Control Number: 45570

Item Number: 300

Addendum StartPage: 0

RECEIVED

2016 AUG 31 PM 2:33

PUBLIC UTILITY COMMISSION
FILING CLERK

SOAH DOCKET NO. 473-16-2873.WS
PUC DOCKET NO. 45570

APPLICATION OF MONARCH UTILITIES I, L.P. TO CHANGE RATES FOR WATER AND SEWER SERVICE	**§ § §**	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

REBUTTAL TESTIMONY

OF

CHARLES W. PROFILET, JR.

ON BEHALF OF

MONARCH UTILITIES I, L.P.

AUGUST 31, 2016

300

REBUTTAL TESTIMONY OF
CHARLES W. PROFILET, JR.

TABLE OF CONTENTS

Page

ATTACHMENTS:

CWP-1R	Relevant Sections of Contracts with ECO Resources, Inc.
CWP-2R	Monarch Response to Staff RFI 9-1
CWP-3R	Spreadsheet of Gross Margin Earned by Services Group

SOAH DOCKET NO. 473-16-2873.WS
PUC DOCKET NO. 45570

APPLICATION OF MONARCH UTILITIES I, L.P. TO CHANGE RATES FOR WATER AND SEWER SERVICE	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

REBUTTAL TESTIMONY OF
CHARLES W. PROFILET, JR.

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?

A. Yes I did.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR REBUTTAL TESTIMONY.

A. I will address issues raised by the Public Utility Commission (Commission) Staff witness Heidi Graham and by the Office Of Public Utility Counsel (OPUC) witness Chris Ekrut regarding the Affiliate Transactions included in Monarch's Rate Base.

Q. WHAT WAS MS. GRAHAM'S RECOMMENDATION REGARDING AFFILIATE TRANSACTIONS INCLUDED IN MONARCH'S RATE BASE?

A. Ms. Graham recommended that all assets constructed by ECO Resources, Inc. (ECO) should be disallowed in Monarch's Rate Base, including direct expenses associated with materials and labor as well as ECO's 30 percent margin. In the event the Commission does not disallow the entire original cost, Ms. Graham recommended the original cost booked by Monarch be reduced by the 30 percent margin.

Q. WHAT WAS MR. EKRUT'S RECOMMENDATION REGARDING AFFILIATE TRANSACTIONS INCLUDED IN MONARCH'S RATE BASE?

A. Mr. Ekrut recommended removing ECO's margin from Monarch's Rate Base. In the event the Commission does not disallow the entire margin, Mr. Ekrut recommended the margin included in Monarch's Rate Base be reduced to 15 percent.

Q. HOW IS YOUR REBUTTAL ORGANIZED?

A. First, I will address Ms. Graham's recommendation that the entire original cost of assets constructed by ECO (ECO assets) be disallowed. I will then address both witnesses' contention that the margin associated with ECO assets should be disallowed. I will then address specific points in Ms. Graham's testimony. Following this, I will correct Mr. Ekrut's misstatements of my direct testimony and the direct testimony of Gary Rose in the order presented in Mr. Ekrut's testimony. Then, I will address specific points in the order presented in Mr. Ekrut's testimony.

II. ECO RESOURCES, INC. AFFILIATE TRANSACTION

Q. DOES THE TEXAS WATER CODE ALLOW AFFILIATE TRANSACTIONS AND WHAT BURDEN IS THE UTILITY REQUIRED TO MEET?

A. Yes, Tex. Water Code § 13.185(e) allows for the recovery of costs of affiliate transactions. The statute requires a finding of reasonableness and necessity of the cost to the affiliate and a finding that the price charged is no higher than the price charged by the supplying affiliate to its other affiliates, or to unaffiliated entities for the same item.

Q. DO THE ECO TRANSACTIONS MEET THE STANDARDS FOR RECOVERY UNDER THE TEXAS WATER CODE?

A. Yes. The costs associated with the ECO transactions were reasonable and necessary for Monarch, and the price charged by ECO was no higher than what it charged other affiliates for the same item or service.

