other taxes	\$173,938 (2)	\$5,710 (3)	\$988,868 (4)	\$70,514 (5)	\$327,922 (6)	\$25,264 (7)	\$1,490,728	\$101,488	\$1,592,216
14	Annual Depreciation (9)	\$1,439,811	\$103,626	\$1,153,116	\$1,045,227	\$975,053	\$272,529	\$3,567,980	\$1,421,382	\$4,989,362
15	Return (1)	8.440%	\$2,686,548	\$158,989	\$2,026,756	\$1,652,572	\$491,902	\$6,637,536	\$2,303,463	\$8,940,999
16	Income Taxes (8)	34.00%	\$1,383,979	\$74,190	\$1,044,086	\$851,325	\$991,271	\$3,419,337	\$1,178,919	\$4,598,256
17	Less: Other Revenues	(\$212,751) (2)	(\$2,532) (3)	(\$234,174) (4)	(\$24,594) (5)	(\$138,707) (6)	(\$6,182) (7)	(\$585,632)	(\$33,308)	(\$618,940)
18	<b>Total Revenue Requirement</b>	<b>\$10,298,752</b>	<b>\$648,270</b>	<b>\$8,861,475</b>	<b>\$6,254,310</b>	<b>\$8,444,385</b>	<b>\$1,966,102</b>	<b>\$27,604,612</b>	<b>\$8,868,683</b>	<b>\$36,473,294</b>
<b><u>RATE BASE</u></b>										
19	Utility Plant at Original Cost (9)	\$46,834,952	\$3,370,987	\$37,687,126	\$31,712,676	\$34,292,501	\$8,663,259	\$118,814,579	\$43,746,922	\$162,561,501
20	Less: Reserve for Depreciation(9)	(\$11,150,810)	(\$607,024)	(\$8,416,959)	(\$9,334,921)	(\$9,747,444)	(\$1,861,848)	(\$29,315,213)	(\$11,803,793)	(\$41,119,006)
21	Net Plant	\$35,684,142	\$2,763,963	\$29,270,167	\$22,377,755	\$24,545,057	\$6,801,411	\$89,499,366	\$31,943,129	\$121,442,495
<b><u>Working Capital:</u></b>										
22	12.5% of the Summation of Lines 1 thru 11 above	\$590,118	\$37,826	\$472,123	\$325,796	\$536,911	\$114,380	\$1,599,151	\$478,003	\$2,077,154
23	Average of Deferred Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
24	Contributions in Aid (10)	(\$4,443,125)	(\$918,032)	(\$5,728,595)	(\$3,123,315)	(\$2,283,011)	(\$1,087,568)	(\$12,454,731)	(\$5,128,915)	(\$17,583,646)
25	<b>Total Rate Base</b>	<b>\$31,831,135</b>	<b>\$1,883,757</b>	<b>\$24,013,695</b>	<b>\$19,580,236</b>	<b>\$22,798,957</b>	<b>\$5,828,223</b>	<b>\$78,643,786</b>	<b>\$27,292,217</b>	<b>\$105,936,003</b>

**FOOTNOTES:**

- (1) Amounts from Proposal For Decision, Partial Revenue Requirement Sheets, PFD at 80-82
- (2) Amounts from ED's response to Order 48 - ED Data Sheet EP-5, Column (c)
- (3) Amounts from ED's response to Order 48 - ED Data Sheet EP-6, Column (c)
- (4) Amounts from ED's response to Order 48 - ED Data Sheet EP-3, Column (c)
- (5) Amounts from ED's response to Order 48 - ED Data Sheet EP-4, Column (c)
- (6) Amounts from ED's response to Order 48 - ED Data Sheet EP-1, Column (c)
- (7) Amounts from ED's response to Order 48 - ED Data Sheet EP-2, Column (c)
- (8) Income Tax calculation reflects methodology applied in the ED's response to Order 48, ED Data Sheets EP-1 thru EP-6
- (9) Amounts from ED's response to Order 48 - ED Data Sheet KA-1, "After Prefile" lines
- (10) Amounts from ED's response to Order 48 - ED Data Sheet KA-1, "After Prefile" lines, "Net Book Value" column minus "Staff Verified Original Cost" column



Aqua Texas' Proposed Unphased Rates and Revenue Comparison:

Connections as of 12/31/2003

North Water	Active (Billed) WT	Inactive (Vacant) WT	Total Connections WT	Active (Billed) WT	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Consumption from Application / Per Company Records
														1,245,780.0
1101 Total	7,082	836	7,918	7,082	7,037	38	3	4	-	-	-	-	-	
1102 Total	3,390	400	3,790	3,390	3,381	7	-	1	-	1	-	-	-	
1108 Total	107	56	163	107	101	6	-	-	-	-	-	-	-	
1109 Total	335	10	345	335	330	4	-	-	-	1	-	-	-	
1112 Total	54	3	57	54	54	-	-	-	-	-	-	-	-	
1113 Total	445	4	449	445	445	-	-	-	-	-	-	-	-	
1114 Total	389	37	426	389	373	15	1	-	-	-	-	-	-	
1117 Total	58	1	59	58	58	-	-	-	-	-	-	-	-	
1121 Total	58	1	59	58	57	-	-	1	-	-	-	-	-	
1123 Total	2	7	9	2	2	-	-	-	-	-	-	-	-	
1201 Total	1,837	85	1,922	1,837	1,778	54	1	4	-	-	-	-	-	
<b>Totals</b>	<b>13,757</b>	<b>1,440</b>	<b>15,197</b>	<b>13,757</b>	<b>13,616</b>	<b>124</b>	<b>5</b>	<b>10</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,298,752</b>

