



GDS Associates, Inc.
Engineers and Consultants



1850 Parkway Place
Suite 800
Marietta, Georgia 30067

INVOICE

770.425.8100
Fax: 866.611.3791
Fed. EIN: 58-1659843

LLOYD, GOSSELINK, ROCHELLE, &
TOWNSEND, PC
816 CONGRESS AVE, SUITE 1900
AUSTIN, TX 78701

LAMBETH TOWNSEND

INVOICE NO: 0128899
DATE: Aug 20, 2015
CLIENT CODE: 0060170
PROJECT NO: 0015

		Hours	Amount
ATTORNEY - ASSIST WITH SWWC 2016 TEXAS PUC RATE CASE			
6/30/15	Charles E. Loy Work on letter agreement/review last rate case records on Monarch	1.00	220.00
7/22/15	Charles E. Loy Investigate various rate application issues	1.00	220.00
7/23/15	Charles E. Loy Investigate various rate application issues	1.00	220.00
7/29/15	Charles E. Loy Investigate various rate application issues	2.00	440.00
TOTAL FEES:			1,100.00

TOTAL AMOUNT DUE:

1,100.00

PAYMENT DUE WITHIN 30 DAYS OF RECEIPT
PLEASE MAKE CHECKS PAYABLE TO GDS ASSOCIATES, INC.

SEP 15 2015



GDS Associates, Inc. Lloyd Gosselink
Engineers and Consultants



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LLOYD, GOSSELINK, ROCHELLE, &
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816 CONGRESS AVE, SUITE 1900
AUSTIN, TX 78701

INVOICE NO : 0129681
DATE : Sep 08, 2015
CLIENT CODE : 0060170
PROJECT NO : 0014

LAMBETH TOWNSEND

		Hours	Amount
SWWC RATE MODEL DEVELOPMENT			
8/3/15	Charles E. Loy Review rate model progress with NW	1.00	220.00
8/3/15	Nicholas R. Weaver Review billing info documents sent by George Freitag. Prepare for meeting on Tuesday.	1.50	198.75
8/4/15	Charles E. Loy Meet to review rate model/discuss issues/post meeting issues	6.00	1,320.00
8/4/15	Nicholas R. Weaver Monarch rate case meeting. Draft bill frequency analysis.	4.00	530.00
8/5/15	Nicholas R. Weaver Complete water bill frequency analysis / Revenue Tier modifier draft.	6.00	795.00
8/5/15	Nicholas R. Weaver Review wastewater billing information sent by George Freitag.	1.00	132.50
8/6/15	Nicholas R. Weaver Update Monarch Draft RFP.	8.00	1,060.00
8/7/15	Nicholas R. Weaver Update Monarch Draft RFP.	8.00	1,060.00
8/8/15	Nicholas R. Weaver Complete Monarch draft rate application.	6.00	795.00
8/17/15	Charles E. Loy Review Status of model	1.00	220.00
TOTAL FEES:			6,331.25
Transportation	STANDARD PARKING		20.00
Transportation	STANDARD PARKING		20.00
Transportation	STANDARD PARKING		20.00
Transportation	STANDARD PARKING		20.00
Long-Distance Telephone	SHORETEL PHONE BILL-AUGUST		1.86
Photocopy Charges	187		28.05



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LAMBETH TOWNSEND

INVOICE NO: 0129681
DATE: Sep 08, 2015
CLIENT CODE: 0060170
PROJECT NO: 0014

	Hours	Amount
TOTAL EXPENSES:		109.91

TOTAL AMOUNT DUE: **6,441**

PAYMENT DUE WITHIN 30 DAYS OF RECEIPT
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Marletta, Georgia 30067

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LLOYD, GOSSELINK, ROCHELLE, &
TOWNSEND, PC
816 CONGRESS AVE, SUITE 1900
AUSTIN, TX 78701

INVOICE NO : 0129682
DATE : Sep 08, 2015
CLIENT CODE : 0060170
PROJECT NO : 0015

LAMBETH TOWNSEND

		Hours	Amount
ATTORNEY - ASSIST WITH SWWC 2016 TEXAS PUC RATE CASE			
8/3/15	Nicholas R. Weaver Research affiliate agreements at PUC:	3.50	463.75
8/4/15	Nicholas R. Weaver Monarch rate case meeting.	3.50	463.75
8/10/15	Charles E. Loy Review/research rate issues	2.00	440.00
8/14/15	Charles E. Loy Review/research rate issues/open meeting	1.50	330.00
8/17/15	Charles E. Loy Misc filing RFP issues	1.00	220.00
8/17/15	Debra R. Ellis Attention to mailing agreement letter regarding Monarch Utilities to L. Townsend.	0.50	57.50
8/18/15	Charles E. Loy Misc filing RFP issues	4.00	880.00
8/19/15	Charles E. Loy Investigate Blue Mound issues	6.00	1,320.00
8/21/15	Charles E. Loy Research COSS issues	3.00	660.00
8/25/15	Charles E. Loy Review latest rules/COSS	4.00	880.00
8/26/15	Charles E. Loy Review/analyze COSS	1.00	220.00
8/27/15	Charles E. Loy Review/analyze COSS	1.00	220.00
8/28/15	Charles E. Loy Review/analyze COSS	2.00	440.00
TOTAL FEES:			6,595.00
Photocopy Charges	82		12.30



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816 CONGRESS AVE, SUITE 1900
AUSTIN, TX 78701
LAMBETH TOWNSEND

INVOICE NO: 0129682
DATE: Sep 08, 2015
CLIENT CODE: 0060170
PROJECT NO: 0015

		Hours	Amount
Shipping Services	POSTAGE		0.48
Shipping Services	POSTAGE		0.48
TOTAL EXPENSES:			13.26

TOTAL AMOUNT DUE: **6,608**

PAYMENT DUE WITHIN 30 DAYS OF RECEIPT
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GDS Associates, Inc.
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1850 Parkway Plaza
Suite 800
Marietta, Georgia 30067

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LLOYD, GOSSELINK, ROCHELLE, &
TOWNSEND, PC
816 CONGRESS AVE, SUITE 1900
AUSTIN, TX 78701

INVOICE NO: 0130634
DATE: Oct 08, 2015
CLIENT CODE: 0060170
PROJECT NO: 0015

LAMBETH TOWNSEND

ATTORNEY - ASSIST WITH SWWC
2016 TEXAS PUC RATE CASE

	Hours	Amount
9/9/15 Debra R. Ellis Review and format C. Loy's letter to Lambeth Townsend.	2.00	230.00
9/11/15 Nicholas R. Weaver Review changes made to Class A water RFP and start edits to Monarch draft RFP. Discussion with CEL.	3.00	397.50
9/14/15 Charles E. Loy Filing Requirement issues	2.00	440.00
9/15/15 Charles E. Loy Filing Requirement issues	2.00	440.00
TOTAL FEES:		<u>1,507.50</u>

