



Control Number: 45570



Item Number: 2

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APPLICATION OF MONARCH  
 UTILITIES I, L.P. TO CHANGE RATES  
 FOR WATER AND SEWER SERVICE

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PUBLIC UTILITY COMMISSION

OF TEXAS

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 PUBLIC UTILITY COMMISSION  
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PUC DOCKET NO. 45570

APPLICATION OF MONARCH UTILITIES I, L.P. TO CHANGE RATES FOR WATER AND SEWER SERVICE § PUBLIC UTILITY COMMISSION OF TEXAS

STATEMENT OF INTENT TO CHANGE RATES FOR WATER AND SEWER SERVICE

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

Monarch Utilities I, L.P., ("Monarch") files this Application to Change Rates for Water and Sewer Service ("Rate Application" or "Rate Filing Package" ("RFP")), and in support of this filing would respectfully show the following:

I. STATEMENT OF JURISDICTION

The Public Utility Commission of Texas ("Commission") has jurisdiction over this Rate Application pursuant to Chapter 13 of the Texas Water Code, and 16 Texas Administrative Code § 24.22.<sup>1</sup> Pursuant to Texas Water Code §§ 13.002(4-a), (4-b), Monarch is a Class A water utility and a Class B sewer utility. Monarch currently provides utility service through its ownership and operation of 77 physical water utility systems with approximately 22,762 customers in 24 counties, and 11 physical wastewater utility systems with approximately 3,650 customers in eight counties. The majority of Monarch's customers are residential.

II. FACTUAL STATEMENT

Monarch's previous water and sewer rate change filing was approved in TCEQ Docket No. 2014-0413-UCR, *Application of Monarch Utilities I, LP for a Change in Water and Sewer Rate/Tariff for Certificate of Convenience and Necessity Nos. 12983 and 20899 in Bandera, Brazoria, Chambers, Denton, Grayson, Hays, Henderson, Hood, Johnson, Liberty, Marion, Matagorda, Medina, Montgomery, Parker, Polk, San Jacinto, Smith, Tarrant, Trinity, Tyler, Van Zandt, Wise, and Wood Counties, Texas, Application Nos. 37714-R and 37715-R.*

Since its acquisition in 2004, Monarch has invested \$71 million to bring the water and sewer systems up to state and federal regulatory standards and improve customer service. In this

<sup>1</sup> Tex. Water Code Ann. §§ 13.041, 13.042 and 13.187 (West 2008 & Supp. 2015); 16 Tex. Admin. Code § 24.22 (TAC).

Rate Application, Monarch is requesting compensatory rates designed to recover its full cost of service in a three-phase rate increase.

The Rate Application has been completed using the Class A Investor-Owned Utilities Water and/or Sewer Rate Filing Package for Cost-of-Service Determination issued by the Commission. The Rate Application is based on a test year ending on June 30, 2015, and is supported by the schedules, workpapers, and testimonies of several witnesses, which are contained in the RFP. The testimonies, tariff, schedules, and workpapers are being filed contemporaneously with this Statement.

An identical application is being filed with the Cities of Flower Mound, Keene, Point Blank, Shepherd, and Willis. Although Monarch serves within the Cities of Aurora and Coffee City, those two cities have surrendered jurisdiction to the Commission. Applications have not been filed in the Cities of Buda, Ivanhoe, and Kyle because Monarch reached rate agreements with these cities in the previous rate case.

### III. REQUESTED RELIEF AND EFFECTIVE DATE

Monarch based its proposed rates on a test year ending June 30, 2015, adjusted for known and measurable changes (“Test Year”), as defined in 16 TAC § 24.3(71). The operating costs in the Test Year are indicative of an ongoing level of costs to operate and maintain the facilities used and useful in providing water and wastewater service. Monarch seeks an overall increase in annual revenues of \$4,787,169, or 18.66% over its adjusted Test Year revenues in three-phases. The Phase I increase in revenue is \$3,720,411, or 14.5%; Phase II increase in revenues is \$524,231, or 1.78%; and Phase III increase in revenues is \$542,527, or 1.81%. Proposed revenue increases and effective dates of the proposed rate increases are as follows:

	Water	Wastewater	Proposed Effective Date
Phase I	\$3,213,438	\$506,973	April 4, 2016
Phase II	\$276,966	\$247,265	April 4, 2017
Phase III	\$279,989	\$262,538	April 4, 2018

The effective date of Phase I will be at least 35 days after required notice in compliance with Commission rules at 16 TAC § 24.22(c)(1). In the event that the proposed rates are suspended pursuant to Commission rules at 16 TAC § 24.26(a)(1), Monarch reserves the right to seek interim rates during the pendency of this proceeding in accordance with Commission rules at 16 TAC § 24.29.

Monarch is seeking to change four provisions in its Tariff, in addition to the changes to its rates. Monarch proposes to replace its “Purchased Sewer Pass-Through Clause” with a “Sewer Pass-Through Gallonage Charge Adjustment,” which will add a true-up feature that adjusts for over- or under-collections in the past 12 months. Monarch proposes to replace similar language in the Water Tariff replacing its “Purchased Water and / or District Fee Pass-Through Clause” with a “Water Pass-Through Gallonage Charge Adjustment.” Additionally, Monarch proposes to update Section 2.12 in its Sewer Tariff regarding “Residential Single Family Grinder / Sewage Stations” relating to ownership and repairs to onsite grinder pumps, storage tanks, controls and other appurtenances. Regarding multi-family and commercial receiving tank / lift stations, Monarch proposes to delete certain language regarding responsibility for maintaining and repairing all equipment necessary to connect service locations to Monarch’s collection lines. Regarding the Supplemental Emergency Service Rate, Monarch is seeking to clarify that the rate is determined based on inch-diameter of the service line and not the meter size, and also clarifying that any metered usage on that account will be billed at the highest tier.

Monarch is seeking to have the Commission determine its rate base amount during the review of this application. Monarch is also requesting to change the depreciation method to Group Depreciation.

#### **IV. PARTIES AFFECTED**

The Rate Application affects retail water and wastewater utility customers within the territory of Water Certificate of Convenience and Necessity No. 12983 and Sewer Certificate of Convenience and Necessity No. 20899, which have both been issued to Monarch. In addition, Monarch provides retail water and wastewater service within the corporate boundaries of the Cities of Buda, Flower Mound, Ivanhoe, Keene, Kyle, Payne Springs, Shepherd, and Willis, which have original jurisdiction over retail water and wastewater rates pursuant to Texas Water Code Ann. § 13.042.

## V. DESIGNATED REPRESENTATIVE

Monarch's designated representative for service of pleadings, orders, and other matters related to this Application is:

Robert L. Kelly  
Vice President Regulatory Affairs  
SouthWest Water Company  
1325 North Grand Avenue, Suite 100  
Covina, California 91724  
Telephone: (626) 543-2590  
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[bkelly@swwc.com](mailto:bkelly@swwc.com)

Monarch's authorized legal representatives are:

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## VI. RATE CASE EXPENSES

Pursuant to 16 TAC § 24.33, Monarch seeks to recover all reasonable and necessary rate case expenses that it incurs in connection with this and related proceedings. Monarch proposes to recover reasonable and necessary rate case expenses through a surcharge assessed over a 36-month period. Monarch reserves the right to request that all rate case expense issues be severed from this proceeding and considered in a separate docket, if such severance would serve the interest of efficiency and avoid the need to estimate and update rate case expenses before the expenses are finalized.

## VII. NOTICE

Pursuant to 16 TAC § 24.22(c), Monarch is providing notice of this Rate Application to all customers of Monarch affected by the rate change, and to the Office of Public Utility Counsel. Notice will be mailed separately to each customer, or hand-delivered. Monarch will



mail separate notice to each affected customer. Monarch is providing notice on the Commission-approved form, and will include instructions on how a ratepayer may file a protest. Monarch will provide proof of notice pursuant to Commission rules at 16 TAC § 24.22(b)(5) upon completion of notice, which will consist of an affidavit attesting to the completion of notice.

### VIII. MOTION FOR ENTRY OF A PROTECTIVE ORDER

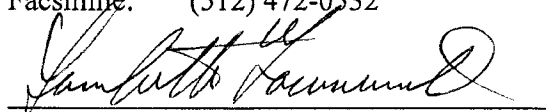
Monarch requests that a Protective Order of the standard form used by the Commission be entered promptly in this case. The draft Protective Order is included in the RFP. Until a protective order is issued in this proceeding, Monarch will provide access to such confidential materials only to parties that agree in writing to be bound by the proposed protective order as if it had been issued by the Commission.

### IX. PRAYER

WHEREFORE, PREMISES CONSIDERED, Monarch requests that the Public Utility Commission of Texas approve Monarch's requested change in rates to be effective April 4, 2016 for Phase I, April 4, 2017 for Phase II, and April 4, 2018 for Phase III. Additionally, Monarch requests all other and further relief, general or special, at law or in equity, to which Monarch may show itself to be justly entitled.