Revenue Requirement

North Water Rate Comparison	TCEQ Proposed	Gallage	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"
		3.27	33.41	83.53	167.05	267.28	267.28	534.56	835.25	1,670.50	2,672.80
		AT Proposed	3.27	36.89	92.23	184.45	295.12	295.12	590.24	922.25	1,844.50

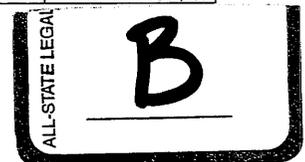
Revenue Generated from Rates	TCEQ Proposed	Gallage	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Total Revenue	
		4,073,701	5,458,927	124,285	10,023	32,074	-	12,829	-	-	-	-	9,711,839
		AT Proposed	4,073,701	6,027,531	137,231	11,067	35,414	-	14,166	-	-	-	10,299,109

North Sewer	Active (Billed) WW	Inactive (Vacant) WW	Total Connections WW	Active (Billed) WW	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"	
1101 Total	-	-	-	-										
1102 Total	583	55	638	583	579	3	-	-	-	1	-	-	-	
1108 Total	-	-	-	-										
1109 Total	84	1	85	84	83	1	-	-	-	-	-	-	-	
1112 Total	-	-	-	-										
1113 Total	-	-	-	-										
1114 Total	-	-	-	-										
1117 Total	-	-	-	-										
1121 Total	49	1	50	49	49	-	-	-	-	-	-	-	-	
1123 Total	-	7	7	-	-	-	-	-	-	-	-	-	-	
1201 Total	-	-	-	-										
<b>Totals</b>	<b>716</b>	<b>64</b>	<b>780</b>	<b>716</b>	<b>711</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>648,270</b>

Revenue Requirement

North Sewer Rate Comparison	TCEQ Proposed	Gallage	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"
		1.00	2.50	5.00	8.00	8.00	16.00	25.00	50.00	80.00	
		71.93	179.83	359.65	575.44	575.44	1,150.88	1,798.25	3,596.50	5,754.40	
AT Proposed	73.30	183.25	366.50	586.40	586.40	1,172.80	1,832.50	3,665.00	5,864.00		

Revenue Generated from Rates	TCEQ Proposed	Gallage	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Generated Rates	
		-	613.707	8,632	-	-	-	-	13,811	-	-	-	636,149
		AT Proposed	625.396	8,796	-	-	-	-	14,074	-	-	-	648,265



Aqua Texas' Proposed Unphased Rates and Revenue Comparison:

Connections as of 12/31/2003

Southwest Water	Active (Billed) WT	Inactive (Vacant) WT	Total Connections WT	Active (Billed) WT	5/8, 3/4	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Consumption
														1,073,160.0
1203 Total	7,002	456	7,458	7,002	6,856	128	8	7	-	2	1	-	-	
1206 Total	753	21	774	753	736	11	2	4	-	-	-	-	-	
1208 Total	209	6	215	209	192	8	-1	3	-	2	1	1	1	
1209 Total	122	2	124	122	109	12	1	-	-	-	-	-	-	
1218 Total	58	7	65	58	58	-	-	-	-	-	-	-	-	
1219 Total	37	1	38	37	37	-	-	-	-	-	-	-	-	
1220 Total	264	5	269	264	260	1	-	1	-	2	-	-	-	
1222 Total	588	33	621	588	584	1	-	2	1	-	-	-	-	
1224 Total	62	1	63	62	59	2	-	1	-	-	-	-	-	
<b>Total</b>	<b>9,095</b>	<b>532</b>	<b>9,627</b>	<b>9,095</b>	<b>8,891</b>	<b>163</b>	<b>12</b>	<b>18</b>	<b>1</b>	<b>6</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>8,444,385</b>

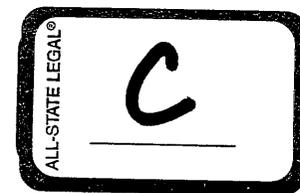
		Gallage	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"
SW Water Rate Comparison	TCEQ Proposed	3.61	36.86	92.15	184.30	294.88	294.88	589.76	921.50	1,843.00	2,948.80
	AT Proposed	3.61	38.92	97.30	194.60	311.36	311.36	622.72	973.00	1,946.00	3,113.60

		Gallage	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Generated Rates
Revenue Generated from Rates	TCEQ Proposed	3,874,108	3,932,667	180,245	26,539	63,694	3,539	42,463	22,116	22,116	35,386	8,202,872
	AT Proposed	3,874,108	4,152,453	190,319	28,022	67,254	3,736	44,836	23,352	23,352	37,363	8,444,795