TOTAL AMOUNT DUE:

1,507.50

PAYMENT DUE WITHIN 30 DAYS OF RECEIPT
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TOWNSEND, PC
816 CONGRESS AVE, SUITE 1900
AUSTIN, TX 78701

LAMBETH TOWNSEND

INVOICE NO: 0131513
DATE: Nov 06, 2015
CLIENT CODE: 0060170
PROJECT NO: 0015

	Hours	Amount
ATTORNEY - ASSIST WITH SWWC 2016 TEXAS PUC RATE CASE		
Long-Distance Telephone JWD CONFERENCE CALL		22.08
Photocopy Charges 1		0.15
	TOTAL EXPENSES:	<u>22.23</u>

TOTAL AMOUNT DUE:

22

PAYMENT DUE WITHIN 30 DAYS OF RECEIPT
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NOV 18 2015



GDS Associates, Inc. Lloyd Gosselink
Engineers and Consultants



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816 CONGRESS AVE, SUITE 1900
AUSTIN, TX 78701

LAMBETH TOWNSEND

INVOICE NO: 0131636
DATE: Nov 10, 2015
CLIENT CODE: 0060170
PROJECT NO: 0017

MONARCH UTILITIES LPI
WEATHER NORMALIZATION

PROFESSIONAL SERVICES RENDERED 9/26/15-10/30/15

SERVICES RENDERED include initial data collection and review Obtained weather data for all water districts Model development per initial scope of work Model development for additional specifications requested

<u>Employee</u>	<u>Hours</u>	<u>Rate</u>	<u>Amount</u>
Charles E. Loy	0.50	220.00	110.00
John W. Huts	36.00	225.00	8,100.00
Mathew Martini	48.50	70.00	3,395.00
Oguzhan Ozdemir	48.00	132.50	6,360.00
Sylvetta M. Clark	2.00	85.00	170.00

TOTAL FEES: 18,135.00

Long-Distance Telephone 3.30

Miscellaneous Charges 395.00

Photocopy Charges 123.60

TOTAL EXPENSES: 521.90

TOTAL AMOUNT DUE: 18,656

PAYMENT DUE WITHIN 30 DAYS OF RECEIPT
PLEASE MAKE CHECKS PAYABLE TO GDS ASSOCIATES, INC.



GDS Associates, Inc.
Engineers and Consultants

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DEC 17 2015



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TOWNSEND, PC
816 CONGRESS AVE, SUITE 1900
AUSTIN, TX 78701

LAMBETH TOWNSEND

INVOICE NO : 0132514
DATE : Dec 7, 2015
CLIENT CODE : 0060170
PROJECT NO. 0017

MONARCH UTILITIES LPI
WEATHER NORMALIZATION

PROFESSIONAL SERVICES RENDERED 10/31/15-11/27/15

SERVICES RENDERED include modeling analysis; drafted direct testimony

<u>Employee</u>	<u>Hours</u>	<u>Rate</u>	<u>Amount</u>
John W. Hutts	36.00	225.00	8,100.00
Sylvetta M. Clark	4.00	85.00	340.00

TOTAL FEES: 8,440.00

Long-Distance Telephone
Miscellaneous Charges

3.06

500.00

TOTAL EXPENSES: 503.06

TOTAL AMOUNT DUE: 8,943

PAYMENT DUE WITHIN 30 DAYS OF RECEIPT
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GDS Associates, Inc.
Engineers and Consultants

Lloyd Gosselink



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Suite 800
Marietta, Georgia 30067

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Fax 866.611.3791
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LLOYD, GOSSELINK, ROCHELLE, &
TOWNSEND, PC
816 CONGRESS AVE, SUITE 1900
AUSTIN, TX 78701

LAMBETH TOWNSEND

INVOICE NO : 0133550
DATE : Jan 13, 2016
CLIENT CODE : 0060170
PROJECT NO : 0017

MONARCH UTILITIES LPI
WEATHER NORMALIZATION

PROFESSIONAL SERVICES RENDERED 11/28/15-12/25/15

SERVICES RENDERED include updates to weather normalization analysis and testimony

<u>Employee</u>	<u>Hours</u>	<u>Rate</u>	<u>Amount</u>
John W. Hutts	5.00	225.00	1,125.00

Long-Distance Telephone

TOTAL FEES:

1,125.00

0.48

TOTAL EXPENSES:

0.48

TOTAL AMOUNT DUE:

1,125

PAYMENT DUE WITHIN 30 DAYS OF RECEIPT
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Miller & Chevalier Chartered

655 Fifteenth Street, N.W., Suite 900
Washington, D.C. 20005-5701
(202) 626-5800 FAX: (202) 626-5801
E.I.N. 52-1212890

Legal Services For: Lambeth Townsend, Esq.
Principal
Lloyd Gosselink Rochelle & Townsend, P.C.
816 Congress Ave., Suite 1900
Austin, TX 78701

Period: August 2015

Invoice No: 337341
Client/Matter No.: 503200.000011
Date: September 16, 2015

FOR PROFESSIONAL SERVICES RENDERED
for the period ending August 31, 2015, in connection with:

Regulatory Tax Support

Fees	\$ 5,040.00
Total Amount Due	\$ <u>5,040.00</u>

Lloyd Gosselink Rochelle & Townsend.
P.C.
Page 2

Client/Matter No. 503200.000011
September 16, 2015

TIME DETAIL

Date	Name	Description	Hours	Rate	Amount
08/25/15	J. Warren	Introductory meeting at client offices.	5.00	840.00	\$ 4,200.00
08/31/15	J. Warren	Review NARUC charts of account.	1.00	840.00	840.00
Total Fees					\$ 5,040.00

TIME SUMMARY

Name	Hours	Rate	Amount
J. Warren	6.00	840.00	\$ 5,040.00
Total Fees			\$ 5,040.00



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REMITTANCE PAGE

For Professional Services Rendered

Lambeth Townsend, Esq.
Principal
Lloyd Gosselink Rochelle & Townsend, P.C.
816 Congress Ave., Suite 1900
Austin, TX 78701

PLEASE INDICATE INVOICE
NUMBER ON REMITTANCE:
Invoice No: 337341
Client/Matter No: 503200.000011
September 16, 2015

Total Fees and Expenses - Current Period	\$ 5,040.00
Total Amount Due	<u>\$ 5,040.00</u>

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Miller & Chevalier Chartered, P.O. BOX 758604, Baltimore, MD 21275-8604