Respectfully submitted,

LLOYD, GOSSELINK,  
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PUC DOCKET NO. 45570

APPLICATION OF MONARCH § PUBLIC UTILITY COMMISSION  
UTILITIES I, L.P. TO CHANGE RATES §  
FOR WATER AND SEWER SERVICE § OF TEXAS

PROTECTIVE ORDER

This Protective Order shall govern the use of all information deemed confidential (Protected Materials) or highly confidential (Highly Sensitive Protected Materials) by a party providing information to the Public Utility Commission of Texas (Commission), including information whose confidentiality is currently under dispute.

It is ORDERED that:

1. Designation of Protected Materials. Upon producing or filing a document, including, but not limited to, records stored or encoded on a computer disk or other similar electronic storage medium in this proceeding, the producing party may designate that document, or any portion of it, as confidential pursuant to this Protective Order by typing or stamping on its face "PROTECTED PURSUANT TO PROTECTIVE ORDER ISSUED IN DOCKET NO. 45570" or words to this effect and consecutively Bates Stamping each page. Protected Materials and Highly Sensitive Protected Materials include not only the documents so designated, but also the substance of the information contained in the documents and any description, report, summary, or statement about the substance of the information contained in the documents.
2. Materials Excluded from Protected Materials Designation. Protected Materials shall not include any information or document contained in the public files of the Commission or any other federal or state agency, court, or local governmental authority subject to the Texas Public Information Act. Protected Materials also shall not include documents or information which at the time of, or prior to disclosure in a proceeding, is or was public knowledge, or which becomes public knowledge other than through disclosure in violation of this Protective Order.
3. Reviewing Party. For the purposes of this Protective Order, a Reviewing Party is a party to this docket.

4. Procedures for Designation of Protected Materials. On or before the date the Protected Materials or Highly Sensitive Protected Materials are provided to the Commission, the producing party shall file with the Commission and deliver to each party to the proceeding a written statement, which may be in the form of an objection, indicating: (1) any and all exemptions to the Public Information Act, Tex. Gov't Code Ann., Chapter 552, claimed to be applicable to the alleged Protected Materials; (2) the reasons supporting the providing party's claim that the responsive information is exempt from public disclosure under the Public Information Act and subject to treatment as protected materials; and (3) that counsel for the providing party has reviewed the information sufficiently to state in good faith that the information is exempt from public disclosure under the Public Information Act and merits the Protected Materials designation.
5. Persons Permitted Access to Protected Materials. Except as otherwise provided in this Protective Order, a Reviewing Party shall be permitted access to Protected Materials only through its Reviewing Representatives who have signed the Protective Order Certification Form. Reviewing Representatives of a Reviewing Party include its counsel of record in this proceeding and associated attorneys, paralegals, economists, statisticians, accountants, consultants, or other persons employed or retained by the Reviewing Party and directly engaged in these proceedings. At the request of the Commissioners or their staff, copies of Protected Materials may be produced by the Commission Staff (Staff) or the Commission's Docket Management and Commission Advising (CADM) to the Commissioners. The Commissioners and their staff shall be informed of the existence and coverage of this Protective Order and shall observe the restrictions of the Protective Order.
6. Highly Sensitive Protected Material Described. The term Highly Sensitive Protected Materials is a subset of Protected Materials and refers to documents or information which a producing party claims is of such a highly sensitive nature that making copies of such documents or information or providing access to such documents to employees of the Reviewing Party (except as set forth herein) would expose a producing party to unreasonable risk of harm, including but not limited to: (1) customer-specific information protected by Tex. Util. Code Ann. § 32.101(c); (2) contractual information pertaining to contracts that specify that their terms are confidential or which are confidential pursuant

to an order entered in litigation to which the producing party is a party; (3) market-sensitive fuel price forecasts, wholesale transactions information and/or market-sensitive marketing plans; and (4) business operations or financial information that is commercially sensitive. Documents or information so classified by a producing party shall bear the designation "HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTIVE ORDER ISSUED IN DOCKET NO. 45570" or words to this effect and shall be consecutively Bates Stamped in accordance with the provisions of this Protective Order. The provisions of this Protective Order pertaining to Protected Materials also apply to Highly Sensitive Protected Materials, except where this Protective Order provides for additional protections for Highly Sensitive Protected Materials. In particular, the procedures herein for challenging the producing party's designation of information as Protected Materials also apply to information that a producing party designates as Highly Sensitive Protected Materials.

7. Restrictions on Copying and Inspection of Highly Sensitive Protected Material. Except as expressly provided herein, only one copy may be made of any Highly Sensitive Protected Materials except that additional copies may be made in order to have sufficient copies for introduction of the material into the evidentiary record if the material is to be offered for admission into the record. A record of any copies that are made of Highly Sensitive Protected Material shall be kept and a copy of the record shall be sent to the producing party at the time the copy or copies are made. The record shall include information on the location and the person in possession of the copy. Highly Sensitive Protected Material shall be made available for inspection only at the location or locations provided by the producing party, except as provided by Paragraphs 9 and 13. Limited notes may be made of Highly Sensitive Protected Materials, and such notes shall themselves be treated as Highly Sensitive Protected Materials unless such notes are limited to a description of the document and a general characterization of its subject matter in a manner that does not state any substantive information contained in the document.
8. Restricting Persons Who May Have Access to Highly Sensitive Protected Material. With the exception of Commission Staff and the Office of Public Utility Counsel (OPC), and except as provided herein, the Reviewing Representatives for the purpose of access to Highly Sensitive Protected Materials may be persons who are: (1) outside counsel for the

Reviewing Party; (2) outside consultants for the Reviewing Party working under the direction of Reviewing Party's counsel; or (3) employees of the Reviewing Party working with and under the direction of Reviewing Party's counsel who have been authorized by the presiding officer to review Highly Sensitive Protected Materials. The Reviewing Party shall limit the number of Reviewing Representatives that review each Highly Sensitive Protected document to the minimum number of persons necessary. The Reviewing Party is under a good faith obligation to limit access to each portion of any Highly Sensitive Protected Materials to two Reviewing Representatives whenever possible. Reviewing Representatives for Commission Staff and OPC, for the purpose of access to Highly Sensitive Protected Materials, shall consist of their respective counsel of record in this proceeding and associated attorneys, paralegals, economists, statisticians, accountants, consultants, or other persons employed or retained by them and directly engaged in these proceedings.

9. Copies Provided of Highly Sensitive Protected Material. A producing party shall provide one copy of Highly Sensitive Protected Materials specifically requested by the Reviewing Party to the person designated by the Reviewing Party who must be a person authorized to review Highly Sensitive Protected Material under Paragraph 8, and be either outside counsel or an outside consultant. Other representatives of the reviewing party who are authorized to view Highly Sensitive Material may review the copy of Highly Sensitive Protected Materials at the office of the Reviewing Party's representative designated to receive the information. Each reviewing party may make two additional copies of Highly Sensitive Protected Materials for outside consultants and/or Reviewing Party's employees whose business offices are located outside of Travis County. The additional copies may be maintained at the outside consultant's offices outside Travis County. All restrictions on Highly Sensitive documents in this Order shall apply to additional copies maintained outside the office of the Reviewing Party's representative designated to receive the information. Any Highly Sensitive Protected documents provided to a Reviewing Party may not be copied except as provided in Paragraph 7 and shall be returned along with any copies made pursuant to Paragraph 7 to the producing party within two weeks after the close of the evidence in this proceeding. The restrictions

contained herein do not apply to Commission Staff, OPC, and the Office of the Attorney General (OAG) when the OAG is representing a party to the proceeding.

10. Procedures in Paragraphs 10-14 Apply to Commission Staff, OPC, and the OAG and Control in the Event of Conflict. The procedures set forth in Paragraphs 10 through 14 apply to responses to requests for documents or information that the producing party designates as Highly Sensitive Protected Materials and provides to Commission Staff, OPC, and the OAG in recognition of their purely public functions. To the extent the requirements of Paragraphs 10 through 14 conflict with any requirements contained in other paragraphs of this Protective Order, the requirements of these Paragraphs shall control.
11. Copy of Highly Sensitive Protected Material to be Provided to Commission Staff, OPC, and the OAG. When, in response to a request for information by a Reviewing Party, the producing party makes available for review documents or information claimed to be Highly Sensitive Protected Materials, the producing party shall also deliver one copy of the Highly Sensitive Protected Materials to the Commission Staff, OPC (if OPC is a party), and the OAG (if the OAG is representing a party) in Austin, Texas. Provided however, that in the event such Highly Sensitive Protected Materials are voluminous, the materials will be made available for review by Commission Staff, OPC (if OPC is a party), and the OAG (if the OAG is representing a party) at the designated office in Austin, Texas. The Commission Staff, OPC (if OPC is a party), and the OAG (if the OAG is representing a party) may request such copies as are necessary of such voluminous material under the copying procedures set forth herein.
12. Delivery of the Copy of Highly Sensitive Protected Material to Staff and Outside Consultants. The Commission Staff, OPC (if OPC is a party), and the OAG (if the OAG is representing a party) may deliver the copy of Highly Sensitive Protected Materials received by them to the appropriate members of their staff for review, provided such staff members first sign the certification provided in Paragraph 15. After obtaining the agreement of the producing party, Commission Staff, OPC, and the OAG (if the OAG is representing a party) may deliver the copy of Highly Sensitive Protected Materials received by it to the agreed, appropriate members of their outside consultants for review, provided such outside consultants first sign the certification attached hereto.

