

Bryan W. Shaw, Ph.D., *Chairman*
Carlos Rubinstein, *Commissioner*
Toby Baker, *Commissioner*
Zak Covar, *Executive Director*



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

August 26, 2013

Bridget Bohac, Chief Clerk
Office of the Chief Clerk
Texas Commission on Environmental Quality
P.O. Box 13087, MC-105
Austin, Texas 78711-3087

Re: Appeal by BFE Water Company of the ratemaking action of the City of Cresson and motion for interim rate relief in Parker County, Application No. 37311-A;; SOAH Docket No. 582-12-3250; TCEQ Docket No. 2012-0786-UCR

Dear Ms. Bohac:

Enclosed for filing with the Texas Commission on Environmental Quality is the original plus seven copies of "The Executive Director's Exceptions to the Proposal for Decision and Proposed Order" for the above-referenced matter.

Please contact me at (512) 239-4761 if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Kayla Murray".

Kayla Murray
Staff Attorney
Environmental Law Division

Enclosure

cc: Mailing List

SOAH DOCKET NO. 582-12-6250
TCEQ DOCKET NO. 2012-0786-UCR

APPEAL OF THE	§	BEFORE THE TEXAS
CITY OF CRESSON'S	§	COMMISSION
ORDER SETTING RATES	§	ON
FOR BFE WATER COMPANY	§	ENVIRONMENTAL QUALITY

**THE EXECUTIVE DIRECTOR'S EXCEPTIONS TO THE
PROPOSAL FOR DECISION AND PROPOSED ORDER**

TO THE HONORABLE COMMISSIONERS OF THE TCEQ:

COMES NOW, the Executive Director ("ED") of the Texas Commission on Environmental Quality ("TCEQ" or "Commission") and files these exceptions to the Administrative Law Judge's ("ALJ") Proposal for Decision ("PFD") and proposed order in the above-captioned matter.

I. INTRODUCTION

On August 5, 2013, the ALJ issued his PFD recommending that BFE Water Company ("BFE") be entitled to a water rate increase, surcharges, and rate case expenses.¹ However, the ALJ disagreed with the ED on two issues – water storage tank capacity and engineering and legal fees for construction costs – and has requested that the ED provide rate calculations that incorporate the ALJ's conclusions.² The ALJ did agree with the ED and BFE that BFE is entitled to surcharges based on revenues lost from charging the City of Cresson's ("City") ordered lower rates, and as such, requested that the ED submit those calculation as well.³ A brief response to each of these issues follows, as well as attachments for the requested calculations.

II. WATER STORAGE TANK

The ED determined that 100% of BFE's 84,000-gallon water storage tank is used and useful.⁴ The ALJ disagreed and found that only 44% of the water storage tank is used and useful.⁵ Since the ALJ's recommendation does not result in a reduction of the ED's proposed rates, the ED will not re-argue his position that is set out in the ED's closing arguments and in TCEQ staff expert Brian Dickey's prefiled testimony. The reduction that the ALJ proposes results in \$15,125.04 being disallowed from the original cost amount listed in the depreciation schedule (Attachment A), and that is reflected in the rate design schedule that is attached (Attachment B). For comparison purposes, the

¹ PFD at pages 2 and 48.

² PFD at pages 39 and 46.

³ PFD at page 46.

⁴ ED-BDD-1 at pages 10-12.

⁵ PFD at pages 25 and 27.

original rate design (ED-BDD-4) and depreciation schedule (ED-BDD-12) are also attached.

III. ENGINEERING AND LEGAL FEES

The construction cost estimate submitted by BFE included 10% in engineering and legal fees for the water plant.⁶ TCEQ rules require that all plans be submitted by a licensed professional engineer for review and approval prior to construction.⁷ The ED determined that, aside from the ground storage tank and the pump building, BFE had incurred 10% in engineering and legal fees for the remaining items included in BFE's construction cost estimates.⁸ The ALJ concluded that there was insufficient evidence to show that BFE incurred these fees and disallowed them.⁹ The ED emphasizes that Mr. Dickey used the estimated costs provided by BFE rather than the trending analysis provided by BFE's consultant because trending typically includes engineering and legal fees. Since the estimated costs were lower than the trending analysis, it seemed more reasonable to use those estimated costs rather than remove the engineering and legal fees from the estimated costs. In other words, if the ED had used the estimated costs and removed the engineering and legal fees, then the utility would have lost those monies it had paid towards engineering and legal.

Pursuant to the ALJ's request, the ED has recalculated those items, removing the 10% for engineering and legal fees. (Attachment A)

IV. RECOMMENDED RATES

The ED's calculations yielded an annual revenue requirement of \$60,875 and a base rate of \$69.03 (for a 5/8 or 3/4 meter).¹⁰ After making the above reductions to the water storage tank and engineering fees, this yields an annual revenue requirement of \$57,121 and a base rate of \$61.11 (for a 5/8 or 3/4 meter). Therefore, the ED still recommends approving BFE's proposed base rate of \$38.50 (for a 5/8 or 3/4 meter), and the remaining meter base rates and gallonage charges set out in Mr. Dickey's prefiled testimony.¹¹

V. SURCHARGES

The ALJ also requested that the ED calculate the surcharges that BFE would need to assess to recover the revenue it lost due to its rates being lower than it was entitled to charge.¹² This surcharge includes the following four amounts:

1) \$9,683.83¹³ that the City required BFE to escrow pursuant to an order signed by the City on September 13, 2011¹⁴;

⁶ ED-BDD-11.

⁷ 30 TEXAS ADMINISTRATIVE CODE §§ 290.39 (a), (d)(1), and (h)(1).

⁸ ED-BDD-1 at page 10.

⁹ PFD at pages 32-33.

¹⁰ ED-BDD-4.

¹¹ ED-BDD-1 at page 17.

¹² PFD at page 46.

¹³ Direct Testimony of Richard Bourland, page 4, lines 2-3.

¹⁴ ED Exhibit A at Attachment I.

- 2) \$5,575.20 resulting from refunds BFE issued in accordance with the City's interim rates ordered on October 16, 2011¹⁵ ;
- 3) \$5,272.96 in revenues lost as a result of the City's final rates effective on February 16, 2012¹⁶; and,
- 4) \$6,635.40 in lost revenues as a result of the interim rates currently in effect and set by the ALJ in SOAH Order No. 1 on June 8, 2012.¹⁷ (This last amount is calculated through September 13, 2013 to accommodate the 24-month time frame recommended below.)

These four amounts total \$27,167.39, and the surcharge table is attached (Attachment C.) The first amount included in the surcharge (the escrowed money) was initiated on September 13, 2011, and the last amount (the current interim rates) is calculated through September 13, 2013. Since surcharges are typically recovered over the same time period as the rates (or amounts at issue) were in place, the ED recommends a 24-month period for BFE to recover those surcharges. However, the ALJ also asked for the surcharge amounts to be calculated over a 36-month period, and as such, those calculations are also included in the surcharge table.

Lastly, beginning in September 2013, and ending when the Commission-approved rate is effective, an additional \$442.36 for each month should be included in the surcharge amount to reflect the revenues lost as a result of the current interim rates ordered on June 8, 2012.¹⁸ \$442.36 is the difference between the current interim rate and the PFD-recommended rate that the ED recommends BFE be allowed to recover.