Q. DID ECO CHARGE EACH AFFILIATE THE SAME PRICE?

A. Yes, ECO charged each affiliate (Monarch, Windermere, and Hornsby Bend) the same for costs associated with design-build services. ECO charged each affiliate the actual labor and material costs, plus a margin calculated to be 30 percent of the total project revenue for capital expenditures to repair, replace, or expand the utility systems. ECO built assets such as storage tanks, pump stations, water mains, collection systems, and wastewater treatment plants for each affiliate. Please see Attachment CWP-1R for the relevant sections of each contract.

Q. WAS THE COST TO MONARCH REASONABLE AND NECESSARY?

A. Yes. In my professional opinion, the costs of the ECO assets were reasonable in the industry and the projects were necessary to comply with TCEQ rules and compliance time-lines.

Q. CAN YOU CITE AN EXAMPLE?

A. Yes. In the limited time available to prepare my rebuttal, I compared two similar wastewater treatment plants constructed by ECO and a third-party construction contractor. The ECO project was the Cherokee Shores 0.15 mgd wastewater treatment plant constructed in 2005 for a total cost of $608,686.86. The third-party construction contractor, Lift Water Construction Company, constructed Monarch's

Tower Terrace 0.13 mgd wastewater treatment plant in 2010. The total cost, including engineering was $996,726.62. The Cherokee Shores cost adjusted from 2005 to 2010, using RS Means historical cost index, is $736,000. This example shows ECO's costs were reasonable.

Q. DOES MONARCH HAVE RECORDS OF COSTS OF ECO ASSETS?

A. Yes. Monarch has records used to book the original cost of each ECO asset to Monarch's rate base.

Q. DID MS. GRAHAM REQUEST THE RECORDS DURING DISCOVERY?

A. Yes. PUC Staff RFI 9-1 requested detailed invoices supporting the original cost of each water and sewer item included in the plant in service that Monarch requests to be included in rate base. See Attachment CWP-2R. The voluminous responsive documents, which were more than eight linear feet, were made available for inspection at Monarch's offices in Sugar Land, Texas.

Q. DID MS. GRAHAM OR ANYONE FROM COMMISSION STAFF INSPECT THE RESPONSIVE DOCUMENTS?

A. No.

Q. DO YOU AGREE WITH MS. GRAHAM'S RECOMMENDATION THAT THE ENTIRE ORIGINAL COST OF ASSETS CONSTRUCTED BY ECO SHOULD BE DISALLOWED?

A. No. The costs of Monarch assets delivered by ECO include actual direct labor and material costs and a distribution of overhead and profit. These costs are reasonable and necessary and no higher than charged to other affiliates.

Q. WHAT BASIS DID BOTH MS. GRAHAM AND MR. EKRUT USE TO DISALLOW SOME OR ALL OF THE COST OF MONARCH'S ASSETS PROVIDED BY ECO?

A. Both relied upon precedent set in *Railroad Comm'n of Texas v. Rio Grande Valley Gas Company.*[1] This case established the elements that must be established by a utility when attempting to recover affiliate expenses:

1. Prices it was charged by its affiliate were no higher than the prices charged by the supplying affiliate to its other affiliates;
2. Expenses that may not be allowed for rate-making purposes for any reason were not included in the allocated expenses;
3. Each item of allocated expense was reasonable and necessary; and
4. Allocated amounts reasonably approximated the actual cost of services to the utility.

Q. WERE THE PRICES MONARCH WAS CHARGED BY ECO HIGHER THAN PRICES CHARGED BY ECO TO ITS OTHER AFFILIATES?

A. No. ECO consistently charged Monarch and its affiliates, Windermere and Hornsby Bend, actual labor and material costs, plus a distribution of ECO overhead and margin of 30 percent of the total project revenue.

Q. WERE ECO'S AFFILIATE EXPENSES ALLOCATED TO MONARCH?

A. No. ECO incurred expenses for payroll and fringe benefits for employees, group overhead, corporate overhead, office costs, and profit. Because the amounts

---

[1] 683 S.W.2d 783, 786 (Tex. App.—Austin 1984, no writ).

attributable to each of these items are difficult to determine, ECO added a margin amount that was *calculated* to be 30% of the total project revenues.

Q. **WHY DID THE COMPANY CALCULATE AN OVERHEAD AND PROFIT MARGIN, RATHER THAN APPLY OVERHEAD DIRECTLY?**

A. The construction industry applies overhead using a standardized approach based on total direct cost. ECO applied overhead based on project revenue, which effectively has the same result. Overhead costs by their very nature are costs that cannot be identified with, or charged to, a job or unit of production. Allocating overhead costs based on direct cost is a commonly used approach that is simple, easy, and accurate enough to accomplish all that is required.