13. Restriction on Copying by Commission Staff, OPC, and the OAG. Except as allowed by Paragraphs 7, Commission Staff, OPC, and the OAG may not make additional copies of the Highly Sensitive Protected Materials furnished to them unless the producing party agrees in writing otherwise, or, upon a showing of good cause, the Presiding Officer directs otherwise. Limited notes may be made by Commission Staff, OPC (if OPC is a party), and the OAG (if the OAG is representing a party) of Highly Sensitive Protected Materials furnished to them and all such handwritten notes will be treated as Highly Sensitive Protected Materials as are the materials from which the notes are taken. Commission Staff, OPC (if OPC is a party), and the OAG (if OAG is a representing party) may make two additional copies of Highly Sensitive documents for outside consultants whose business offices are located outside Travis County. All restrictions on Highly Sensitive documents in this Order shall apply to additional copies maintained in the outside consultant's offices.
14. Public Information Requests. In the event of a request for any of the Highly Sensitive Protected Materials under the Public Information Act, an authorized representative of the Commission OPC, or the OAG may furnish a copy of the requested Highly Sensitive Protected Materials to the Open Records Division at the OAG together with a copy of this Protective Order after notifying the producing party that such documents are being furnished to the OAG. Such notification may be provided simultaneously with the delivery of the Highly Sensitive Protected Materials to the OAG.
15. Required Certification. Each person who inspects the Protected Materials shall, before such inspection, agree in writing to the following certification set forth in the attachment to this Protective Order:

I certify my understanding that the Protected Materials are provided to me pursuant to the terms and restrictions of the Protective Order in this docket, and that I have been given a copy of it and have read the Protective Order and agree to be bound by it. I understand that the contents of the Protected Materials, any notes, memoranda, or any other form of information regarding or derived from the Protected Materials shall not be disclosed to anyone other than in accordance with the Protective Order and unless I am an employee of Commission Staff or OPC shall be used only for the purpose of the proceeding in Docket No. 45570. I acknowledge that the obligations imposed by this certification are pursuant to such Protective Order. Provided, however, if the

information contained in the Protected Materials is obtained from independent public sources, the understanding stated herein shall not apply.

In addition, Reviewing Representatives who are permitted access to Highly Sensitive Protected Material under the terms of this Protective Order shall, before inspection of such material, agree in writing to the following certification set forth in the Attachment to this Protective Order:

I certify that I am eligible to have access to Highly Sensitive Protected Material under the terms of the Protective Order in this docket.

A copy of each signed certification shall be provided by the reviewing party to counsel for the producing party and served upon all parties of record.

16. Disclosures Between Reviewing Representatives and Continuation of Disclosure Restrictions After a Person is no Longer Engaged in the Proceeding. Any Reviewing Representative may disclose Protected Materials, other than Highly Sensitive Protected Materials, to any other person who is a Reviewing Representative provided that, if the person to whom disclosure is to be made has not executed and provided for delivery of a signed certification to the party asserting confidentiality, that certification shall be executed prior to any disclosure. A Reviewing Representative may disclose Highly Sensitive Protected Material to other Reviewing Representatives who are permitted access to such material and have executed the additional certification required for persons who receive access to Highly Sensitive Protected Material. In the event that any Reviewing Representative to whom Protected Materials are disclosed ceases to be engaged in these proceedings, access to Protected Materials by that person shall be terminated and all notes, memoranda, or other information derived from the protected material shall either be destroyed or given to another Reviewing Representative of that party who is authorized pursuant to this Protective Order to receive the protected materials. Any person who has agreed to the foregoing certification shall continue to be bound by the provisions of this Protective Order so long as it is in effect, even if no longer engaged in these proceedings.
17. Producing Party to Provide One Copy of Certain Protected Material and Procedures for Making Additional Copies of Such Materials. Except for Highly Sensitive Protected



Materials which shall be provided to the Reviewing Parties pursuant to Paragraph 9, and voluminous Protected Materials, the producing party shall provide a Reviewing Party one copy of the Protected Materials upon receipt of the signed certification described in Paragraph 15. Except for Highly Sensitive Protected Materials, a Reviewing Party may make further copies of Protected Materials for use in this proceeding pursuant to this Protective Order, but a record shall be maintained as to the documents reproduced and the number of copies made, and upon request the Reviewing Party shall provide the party asserting confidentiality with a copy of that record.

18. Procedures Regarding Voluminous Protected Materials. Production of voluminous Protected Materials will be governed by 16 Tex. Admin. Code § 22.144(h). Voluminous Protected Materials will be made available in the producing party's voluminous room, in Austin, Texas, or at a mutually agreed upon location, Monday through Friday, 9:00 a.m. to 5:00 p.m. (except on state or Federal holidays), and at other mutually convenient times upon reasonable request.
19. Reviewing Period Defined. The Protected Materials may be reviewed only during the Reviewing Period, which shall commence upon entry of this Protective Order and continue until the expiration of the Commission's plenary jurisdiction. The Reviewing Period shall reopen if the Commission regains jurisdiction due to a remand as provided by law. Protected materials that are admitted into the evidentiary record or accompanying the evidentiary record as offers of proof may be reviewed throughout the pendency of this proceeding and any appeals.
20. Procedures for Making Copies of Voluminous Protected Materials. Other than Highly Sensitive Protected Materials, Reviewing Parties may take notes regarding the information contained in voluminous Protected Materials made available for inspection or they may make photographic, mechanical, or electronic copies of the Protected Materials, subject to the conditions hereof; provided, however, that before photographic, mechanical, or electronic copies can be made, the Reviewing Party seeking photographic, mechanical, or electronic copies must complete a written receipt for copies on the attached form identifying each piece of Protected Materials or portions thereof the Reviewing Party will need.

21. Protected Materials to be Used Solely for the Purposes of These Proceedings. All Protected Materials shall be made available to the Reviewing Parties and their Reviewing Representatives solely for the purposes of these proceedings. Access to the Protected Materials may not be used in the furtherance of any other purpose, including, without limitation: (1) any other pending or potential proceeding involving any claim, complaint, or other grievance of whatever nature, except appellate review proceedings that may arise from or be subject to these proceedings; or (2) any business or competitive endeavor of whatever nature. Because of their statutory regulatory obligations, these restrictions do not apply to Commission Staff or OPC.
22. Procedures for Confidential Treatment of Protected Materials and Information Derived from those Materials. Protected Materials, as well as a Reviewing Party's notes, memoranda, or other information regarding or derived from the Protected Materials are to be treated confidentially by the Reviewing Party and shall not be disclosed or used by the Reviewing Party except as permitted and provided in this Protective Order. Information derived from or describing the Protected Materials shall be maintained in a secure place and shall not be placed in the public or general files of the Reviewing Party except in accordance with the provisions of this Protective Order. A Reviewing Party must take all reasonable precautions to insure that the Protected Materials including notes and analyses made from Protected Materials that disclose Protected Materials are not viewed or taken by any person other than a Reviewing Representative of a Reviewing Party.
23. Procedures for Submission of Protected Materials. If a Reviewing Party tenders for filing any Protected Materials, including Highly Sensitive Protected Materials, or any written testimony, exhibit, brief, motion, or other type of pleading or other submission at the Commission or before any other judicial body that quotes from Protected Materials or discloses the content of Protected Materials, the confidential portion of such submission shall be filed and served in sealed envelopes or other appropriate containers endorsed to the effect that they contain Protected Material or Highly Sensitive Protected Material and are sealed pursuant to this Protective Order. If filed at the Commission, such documents shall be marked "PROTECTED MATERIAL" and shall be filed under seal with the Presiding Officer and served under seal to the counsel of record for the Reviewing Parties. The Presiding Officer may subsequently, on his/her own motion or on motion of

a party, issue a ruling respecting whether or not the inclusion, incorporation or reference to Protected Materials is such that such submission should remain under seal. If filing before a judicial body, the filing party: (1) shall notify the party which provided the information within sufficient time so that the providing party may seek a temporary sealing order; and (2) shall otherwise follow the procedures set forth in Tex. R. Civ. P. 76a.