Southwest Sewer	Active (Billed) WW	Inactive (Vacant) WW	Total Connections WW	Active (Billed) WW	5/8, 3/4	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Revenue Requirement
1203 Total	422	42	464	422	413	4	5	0	0	0	0	0	0	
1206 Total	460	22	482	460	445	10	1	4	0	0	0	0	0	
1208 Total	82	8	90	82	82	0	0	0	0	0	0	0	0	
1209 Total	-	-	-	-	-	-	-	-	-	-	-	-	-	
1218 Total	-	-	-	-	-	-	-	-	-	-	-	-	-	
1219 Total	-	-	-	-	-	-	-	-	-	-	-	-	-	
1220 Total	259	3	262	259	259	0	0	0	0	0	0	0	0	
1222 Total	487	26	513	487	484	1	0	1	0	0	1	0	0	
1224 Total	40	-	40	40	39	0	0	1	0	0	0	0	0	
<b>Total</b>	<b>1,750</b>	<b>101</b>	<b>1,851</b>	<b>1,750</b>	<b>1,722</b>	<b>15</b>	<b>6</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1,966,102</b>

		Gallage	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"
SW Sewer Rate Comparison	TCEQ Proposed	82.49	206.23	412.45	659.92	659.92	1,319.84	2,062.25	4,124.50	6,599.20	
	Unphased	87.96	219.90	439.80	703.68	703.68	1,407.36	2,199.00	4,398.00	7,036.80	

		Gallage	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Generated Rates
Revenue Generated from Rates	TCEQ Proposed	-	1,704,573	37,121	29,696	47,514	-	-	24,747	-	-	1,843,652
	Unphased	-	1,817,605	39,582	31,666	50,665	-	-	26,388	-	-	1,965,906



Aqua Texas' Proposed Unphased Rates and Revenue Comparison:

Connections as of 12/31/2003

Southeast Water	Active (Billed) WT	Inactive (Vacant) WT	Total Connections WT	Active (Billed) WT	5/8, 3/4	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Consumption
														1,684,395.0
1304 Total	10,867	1,036	11,903	10,867	10,571	172	37	61	-	14	6	5	1	
1307 Total	-	-	-	-										
1308 Total	190	12	202	190	187	1	-	2	-	-	-	-	-	
1309 Total	1,912	90	2,002	1,912	1,654	245	5	8	-	-	-	-	-	
1311 Total	80	6	86	80	79	1	-	-	-	-	-	-	-	
1315 Total	384	147	531	384	383	-	-	1	-	-	-	-	-	
1316 Total	164	39	203	164	164	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>13,597</b>	<b>1,330</b>	<b>14,927</b>	<b>13,597</b>	<b>13,038</b>	<b>419</b>	<b>42</b>	<b>72</b>	<b>-</b>	<b>14</b>	<b>6</b>	<b>5</b>	<b>1</b>	<b>8,861,475</b>

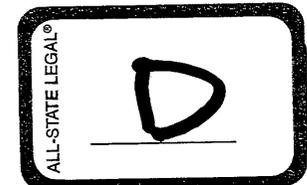
		Gallage	1.00	2.50	5.00	8.00	8.00	16.00	25.00	50.00	80.00
			5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"
SE Water Rate Comparison	TCEQ Proposed	2.95	18.99	47.48	94.95	151.92	151.92	303.84	474.75	949.50	1,519.20
	AT Proposed	2.95	20.83	52.08	104.15	166.64	166.64	333.28	520.75	1,041.50	1,666.40

		Gallage	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Generated Rates
Revenue Generated from Rates	TCEQ Proposed	4,968,965	2,971,099	238,704	47,855	131,259	-	51,045	34,182	56,970	18,230	8,518,310
	AT Proposed	4,968,965	3,258,978	261,833	52,492	143,977	-	55,991	37,494	62,490	19,997	8,862,217

Southeast Sewer	Active (Billed) WW	Inactive (Vacant) WW	Total Connections WW	Active (Billed) WW	5/8, 3/4	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Revenue Requirement
1304 Total	5,335	500	5,835	5,335	5,099	112	32	79	8	0	5	0	0	
1307 Total	-	-	-	-										
1308 Total	14	2	16	14	13	1	0	0	0	0	0	0	0	
1309 Total	1,150	60	1,210	1,150	1,035	112	3	0	0	0	0	0	0	
1311 Total	79	6	85	79	79	0	0	0	0	0	0	0	0	
1315 Total	378	132	510	378	377	0	0	1	0	0	0	0	0	
1316 Total	-	-	-	-										
<b>Total</b>	<b>6,956</b>	<b>700</b>	<b>7,656</b>	<b>6,956</b>	<b>6,603</b>	<b>225</b>	<b>35</b>	<b>80</b>	<b>8</b>	<b>-</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>6,254,310</b>

		Gallage	1.00	2.50	5.00	8.00	8.00	16.00	25.00	50.00	80.00
			5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"
SE Sewer Rate Comparison	TCEQ Proposed	58.46	146.15	292.30	467.68	467.68	935.36	1,461.50	2,923.00	4,676.80	
		63.80	159.50	319.00	510.40	510.40	1,020.80	1,595.00	3,190.00	5,104.00	

		Gallage	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Generated Rates
Revenue Generated from Rates	TCEQ Proposed	-	4,632,137	394,605	122,766	448,973	44,897	-	87,690	-	-	5,731,068
			5,055,257	430,650	133,980	489,984	48,998	-	95,700	-	-	6,254,569



