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7.1402 06.01.9000 7780/2008 06.9000 7780/2008 06.9000 18/92/2018 08/900 18/92/2017 08/900 9790/2008 08/900 9790/2009 08/900 9790/2009 08/900 9790/2009 08/900 9790/2018 08/900 10/1/2011 02/900 9790/2018 08/900 10/1/2011 02/900 9790/2018 08/900 10/1/2011 02/900 9790/2018 08/900 10/1/2011 02/900 10/1/2011 02/900 10/1/2011 02/900 10/1/2011 02/900 10/1/2011 02/900 10/1/2011 02/900 10/1/2011 02/900 10/1/2011 02/900 10/1/2011 02/900 10/1/2011 02/900 10/1/2011 02/900 10/1/2010 04/900 10/1/2010 04/900 10/1/2010 04/900 10/1/2010 04/900 10/1/2010 04/900 10/1/2010 04/900 10/2/2010 04/900 9/31/2005 04/900 5/31/2007 04/900 5/31/2007 04/900 5/31/2007 04/900 5/31/2007 04/900

4 30/2407 (48)/000 32/3/3/207 (485/000 12/1/2011 028/000 2/1/2012 025/000 4/30/2000 050/000 4/30/2000 050/000 4/30/2000 050/000 4/30/2000 050/000 4/30/2002 035/000 5/3/2111 020/000 5/3/2111 020/000 4/30/2002 035/000 4/30/2002 035/000 4/30/2002 035/000 4/30/2002 035/000 4/30/2002 035/000 4/32/2002 055/000 4/32/2002 055/000 4/32/2002 055/000 4/32/2002 055/000 4/32/2002 055/000 4/32/2002 055/000 4/32/2002 055/000 4/32/2002 055/000 4/32/2002 055/000 4/32/2002 055/000 4/32/2002 055/000 4/32/2002 055/000 4/32/2002 055