VI. PASS THROUGH FEE

As noted in the ED's closing arguments, there was discussion at the hearing on the merits as to whether the proposed gallonage rates included the Upper Trinity Groundwater Conservation District's pass through fee of \$.22 per 1,000 gallons or not.¹⁹ In BFE's October 6, 2009 rate change application, the notice contains three gallonage charges: \$3.22 per 1,000 gallons for the first 5,000 gallons; \$3.72 per 1,000 gallons up to 15,000 gallons; and \$4.22 per 1,000 gallons thereafter.²⁰ There is an asterisk next to the \$3.22 amount, and at the bottom of the page next to another asterisk is written, "Includes pass through fee for Upper Trinity Groundwater Conservation District of \$.22 per 1,000 gallons." Mr. Dickey designed the ED's rates with the assumption that this fee was not included in the gallonage charges. Since the notice is not clear, the ED deferred to the ALJ to decide this issue. The ALJ did not make a determination regarding this issue, and as such, the ED recommends that the fee was not included in the gallonage charges and should therefore be a separate line item on the customers' bills. In addition, the ED recommends a finding in the Final Order that the pass through fee is not included in the gallonage charges.

¹⁵ ED Exhibit A at Attachment J.

¹⁶ ED Exhibit A at Attachment K.

¹⁷ BFE attached the wrong rate request to its Petition, and submitted the corrected Petition at the Hearing on the Merits; see Transcript pages 4-5 and ED-A.

¹⁸ See footnote 17.

¹⁹ ED's Closing Arguments, page 7.

²⁰ Direct Testimony of Richard Bourland, Attachment A.

VII. INCOME TAX

The ED determined that BFE's federal income tax should be calculated on a normalized basis²¹ according to the information reported on Mr. Bourland's personal income tax statement.²² The ALJ concluded that the ED's method for calculating BFE's federal income taxes is just and reasonable and recommends that the Commission adopt this methodology.²³ However, because he differed from the ED on some issues and requested that the ED recalculate some amounts, the ALJ requested that the ED recalculate BFE's income tax, taking into account his recommended modifications.²⁴ After recalculating the amounts for depreciation, return, and net tax, the ED recalculated BFE's federal income tax using the method approved by the ALJ. The ED's calculation of BFE's revised federal income tax liability is found at Attachment D. For comparison purposes, the original revenue requirement worksheet (ED-DL-2) is also attached.

VIII. RATE CASE EXPENSES

The ED concurs with the ALJ's recommendation on rate case expenses. BFE is requesting a total of \$193,913.13.²⁵ The ED has recommended a reduction of \$26,069, with which the ALJ agrees.²⁶ This leaves a total of \$167,844.13 in rate case expenses to be recovered over a 60-month period, which is \$79.93 per connection.²⁷

IX. CONCLUSION

In his PFD issued on August 5, 2013, the ALJ concluded that BFE's appeal of the City's order setting rates should be sustained, at least in part. The ALJ agreed with the ED's recommendation on all except for two issues: the used and useful portion of BFE's storage tank and the inclusion of 10% engineering and legal fees for construction costs. In light of his recommendations, the ALJ requested that the ED recalculate the amounts for annual depreciation, net plant, federal income tax, and base rates and gallonage charges. Even after making the desired recalculations, BFE's proposed rates are lower than what can be justified by the ED's calculations. The ALJ also requested the ED to calculate BFE's allowable surcharges over both 24- and 36-month periods. However, the ED recommends that BFE recover its surcharges over the same amount of time as the rates were in place, which is 24 months.

For the reasons stated above, the ED respectfully recommends that the Commission approve BFE's proposed rates. Additionally, the ED recommends that BFE be allowed to recover a total surcharge amount of \$27,167.39 over a period of 24 months. Finally, the ED recommends that the Commission find that the Upper Trinity Groundwater Conservation District's pass through fee was not included in BFE's proposed gallonage

²¹ ED-DL-1 at page 14.

²² Transcript at page 456 lines 12-13, 16-21 and page 471, lines 15-16.

²³ PFD at page 41.

²⁴ PFD at page 41.

²⁵ PFD at page 47.

²⁶ PFD at page 48.

²⁷ PFD at page 52.

charge. A summary table of the proposed rates, rate case expenses, and surcharges is attached (Attachment E.)

Lastly, the ED is not recommending any changes to the ALJ's Proposed Order. While the ED does not agree with all of the ALJ's conclusions in his PFD, those conclusions do not affect the ED's recommendations. As such, the ED respectfully recommends that the Commission adopt the Proposed Order as it is written, with the addition of a finding in the Final Order that the pass through fee is not included in the gallonage charges.

Respectfully submitted,

Texas Commission on Environmental Quality

Zak Covar
Executive Director

Robert Martinez, Director
Environmental Law Division

By Kayla Murray
Kayla Murray, Staff Attorney
Environmental Law Division
State Bar of Texas No. 24049282
P.O. Box 13087, MC-173
Austin, Texas 78711-3087
Phone: 512.239.4761
Fax: 512.239.0606

REPRESENTING THE
EXECUTIVE DIRECTOR OF THE
TEXAS COMMISSION ON
ENVIRONMENTAL QUALITY

Description	Acquired Date	Claimed Economic Life, yrs	Claimed Original Cost	% Used & Useful	Ver./Est. Original Cost	Economic Life, yrs	Actual Deprec. Life	Annual Deprec.	Accum. Deprec.	Net Plant*	Developer \$	Customer \$
Land		n/a		100%	0	n/a	n/a	n/a	n/a	0		
Water Well	15-Oct-98	50	\$75,891	100%	75,891	50	10.21	\$1,518	15,500	60,391		
40 hp 150 gpm well pump	15-Oct-98	10	\$21,996	100%	21,996	10	10.21	--	21,996	0		
well pump, invoice No. 00039390000	15-Sep-08	10	\$32,639	100%	32,639	10	0.29	\$3,264	956	31,683		
Booster pump 5 hp	15-Oct-98	5	\$800	100%	800	5	10.21	--	800	0		
Booster pump 5 hp	15-Oct-98	10	\$800	100%	800	10	10.21	--	800	0		
Booster pump 2 hp	15-Oct-98	10	\$400	100%	400	10	10.21	--	400	0		
Hypochlorinator	15-Oct-98	10	\$350	100%	350	10	10.21	--	350	0		
Masonry Pump House	15-Oct-98	30	\$6,402	100%	6,402	30	10.21	\$213	2,179	4,223		
Ground Storage 21,000 gallons	15-Oct-98	50	\$27,009	44%	11,884	50	10.21	\$238	2,427	9,457		
Pressure Tank 500 gallons	15-Oct-98	50	\$1,200	100%	1,200	50	10.21	\$24	245	955		
Pressure Tank 500 gallons	15-Oct-98	50	\$1,200	100%	1,200	50	10.21	\$24	245	955		
Pressure Tank 500 gallons	15-Oct-98	50	\$1,200	100%	1,200	50	10.21	\$24	245	955		
Distrib. System	15-Oct-98	50	\$76,341	100%	76,341	50	10.21	\$1,527	15,592	60,748		
Fire Hydrant	15-Oct-98	50	\$6,000	100%	6,000	50	10.21	\$120	1,225	4,775		
4" Well Collection Line	15-Oct-98	50	\$213	100%	213	50	10.21	\$4	43	169		
Water plant piping	15-Oct-98	50	\$2,000	100%	2,000	50	10.21	\$40	408	1,592		
Electrical	15-Oct-98	30	\$3,500	100%	3,500	30	10.21	\$117	1,191	2,309		
Meters	15-Oct-98	20	\$6,900	0%	0	20	10.21	\$0	0			
Double Service Connection	15-Oct-98	20	\$6,600	0%	0	20	10.21	\$0	0			
Single Service Connection	15-Oct-98	20	\$300	0%	0	20	10.21	\$0	0			
Fencing and gates	15-Oct-98	20	\$3,600	100%	3,600	20	10.21	\$180	1,838	1,762		
Compressor	15-Oct-98	20	\$400	100%	400	20	10.21	\$20	204	196		
			\$275,740		\$246,815			\$7,312	\$66,647	\$180,167	\$0	\$0