Aqua Texas' Proposed Unphased Rates and Revenue Comparison:

Connections as of 12/31/2003

Ingram	Active (Billed) WT	Inactive (Vacant) WT	Total Connections WT	Active (Billed) WT	5/8, 3/4	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Consumption
														161,153
1205 Total	1,566	72	1,638	1,566	1,545	12	5	2	2	-	-	-	-	
														Revenue Requirement
Total	1,566	72	1,638	1,566	1,545	12	5	2	2	-	-	-	-	

		1.00	2.50	5.00	8.00	8.00	16.00	25.00	50.00	80.00	
		Gallonge	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"
Ingram Water Rate Comparison	TCEQ Proposed		-	-	-	-	-	-	-	-	-
	AT Proposed	2.08	21.69	54.23	108.45	173.52	173.52	347.04	542.25	1,084.50	1,735.20

		Gallonge	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Generated Rates
Revenue Generated from Rates	TCEQ Proposed	-	-	-	-	-	-	-	-	-	-	-
	AT Proposed	335,198	402,133	7,808	6,507	4,164	4,164	-	-	-	-	759,975

Undercollected Revenue Analysis

Texas Water Revenues	Water Total	Gallage	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Generated Revenues
	Phase I Rates	10,159,605	11,766,782	558,883	91,135	246,526	2,900	110,684	61,416	90,276	52,090	23,140,297
	Phase II Rates	11,766,165	13,668,488	642,677	104,107	281,157	3,524	127,323	70,212	102,336	60,941	26,826,929
	Phase III Rates	13,144,749	15,300,480	714,529	115,225	310,842	4,059	141,585	77,748	112,668	68,525	29,990,409
	TCEQ Proposed Revenue Requirement (ATT. A)											27,604,612
<b>Total Under Collected:</b>											<b>2,856,201</b>	

Texas Sewer Revenues	Sewer Total	Gallage	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Generated Revenues
	Phase I Rates	-	4,263,248	280,796	95,427	316,627	29,146	7,949	70,035	-	-	5,063,227
	Phase II Rates	-	5,234,995	344,798	117,178	388,796	35,789	9,761	85,998	-	-	6,217,314
	Phase III Rates	-	6,067,543	399,628	135,813	450,624	41,480	11,313	99,675	-	-	7,206,075
	TCEQ Proposed Revenue Requirement (ATT. A)											8,868,682
<b>Total Under Collected:</b>											<b>8,119,430</b>	

Texas Combined Water and Sewer Revenues	Texas Total	Gallage	5/8", 3/4"	1"	1.5"	2"	2.5"	3"	4"	6"	8"	Generated Revenues
	Phase I Rates	10,159,605	16,030,030	839,678	186,562	563,153	32,046	118,633	131,451	90,276	52,090	28,203,524
	Phase II Rates	11,766,165	18,903,483	987,475	221,284	669,953	39,313	137,084	156,210	102,336	60,941	33,044,244
	Phase III Rates	13,144,749	21,368,023	1,114,157	251,038	761,466	45,539	152,897	177,423	112,668	68,525	37,196,483
	TCEQ Proposed Revenue Requirement (ATT. A)											36,473,294
<b>Total Under Collected:</b>											<b>10,975,631</b>	