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			15,478.00	(3,483.53)	12,101.67	50200066 WeeksideWirOperations	5/26/2012 015/000
	311 311	20007704 Replace pump, mator, cable and pipe Weil 46 20001325 WELL GRUNDFOS 75HP 1905P750-39 AT 1383/SN-10019-0	15,093.46	(6,150.80) (3,123.70)	10,512 86	30200058 WesteideWirOpetations 30200055 WesteideWirOpetations	\$/1/2010 015/000 12/31/2005 046/000
	307	20004081 Electrical work at Jacility-W1 10000617 GRAVITY FILTER-GUN CLUB/WSDE WELL 1 (W1)	15,612,13 14,820,87	(4,674.95)	8,946.82	30200088 WestsideWtrOperations 30200088 WestsideWtrOperations	1/31/2006 083/000 9/1/2010 015/000
	211	20001469 WSDE P4 - Grundlos Pemp; 10 HP Mator; 724 Inch C19	18,976,26	(4,503.12) (6,649.78)	9,472 13 7,068 22	90200088 WestaldsWt/Operations	6/30/1986 065/000 5/1/2012 050/000
	931 830	20002368 Distribution System 20002574 Sandbleeting & Painting GST	12,768.24	(808.59) (3,253.24)	11,957.72	90200088 WeekkinWeOperations - 30200088 WeskkinWeOperations	4/1/2011 015/000
	310 364	20007127 400A DUBLE DISCONNECT W/MATERIALS- CABDT ESTATES 20002234 WSDE CABDT WELL CL2 ENCLOSURE-	11,442.00 11,583.33	(1,005.04)	9.777 89	S0200038 WeelskieWtrOperations S0200058 WeelskieWtrOperations	n/1/2010 035/000 12/31/2005 015/000
	320	20004274 Hydrochloffașter-W1	9,995.52 9,778.00	(7,118.65) (4,600.68)	2,876.87 8,277,42	30200088 WeetableWtrDparation4	6/30/1992 050/000 13/31/2005 093/000
	33¢ 304	20002011 Pressure Tank 2600 10000597 Pump Station Repeir-	7,840.83	(2,633-61) (2,650-69)	5,308 82 4,441.41	30200088 WestekisWit/Operations 30200088 WestekisWit/Operations	4/30/2993 085/000
	301 330	20001893 Distribution System 20003888 Storego Teck 2 Welded Stori 12;000 gol	7,288.00	(2,748 42)	4,470.50	30200088 WashiddWirOperators 30200088 WashiddWirOperators	6/\$0/1996 050/000 10/31/2007 065/000
	881	20006397 CAPITAL WATER MAIN REPAIN PECAN & BENNET LAWSON 20007919 Well 87 - 4 1/2" B ND Hot Shut Pipe-Cabot Estates	7,001.97 8,633.46	(767 28) (682.79)	6,080.67	10200065 WestsidsWbOperations	4/16/2014 015/000 6/30/2000 035/000
	311 304	10000336 Fencing, Chain Link §-ft.	6,440.00	(a.345-61) (833 74)	3,094.39 \$,183.26	30200088 WestaideWirOperations 30200088 WestaideWirOperations	7/80/2008 050/000
	330 320	20000088 PRESSURE TANK 2500 GAL; GUN GLUR/WESTSIDE 89581 P1 20004255 Chiedratian CL2 System	5,000.95	(4,046 47) (2,688 48)	1,834.49 1,895.34	30200088 WesteldsWirOpension4 30200088 WesteldsWirOpension4	12/31/2005 015/000 3/33/2007 015/000
	320 320	20005610 WELL PUMP-WESTSIDE WELL 20004263 Chloringtion CL2 System	4,863.82 4,830.38	(2,200 17)	1,032.21	30200038 WeeleideWtrOperations 20200088 WeeleideWtrOperations	12/81/2005 015/000 6/30/1985 093/000
	304	30000273 Building Metal 10" X 6"	4,251.00 3,947.00	(3,991 89) (1,072 34)	259.31 2,874,66	30200088 WeekideWirOperations	6/20/1999 Q45/000 6/20/1993 045/000
	331 332	20001454 Distribution System 20001378 Distribution System	3,840 00	(1,468.63) (1,172.44)	2,351.47 2,393.93	80200058 WeekideWirOpersteins 30200058 WeekideWirOpersteins	\$/1/2010 015/000
	320 311	20001827 WEDE CABOT WELL STEINER CL2 PUMP- 20006874 NEW BOOSTER PUMP-WIDE-WIDE	3,089.46	(1,670.78)	1,529.10	30200055 WeekkleWirOperskons 30200055 WeekkleWirOpersfons	6/30/2008 015/000 11/90/2006 085/000
	831	20005479 WATER DISTRIBUTION PLAN-INDISCTRICT WSDE 20000805 MATERIALS INSTALLED METER-INDISTRICT WSDE	3,000.00 2,980.16	(362.31) (666.43)	2,817.89 2,123.75	S0200089 WeeteldeWirOperations	10/3/2009 020/000 4/16/2014 015/000
	334 815	20007917 Well 87 - 1180' of 1/4" Air Line Cabet Estates	2,941.69	(279.69) (1,115.26)	7.662.00 1.817.74	30200088 WeehideWtrOperations 30200065 WeehideWtrOperations	6/30/1996 050/000
	510 320	30000837 Pressure Tenk No. 1 Steel 3:000 gai 30000828 Chamical pymps UAI 30 gpd	2,000.00	(2,600 00)	2,411,23	30200084 WeylaidsWsOperations 30200088 WestaidsWsOperations	6/30/2000 015/000 4/36/2014 015/000
	911 831	20007818 Well #7 - (2) 4* Chuck Velvas - Cebot Estelos 20006706 NEW WELL PUMP-QUIN CLUG/WESTSIDE WELL 1 (WI)	2,054.75 2,479.89	(253.52) (1, 309 .47)	1,170.22	30200088 WesteideW#Operations	2/31/2009 015/000 2/3/2009 015/000
	311	20000415 644716 REPLACE PUMPS FROM SHP TO 10HP CABOT EST	2,431.88	(1,104.00) (1,002.00)	1,327.00 614.94	38200048 WastaldsWeOperations 80200088 WastaldsWeOperations	6/30/1979 050/000
	330 530	2000530 Pressure Tank 350 2000550 Storage Tank 1 Walded Steel 10:000 gel	2,271.00	(1,990.68) (72.80)	240.12 2,106.63	3020009 WeshideWoOperators 30200068 WeshideWoOperators	\$/1/1971 050/000 1/31/1915 015/000
	311 310	20008164 15 KP booster pump will 61 WSBL 20009443 CHANGE SYSTEM FROM SCATA TO HOA	2,178.18 2,173.80	(1.839.79)	234.01	102000EE WeeksteWrOperature	7/31/2091 015/000 4/80/2005 050/000
	880	20008540 CAPITAL REPAIR - PRESSURE TANK EXPLODED-8457 RETTA	2,062.18 2,001.00	(417.80) (504.83)	1,634.38 1,498.17	30200085 WesteldeWirOperations 30200085 WesteldeWirOperations	6/30/2000 085/000 4/30/2005 085/000
	391 331	20000253 Distribution System 20003541 WATER DISTRIBUTION PLANS (MAPS)-INDISTRICT WESTSID	1,840.00	(291.60) (668.51)	1,548.50 1,268.88	30200085 WashidsWirOpensione 30200088 WashidsWirOpensions	21/1/2010 015/000
	311 531	20001552 BOOSTER PUMP – CABOT ESTATES APS P4 20000196 REPLACE BOUSTER PUMP-CABOT ESTATES BP5 #4 (P4)	1,827.87 1,825.83	(885.86)	838.78	90200088 WeshidsWirOpentions 20200068 WeshidsWirOpentions	\$/\$0/2008 D15/000 \$/1/2011 015/000
	311	20007170 15HP MIDTOR &P R2 @ &ENNETT LAWSON - WSDE 20003859 45 MHP282; WALL PANEL; TANK - CHLDRINE INSTALLED-C	1,705.00 1,806.78	(454.15) (1,175.66)	1,240.85 431.22	302000M WeekideWtrOperations	\$/30/2005 \$15/000 6/30/1996 \$35/000
	320 304	10000790 Feacing Chain Link 6'	1,511.00	(1,004.37) (\$37.36)	505-53 884-84	30200088 WeeteldeWirOpendions 30200088 WeeteldeWirOpendions	12/81/2001 046/000
	307 310	20006575 SWRFACE WATER INTAKE STRUCTURES 20004726 STARTER/SWITCH-GUN CLUB/WESTSIDE W1	1,272.70	(713.32)	\$59.32	30200098 WashkinWyOpentions 30200088 WashkideWtrOperations	3/31/2006 015/000 9/30/1972 082/000
	304 345	10000737 Building Wood 32' X 20' 20000510 A+ 991716 AUTODIALER CABDT #STATES	1,253.00	(1,253.00) (380.82)	864.M	30200088 WeelaideWbOpenetor4	3/1/2009 820/900 12/31/2005 835/000
	320	20004179 Chlorination CL2 System	1,187.32 1,109.71	(831.46) (71.34)	358.86 1,038.37	30200088 WesteldsWbOperations 30200088 WesteldsWbOperations	4/29/2013 035/000
	304 331	10000841 2" Valve-front of Church Plant 20004769 REPLACED PLANG IN WATER MAIN-	1,095 08	(183.87) (894,41)	941.21 33.64	80200088 WestakleWirOpenations 80200088 WestakleWirOpenations	3/31/2006 085/000 12/31/2001 015/000
	311 331	20005443 BOOSTER PUMPS-SHP OR LESS 20005393 CAPITAL IMPROVEMENT WATER LINES AT BPS-GUN CLUB/WS	870.96	(113.89)	767.07	30200034 WestskinWtrOperations 30200038 WestskinWtrOperations	9/30/2006 085/000 1/31/2005 085/000
	181	20003384 WATER DISTRIBUTION PLANS FOR INTERCONNECT-INDISTRI 20000077 SHELTER OVER \$12 TANK; GUN CLUB/WESTSIDE RF583 P3-	162.60 816.95	(140.87) (408.29)	721.83 408.65	30200088 WeetsldeWtrOperations	7/30/2008 015/000 7/30/2008 015/000
	420 320	20000076 SHELTER FOR CHLORINE TANK; CABOT ESTATES BPSR4 P4-	773.85 756.13	(386 74) (274.00)	367,09 481,33	20200088 WeshidsWVOperations 20200088 WeshidsWVOperations	11/30/2007 085/000
	304 331	20000764 REPLACE AIR COMPRESSOR-CABOT ESTATES BPS 4 (P4) 20006406 WATER LINE PLANS-WESTSIDE GUN CLUB	780.00	(82.17) (77.96)	657.83		10/31/2007 085/000 9/30/2007 085/000
	931 891	20006514 WATER PLANS-WESTESIDE GUN CLUB 20004737 WATER LINES; NAMS & FITTINGS	700,00 676.67	(182.33)	\$44.34	30200088 WestukleWbOperations	5/31/2003 085/000 4/30/2006 015/000
	813	2000487 INSTALLED BODSTER PUMP-GUN CLUB/WIDE BPS 1 (P3) 20005587 INSTALLED 5 HP FRANKLIN PUMP	808.40 504 13	(417.59) (468.07)	106.87 41.01	30200088 WeekaldeWitrOperations	5/31/2003 015/000 6/30/1896 033/000
	310 304	30000518 Building Fibragians 4' K 4'	488.00 459.87	(282.81) (257.10)	192.14 182.77		7/81/2007 015/000
	320 310	20006371 STENNER PLANP-BUN CLUB/WSDE BPS Z (P2) 20005832 ELECTNICAL WORK-WESTSIDE WELL	428.14	(218-57)	212.57 195.24	30200058 WeelakeWeOperations	3/31/2007 015/000 10/1/2012 020/000
	334 331	20007450 5/8 AMR METER-8515 LAKE RD 20002955 WATER LINE FITTING5	240.33 224.63	(48.07) (42.85)	181.4	90200088 WeetskieWeOperations	8/31/3008 065/000 6/30/3001 085/000
	831	20002050 45BW GATE VALVE Inch	220.56 215.96	(61.38) (60.40)	168.10 185.5	80200000 WeekidsWirOperatent	1/3/2012 015/000 8/31/2005 045/000
	311 333	20007343 3" Adaptar 20003635 NEW WATER TAP SERVICE-7092 CABOT ESTATES	212.92	(70.78) (67.98)	142 G 141 4		10/01/2005 045/00
	333 334	20009998 NEW WAYER SERVICE TAP-7825 RETYA RD 20007462 S/B AMR METER-7817 WINYON DR	170.24	(31.92)	138.3 108.7	7 SO200088 WeekshinWirOperstand	10/3/2013 020/00 4/10/2005 045/00
	233	2000HSS3 NEW WATER TAP SERVICE-121 WRLOW CREEK CHICLE 20007514 Meter - Rusidiantial	186.84 199.92	(58.11) (28.85)	130.7	7 30200088 WesteldsWtrOpersford	12/1/2011 B28/00 6/30/2005 085/00
	334 831	20001070 2 1500 BOLT SET/ 1 1/2 1500 BOLT SET Inch	125.61	(29,26) (18.64)	6 80 102 8	1 30200088 WeeksterWirOperature	12/31/2007 046/00 11/30/2006 045/00
	507 333	20006580 WELL TITLE-CABOT ESTATES 20005533 NEW METER BOX W/LID-2088 EAVANNAS CONVENT	85.29 88.17	(17.92) (17.93)	47.3 37.2	4 3020008 WeekideWirOperations	10/31/2005 045/00
))))))))	20002949 METER BOX & LID-7580 BENNETT LAWSON ND 20005895 NEW METER BOX W/LID-7430 REMINGTON RD	63.84	(18.78)	40.1		4/30/2007 045/00 6/30/2000 000/00
	303 591	100061 Land & land rights 200051 Band statisting/ GALVANIZED NIPPLES	80.00 34.48	(0.47)	28.0	1 \$0200088 WeekideWyOperations	
	833	20006038 NEW MEYER BOX W/UD-S FM 1187 & CR 1068	36.96 35.13	(8.01) (8.26)	28.4 28 4	30100088 WesteidsWirDperations	2/21/2007 045/00
	793 793	20005919 NEW METER BOX W/LID-7581 REMINGTON RD	34.13 34.13	(8,73) (8,73)	25.4 25.4	A SOLOCIWebuew 2600006 0	4/30/2007 045/00
	859 839		34,13	(4.73)	25.4		2/21/2003 042/ac
	333	20003507 METER BOX AND LID-132 CORONADO TRAL	\$4.01 \$5.98	(11.69) (6.62)	19.4	SO200085 WasteldsWirOperations	5/33/2007 045/00
	933	20005820 NEW METER BOX W/UD-7485 REMINGTON RD	24.26 24.25	(6.19) (6.19)	58.0 58.0	30200088 WeshidsWirOperationa	4/20/2007 045/0
	333 331		23.68	(6.31)	18.4	30200085 WesteldsW/cOperations	12/1/2011 020/0
	384 330		89,058,87	(18,184.16)			WirOperations 2/1/2012 URS/0
	331	20007364 Westview Parker We & WS Improvement	90,519.88 38,061.00	(3,727.28) (26,977.18)	9,073	84 80700090 Weatview - Parket Cour	MWIOperations exact 7x14 means
	330 331	20002572 Storage Tank 3 Bolted Steel 21000 gal	30,000.00 23,740.00	(0,006.78) (3,490 84)		15 302000 90 Wastview - Parker Cours	ntyWisOperations #/80/2005 065/0
	891 310		25,000.00	(25,000.00)	•	30200090 Westview - Parker Cola 3020090 Westview - Parker Cola	ntyWirOperations 6/20/1974 046/0
	\$07 304	20002390 Well Ho. 1 5 hp 40 gpm	90,913,93 11,661.00	(50,891.70)	700	81 30200090 Westview - Perker Cou	niyWirOpenetians 6/30/1952 033/0 niyWirOpenetians 6/30/2000 085/0
	391	20002049 Distribution System	10,821.00 8,830.40	(2,730.04) (1,039.47)	8,090	73 \$1200060 Westview - Parker Cola	nt/Wt.Opensians 5/1/2011 020/0
•	334 311	200048885 KP PUMP-WELL	8,362.15 3,485.00	(5,969 70) (3,926 93)		07 30200030 Weekley - Parker Cou	mayWeOperations 6/30/1992 038/0
}	304		3,090.00	(1,345.93)		D7 30200090 Westview - Parker Cou D0 30200090 Westview - Parker Cou	miyWtrOpenations 6/30/2000 000/c
2	30. 34	3 300009 Lond & land rights	2,000.00	(023.83)	2,368	67 30200090 Westview - Parker Cou	myWirOpenations 5/1/2011 020/4
5	330	20000221 Bassier pump No 1 3 hp	2,000.00 2,000.00	(800.44) (800.44)	5,300	56 30200090 Wuetyiow - Perkar Cou	mtyWirOpensions 5/30/2000 050/
,	330 304	10000541 BUILT CHOLINE BUILDING - POURED SLAB-WESTVEW PAR	1,974,82	(843.50)	3,176	.38 9020090 Weshlew - Parker Col	nk/WuOperations 7/31/2007 035/
D D	30- 30-	4 10000762 WATER PLANT BLDG - MASONRY	1,400.07	(567.98) 832	43 50200090 Westview - Parker Cel	mt/WpOperations 9/30/2002 015/
	310	0 20006537 WATER ELECTRICAL & ELECTRICAL CONTROLS	1,400.97 1,201 20				untyWirDpenifons 10/21/2006 053/
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330	20005345 GST-WESTVIEW-PARKER CO	1,201,20	(208.44)		30200090 Westview - Parker CountyWtrOpenations	10/31/2000 11/30/2000
320 304	20005375 NEW CHLORINE LINE-WWPC WELL 1 (W3) 20000682 Fencing Chain Link 5'	1,076.63	(687.36) (859.00)	369 27	30200090 Weeklaw - Parks/ CountyWt/Operations 30200080 Weeklaw - Parker CountyWt/Operations	6/30/1974
304	10000563 Air Compressor 3/2 hp	\$78 QQ 485.00	(578.00) (463.92)	32.08	30200090 Weshine - Parter DeanlyWpOperations 20200090 Weshine - Parter CountyWpOperations	6/30/199
304 533	10000514 Building, Cl2 Wood 3'X3' 20003751 NEW WATER SERVICE TAP-19 Burton Hill &d	453.03	(152.49)	300 55	30200090 Weeklew - Parker CountyWI/Operations	7/31/200
524 334	20005717 REPLACE 1 WELL METER Inch-WWPC WELL 1 (W1) 20007355 WDBH 791 - 5/8 AMR METERS	126.00 140.325.50	(45.80) (28,234,69)	80,50 117,091.81	30200090 Westview - Parker CountyWt/Operations 30200091 Westwood BeechWir/Operations	5/1/2011
331	20003036 Distribution System	119,787.00	(87,407.48) (78,566.79)	\$2,578.62 \$6,759.21	30200091 Westwood BeachWirOpenations 30200091 Westwood BeachWirOpenations	6/30/1971 6/30/1974
851 330	20003020 Distribution System 20004426 Add Ground Storage Tank	67,821,32	(10,996.30)	46,824.94	30200091 Westwood BeachWirOperations	12/31/200
350	20006936 Replace Hydropnownetic Pressure Tank 20002813 Storage Tank No. 2 Webled Stael 43900 Gel	55,770.82 54,593.00	(7,818 81) (17,482.38)	47,961.31 37,110.82	\$020091 Westmod SeachWtrOperations \$020091 Westmod SeachWtrOperations	6/30/1910
330 331	20002737 Distribution System	48,064.00	(35,394.66) (31,940.78)	10,759.34 11,010,22	30200091 Westerned BeachWirOperations 30200091 Westerned BeachWirOperations	5/30/197 9/30/197
331 331	20002782 Distribution System 20002671 Distribution System	40,725.00	(21,705.98)	18,021,02	30200091 Westwood BeachWyOperations	17/1/198 5/51/197
307	20002540 Well No.1 600' deep; 50 gpm 8-5/8 inch; TECON inch 20002582 Well 500' deep 8-5/8 inch; TECON inch	36,125.00	(32,212.67) (30,826.08)	3,912 33 4, 9 52 9 2	30200091 Weekeed BaachWyOperations 30200091 Weekeed BaachWyOperations	6/30/197
307 311	20005565 REPLACE WELL PLIMP-WESTWOOD WILDWOOD	32,292.47	(20.422.75)	11,005,07 18,104.15	30200091 Westward BeachWt/Operations 30200091 Westward BeachWt/Operations	12/81/200
307 330	20002597 Weil No.2 800' deep; 330 gpm 8-5/8 inch;TECON inch 20007562 5,000 gei PST w/site giess	32,277 00 30,029 00	(14,1(2.85) (1,861.30)	58,068.70	30200091 Westerood BeachWirOperations 30200091 Westerood BeachWirOperations	4/1/301
331 311	20002585 Distribution System 20005260 REPLACE PLIMP AND MOTOR-	29,918.00 23,764.54	(16,756.97) (18,526.05)	13,182,83 8,258,51	\$02000\$3 Westwood ReashWirDpendicre	\$/30/200
331	20002403 Distribution Swittm 20002808 PRESSURE YANK	22,118 00 18,790.41	(14,082 71) (4,448,94)	8,053.29 14,349.47	30200091 Westeard BeachWirOperations 30200091 Westeard BeachWirOperations	6/30/198 8/31/200
330 370	20002262 Storage Tank 1 Welded Steel 33000 Gal	17,764.00	(7,550 11)	10,203.09	30200091 Washood BeachWirOpamilone 30200091 Washood BeachWirOpamilone	2/31/199 12/31/199
811 911	20002250 Well Pump Franklin 20 hp 20002233 Well Pump 200 gpm 20 hp	18,228.00	(16,225.00) (15,760.00)	•	20200091 Westwood BeachWirOperatoria	6/30/200
931	20002217 Distribution System 20002119 Storage Tank 3 Welded Steel 43900	16,141 00 18,012,00	(4,) 13.53) (10,612.49)	11,027.47 2,309 51	30200093 Westwood ReachWsOperations 80200093 Westwood BeachWsOperations	6/30/199 9/30/197
330 310	30001966 Electrical System; 230 VolV# Phase	8,796.00 7,960.90	(0,796.00)		30200093 Westward ReachWirOperations 30200093 Westward ReachWirOperations	4/30/399 6/30/300
330 311	20001925 WATER TANK PAINTING & FILTER YANI MEDIA 20007817 2011P 280V Metor - Weil 61	7.868 00	(1,048.07)	6,818.93	30200092 Westwood BeachWirOperations	7/10/201 6/10/197
310	20001892 Electrical System; 230 Volt/3 Phase	7,584 00 7,012 00	(7,284.00) (4,846 27)	2,163.73	30200091 Westward ReachWirOperations 30200093 Westward ReachWirOperations	6/40/197
331 304	2000337 Sniiding Wood 12' X 20' 20003879 Oktribution System	6,267.00 5,708.70	(8,267 00) (6,701.81)	1,007.88	50200091 Westwood BeachWeOperations 50200091 Westwood BeachWirOperations	6/30/197 6/30/200
911 311	20001799 15 hp Well PUMP , 20008058 10HP/460V/3PH CENTRIFUGAL PUMP	5,708.79	(476.57)	5,231.82	30200091 Westword BeachWirOperations 30200091 Westword BeachWirOperations	4/21/303 4/50/300
330 303	20001792 WELD PIYS IN WATER TANK 100023 Land & land rights	5,700.00 5,500.00	(5,700.00)	5.500.00	80200091 Westwood BeechWirOperations	6/30/200
320	20004192 Chloringtion System	4,880.57 4,980.57	(3,847.60) (3,647.60)	1,4 32.9 7 1,432.97	30200091 Westwood BeachWirOperations 30200091 Westwood BeachWirOperations	11/11/200 12/31/200
320 320	20084394 Chlorination System 20004396 Chlorination System	4,880.67	(3,547,60)	1,438.97	30200093 Weekened BeachWtrOperations 30200093 Weekened BeachWtrOperations	12/31/200 12/31/200
391 304	20004592 DISTRIBUTION MAINS WDBN- 10000247 Feneing Chuin Linis 6'	4,743.13 4,017.00	(689,47) (2,234.54)	1,782.46	\$0200091 Weelward SeechWirOpenations	6/30/191
311	20001945 Boester pump No.2 Berliey 10 hp	1,700.00 3,664.00	(3,700.00) (3,564.00)	:	30200091 Westerned Reach-WirOpereform 30200091 Wasterned Baach-WirOpereform	6/30/197
304 310	2000324 BuBding Wood 12" X 20" 20004452 Test Hydropneumatic Tenk	3,268.60	(821.61) (356.96)	2,648.01 2,443.15	20200091 Westweed BeachWirOperations 20200091 Westwood BeachWirOperations	\$2/\$1/20 \$1/30/20
954 311	2000\$477 WATER DISTRUCTION PLAN-INDISCTRICT WDBH 2000803 15HP Booster Pump WeB #2 Pump #2	2,800.00 2,724.16	(136 63)	2,587.45	30200093 Westwood Baach WVOperations	10/14/70 1/31/20
311 310	20001372 BOOSTER PUMP-Westward/Wildswood Wellin (W1) 20000698 Electrics) 230 v. 3-phase	2,505 30 2,523.00	(2,008.30) (2,523,00)	\$87.09	20202031 Westward BeachWtrOperations 20202031 Westward BeachWtrOperations	8/30/19
331	20005682 WATER DISTRIBUTION MANS-WOBH 200056934 CARITAL WATER MANN REPAIR-WESTWOOD/WEDFWOOD-WESTW	2,500.00	(319.32) (232.01)	2,189,68	30200093 Westword BeachWirCperations 30200093 Westword BeachWirCperations	1/31/20 6/30/20
331 320	20004372 WATER ELECTRICAL WDRH-	2,186.00	(1,244.83)	920.37 1.807.61	30200391 Westmant BaschWirOpersTans 50200391 Westmant BaschWirOpersTans	17/81/20 7/31/20
231 303	20000333 WATER LINES; MAINS & FITTINGS FOR REC & DUT 200000 Land & lens rights	2,009.27 2,000.00	(431,70)	2,000.00	30200091 Westwood BeachWirOperations	6/30/20 4/30/20
891 304	2000/920 WATER MAIN CAPITAL REPAIR-INDISTRICT WDBH 2000/937 Buildine Wood 6' X 8'	1,841.94 1,897.00	(255.80) (1,862.35)	1,589.06 214.95	301000 FI. Westwood BeachWirOperations 202000 FI. Westwood BeachWirOperations	4/30/59
331	20005676 CAPITAL REPAIR WATER MAIN-WESTWOOD/WEDEWOOD WELL	1,485.29	(181.90) (180.22)	1,203 30 1,238,38	30200091 Westwood BeachWyOphrations 20200092 Westwood BunchWtrOperations	1/31/20 7/31/30
431 511	20006180 REPLACE PIPING-WSTWD/WLDWD WELL 2 (WZ) 20006358 Baastas pung No 3 Bokley 10 hp	1,301.00	(1,201.00)	•	30200091 Westwood BeachWirOperations 30200091 Westwood BeachWirOperations	4/10/19 8/1/30
334 334	20001354 Well #1 Flow Meter-WESTWOOD/WILDEWOOD WELL#1 20000443 FMS 115HIB WESTWOOD/WILDEWOOD WELL#1 REPLACE WELL	1,300.46 1,299.00	(320.85) (413.66)	979.81 875.44	30200091 Westwood BeachWirOperations	2/1/20 3/31/20
931	2000/775 REPLACED FIPING IN WATER MAIN- 2000/336 CAPITAL WATER MAIN REPAIR-SPRINGWOOD CR & PARK DR	1,107.23 1,072.32	(166.66) (117.50)	951.66 954.82	30200091 Westwood BeachWirOperations 30200091 Westwood BeachWirOperations	30/33/20
341 934	20009758 CHANGED OUT MAIN METER-Wertwood/Wildowood Well #2	1,053.78	(623.04)	529,65 157,67	30200091 Westencei BeachWirOpensions 30200091 Westenei BeachWirOpensions	7/33/24 4/30/19
304 308	10000651 Fencing Chain Link 6' 300071 Land & Jand rights	917.00 860.00	(670.33)	850.00	30200031 Westwood BeachWirOperations	6/30/20 1/31/31
320 304	20005924 Chlorinstors Superior 30000550 Fencing Chein Link 6'	846.00 728.00	(846.00) (728.00)	:	39200093 Westered BeachWarOperations 30200093 Westered BeachWarOperations	9/30/11
345	20000921 Air Compressor WWB Well No. 3	718 77 569.39	(842.34) (438-53)	374 43 163,86	99200991 Washaad BeachWirOperations 30200991 Washaad BeachWirOperations	30/51/20 9/80/20
303 313	20003854 AC STENNER PUMP-WESTWOOD/WILDEWOOD WELLII (W1) 100065 HEARN SURVEYLNB;SERVICE LOT 85,8148,55EC I OF WWD	595.30	•	695-38	30200091 Westward BeachWirOperations 80200091 Westward BeachWirOperations	11/30/20 7/11/20
830 334	20005177 AEPLACE MERCOID PRESSURE SWITCH-WSTWD/WLDWD WELL 1 20007423, WDBH 5 - 2 Inch AMR METERS	560.60 532.13	(272 44) (110.07)	421.26	\$0200081 Weatwood BeachWirOperations	5/1/20 6/30/11
304	10000522 Building Plettic 4' X 4'	\$23.00 \$10.00	(\$123.00) (196.14)	374.66	30200091 Westward BeachWirDpersions 30200091 Wasternel SeachWirOperations	3/1/20
334 334	20001072 Installed how mater under basewa, we think charges. 20007409 WDBH 2 - 3 Inch AMR METERS	460.86	(88.04) (454.00)	364.92	30200091 Westward BeechWirOpersiums 30200091 Westward BeechWirOpersians	5/1/30 9/30/11
311 320	20003344 Baaster pump No 1 Berkley 15 hp 20003263 Scales Detecto	422.00	(422.00)	•	30200091 Westwood BeachWirOperations 30200091 Westwood BeachWirOperations	1/30/31 6/30/31
304 133	10000479 Building Plastic ¥ X S* 20003390 NEW WATER SERVICE TAP-Indistrict WDBH	579.00 361.77	(370.00) (130.00)	251 77	\$0200091 Westerood BeachWe/Operations	1/31/2 32/31/2
331	20032920 PVC PIPE FOR WATER LINE 20030551 AIR CONDITIONER IN FACILITY-WESTWOOD/WILDEWOOD WEL	351.33 339.25	(64.76) (187.85)	268,57 181,44	30300091 Westerood BuschWirOperations 30300091 Westerood BeachWirOperations	8/30/3
304 333	20004813 REPLACE WATER SERVICE TAP-	510.12 242.79	(94.78) (71.18)	216.33 181.63	30200033 Westeend BeachWirOperators 30200093 Westeend BeachWirOperators	8/\$1/2/ 3/31/2
313 345	20004839 REPLACE WATER SERVICE TAP- 20001994 Air Compressor Gust 1/3 hp	216 00	(218-00)	•	30200091. Westerad BanchWirOperetions 30200091. Westerad BanchWirOperetions	4/80/3 5/51/2
333 333	20004792 HEPLACE WATER SERVICE TAP- 20005489 JURAND METER BOES WUDS-INDISTRICT WORH	165 84 164.87	(56.73) (45.25)	128.91 119 82	30200091 Wastwood BeachWarOperations	11/30/2
810	20003723 Chierine Line Installation Electrical Work	157.75 144.66	(94.66) (83.10)	03.19 61.48		7/91/2 12/81/2
910 933	20001348 Electrical-Welline. 1 - P/5 20005566 NEW WATER SERVICE TAP-204 OLD FORT RO-304 OLD FORT	144-16 137,86	(28.96) (48.02)	115.90 09 83		6/30/3 4/30/2
93 B 93 B	20003565 NEW WATER TAP SERVICE-INDISTRICT WDBH 20003565 NEW METER BOX & LID-1062 BEACHSIOE DR	120.10	(40.46)	85.69	30200093 Westwood BaachWVOperations	11/39/2 2/28/2
333 155	20004686 NEW METER BOX W/LID-21510 QUAN, RVN 20006114 NEW METER BOX W/LID-INDISTRICT WDBH	117.80 117.16	(26.47) (28.01)	61.33 68.14	30200091 Westwood BeachWaOperations	6/30/2
833	20005500 NEW METER BOK W/LID-132 INDIANOLA	\$4.67 85 00	(26.00) (86.00)	60.67	30300091 Westwood Reach WirCparations 30300091 Westwood Beach WirCparations	11/30/2 5/20/3
347 333	2006785 Air Compressor Gest 1/3 hp 20065498 NEW METER BOX W/LID-BEACHSIDE	68.87	(18.84)	49,83 44,25	30200091 Westmand BeachWirOpensions	11/20/2 11/30/2
998 333	20005490 NEW METER BOX W/LID-3030 OAX TRAIL SHORES 20005693 NEW METER BOX WALD-21670 POST DAX	61.00 53.36	(16.76) (14.23)	89.13	\$0300093 Westwood BaachWt/Operations	1/31/2 9/30/2
833 333	20005306 NEW METER BOK W/UD-21770 SHADY TRL 20005282 NEW METER BOK W/UD-AUTUMN CT	45.00 43.94	(12.88) (10.55)	32 72 53.39	30200091 Washwood BeachWtrOperations	B/\$1/2
391	20003690 2 PVC SCH40 SXS 90 ELL	38.95 38.66	(8.32) (16.17)	20.63 20.49		6/30/2 12/31/2
183 393	20004523 HEBURLT WATER TAP-119 VISTA CIR 20006231: NEW METER BOX W/LID-21481: GAK BLUFF DR	34.06	(8.18)	25.68	30200001 Westward Beast WirOperations	8/81/3 1/11/3
899 333	20005692 NEW METER BOX W/LIX-785 BEACHNDC 20005973 NEW METER BOX W/LIX-LOT S BLX 4 WILD EWODD	30.61 83.24	(8.98) (6.02)	24.63 17.22	30200091 Wastened BeachWirOperations	3/31/3 3/31/3
833	20004812 NEW METER BOX W/LID-518 WILDEWOOD DR	13.46	(4.23) (4.00)	8.61 7.01	50200091 Westwood ReachWeOperations	9/30/2
333 307	20003212 METER BOX-LOT 68 WATERWOOD 20002873 Well No. 2 - 1999 15 kp 6 Inst; TECON Inst	85,000.00	(26,468,25)	88,518.78 28,082,39	30200092 Wynnwaai HavenWixOperations	6/80/3 8/30/3
831 201	20002944 Distribution System 300056 Land & Jand rights	79,832.00 80,914.00	(65,780.A1)	80,914.00	B0200082 Wynnwood HavanWbOparationa	6/30/ 6/30/
307	20002240 Well No. 3 7.5 hp 6 Inch;TECON Inch 20002235 Distribution System	E7,892.00 \$6,800.00	(19,213.37) (14,330.22)	38,678.81 42,488.78		6/30/
331	tanat ma hizdiftanani alonani					