EXHIBIT
Att. A
 10/15/13

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET # 582-12-6250

UTILITY:

BFE Water Company

Printed on: 15-Aug-13

time: 8:53 AM

version: 20070403

Preliminary - Subject To Change

REVENUE REQUIREMENT

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$0.00	50	\$0.00	50	\$0.00
CONTRACT SERVICES	\$9,852.00	90	\$8,866.80	10	\$985.20
PURCHASED SERVICE	\$0.00	0	\$0.00	100	\$0.00
CHEMICALS AND TREATMENT	\$5,771.75	0	\$0.00	100	\$5,771.75
UTILITIES	\$4,877.35	0	\$0.00	100	\$4,877.35
REPAIRS AND MAINTENANCE	\$3,545.56	50	\$1,772.78	50	\$1,772.78
OFFICE EXPENSE	\$285.00	50	\$142.50	50	\$142.50
ACCOUNTING & LEGAL	\$876.00	100	\$876.00	0	\$0.00
INSURANCE	\$410.00	100	\$410.00	0	\$0.00
RATE CASE EXPENSE	\$0.00	100	\$0.00	0	\$0.00
MISCELLANEOUS	\$275.00	50	\$137.50	50	\$137.50
DEPRECIATION & AMORTIZATION	\$7,312.49	100	\$7,312.49	0	\$0.00
TAXES OTHER THAN INCOME	\$142.00	100	\$142.00	0	\$0.00
			\$0.00	100	\$0.00
			\$0.00	100	\$0.00
SUB-TOTAL (LESS FIT & RETURN)	33,347		\$19,660		\$13,687
% OF TOTAL (FIXED + VARIABLE)		0.59		0.41	
FEDERAL INCOME TAXES	3,641		2,147		1,494
RETURN	20,633		12,164		8,469
LESS OTHER REVENUES	-500		-295		-205
TOTAL	\$57,121		\$33,676		\$23,445

APPLICANT'S REQUESTED RATES	
Minimum bill:	0 gallons
(Includes	
5/8 x 3/4"	\$38.50
3/4"	
1"	96.50
1-1/2"	192.50
2"	308.00
3"	673.20
4"	
6"	
Gallorage rate:	\$3.00 /1,000 gallons
wew	
Rev. Gen'd :	\$38,273

RATE CALCULATION

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

Calculating a flat rate? y

\$3.51 /TH.GAL.

MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$71.05 /MO.
\$71.05 /MO. Incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$4.22 /TH.GAL.
YIELDS ->	\$61.11 /MO. 61.11 /MO. Incl. min. gallons
ANNUAL REVENUE GENERATED:	\$57,121

REVENUE GENERATED SUMMARY:

Minimum Bill

Connection Size	# of Connections	Min. Bill	Including Gals	Rev./Month	Rev./Year
5/8x3/4"	32	61.11	\$61.11	\$1,956	\$23,467
3/4"	0	91.67	91.67	0	0
1"	3	152.78	152.78	458	5,500
1-1/2"	0	305.56	305.56	0	0
2"	0	488.90	488.90	0	0
3"	0	916.68	916.68	0	0
4"	0	1527.80	1527.80	0	0
6"	0	3055.61	3055.61	0	0

TOTAL MINIMUM CHARGES=> \$28,967
 GALLONAGE CHARGES=> 6,672 @ \$4.22 /1,000 GAL 28,154
TOTAL REVENUE GENERATED=> \$57,121



BFE Water Company
SOAH Docket No. 582-12-6250
TCEQ Docket No. 2012-0786-UCR

Surcharges to Recover Lost Revenue (Through September 13, 2013)		
City Ordered Escrowed Amount from Amended City Order Signed 9/13/2011		\$ 9,683.83
City Interim Rates: Billed from 10/16/2011 through 2/15/2012	\$1,393.80 x 4 months =	\$ 5,575.20
City Final Rates: Billed from 2/16/2012 through 6/7/2012	\$1,318.24 x 4 months =	\$ 5,272.96
SOAH Interim Rates: Billed from 6/8/2012 through 9/13/13	\$ 442.36 x 15 months =	\$ 6,635.40
TOTAL		\$ 27,167.39
	Total / Number of Connections \$ 27,167.39 / 35 =	\$ 776.21
	24 Months:	\$ 32.34/connection
	36 Months:	\$ 21.56/connection



BFE Water CompanySOAH Docket 582-12-6250
TCEQ Docket 2012-0786-UCR**Revenue Requirement**

Expenses	2008	Testimony
O&M Expense		page #
Contract Services	\$9,852	7
Chemicals & Treatment	5,772	7-8
Utilities	4,877	8
Repairs and Maintenance	3,546	8-9
Office Expense	285	9
Accounting and Legal	876	9
Insurance	410	9-10
Miscellaneous	275	10
Subtotal, Operations and Maintenance	\$25,893	
Ad Valorem Taxes	\$142	10
Depreciation	7,312	10
Return on invested Capital	20,633	10-12
Federal Income Tax - normalized	3,641	13-15
Total Cost of Service	57,621	
Other Revenues - Tap Fees	(500)	15
Net recoverable from rates	57,121	5

INVESTED CAPITAL & RETURN

Testimony page #

PLANT IN SERVICE	246,815	Brian Dickey
ACCUMULATED DEPRECIATION	\$66,647	Brian Dickey
NET PLANT	180,168	
WORKING CASH ALLOWANCE	3,237	11-12
TOTAL INVESTED CAPITAL	\$ 183,405	
RATE OF RETURN	11.25%	12-13
RETURN	20,633	12

FEDERAL INCOME TAX CALCULATION

Revenue requirement	57,621
Less: operations and maintenance	(25,893)
Less: depreciation	(7,312)
Less: property taxes	(142)
Taxable income	24,274
Tax Rate	15%
Tax	3,641

EXHIBIT**Att. D**

BFE Water Company
SOAH Docket No. 582-12-6250
TCEQ Docket No. 2012-0786-UCR

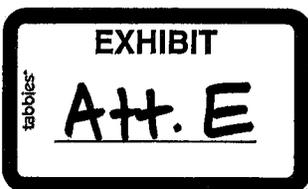
Monthly Base Rates Including Zero Gallons	
5/8 or 3/4 inches	\$ 38.50
1 inch	\$ 96.25
1 1/2 inch	\$ 192.50
2 inch	\$ 308.00
3 inch	\$ 577.50

Gallonge Charges per 1,000 Gallons	
Zero to 5,000 gallons	\$ 3.22
5,001 to 15,000 gallons	\$ 3.72
Above 15,001 gallons	\$ 4.22

Upper Trinity Groundwater Conservation District Pass-Through Fee
\$ 0.22 per 1,000 gallons

Rate Case Expenses	
TOTAL	\$ 167,844.13
60 Months	\$ 79.93/connection

Surcharges	
TOTAL	\$ 27,167.39
24 Months	\$ 32.34/connection
OR	
36 Months	\$ 21.56/connection



SOAH DOCKET NO. 582-12-6250
TCEQ DOCKET NO. 2012-0786-UCR

APPEAL OF THE CITY OF CRESSON'S § BEFORE THE
ORDER SETTING RATES FOR BFE § STATE OFFICE OF
WATER COMPANNY APPLICATION § ADMINISTRATIVE HEARINGS
NO. 37311-A §



DIRECT TESTIMONY OF
BRIAN DAVID DICKEY
UTILITY TECHNICAL REVIEW TEAM
WATER SUPPLY DIVISION
TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
March 2013

EXHIBIT

ED-BDD-1

tabbies

CERTIFICATION

I hereby certify that this testimony and the schedules have been prepared by me or under my direct supervision and control and the same is true to the best of my knowledge and belief.