**Surcharge Calculation - Deferred Expense**

Interest	Payback
8.44%	5

Period	Deferred	Recovered	12/31/2006 Balance per Books	Interest	Cumulative Interest	Balance
9/1/2004	(745,000)		(745,000)	(5,239.83)	(5,239.833)	(750,239.83)
10/1/2004	(745,000)		(1,490,000)	(10,516.52)	(15,756.35)	(1,505,756.35)
11/1/2004	(745,000)		(2,235,000)	(15,830.32)	(31,586.67)	(2,266,586.67)
12/1/2004	(745,000)		(2,980,000)	(21,181.49)	(52,768.17)	(3,032,768.17)
1/1/2005	(745,000)		(3,725,000)	(26,570.30)	(79,338.47)	(3,804,338.47)
2/1/2005	(745,000)		(4,470,000)	(31,997.01)	(111,335.48)	(4,581,335.48)
3/1/2005	(745,000)		(5,215,000)	(37,461.89)	(148,797.38)	(5,363,797.38)
4/1/2005	(745,000)		(5,960,000)	(42,965.21)	(191,762.58)	(6,151,762.58)
5/1/2005	(745,000)		(6,705,000)	(48,507.23)	(240,269.81)	(6,945,269.81)
6/1/2005	(745,000)		(7,450,000)	(54,088.23)	(294,358.05)	(7,744,358.05)
7/1/2005	(745,000)		(8,195,000)	(59,708.48)	(354,066.53)	(8,549,066.53)
8/1/2005	(747,000)		(8,942,000)	(65,382.33)	(419,448.86)	(9,361,448.86)
9/1/2005	(497,000)	185,000	(9,254,000)	(68,036.59)	(487,485.45)	(9,741,485.45)
10/1/2005	(497,000)	185,000	(9,566,000)	(70,709.51)	(558,194.97)	(10,124,194.97)
11/1/2005	(497,000)	185,000	(9,878,000)	(73,401.24)	(631,596.21)	(10,509,596.21)
12/1/2005	(497,000)	185,000	(10,190,000)	(76,111.89)	(707,708.10)	(10,897,708.10)
1/1/2006	(497,000)	185,000	(10,502,000)	(78,841.61)	(786,549.71)	(11,288,549.71)
2/1/2006	(497,000)	185,000	(10,814,000)	(81,590.53)	(868,140.25)	(11,682,140.25)
3/1/2006	(497,000)	185,000	(11,126,000)	(84,358.79)	(952,499.03)	(12,078,499.03)
4/1/2006	(497,000)	185,000	(11,438,000)	(87,146.51)	(1,039,645.54)	(12,477,645.54)
5/1/2006	(497,000)	185,000	(11,750,000)	(89,953.84)	(1,129,599.38)	(12,879,599.38)
6/1/2006	(497,000)	185,000	(12,062,000)	(92,780.92)	(1,222,380.30)	(13,284,380.30)
7/1/2006	(497,000)	185,000	(12,374,000)	(95,627.87)	(1,318,008.17)	(13,692,008.17)
8/1/2006	(493,000)	185,000	(12,682,000)	(98,466.72)	(1,416,474.90)	(14,098,474.90)
9/1/2006	(248,000)	308,000	(12,622,000)	(98,737.27)	(1,515,212.17)	(14,137,212.17)
10/1/2006	(248,000)	308,000	(12,562,000)	(99,009.73)	(1,614,221.90)	(14,176,221.90)
11/1/2006	(248,000)	308,000	(12,502,000)	(99,284.09)	(1,713,505.99)	(14,215,505.99)
12/1/2006	(248,000)	308,000	(12,442,000)	(99,560.39)	(1,813,066.38)	(14,255,066.38)
1/1/2007	(248,000)	308,000	(12,382,000)	(99,838.63)	(1,912,905.02)	(14,294,905.02)
2/1/2007	(248,000)	308,000	(12,322,000)	(100,118.83)	(2,013,023.85)	(14,335,023.85)
3/1/2007	(248,000)	308,000	(12,262,000)	(100,401.00)	(2,113,424.85)	(14,375,424.85)
4/1/2007	(248,000)	308,000	(12,202,000)	(100,685.15)	(2,214,110.00)	(14,416,110.00)
5/1/2007	(248,000)	308,000	(12,142,000)	(100,971.31)	(2,315,081.31)	(14,457,081.31)
6/1/2007	(248,000)	308,000	(12,082,000)	(101,259.47)	(2,416,340.78)	(14,498,340.78)
7/1/2007	(248,000)	308,000	(12,022,000)	(101,549.66)	(2,517,890.45)	(14,539,890.45)
8/1/2007	(252,000)	308,000	(11,966,000)	(101,870.03)	(2,619,760.48)	(14,585,760.48)