Attachment BWF-2 Page 79 of 79

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						and an and a set of the set of th	E/1/2011 020/000	
160020	334	20007376 WOHN 133 - S/8 AMR METERS	26,651.30	(6,319.04)	20,212.32	30200092 Wynmand HavenWirOperations	6/30/1999 015/000	
160030	310	20002470 Electrical System	\$4,816,00	(24,816 00)	•	30300092 Wyreneed HavenWisOpenetons	6/30/1965 050/000	
160020	130	20002325 Storage Tank 2 Boltod Steel 22000 gel	10,800.00	(11,940.32)	7.848.68	8020ED92 Wyrenenod HavenWirOperaSons	E/30/1978 0E0/000	
160020	130	20002817 Storage Tenk 1 Solted Steel 23000 gol	18,222.00	(14,555.36)	4,888.02	50200082 Wyrynwed HavenWirOparations	\$/30/2003 Q15/000	
160020	311	20002208 WELL PUMPS ABOVE 5 HP	14,758.74	(13,128.78)	1,684.96	30200092 Wynnweod HavenWirOperations	12/11/2006 015/000	
160020	311	20004122 Well Repair-Wi	13,085.67	(9,\$20.73)	8,764.84	30200097 Wynnwed Hav an Wit Operations	g/10/1978 Q33/000	
160010	304	10000408 Building Wood 16.5" X 24.5"	11,868.00	(11,869.00)	•	\$0200092 Wynnwead Haven WirOperations	6/30/1953 050/000	
160026	330	20001990 Pressure Tank Steel SOOD jal	6,881.00	(6,571,82)	3,768.18	80200052 Wynnwad HavenWirOperations	\$2/\$1/3006 055/000	
160010	304	10000607 CYCLE STOP VALVES AND SLAB FOR HYDOR FANL-WYNNWOOD	7,77941	(906.E3)	5,782.58	80200092 Wynnweod HerenW#Operations		
160030	431	20001885 Distribution Sector	7,187.00	(1,162.00)	8,234.4E	\$02000\$2 Wyrmanod Havan WirOperstans	6/10/1999 065/000	
160030	351	10000329 Fending Chain Link 6-ft.	8,244.00	(3,248.78)	8,000.24	30300092 Wynnwed HavenWirOperations	6/30/2000 035/000	
160020	\$20	20004218 Chiminetion System	4,910.57	(3,5(7,60)	1,432.87	30300092 Wynnami KarasWirOpensians	12/31/2005 015/000	
160000	303	100017 Land & land turks	4,865.00	•	4,885.00	80200092 Wynnwaed HavenW3Openations	8/30/1996 000/000	
160010	304	100001 ME FT WORTH FENCE, INSTALL CHAINLINK FENCE AROUND WELL	4,800.00	(2,683.21)	1,868.88	\$0300082 Wynneed HerenWirOpenatione	12/31/2000 083/000	
160030	331	20001486 Distribution Switem	2,000,000	{1,082.86}	2,136.44	30200092 Wynnwad HavenWirOpensions	8/30/3988 085/000	
160030	311	20001958 Baceter pump No 1 Berbley 10 hp	8,700.00	(8,700.00)	•	30300092 Wynerwood HavenWirOperations	e/30/3000 515/000	
160070	311	200015ED Beastar pump No 2 Berkley 10 hp	3,700.00	(5,700.00)	•	30200092 Wynnwood HavenWirOperations	6/30/2000 015/000	
160070	811	20001263 15 HP GRUNDFOS & PLIMP END AND LABOR TO INSTALL INC	\$,608.00	(3,478,60)	29,50	30200092 Wynnwed HerenWirOpensiens	3/11/3001 015/000	
160020	931	2000H812 WATER MAIN CAPITAL REPAIR-10553 BUCCANEER PT	2,075.11	(871.64)	2,309.47	acadoosia Wynnwood HavenWirOperations	4/20/2006 085/000	
160070	310	20000752 WTR ELECTRICAL & ELECTRICAL CONTROLS	2,839,99	(1,940.1 0)	499.81	\$0200092 Wynewaad Haven WirOpstalions	6/30/2003 015/000	
160020	331	20005659 CAPITAL WATER MAIN REFAIR-19544 BUCCANNER PT	2,278.51	(2412.07)	1,895.70	30200092 Wynnwood HevenWirOperations	1/31/3007 065/000 12/1/3030 060/000	
160020	335	20001508 HYDRANT - 10627 BUCCANEER PT	1,867.60	(171.10)	1,096.81	30200092 Wynewood HaranWyOperations	12/1/JU10 060/000 9/10/2006 085/000	
160020	333	20005285 WATER MAIN CAPITAL REPAIR-21028 WINDLAMMER	1,760.98	(229,83)	1,621.48	30200082 Wynnesed HavenWirOpenations		
160020	334	20007410 WDHN 7 + 1 Inch AMR METERS	1,612.38	(336.12)	1,277,27	S0200092 Wynnwood HevenWirOpwrafiane	5/1/2011 000/000	
160020	330	20004381 Test Hydropheumatic Tank	1,008.50	(\$07.20)	882,30	30200032 Wynnecod HavenWeOpensions	12/31/2005 060/000	
160029	331	2000BERS WATER DISTRIBUTION PLANS (MAPS)-WYNNWOOD HAVEN	700.00	(108.66)	501.44	\$0200092 Wytermand HarrorWirOparations	6/30/3005 045/000	
160020	547	20001246 Air Compressor Speedules .5 hp	800.008	(600.00)	•	80200052 Wynnwood HevenWyOperations	6/38/2008 015/000	
	320	20005197 2 TURNINE MITTER Inch-WINW WELL 2 (W2)	\$75.34	(230.85)	344,81	30200062 Wyrmand HerenWirOperations	5/30/2007 050/000	
160030	320	20000048 CAPITAL WATER MAIN	250.00	(33.76)	226.24	20100091 Wynnword HavenWirOpensiums	7/30/2008 055/000	
160020	334	20007452 5/8 AMR METER-LOSS BUCCANEER PT	204.44	(381,877)	186.27	account: Wyrywood HavenWaOpensions	10/1/2011 020/000	
160079	534 834	20007051 5/8 AMR METER	186.02	(40.09)	144.98	30200092 Wyrranaod Havan WbOpersSens	3/1/2031 030/000	
160070	310	20000991 BUILD 100 AMP 480V 30 SERVICE POLE	125.00	(113.50)	11.42	30200092 Wyrenwood Harren WieOpensäme	5/31/2001 015/000	
	330	20000289 WATER SYSTEM MAP-WDHN	100.00	(0.10)	90.82	ac200032 Wynnwood HarenW3/Operationa	8/30/2008 065/000	
160070 160070	591 593	20005180 NEW METER BOK W/LID-10564 BUCCANEER PT	62.50	(18.18)	44.37	30200091 Wyrmanod Hanni WeOperations	7/31/3006 045/000	,
100010	333	CAMPAGA META METEL AND INTERNATION AND A DAPTA DAPTA DESC. 1.1						
			181,829,853.54	(42,965,866.68)	78,003,987.02			