24. Maintenance of Protected Status of Materials During Pendency of Appeal of Order Holding Materials are not Protected Materials. In the event that the Presiding Officer at any time in the course of this proceeding finds that all or part of the Protected Materials are not confidential or proprietary, by finding, for example, that such materials have entered the public domain or materials claimed to be Highly Sensitive Protected Materials are only Protected Materials, those materials shall nevertheless be subject to the protection afforded by this Protective Order for three (3) full working days, unless otherwise ordered, from the date the party asserting confidentiality receives notice of the Presiding Officer's order. Such notification will be by written communication. This provision establishes a deadline for appeal of a Presiding Officer's order to the Commission. In the event an appeal to the Commissioners is filed within those three (3) working days from notice, the Protected Materials shall be afforded the confidential treatment and status provided in this Protective Order during the pendency of such appeal. Neither the party asserting confidentiality nor any Reviewing Party waives its right to seek additional administrative or judicial remedies after the Commission's denial of any appeal.
25. Notice of Intent to Use Protected Materials or Change Materials Designation. Parties intending to use Protected Materials shall notify the other parties prior to offering them into evidence or otherwise disclosing such information into the record of the proceeding. During the pendency of Docket No. 45570 at the Commission, in the event that a Reviewing Party wishes to disclose Protected Materials to any person to whom disclosure is not authorized by this Protective Order, or wishes to have changed the designation of certain information or material as Protected Materials by alleging, for example, that such information or material has entered the public domain, such Reviewing Party shall first file and serve on all parties written notice of such proposed disclosure or request for

change in designation, identifying with particularity each of such Protected Materials. A Reviewing Party shall at any time be able to file a written motion to challenge the designation of information as Protected Materials.

26. Procedures to Contest Disclosure or Change in Designation. In the event that the party asserting confidentiality wishes to contest a proposed disclosure or request for change in designation, the party asserting confidentiality shall file with the appropriate Presiding Officer its objection to a proposal, with supporting affidavits, if any, within five (5) working days after receiving such notice of proposed disclosure or change in designation. Failure of the party asserting confidentiality to file such an objection within this period shall be deemed a waiver of objection to the proposed disclosure or request for change in designation. Within five (5) working days after the party asserting confidentiality files its objection and supporting materials, the party challenging confidentiality may respond. Any such response shall include a statement by counsel for the party challenging such confidentiality that he or she has reviewed all portions of the materials in dispute and without disclosing the Protected Materials, a statement as to why the Protected Materials should not be held to be confidential under current legal standards, or alternatively that the party asserting confidentiality for some reason did not allow such counsel to review such materials. If either party wishes to submit the material in question for in camera inspection, it shall do so no later than five (5) working days after the party challenging confidentiality has made its written filing.
27. Procedures for Presiding Officer Determination Regarding Proposed Disclosure or Change in Designation. If the party asserting confidentiality files an objection, the appropriate Presiding Officer will determine whether the proposed disclosure or change in designation is appropriate. Upon the request of either the producing or reviewing party or upon the presiding officer's own initiative, the presiding officer may conduct a prehearing conference. The burden is on the party asserting confidentiality to show that such proposed disclosure or change in designation should not be made. If the Presiding Officer determines that such proposed disclosure or change in designation should be made, disclosure shall not take place earlier than three (3) full working days after such determination unless otherwise ordered. No party waives any right to seek additional administrative or judicial remedies concerning such Presiding Officer's ruling.

28. Maintenance of Protected Status During Periods Specified for Challenging Various Orders. Any party electing to challenge, in the courts of this state, a Commission or Presiding Officer determination allowing disclosure or a change in designation shall have a period of ten (10) days from: (1) the date of an unfavorable Commission order; or (2) if the Commission does not rule on an appeal of an interim order, the date an appeal of an interim order to the Commission is overruled by operation of law, to obtain a favorable ruling in state district court. Any party challenging a state district court determination allowing disclosure or a change in designation shall have an additional period of ten (10) days from the date of the order to obtain a favorable ruling from a state appeals court. Finally, any party challenging a determination of a state appeals court allowing disclosure or a change in designation shall have an additional period of ten (10) days from the date of the order to obtain a favorable ruling from the state supreme court, or other appellate court. All Protected Materials shall be afforded the confidential treatment and status provided for in this Protective Order during the periods for challenging the various orders referenced in this Paragraph. For purposes of this Paragraph, a favorable ruling of a state district court, state appeals court, supreme court or other appellate court includes any order extending the deadlines set forth in this Paragraph.
29. Other Grounds for Objection to Use of Protected Materials Remain Applicable. Nothing in this Protective Order shall be construed as precluding any party from objecting to the use of Protected Materials on grounds other than confidentiality, including the lack of required relevance. Nothing in this Protective Order constitutes a waiver of the right to argue for more disclosure, provided, however, that unless and until such additional disclosure is ordered by the Commission or a court, all parties will abide by the restrictions imposed by the Protective Order.
30. Protection of Materials from Unauthorized Disclosure. All notices, applications, responses, or other correspondence shall be made in a manner which protects Protected Materials from unauthorized disclosure.
31. Return of Copies of Protected Materials and Destruction of Information Derived from Protected Materials. Following the conclusion of these proceedings, each Reviewing Party must, no later than thirty (30) days following receipt of the notice described below, return to the party asserting confidentiality all copies of the Protected Materials provided

by that party pursuant to this Protective Order and all copies reproduced by a Reviewing Party, and counsel for each Reviewing Party must provide to the party asserting confidentiality a letter by counsel that, to the best of his or her knowledge, information, and belief, all copies of notes, memoranda, and other documents regarding or derived from the Protected Materials (including copies of Protected Materials) that have not been so returned, if any, have been destroyed, other than notes, memoranda, or other documents which contain information in a form which, if made public, would not cause disclosure of the substance of Protected Materials. As used in this Protective Order, "conclusion of these proceedings" refers to the exhaustion of available appeals, or the running of the time for the making of such appeals, as provided by applicable law. If, following any appeal, the Commission conducts a remand proceeding, then the "conclusion of these proceedings" is extended by the remand to the exhaustion of available appeals of the remand, or the running of the time for making such appeals of the remand, as provided by applicable law. Promptly following the conclusion of these proceedings, counsel for the party asserting confidentiality will send a written notice to all other parties, reminding them of their obligations under this Paragraph. Nothing in this Paragraph shall prohibit counsel for each Reviewing Party from retaining two (2) copies of any filed testimony, brief, application for rehearing, hearing exhibit, or other pleading which refers to Protected Materials provided that any such Protected Materials retained by counsel shall remain subject to the provisions of this Protective Order.

32. Applicability of Other Law. This Protective Order is subject to the requirements of the Public Information Act, the Open Meetings Act, and any other applicable law, provided that parties subject to those acts will give the party asserting confidentiality notice, if possible under those acts, prior to disclosure pursuant to those acts.
33. Procedures for Release of Information Under Order. If required by order of a governmental or judicial body, the Reviewing Party may release to such body the confidential information required by such order; provided, however, that: (1) the Reviewing Party shall notify the party asserting confidentiality of such order at least five (5) calendar days in advance of the release of the information in order for the party asserting confidentiality to contest any release of the confidential information; (2) the Reviewing Party shall notify the producing party that there is a request for such

information within five (5) calendar days of the date the Reviewing Party is notified of the request for information; and (3) the Reviewing Party shall use its best efforts to prevent such materials from being disclosed to the public. The terms of this Protective Order do not preclude the Reviewing Party from complying with any valid and enforceable order of a state or federal court with competent jurisdiction specifically requiring disclosure of Protected Materials earlier than contemplated herein.

34. Best Efforts Defined. The term “best efforts” as used in the preceding paragraph requires that the Reviewing Party attempt to ensure that disclosure is not made unless such disclosure is pursuant to a final order of a Texas governmental or Texas judicial body or written opinion of the Texas Attorney General which was sought in compliance with the Public Information Act. The Reviewing Party is not required to delay compliance with a lawful order to disclose such information but is simply required to timely notify the party asserting confidentiality, or its counsel, that it has received a challenge to the confidentiality of the information and that the Reviewing Party will either proceed under the provisions of Tex. Gov’t Code Ann. § 552.301, or intends to comply with the final governmental or court order.
35. Notify Defined. Notify, for purposes of Paragraphs 32, 33, and 34, shall mean written notice to the party asserting confidentiality at least five (5) calendar days prior to release; including when a Reviewing Party receives a request under the Public Information Act. However, the Commission or OPC may provide a copy of Protected Materials to the Open Records Division of the OAG as provided herein.
36. Requests for Non-Disclosure. If the producing party asserts that the requested information should not be disclosed at all, or should not be disclosed to certain parties under the protection afforded by this Order, the producing party shall tender the information for in camera review to the presiding officers within 10 calendar days of the request. At the same time, the producing party shall file and serve on all parties its argument, including any supporting affidavits, in support of its position of non-disclosure. The burden is on the producing party to establish that the material should not be disclosed. The producing party shall serve a copy of the information under the classification of Highly Sensitive Protected Material to all parties requesting the information that the producing party has not alleged should be prohibited from reviewing

the information. Parties wishing to respond to the producing party's argument for non-disclosure shall do so within five working days. Responding parties should explain why the information should be disclosed to them, including why disclosure is necessary for a fair adjudication of the case if the material is determined to constitute a trade secret. If the presiding officer finds that the information should be disclosed as Protected Material under the terms of this Protective Order, the presiding officer shall stay the order of disclosure for such period of time as the presiding officer deems necessary to allow the producing party to appeal the ruling to the commission.