**Surcharge for Deferred Expenses**

Payment (298,827.60) Interest 8.44% Period (Years) 5.00

	Balance	Payment	Interest	Balance Reduction	Ending Balance
1	14,585,760.48	(298,827.60)	(102,586.52)	(196,241.09)	14,389,519.39
2	14,389,519.39	(298,827.60)	(101,206.29)	(197,621.32)	14,191,898.08
3	14,191,898.08	(298,827.60)	(99,816.35)	(199,011.25)	13,992,886.82
4	13,992,886.82	(298,827.60)	(98,416.64)	(200,410.96)	13,792,475.86
5	13,792,475.86	(298,827.60)	(97,007.08)	(201,820.52)	13,590,655.34
6	13,590,655.34	(298,827.60)	(95,587.61)	(203,239.99)	13,387,415.35
7	13,387,415.35	(298,827.60)	(94,158.15)	(204,669.45)	13,182,745.90
8	13,182,745.90	(298,827.60)	(92,718.65)	(206,108.96)	12,976,636.94
9	12,976,636.94	(298,827.60)	(91,269.01)	(207,558.59)	12,769,078.35
10	12,769,078.35	(298,827.60)	(89,809.18)	(209,018.42)	12,560,059.94
11	12,560,059.94	(298,827.60)	(88,339.09)	(210,488.51)	12,349,571.42
12	12,349,571.42	(298,827.60)	(86,858.65)	(211,968.95)	12,137,602.48
13	12,137,602.48	(298,827.60)	(85,367.80)	(213,459.80)	11,924,142.68
14	11,924,142.68	(298,827.60)	(83,866.47)	(214,961.13)	11,709,181.55
15	11,709,181.55	(298,827.60)	(82,354.58)	(216,473.02)	11,492,708.52
16	11,492,708.52	(298,827.60)	(80,832.05)	(217,995.55)	11,274,712.97
17	11,274,712.97	(298,827.60)	(79,298.81)	(219,528.79)	11,055,184.18
18	11,055,184.18	(298,827.60)	(77,754.80)	(221,072.81)	10,834,111.38
19	10,834,111.38	(298,827.60)	(76,199.92)	(222,627.68)	10,611,483.69
20	10,611,483.69	(298,827.60)	(74,634.10)	(224,193.50)	10,387,290.19
21	10,387,290.19	(298,827.60)	(73,057.27)	(225,770.33)	10,161,519.86
22	10,161,519.86	(298,827.60)	(71,469.36)	(227,358.25)	9,934,161.62
23	9,934,161.62	(298,827.60)	(69,870.27)	(228,957.33)	9,705,204.29
24	9,705,204.29	(298,827.60)	(68,259.94)	(230,567.66)	9,474,636.62
25	9,474,636.62	(298,827.60)	(66,638.28)	(232,189.32)	9,242,447.30
26	9,242,447.30	(298,827.60)	(65,005.21)	(233,822.39)	9,008,624.91
27	9,008,624.91	(298,827.60)	(63,360.66)	(235,466.94)	8,773,157.97
28	8,773,157.97	(298,827.60)	(61,704.54)	(237,123.06)	8,536,034.91
29	8,536,034.91	(298,827.60)	(60,036.78)	(238,790.82)	8,297,244.09
30	8,297,244.09	(298,827.60)	(58,357.28)	(240,470.32)	8,056,773.77
31	8,056,773.77	(298,827.60)	(56,665.98)	(242,161.63)	7,814,612.15
32	7,814,612.15	(298,827.60)	(54,962.77)	(243,864.83)	7,570,747.32
33	7,570,747.32	(298,827.60)	(53,247.59)	(245,580.01)	7,325,167.31
34	7,325,167.31	(298,827.60)	(51,520.34)	(247,307.26)	7,077,860.05
35	7,077,860.05	(298,827.60)	(49,780.95)	(249,046.65)	6,828,813.39
36	6,828,813.39	(298,827.60)	(48,029.32)	(250,798.28)	6,578,015.11
37	6,578,015.11	(298,827.60)	(46,265.37)	(252,562.23)	6,325,452.89
38	6,325,452.89	(298,827.60)	(44,489.02)	(254,338.58)	6,071,114.30
39	6,071,114.30	(298,827.60)	(42,700.17)	(256,127.43)	5,814,986.87
40	5,814,986.87	(298,827.60)	(40,898.74)	(257,928.86)	5,557,058.01
41	5,557,058.01	(298,827.60)	(39,084.64)	(259,742.96)	5,297,315.05
42	5,297,315.05	(298,827.60)	(37,257.78)	(261,569.82)	5,035,745.23
43	5,035,745.23	(298,827.60)	(35,418.07)	(263,409.53)	4,772,335.70
44	4,772,335.70	(298,827.60)	(33,565.43)	(265,262.17)	4,507,073.53
45	4,507,073.53	(298,827.60)	(31,699.75)	(267,127.85)	4,239,945.68
46	4,239,945.68	(298,827.60)	(29,820.95)	(269,006.65)	3,970,939.03
47	3,970,939.03	(298,827.60)	(27,928.94)	(270,898.66)	3,700,040.37
48	3,700,040.37	(298,827.60)	(26,023.62)	(272,803.98)	3,427,236.38
49	3,427,236.38	(298,827.60)	(24,104.90)	(274,722.71)	3,152,513.68
50	3,152,513.68	(298,827.60)	(22,172.68)	(276,654.92)	2,875,858.75
51	2,875,858.75	(298,827.60)	(20,226.87)	(278,600.73)	2,597,258.03
52	2,597,258.03	(298,827.60)	(18,267.38)	(280,560.22)	2,316,697.81
53	2,316,697.81	(298,827.60)	(16,294.11)	(282,533.49)	2,034,164.31
54	2,034,164.31	(298,827.60)	(14,306.96)	(284,520.65)	1,749,643.67
55	1,749,643.67	(298,827.60)	(12,305.83)	(286,521.77)	1,463,121.89
56	1,463,121.89	(298,827.60)	(10,290.62)	(288,536.98)	1,174,584.91
57	1,174,584.91	(298,827.60)	(8,261.25)	(290,566.35)	884,018.56
58	884,018.56	(298,827.60)	(6,217.60)	(292,610.00)	591,408.55
59	591,408.55	(298,827.60)	(4,159.57)	(294,668.03)	296,740.53
60	296,740.53	(298,827.60)	(2,087.08)	(296,740.53)	(0.00)
		<u>(17,929,656.09)</u>	<u>(3,343,895.62)</u>	<u>(14,585,760.48)</u>	

**Calculated Surcharge plus Interest (60 Months)**  
(17,929,656.09)

**Customers:**

53,000

**Total Customer Repayment**

(338.30)

**Monthly customer repayment**

(5.64)