This the ____ day of _____, 2013.

BRIAN DAVID DICKEY

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

2 A. Brian David Dickey, 12015 Park 35 Circle, Building F, Austin, Texas.

3 **Q. By whom are you currently employed, and how long have you been**
4 **employed there?**

5 A. I have been employed by the Texas Commission on Environmental Quality (TCEQ
6 or Commission) since November 1999. My current position is General Engineering
7 Specialist III.

8 **Q. Please state your educational background.**

9 A. I graduated with a Bachelor's degree in Mechanical Engineering from Texas Tech
10 University in 1994.

11 **Q. Please describe your work responsibilities.**

12 A. My responsibilities include reviewing and processing applications to obtain or
13 amend certificates of convenience and necessity (CCNs); reviewing rate change
14 applications and appeals; assisting with the negotiation of settlements; preparing
15 testimony and exhibits for rate hearings for investor-owned, nonprofit, and
16 governmental water and sewer utilities; conducting rate-related inspections of
17 water and sewer utility systems within the state; and reviewing water utility plans
18 and specifications. I have attached a copy of my resume.

19 **(Attachment ED-BDD-2).**

20 **Q. How many separate cases have been previously assigned to you?**

21 A. I have been assigned over 250 separate cases during my tenure at the Commission.

22 **Q. Have you ever testified as an expert witness in contested matters before**
23 **the State Office of Administrative Hearings (SOAH)?**

24 A. Yes. In addition to filing prefilled testimony in several contested utility cases, I

1 have also provided live testimony.

2 **Q. On which applications have you provided live testimony?**

3 A. I have testified at five hearings concerning contested CCN applications and seven
4 hearings concerning contested rate change applications. The five hearings
5 concerning CCN applications were the City of Southlake (SOAH Docket No. 582-
6 02-0834), the City of Shenandoah (SOAH Docket No. 582-06-0968), the City of
7 McKinney (SOAH Docket No. 582-06-2663), Town of Prosper (SOAH Docket No.
8 582-03-1994), and Mustang Special Utility District (SUD) (SOAH Docket No. 582-
9 08-1318). The seven hearings concerning rate applications were Waterco, Inc.
10 (SOAH Docket No. 582-04-6463), Chisholm Trail SUD (SOAH Docket No. 582-05-
11 0003), Buena Vista Water Supply Co. (SOAH Docket No. 582-05-7838), Buena
12 Vista Water Supply Co. (SOAH Docket No. 582-08-2245), Deer Creek Ranch Water
13 Co., LLC (SOAH Docket No. 582-09-5328), Double Diamond Utilities Co. (BFE)
14 (SOAH Docket No. 582-08-0698), Multi-County Water Supply Corporation (SOAH
15 Docket No. 582-09-2557), and The City of Tyler (SOAH Docket No. 582-12-3195).

16 **Q. In connection with SOAH Docket No. 582-12-6250, TCEQ Docket No.**
17 **2012-0786-UCR, have you reviewed the cost of service studies,**
18 **testimonies, and other information filed with the Commission?**

19 A. Yes, I have.

20 **Q. What is the purpose of your testimony?**

21 A. I will present the Executive Director's recommendation for a rate design for water
22 service primarily focusing on the engineering or technical criteria for the rate
23 application of BFE.

24 **Q. Please explain the scope of your participation in the present**

1 **proceeding.**

2 A. My participation regarding SOAH Docket No. 582-12-6250 can be summarized as
3 follows:

4 1. I reviewed the rate appeal with respect to the criteria in the Commission
5 rules.

6 2. I reviewed the information filed by all parties as part of formal discovery
7 including the prefilled testimonies.

8 3. I reviewed the most recent compliance inspection for BFE.

9 4. I developed a depreciation schedule (ED-BDD-12) from the capital assets
10 according to the Commission's rules found in Title 30, Chapter 291 of the
11 TEXAS ADMINISTRATIVE CODE and Chapter 13 of the TEXAS WATER CODE.

12 5. I analyzed the amount of water pumped and the amount of water billed to
13 the customers to calculate the average line loss. My calculations on this
14 matter are included in ED-BDD-3.

15 6. I reviewed the proposed water rates for BFE according to the Texas Water
16 Code and the Commission's rules using the cost of service recommendations
17 provided by Staff Accountant Debi Loockerman in her testimony primarily
18 focusing on the engineering or technical criteria.

19
20 **Q. Can you explain generally what a depreciation schedule is?**

21 A. It is an inventory of the water system facilities with original costs and installation
22 dates. Each asset is given a standard service life. Based on straight line
23 depreciation, the annual depreciation for each asset is determined by dividing the
24 original cost by the service life.

1 **Q. Have you attached schedules to your testimony?**

2 A. Yes, I have attached a depreciation schedule ED-BDD-12 and a corresponding rate
3 design schedule ED-BDD-4.

4 **Q. What test year did you consider when preparing your testimony?**

5 A. I used the test year January 1, 2008, thru December 31, 2008.

6 **Q. Why did you use the test year contained in the application?**

7 A. According to TWC § 13.002(22) utility's rate application must be based on the most
8 recent twelve-month period for which representative operating data is available
9 that ended less than twelve months before the utility filed its application. The test
10 year expenses can then be adjusted for known and measurable changes under 30
11 TAC § 291.31(b) of the TCEQ's rules. In its application, BFE calculated its proposed
12 rates based on historic test year expenses (January 1, 2008, through December 31,
13 2008) as adjusted for known and measurable changes (January 1, 2009, through
14 December 31, 2009).

15

16 **QUALITY OF SERVICE**

17 **Q. Have you visited the system, and if so, when?**

18 A. Yes. I performed a site inspection on February 11, 2013. I have attached
19 photographs (Exhibit ED-BDD-5) taken during my inspection.

20 **Q. How many customers did BFE have at the end of the test year?**

21 A. According to the Billing Register provided by BFE (Exhibit ED-BDD-6) there were
22 35 active connections.

23 **Q. Did you consider BFE quality of service, such as the possibility of**
24 **excessive line loss?**

1 A. Yes. As shown in Exhibit ED-BDD-3, the line loss calculation sheet, the line loss
2 was 0.7 % which is considered an acceptable range.

3 **Q. Did you review the most recent compliance investigations?**

4 A. Yes. I reviewed the compliance investigations for BFE Water Company public
5 water system (PWS) I.D. Number 1840132 conducted on December 13, 2012.