PAYMENT BY WIRE ONLY:
BANK: WELLS FARGO
WASHINGTON, D.C.
ACCOUNT: 2000002972561
ABA: 121000248
SWIFT CODE: WFBIUS6S

PAYMENT BY ACH ONLY:
BANK: WELLS FARGO
WASHINGTON, D.C.
ACCOUNT: 2000002972561
ABA: 054001220



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Legal Services For: Lambeth Townsend, Esq.
Principal
Lloyd Gosselink Rochelle & Townsend, P.C.
816 Congress Ave., Suite 1900
Austin, TX 78701

Period: October 2015

Invoice No: 338017
Client/Matter No.: 503200.000011
Date: November 12, 2015

FOR PROFESSIONAL SERVICES RENDERED
for the period ending October 31, 2015, in connection with:

Regulatory Tax Support

Fees	\$ 1,680.00
Total Amount Due	\$ <u>1,680.00</u>

Lloyd Gosselink Rochelle & Townsend,
P.C.
Page 2

TIME DETAIL

Date	Name	Description	Hours	Rate	Amount
10/27/15	J. Warren	Call with client re deferred taxes.	1.00	840.00	\$ 840.00
10/28/15	J. Warren	Review tax return and depreciation worksheet.	1.00	840.00	840.00
Total Fees					\$ <u>1,680.00</u>

TIME SUMMARY

Name	Hours	Rate	Amount
J. Warren	2.00	840.00	\$ 1,680.00
Total Fees			\$ <u>1,680.00</u>



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Principal
Lloyd Gosselink Rochelle & Townsend, P.C.
816 Congress Ave., Suite 1900
Austin, TX 78701

PLEASE INDICATE INVOICE
NUMBER ON REMITTANCE
Invoice No: 338017
Client/Matter No: 503200.000011
November 12, 2015

Balance Due From Previous Statement	\$ 5,718.11
Payments Received Since Previous Statement	(5,040.00)
Previous Balance Due	<u>678.11</u>
Total Fees and Expenses - Current Period	1,680.00
Total Amount Due	<u><u>\$ 2,358.11</u></u>

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ACCOUNT: 2000002972561
ABA: 121000248
SWIFT CODE: WFBUS6S

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WASHINGTON, D.C.
ACCOUNT: 2000002972561
ABA: 054001220

Legal Services For: Lambeth Townsend, Esq.
Principal
Lloyd Gosselink Rochelle & Townsend, P.C.
816 Congress Ave., Suite 1900
Austin, TX 78701

Period: November 2015

Invoice No: 338475

Client/Matter No.: 503200.000011

Date: December 9, 2015

FOR PROFESSIONAL SERVICES RENDERED
for the period ending November 30, 2015, in connection with:

Regulatory Tax Support

Fees	\$ 3,360.00
Total Amount Due	\$ <u>3,360.00</u>

Lloyd Gosselink Rochelle & Townsend.
P.C.
Page 2

TIME DETAIL

Date	Name	Description	Hours	Rate	Amount
11/02/15	J. Warren	Call re ADFIT.	0.50	840.00	\$ 420.00
11/17/15	J. Warren	Call with client re ADFIT reconstruction.	1.00	840.00	840.00
11/20/15	J. Warren	Review NOL schedules etc and call with C. Aldinger.	1.00	840.00	840.00
11/21/15	J. Warren	Work on NOLC schedules.	1.50	840.00	1,260.00
Total Fees					<u>\$ 3,360.00</u>

TIME SUMMARY

Name	Hours	Rate	Amount
J. Warren	4.00	840.00	\$ 3,360.00
Total Fees			<u>\$ 3,360.00</u>



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REMITTANCE PAGE

For Professional Services Rendered

Lambeth Townsend, Esq.
Principal
Lloyd Gosselink Rochelle & Townsend, P.C.
816 Congress Ave., Suite 1900
Austin, TX 78701

PLEASE INDICATE INVOICE
NUMBER ON REMITTANCE
Invoice No: 338475
Client/Matter No: 503200.000011
December 9, 2015

Balance Due From Previous Statement	\$ 2,358.11
Total Fees and Expenses - Current Period	3,360.00
Total Amount Due	\$ <u>5,718.11</u>

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WASHINGTON, D.C.
ACCOUNT: 2000002972561
ABA: 054001220

MILLER
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Miller & Chevalier Chartered

Attachment RLT-3

Page 36 of 42

655 Fifteenth Street, N.W., Suite 900
Washington, D.C. 20005-5701
(202) 626-5800 FAX: (202) 626-5801
E.I.N. 52-1212890

Legal Services For: Lambeth Townsend, Esq.
Principal
Lloyd Gosselink Rochelle & Townsend, P.C.
816 Congress Ave., Suite 1900
Austin, TX 78701

Period: December 2015

Invoice No: 338865

Client/Matter No.: 503200.000011

Date: January 13, 2016

FOR PROFESSIONAL SERVICES RENDERED
for the period ending December 31, 2015, in connection with:

Regulatory Tax Support

Fees	\$ 17,640.00
Total Amount Due	\$ <u>17,640.00</u>

Lloyd Gosselink Rochelle & Townsend,
P.C.
Page 2

Client/Matter No. 503200.000011
January 13, 2016

TIME DETAIL

Date	Name	Description	Hours	Rate	Amount
12/03/15	J. Warren	Call with client re treatment of NOLC.	0.50	840.00	\$ 420.00
12/07/15	J. Warren	Work on direct testimony.	2.75	840.00	2,310.00
12/08/15	J. Warren	Draft direct testimony.	4.00	840.00	3,360.00
12/09/15	J. Warren	Draft direct testimony; review reports on ADFIT and NOLCs.	6.75	840.00	5,670.00
12/10/15	J. Warren	Draft direct testimony.	5.00	840.00	4,200.00
12/11/15	J. Warren	Finalize first draft of direct testimony.	2.00	840.00	1,680.00
Total Fees					<u>\$ 17,640.00</u>

TIME SUMMARY

Name	Hours	Rate	Amount
J. Warren	21.00	840.00	\$ 17,640.00
Total Fees			<u>\$ 17,640.00</u>



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REMITTANCE PAGE

For Professional Services Rendered

Lambeth Townsend, Esq.
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816 Congress Ave., Suite 1900
Austin, TX 78701

PLEASE INDICATE INVOICE
NUMBER ON REMITTANCE
Invoice No: 338865
Client/Matter No: 503200.000011
January 13, 2016

Balance Due From Previous Statement	\$ 5,718.11
Total Fees and Expenses - Current Period	17,640.00
Total Amount Due	\$ <u>23,358.11</u>

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BANK: WELLS FARGO
WASHINGTON, D.C.
ACCOUNT: 2000002972561
ABA: 054001220

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Lloyd Gosselink

P. MOUL & ASSOCIATES
 251 HOPKINS ROAD
 HADDONFIELD, NJ 08033
 TELEPHONE: 856.128.7515 • pmoul@verizon.net

EIN# 22-3282661

January 11, 2016

Case No. 1604

Invoice No. 001

MONARCH UTILITIES L.L.P.