PUC DOCKET NO. 45570

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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

DIRECT TESTIMONY

OF

GEORGE FREITAG, P.E.

ON BEHALF OF

MONARCH UTILITIES I, L.P.

FEBRUARY 29, 2016

DIRECT TESTIMONY OF GEORGE FREITAG, P.E.

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ATTACHMENTS:

GF-1 List of Schedules Sponsored

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PUC DOCKET NO. 45570

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

PUBLIC UTILITY COMMISSION

OF TEXAS

DIRECT TESTIMONY OF GEORGE FREITAG, P.E.

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I. <u>INTRODUCTION</u>

- 2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
- A. My name is George Freitag. My business address is 1620 Grand Avenue Parkway,
 Suite 150, Pflugerville, TX 78660.

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

I am employed by SouthWest Water Company ("SouthWest"), as the Texas 6 Α. I am responsible for preparing and monitoring certain 7 Regulatory Manager. regulatory filings for all of SouthWest's regulated utilities in Texas. These include 8 filings before the Public Utility Commission of Texas ("Commission") related to 9 Certificate of Convenience and Necessity amendments, Sale, Transfer, and Merger 10 applications, purchased water pass-through applications, minor tariff amendments, 11 and rate change applications. Additionally, I work closely with our customer service 12 and operations staff in matters related to customer service issues. 13

14 Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL 15 BACKGROUND.

A. I have bachelor degrees in engineering from Mississippi State University and in
 business from the University of Texas at Austin. I am licensed as a Professional
 Engineer in Texas. My trade association memberships include the American
 WaterWorks Association and the Water Environment Federation. I am on the board

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DIRECT TESTIMONY

GEORGE FREITAG, P.E.

of directors of the Independent Water and Sewer Companies of Texas. Over the years, I have attended numerous seminars and training classes on utility ratemaking, finance, and technical operations.

I have approximately 40 years of experience in water and wastewater utility 4 functions. Before joining SouthWest in January 2010, I worked for the consulting 5 firm of GDS Associates, Inc. ("GDS") for ten years. While there, I completed a 6 variety of projects, including preparation of water and wastewater rate studies for 7 utilities of various sizes and types, support for aquifer district water use pass-through 8 fees and related issues, water and wastewater capacity exception requests, utility asset 9 valuation studies, facilities and operations review of military base systems for 10 privatization proposals, support of clients in water and wastewater compliance 11 proceedings, preparation of a capital asset accounting manual, and energy efficiency 12 surveys of hospitals. I was part of the technical advisory team to the 2004 State of 13 Texas Water Conservation Task Force that prepared the comprehensive Water 14 Conservation Best Management Practices Guide. 15

I worked for the Texas Natural Resource Before working at GDS, 16 Conservation Commission, now the Texas Commission on Environmental Quality 17 ("TCEQ") and its predecessor agencies, where my duties included providing general 18 management and technical assistance to water and wastewater utilities. I participated 19 in numerous rate, certification, and enforcement proceedings. I was a principal point 20 of contact for both utilities and consumers in resolving water conservation and 21 drought contingency issues, quality of service questions, and water utility 22 management issues. I was instrumental in the development of a multi-agency 23

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DIRECT TESTIMONY

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GEORGE FREITAG, P.E.

1 program to assist small and low-income communities in resolving water and 2 wastewater facility needs. From 1997 to 1999, I was chairman of the National 3 Association of Regulatory Utility Commissioners Staff Subcommittee on 4 Technology.

5 In the early years of my professional career, I worked for an engineering 6 consulting firm and the Texas Water Quality Board and successor environmental 7 regulatory agencies in the areas of wastewater compliance inspections and design 8 plan and specifications review.

9 Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

- 10 A. I am testifying on behalf of Monarch Utilities I, L.P. ("Monarch").
- 11

II. PURPOSE OF TESTIMONY

- 12 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS 13 PROCEEDING?
- 14 A. The purpose of my direct testimony in this proceeding is to discuss Monarch's 15 proposed phase-in of rate increases, proposed rates and rate design, and proposed 16 tariff changes.

17 Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR 18 SUPERVISION?

19 A. Yes, it was.

20 Q. INSOFAR AS THIS TESTIMONY IS FACTUAL IN NATURE, DO YOU 21 BELIEVE IT TO BE CORRECT?

22 A. Yes, I do.

DIRECT TESTIMONY

GEORGE FREITAG, P.E.

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1	Q.	INSOFAR AS THIS TESTIMONY IS IN THE NATURE OF OPINION OR
2		JUDGMENT, DOES IT REPRESENT YOUR BEST JUDGMENT?
3	A.	Yes, it does.
4	Q.	WHAT SCHEDULES IN THE RATE FILING PACKAGE ARE YOU
5		SPONSORING?
6	A.	I am sponsoring the following schedules and associated workpapers shown on
7		Attachment GF-1.
8		III. <u>REQUESTED RATES</u>
9	Q.	PLEASE DESCRIBE THE AMOUNT AND RATIONALE FOR MONARCH'S
10		PROPOSED PHASE-IN OF NEW RATES.
11	А.	Commission rules at 16 Tex. Admin. Code § 24.34(b) (TAC) allow Monarch to
12		request a phased, multi-year approach to setting and implementing rates to eliminate
13		the requirement that a utility file multiple successive rate applications. Avoiding rate
14		shock is a primary goal for phasing rate increases, as well as avoiding extensive costs
15		associated with preparing rate change applications on an annual basis. Commonly
16		known as "gradualism," Monarch remains committed to this goal by proposing a
17		three-year phase-in of its requested rates. For water, Monarch proposes a \$3,213,438
18		revenue increase, or 14,50%, in the first phase; a \$276,966 increase, or 1.09%, in the
19		second phase; and a \$279,989 increase, or 1.09%, in the third phase. For wastewater,
20		Monarch proposes a \$506,973 revenue increase, or 14.50%, in the first phase; a
21		\$247,265 increase, or 6.18%, in the second phase; and a \$262,538 increase, or 6.18%,
22		in the third phase. The underlying rationale for the first year increases is for
23		customers who receive both water and wastewater services to see equal rate increases

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DIRECT TESTIMONY

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GEORGE FREITAG, P.E.

for the two services. Second-phase and third-phase increases are designed to provide necessary increases in both years of identical percentages so that full cost of service is recovered at the end of Year Three.

The effective date of the first phase will be at least 35 days after required notice in compliance with Commission rules at 16 TAC § 24.22(d). In the event that the proposed rates are suspended (pursuant to Commission rules at 16 TAC § 24.26(a)(2)), Monarch reserves the right to seek interim rates during the pendency of this proceeding in accordance with Commission rules at 16 TAC § 24.29.

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IV. RATE DESIGN

10 Q. PLEASE EXPLAIN MONARCH'S CONSOLIDATED RATE DESIGN.

Pursuant to Texas Water Code § 13.145(b), Monarch is unique among Texas multi-11 A. system water and wastewater utilities in that the rates of its multiple systems are 12 consolidated under a common tariff. Under this rate structure, all Monarch customers 13 pay the same rate for service even though the individual systems providing service 14 may vary in terms of the number of customers served, operating characteristics, and 15 stand-alone costs. This rate is sometimes referred to as a "postage stamp rate." This 16 common tariff structure provides substantial benefits to Monarch customers by 17 lowering administrative and regulatory costs, enhancing capital deployment, 18 improving rate and revenue stability, and ensuring affordability for customers in very 19 small service areas. Consolidated rates are inherently fair in that all individual 20 systems will eventually require infusions of capital for improvements, only the timing 21 varies. Equalizing rates smoothes the effect of cost spikes in a period of rising 22 investment needs. 23

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GEORGE FREITAG, P.E.

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Q. PLEASE EXPLAIN MONARCH'S PROPOSED RATE DESIGN.

A. Monarch proposes to retain its current rate designs for both water and wastewater.
The water rate design consists of a monthly minimum charge based on meter size,
and a gallonage charge per 1,000 gallons based on the amount of water consumed in
the billing period. The gallonage charge is a four-tier inclining block rate structure:
0 - 2,000 gallons, 2,001 to 10,000 gallons, 10,001 to 20,000 gallons, and all usage
over 20,000 gallons thereafter.

8 The wastewater rate design consists of a monthly minimum rate based on the 9 water meter size and gallonage charges based on average winter water consumption 10 during December, January, and February. Single-family residential service 11 connections without an historic average will have an imputed average of 5,000 12 gallons until they have established an average. There is only one single charge per 13 1,000 gallons for all usage levels. Non-residential wastewater service is billed based 14 on actual monthly water consumption.

15 Q. HAS MONARCH APPLIED INCREASES UNIFORMLY TO MINIMUM 16 CHARGES AND GALLONAGE CHARGES?

17 A. Yes. Customers subject to the increases are uniformly impacted; that is, no customer
18 group subject to increases is unduly burdened compared to any other customer group.

19 Q. PLEASE EXPLAIN FURTHER THE CONSIDERATIONS MONARCH

20 EMPLOYED IN CALCULATING THE PROPOSED WATER RATES?

A. First, we determined the total increase in revenue needed and translated that to a percentage increase required. Next, we started with the actual volumes of water sold in the test year and made adjustments for the loss of Blue Mound and Midway

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GEORGE FREITAG, P.E.

customers. An additional adjustment was made for the expected decrease in volume sales due to water conservation. The resulting volumes in the respective usage tiers were increased by a uniform percentage to calculate the revenues produced in each usage tier. We did not change the structure of the usage tiers.

Likewise, the number of active customers at the end of the test year was adjusted for the loss of Blue Mound and Midway customers. The number of customers in each meter size was converted to meter equivalents using the standard equivalency factors. Then the monthly charge for a meter equivalent was increased by the uniform percentage so that the remaining revenue requirement would be recovered. The individual rates for each meter size were determined by using the equivalency factors.

12 Q. PLEASE EXPLAIN FURTHER THE CONSIDERATIONS MONARCH 13 EMPLOYED IN CALCULATING THE PROPOSED SEWER RATES?

A. The process was similar to that previously explained in developing the water rates.
We used a uniform increase percentage to provide equal rate increases for all meter
sizes and consumption levels. We adjusted both the volumes sold and numbers of
test year-end customers to reflect the loss of Blue Mound customers (there were no
wastewater customers in the Midway system).

19 Q. DOES MONARCH SEGREGATE CUSTOMERS BY CLASS?

A. No. Historically the TCEQ had classified the customers of the utilities it regulated solely by the various meter sizes based on meter equivalency factors, and also it distinguished between customers inside or outside of municipalities who are subject to different regulatory processes. Monarch consists of separate, mostly small rural

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systems located throughout the state, making impractical any analysis based on segregation of customer classes. In addition, customers with 5/8 meters, the smallest meter size Monarch offers, make up 98.8% of its customer base.

4 Q. IN THE PROPOSED RATE DESIGN, HOW HAS MONARCH CONSIDERED
5 CUSTOMERS SUBJECT TO CONTRACT OR AGREEMENT THAT ARE
6 NOT IMPACTED BY THE PROPOSED INCREASE?