6 **Q. What were your findings?**

7 A. Based on the compliance investigations (Exhibit ED-BDD- 7) with the exception
8 of the two alleged violations and my site visit, I found the facilities to be
9 operational and well maintained. During the compliance investigation on
10 December 13, 2012 a 0.62 milligrams per liter (mg/L) free chlorine was measured
11 at 147 Concorde Circle. The TCEQ rules require a minimum free chlorine
12 residual of 0.2 mg/L.

13
14 **ASSET DEPRECIATION**

15 **Q. What have you done to verify the installation dates and original costs
16 of BFE's assets?**

17 A. I performed a site inspection records review on February 11, 2013 with staff
18 accountant Devi Loockerman. I visited BFE's office with Ms. Loockerman to
19 perform an audit of BFE's financial records on July 22 and 23, 2009. I also
20 reviewed the trending study prepared by Mr. Bret W. Fenner, P.E., witness for
21 BFE, and the TCEQ's official CCN files to attempt to identify any previous rate
22 cases or rate case order involving BFE that may have established a rate base.

23 **Q. What is trending?**

24 A. Trending takes the known cost of an asset on a known date and determines the

1 cost of the asset at a different point in time using the Handy-Whitman Index of
2 Public Utility Construction Cost. The Handy-Whitman Index of Public Utility
3 Construction Costs provides the cost index numbers by year for various utility
4 equipment to use to calculate the cost of each type of equipment at a certain point
5 in time. If a utility such as BFE is unable to locate the invoices, then it can use a
6 trending study to support the original cost which they have claimed in the
7 application.

8 **Q Did you find any applications in the TCEQ's official CCN file which**
9 **include the same cost claimed in BFE rate application?**

10 A. Yes. The original CCN application (ED-BDD-8) on pages 37 and 38, and the rate
11 reduction application submitted on May 2, 2002 (ED-BDD-9) pages 7 and 8,
12 both use the same equipment values.

13 **Q. What is your recommendation concerning the original plant and**
14 **equipment cost, annual depreciation, accumulated depreciation and**
15 **net plant for these applications?**

16 A. The trending study along with the information provided during the site visit
17 support the original cost listed in the rate application; therefore, I recommend
18 using the values reported in the rate application with the exception of a the pump
19 building and ground storage tank which I will discuss later.

20 **Q. Do you have any recommendations or adjustments to the original**
21 **water plant and equipment cost, annual depreciation, accumulated**
22 **depreciation and net plant value presented in the applications?**

23 A. Yes, I investigated the water utility plant items in detail. I have made some

1 adjustments to the rate base as a result of my review of the information discussed
2 above. I used the straight line depreciation method as required by the TCEQ's
3 rules to calculate the net plant values for the rate base. As a result, I calculated
4 for water an original cost of \$276,558, accumulated depreciation of \$74,259, a
5 net value of \$202,299, and an annual depreciation of \$8,136.

6 **Q. Could you please describe what kind of adjustments you made in the**
7 **water depreciation schedules?**

8 A. Yes, I made following adjustments:

- 9 1. The first adjustment that I did was to create a depreciation schedule (ED-
10 BDD-12) using the estimated construction cost estimate provided in the
11 application (ED-BDD-11) with a description of all equipment owned by the
12 utility.
- 13 2. I removed the cost of the double service connection, single service
14 connections, and meters from the distribution system cost. I created a
15 separate line for each asset and adjusted the used and useful column to
16 zero. These costs are associated with the installation of a tap and are
17 recovered from customers through tap fees.
- 18 3. Regarding the fire hydrants, I removed them from the cost of the
19 distribution system and created a separate line item in the depreciation
20 schedule. I did not remove them from the cost of service because the utility
21 has stated that they are not for fire protection, but are rather for the
22 purpose of flushing the utility system. If the fire hydrants/flush valves are
23 removed, this would result in a decrease in annual depreciation of \$120

1 and a decrease in return of approximately \$537 for a total of \$657. If the
2 total amount was removed from the fixed cost (base rate), the result would
3 be a decrease of the base rate by \$1.39. Since the fire hydrants are not used
4 for fire protection, the utility should verify that it is in compliance with
5 HEALTH AND SAFETY CODE § 341.0357.

- 6 4. I removed the water plant piping from the cost of the distribution system
7 and created a separate line item in the depreciation schedule in the
8 amount of \$2,000.
- 9 5. I created a separate line in the depreciation schedule for each pressure
10 tank and booster pump.
- 11 6. In the application the cost of the pump house (\$10,000) was combined
12 with the cost of the electrical (\$3,500). I removed the electrical cost from
13 the building cost and created a separate line item cost in the depreciation
14 schedule in the amount of \$3,500.
- 15 7. The construction cost estimate listed the pump house as costing \$10,000.
16 The depreciation study only supports a cost of \$6,402; therefore, I used
17 the depreciation study cost as the original cost of the building.
- 18 8. During the site visit BFE provided a copy of the original invoice for the
19 installation of the water well from Watts Drilling Co. (attachment ED-
20 BDD-10). The estimated construction cost listed in attachment ED-BDD-
21 11 list the well as costing \$79,473.00 and the well pump and pipe column
22 costing \$18,668.00. If both figures are added together, they total \$98,141.
23 This is the exact cost of the well listed in attachment ED-BDD-11. I

1 separated the cost of the well \$75,891 (\$79,473.00 -\$1,032.00-
2 \$2,875.00+\$324.00) and the cost for the pump \$21,996.00
3 (\$18,668.00+\$4153.00+\$300.00-\$1,125.00) and created a separate line
4 item for each one.

5 9. The construction cost estimate (Attachment ED-BDD-11) includes 800
6 linear feet of 4-inch well collection line at a cost of \$4.25 per linear feet.

7 During my site visit I observed the well to be located at the water plant
8 with the ground storage tank. There is approximately 50 feet of line
9 installed; therefore I adjusted the cost from \$3,400.00 to \$212.40 and
10 included this cost in the depreciation schedule.

11 10. The construction cost estimate (Attachment ED-BDD-1) included 10% in
12 engineering and legal fees for the water plant. The TCEQ rules require
13 that all plans be submitted by a licensed professional engineer for review
14 and approval prior to construction. Pages 60 thru 62 of attachment ED-
15 BDD-8 are the approval letter for the water plant and distribution system.
16 With the exception of the 84,000 gallon ground storage tank and the
17 pump building I increased each of the water plant assets by 10% to comply
18 with the above-mentioned construction cost estimate. Since I used the
19 original cost Mr. Fenner calculated for the ground storage tank and pump
20 building I erred on the side of caution because I was unsure if engineering
21 cost to submit plans to the TCEQ were included.

22 11. The construction cost estimate (Attachment ED-BDD-11) was for a 21,000
23 gallon ground storage tank in the amount of \$13,000. The system actually

1 has an 84,000 gallon ground storage tank. 30 TAC § 290.45(b)(1)(D)(ii)
2 requires the water system to have a storage capacity of 200 gallons per
3 connection; therefore, a system with 35 connections is required to provide
4 7,000 gallons of ground storage capacity. BFE currently provides 84,000
5 gallons of ground storage capacity; therefore, according to the used and
6 useful principal, only 8.3 % of the ground storage tank is used and useful.