For professional services rendered by Paul R. Moul, Managing Consultant, for the preparation of cost of capital testimony, including a first draft provided on December 4, 2015, a second draft provided on December 11, 2015, and for the testimony that was finalized on January 4, 2015, and for the preparation of responses to MFRs identified as II-C-1-1, II-C-2, II-C-4 and II-C-6

<u>Consultant</u>	<u>Hours</u>	<u>Rate</u>	<u>Amount</u>
P. Moul	88	\$ 290	\$25,520.00
Clerical	13.25	\$ 72	954.00
Reimbursement of out-of-pocket costs consisting of duplication and telephone charges			<u>4.00</u>
TOTAL			<u><u>\$26,478.00</u></u>

Attachment RLT-3
Page 40 of 42

PEASLEY, ALDINGER & O'BYMACHOW
AN ACCOUNTANCY CORPORATION
2120 MAIN STREET, SUITE 265
HUNTINGTON BEACH, CALIFORNIA 92648
(714) 536-4418 • FAX (714) 536-2039

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JAN - 4 2016

October 31, 2015

Lloyd Gosselink

LLOYD GOSSELINK ROCHELLR & TOWNSEND PC
816 CONGRESS AVENUE, SUITE 1900
AUSTIN TX 78701

#1510057

Accounting services re: Monarch Utilities I, LLC
(for services rendered October 1 thru October 31, 2015)

Work in progress on calculation of deferred income taxes as of June 30, 2015
for Monarch Utilities I, LLP.

\$33,513.98

	Hours billed	Hourly rate	Total
Matt A. Peasley, CPA	68.50	@ \$220 per hour	\$15,070.00
Christian L. Aldinger, CPA	58.50	@ \$220 per hour	12,870.00
Tania Hahal, Staff Accl.	24.75	@ \$95 per hour	2,351.25
Kathleen Horton, Clerical	0.00	@ \$62 per hour	0.00
Travel costs (see attached schedule)			<u>3,222.73</u>
Total			<u><u>\$33,513.98</u></u>

INVOICE

MONARCH UTILITIES I, LLP
OCTOBER 18-20, 2015

	DESCRIP.	MATT PEASLEY	CHRISTIAN ALDINGER	TOTALS
SUNDAY 10/18/2015	HOTEL	192.66	192.66	385.32
	MEALS - BREAKFAST	-	-	-
	MEALS - LUNCH	-	-	-
	MEALS - DINNER	18.15	18.16	36.31
	AIRFARE	499.00	499.00	998.00
	SOUTHWEST			
MONDAY 10/19/2015	HOTEL	192.66	192.66	385.32
	MEALS - BREAKFAST	10.00	10.00	20.00
	MEALS - LUNCH	-	-	-
	MEALS - DINNER	18.01	18.02	36.03
	PARKING	21.00		21.00
TUESDAY 10/20/2015	HOTEL			-
	MEALS - BREAKFAST	10.00	10.00	20.00
	MEALS - LUNCH	-	-	-
	MEALS - DINNER	-	-	-
	AIRFARE	499.00	499.00	998.00
	AIRPORT PARKING			-
	PARKING	21.00		21.00
GAS FOR RENTAL CAR	4.53		4.53	
	CAR RENTAL	297.22		297.22
GRAND TOTAL	HOTEL	385.32	385.32	770.64
	PARKING	42.00	-	42.00
	AIRFARE	998.00	998.00	1,996.00
	MEALS - BREAKFAST	20.00	20.00	40.00
	MEALS - LUNCH	-	-	-
	MEALS - DINNER	36.16	36.18	72.34
	GASOLINE	4.53	-	4.53
TRANSPORTATION	297.22	-	297.22	
	Airport & City			
	various			
	various			
	various			
	SHELL			
	Hertz			
		1,783.23	1,439.50	3,222.73

PEASLEY, ALDINGER & O'BYMACHOW
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Lloyd Gosselink

November 30, 2015

LLOYD GOSSELINK ROCHELLR & TOWNSEND PC
816 CONGRESS AVENUE, SUITE 1900
AUSTIN TX 78701

#1511005

Accounting services re: Monarch Utilities I, LLC
(for services rendered November 1 thru November 30, 2015)

Work in progress on calculation of deferred income taxes as of June 30, 2015
for Monarch Utilities I, LLP.

\$28,325.00

	Hours billed	Hourly rate	Total
Matt A Peasley, CPA	60.75	@ \$220 per hour	\$13,365.00
Christian L. Aldinger, CPA	68.00	@ \$220 per hour	14,960.00
Tania Hahal, Staff Acct.	0.00	@ \$95 per hour	0.00
Kathleen Horton, Clerical	0.00	@ \$62 per hour	0.00
Travel costs (see attached schedule)			<u>-</u>
Total			<u>\$28,325.00</u>

INVOICE

PUC DOCKET NO. 45570

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

§
§
§

**PUBLIC UTILITY COMMISSION
OF TEXAS**

DIRECT TESTIMONY

OF

GARY ROSE

ON BEHALF OF

MONARCH UTILITIES I, L.P.

FEBRUARY 29, 2016

**DIRECT TESTIMONY OF
GARY ROSE**

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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**

**DIRECT TESTIMONY OF
GARY ROSE**

I. INTRODUCTION

1

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Gary Rose. My business address is 1620 Grand Avenue Parkway, Suite
4 140, Pflugerville, Texas 78660.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

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

7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by SouthWest Water Company ("SouthWest" or "Company") and my
9 position is Texas Utilities West Director of Operations. I am a Vice President of
10 SWWC Utilities, Inc. ("SWWCU"). I manage the daily on-going operations of utility
11 facilities owned by SWWC and Monarch that are located in Bandera, Bexar, Comal,
12 Gillespie, Guadalupe, Hays, Kendall, Medina, Travis, and Williamson Counties.

13 **Q. PLEASE OUTLINE YOUR PROFESSIONAL EXPERIENCE.**

14 A. ECO Resources, Inc. ("ECO"), a utility service company, was formed in 1973. I
15 began working for ECO in 1979 as a laborer. In 1985, ECO was acquired by
16 SouthWest. During my 36 combined years with ECO and SouthWest, I have held
17 almost every operational position. From 2002 to 2007, I managed the utility
18 operations for ECO, which had a utility operations contract with New Mexico
19 Utilities, Inc. ("NMU"), a utility owned by SouthWest.