Q. **WAS THERE A FEASIBLE ALTERNATIVE TO THE 30% MARGIN APPROACH?**

A. There was not. The alternative is called the "Direct Cost" system, which requires no distribution based on percentages. However, if indirect costs are distributed directly to work items, their identity tends to be lost and costs become difficult to control as a cost center.

Q. **WERE COSTS NOT ALLOWED FOR RATE-MAKING PURPOSES INCURRED BY ECO, SERVICES GROUP, OR CORPORATE DEPARTMENTS?**

A. No. In my confidential response to Staff RFI 4-3, I identified the categories of overhead costs incurred by ECO, Services Group, and Corporate in providing service to affiliated customers. The categories of overhead were those commonly identified with utility construction: SG&A, interest expense, interest income, depreciation, and profit. Profit in every year was consistently negligible or a loss.

Q. WAS EACH ITEM ALLOCATED REASONABLE AND NECESSARY?

A. Yes. The margin charged by ECO for the design-build service is reasonable based on my experience in the industry. Charging an overhead and profit margin to Monarch and affiliates was necessary for ECO to recover its costs and make a profit. Based on my experience and knowledge in this area, overhead and profit margins charged by design-build companies, construction contractors, and service companies is highly confidential and proprietary. There is no published information to refer to for this information.

In addition, ECO did not reap unreasonable profits. In fact, to the contrary, my Attachment CWP-3R shows that ECO consistently earned negligible profit or a loss.

Q. DOES THE ALLOCATED AMOUNT REASONABLY APPROXIMATE THE ACTUAL COST OF SERVICES?

A. Yes. Please see Attachment CWP-3R, which shows overhead of the various overhead groups as a percentage of revenue for each operating unit, pre-tax income, income tax, and net income. As shown on the attachment, the margin charged reasonably approximated the amount of overhead.

Q. HAS MONARCH MET ITS BURDEN OF PROOF REGARDING ECO'S AFFILIATE EXPENSES?

A. Yes. The price Monarch paid to ECO was no higher than prices charged to other affiliates. Expenses not allowed for rate-making purposes were not included in the calculated margin. Each item charged was reasonable and necessary, and the calculated margin reasonably approximated the actual cost.

Q. DO YOU AGREE WITH MS. GRAHAM'S CHARACTERIZATION OF MONARCH'S RESPONSE TO STAFF RFI 4-3?

A. No. Ms. Graham on page 9, lines 7 to 14 of her testimony discusses Monarch's discovery response stating that the "imputed percentage values do not correspond to the actual costs incurred by ECO." This is incorrect. The columns on the referenced schedule for expense and revenue for each year are the actual costs incurred by each entity as reported to the Securities and Exchange Commission (SEC). In contrast, the overhead costs are expressed as a percentage of revenue, which is a very common overhead allocation formula in the construction industry. In addition, the state in which the overhead cost was incurred is not relevant to the amount of overhead that should be applied to ECO's work in Texas.

Also on page 9, lines 16 to 18, Ms. Graham states "...the spreadsheets ... are also flawed because they show an imputed margin added to ECO's claimed actual costs that is significantly different from the margin of 30% described in Mr. Profilet's testimony." Actually, Attachment CWP-3R shows that ECO's gross margin earned before adding the expenses from higher level overhead groups, averaged 16.33% from 2005 to 2007. ECO's own overhead for fringe benefits, management, office space, etc., reduced the margin actually earned by ECO (i.e., ECO's profit) from 30% to 16.33%. Higher levels of overhead for Services Group and Corporate Group, along with income tax expenses, reduced the margin even further, to a net income for ECO of 0.01%.

Q. WHAT ALTERNATIVE DOES MS. GRAHAM OFFER IF THE COMMISSION DECIDES NOT TO DISALLOW THE ENTIRE ORIGINAL COST OF THE ECO ASSETS?

A. Ms. Graham's offered alternative is to reduce the original cost of the ECO assets by the 30% margin because of her claim that the margin fails to meet the *Rio Grande* factors 1 and 4 cited above.