A. Monarch has ensured in the rate calculations that non-contract customers are not in
any way burdened as result of some customers not receiving increases, or receiving
lesser increases due to being served under contract. The rate calculations assume that
all customers, including contract customers, receive increases, with the result that
Monarch shareholders effectively absorb foregone rate increases that would otherwise
be paid by contract customers.

Q. HOW HAVE MONARCH'S PROPOSED RATES BEEN AFFECTED BY THE PROPOSED THEORETICAL DEPRECIATION RESERVE REFUND?

A. As discussed more fully in the Direct Testimony of Robert Kelly, Monarch recently prepared a theoretical depreciation reserve study as required by the Commission's Rate Filing Package. As a result of that study, Monarch proposes during the threeyear phase-in period to equalize the over-depreciation through the rate process in amounts totaling \$937,968 for water and \$114,416 for wastewater.

20 Q. IS MONARCH ASKING FOR ANY OTHER RATE CHANGES?

A. Yes. We have a Supplemental Emergency Services Rate that is applicable only to water customers that have an auxiliary meter and service line used for internal, nonpotable stand-by emergency needs. We have very few customers (currently four) that

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DIRECT TESTIMONY

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GEORGE FREITAG, P.E.

1		need this type of private stand-by service, and typically no water is ever used. The
2		rate is based on inch-diameter of the service line. We are proposing increases to that
3		fee of 13.7% for Phase 1 and 1.09% each year for Phase 2 and Phase 3.
4	Q.	IS MONARCH ASKING FOR ANY OTHER CHANGES TO RATES OR
5		FEES?
6	A.	No. With the exception of four tariff changes (discussed below), we are not
7		proposing any changes or increases to the various customer service fees already
8		included on our approved tariffs.
9		V. <u>PROPOSED TARIFF CHANGES</u>
10	Q.	IS MONARCH REQUESTING ANY TARIFF CHANGES OTHER THAN
11		RATES?
12	А.	Yes. Monarch requests four tariff changes.
13		1. Monarch proposes to replace its "Purchased Sewer Pass-Through Clause"
14		with a "Sewer Pass-Through Gallonage Charge Adjustment." The revised
15		pass-through clause adds a true-up feature that adjusts for over- or under-
16		collections in the past 12 months.
17		2. Monarch proposes to update Section 2.12 in its Sewer Tariff regarding
18		"Residential Single Family Grinder / Sewage Stations" relating to ownership
19		and repairs to onsite grinder pumps, storage tanks, controls and other
20		appurtenances. Regarding multi-family and commercial receiving tank / lift
21		stations, Monarch proposes to delete certain language regarding responsibility
22		for maintaining and repairing all equipment necessary to connect service
23		locations to Monarch's collection lines.

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DIRECT TESTIMONY

GEORGE FREITAG, P.E.

In the Water Tariff Monarch proposes to replace its "Purchased Water and / or 3. 1 District Fee Pass-Through Clause" with a "Water Pass-Through Gallonage 2 Charge Adjustment." The revised pass-through clause adds a true-up feature 3 that adjusts for over- or under-collections in the past 12 months. 4 With regard to the previously discussed Supplemental Emergency Service 5 4. Rate, we are clarifying in our Water Tariff that the rate is determined based on 6 inch-diameter of the service line and not the meter size, and also clarifying 7 that any metered usage on that account will be billed at the highest tier. 8 DOES THIS CONCLUDE YOUR DIRECT TESTIMONY? 9 Q.

10 A. Yes, it does.

Schedules Sponsored

- Schedule II-D-10 Regulatory Expenses
- Schedule II-G Historic Operating Revenues
- Schedule II-G (W) Historic Operating Revenues
- Schedule II-G (S) Historic Operating Revenues
- Schedule II-G-1.a(W) Number of Active and Inactive Connections Water
- Schedule II-G-1.a(S) Number of Active and Inactive Connections Sewer
- Schedule II-G-1.b Average Number of Connections
- Schedule II-G-1.c Gallons Sold by Usage Block (unadjusted)- Water
- Schedule II-G-1.d Changes in Volumes due to Abnormal Weather Water
- Schedule II-G-1.e Volume Adjustments due to Changes in Number of Customers Water
- Schedule II-G-1.c. Gallons Sold by Usage Block (unadjusted)- Sewer
- Schedule II-G-1.d. Changes in Volumes due to Abnormal Weather Sewer
- Schedule II-G-1.e. Volume Adjustments due to Changes in Number of Customers Sewer
- Schedule II-G-1.f Other Changes in Volume
- Schedule II-G-1.g(W) Fixed and Variable Revenues Water
- Schedule II-G-1.g(S) Fixed and Variable Revenues Sewer
- Schedule II-G-1.2 (W) Revenue Impact Data Water Volume Sales
- Schedule II-G-1.2(S) Revenue Impact Data Wastewater Volumes
- Schedule II-G-1.3(W) Rate Comparison
- Schedule II-G-1.3(S) Rate Comparison
- Schedule II-G-1.4(W) Customer Consumption
- Schedule II-G-1.4(S) Customer Consumption
- Schedule II-G-2.1(W) Connections Added and Lost Water
- Schedule II-G-2.1(S) Connections Added and Lost Wastewater

Attachment GF-1 Page 2 of 2

Schedules Sponsored

Schedule II-G-2.2(W) Monthly Water Usage Data - Water

- Schedule II-G-2.2(S) Monthly Water Usage Data Wastewater
- Schedule II-G-2.3(W) Customer Classification History Water
- Schedule II-G-2.3(S) Customer Classification History Wastewater
- Schedule II-G-2.4 Wholesale/Sales for Resale
- Schedule II-G-2.5(W) Large Users Water
- Schedule II-G-2.5(S) Large Users Wastewater
- Schedule II-G-2.6 Customer Adjustments
- Schedule II-G-2.7 Customer Adjustment Data
- Schedule II-G-2.8(W) Test Year Coincident Peak Data Water
- Schedule II-G-2.8(S) Test Year Coincident Peak Data Wastewater
- Schedule II-G-3 Revenue Calculation Methodologies
- Schedule II-G-6 Tariff
- Schedule II-H-2 Contracts
- Schedule III (W) Water Rate Design
- Schedule III (S) Wastewater Rate Design
- Schedule V-4 Unaccounted for Water
- Schedule V-4 (1) Unaccounted for Water Narrative
- Schedule VI-4 Water Conservation
- Schedule VI-5 Meter Replacement Policy

PUC DOCKET NO. 45570

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

OF TEXAS

DIRECT TESTIMONY

OF

ROBERT L. KELLY

ON BEHALF OF

MONARCH UTILITIES I, L.P.

FEBRUARY 29, 2016

DIRECT TESTIMONY OF ROBERT L. KELLY

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VI.	THEORETICAL DEPRECIATION RESERVE ADJUSTMENT	18
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ATTACHMENTS:

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RLK-1	List of Schedules Sponsored			
RLK-2	Monarch I, L.P. Revenue Held in Abeyance			
RLK-3	Monarch I, L.P. Revenue Held In Abeyance Excluding Blue Mound			
RLK-4	Civil Solution, Inc., Opinion of Probable Cost			
RLK-5	Summary Of Earnings At Proposed Rates Before And After Theoretical Depreciation Reserve Adjustment			

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DIRECT TESTIMONY

ROBERT L. KELLY

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 ROBERT L. KELLY

1		I. <u>INTRODUCTION</u>
2	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
3	Α.	My name is Robert L. Kelly. My business address is 1325 N. Grand Avenue, Suite
4		100, Covina, California.
5	Q.	BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?
6	A.	I am employed by SouthWest Water Company ("SouthWest") as Vice President of
7		Regulatory Affairs.
8	Q.	BRIEFLY DESCRIBE YOUR PRESENT EMPLOYMENT.
9	A.	My present responsibilities consist of management of all rate filings for SouthWest's
10		utilities.
11	Q.	BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
12		BACKGROUND.
13	A.	My educational background consists of a Bachelor of Science in Accounting from the
14		State University of New York at Binghamton and a Masters in Business
15		Administration from the University of North Florida. I have also completed all the
16		requirements for an additional Masters in Business Administration from California
17		Polytechnic University at Pomona. My professional background prior to being
18		employed by SouthWest includes 18 years of financial experience with regulated
19		investor owned water utilities. I have been employed by SouthWest for 20 years. I

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DIRECT TESTIMONY

am a Certified Public Accountant in Florida and in Arizona. I also am a Certified Management Accountant.

II.

PURPOSE OF DIRECT TESTIMONY

ON WHOSE BEHALF ARE YOU TESTIFYING? 4 Q. I am testifying on behalf of Monarch Utilities I, L.P. ("Monarch"). 5 Α. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS 6 0. **PROCEEDING?** 7 The purpose of my direct testimony in this proceeding is to discuss 1) two 8 Α. dispositions of utility property, that is, the sale on September 11, 2015, of Monarch's 9 Blue Mound water and wastewater systems, and the pending sale of Monarch's 10 Midway Water System; 2) the Monarch Cost of Service Study as required by the 11 Commission's Rate Filing Package, Schedule II-H; 3) the Theoretical Depreciation 12 Reserve Study as required by the Commission's Rate Filing Package, Schedule II-B-13 3; 4) rate case expense as required by the Commission's Rate Filing Package, 14 Schedule II-E-4.4; and 5) affiliate expenses as required by the Commission's Rate 15 Filing Package, Schedule IV. 16 WAS THIS MATERIAL PREPARED BY YOU OR UNDER YOUR 17 Q. SUPERVISION? 18 Yes, it was. 19 A. INSOFAR AS THIS MATERIAL IS FACTUAL IN NATURE, DO YOU 20 Q. **BELIEVE IT TO BE CORRECT?** 21 22 Yes, I do. A.

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1	Q.	INSOFAR AS THIS MATERIAL IS IN THE NATURE OF OPINION OR
2		JUDGMENT, DOES IT REPRESENT YOUR BEST JUDGMENT?
3	A.	Yes, it does.
4	Q.	WHAT SCHEDULES IN THE RATE FILING PACKAGE ARE YOU
5		SPONSORING?
6	А.	I am sponsoring the schedules and associated workpapers shown in Attachment RLK-
7		1.
8		III. <u>BLUE MOUND SALE</u>
9	Q.	PLEASE DESCRIBE THE BLUE MOUND SYSTEMS.
10	A.	The Blue Mound systems have 800 water and 800 sewer connections and are entirely
11		contained within the City of Blue Mound ("City"). The City has no separate water or
12		sewer utility serving the City, apart from Monarch. Blue Mound was originally
13		platted as Saginaw Park. A private water company, Saginaw Park Utility Company,
14		was established to serve the area. Construction began in the area in the mid 1950's.
15		SouthWest purchased the Blue Mound systems from Tecon Water Company in 2004.
16		All of the Tecon systems were later renamed "Monarch Utilities I, L.P."
17	Q.	ARE THE BLUE MOUND WATER AND WASTEWATER SYSTEMS
18		INCLUDED AS PART OF THE COST OF SERVICE IN THIS
19		PROCEEDING? IF NOT, WHY NOT?
20	А.	No. The Blue Mound water and wastewater systems have been excluded because
21		they were sold to the City on September 11, 2015, about two months after the end of
22		the test year. All costs associated with the systems have been excluded from the
23		filing as a known and measurable change, i.e., a post-test year adjustment to test year

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DIRECT TESTIMONY

ROBERT L. KELLY

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amounts that is known, measurable, and verifiable, consistent with 16 Tex. Admin. Code §§ 24.3(33), .31(b) (TAC).

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O. PLEASE DESCRIBE THE TERMS OF THE SALE.

A. On March 13, 2015, Monarch and the City of Blue Mound filed an application with
the Commission for approval of the sale, transfer, or merger of facilities and
certificate rights in Tarrant County. The Commission approved the sale on July 30,
2015. The sale price for Blue Mound water and wastewater systems assets was
\$5,900,000 payable in cash at time of closing.

9 Q. PLEASE PROVIDE A BRIEF SUMMARY OF EVENTS THAT LED TO THE 10 SALE OF THE BLUE MOUND WATER AND WASTEWATER SYSTEMS TO 11 THE CITY.

In 2007, Monarch filed an application with the City, which had original jurisdiction, 12 Α. for a rate increase. The City denied the rate request. Monarch appealed the denial to 13 the Texas Commission on Environmental Quality ("TCEQ"). The TCEQ referred the 14 case to the State Office Of Administrative Hearings ("SOAH"). SOAH combined the 15 case with the environs rate case application for Monarch, which at the time had been 16 pending with the TCEQ. In December 2008, the City approved a settlement with 17 Monarch, and the rate case was subsequently settled. In February 2009, the City 18 Council approved the rate increase. At that time, the City informed Monarch that it 19 was interested in purchasing the water and wastewater systems. The City's stated 20 goal in purchasing the utility was to offer its citizens lower rates. The rate estimated 21 by the City that it would charge would have been approximately \$20 to \$40 a month 22 less than that charged by Monarch. 23

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Q. PLEASE BRIEFLY DESCRIBE THE CITY'S CONDEMNATION PROCEEDING AGAINST MONARCH.

On December 2, 2011, the City filed condemnation proceedings for the acquisition of 3 Α. the real property and fixtures of the Blue Mound water and wastewater systems. The 4 City's condemnation petition alleged that the City sought to exercise its powers of 5 eminent domain under Texas Local Government Code § 251.001 and Texas Property 6 Code Chapter 21 to acquire Monarch's entire water and wastewater systems. 7 Monarch responded by filing a combined no-evidence and traditional motion for 8 summary judgment asserting four grounds for summary judgment. The City filed a 9 response and a plea in abatement. The trial court granted the City's plea in abatement 10 and abated the case while the City attempted to have legislation approved, House Bill 11 1160, purporting to amend the Texas Local Government Code by providing 12 procedures for the TCEQ to transfer Monarch's CCNs to the City so that the City 13 could take over the operation of the Blue Mound water and wastewater systems. 14 Although the legislation was passed, the Governor vetoed the bill. The trial court 15 then reinstated the condemnation suit, granted summary judgment for Monarch, and 16 signed a judgment dismissing the case. The City filed an appeal. The Second Court 17 of Appeals, Fort Worth, Texas, affirmed the trial court's summary judgment for 18 19 Monarch.