1 In 2007, I transferred to Austin from New Mexico, and became the Manager
2 of Integrated Services for ECO. In this role, I managed the services provided by ECO
3 to the utilities owned by SouthWest in Texas, New Mexico, and Oklahoma.

4 In 2008, I transferred to the position of Texas Utilities Operations Manager
5 for SouthWest, and was responsible for daily operations of all utilities owned by
6 SouthWest in Texas and Oklahoma. In 2010, my position was modified to include
7 just those ten Texas counties mentioned above. In 2013, I was promoted to
8 Operations Director and Vice President of SWWCU.

9 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

10 **A. No.**

11 **II. PURPOSE OF TESTIMONY**

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

13 **A. I describe ECO and its relationship to SouthWest and to Monarch, from acquisition in**
14 **1985 through 2008. I discuss the services provided by ECO to Monarch and its**
15 **affiliates for capital expenditures. I also explain how Monarch and the affiliates were**
16 **charged for those services.**

17 **III. SERVICES PROVIDED BY ECO RESOURCES**

18 **Q. WHAT SERVICES DID ECO PROVIDE TO WATER AND WASTEWATER**
19 **UTILITIES?**

20 **A. From 1985 to 2013, ECO provided services to affiliated and unaffiliated water and**
21 **wastewater utilities in Texas, California, Colorado, Mississippi, Oklahoma, South**
22 **Dakota, Wyoming, Alabama, and New Mexico. The services ECO provided to these**
23 **utilities included water production and distribution, wastewater collection and**

1 treatment, line maintenance and repair, inflow and infiltration studies, line cleaning
2 and t.v. inspection, engineering, meter reading, billing and collections, bookkeeping,
3 customer service, lab testing, regulatory affairs management, funds management, and
4 response to emergencies.

5 In Texas, ECO also provided design-build services, which I describe below,
6 for Monarch and two of its affiliate utilities—Hornby Bend Utility Company and
7 Windermere Utility Company.

8 **Q. IN 2004, SOUTHWEST PURCHASED TECON WATER COMPANY AND**
9 **RENAMED IT MONARCH UTILITIES I, L.P. DO YOU KNOW THE**
10 **CONDITION OF THE TECON FACILITIES WHEN THEY WERE**
11 **PURCHASED BY SOUTHWEST?**

12 A. Yes. Prior to the purchase of the Tecon facilities and systems, SouthWest undertook
13 an investigation of the condition of the facilities. I discussed the condition of the
14 facilities with the team that made the initial site visits prior to the purchase when I
15 assumed the role of Manager of Integrated Services. After assuming this role, I also
16 made trips to the individual systems and visited with the local area manager to come
17 up to speed on what improvements had already been facilitated and what
18 improvements remained to be accomplished.

19 **Q. IN YOUR PROFESSIONAL OPINION, WHAT WAS THE CONDITION OF**
20 **THE TECON FACILITIES AND SYSTEMS WHEN SOUTHWEST TOOK**
21 **THEM OVER?**

22 A. The purchase of Tecon Water Company included 88 water and 13 sewer systems.
23 Many of the Tecon systems were in poor condition and did not meet the minimum

1 state and federal requirements for water and wastewater systems. It was apparent that
2 neither preventative nor corrective maintenance had been performed on a regular
3 basis. A substantial amount of work needed to be done to bring the facilities back up
4 to the State's and the Company's standards.

5 **Q. WHAT DID SOUTHWEST DO TO IMPROVE THE CONDITION OF THE**
6 **MONARCH FACILITIES?**

7 **A.** Upon acquisition, the Company initiated a comprehensive capital improvement
8 program with State approval and rebuilt a substantial portion of Monarch's facilities.
9 The capital additions are addressed by Mr. Gott in his testimony, and the regulatory
10 compliance program is addressed by Mr. Williford. From the time that SouthWest
11 acquired Tecon in 2004 through 2008, the supervision, inspection, and administration
12 of capital expenditures to improve the Monarch facilities was performed by ECO .

13 **Q. WHY DID THESE SERVICES END AFTER 2008?**

14 **A.** In 2008, the Company reorganized into four business segments to better focus the
15 distinct strategies of each. One segment was the Utilities, consisting of all the
16 Company's owned water and wastewater assets outside of Texas. The second
17 segment was the Texas Utilities, which is reported as a separate segment from
18 Utilities because of different economic characteristics, principally due to the large
19 investments made in these operations that are not yet being recovered in customer
20 rates. The third segment was O&M Services, which is contract operations and
21 maintenance for generally larger, stand-alone operations. The fourth segment was the
22 Texas MUD Services, which consists of small, full-service contract operations by a
23 common team of personnel, resulting in a model that apportions a fractional cost to

1 each client. As part of the return to core operations, the Company divested or closed
2 down a variety of small, tough to manage business units that were focused on non-
3 core services, such as bid construction work, pipe rehabilitation, bookkeeping, and
4 laboratory services. After the reorganization, neither of the two services segments
5 provided construction management and/or design-build services. Projects underway
6 in 2008 were completed in accordance with the contract terms, but no new projects
7 were started.

8 **Q. PLEASE DESCRIBE THE SERVICES ECO PROVIDED TO NEW MEXICO**
9 **UTILITIES, INC.**

10 A. All of ECO's personnel in New Mexico were dedicated solely to serving NMU. The
11 base operations services fee charged to NMU included full-time, dedicated inspection
12 personnel. ECO did not have construction crews or a construction manager in New
13 Mexico. Instead, ECO managed third-party contractors for all construction, which is
14 the same service we provided to non-affiliated third-party utilities in Texas. Because
15 these were "construction management" services, the margin or administrative fee
16 charged by ECO to NMU was fifteen percent.

17 **Q. DID ECO PROVIDE A DIFFERENT TYPE OF SERVICE TO MONARCH**
18 **AND ITS AFFILIATES IN TEXAS?**

19 A. Yes, and as a result the charges to Monarch and its Texas affiliates were different.
20 ECO provided operations and maintenance services for Monarch and all of its
21 affiliates in Texas. Also, ECO provided two additional levels of services related to
22 construction activities, which I have designated as "construction management
23 service" and "design-build services."

1 Q. PLEASE DESCRIBE THE DESIGN-BUILD SERVICES.

2 A. The design-build services encompassed all the activities required to design and build
3 capital improvements for the utility, and involved ECO personnel who provided the
4 expertise to supervise, inspect, and administer capital expenditures by utilities. For
5 capital projects, ECO was responsible for hiring engineers and outside construction
6 contractors, when appropriate, and for procuring and delivering the approved
7 materials to the job site at the appropriate time. ECO had construction crews and
8 construction equipment in Texas that were able to provide these construction services
9 to Monarch and two of its affiliates—Hornsby Bend Utility Company and
10 Windermere Utility Company. ECO's construction management personnel provided
11 daily project management and coordination with the utility's personnel to ensure
12 continuous and adequate service to customers during construction.