Q. DOES THE 30% MARGIN FAIL TO MEET *RIO GRANDE* FACTORS 1 AND 4?

A. No, the margin meets these tests. I have testified that all affiliates were charged the same margin for design-build services and that the margin reasonably approximated the actual overhead costs.

Q. IS THE 15% MARGIN CHARGED TO UNAFFILIATED MUNICIPALITIES CITED BY MS. GRAHAM RELEVANT?

A. No. ECO provided construction management services to municipal utility districts and charged its labor based on contractual rates that included an overhead and profit component and a 15% markup on expenses. These services, while similar, are not the same as those provided to Monarch because ECO did not do the construction work and the services were subject to a different price structure.

Q. WHERE HAS MR. EKRUT MISSTATED YOUR TESTIMONY AND THE TESTIMONY OF GARY ROSE?

A. Mr. Ekrut relied upon direct testimony filed with Monarch's rate application on February 29, 2016. The parties were served with my errata testimony and Gary

Rose's errata testimony on June 9, 2016. No party filed objections to the newly corrected testimony of Gary Rose or my testimony after the filing of the errata.

Mr. Ekrut makes several references to Gary Rose's testimony that are not, in fact, his testimony as corrected by the errata. The incorrect testimony is referenced in footnotes 46 and 47 on page 52, and in footnote 51 on page 54 of his testimony.

Mr. Ekrut's quotation of my testimony on pages 53-54 and referenced in footnote 50 is also not my testimony as corrected by my errata.

Thus, Mr. Ekrut failed to rely on the correct testimony.

Q. DO YOU AGREE WITH MR. EKRUT'S ASSERTION THAT THE COMPANY FAILED TO PROVIDE EVIDENCE OF WHAT IS INCLUDED WITHIN THE 30% MARKUP?

A. No. Mr. Ekrut's testimony on page 53 states that "none of the Company's witnesses explains what expenses are included within the mark-up." However, on page 12A of my errata testimony, I state "Within the margin amount, ECO was reimbursed for payroll related costs such as Social Security taxes, Medicare taxes, health insurance, vacation and other fringe benefits; regional and group overhead costs for office space, management and administrative personnel, carrying costs of labor and materials, and related expenses; and SWWC's corporate overhead." This clearly identifies the expenses sought to be recovered through the margin.

Q. DO YOU AGREE WITH MR. EKRUT'S ASSERTION THAT MONARCH DOES NOT PROVIDE ANY SUPPORT FOR ITS CONTENTION THAT A 30% MARKUP TO AN AFFILIATE IS REASONABLE?

A. No. In his answer to the first question on page 54, Mr. Ekrut attributes a statement to me that is not included in my testimony as corrected by my errata. My testimony does not state that a 10% to 20% margin would be reasonable. My testimony states that the ECO margin charged to Monarch for the design-build service is reasonable based on my experience in the industry.

Q. DO YOU AGREE WITH MR. EKRUT'S ASSERTION THAT MONARCH DOES NOT PRESENT EVIDENCE THAT THE MARKUP REASONABLY APPROXIMATES THE COST OF THE SERVICES PROVIDED?

A. No. In his answer to the second question on page 54, Mr. Ekrut states that "'recorded gross margin was between 15 to 17 percent' ...further undermines the 30% claimed by the Company." The RFI response that he references in footnote 52 shows the gross margin earned before the application of any overhead cost of higher level overhead groups. This would be like comparing pre-tax income and net income.

The referenced RFI response, which is attached as Attachment CWP-3R, shows overhead of the higher level overhead groups as a percentage of revenue for each operating unit, pre-tax income, income tax, and net income. As discussed above, total overhead reasonably approximated the margin charged.

Q. CAN YOU ADDRESS THE TWO SPECIFIC EXAMPLES CITED BY MR. EKRUT OF HOW THE REPORTED MARGIN WAS INCONSISTENT?

A. Yes. Mr. Ekrut cited two examples where reported margin was not consistent based on Monarch's reply to OPUC RFI 6-8. The first is power generation equipment at the Holiday Villages of Livingston Wastewater Operations. The cost of the asset was booked at $1,424 and margin was negative $5,720. In constructing this asset, ECO incurred costs of $7,144 but only billed $1,424 to Monarch. Monarch booked $1,424 as the original cost. There are other assets for which ECO did not bill Monarch the entire amount of ECO's costs and the contractual margin. All of these assets were booked at the billed amount, to Monarch's and its customers' benefit.