20 **Q.**

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WHAT HAPPENED AFTER THE CONDEMNATION ATTEMPT BY THE CITY?

A. On September 5, 2013, Monarch filed another application for a water and sewer rate
change with the City. On October 22, 2013, the City denied the rate increase and set

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ROBERT L. KELLY

lower water rates for Monarch. On January 24, 2014, Monarch appealed the Blue
 Mound rate ordinance to the TCEQ. On June 17, 2014, Monarch and Blue Mound
 entered into a Settlement Agreement to resolve the appeal.

4 Q. PLEASE DISCUSS THE NEGOTIATIONS THAT PRECEDED THE SALE 5 AND THAT DETERMINED THE ULTIMATE SALE PRICE.

A. On March 6, 2009, at the time that the City first expressed its interest in purchasing
the systems, Monarch provided the City with its fair market value estimate of \$4.475
million for the entire combined water and wastewater systems. The City then made a
series of counter offers: December 2, 2009, \$1.9 million; March 30, 2010, \$3.8
million; April 20, 2010, \$4.3 million.

In the June 2014 rate appeal Settlement Agreement, Monarch agreed that by 11 July 31, 2014, it would provide the City with a firm, cash price offer for the City's 12 purchase of the water and sewer systems. On July 9, 2014, Monarch offered to sell 13 the systems to Blue Mound for what was eventually the sale price-\$5.9 million. The 14 price was based on Monarch's March 2009 \$4.475 million offer, plus capital 15 expenditures since March 2009, capital expenditures anticipated to be made prior to 16 closing, and legal and consulting expenses since December 2011. On January 5, 17 2015, Monarch and Blue Mound signed the sale agreement, and on September 11, 18 2015, the sale was successfully closed. 19

20 Q. WHAT IS THE AMOUNT OF MONARCH'S GAIN ON THE SALE OF BLUE

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- MOUND WATER AND WASTEWATER ASSETS?
- 22 A. Monarch's gain on sale is \$3,843,970, calculated as follows:

DIRECT TESTIMONY

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	Tabl	<u>le 1</u>	
	Blue Mound (Gain On Sale	
	Sale Price		\$5,900,000
	Original Cost Of Assets	(2,801,825)	
	Less Accumulated Depreciation	1,210,573	
	Net Book Value		(1,591,252)
	Professional Fees		(477,173)
	Gain On Sale		3,831,575
Q.	HAS THE SUPREME COURT OF PRINCIPLES COMMONLY USED		
	SALE?		
Α.	Yes. In Public Utility Commission of	Texas v. Gulf Sta	tes Utilities Company, 809
	S.W.2d 201 (Tex. 1991) ("Decision"),	the Supreme Court	established nine principles
	that must be weighed in allocating gain	s on sale. I will di	scuss each of the criteria as
	it applies to the sale of Blue Mound wat	ter and wastewater	assets.
	Principle No. 1: The group burdens (e.g., depreciation, assets sold.	that has borne t maintenance, ta	he financial xes) of the
	The Decision admonished the Commiss	sion for basing its r	esolution of the Gulf States
	case entirely on this one criteria, and a	llso for interpreting	this principle too literally,
	i.e., basing sharing on exactly the perce	ntage each paid for	
	Applying this standard to Blue	Mound is made m	ore difficult as a result of a
	history of Monarch voluntarily reques	sting less than the	full amount of substantial

needed rate increases. This has resulted in Monarch's shareholders having borne

substantially more of Monarch's financial burden than they otherwise would have.

This voluntary absorption of needed rate increases by Monarch has been called

"Revenue Held In Abeyance." This was also the practice of Tecon, the prior owner

of the Blue Mound and the other systems acquired in 2005. Attachment RLK-2

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shows the enormous burden Monarch has voluntarily absorbed: first in its 2007 rate case, \$2.6 million annually for water and \$.6 million annually for sewer, then in its 2011 rate case (as amended), \$6.5 million annually for water and \$1.9 million annually for sewer, and then in its 2013 rate case, \$6.0 million for water and \$1.3 million for sewer.

6 Attachment RLK-3 provides an estimate of that enormous burden since 2008 7 for all of Monarch. The estimated total burden, excluding Blue Mound, is \$43.3 8 million, over 11 times the amount of the gain on the Blue Mound sale.

In the interest of full disclosure, the Monarch Revenue Held in Abeyance 9 amounts shown in Attachments RLK-2 and RLK-3 are based entirely on Monarch 10 rate filings that ultimately resulted in TCEQ-approved settlements with no mention of 11 cost of service. Nevertheless, in all three Monarch rate cases, as well as the earlier 12 Tecon rate case, the utilities ultimately received lesser increases than even the 13 reduced increases the utilities had originally requested. Hopefully, the point here is 14 clear: it would be egregious to effectively penalize Monarch for its efforts to avoid 15 rate shock by requiring Monarch to share with customers any portion of the gain on 16 the sale of Blue Mound assets. 17

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Principle No. 2: Whether the asset sold has been included in the rate base over the years.

This principle has interesting relevance for Monarch given Monarch's historic customer-centric practice of voluntarily absorbing needed rate increases. Monarch's extensive efforts to limit rate increases and avoid customer rate shock, combined with not having had any rate base determinations in recent memory, means that for Monarch the concept of rate base historically has had little significance. More to the

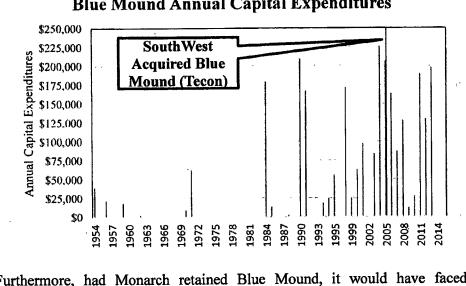
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DIRECT TESTIMONY

point, Monarch's underearning has effectively diluted the economic value of 1 Monarch's assets, and in terms of earning capability very little of Monarch's 2 investment in Blue Mound assets has ever effectively been in rate base. This is one 3 more reason why gain on sale of Monarch assets should be attributed entirely to 4 5 Monarch. Principle No. 3: The group that has borne the risks of the 6 assets sold. 7 It is clear that risks associated with Blue Mound were predominately borne by 8 Monarch. After purchasing the systems, Monarch willingly invested \$1.1 million in 9 Blue Mound infrastructure while requesting rate increases lower than necessary to 10 recover costs, and then compromised through settlement on rate increases that were 11 lower still. 12 Whether the asset was depreciable Principle No. 4: 13 property, nondepreciable property, or a combination of the 14 two types. 15 Virtually all of the current Blue Mound \$1.9 million plant investment is depreciable. 16 Only \$45,000 is nondepreciable. However, Monarch has recovered very little of Blue 17 Mound investment in rates as a result of the substantial amounts of revenue held in 18 abeyance discussed earlier. 19 Principle No. 5: The impact of the proposed allocation on 20 the financial strength of the utility. 21 Since the acquisition of Blue Mound in 2004, Monarch has invested \$1.1 million in 22 Blue Mound systems, or about 41% of the total Blue Mound plant investment. 23

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Blue Mound Annual Capital Expenditures

Furthermore, had Monarch retained Blue Mound, it would have faced further 2 investments in infrastructure of \$1.6 million for additional needed capital 3 Avoiding these additional investments substantially benefited improvements. 4 remaining customers who would have largely absorbed those costs in their water 5 rates. See Attachment RLK-4, Opinion of Probable Cost, prepared by CivilSolutions 6 Inc. This cost estimate was the result of a Monarch-sponsored investigation prepared 7 in 2010 into the current condition of the system and capabilities of the system for 8 meeting TCEQ requirements for providing water service. 9

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Principle No. 6: The reason for the asset's appreciation (e.g., inflation, a general increase in property values in the area).

Only \$45,000 of the Blue Mound investment was represented by land. The 13 transaction price was based on market value agreed to by a willing buyer and a 14 15 willing seller.

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Any advantages enjoyed by the Principle No. 7: 16 shareholders because of favored treatment accorded the 17 18 asset.

ROBERT L. KELLY

1		Monarch's shareholder enjoyed no special advantages by way of favored treatment of
2		Blue Mound assets. In fact, as previously discussed, there is a tortured history of
3		costly litigation leading up to the Blue Mound sale, largely brought about by
4		Monarch's refusal to acquiesce to the City of Blue Mound's insistence on
5		preferentially lower rates for Blue Mound customers.
		Principle No. 8: The dividends paid out to the shareholders
6 · 7		over the years.
8		Monarch has never paid any dividends to its shareholder, Monarch Utilities Inc.
9 10		Principle No. 9: Any extraordinary burdens borne by the ratepayers in connection with the asset.
11		There clearly were extraordinary burdens associated with the Blue Mound systems,
12		and they were almost entirely borne by Monarch. Again, both the water and
13		wastewater systems consistently under-earned, largely resulting from Monarch's
14		concerns about customer rate shock, while at the same time Monarch invested \$1.1
15		million in Blue Mound infrastructure.
16	Q.	IN YOUR OPINION, HOW SHOULD THE GAIN ON THE SALE OF THE
1 7		BLUE MOUND WATER AND WASTEWATER SYSTEMS ASSETS BE
18		ALLOCATED BETWEEN SHAREHOLDERS AND CUSTOMERS?
19	A.	For the reasons I just explained, the gain should be allocated 100% to shareholders.
20		IV. <u>MIDWAY SALE</u>
21	Q.	PLEASE DESCRIBE THE MIDWAY WATER SYSTEM.
22	A.	Ni America, LLC purchased the stock of Midway Water Utilities, Inc. ("Midway")
23		from Amanda P. Tinsley in 2005. That same year Ni America, LLC assigned its
24		interests in the stock purchase to SouthWest. Midway's assets were subsequently

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DIRECT TESTIMONY

transferred to Monarch on October 3, 2011. Midway has 421 water connections and
is entirely contained within the City of Oak Point. Monarch and the City entered into
a sale agreement on June 18, 2015, and then entered into an amendment to the sale
agreement on August 25, 2015, for the extension of some deadlines. The City and
Mustang Special Utility District ("Mustang SUD") entered into an agreement on
August 26, 2015, for the City to assign its rights under the sale agreement with
Monarch.

8 Q. IS THE MIDWAY WATER SYSTEM INCLUDED AS PART OF THE COST 9 OF SERVICE IN THIS PROCEEDING? IF NOT, WHY NOT?

10 A. No. The Midway water system has been excluded because there is a pending sale to 11 the City of Oak Point effective June 18, 2015, before the end of the test year. The 12 sale agreement had anticipated that the sale would close before year end. The 13 agreement included a termination provision that in the event the sale was not closed 14 by December 31, 2015, either party would have the right to terminate the agreement. 15 Because of this belief by both parties that the sale would occur before year end, all 16 costs associated with the system were excluded from the filing as a known and 17 measurable change, i.e. a post-test year adjustment to test year amounts that is known, 18 measurable and verifiable, consistent with 16 TAC §§ 24.3(33), 24.31(b).

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Q. HAS THE SALE CLOSED?

A. No. The City of Oak Point's assignment of its interest in the sale to the Mustang
SUD caused a delay in requesting approval from the Commission, which did not
occur until September 16, 2015. Commission approval has been given, and the
closing is expected to occur early in March 2016.

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DIRECT TESTIMONY

ROBERT L. KELLY

1 Q. WHAT IS THE AMOUNT OF MONARCH'S GAIN ON THE SALE OF

2 MIDWAY WATER SYSTEM ASSETS?

3 A. Monarch's gain on sale on Midway water system assets is \$917,017, calculated as

4 follows:

Midway Gain On Sale						
Sale Price		\$1,500,000				
Original Cost Of Assets	(1,218,154)	······································				
Less Accumulated Depreciation	648,271					
Net Book Value	1	(569,883)				
Professional Fees		(13,100)				
Gain On Sale		\$917,017				

Table 3

5 Q. IN YOUR OPINION, HOW SHOULD THE GAIN ON THE SALE OF
6 MIDWAY WATER SYSTEM ASSETS BE ALLOCATED BETWEEN
7 SHAREHOLDERS AND CUSTOMERS?

8 A. In my opinion, the gain should be allocated 100% to shareholders.

9 Q. PLEASE EXPLAIN THE BASIS FOR YOUR OPINION.

A. Midway was included in the 2011 and 2013 Monarch rate filings, and the benefits to
customers relating to Revenue Held in Abeyance discussed earlier relating to Blue
Mound apply equally to Midway. All of the reasons supporting my opinion
concerning the gain on the sale of the Blue Mound systems also apply to the gain on
the sale of the Midway water system. As with Blue Mound, it would be egregious to
effectively penalize Monarch for its efforts to avoid rate shock by requiring Monarch
to share with customers any portion of the gain on the sale of Midway assets.