37. Sanctions Available for Abuse of Designation. If the presiding officer finds that a producing party unreasonably designated material as Protected Material or as Highly Sensitive Protected Material, or unreasonably attempted to prevent disclosure pursuant to Paragraph 36, the presiding officer may sanction the producing party pursuant to 16 Tex. Admin. Code § 22.161.
38. Modification of Protective Order. Each party shall have the right to seek changes in this Protective Order as appropriate from the presiding officer.
39. Breach of Protective Order. In the event of a breach of the provisions of this Protective Order, the producing party, if it sustains its burden of proof required to establish the right to injunctive relief, shall be entitled to an injunction against such breach without any requirements to post bond as a condition of such relief. The producing party shall not be relieved of proof of any element required to establish the right to injunctive relief. In addition to injunctive relief, the producing party shall be entitled to pursue any other form of relief to which it is entitled.

SIGNED AT AUSTIN, TEXAS as of the \_\_\_\_\_ day of \_\_\_\_\_, 2016.

\_\_\_\_\_



**Protective Order Certification**

I certify my understanding that the Protected Materials are provided to me pursuant to the terms and restrictions of the Protective Order in this docket, and that I have been given a copy of it and have read the Protective Order and agree to be bound by it. I understand that the contents of the Protected Materials, any notes, memoranda, or any other form of information regarding or derived from the Protected Materials shall not be disclosed to anyone other than in accordance with the Protective Order and unless I am an employee of Commission Staff or OPC shall be used only for the purpose of the proceeding in Docket No. 45570. I acknowledge that the obligations imposed by this certification are pursuant to such Protective Order. Provided, however, if the information contained in the Protected Materials is obtained from independent public sources, the understanding stated herein shall not apply.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Party Represented

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

I certify that I am eligible to have access to Highly Sensitive Protected Material under the terms of the Protective Order in this docket.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Party Represented

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

DOCKET NO. 45570

I request to view/copy the following documents:

Document requested	# of Copies	Non-Confidential	Confidential &/or H.S.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Party Represented

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

**PUC DOCKET NO. 45570**

<b>APPLICATION OF MONARCH UTILITIES I, L.P. TO CHANGE RATES FOR WATER AND SEWER SERVICE</b>	§ § §	<b>PUBLIC UTILITY COMMISSION  OF TEXAS</b>
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**STATEMENT UNDER SECTION 4 OF THE PROTECTIVE ORDER AND LIST OF  
CONFIDENTIAL/HIGHLY SENSITIVE INFORMATION**

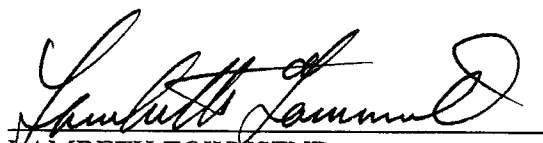
Monarch Utilities I, L.P., (“Monarch”) filing package includes customer specific information, confidential employee related information, proprietary information, commercially or competitively sensitive information, and/or trade secret information, or information whose public disclosure of this information would be contrary to contractual obligations to which Monarch is bound. The public disclosure of this information would harm Monarch or third parties with whom Monarch must maintain an ongoing business relationship. Therefore, this information is protected under the Public Information Act, Tex. Gov’t Ann. §§ 552.101, 552.102, 552.104, and 552.110, or Tex. Util. Code § 32.101(c). The following is a list of schedules, exhibits, and workpapers that include such information, along with the sponsoring witness, the designation of the information, and the applicable legal exemption.

**Confidential and Highly Sensitive Material**

<b>Witness</b>	<b>Exempt Material</b>	<b>Designation</b>	<b>Exempt Under Tex. Gov’t Code</b>
Carmelitha Bordelon-Taylor	Schedule II-B-1.1.b Original Budgeted Cost	Confidential	§§ 552.101, 552.110
Carmelitha Bordelon-Taylor	Schedule II-B-1.1.d Reason for Change in Budgeted Cost	Confidential	§§ 552.101, 552.110
Paul Moul	Schedule II-C-10 Rating Agency Reports/Prospectus	Confidential	§ 552.110
Carmelitha Bordelon-Taylor	Schedule II-D-9.1.d Payroll Detail - Merit Increases and Management Salary Increases	Confidential	§§ 552.101, 552.102
Carmelitha Bordelon-Taylor	Schedule II-D-9.1.e Payroll Detail - Total Annual Payroll Increases	Confidential	§§ 552.101, 552.102

Carmelitha Bordelon-Taylor	Schedule II-D-9.1.f Payroll Detail - Test Year vs. Requested Reconciliation	Confidential	§§ 552.101, 552.102
Carmelitha Bordelon-Taylor	Schedule II-D-9.1.g Payroll Detail - Employee Benefits and Incentive Compensation	Confidential	§§ 552.101, 552.102
Carmelitha Bordelon-Taylor	Schedule II-D-9.3.d Other Payroll Information - Incentive Compensation and Bonus Plans	Confidential	§§ 552.101, 552.102
James Warren	Schedule II-E-3.23 Federal Tax Returns	Confidential	§§ 552.101, 552.110
Carmelitha Bordelon-Taylor	Schedule V-1 Audit Reports	Confidential	§§ 552.101, 552.110
Paul Moul	WP/II-C-8	Confidential	§ 552.110
Carmelitha Bordelon-Taylor	WP/II-D-9.1.d	Confidential	§§ 552.101, 552.102
Carmelitha Bordelon-Taylor	WP/II-D-9.1.f	Confidential	§§ 552.101, 552.102
Carmelitha Bordelon-Taylor	WP/II-D-9.1.g	Confidential	§§ 552.101, 552.102
Carmelitha Bordelon-Taylor	WP/II-D-9.3.d	Confidential	§§ 552.101, 552.102
George Freitag	WP/II-H-2	Confidential	§§ 552.101, 552.110
Carmelitha Bordelon-Taylor	WP/V-2	Confidential	§§ 552.101, 552.110
Carmelitha Bordelon-Taylor	WP/V-3	Confidential	§§ 552.101, 552.110

I certify that I have reviewed the information sufficiently to state in good faith that the information is exempt from public disclosure under the Public Information Act or Tex. Util. Code § 32.101(c) and merits the applicable designation of Confidential (Protected) Materials or Highly Sensitive (Highly Sensitive Protected) Materials detailed in the Protective Order accompanying this Application.

  
LAMBETH TOWNSEND

Date: February 29, 2016

3176/18/7023216

PUC DOCKET NO. 45570

APPLICATION OF MONARCH	§	PUBLIC UTILITY COMMISSION
UTILITIES I, L.P. TO CHANGE RATES	§	
FOR WATER AND SEWER SERVICE	§	OF TEXAS

DIRECT TESTIMONY

OF

CHARLES W. PROFILET, JR.

ON BEHALF OF

MONARCH UTILITIES I, L.P.

FEBRUARY 29, 2016

**DIRECT TESTIMONY OF  
CHARLES W. PROFILET, JR.**

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**ATTACHMENTS:**

CWP-1	List of Witnesses
CWP-2	List of Schedules Sponsored

PUC DOCKET NO. 45570

APPLICATION OF MONARCH § PUBLIC UTILITY COMMISSION  
UTILITIES I, L.P. TO CHANGE RATES §  
FOR WATER AND SEWER SERVICE § OF TEXAS

DIRECT TESTIMONY OF  
CHARLES W. PROFILET, JR.

I. INTRODUCTION

1

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Charles W. Profilet, Jr. My business address is SouthWest Water  
4 Company, 12535 Reed Rd., Sugar Land, Texas, 77478.

5 Q. WHAT IS YOUR CURRENT POSITION?

6 A. I am the President of Monarch Utilities I, L.P. I also hold the position of Managing  
7 Director, Texas Utilities for SouthWest Water Company ("SouthWest" or  
8 "Company").

9 Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL  
10 BACKGROUND.

11 A. I earned my Bachelor's Degree in Civil Engineering at Colorado State University in  
12 1981. I was registered as a Professional Engineer by the State of Florida in 1986 and  
13 by the State of Texas in 1992. I am a member of the American Society of Civil  
14 Engineers and the American Water Works Association. I am currently a vice  
15 president of the Independent Water & Sewer Companies of Texas, a Texas trade  
16 association of privately owned water and sewer companies.