The second example is for distribution mains at Ivanhoe Water Operations. The cost of the asset was booked at $10,286 and the margin was $19,795. When ECO constructed this asset, it also performed other work for Monarch. Some of that work was capitalized in three other assets and the remaining work was expensed. One of the four assets has since been retired. In preparing our response to OPUC RFI 6-8, all ECO margin associated with the service order was assigned to the three assets remaining in service, thus overstating the margin by the amount that should have been assigned to the retired asset and to the expensed items.

Q. DO YOU AGREE WITH MR. EKRUT THAT THE COMPANY FAILED TO MEET ITS BURDEN OF PROOF?

A. I disagree with Mr. Ekrut's conclusion and recommendation. The full amount of Affiliate Transactions should be included in Rate Base. The reasons Mr. Ekrut cited for disallowing the ECO affiliate transactions are either incorrect or are not consistent with the specific items a utility must prove as set out by the court in *Rio Grande*.[2]

Q. DID THE COMPANY OUTLINE THE COSTS OF ITEMS INCLUDED WITHIN THE MARK-UP?

A. Yes. See my response above on page 12, lines 12 to 19 and Attachment CWP-3R.

Q. DID THE COMPANY PROVE THE MARK-UP WAS REASONABLE AND NECESSARY?

A. Yes. See my response above on page 9, lines 4 to 13.

Q. IS THE COMPANY'S TESTIMONY CONTRADICTORY ON THE ISSUE, INCLUDING STATEMENTS THAT THE REQUESTED MARK-UP IS HIGHER THAN THE INDUSTRY STANDARD AND ACTUAL GROSS MARGIN CHARGED WAS SUBSTANTIALLY LESS THAN 30%?

A. No. See my response above on page 13, lines 4 to 8.

Q. DOES THE COMPANY'S DOCUMENTATION PROVIDED IN DISCOVERY SHOW INCONSISTENCIES IN THE APPLICATION OF THE MARK-UP?

A. This is not one of the four specific items set out in *Rio Grande*.[3] Nevertheless, I explained the two examples of alleged inconsistencies above on page 14, lines 3 to 18.

Q. HAS MONARCH PROVED THE FOUR SPECIFIC ITEMS SET OUT BY THE COURT IN *RIO GRANDE*?

A. Yes. See my testimony on page 7, line 14, to page 10, line 2.

---

[2] 683 S.W.2d 783, 786 (Tex. App.—Austin 1984, no writ).

[3] See *id.*

Q. ARE THE PLANT ASSETS CONSTRUCTED BY ECO INCLUDED IN MONARCH'S RATE BASE USED AND USEFUL?

A. Yes, please see the rebuttal testimony of Gary Rose.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Attachment CWP-1R

THIRD AMENDMENT TO

**A PROFESSIONAL SERVICE CONTRACT
BETWEEN
ECO RESOURCES, INC.
AND
MONARCH UTILITIES, INC.**

This THIRD AMENDMENT TO A PROFESSIONAL SERVICE CONTRACT ("Amended Contract") is entered into this 1st day of October, 2005 by and between Monarch Utilities, Inc. ("the UTILITY") and ECO Resources, Inc., a Texas corporation ("ECO").

1) Amended Provisions:

Exhibit A. PAYMENT OF CONTRACTUAL SERVICES

Exhibit A is hereby amended by deleting the prior Exhibit A as written and is restated to read as follows:

EXHIBIT A

PAYMENT OF CONTRACTUAL SERVICES

Base Professional Services: $555,851.11 per month or $6,670,213.32 per year.

Addition of Midway Utilities to the Monarch system of utilities:
$3,102.25 per month or $37,227.00 per year

Adjusted Total: $558,953.36 per month or $6,707,440.32 per year

Monthly base fees are due and payable by the 5th calendar day of the month after which the services were performed.

ECO's monthly fee will increase by $700 per month for every 100 additional active connections added to the UTILITY above the total connections of 26,886.