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DIRECT TESTIMONY

1		V. <u>COST OF SERVICE STUDY</u>
2	Q.	PLEASE DESCRIBE THE APPROACH THAT MONARCH HAS TAKEN IN
3		PREPARING THE COST OF SERVICE STUDY REQUIRED BY THE
4		COMMISSION'S RATE FILING PACKAGE, SCHEDULE II-H.
5	Α.	We modeled our cost of service study for water and sewer service after the approach
6		used by the TCEQ in its rate filing package, Alternative Sections IX and $X - Rate$
7		Design Calculations and Rate Design.
8	Q.	DOES MONARCH'S CURRENT RATE DESIGN MAKE A DISTINCTION
9		AMONG CUSTOMER CLASSES FOR EITHER WATER OR
10		WASTEWATER, AND IF NOT, WHY NOT?
11		
	А.	No. Historically the TCEQ rules did not define different types of customer classes.
12	А.	No. Historically the TCEQ rules did not define different types of customer classes. The classification for water and wastewater rates has been solely the identification of
12 13	А.	
•	А.	The classification for water and wastewater rates has been solely the identification of
13	Α.	The classification for water and wastewater rates has been solely the identification of rates set for various meter sizes based on meter equivalency factors (unless negotiated
13 14	Α.	The classification for water and wastewater rates has been solely the identification of rates set for various meter sizes based on meter equivalency factors (unless negotiated otherwise), and classification of system ratepayers as inside v. outside of
13 14 15	Α.	The classification for water and wastewater rates has been solely the identification of rates set for various meter sizes based on meter equivalency factors (unless negotiated otherwise), and classification of system ratepayers as inside v. outside of municipalities who are subject to a different regulatory process. For Monarch,

1Q.DOESMONARCH'SCOSTOFSERVICESTUDYPROVIDETHE2NECESSARYDATATOSHOWTHATTHEEXISTINGWATERAND3WASTEWATERRATESTRUCTURES, ONTHEWHOLE, ARE FAIRAND4EQUITABLE?

A. Yes. Monarch's cost of service study shows that moving to a strict fixed/variable
cost allocation scheme such as used by the TCEQ would substantially increase costs
attributable to residential water customers. Service charges would increase by 44.0%,
from \$12.0 million to \$17.3 million, and quantity charges would increase by 10.2%,
from \$7.6 million to \$8.4 million.

10 Q. WHAT IS THE RESULT OF YOUR COST OF SERVICE STUDY AS IT
11 RELATES TO WASTEWATER CUSTOMERS?

A. Wastewater customers would see minimal change in their monthly bills under a strict
fixed/variable cost allocation scheme. Service charges would decrease by 1.2%.
Quantity charges would likely remain the same depending on target average winter
water consumption.

16Q.PLEASEPROVIDEYOURRECOMMENDATIONREGARDING17MONARCH'S RATE STRUCTURE.

18 A. Monarch recommends the current rate structure be maintained, and that any change in
19 rates be applied on a pro-rata basis to all customers without any distinction as to
20 customer class other than meter size.

DIRECT TESTIMONY

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VI. THEORETICAL DEPRECIATION RESERVE ADJUSTMENT

2 Q. WHY WAS A THEORETICAL DEPRECIATION RESERVE STUDY 3 PREPARED FOR THIS FILING?

- A. A Theoretical Depreciation Reserve Study derived from the most recent depreciation
 study is required by the Commission's Rate Filing Package, Schedule II-B-3.
- 6 Q. WHO IS SPONSORING THE THEORETICAL DEPRECIATION RESERVE
 7 STUDY?
- 8 A. AUS Consultants. The Theoretical Depreciation Reserve Study is discussed in the
 9 Direct Testimony of Earl Robinson.
- Q. PLEASE DISCUSS THE PURPOSE AND RECOMMENDATIONS OF YOUR
 DIRECT TESTIMONY AS IT RELATES TO THE THEORETICAL
 DEPRECIATION RESERVE STUDY.
- A. The purpose of my direct testimony is to address the results of the Study that show
 surpluses of \$5.339 million in water reserves, \$0.660 million in wastewater reserves,
 and \$0.060 million in shared equipment reserves. My direct testimony addresses my
 proposed disposition of those surpluses.

17 Q. HOW DO YOU PROPOSE FOR SURPLUS RESERVES TO BE HANDLED?

18 A. I propose that the surpluses be refunded to customers expeditiously, over a five-year 19 period beginning with the effective date of new rates in this proceeding. Monarch is 20 proposing in this proceeding to phase-in the needed rate increases over a three-year 21 period in order to limit rate shock. Monarch requests that the first three years' cost of 22 service impact of the five-year refund be included evenly in rates over the three-year 23 rate phase-in period. The calculation of refunds includes the rate base impact of

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lower accumulated depreciation and higher deferred taxes. See Attachment RLK-5. As an example, the amount of the water-related annual reserve refunds during each of the three years would be \$937,968, calculated as shown below. These annual refunds are already embedded in the rates being proposed in this proceeding.

	Amount/Year	Cumulative Amount	Rate base Impact on Revenue Requirement 11.76%	Cumulative Deferred Taxes 34%	Revenue Requirement on Deferred Taxes 11.76%	to Customers	Total Refund to Customers After Franchise & Uncollectible 103.0132%	3 year Avg. Refund to Customers	Cumulative Refund to Customers
	(a)	(b)	(c)=(b)x11.76%		(e)=(d)x11.76%	(f)=(a+c+e)	(g)=(f)x103.01%	(h)=sum (l)+3	(i) Cum.
Year 1	\$1,077,889	\$1,077,889	(\$126,786)	\$366,482.28	\$43,107	\$994,210	\$1,024,168	\$937,968	\$937,968
Year 2	\$1,077,889	\$2,155,778	(\$253,572)	\$732,964.55	\$86,215	\$910,531	\$937,968	\$937,968	\$1,875,935
Year 3	\$1,077,889	\$3,233,667	(\$380,359)	\$1,099,447	\$129,322	\$826,852	\$851,767	\$937,968	\$2,813,903
Year 4	\$1,077,889	\$4,311,556	(\$507,145)	\$1,465,929	\$172,429	\$743,173			
Year 5	\$1,077,889	\$5,389,445	(\$633,931)	\$1,832,411	\$215,537	\$659,495			

Т	a	b	le	4

5 Wastewater depreciation surplus refunds would be handled similarly with annual 6 refunds in the first three years of \$114,416.

Table 5

	Amount/Year	Cumulative Amount	Rate base Impact 11.76%	Cumulative Deferred Taxes 34%	Revenue Requirement on Deferred Taxes 11.76%	Total Refund to Customers Before Franchise & Uncollectible	Total Refund to Customers After Franchise & Uncollectible 101.2223%	3 year Avg. Refund to Customers	Cumulative Refund to Customers
	(a)	(b)	(c)=(b)x11.76%	(d)=(b)x34%	(e)=(d)×11.76%	(f)=(a+c+e)	(g)=(I)x101.22%	(h)=sum (f)+3	(i) Cum.
Year 1	\$133,811	\$133,811	(\$15,739)	\$45,496	\$5,351	\$123,423	\$124,931	\$114,416	\$114,416
Year 2	\$133,811	\$267,622	(\$31,479)	\$90,991	\$10,703	\$113,035	\$114,416	\$114,416	\$228,833
Year 3	\$133,811	\$401,432	(\$47,218)	\$136,487	\$16,054	\$102,647	\$103,901	\$114,416	\$343,249
Year 4	\$133,811	\$535,246	(\$62,958)	\$181,983	\$21,406	\$92,259			
Year 5	\$133,811	\$669,054	(\$78,697)	\$227,478	\$26,757	\$81,871			

7 Q. HOW TO YOU PROPOSE TO REFUND YEARS 4 AND 5?

8 A. Years 4 and 5 refunds would follow on in the first two years of Monarch's next rate 9 proceeding, which is also assumed will incorporate a three year phase-in. The third 10 year (of the future three year phase-in), if shown on Tables 4 and 5, would be Year 6 11 and would reflect zero refunds, indicating all necessary reserve refunds having been 12 accomplished.

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WASTEWATED DEFUN

Q. IF FOR ANY REASON MONARCH DOES NOT APPLY FOR A RATE CHANGE IN YEARS 4 AND 5, WILL CUSTOMERS BE DEPRIVED OF REFUNDS IN THOSE YEARS?

A. No. Presumably, if Monarch does not request a rate change for Years 4 and 5, the
rates in effect in Year 3 would remain unchanged and the Year 3 refunding level
would continue in effect. In fact, refunds post-Year 3 would be higher than if
updating were to occur because, as can be seen from the "Total Refund to Customers"
column in the previous analyses, the level of refunds declines over time. Any
ultimate over-or under-refunding would be collected or paid to customers in a
subsequent rate proceeding.

11 Q. HOW ARE YOU PROPOSING TO REFUND SHARED EQUIPMENT 12 DEPRECIATION RESERVE SURPLUSES OF \$.060 MILLION?

13 A. Shared equipment depreciation reserve surpluses have already been allocated between
14 water and wastewater using an allocation methodology consistent with other
15 calculations in this filing.

16 Q. IS THE METHODOLOGY YOU ARE PROPOSING FOR REFUNDING
 17 THESE THEORETICAL DEPRECIATION RESERVE SURPLUSES FAIR TO
 18 CUSTOMERS?

A. Yes, it is. This refunding methodology avoids complicated surcredits and balancing
 accounts, instead embedding the refunds in cost of service in a manner that fairly and
 accurately reflects the associated rate base and deferred tax impacts.

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DIRECT TESTIMONY

1 VII. **RATE CASE EXPENSE** 2 Q. PLEASE DESCRIBE THE PURPOSE OF YOUR DIRECT TESTIMONY ON 3 **RATE CASE EXPENSES.** 4 Α. The purpose of my direct testimony on rate case expenses is to 1) support Rate Filing 5 Package Schedule II-E-4.4 Rate Case Expenses, 2) explain the reasonableness of rate 6 case expenses incurred in filing this application, and 3) explain how Monarch is 7 seeking to recover its rate case expenses. 8 Q. IN YOUR PROFESSIONAL EXPERIENCE, ARE THE RATE CASE 9 **EXPENSES INCURRED IN FILING THIS APPLICATION REASONABLE?** 10 Α. I believe the rate case expenses incurred in preparing this filing are entirely 11 reasonable given the highly unusual circumstances involved. Rate case expenses 12 have been largely driven by the advent of the Commission's new Rate Filing Package 13 and the lack of any precedent, given that Monarch is the first Class A water and 14 wastewater utility filing under the new requirements. 15 For example, Monarch had to retain a consultant to assist in developing the 16 complex electronic template that served as an indispensable guide. Several of the 17 Rate Filing Package's requirements are new to water, such as the required used and 18 useful study and affidavit, also the theoretical depreciation reserve study and the cost 19 of service study. The new requirement for extensive showings about accumulated 20 deferred income taxes required extensive effort by outside consultants with expertise 21 in utility tax accounting. The continuing downward trend in water demand in

Monarch's service areas required a weather normalization study and supporting direct

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testimony that Monarch had never before prepared. The study places Monarch's weather experience in context of the overall statewide downward trend in water use.

The detail of rate case expense can be found in Schedule II-E-4.4. Cumulative rate case costs paid to consultants, accountants, and others based on bills received from Lloyd Gosselink Rochelle & Townsend, P.C. as of the date of filing are \$328,621.52. Supporting invoices as of the date of filing for this amount can be found in the Direct Testimony of Lambeth Townsend, Attachments RLT-2 and RLT-3. Additional rate case costs have been incurred totaling \$114,694 representing employee travel and payments made directly to a vendor. Supporting invoices as of the date of filing for this amount can be found in the Rate Filing Package as Schedule II-E-4-4. Total rate case expense as of the date of filing is \$443,315.

12 Q. HOW IS MONARCH SEEKING TO RECOVER ITS RATE CASE 13 EXPENSES?

A. 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.

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DIRECT TESTIMONY

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ROBERT L. KELLY

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1		VIII. <u>AFFILIATE EXPENSES</u>
2	Q.	BROADLY SPEAKING, HOW ARE SOUTHWEST'S AFFILIATES
3		ORGANIZED?
4	А.	SouthWest's affiliates are grouped under three major business segments:
5		1) Suburban Water Systems ("Suburban"), which is a regulated class A water utility
- 6		in California, 2) Texas Utilities, which comprises regulated water and wastewater
7		utilities and related customer service operations throughout Texas, and 3) Southeast
8		Utilities, which represents water, wastewater, and to a much smaller extent operations
9		and maintenance contracts in Alabama. A more extensive discussion of the
10		SouthWest organization is in the Direct Testimony of Charles Profilet.
11	Q.	IN THIS FILING HAS MONARCH DOCUMENTED SOUTHWEST'S
12		CORPORATE COST ALLOCATION METHODOLOGIES?
13	А.	Yes. SouthWest fully understands that the process of properly allocating costs is
14		important in setting just and reasonable rates as well as in minimizing cost subsidies
15		among entities. As a result, a Cost Allocation Manual has been prepared and
16		included in this filing, which documents the cost allocation processes of SouthWest
17		and its affiliates.
· 18	Q.	PLEASE DISCUSS WHAT COSTS ARE CONSIDERED CORPORATE
19		INDIRECT COSTS ALLOCABLE TO THE THREE MAJOR BUSINESS
20		SEGMENTS DISCUSSED EARLIER, AND THE METHODOLOGY USED IN
21		THEIR ALLOCATION.
22	А.	First of all, indirect costs are those corporate costs that benefit all SouthWest business
23		segment operations and that are so general in nature as to require prorations based on

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DIRECT TESTIMONY

a combination of several pertinent factors. To allocate those costs among the three major business segments, the Cost Allocation Manual describes the 3-factor allocation methodology consisting of three factors: gross plant, operating expenses including payroll expenses, and payroll.

5 Q. PLEASE DESCRIBE THE INDIRECT CORPORATE SERVICES THAT
 6 SOUTHWEST ALLOCATES TO AFFILIATES.

- 7 A. Broad categories of costs being amortized are Executive, Legal, Information
 8 Technology, Finance, Human Resources, and Facilities. A discussion of each
 9 function's responsibilities and indirect costs will follow below.
- 10 **A. Executive**

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In conjunction with the Board of Directors, the executive function is responsible for providing strategic vision, business strategy, executive oversight, management and overall direction to the Company. The executive function is comprised of the Chief Executive Officer, Chief Financial Officer, General Counsel, and two administrative staff.

16 B. Legal

The legal function is responsible for providing counsel on legal matters within the Company, including legal representation of SouthWest and litigation strategy and management. The legal resources of the Company consist of the Vice President/General Counsel who is included in the Executive function and one Senior Paralegal who resides in the legal function. SouthWest utilizes a number of outside legal firms to address legal issues of an indirect nature that arise on an ongoing basis and that impact all subsidiaries.