17 Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

18 A. I joined SouthWest in February 2007 as Vice President of the Services Group in  
19 Sugar Land, Texas. The Company reorganized in late 2007, and I was appointed to

1 serve as the Managing Director, Texas Utilities. My responsibilities include customer  
2 service, operations and maintenance, capital investments, financial performance, and  
3 regulatory compliance of SouthWest's utility assets in Texas. Under my supervision,  
4 Texas Utilities is currently generating revenues of \$48 million per year and operating  
5 with a capital budget of \$9 million per year.

6 Before joining SouthWest, I was Vice President of MWH Global, Inc.  
7 ("MWH"), an international engineering-construction company in the water industry.  
8 While at MWH, I was responsible for the company's Houston Northeast Water  
9 Purification Plant, where the company provided design, construction, start-up, testing,  
10 and operations and maintenance of the 80 million gallon per day surface water  
11 treatment facility. I joined MWH in 1985. During my 22 year tenure at MWH, I was  
12 project manager for water and wastewater infrastructure projects, Texas regional  
13 manager, operations officer for the Utility Asset Management Services Group, and  
14 leader of the Advanced Treatment Group specializing in design, construction, and  
15 start-up of membrane treatment facilities.

16 Before joining MWH, I was a reservoir engineer for Exxon Production  
17 Research Company in Houston, Texas from 1982 to 1985.

18 **II. PURPOSE OF TESTIMONY**

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 A. I will testify about the ownership structure of Monarch Utilities I, L.P. ("Monarch"),  
21 the benefits of SouthWest's stewardship of Monarch, performance since the  
22 acquisition of Tecon's utility systems, and efforts to achieve regulatory compliance  
23 for the systems acquired. I will also give an overview of Monarch's request. The



1 individuals providing testimony in support of Monarch's request and the subject  
2 matter of their testimonies are in Attachment CWP-1 attached to my testimony

3 **Q. WHAT SCHEDULES IN THE RATE FILING PACKAGE ARE YOU**  
4 **SPONSORING?**

5 A. I am sponsoring the schedules listed in Attachment CWP-2.

6 **III. OWNERSHIP STRUCTURE**

7 **Q. PLEASE DESCRIBE THE OWNERSHIP STRUCTURE OF MONARCH.**

8 A. Monarch Utilities I, L.P. is a Texas limited partnership. Texas Water Services Group,  
9 LLC, is the general partner and owns 0.1 percent of Monarch Utilities I, LP.  
10 Monarch Utilities, Inc., is a limited partner and owns 99.9 percent of Monarch  
11 Utilities I, L.P., and is the sole member of Texas Water Services Group, LLC. New  
12 Mexico Utilities, Inc., owns 100 percent of Monarch Utilities, Inc. SouthWest owns  
13 100 percent of New Mexico Utilities, Inc.

14 SouthWest also owns 100 percent of SWWC Utilities, Inc. ("SWWCU").  
15 SWWCU acquired eight Texas water utilities (some with more than one public water  
16 supply system), and three Texas sewer utilities. After merging the acquired utilities  
17 into it, SWWCU does business under the names of the utilities that it acquired and  
18 under their Certificates of Convenience and Necessity ("CCNs"). These utilities are  
19 Class B or Class C utilities. Also, within Texas, SouthWest operates an unregulated,  
20 wholesale water supply company called Metro-H2O Ltd. ("Metro"). SouthWest  
21 refers to Monarch, SWWCU, and Metro, collectively, as the Texas Utilities.

22 An organization chart of SouthWest is Schedule IV-3 in the Rate Filing  
23 Package.

1        **IV.    BENEFITS OF SOUTHWEST WATER COMPANY'S STEWARDSHIP**

2        **Q.    PLEASE PROVIDE A GENERAL DESCRIPTION OF SOUTHWEST WATER**  
3        **COMPANY.**

4        A.    SouthWest, headquartered in Sugar Land, Texas, has a long history of providing  
5        outstanding customer service to its regulated utility customers. The Company's roots  
6        date back to 1925 when Able Garnier drilled a well on his 300-acre ranch in what is  
7        now the City of La Puente, California. Today, SouthWest serves several hundred  
8        thousand people in Alabama, California, Oklahoma, and Texas. The Company  
9        employs about 350 talented and dedicated employees.

10       **Q.    PLEASE PROVIDE A GENERAL DESCRIPTION OF MONARCH.**

11       A.    Monarch is a Class A water utility and Class B sewer utility. Monarch holds CCN  
12       No. 12983 for water service to about 22,762 customers in 77 separate water systems  
13       located in 24 counties. On average, there are fewer than 1,000 customers per county,  
14       and fewer than 300 customers per water system. These small water systems are in  
15       rural areas of the state and are geographically distant from each other.

16                Monarch holds CCN No. 20899 for sewer service to about 3,650 customers in  
17       11 separate sewer systems located in eight counties. On average, there are fewer than  
18       500 customers per county, and just over 300 customers per sewer system. These  
19       small sewer systems are in rural areas of the state and are geographically distant from  
20       each other. Monarch typically also provides water service to these sewer customers.

1 Q. PLEASE DESCRIBE THE STRENGTHS PROVIDED BY SOUTHWEST  
2 WATER COMPANY.

3 A. SouthWest has the institutional knowledge to provide outstanding customer service in  
4 an environmentally responsible manner. The Company has access to the capital  
5 markets to provide financing for construction of capital improvement projects and has  
6 provided significant capital to Monarch. The Company has knowledgeable  
7 employees in the fields of customer service, billing and collection, accounting and  
8 finance, environmental health and safety, human resources, legal, information  
9 technology, regulatory compliance, operations, maintenance, and management.

10 V. PERFORMANCE SINCE THE TECON ACQUISITION

11 Q. WHEN WAS MONARCH ACQUIRED?

12 A. SouthWest agreed to purchase Monarch from Tecon Utilities in 2003 and closed the  
13 acquisition in 2004.

14 Q. PLEASE DESCRIBE SOUTHWEST WATER COMPANY'S PERFORMANCE  
15 SINCE THE ACQUISITION OF MONARCH.

16 A. Since the Monarch acquisition, SouthWest has faced huge challenges and performed  
17 responsibly like a world-class company.

18 Q. PLEASE CITE AN EXAMPLE OF MONARCH'S WORLD-CLASS  
19 PERFORMANCE.

20 A. When it was acquired, Monarch had aging water and sewer assets with a long history  
21 of regulatory compliance violations. Monarch took inventory of the long list of its  
22 needs, worked with the Texas Commission on Environmental Quality ("TCEQ"), and  
23 invested almost \$71 million to bring all the systems into regulatory compliance and to

1 substantially improve customer service. Monarch's efforts to achieve regulatory  
2 compliance will be discussed later in my testimony.

3 **Q. PLEASE PROVIDE ANOTHER EXAMPLE OF MONARCH'S WORLD-**  
4 **CLASS PERFORMANCE.**

5 A. When SouthWest acquired Monarch, it quickly became clear to us that customers  
6 were angry and frustrated over poor customer service. Monarch invested in people  
7 and systems, and centralized its customer service operations in Sugar Land, Texas.  
8 Monarch replaced old, inaccurate meters with advanced metering infrastructure  
9 technology to provide better customer service. Today, there are very few customer  
10 service complaint escalations to the Public Utility Commission of Texas  
11 ("Commission"). In 2015, Monarch had 37 complaints filed with the Commission,  
12 averaging just three per month. Eight were sent back by the Commission for our  
13 further review. None of these complaints resulted in an enforcement action against  
14 Monarch or in a fine or penalty.

15 **Q. PLEASE PROVIDE ANOTHER EXAMPLE OF MONARCH'S WORLD-**  
16 **CLASS PERFORMANCE.**

17 A. Monarch established the Help2Others ("H2O") program in 2011 to provide charitable  
18 assistance to customers in financial, emergency, or catastrophic distress to meet  
19 water-related costs. The program is designed to assist customers whose total  
20 combined household income does not exceed 125 percent of the current Federal  
21 Poverty Guidelines. Qualified customers currently receive a \$20 credit for water  
22 service and a \$20 credit for sewer service. At the end of 2015, 248 customers were  
23 receiving assistance.

1 In the event of a catastrophic event such as fire, flooding, or death in the  
2 family, H2O provides up to \$100 of assistance for those in need, and is not dependent  
3 upon the customer's income. The H2O program is company-funded and not included  
4 in Monarch's revenue requirement.