Residential water taps will be completed at a fixed price of $250 each. If additional equipment i.e., rock saw or ram hoe, etc., are requested the rental fee will be invoiced to the UTILITY at ECO's cost plus 15%. Residential wastewater taps will be completed on a time and material basis. Labor and equipment will be billed out per the attached labor and equipment rates. Materials, subcontractors and rental equipment will be billed out at cost plus 15%.

Commercial taps (larger than one inch) will be completed on an individual bid basis.

The Base Fee will be adjusted annually, at the end of each contract year, according to any increase or decrease in the Consumer Price Index - All Urban Consumers - United States Bureau of Labor Statistics, South Region.

The UTILITY shall pay ECO a thirty percent (30%) margin for supervision, inspection and administration fee applicable to all capital expenditures to repair, replace or expand the Utility System. Such fee shall be assessed and paid monthly on the same terms as the Base Fee.

The UTILITY agrees to pay interest, at a rate of eighteen percent (18%) per annum, to ECO for all undisputed invoiced amounts unpaid after thirty (30) days of the date of invoice. Interest shall accrue from the 31st day following the date of invoice until the date payment is received by ECO.

2) All other particulars of the Professional Service Contract are continued as previously written without amendment.

IN WITNESS WHEREOF, the UTILITY and ECO have caused this Amended Contract to be duly executed as of the day and year first above written.

MONARCH UTILITIES, INC.

By: Bill James

ATTEST:

Name: Karen M Pistrowski
Date: 11/8/05

ECO RESOURCES, INC.

By:
Patrick Reilly
Vice President, Operations
Central Texas & Mississippi

ATTEST:

Name: Mary E. Edwards
Date: 10/17/05

c:\CONTRACTS.Monarch.3rdAmend.mwd3

SECOND AMENDMENT TO

A PROFESSIONAL SERVICE CONTRACT
FOR THE
OPERATIONS AND MAINTENANCE OF
WATER AND WASTEWATER SYSTEMS

This SECOND AMENDMENT TO A PROFESSIONAL SERVICE CONTRACT ("Amended Contract") is entered into this 1st day of February, 2002 by and between Windermere Utility Co., Inc., a Texas corporation ("the Utility") and ECO Resources, Inc., a Texas corporation ("ECO").

1) Amended Provisions:

Article 3 - UTILITY RESPONSIBILITIES, Section 3.01. PAYMENT FOR CONTRACTUAL SERVICES is hereby amended by deleting the prior 3.01 as written and is restated to read as follows:

Section 3.01. PAYMENT FOR CONTRACTUAL SERVICES

A. The Utility shall pay to ECO as compensation for the professional services, the amounts pursuant to the attached EXHIBIT "A" as further amended in the attached ADDENDUM "A". Late payments may be subject to an interest charge at the State's maximum legal rate.

B. In addition to those items listed on the attached Exhibit "A", the Utility shall pay ECO a thirty percent (30%) margin for supervision, inspection and administration fee applicable to all capital expenditures to repair, replace or expand the Utility System. Such fee shall be assessed and paid monthly on the same terms as the Base Fee.

2) All other particulars of the Professional Service Contract are continued as previously written without amendment.

IN WITNESS WHEREOF, the Utility and ECO have caused this Amended Contract to be duly executed as of the day and year first above written.

WINDERMERE UTILITY CO., INC.	ECO RESOURCES, INC.
By: Bill Jasura	By:
Bill Jasura, Vice President	Patrick Reilly, Regional Manager
ATTEST: Lynda Shaifer	ATTEST: Lynda Shaifer
Name: Lynda Shalifoe	Name: Lynda Shalifoe
Date: 2/1/2002	Date: 2/1/2002

c:\Contracts.WIND2ndAmend.mwd3

SECOND AMENDMENT TO

A PROFESSIONAL SERVICE CONTRACT BETWEEN ECO RESOURCES, INC. AND HORNSBY BEND UTILITY COMPANY

This SECOND AMENDMENT TO A PROFESSIONAL SERVICE CONTRACT ("Amended Contract") is entered into this 1st day of February, 2002 by and between Hornsby Bend Utility Company, L.L.C., a Texas limited liability company ("the Utility") and ECO Resources, Inc., a Texas corporation ("ECO").