13 ECO was responsible for ensuring that the work by construction crews was
14 carried out according to the approved plans and in compliance with the adopted
15 policies of the utility and the state regulatory agency, and for ensuring that timely
16 payment was received by third party engineers, contractors, and vendors. ECO was
17 also responsible for start-up and testing of new facilities.

18 Q. WHAT ADVANTAGES DO YOU BELIEVE ARE CONNECTED WITH THE
19 DESIGN-BUILD ARRANGEMENT?

20 A. The design-build arrangement allows the utility to be very responsive to its aggressive
21 compliance deadlines established by the Company and regulatory agencies. When
22 SouthWest purchased the systems now known as Monarch, there was an urgent need
23 to pay attention to these systems and get them quickly into compliance. Using the

1 design-build services of ECO, Monarch's ability to meet these aggressive time frames
2 was enhanced. Bringing a system into compliance results in better quality services
3 being provided to the utility's customers in the short-run, and ensures that the quality
4 of service continues to be high in the long-run.

5 **Q. WHY DID THESE UTILITIES NEED TO USE ECO'S DESIGN-BUILD**
6 **SERVICES?**

7 A. None of the three utilities to whom ECO provided the design-build services had
8 employees who could design the project. Also, none of these utilities had the
9 personnel required to oversee the procurement of the needed materials, nor did they
10 have the purchasing power of ECO. By that I mean their operations were relatively
11 small, they did not regularly make these types of purchases, and they did not have the
12 bargaining power that ECO had at the time. These utilities also did not have
13 construction crews on staff. So, ECO was able to fill in the "blanks" in the staffing of
14 these utilities by offering the services that they could not perform for themselves with
15 their own personnel.

16 **Q. DID ECO PROVIDE DESIGN-BUILD SERVICES TO NON-AFFILIATED**
17 **THIRD PARTIES?**

18 A. No. Instead, ECO provided the "construction management" services to the non-
19 affiliated third parties.

20 **Q. WHY WERE DIFFERENT TYPES OF SERVICES PROVIDED TO THE**
21 **NON-AFFILIATED THIRD PARTY UTILITIES?**

22 A. Almost all of the non-affiliated third party utilities receiving ECO's services were
23 public entities, such as cities, municipal utility districts, or water authorities. At the

1 time that ECO was providing design-build services to Monarch, public entities were
2 precluded by law from employing this project delivery method.

3 **Q. HOW WERE THE CONSTRUCTION MANAGEMENT SERVICES**
4 **CHARGED?**

5 A. Because ECO was not providing the construction labor for the construction
6 management services, labor was being separately charged to the non-affiliated third
7 party utilities. ECO's charges were simply for the non-labor overhead costs, such as
8 group overhead, corporate overhead, office costs, and profit. This was calculated and
9 applied as a 15% margin. All of the non-affiliated third party utilities' contracts with
10 ECO included this 15% margin.

11 **Q. HOW WERE THE DESIGN-BUILD SERVICES CHARGED?**

12 A. ECO charged the three affiliated utilities for actual labor and material costs, and an
13 additional amount to cover payroll and fringe benefits for the employees, group
14 overhead, corporate overhead, office costs, and profit. Because the amounts
15 attributable to each of these items are difficult to determine, ECO added a "margin"
16 amount that was calculated to be 30% of the total project revenues. In other words,
17 the raw costs plus the margin equaled the revenues for the project, and the margin
18 accounted for 30% of the revenues.

19 **Q. DID ECO CHARGE ITS AFFILIATES THE SAME AMOUNT FOR THE**
20 **SAME SERVICES?**

21 A. Yes. Under ECO's contracts with Monarch, Windermere, and Hornsby Bend, each
22 utility paid ECO the 30% margin for the design-build services, which applied to all
23 capital expenditures to repair, replace, or expand the utility systems.

1 **Q. WERE THE AMOUNTS ECO CHARGED MONARCH FOR DESIGN-BUILD**
2 **SERVICES FOR CAPITAL EXPENDITURES REASONABLE?**

3 A. Yes. During the period in which ECO was providing the design-build services to
4 Monarch, ECO was doing about \$20 million to \$35 million a year in the construction-
5 related business. As a result, ECO had significant purchasing power with the
6 suppliers of materials, and we could obtain the best prices for the materials and
7 supplies needed for the design-build projects.

8 The margin applied to the design-build service for Monarch was also
9 reasonable. The imposition of a margin (sometimes referred to as an administrative
10 fee or an overhead fee) is commonly used in the construction industry when design-
11 build services are provided. Such a fee is a good way for the company to recover its
12 labor-related costs associated with the construction of the project, and also provides a
13 good method for the company to recover for its overhead expenses as well as earn a
14 profit on the provision of the services. In my experience, the imposition of the
15 margin is consistent with how overhead expenses and profits are recovered by other
16 design-build firms.

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

18 A. Yes, it does.

PUC DOCKET NO. 45570

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

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**PUBLIC UTILITY COMMISSION
OF TEXAS**

DIRECT TESTIMONY

OF

PAUL R. MOUL

ON BEHALF OF

MONARCH UTILITIES I, L.P.

FEBRUARY 29, 2016

**DIRECT TESTIMONY OF
PAUL MOUL**

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ATTACHMENTS:

- PRM-1 Educational Background, Business Experience, and Qualifications
- PRM-2 List of Schedules Sponsored

SCHEDULES:

- PRM-1 Summary Cost of Capital and Cost of Equity
- PRM-2 Monarch Utilities I, LP Historical Capitalization and Financial Statistics
- PRM-3 Water Group Historical Capitalization and Financial Statistics
- PRM-4 Standard & Poor’s Public Utilities Capitalization and Financial Statistics
- PRM-5 Monarch Utilities I, LP Calculation of the Effective Cost of Long-Term Debt
- PRM-6 Dividend Yields
- PRM-7 Historical Growth Rates
- PRM-8 Projected Growth Rates
- PRM-9 Financial Risk Adjustment
- PRM-10 Interest Rates for Investment Grade Public Utility Bonds
- PRM-11 Common Equity Risk Premiums
- PRM-12 Yields for Treasury Constant Maturities
- PRM-13 Comparable Earnings Approach