**Surcharge Calculation - Deferred Expense**

Interest	Payback
6.00%	5

Period	Deferred	Recovered	12/31/2006 Balance per Books	Interest	Cumulative Interest	Balance
9/1/2004	(745,000)		(745,000)	(3,725.00)	(3,725.00)	(748,725.00)
10/1/2004	(745,000)		(1,490,000)	(7,468.63)	(11,193.63)	(1,501,193.63)
11/1/2004	(745,000)		(2,235,000)	(11,230.97)	(22,424.59)	(2,257,424.59)
12/1/2004	(745,000)		(2,980,000)	(15,012.12)	(37,436.72)	(3,017,436.72)
1/1/2005	(745,000)		(3,725,000)	(18,812.18)	(56,248.90)	(3,781,248.90)
2/1/2005	(745,000)		(4,470,000)	(22,631.24)	(78,880.14)	(4,548,880.14)
3/1/2005	(745,000)		(5,215,000)	(26,469.40)	(105,349.54)	(5,320,349.54)
4/1/2005	(745,000)		(5,960,000)	(30,326.75)	(135,676.29)	(6,095,676.29)
5/1/2005	(745,000)		(6,705,000)	(34,203.38)	(169,879.67)	(6,874,879.67)
6/1/2005	(745,000)		(7,450,000)	(38,099.40)	(207,979.07)	(7,657,979.07)
7/1/2005	(745,000)		(8,195,000)	(42,014.90)	(249,993.97)	(8,444,993.97)
8/1/2005	(747,000)		(8,942,000)	(45,959.97)	(295,953.94)	(9,237,953.94)
9/1/2005	(497,000)	185,000	(9,254,000)	(47,749.77)	(343,703.71)	(9,597,703.71)
10/1/2005	(497,000)	185,000	(9,566,000)	(49,548.52)	(393,252.23)	(9,959,252.23)
11/1/2005	(497,000)	185,000	(9,878,000)	(51,356.26)	(444,608.49)	(10,322,608.49)
12/1/2005	(497,000)	185,000	(10,190,000)	(53,173.04)	(497,781.53)	(10,687,781.53)
1/1/2006	(497,000)	185,000	(10,502,000)	(54,998.91)	(552,780.44)	(11,054,780.44)
2/1/2006	(497,000)	185,000	(10,814,000)	(56,833.90)	(609,614.34)	(11,423,614.34)
3/1/2006	(497,000)	185,000	(11,126,000)	(58,678.07)	(668,292.41)	(11,794,292.41)
4/1/2006	(497,000)	185,000	(11,438,000)	(60,531.46)	(728,823.87)	(12,166,823.87)
5/1/2006	(497,000)	185,000	(11,750,000)	(62,394.12)	(791,217.99)	(12,541,217.99)
6/1/2006	(497,000)	185,000	(12,062,000)	(64,266.09)	(855,484.08)	(12,917,484.08)
7/1/2006	(497,000)	185,000	(12,374,000)	(66,147.42)	(921,631.50)	(13,295,631.50)
8/1/2006	(493,000)	185,000	(12,682,000)	(68,018.16)	(989,649.66)	(13,671,649.66)
9/1/2006	(248,000)	308,000	(12,622,000)	(68,058.25)	(1,057,707.91)	(13,679,707.91)
10/1/2006	(248,000)	308,000	(12,562,000)	(68,098.54)	(1,125,806.45)	(13,687,806.45)
11/1/2006	(248,000)	308,000	(12,502,000)	(68,139.03)	(1,193,945.48)	(13,695,945.48)
12/1/2006	(248,000)	308,000	(12,442,000)	(68,179.73)	(1,262,125.21)	(13,704,125.21)
1/1/2007	(248,000)	308,000	(12,382,000)	(68,220.63)	(1,330,345.83)	(13,712,345.83)
2/1/2007	(248,000)	308,000	(12,322,000)	(68,261.73)	(1,398,607.56)	(13,720,607.56)
3/1/2007	(248,000)	308,000	(12,262,000)	(68,303.04)	(1,466,910.60)	(13,728,910.60)
4/1/2007	(248,000)	308,000	(12,202,000)	(68,344.55)	(1,535,255.15)	(13,737,255.15)
5/1/2007	(248,000)	308,000	(12,142,000)	(68,386.28)	(1,603,641.43)	(13,745,641.43)
6/1/2007	(248,000)	308,000	(12,082,000)	(68,428.21)	(1,672,069.64)	(13,754,069.64)
7/1/2007	(248,000)	308,000	(12,022,000)	(68,470.35)	(1,740,539.98)	(13,762,539.98)
8/1/2007	(252,000)	308,000	(11,966,000)	(68,532.70)	(1,809,072.68)	(13,775,072.68)