5 **Q. PLEASE PROVIDE ANOTHER EXAMPLE OF MONARCH'S WORLD-**  
6 **CLASS PERFORMANCE.**

7 A. From the very beginning, Monarch has been sensitive to mitigating customer rate  
8 shock related to the large capital investment needed to bring systems into compliance  
9 with the Company's and the State's standards. In each rate proceeding since  
10 acquisition, Monarch has voluntarily requested less than the full amount of needed  
11 rate increases. This voluntary absorption of needed rate increases by Monarch's  
12 shareholder has benefited customers and has been called "Revenue Held in  
13 Abeyance" in previous rate applications. Through the end of 2015, Monarch's  
14 cumulative Revenue Held in Abeyance benefit to customers is \$46.8 million. See  
15 Attachment RLK-2 in the Direct Testimony of Robert L. Kelly for the Revenue Held  
16 in Abeyance by year since acquisition.

17 As a result of Monarch's sensitivity to rate shock, the compounded annual  
18 growth rate of the average bill for 5,000 gallons since acquisition to the end of 2015  
19 was 5.0 percent per year. The compounded annual growth rate of the average sewer  
20 bills (4,000 gallons) over the same time period was 7.1 percent per year. The  
21 combined average water and sewer bill growth rate was 5.9 percent per year. The  
22 compounded annual growth rate of the Consumer Price Index was 2.0 percent per  
23 year.

1 Q. WHAT IS THE KEY TO AVOIDING CUSTOMER RATE SHOCK?

2 A. In addition to consistently practicing gradualism over the past decade by deferring  
3 rate increases in several steps, the single-tariff rate structure has also been vital to  
4 avoiding rate shock. Without a consolidated state-wide rate structure, customers in  
5 systems that have essentially been rebuilt from the ground up since acquisition, would  
6 have been faced with much higher rates.

7 VI. MONARCH'S EFFORTS TO ACHIEVE REGULATORY COMPLIANCE

8 Q. PLEASE GIVE AN OVERVIEW OF THE TYPES OF REGULATORY  
9 VIOLATIONS THAT EXISTED WHEN MONARCH WAS ACQUIRED.

10 A. At the time of acquisition, most of the water and sewer systems were in violation of  
11 TCEQ standards. Some, but not all, of the violations were noted by TCEQ on recent  
12 inspections. TCEQ had issued Notices of Violations. The water systems did not  
13 meet TCEQ minimum standards for water supply, storage, or booster pumping  
14 capacity, and they violated State and Federal drinking water standards. Sewer  
15 systems did not meet effluent discharge permit requirements. Most above-grade  
16 structures were poorly maintained, corroded, leaking, and in need of repair or  
17 replacement.

18 Q. WHAT DID MONARCH DO TO RESOLVE THE VIOLATIONS?

19 A. Monarch prepared Five-Year Capital Improvement Plans and prioritized  
20 improvements to address human health and safety, environmental impact, and general  
21 requirements. For example, electrical hazards were remedied before replacing  
22 leaking ground storage tanks. The Capital Improvement Plans were reviewed with

1 TCEQ and documented in the form of Agreed Orders, Compliance Agreements, and  
2 Voluntary Compliance Agreements.

3 **Q. WHAT IS THE CURRENT COMPLIANCE STATUS?**

4 A. Monarch completed each and every item outlined in the Agreed Orders, Compliance  
5 Agreements, and Voluntary Compliance Agreements.

6 **Q. ARE THERE ANY NEW COMPLIANCE ISSUES?**

7 A. Yes. Monarch has two active Agreed Orders related to drinking water quality  
8 violations, as shown on Schedule VI-1(a). Plans are in place to remediate each  
9 violation by the deadline stipulated in the applicable Order. Mr. Williford provides  
10 additional details in his testimony.

11 **VII. ECO RESOURCES**

12 **Q. IN YOUR DESCRIPTION OF YOUR PRIOR WORK EXPERIENCE WITH**  
13 **MHW GLOBAL, YOU STATED THAT COMPANY PROVIDED DESIGN,**  
14 **CONSTRUCTION, AND OPERATIONS AND MAINTENANCE SERVICES**  
15 **FOR A LARGE WATER TREATMENT FACILITY. ARE YOU FAMILIAR**  
16 **WITH DESIGN-BUILD SERVICES, AND HOW THEY ARE PRICED?**

17 A. Yes, I have had significant experience in undertaking and managing design-build  
18 services for utilities.

19 **Q. IN HIS TESTIMONY, MR. ROSE DESCRIBES THE DESIGN-BUILD**  
20 **SERVICES PROVIDED TO MONARCH BY ECO RESOURCES ("ECO") IN**  
21 **PAST YEARS, AND ALSO THE MARGIN THAT MONARCH PAID TO ECO**  
22 **FOR THOSE SERVICES. DO YOU HAVE AN OPINION AS TO THE**

1           **REASONABLENESS OF THE LEVEL OF MARGIN THAT MONARCH**  
2           **PAID TO ECO?**

3    A.    Yes. In my opinion, which is based on my professional work experience and  
4           knowledge of design-build contracts, I believe the margin paid by Monarch to ECO  
5           was reasonable and within industry standards.

6    **Q.    PLEASE EXPLAIN.**

7    A.    For a company to stay in business, it must charge enough for its services to recover its  
8           costs, both direct and indirect, plus recover a profit. A firm providing design-build  
9           services is no different. The margin charged by ECO to Monarch had to be sufficient  
10          to cover its overhead expenses and a profit. Within the margin amount, ECO was  
11          reimbursed for payroll related costs such as Social Security taxes, Medicare taxes,  
12          health insurance, vacation and other fringe benefits; regional and group overhead  
13          costs for office space, management and administrative personnel, carrying costs of  
14          labor and materials, and related expenses; and SWWC's corporate overhead. For a  
15          typical design-build firm, this ranges from 10 to 20 percent, depending upon the size  
16          of the company, with a smaller company having a higher overhead cost as a  
17          percentage of its construction cost. ECO would be considered a smaller company in  
18          the design-build industry. Thus, the 30% margin paid to ECO for the design-build  
19          services was reasonable, and is a charge that companies working in the utility  
20          industry certainly expect to charge.



1 **VIII. OVERVIEW OF THE APPLICATION**

2 **Q. PLEASE SUMMARIZE MONARCH'S REQUEST IN THIS PROCEEDING.**

3 A. Monarch is continuing its policy of rate gradualism by proposing to phase-in needed  
4 rate increases over three years. The request proposes that cost of service will not be  
5 fully recovered until Year Three when rates are calculated to fully recover costs.

6 **Q. IS MONARCH SEEKING A RATE BASE DETERMINATION IN THIS**  
7 **PROCEEDING?**

8 A. Yes.

9 **Q. IS MONARCH SEEKING TO MAKE REVISIONS TO ANY OF THE**  
10 **SERVICE PROVISIONS IN ITS TARIFFS?**

11 A. Yes. Mr. Freitag provides the details of those revisions in his testimony.

12 **Q. WHAT IMPACT WILL THIS RATE INCREASE HAVE ON MONARCH'S**  
13 **RESIDENTIAL CUSTOMERS?**

14 A. With the increased revenues resulting from the new rates, Monarch will have the  
15 financial integrity necessary to provide excellent customer service. As I noted above,  
16 Monarch proposes to increase water and sewer rates in three steps. The first step  
17 increase for water is 14.50%. The next step increases for water are 1.09%, effective  
18 on the first anniversary, and 1.09% on the second anniversary. The average 5,000  
19 gallon water bill will increase from today's bill of \$84.25 to \$96.44 on the first step,  
20 to \$97.52 on the second step, and \$98.60 on the third step.

21 The first step increase for sewer is 14.50%. The next step increases for sewer  
22 are 6.18%, effective on the first anniversary, and 6.18% on the second anniversary.

1 The average 4,000 gallon sewer bill will increase from today's bill of \$77.32 to  
2 \$88.55 on the first step, to \$93.99 on the second step, and \$99.80 on the third step.

3 **Q. WHAT TEST YEAR IS THE BASIS OF THE RATE FILING PACKAGE?**

4 A. The test year is July 1, 2014, to June 30, 2015.

5 **Q. DOES MONARCH SERVE CUSTOMERS INSIDE ANY CITY?**

6 A. Yes. Monarch serves water customers within the cities of Aurora, Buda, Coffee City,  
7 Flower Mound, Ivanhoe, Keene, Kyle, Point Blank, Shepherd, and Willis.

8 **Q. DOES MONARCH SEEK TO CHANGE RATES FOR CUSTOMERS INSIDE  
9 THOSE CITIES AS WELL AS IN THE ENVIRONS?**

10 A. Yes, except for the cities of Buda, Ivanhoe, and Kyle. Monarch has rate change  
11 agreements with these three cities, so they are not affected by this filing.

12 **Q. WHAT IS MONARCH'S CAPITAL STRUCTURE?**

13 A. Monarch is proposing to use a hypothetical capital structure that is 54 percent equity  
14 and 46 percent debt. Mr. Paul Moul provides the details about the capital structure in  
15 his testimony. I discuss capital structure further in the following section "Drivers of  
16 the Rate Increase."