7
8 However, I am recommending that 100% of the tank be classified as used
9 and useful because Mr. Richard Bourland, the owner of BFE, stated during
10 my site visit of the water system that the excess capacity is being used to
11 vent off the hydrogen sulfide gas. During that site visit, Mr. Bourland
12 explained that the excess capacity of the ground storage tank, along with
13 the spray bar, allows the stored water to vent trapped gas before it goes to
14 the distribution system. According to the billing register (Exhibit ED-
15 BDD-6) during the July billing period, the customers used an average of
16 36,619 gallons per day (1,135,200gallons / 31 days = 36,619 gallons per
17 day). The tank must not only be large enough to meet the customers' high
18 water usage, but it must also be large enough to allow the necessary extra
19 space to vent off the hydrogen sulfide gas.

20
21 Reducing the used and useful from 100% to 8.3% would result in a
22 decrease in annual depreciation of \$497, and a decrease in return of
23 approximately \$2,215 for a total of \$2,712. This would result in a decrease

1 of the base rate by \$5.72 (\$2,712/39.5 equivalent connections/12
2 months=\$5.72). Reducing the base rate by \$5.72 is inconsequential
3 because BFE is able to justify a base rate higher than requested which will
4 be discussed later in my testimony regarding the water rate design.

5 **Q. How does the ED determine developer contribution in aid of**
6 **construction?**

7 A. If any of the items listed in the depreciation schedule were contributed by a
8 developer, the utility is required to list those items and associated cost in Table
9 II-C of the rate application.

10 **Q. Has BFE reported any developer contribution in aid of construction?**

11 A. No. I looked at both the current rate application and the 2002 rate application
12 (Attachment ED-BDD-9) and BFE did not list any developer contributions.
13 Additionally, as part of its CCN application, BFE was required to provide a five-
14 year projected revenue, expenses, debt service, and cash flow. On page 40 of
15 attachment ED-BDD-8, BFE listed a note payment of \$10,309.95 and on page 41
16 listed the water system cost and accumulated depreciation expense. If BFE had
17 intended for the assets to be treated as developer contribution in aid of
18 construction, then it probably would have not included the values in the five-year
19 projections.

20 **Q. If developer contribution in aid of construction is determined, how is**
21 **that handled by the ED?**

22 A. The TCEQ rules allow depreciation on all currently used and useful developer
23 contributed property. Any amount of developer contribution in aid of

1 construction that is reported in III- C is backed out of the rate of return
2 calculation in Table IV-E.

3 **Q. Is BFE required to charge developers contribution in aid of**
4 **construction?**

5 A. No. Page 12 of BFE's approved tariff (attachment ED-BDD-13) states that
6 "Developers *may be* required to provide contributions in aid of construction"
7 (emphasis added). (The tariff is stamped "obsolete" because it was determined in
8 May 2010 that the City had not surrendered jurisdiction to the TCEQ and
9 therefore, at that time there was no reason for the TCEQ to have a copy of BFE's
10 tariff on file.)

11
12 **Q. Has BFE presented evidence showing that any of the assets of the**
13 **utility were a result of developer contribution?**

14 A. No. In Mr. Bourland's prefiled testimony, page 5, lines 13 thru 17, he states that "I
15 have been consistent in my applications in stating that there is no developer
16 contribution to the invested capital of BFE Water Company. I intended to earn a
17 return on the investment in the utility facilities owned by BFE Water Company. I
18 did not recover the cost of the distribution facilities in the cost of the lots being
19 sold in the development."

20 **Q. Have any contracts, deeds, or other legal documents been submitted**
21 **that state the sale of BFE's lots would include costs to pay for the**
22 **utility or its facilities?**

23 A. No.

1 **RATE DESIGN**

2 **Q. What revenue requirement did you use in your review of BFE's**
3 **proposed rates?**

4 A. I used the annual revenue requirement of \$60,875 for water based on the
5 adjustments to the cost of service recommended by Ms. Loockerman.

6 **Q. Did you analyze the revenue requirement for fixed and variable costs?**

7 A. Yes.

8 **Q. What were the results?**

9 A. That analysis is provided in the schedules attached and labeled Exhibit ED-BDD-
10 4.

11 **Q. What do you mean by fixed costs?**

12 A. Fixed costs represent the cost borne by the utility regardless of the volume of
13 water that it provides to its customers. In other words, it is independent of water
14 usage.

15 **Q. What do you mean by variable costs?**

16 A. Variable costs represent the utilities cost for water production and service, sewer
17 treatment, and purchased water and/or sewer treatment to each of its customers
18 and is dependent on the amount of usage.

19 **Water Rate Design**

20 **Q. Did you prepare a rate design for the utility to recover its revenue**
21 **requirement?**

22 A. Yes, I prepared a rate design based on the fixed and variable costs with respect to
23 the number of connections and the water consumption provided by BFE. My rate

1 design is attached (ED-BDD-4).

2 **Q. Please summarize your calculations.**

3 A. The gallonage rate for all the customer classes is calculated as follows:

4 Calculation No. 1: Variable cost/ 1,000 gallons sold

5 $\$24383 \div (6,672) = \$3.65/1,000 \text{ gallons}$

6 The monthly base rate is calculated as follows:

7 Calculation No. 2: Fixed cost $\div 12 \div$ No. of equivalent connections

8 $\$36,492 \div 12 \div 39.50 = \$76.99/\text{month per customer}$

9 **Q. Would you please summarize your recommended rate?**

10 A. The current rate for BFE is \$2.00/1,000 gallons for 0 to 15,000 gallons,
11 \$3.25/1,000 for 15,001 gallons to 30,000 gallons, and \$4.00/1,000 gallons
12 thereafter with a base rate of \$24.00, including zero gallons, for a standard 5/8 x
13 3/4-inch residential meter. The utility has proposed in this rate change
14 application a gallonage charge of \$3.22/1,000 0 to 5,000 gallons, \$3.72/1,000 for
15 5,001 gallons to 15,000 gallons, and \$4.22 per thousand gallons thereafter with a
16 base rate of \$38.50, including zero gallons, for a standard 5/8 x 3/4-inch
17 residential meter. Since I did not have the water consumption data for the lower
18 gallonage tiers, I used \$4.22/ 1000 gallons in my rate design which generates
19 \$28,154.11 ($\$4.22 / 1,000 \text{ gallons} * 6,671,590 \text{ gallons} / 1000 = \$28,154.11$) in
20 variable cost and a base rate (fixed cost) of \$69.03 ($60,875 - \$28,154.11$
21 $= \$32720.89 / 12 \text{ month} / 39.5 \text{ equivalent connections} = \69.03) for a standard
22 5/8 x 3/4-inch residential meter (ED-BDD-4).

23 **Q. Why did you use the highest gallonage tier of \$4.22/1000 gallons?**

1 A. The higher the gallonage charge, the lower the base rate will be. If the gallonage
2 charge is lower, then the base rate is higher. A gallonage charge of \$3.22/1000
3 gallons would generate \$21,482.52 ($\$3.22 / 1,000 \text{ gallons} * 6,671,590 \text{ gallons}$
4 $/1000 = \$21,482.52$) in variable costs and a base rate (fixed cost) of \$83.11
5 ($60,875 - \$21,482.52 = \$39,392.48 / 12 \text{ month} / 39.5 \text{ equivalent connections} =$
6 $\$83.11$). Since BFE has an inclining block rate that increases from \$3.22 to
7 \$4.22, the amount of revenue generated from the variable cost will be
8 somewhere between \$28,154.11 and \$21,482.52. This will result in a base rate
9 between \$69.03 and \$83.11.