**Surcharge for Deferred Expenses**

Payment (266,310.75) Interest 6.00% Period (Years) 5.00

	Balance	Payment	Interest	Balance Reduction	Ending Balance
1	13,775,072.68	(266,310.75)	(68,875.36)	(197,435.38)	13,577,637.30
2	13,577,637.30	(266,310.75)	(67,888.19)	(198,422.56)	13,379,214.74
3	13,379,214.74	(266,310.75)	(66,896.07)	(199,414.67)	13,179,800.07
4	13,179,800.07	(266,310.75)	(65,899.00)	(200,411.75)	12,979,388.32
5	12,979,388.32	(266,310.75)	(64,896.94)	(201,413.80)	12,777,974.52
6	12,777,974.52	(266,310.75)	(63,889.87)	(202,420.87)	12,575,553.65
7	12,575,553.65	(266,310.75)	(62,877.77)	(203,432.98)	12,372,120.67
8	12,372,120.67	(266,310.75)	(61,860.60)	(204,450.14)	12,167,670.52
9	12,167,670.52	(266,310.75)	(60,838.35)	(205,472.39)	11,962,198.13
10	11,962,198.13	(266,310.75)	(59,810.99)	(206,499.76)	11,755,698.38
11	11,755,698.38	(266,310.75)	(58,778.49)	(207,532.25)	11,548,166.12
12	11,548,166.12	(266,310.75)	(57,740.83)	(208,569.92)	11,339,596.21
13	11,339,596.21	(266,310.75)	(56,697.98)	(209,612.77)	11,129,983.44
14	11,129,983.44	(266,310.75)	(55,649.92)	(210,660.83)	10,919,322.61
15	10,919,322.61	(266,310.75)	(54,596.61)	(211,714.13)	10,707,608.48
16	10,707,608.48	(266,310.75)	(53,538.04)	(212,772.70)	10,494,835.77
17	10,494,835.77	(266,310.75)	(52,474.18)	(213,836.57)	10,280,999.21
18	10,280,999.21	(266,310.75)	(51,405.00)	(214,905.75)	10,066,093.46
19	10,066,093.46	(266,310.75)	(50,330.47)	(215,980.28)	9,850,113.18
20	9,850,113.18	(266,310.75)	(49,250.57)	(217,060.18)	9,633,053.00
21	9,633,053.00	(266,310.75)	(48,165.26)	(218,145.48)	9,414,907.52
22	9,414,907.52	(266,310.75)	(47,074.54)	(219,236.21)	9,195,671.31
23	9,195,671.31	(266,310.75)	(45,978.36)	(220,332.39)	8,975,338.92
24	8,975,338.92	(266,310.75)	(44,876.69)	(221,434.05)	8,753,904.87
25	8,753,904.87	(266,310.75)	(43,769.52)	(222,541.22)	8,531,363.64
26	8,531,363.64	(266,310.75)	(42,656.82)	(223,653.93)	8,307,709.72
27	8,307,709.72	(266,310.75)	(41,538.55)	(224,772.20)	8,082,937.52
28	8,082,937.52	(266,310.75)	(40,414.69)	(225,896.06)	7,857,041.46
29	7,857,041.46	(266,310.75)	(39,285.21)	(227,025.54)	7,630,015.92
30	7,630,015.92	(266,310.75)	(38,150.08)	(228,160.67)	7,401,855.25
31	7,401,855.25	(266,310.75)	(37,009.28)	(229,301.47)	7,172,553.78
32	7,172,553.78	(266,310.75)	(35,862.77)	(230,447.98)	6,942,105.81
33	6,942,105.81	(266,310.75)	(34,710.53)	(231,600.22)	6,710,505.59
34	6,710,505.59	(266,310.75)	(33,552.53)	(232,758.22)	6,477,747.37
35	6,477,747.37	(266,310.75)	(32,388.74)	(233,922.01)	6,243,825.36
36	6,243,825.36	(266,310.75)	(31,219.13)	(235,091.62)	6,008,733.74
37	6,008,733.74	(266,310.75)	(30,043.87)	(236,267.08)	5,772,466.66
38	5,772,466.66	(266,310.75)	(28,862.33)	(237,448.41)	5,535,018.25
39	5,535,018.25	(266,310.75)	(27,675.09)	(238,635.66)	5,296,382.60
40	5,296,382.60	(266,310.75)	(26,481.91)	(239,828.83)	5,056,553.76
41	5,056,553.76	(266,310.75)	(25,282.77)	(241,027.98)	4,815,525.79
42	4,815,525.79	(266,310.75)	(24,077.63)	(242,233.12)	4,573,292.67
43	4,573,292.67	(266,310.75)	(22,866.46)	(243,444.28)	4,329,848.38
44	4,329,848.38	(266,310.75)	(21,649.24)	(244,661.50)	4,085,186.88
45	4,085,186.88	(266,310.75)	(20,425.93)	(245,884.81)	3,839,302.07
46	3,839,302.07	(266,310.75)	(19,196.51)	(247,114.24)	3,592,187.83
47	3,592,187.83	(266,310.75)	(17,960.94)	(248,349.81)	3,343,838.03
48	3,343,838.03	(266,310.75)	(16,719.19)	(249,591.56)	3,094,246.47
49	3,094,246.47	(266,310.75)	(15,471.23)	(250,839.51)	2,843,406.96
50	2,843,406.96	(266,310.75)	(14,217.03)	(252,093.71)	2,591,313.24
51	2,591,313.24	(266,310.75)	(12,956.57)	(253,354.18)	2,337,959.06
52	2,337,959.06	(266,310.75)	(11,689.80)	(254,620.95)	2,083,338.11
53	2,083,338.11	(266,310.75)	(10,416.69)	(255,894.06)	1,827,444.06
54	1,827,444.06	(266,310.75)	(9,137.22)	(257,173.53)	1,570,270.53
55	1,570,270.53	(266,310.75)	(7,851.35)	(258,459.39)	1,311,811.14
56	1,311,811.14	(266,310.75)	(6,559.06)	(259,751.69)	1,052,059.45
57	1,052,059.45	(266,310.75)	(5,260.30)	(261,050.45)	791,009.00
58	791,009.00	(266,310.75)	(3,955.04)	(262,355.70)	528,653.30
59	528,653.30	(266,310.75)	(2,643.27)	(263,667.48)	264,985.82
60	264,985.82	(266,310.75)	(1,324.93)	(264,985.82)	(0.00)
	<u>(15,978,644.78)</u>	<u>(2,203,572.09)</u>		<u>(13,775,072.68)</u>	

**Calculated Surcharge plus Interest (60 Months)**  
(15,978,644.78)

**Customers:**

53,000

**Total Customer Repayment**

(301.48)

**Monthly customer repayment**

(5.02)