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Item Number: 27

Addendum StartPage: 0

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APPLICATION OF MONARCH §
UTILITIES I, LP FOR AUTHORITY TO §
CHANGE RATES §

PUBLIC UTILITY §
COMMISSION OF TEXAS §
2016 MAR 10 PM 1:04
PUBLIC UTILITY COMMISSION
FILING CLERK

COMMISSION STAFF'S LIST OF ISSUES

Commission Staff (Staff) of the Public Utility Commission of Texas (Commission) files its List of Issues. In support of its List of Issues, Staff states the following:

I. Background

Monarch Utilities I, LP (Monarch Utilities) initiated this proceeding for Commission approval of a proposed increase in rates. In sum, Monarch Utilities requests Commission approval of an overall increase of its revenue requirement by \$4,787,169, or approximately 18.66% above its adjusted test year revenues. Monarch Utilities proposes that this increase will be done in three phases starting in April 2016 and ending in April 2018.

The Commission referred this proceeding to the State Office of Administrative Hearings. In its Order of Referral, the Commission permitted Staff to file a list of issues to be addressed in this proceeding. Staff presents its List of Issues for the Commission's consideration.

II. Staff's List of Issues

Staff has identified the following preliminary issues in this proceeding:

1. Did Monarch Utilities comply with the instructions in the Commission's rate filing package for Class A water utilities?¹
2. Is Monarch Utilities' application administratively complete, as required by the Commission's procedural rules?²

¹ See Tex. Water Code § 13.187(d) (“[I]f the application or the statement of intent is not substantially complete or does not comply with the regulatory authority’s rules, it may be rejected and the effective date of the rate change may be suspended until a properly completed application is accepted by the regulatory authority and a proper statement of intent is provided.”).

² See 16 Tex. Admin. Code § 24.8(a) (“An application to change rates . . . shall be reviewed for administrative completeness within thirty calendar days of receipt of the application.”).

Staff has identified the following issues in this proceeding:

1. What is the appropriate methodology to determine just and reasonable rates for Monarch Utilities.
2. Are Monarch Utilities' proposed increased rates just and reasonable?³ If not, what rates are just and reasonable?⁴
 - a. What is the appropriate revenue requirement that gives Monarch Utilities a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service and preserves Monarch Utilities' financial integrity?⁵
 - b. What is the appropriate operations and maintenance expense?
 - c. What are the reasonable and necessary administrative and general expenses?
 - d. What is the reasonable and necessary amount for Monarch Utilities' advertising expense, contributions, and donations?
 - e. What are Monarch Utilities' reasonable and necessary expenses for pension and other post-employment benefits?
 - f. Are any expenses, including but not limited to, executive salaries, advertising expenses, legal expenses, penalties and interest on overdue taxes, criminal penalties or fines, and civil penalties or fines unreasonable, unnecessary, or not in the public interest?
 - g. What is the appropriate federal income tax expense?⁶
 - h. What is the reasonable and necessary amount for taxes and assessments, other than federal income taxes?
 - i. What is the reasonable and necessary amount for municipal franchise fees? What is the appropriate amount to be included in rates?
 - j. What is the appropriate depreciation expense?⁷ For each class of property, what

³ See Tex. Water Code § 13.182(a) ("The regulatory authority shall ensure that every rate made, demanded, or received by any utility . . . shall be just and reasonable.").

⁴ See Tex. Water Code § 13.187(h) ("If, after hearing, the regulatory authority finds the rates currently being charged or those proposed to be charged are unreasonable or in violation of law, the regulatory authority shall determine the rates to be charged by the utility and shall fix the rates by order served on the utility.").

⁵ See Tex. Water Code § 13.183(a)(1)-(2).

⁶ See Tex. Water Code § 13.185(f).

⁷ See Tex. Water Code § 13.185(j).

are the proper and adequate rates and methods for depreciation? Is Monarch Utilities' other depreciation-related proposal reasonable?

k. Are there any tax savings derived from liberalized depreciation and amortization, investment tax credits, or similar methods? If so, are such tax savings apportioned equitably between customers and the Monarch Utilities, and are the interests of present and future customers equitably balanced?

l. What is the appropriate return on equity?⁸

m. What is the appropriate cost of debt? What is the appropriate debt service expense?

n. What is the appropriate capital structure?

o. What is the appropriate weighted average cost of capital?