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C. Information Technology

The information technology function is responsible for operating and maintaining a uniform, efficient, and flexible information technology platform capable of addressing the increasingly complex current and future operational, financial, and business needs of SouthWest business segments. Information technology is comprised of four internal groups as follows:

7 Administration—works with business segments and vendors to deliver
8 optimal service, develops short and long range technology objectives,
9 provides contract and project management, and advises business segments on
10 technology issues.

11 **Client Services**—provides frontline desktop and helpdesk technical support, 12 procurement of IT assets, governance of policy and procedures, network 13 application, and security.

14Technical Infrastructure—provides planning, architecture, implementation,15administration, and support of data, telecom and network infrastructure and16servers.

17Business Applications—provides ongoing systems related business18processes, administration, development, and project management for19enterprise systems (financials, customer service, mobile devices, reporting20tools, human resources, and payroll).

D. Finance

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The finance function is responsible for the accurate and timely accounting for corporate transactions, the accurate and timely preparation of financial statements,

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DIRECT TESTIMONY

preparation of budgets and forecasts, accounts payable, payroll, treasury, risk
 management, audit, tax, and providing management with the financial information
 necessary for informed operating and financial decision making.

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E. Human Resources

The human resource function is responsible for employment policies, practices and employee related matters, arranging for both company- and employee-paid benefits such as medical, dental, vision, life, and disability insurance, and for managing the company's workers compensation obligations.

9 F. Facilities

Occupied under a 25-year lease in a business park, the corporate office of SouthWest
is in a two-story, 32,000 sq. ft. facility located at 12535 Reed Road in Sugar Land,
Texas. The lease was entered in March 2001 and will expire in February 2026.

Q. WHAT IS THE BASIS FOR THE 3-FACTOR INDIRECT ALLOCATION FORMULA AND WHY IS IT BEING USED?

The 3-factor allocation formula is the allocation methodology approved by the 15 A. 16 California Public Utilities Commission in its decision 14-012-038 involving Monarch's California affiliate Suburban. The 3-factor methodology is being used to 17 18 ensure that corporate costs are fairly allocated to Monarch customers when 19 considering that this is the same methodology being used to allocate costs to 20 Suburban customers. Using any other cost allocation methodology would likely 21 result in corporate costs being either over- or under-allocated to Monarch customers 22 when compared to Suburban customers.

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1	Q.	PLEASE DISCUSS THE COST ALLOCATION METHODOLOGY BEING
2		USED TO ALLOCATE TEXAS UTILITIES' COSTS TO MONARCH AND
3		OTHER AFFILIATES.

- A. Texas Utilities' costs are allocated to benefiting affiliates using the well-established
 meter equivalent factors method, and using prior year-end "active" connections. This
 is a well-documented and widely-used method of allocating costs.
- 7 Q. PLEASE SUMMARIZE THE BENEFITS THAT ACCRUE TO CUSTOMERS

8 AS A RESULT OF USING SOUTHWEST'S CORPORATE SERVICES.

- 9 A. Corporate has a lean workforce and a lean budget with a minimum number of people.
 10 It pays reasonable wages, and the workforce has been trimmed significantly over the
 11 last four years. Corporate provides shared services more effectively and efficiently
 12 than could be provided to the individual affiliates individually.
- 13

IX. ACCOUNTING FOR ECO MARGIN

14 Q. IN MR. ROSE'S TESTIMONY, HE DESCRIBES THE DESIGN-BUILD
15 SERVICES PROVIDED TO MONARCH BY ECO RESOURCES ("ECO")
16 PRIOR TO 2008. WHY IS IT NOW IMPORTANT TO UNDERSTAND THE
17 REASONABLENESS OF THE SERVICES AND THE PAYMENTS MADE TO
18 ECO BY THE COMPANY?

A. Mr. Rose describes in his testimony the payments to ECO that included a margin to
fully compensate ECO, an affiliate of Monarch, for the design-build services
provided to Monarch. When Monarch accounted for the original cost of the projects
constructed through the design-build services, Monarch recorded as plant in service
the total amount of the costs for each project, including the margin paid to ECO, and

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1 reflected these amounts in rate filings with the TCEQ as rate base. However, those 2 margins no longer appear in the current trial balance of Monarch, and as a result 3 Monarch has made an adjustment to restore the amounts of the margin back to plant 4 in service and to rate base in this proceeding. 5 INTERCOMPANY TRANSACTIONS ARE TYPICALLY ELIMINATED IN Q. 6 FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH 7 **GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. ON WHAT BASIS** 8 HAD MONARCH BEEN ALLOWED TO RECORD THE INTERCOMPANY 9 **ECO MARGINS?** 10 Α. Accounting for affiliated sales to regulated utilities is governed by the Financial 11 Accounting Standards Board's Accounting Standards Codification 980-810-45-1: 12 Profit on sales to regulated affiliates shall not be eliminated in generalpurpose financial statements if both of the following criteria are met: 13 The sales price is reasonable. 14 a. It is probable that, through the rate-making process, future 15 b. 16 revenue approximately equal to the sales price will result from 17 the regulated affiliate's use of the products. 18 This provision is a reaffirmation of an earlier accounting standard, Accounting 19 Research bulletin No. 51. It was on the basis of what is today referred to as "ASC 20 980" that Monarch costs related to the ECO margins were not eliminated in financial 21 reporting. 22 WHY DOES MONARCH'S TRIAL BALANCE NOW EXCLUDE THESE Q. 23 **AMOUNTS FROM PLANT IN SERVICE?** Α. In the year of the change, 2009, SouthWest's external auditor made a determination 24 25 that costs related to the ECO margin did not comply with the above standard. As a 26 result Monarch's 2009 audited financial statements included the following disclosure:

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DIRECT TESTIMONY

1 The TCEQ has allowed regulated rates which are designed to recover the Company's costs of providing the regulated services or products and require 2 the refund of certain credits; however, the rates currently established do not 3 support earning at a nominal rate of return on equity. Therefore, in accordance 4 5 with GAAP [Generally Accepted Accounting Principles], the Company does not account for the future recovery of certain costs and the future refund of 6 certain credits as regulatory assets and liabilities. (p.5) 7 8 Monarch, as well as all of its affected affiliates, expensed ECO margin amounts and 9 recorded contra assets in order to reflect the reduced plant in service. 10 Q. WAS THE AUDITOR'S DETERMINATION RELATING TO THE ECO MARGIN DRIVEN BY CONCERNS ABOUT THE LEVEL OF BENEFIT TO 11 12 CUSTOMERS PROVIDED BY ECO MARGIN COSTS, OR CONCERNS **ABOUT WHETHER THE EXPENDITURES WERE PRUDENT?** 13 Absolutely not. While the auditor's determination impacted the accounting for the 14 Α. ECO margin, the determination was not in any way driven by any concerns about the 15 ECO margin costs having been prudent. Rather the determination resulted entirely 16 17 from Monarch's commitment to the concept of gradualism when pursuing rate relief, 18 which had resulted in Monarch having rates that did not fully recover its costs. 19 Q. HAS MONARCH INCLUDED IN RATE BASE FOR THIS FILING 20 AMOUNTS REPRESENTING MARGINS PAID TO ECO RESOURCES FOR **DESIGN-BUILD SERVICES PERFORMED BY ECO PRIOR TO 2008?** 21 22 Α. Yes. The amounts shown on Schedule II-B-1 for original cost of Plant in Service includes \$8,428,839 that is directly attributable to margins paid to ECO for design-23 24 build services.

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DIRECT TESTIMONY

Q. WHY IS MONARCH MAKING THIS ADJUSTMENT TO MONARCH'S TRIAL BALANCE?

A. As I mentioned above, Monarch has historically always recorded these amounts in the accounts maintained for regulatory purposes, but as a result of the accounting determination in 2009 to remove the margin amounts from the published financial statements, plant in service is substantially understated. Consequently, Monarch is effectively correcting its books for regulatory purposes in order to properly reflect ECO margin amounts that were prudently incurred and that have substantially benefited customers.

10 Q. WASN'T MONARCH'S RATE BASE ESTABLISHED IN PRIOR RATE 11 CASES?

A. No. Since its acquisition by SouthWest in 2004, Monarch's rate cases in 2007, 2011,
and 2013 were all settled on a "black box" basis, with no particular values ascribed to
any of the elements of cost of service including rate base. As a result, this docket is
the first review by the Commission of Monarch's rate base since its acquisition by
SouthWest.

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17 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

18 A. Yes, it does.

DIRECT TESTIMONY

Schedules Sponsored

- Schedule II-A-2.3(1) Comparison Year 2013 Affiliate Income
- Schedule II-A-3.9 Accounts Payable to Associated Companies
- Schedule II-A-3.13 Advances to/from Parent Corporation
- Schedule II-B-3 (7) Accumulated Depreciation Affidavit
- Schedule II-E-4.4 Rate Case Expenses
- Schedule II-F.g Allocation Factor Calculation
- Schedule II-F.h Allocation or Classification Factor Special Studies
- Schedule II-H-1 Cost of Service Study
- Schedule IV-1 Affiliate Expenses by NARUC Account
- Schedule IV-2 Adjusted Affiliate Expenses
- Schedule IV-4.1 Allocation Manual
- Schedule IV-5 Capital Projects
- Schedule IV-6 Adjustment to Test Year Expenses
- Schedule IV-7 Statutory Requirements
- Schedule IV-8 Services Provided to Affiliates
- Schedule IV-9 Allocation of Affiliate Costs
- Schedule IV-10 Controls
- Schedule IV-11 Affiliate Billing Methods
- Schedule IV-12.1 Affiliate Multijurisdictional Costs
- Schedule IV-12.2 Texas Affiliates and Regions
- Schedule IV-13 Affiliate Project Codes Created/Closed in Test Year
- Schedule IV-14 Affiliate Payroll
- Schedule IV-14.1 Affiliate Contracts

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	n: •	Current			Held In			Held In
Filer	TCEQ Docket No.	Rates	Requested	Allowable	Abeyance	Requested Allowable	Allowable	Abeyance
Tecon 2001 Rate Case	a contra a			4 -	* ~ -	* 	F	
Water	2001-1079-UCR	7,856	10,251	17,673	7,423	30.5%	125.0%	94.5%
Wastewater	2001-1080-UCR	978	1,310	3,779	2,470	34.0%	286.6%	252.7%
Monarch 2007 Rate Case	Ķ			and a second	× ·	 	i	
Water	2007-1896-UCR	14,170	20,128	22,732	2,603	42.1%	60.4%	18.4%
Wastewater	2007-1896-UCR	1,866	3,896	4,464	568	108.8%	139.2%	30.5%
Monarch 2011 Rate Case (as amended)	e (as amended)	·						
Water	2011-1280-UCR	19,950	22,795	29,272	6,477	14.3%	46.7%	32.5%
Wastewater	2011-1280-UCR	3,595	3,589	5,485	1,896	-0.2%	52.6%	52.7%
Monarch 2013 Rate Case	Ø				, manager of the second s			
Water	2014-0413-UCR	21,498	24,769	30,773	6,010	15.2%	43.1%	27.9%
Wastewater	2014-0413-UCR	4,034	4,387	5,673	1,286	8.8%	40.6%	31.9%

	W	IONARCI	H I, L.P.	MONARCH I, L.P. REVENUE HELD IN ABEYANCE, EXCLUDING BLUE MOUND	JE HELI	D IN ABI	EYANCE	EXCLI	UDING B	ILUE M	anno	
						•					2015	
	2005 **	2006 **	2007 **	2008	2009	2010	2011	2012	2013	2014	YTD 9/11/15 *	Total
Total Monarch - RHIA S	6	,										
water - KHIA 5 Wastewater - RHIA 5				2,603,000 568,000	2,603,000 568,000	2,603,000 568,000	6,477,000 1,896,000	6,477,000 1,896,000	6,4 / /,000 1,896,000	6,010,000 1,286,000	4,000,260 857,248	31,235,248 9,535,248
				3,171,000	3,171,000	3,171,000	8,373,000	8,373,000	8,373,000	7,296,000	4,863,514	46,791,514
Blue Mound												
Water - Revenue \$				544,407	634,214	678,783	702,656	712,692	745,624	762,471	648,573	
Wastewater - Revenue \$	\$			394,521	606,968	685,803	671,691	672,937	677,761	711,673	571,918	
Total Blue Mound - Revenue S	Revenue S		1	938,928	1,241,182	1,364,586	1,374,346	1,385,629	1,423,385	1,474,144	1,220,491	
Water - Total System - RHIA %	- RHIA %			18.40%	18.40%	18.40%	32.50%	32.50%	32.50%	27.90%	27.90%	
Wastewater - Total System - RHIA %	stem - RHIA %	.9		30.50%	30.50%	30.50%	52.70%	52.70%	52.70%	31.90%	31.90%	
Water RHIA \$				100,171	116,695	124,896	228,363	231,625	242,328	212,729	180,952	1,437,759
Wastewater RHIA \$				120,329	185,125	209,170	353,981	354,638	357,180	227,024	182,442	1,989,889
				220,500	301,821	334,066	582,344	586,263	599,508	439,753	363,394	3,427,648
Total Monarch Excluding Blue Mound - RHIA \$	ng Blue Mound	i - RHIA S										
Water - RHIA \$				2,502,829	2,486,305	2,478,104	6,248,637	6,245,375	6,234,672	5,797,271	3,825,314	35,818,507
Wastewater - RHIA \$:				447,671	382,875	358,830	1,542,019	1,541,362	1,538,820	1,058,976	674,806	7,545,359
				2,950,500	2,869,179	2,836,934	7,790,656	7,786,737	7,773,492	6,856,247	4,500,120	43,363,866
				2,950,500	2,869,179	2,836,934	7,790,656	7,786,737	1 H	7,773,492		6,856,247

ATTACHMENT RLK-3

* Blue Mound Sold On 9/11/15 ** Information Not Available

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