10 **Q. If all gallonage was billed at the highest tier, what would be the annual**
11 **revenue generated?**

12 A. That would be a worst case scenario. But if all the gallonage was billed at the
13 highest gallonage rate of \$4.22/1,000 gallons, that would generate an annual
14 revenue requirement of \$46,403. ($(\$4.22 / 1,000 \text{ gallons} * 6,671,590 \text{ gallons}$
15 $/1000 = \$28,154.11) + (\$38.5 * 39.5 \text{ equivalent connections} * 12 \text{ month} =$
16 $\$18,249) = \$46,403$)

17 **Q. Based on your analysis do you have a recommended water rate?**

18 A. Since the requested rates are going to generate less revenue than what staff has
19 calculated as the annual revenue requirement, I recommend that the rates as
20 proposed by BFE be approved with the exception of the 3-inch meter. BFE used a
21 multiplier of 17.48 instead of the AWWA multiplier of 15. This will not affect any
22 customers since no one has a 3-inch meter. Table 1 and Table 2 outline my
23 recommended water rates.

1 Table 1 : Recommended Monthly Minimum Base Rates

2 with zero gallonage included

3

Meter Size	Equivalents	Base Rate
5/8 x 3/4	1.00	\$38.50
1"	2.5	\$96.25
1 1/2"	5.0	\$192.50
2"	8.0	\$308.00
3"	15.0	\$577.50

4
5 Table 2: Recommended Monthly Gallonage Rate

6

Monthly Usage	Rates Per 1,000 gallons
Zero to 5,000 gallons	\$3.22
5,001 to 15,000 gallons	\$3.72
Above 15,001 gallons	\$4.22

7
8 **Q. Do you have any other recommendations regarding the proposed**
9 **rates?**

10 A. Yes, the Upper Trinity Groundwater Conservation District is charging BFE \$0.22
11 per 1,000 gallons. This is a governmental fee that BFE has to collect from each
12 customer similar to the regulator assessment fee that BFE has to collect on behalf
13 of the TCEQ. Since BFE has to collect the fee, I recommend that an additional
14 gallonage fee of \$0.22 be approved in addition to the proposed rates.

15 **Q. Do you have a recommendation regarding the proposed late fee?**

16 A. Yes. The utility has proposed to change the late fee from \$5.00 to 10%. Pursuant

1 to 30 TAC 291.21(b)(2), this is a minor tariff change that the executive director
2 can approve. Although the City of Cresson established a late fee of \$5 in its
3 October 26, 2011 Order, it later surrendered jurisdiction (ED-BDD 14) to the
4 TCEQ. As such, I recommend that the late fee of 10% be approved as part of this
5 case.

6 **Q. Do you have a recommendation in regards to the lost revenue as a**
7 **result of the City of Cresson denying the rates and refunding the**
8 **revenue collected from the proposed rates back to the customers?**

9 A. Yes. Since BFE is able to support the proposed rates, I recommend that BFE be
10 allowed to surcharge the difference between the proposed rates and the rates it
11 has been collecting since it applied for these proposed rates. This surcharge
12 should be recovered over the same time period as the rates were in place. Since
13 the refund amount is dependent on the consumption information, I recommend
14 that BFE be required to provide the total amount per customer prior to the
15 issuance of the proposal for decision so that the number can be incorporated in
16 the ordering provisions.

17
18 **Q. Does this conclude your direct, prefilled testimony?**

19 A. Yes, it does, but I reserve the right to supplement this testimony during the
20 course of the proceeding as new evidence is presented.

Exhibit List

Attachment ED-BDD-1	Profile Testimony Brian Dickey
Attachment ED-BDD-2	Brian Dickey Resume
Attachment ED-BDD-3	Line loss Calculation
Attachment ED-BDD-4	Rate Design Schedule
Attachment ED-BDD-5	Site inspection photos
Attachment ED-BDD-6	Billing Register
Attachment ED-BDD-7	Compliance investigations
Attachment ED-BDD-8	Original CCN application
Attachment ED-BDD-9	2002 rate reduction application
Attachment ED-BDD-10	Watts Drilling Company Water well invoice
Attachment ED-BDD-11	Estimated construction cost
Attachment ED-BDD-12	Depreciation schedule
Attachment ED-BDD-13	BFE tariff
Attachment ED-BDD-14	City of Cresson's ordinance surrendering jurisdiction

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET # SOAH 582-12 **UTILITY:** BFE Water Company

Printed on: 7-Mar-13 time: 8:36 AM

version: 20070403

Preliminary - Subject To Change

REVENUE REQUIREMENT

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$0.00	50	\$0.00	50	\$0.00
CONTRACT SERVICES	\$9,852.00	90	\$8,866.80	10	\$985.20
PURCHASED SERVICE	\$0.00	0	\$0.00	100	\$0.00
CHEMICALS AND TREATMENT	\$5,771.75	0	\$0.00	100	\$5,771.75
UTILITIES	\$4,877.35	0	\$0.00	100	\$4,877.35
REPAIRS AND MAINTENANCE	\$3,545.56	50	\$1,772.78	50	\$1,772.78
OFFICE EXPENSE	\$285.00	50	\$142.50	50	\$142.50
ACCOUNTING & LEGAL	\$876.00	100	\$876.00	0	\$0.00
INSURANCE	\$410.00	100	\$410.00	0	\$0.00
RATE CASE EXPENSE	\$0.00	100	\$0.00	0	\$0.00
MISCELLANEOUS	\$275.00	50	\$137.50	50	\$137.50
DEPRECIATION & AMORTIZATION	\$8,136.45	100	\$8,136.45	0	\$0.00
TAXES OTHER THAN INCOME	\$142.00	100	\$142.00	0	\$0.00
			\$0.00	100	\$0.00
			\$0.00	100	\$0.00
SUB-TOTAL (LESS FIT & RETURN)	34,171		\$20,484		\$13,687
% OF TOTAL (FIXED + VARIABLE)		0.60		0.40	
FEDERAL INCOME TAXES	4,080		2,446		1,634
RETURN	23,123		13,861		9,262
LESS OTHER REVENUES	-500		-300		-200
TOTAL	\$60,875		\$36,492		\$24,383

APPLICANT'S REQUESTED RATES	
Minimum bill:	0 gallons
(includes	0 gallons)
5/8 x 3/4"	\$44.39
3/4"	44.39
1"	110.65
1-1/2"	221.07
2"	353.58
3"	662.77
4"	
6"	
Gallonge rate:	\$3.00 /1,000 gallons
Rev. Reges'd:	
Rev. Gen'd :	\$41,044

RATE CALCULATION

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

Calculating a flat rate? y

\$3.65 /TH.GAL.

MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$76.99 /MO.