3. Has Monarch Utilities made any payments for expenses to affiliates?

a. For affiliate transactions that affect the cost of service, are these transactions reasonable and necessary?⁹

b. For all affiliated transactions affecting the cost of service, what are the costs to the affiliate of each item or class of items in question and is the price for each transaction no higher than prices charged by the supplying affiliate to its other affiliates or divisions for the same item or items, or to unaffiliated persons or corporations?

4. What are the reasonable and necessary components of Monarch Utilities' rate base?

a. What is the original cost of the property used and useful in providing service to ratepayers at the time the property was dedicated to public use?

b. What is the amount, if any, of the accumulated depreciation on such property?

c. Did any of Monarch Utilities' invested capital arise from payments made to an affiliate? If so, for each class of items, do such payments conform to Commission requirements?

5. What amount of Monarch Utilities' invested capital has not previously been subject to a prudence review by the Commission or other regulatory authority?

a. If there are any such amounts, what are the amounts, for what facilities, property, or equipment was the investment made, and were the amounts properly incurred?

b. What is the amount for an allowance for funds used during construction that is

⁸ See Tex. Water Code § 13.184(a).

⁹ See Tex. Water Code § 13.185(e).

being transferred to invested capital in this proceeding? If such amounts are being transferred, for what facilities and at what rate did the allowance for funds used during construction accrue?

6. Is Monarch Utilities seeking the inclusion of construction work in progress?

a. What is the amount sought and for what facilities?

b. Has Monarch Utilities proven that the inclusion is necessary to the financial integrity of Monarch Utilities and that major projects under construction have been efficiently and prudently planned and managed?

7. What is the reasonable and necessary working capital allowance for Monarch Utilities?

8. Does Monarch Utilities have a self-insurance plan approved by the Commission or other regulatory authority?

a. What is the approved target amount for the reserve account and is it appropriate to change that amount?

b. What is the amount of any shortage or surplus for the reserve account for the approved plan, and what actions should be taken to return the reserve account to the approved target amount?

9. Has Monarch Utilities included a prepaid pension asset in its rate base? If so, what is the appropriate amount that should be included in rate base?

10. What is the reasonable and necessary amount of Monarch Utilities' accumulated reserve for deferred federal income taxes, unamortized investment tax credits, contingency reserves, property insurance reserves, contributions in aid of construction, customer deposits, and other sources of cost-free capital? What other items should be deducted from Monarch Utilities' rate base?

11. What regulatory assets are appropriately included in Monarch Utilities' rate base? If such assets are included in rate base, what is the appropriate treatment of such regulatory assets?

12. How should the gains on sale for the Blue Mound and Midway water systems be treated?

13. In establishing the proposed increased rates, did Monarch Utilities allocate costs and revenues among its customer classes consistent with ratemaking principles?

a. What is the appropriate allocation of costs to Monarch Utilities' customer classes?

b. What is the appropriate allocation of revenues to Monarch Utilities' customer

classes?

14. In establishing the proposed increased rates, did Monarch Utilities design rates for each customer class consistent with ratemaking principles?

- a. What is the appropriate fixed charge?
- b. What is the appropriate volumetric charge?

15. What are the reasonable expenses incurred Monarch Utilities for this proceeding?

- a. Should such expenses be recovered from ratepayers?
- b. In the event that such expenses are to be recovered from ratepayers, what mechanism should be used for recovery?
- c. Does this amount include any anticipated expenses to appeal this docket?
- d. What are the intervening cities' reasonable rate case expenses?

III. Conclusion

Staff requests that its identified issues be among the issues that will be considered by the Commission in this proceeding.

Date: March 10, 2016

Respectfully Submitted,

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CERTIFICATE OF SERVICE

I certify that a copy of this document was served on all parties of record on March 10, 2016, in accordance with 16 Tex. Admin. Code § 22.74.



Sam Chang