GLOSSARY OF ACRONYM AND DEFINED TERMS

ACRONYM	DEFINED TERM
AFUDC	Allowance for Funds Used During Construction
AWCC	American Water Capital Corporation
AWW	American Water Works Company, Inc.
b	Represents the retention rate that consists of the fraction of earnings that are not paid out as dividends
β	Beta
b x r	Represents internal growth
CAPM	Capital Asset Pricing Model
CCR	Corporate Credit Rating
CE	Comparable Earnings
DCF	Discounted Cash Flow
DDBP	Disinfectants/Disinfection By-Products
EPA	Environmental Protection Agency
ESWTR	Enhanced Surface Water Treatment Rule
FOMC	Federal Open Market Committee
g	Growth rate
IGF	Internally generated funds
Lev	Leverage modification
M&A	Merger and Acquisition
MTBE	Methyl Tertiary Butyl Ether
r	Represents the expected rate of return on common equity
Rf	Risk-free rate of return
Rm	Market risk premium
RP	Risk Premium
RSM	Revenue Stabilization Mechanism
s	Represents the new common shares expected to be issued by a firm
s x v	Represents external growth
S&P	Standard & Poor's
SDWA	Safe Drinking Water Act Amendments of 1996
SCC	State Corporation Commission
v	Represents the value that accrues to existing shareholders from selling stock at a price different from book value.
RDM	Water Wastewater Infrastructure Service Charge

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
PAUL MOUL

I. INTRODUCTION

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

A. My name is Paul Ronald Moul. My business address is 251 Hopkins Road, Haddonfield, New Jersey 08033-3062. I am Managing Consultant at the firm P. Moul & Associates, an independent financial and regulatory consulting firm. My educational background, business experience, and qualifications are provided in Attachment PRM-1.

Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS TESTIMONY?

A. I am submitting testimony on behalf of Monarch Utilities I, L.P. ("Monarch").

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony presents evidence, analysis, and a recommendation concerning the appropriate rate of return on common equity that the Public Utility Commission of Texas ("Commission") should recognize in the determination of the revenues that Monarch should be authorized to recover as a result of this proceeding.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. I have addressed the following issues and organized my testimony as follows:

I. Introduction

- 1 II. Purpose of Testimony
- 2 III. Water Utility Risk Factors
- 3 IV. Fundamental Risk Analysis
- 4 V. Capital Structure Ratios
- 5 VI. Cost of Debt
- 6 VII. Cost of Equity — General Approach
- 7 VIII. Discounted Cash Flow Analysis
- 8 IX. Risk Premium Analysis
- 9 X. Capital Asset Pricing Model
- 10 XI. Comparable Earnings Approach
- 11 XII. Conclusion

12 My analysis and recommendation are supported by the detailed financial data set
13 forth in Schedules PRM-1 through PRM-13, which are attached to my testimony.

14 **Q. BASED UPON YOUR ANALYSIS, WHAT IS YOUR CONCLUSION**
15 **CONCERNING THE COST OF COMMON EQUITY AND OVERALL RATE**
16 **OF RETURN FOR MONARCH IN THIS CASE?**

17 **A.** Based upon my independent analysis, my conclusion is that Monarch should be
18 afforded an opportunity to earn a rate of return on common equity of 10.75%. As
19 shown on page 1 of Schedule PRM-1, I have provided Monarch's weighted average
20 cost of capital, which includes my recommended cost of equity. The calculation of
21 the weighted average cost of capital requires the selection of appropriate capital
22 structure ratios and a determination of the cost rate for each capital component. For
23 the purpose of this case, I have proposed the use of hypothetical capital structure

1 ratios for reasons that I explain below. I have also calculated Monarch's embedded
2 cost of debt at test-year end June 30, 2015. The resulting 8.77% overall rate of return,
3 when applied to Monarch's rate base, will provide a compensatory level of return for
4 the use of capital and, if achieved, will provide Monarch with the ability to attract
5 capital on reasonable terms.

6 **Q. IN YOUR OPINION, WHAT FACTORS SHOULD THE COMMISSION**
7 **CONSIDER WHEN SETTING MONARCH'S COST OF CAPITAL IN THIS**
8 **PROCEEDING?**

9 A. The rate of return utilized by the Commission to set rates must be sufficient to cover
10 Monarch's interest and dividend payments, provide a reasonable level of earnings
11 retention, produce an adequate level of internally generated funds to meet capital
12 requirements, be commensurate with the risk to which Monarch's capital is exposed,
13 assure confidence in the financial integrity of Monarch, support reasonable credit
14 quality, and allow Monarch to raise capital on reasonable terms. The return that I
15 propose fulfills these established standards of a fair rate of return set forth by the
16 landmark *Bluefield* and *Hope* cases.¹ That is to say, my proposed rate of return is
17 commensurate with returns available on investments having corresponding risks.

18 **Q. PLEASE BRIEFLY DESCRIBE MONARCH.**

19 A. Monarch Utilities I, L.P. is a limited liability partnership that is 99.9% owned by
20 Monarch Utilities, Inc., which is a wholly owned subsidiary of New Mexico Utilities,
21 Inc., which is wholly owned by SouthWest Water Company ("SouthWest").

¹ *Bluefield Water Works & Improvement Co. v. P.S.C. of W. Va.*, 262 U.S. 679, 932-3 (1923) and
F.P.C. v. Hope Nat. Gas Co., 320 U.S. 591 (1944).

1 SouthWest is a privately held company with water and wastewater operations in
2 Alabama, California, Oklahoma, and Texas. Monarch provides water service through
3 seventy-seven (77) systems serving approximately 22,800 customers, including end
4 users served under contract. These systems are located throughout Texas, with some
5 of them clustered in the Austin, Dallas-Fort Worth, and northeast of Houston areas.
6 There are significant challenges operating such a dispersed service territory.
7 Monarch meets its customer's water needs through purchases and from surface and
8 ground water supplies. Most of Monarch's customers are residential. Wastewater
9 service is provided in eleven (11) systems to approximately 3,600 customers.

10 **Q. HOW HAVE YOU DETERMINED THE COST OF COMMON EQUITY IN**
11 **THIS CASE?**

12 A. The cost of common equity is established using capital market and financial data
13 relied upon by investors to assess the relative risk, and hence the cost of equity for a
14 water utility, such as Monarch. In this regard, I employed four (4) well-recognized
15 measures of the cost of equity: the Discounted Cash Flow ("DCF") model, the Risk
16 Premium ("RP") analysis, the Capital Asset Pricing Model ("CAPM"), and the
17 Comparable Earnings ("CE") approach.

18 **Q. HOW HAVE YOU APPLIED THOSE MODELS TO MEASURE THE COST**
19 **OF EQUITY FOR MONARCH?**

20 A. The models that I used to measure the cost of common equity for Monarch were
21 applied with market and financial data developed from my proxy group of nine water
22 companies. The proxy group consists of water companies that: (i) are contained in
23 The Value Line Investment Survey, (ii) have stock that is publicly-traded, and (iii) are

1 not currently the target of an announced merger or acquisition. The companies in the
2 proxy group are identified on page 2 of Schedule PRM-3. I will refer to these
3 companies as the "Water Group" throughout my testimony. I made one exclusion
4 from the water companies contained in Value Line. I removed Consolidated Water
5 Company, Ltd. because it is domiciled in the Cayman Islands, its operations are in the
6 Cayman Islands, Belize, Bahamas, British Virgin Islands and Bali, it provides
7 desalination seawater to its customers, and it has significant non-regulated businesses.