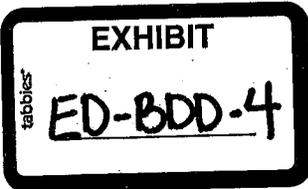
\$76.99 /MO. Incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$4.22 /TH.GAL.
YIELDS ->	\$69.03 /MO.
	69.03 /MO. Incl. min. gallons
ANNUAL REVENUE GENERATED:	\$60,875

REVENUE GENERATED SUMMARY:

Connection Size	# of Connections	Minimum Bill			Rev./Year
		Min. Bill	Including Gals	Rev./Month	
5/8x3/4"	32	69.03	\$69.03	\$2,209	\$26,508
3/4"	0	103.55	103.55	0	0
1"	3	172.58	172.58	518	6,213
1-1/2"	0	345.15	345.15	0	0
2"	0	552.24	552.24	0	0
3"	0	1035.46	1035.46	0	0
4"	0	1725.76	1725.76	0	0
6"	0	3451.52	3451.52	0	0

TOTAL MINIMUM CHARGES=> \$32,720
 GALLONAGE CHARGES=> 6,672 @ \$4.22 /1,000 GAL 28,154
TOTAL REVENUE GENERATED=> \$60,875



Utility Name: BFE Water Company
 Docket Number: SOAH 582-12-6250; TCEQ 2012-0786-UCR
 Date Examined: 7-Mar-13 8:29 AM
 Date Referenced: 31-Dec-08

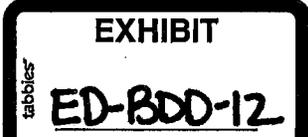
Preliminary - Subject To Change

version: 20070403

DEPRECIATION ANALYSIS

Description	Acquired Date	Claimed Economic Life, yrs	Claimed Original Cost	% Used & Useful	Ver./Est. Original Cost	Economic Life, yrs	Actual Deprec. Life	Annual Deprec.	Accum. Deprec.	Net Plant*	Contributions in Aid of Construction:	
											Developer \$	Customer \$
Land		n/a		100%	0	n/a	n/a	n/a	n/a	0		
Water Well plus 10% engineering fees	15-Oct-98	50	\$83,480	100%	83,480	50	10.21	\$1,670	17,050	66,430		
40 hp 150 gpm well pump plus 10% engineering fees	15-Oct-98	10	\$24,196	100%	24,196	10	10.21	--	24,196	0		
well pump invoice No. 00039390000	15-Sep-08	10	\$35,903	100%	35,903	10	0.29	\$3,590	1,052	34,851		
Booster pump 5 hp plus 10% engineering fees	15-Oct-98	5	\$880	100%	880	5	10.21	--	880	0		
Booster pump 5 hp plus 10% engineering fees	15-Oct-98	10	\$880	100%	880	10	10.21	--	880	0		
Booster pump 2 hp plus 10% engineering fees	15-Oct-98	10	\$440	100%	440	10	10.21	--	440	0		
Hypochlorinator plus 10% engineering fees	15-Oct-98	10	\$385	100%	385	10	10.21	--	385	0		
Masonry Pump House	15-Oct-98	30	\$6,402	100%	6,402	30	10.21	\$213	2,179	4,223		
Ground Storage 21,000 gallons	15-Oct-98	50	\$27,009	100%	27,009	50	10.21	\$540	5,516	21,493		
Pressure Tank 500 gallons plus 10% engineering fees	15-Oct-98	50	\$1,320	100%	1,320	50	10.21	\$26	270	1,050		
Pressure Tank 500 gallons plus 10% engineering fees	15-Oct-98	50	\$1,320	100%	1,320	50	10.21	\$26	270	1,050		
Pressure Tank 500 gallons plus 10% engineering fees	15-Oct-98	50	\$1,320	100%	1,320	50	10.21	\$26	270	1,050		
Distrb. System	15-Oct-98	50	\$76,341	100%	76,341	50	10.21	\$1,527	15,592	60,748		
Fire Hydrant	15-Oct-98	50	\$6,000	100%	6,000	50	10.21	\$120	1,225	4,775		
4" Wall Collection Line plus 10% engineering fees	15-Oct-98	50	\$234	100%	234	50	10.21	\$5	48	186		
Water plant piping plus 10% engineering fees	15-Oct-98	50	\$2,200	100%	2,200	50	10.21	\$44	449	1,751		
Electrical plus 10% engineering fees	15-Oct-98	30	\$3,850	100%	3,850	30	10.21	\$128	1,311	2,539		
Meters	15-Oct-98	20	\$6,900	0%	0	20	10.21	\$0	0			
Double Service Connection	15-Oct-98	20	\$6,600	0%	0	20	10.21	\$0	0			
Single Service Connection	15-Oct-98	20	\$300	0%	0	20	10.21	\$0	0			
Fencing and gates plus 10% engineering fees	15-Oct-98	20	\$3,960	100%	3,960	20	10.21	\$198	2,022	1,938		
Compressor plus 10% engineering fees	15-Oct-98	20	\$440	100%	440	20	10.21	\$22	225	215		
			\$290,358		\$276,558			\$8,136	\$74,259	\$202,299	\$0	\$0

Depreciation



BFE Water CompanySOAH Docket 582-12-6250
TCEQ Docket 2012-0786-UCR**Revenue Requirement**

Expenses	2008	Testimony
O&M Expense		page #
Contract Services	\$9,852	7
Chemicals & Treatment	5,772	7-8
Utilities	4,877	8
Repairs and Maintenance	3,546	8-9
Office Expense	285	9
Accounting and Legal	876	9
Insurance	410	9-10
Miscellaneous	275	10
Subtotal, Operations and Maintenance	\$25,893	
Ad Valorem Taxes	\$142	10
Depreciation	8,136	10
Return on Invested Capital	23,123	10-12
Federal Income Tax - normalized	4,080	13-15
Total Cost of Service	61,374	
Other Revenues - Tap Fees	(500)	15
Net recoverable from rates	60,874	5

INVESTED CAPITAL & RETURN

Testimony page #

PLANT IN SERVICE	276,558	Brian Dickey
ACCUMULATED DEPRECIATION	\$74,259	Brian Dickey
NET PLANT	202,299	
WORKING CASH ALLOWANCE	3,237	11-12
TOTAL INVESTED CAPITAL	\$ 205,536	
RATE OF RETURN	11.25%	12-13
RETURN	23,123	12

FEDERAL INCOME TAX CALCULATION

Revenue requirement	61,374
Less: operations and maintenance	(25,893)
Less: depreciation	(8,136)
Less: property taxes	(142)
Taxable income	27,203
Tax Rate	15%
Tax	4,080

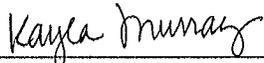
EXHIBIT

ED-DL-2

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CERTIFICATE OF SERVICE

I certify that on August 26, 2013, a copy of the foregoing document was sent by first class, agency mail, electronic mail, and/or facsimile to the persons on the attached Mailing List.



Kayla Murray, Staff Attorney

Mailing List
BFE Water Company
SOAH Docket No. 582-12-3250
TCEQ Docket No. 2012-0786-UCR

Office of the Chief Clerk:
Bridget Bohac, Chief Clerk
Texas Commission on Environmental Quality
Office of the Chief Clerk, MC-105
P.O. Box 13087
Austin, Texas 78711-3087
Phone: (512) 239-3300
Fax: (512) 239-3311

Representing BFE Water Company:
Lambeth Townsend
Lloyd Gosselink Rochelle & Townsend, P.C.
816 Congress Avenue, Suite 1900
Austin, Texas 78701-2478
Fax: (512) 472-0532
ltownsend@lglawfirm.com

Representing the Office of Public Interest Counsel:
Blas Coy
Texas Commission on Environmental Quality
P. O. Box 13087, MC-103
Austin, Texas 78711-3087
Fax: (512) 239-6377
Blas.coy@tceq.texas.gov

Representing City of Cresson
Ron Becker
123 Concorde Circle
Cresson, Texas 76035
Fax: (817) 396-4398
beckerr@yahoo.com

Representing self and Bourland Field Estates
Homeowners' Association
Harold Scott Perdue
137 Constellation Dr.
Cresson, Texas 76035
sperdue@mac.com