17 **Q. WHAT IS MONARCH'S PROPOSED RETURN ON EQUITY?**

18 A. Monarch is proposing a return on equity of 10.75 percent. Mr. Paul Moul testifies  
19 about the return on equity and the overall rate of return.

20 **Q. WHAT METHOD OF DEPRECIATION IS MONARCH USING?**

21 A. Monarch is requesting to change the depreciation method to Group Depreciation. Mr.  
22 Earl Robinson testifies about the depreciation studies that he prepared for the water  
23 and wastewater assets and the appropriate depreciation rates.

1                                   IX.    DRIVERS OF THE RATE INCREASE

2    Q.    PURSUANT TO THE RATE FILING PACKAGE, GENERAL INSTRUCTION  
3           NO. 2, PLEASE RECONCILE MONARCH'S COST OF SERVICE IN THIS  
4           FILING WITH THE COST OF SERVICE THAT WAS MOST RECENTLY  
5           PREVIOUSLY AUTHORIZED. IF NOT DETERMINED FOR MONARCH,  
6           THEN PROVIDE THE RECONCILIATION FOR THE COST OF SERVICE  
7           AUTHORIZED FOR THE PREVIOUS OWNER.

8    A.    To the best of my knowledge, the TCEQ never made a determination as to the  
9           amounts of the cost elements listed in General Instruction No. 2 ("GI 2"), other than  
10          for depreciation. Depreciation was determined for Monarch's previous owner, Tecon  
11          Water Company, L.P., in TCEQ Docket Nos. 2001-1079-UCR and 2001-1080-UCR,  
12          as of October 15, 2002. Annual depreciation expense for water was determined at  
13          that time to be \$1,897,632, and the depreciation expense for wastewater was  
14          \$231,354. Comparable amounts in this filing for the year ending June 30, 2015, after  
15          known and measurable changes, are \$2,852,730 and \$585,029, respectively.

1 Q. IN LIGHT OF THERE NOT BEING ANY AUTHORIZED COST OF  
2 SERVICE AMOUNTS WITH WHICH TO COMPARE, AS REQUIRED BY  
3 GI 2, PLEASE RECONCILE THE AMOUNTS FROM MONARCH'S MOST  
4 RECENT RATE CASE (FILED IN 2013). SPECIFICALLY, PLEASE  
5 RECONCILE THE REVENUE REQUIREMENT REQUESTED IN THAT  
6 FILING, BEFORE REDUCTION FOR REVENUE HELD IN ABEYANCE, TO  
7 MONARCH'S CURRENT REVENUE REQUIREMENT.

8 A. In the last two and one-half years, Monarch's revenue requirement has declined  
9 dramatically. Unlike in the current filing where Monarch is requesting compensatory  
10 rates designed to recover its full cost of service, in the 2013 filing, Monarch  
11 voluntarily relinquished \$7,296,200 of revenue requirement to reduce customer rate  
12 shock. The settled rates agreed on in that 2013 proceeding were close to the rates  
13 requested. The current filing shows a gross revenue requirement that is \$3,723,500  
14 lower than in the 2013 filing, which results from Monarch having achieved cost  
15 savings that have effectively eliminated half of the earlier Revenue Held in Abeyance  
16 without any further rate increases.

17 Q. HOW DID MONARCH ACHIEVE THOSE COST REDUCTIONS?

18 A. Monarch achieved these cost reductions in several ways, as shown in the following  
19 analysis:

Table 1

**Revenue Requirement Comparison (\$000)**

<b>2013 Rate Request</b>	
Requested	29,156.7
Revenues Held in Abeyance	<u>7,296.2</u>
Total Revenues Requirement	36,452.9
<b>Changes Before Dispositions Of Blue Mound and Midway – Increase (Decrease)</b>	
Return on Rate Base	
Debt	612.1
Equity	(2,075.3)
	0.0
Income Taxes	(1,229.2)
Other	(207.0)
	(2,889.5)
<b>Changes Due To Dispositions Of Blue Mound And Midway (Decrease)</b>	
	<u>(824.0)</u>
<b>2016 Revenue Requirement</b>	<u>32,729.4</u>

1           We are proposing in this filing a hypothetical capital structure of 54%  
2 equity/46% debt, down from 68%/32%, and we are also dropping the requested ROE  
3 from 11.25% to 10.75%. We are prepared to fully support the requested higher-than-  
4 energy ROE, which is fully justified for water utilities given that, unlike water,  
5 energy customers don't ingest electricity. Cost of debt has also been lowered from  
6 6.63% to 6.45%. The overall hypothetical cost of capital we are now proposing has  
7 been reduced by 94 basis points, from 9.71% to 8.77%. Two recent dispositions,  
8 Blue Mound and Midway, have also reduced revenue requirement.

9   **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10   **A. Yes.**

**Attachment CWP-1**

<u>Witness</u>	<u>Affiliation</u>	<u>Area Of Testimony</u>
Charles W. Profilet, Jr.	SouthWest Water Company	Ownership Structure, Overview Of Filing, ECO Resources, Regulatory Compliance, Customer Complaints, Drivers of Rate Increase
Earl M. Robinson	AUS Consultants	Depreciation
Carmelitha Bordelon-Taylor	SouthWest Water Company	Accounting-Related Issues
Timothy J. Williford	SouthWest Water Company	Compliance With State and Federal Regulations For Drinking Water and Wastewater Treatment
Craig D. Gott, P.E.	Suburban Water Systems	Gross Plant Additions
Thomas C. Gooch, P.E.	Freese and Nichols, Inc.	Water Conservation and Drought Contingency Requirements, Trends in Water Use, Impact of Drought Restrictions
John W. Hutts	GDS Associates, Inc.	Weather Normalization Adjustments To Test Year Water Consumption
James I. Warren	Miller & Chevalier Chartered	Federal Income Tax
Lambeth Townsend	Lloyd Gosselink Rochelle & Townsend, P.C.	Rate Case Expenses
Gary Rose	SouthWest Water Company	ECO Costs
Paul R. Moul	P. Moul & Associates	Cost of Capital, Capital Structure
Bret W. Fenner, P.E.	B & D Environmental, Inc.	Used and Useful Plant
George Freitag, P.E.	SouthWest Water Company	Requested Rates, Rate Design, Tariff Revisions
Robert L. Kelly	SouthWest Water Company	Gain On Sale, Cost Of Service Study, Theoretical Depreciation Reserve Adjustment, Accounting for Affiliate Expenses, Accounting for ECO Costs, Rate Case Expenses

**Schedules Sponsored**

Schedule II-A Cost of Service Summary

Schedule II-A-1 Cost of Service by Water/Sewer

Schedule IV-3 Organization Chart

Schedule IV-4 Description of Services

Schedule V-5 Corporate History

Schedule VI-2 Customer Complaint Policy

Schedule VI-3 Compliance with PUC Subst. R. 24.81(b)(4)

PUC DOCKET NO. 45570

APPLICATION OF MONARCH	§	PUBLIC UTILITY COMMISSION
UTILITIES I, L.P. TO CHANGE RATES	§	
FOR WATER AND SEWER SERVICE	§	OF TEXAS

DIRECT TESTIMONY

OF

EARL M. ROBINSON

ON BEHALF OF

MONARCH UTILITIES I, L.P.

FEBRUARY 29, 2016



**DIRECT TESTIMONY OF  
EARL M. ROBINSON**

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**ATTACHMENTS:**

- EMR-1                      Statement of Qualifications and Experience
- EMR-2                      List of Schedules Sponsored

PUC DOCKET NO. 45570

APPLICATION OF MONARCH § PUBLIC UTILITY COMMISSION  
UTILITIES I, L.P. TO CHANGE RATES §  
FOR WATER AND SEWER SERVICE § OF TEXAS

DIRECT TESTIMONY OF  
EARL M. ROBINSON

I. INTRODUCTION

1  
2 Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

3 A. My name is Earl M. Robinson. I am a Principal of AUS Consultants. AUS  
4 Consultants is a consulting firm specializing in preparing various financial studies  
5 including depreciation, valuation, revenue requirements, cost of service, rate of  
6 return, and other analysis and studies for the utility industry and numerous other  
7 entities. AUS Consultants provides a wide spectrum of consulting services through  
8 its practices that include Depreciation & Valuation, Rate of Return, Revenue  
9 Requirements & Cost of Service, and Education & Publications. My office is located  
10 at 792 Old Highway 66, Suite 200, Tijeras, New Mexico 87059.

11 Q. HAVE YOU PREPARED A STATEMENT OF YOUR QUALIFICATIONS  
12 AND EXPERIENCE?

13 A. Yes, attached to my direct testimony is Attachment EMR-1, which contains a  
14 summary of my qualifications and experience.

15 Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

16 A. I am testifying on behalf of Monarch Utilities I, L.P. ("Monarch").