8 **Q. HOW HAVE YOU PERFORMED YOUR COST OF EQUITY ANALYSIS**
9 **WITH THE MARKET DATA FOR THE WATER GROUP?**

10 A. I have applied the models/methods for estimating the cost of equity using the average
11 data for the Water Group. I have not measured separately the cost of equity for the
12 individual companies within the Water Group, because the determination of the cost
13 of equity for an individual company has become increasingly problematic. By
14 employing group average data, I have helped to minimize the effect of extraneous
15 influences on the market data for an individual company.

16 **Q. PLEASE SUMMARIZE YOUR COST OF EQUITY ANALYSIS.**

17 A. My cost of equity determination was derived from the results of the methods/models
18 identified above. In general, the use of more than one method provides a superior
19 foundation to arrive at the cost of equity. At any point in time, any single method can
20 provide an incomplete measure of the cost of equity depending upon extraneous
21 factors that may influence market sentiment. The specific application of these
22 methods/models will be described later in my testimony. The following table

1 provides a summary of the indicated costs of equity using each of these approaches,
2 as shown on page 2 of Schedule PRM-1.

	<u>Water Group</u>
DCF	9.89%
Risk Premium	11.25%
CAPM	10.93%
Average	10.69%
Median	10.93%
Comparable Earnings	13.05%

3 Focusing upon the market models (i.e., DCF, RP and CAPM), the average equity
4 return is 10.69% and the median equity return is 10.93%. Within this range, I
5 recommend that Monarch's rate of return on common equity be set at 10.75%. The
6 return for the book value related Comparable Earnings approach confirms the
7 reasonableness of my proposed cost of equity. My cost of equity recommendation
8 makes no provision for the prospect that the rate of return may not be achieved due to
9 unforeseen events. Indeed, as I will discuss below, Monarch has been in a persistent
10 under-earning position for many years. This shows that the ratesetting process has
11 not been responsive to Monarch's cost of providing service to its customers.

12 **Q. WHAT SCHEDULES IN THE RATE FILING PACKAGE ARE YOU**
13 **SPONSORING?**

14 A. I sponsor the Schedules listed in Attachment PRM-2, and associated workpapers.

1 **Q. HOW DO THESE ISSUES IMPACT THE WATER UTILITY INDUSTRY?**

2 A. Managers of water utilities have in the past and will in the future focus increased
3 attention on environmental and related regulatory issues. Drinking water quality has
4 also received heightened attention out of concern over the integrity of the source of
5 supply, which is often threatened by changing land use and the permissible level of
6 discharged contaminants established by state and federal agencies, and now potential
7 threats from terrorists. Moreover, water companies have experienced increased water
8 treatment and monitoring requirements and escalating costs in order to comply with
9 the increasingly stringent regulatory requirements noted above. Water utilities may
10 also be required to expend resources to undertake research and employ technological
11 innovations to comply with potential regulatory requirements. These factors are
12 symptomatic of the changing business risk faced by water utilities.

13 **Q. ARE THERE OTHER FACTORS THAT INFLUENCE THE BUSINESS RISK**
14 **OF WATER UTILITIES?**

15 A. Yes. Being the sole purveyor of potable water from an established infrastructure does
16 not insulate a water utility's operations from general business conditions, regulatory
17 policy, the influence of weather, and customers' usage habits. It is also important to
18 recognize that water companies face higher degrees of capital intensity than other
19 utilities, more costly waste disposal requirements, and threats to their sources of
20 supply.

1 Q. ARE THERE OTHER STRUCTURAL ISSUES WHICH AFFECT THE
2 BUSINESS RISK OF WATER UTILITIES?

3 A. Yes. As noted above, the high fixed costs of water utilities makes earnings
4 vulnerable to significant variations when usage fluctuates with weather, the economy,
5 and customer conservation efforts. Conservation efforts can take the form of low
6 water usage clothes washers, toilets and shower heads, and other reductions due to
7 changes in usage. While the wise use of water is always the objective, the business
8 risk of the water utility industry can be affected by increased customer awareness of
9 conservation. Moreover, current building standards have mandated the use of fixtures
10 that must comply with more stringent water use requirements. These issues, along
11 with other changes in customer usage patterns, have resulted in declining use per
12 customer. This situation makes it more difficult for a water utility to actually achieve
13 the return established in rate cases.

14 Q. PLEASE IDENTIFY SOME OF THE SPECIFIC WATER UTILITY RISK
15 FACTORS WHICH IMPACT MONARCH.

16 A. High levels of capital intensity is a characteristic typically found in the water utility
17 business. In this regard, Monarch's investment in net plant is 2.79 times its revenue.
18 This is to say, Monarch must invest \$2.79 in new or replacement plant to produce
19 \$1.00 of additional revenue. The Water Group's investment in net plant is 3.63 times
20 its revenue. Monarch's lower level of capital intensity can be traced to the role of
21 purchased water in providing service to customers.

1 Q. HOW IS MONARCH'S RISK PROFILE AFFECTED BY ITS
2 CONSTRUCTION PROGRAM?

3 A. Monarch is engaged in a continuing capital expenditure program necessary to meet
4 the needs of its customers and to comply with various regulations. For the future,
5 Monarch expects its capital expenditures, net of customer contributions and advances,
6 to be:

Year	Capital Expenditures
2016	\$3,100,000
2017	\$3,100,000
2018	\$3,100,000
2019	\$3,100,000
2020	\$3,100,000
Total	<u>\$15,500,000</u>

7 Monarch's total capital expenditures over the next five years will represent
8 approximately 20.3% ($\$15,500,000 \div \$76,531,000$) of the net utility plant in service
9 (net of contributions) as of December 31, 2014. As previously noted, a fair rate of
10 return for Monarch represents a key to a financial profile that will provide Monarch
11 with the ability to raise the capital necessary to meet its capital needs on reasonable
12 terms.

13 Q. HOW SHOULD THE COMMISSION RESPOND TO THE EVOLVING
14 BUSINESS RISK FACING MONARCH?

15 A. Monarch is faced with the requirement to invest in new facilities and to maintain and
16 upgrade existing facilities in its service territory. Where a substantial ongoing capital
17 investment is required to meet the high quality of product and service that customers
18 demand, supportive regulation is absolutely essential.