1) Amended Provisions:

Article 10 PAYMENTS AND NON-COMPENSABLE ITEMS, Section 10.01. Payments is hereby amended by deleting the prior 10.01 as written and is restated to read as follows:

Section 10.01. Payments.

A. The Utility shall compensate ECO for services rendered under the terms of this Contract and as contained in Exhibits 'A', 'B', and 'C'. The Utility agrees to pay interest, at a rate of 12% per annum, to ECO for all undisputed invoiced amounts unpaid after 30 days of the date of invoice. Interest shall accrue from the 31st day following date of invoice until the date payment is received by ECO.

B. In addition to those items listed on the attached Exhibits 'A', 'B', and 'C', the Utility shall pay ECO a thirty percent (30%) margin for supervision, inspection and administration fee applicable to all capital expenditures to repair, replace or expand the Utility System. Such fee shall be assessed and paid monthly on the same terms as the Base Fee.

2) All other particulars of the Professional Service Contract are continued as previously written without amendment.

IN WITNESS WHEREOF, the Utility and ECO have caused this Amended Contract to be duly executed as of the day and year first above written.

HORNSBY BEND UTILITY COMPANY	ECO RESOURCES, INC.
By: Bill Jasura	By:
Bill Jasura, Vice President	Patrick Reilly, Regional Manager
ATTEST: Lynda Shaltoe	ATTEST: Lynda Shaltoe
Name: Lynda Shalfoe	Name: Lynda Shalfoe
Date: 2/1/2002	Date: 2/1/2002

c:\Contracts.HBUC2ndAmend.mwd3

Attachment CWP-2R

PUC DOCKET NO. 45570
SOAH DOCKET NO. 473-16-2873.WS

MONARCH'S RESPONSES TO STAFF'S NINTH REQUESTS FOR INFORMATION

STAFF RFI 9-1: **Provide detailed invoices supporting the original cost of each water and sewer item included in the plant in service that Monarch requests to be included in rate base. If no invoice exists, provide the specific means of determining the original cost of the plant item, including all assumptions and calculations. For each invoice provided, identify the item by its asset number.**

RESPONSE: The documents responsive to this request exceed 8 linear feet in length and are thus subject to 16 Texas Administrative Code § 22.144(h)(3). The responsive documents will be made available for inspection at Monarch's offices in Houston, Texas, located at 12535 Reed Rd, Sugar Land, Texas 77478. Monarch requests that parties wishing to inspect this material provide at least 48 hours' notice of their intent to do so by contacting Monarch's legal counsel Lloyd Gosselink Rochelle & Townsend, P.C. at 512-322-5830.

Prepared by: Brittany Robbins
Sponsored by: Carmelitha Bordelon-Taylor

Attachment CWP-3R

Supplement #1 to Attachment 4-3

Recorded Gross Margin Earned by Services Group
By Providing Service To Affiliated Customers

(in thousands)	2007			2006			2005			Weighted Average 2005 - 2007		
		Revenue			Revenue			Revenue			Revenue	
	Expense	Base	% Revenue	Expense	Base	% Revenue	Expense	Base	% Revenue	Expense	Base	% Revenue
			100.00%			100.00%			100.00%			100.00%
Services Group - Affiliated Customer Expenses	26,744	31,467	-84.99%	33,501	40,424	-82.87%	26,119	31,324	-83.38%	86,364	103,215	-83.67%
Gross Margin Earned			15.01%			17.13%			16.62%			16.33%
Overhead Costs												
Services Group - SG&A	12,678	150,721	-8.41%	12,006	165,982	-7.23%	10,779	145,839	-7.39%	35,463	462,542	-7.67%
Services Group - Interest Expense	757	150,721	-0.50%	1,923	165,982	-1.16%	1,890	197,604	-0.96%	4,570	514,307	-0.89%
Services Group - Interest Income	(476)	150,721	0.32%	(299)	165,982	0.18%	(322)	197,604	0.16%	(1,097)	514,307	0.21%
Services Group - Depreciation	1,726	150,721	-1.15%	2,167	165,982	-1.31%	2,631	197,604	-1.33%	6,524	514,307	-1.27%
Corporate - Interest Income	(91)	217,347	0.04%	(299)	218,802	0.14%	(52)	197,604	0.03%	(442)	633,753	0.07%
Corporate - Depreciation	336	217,347	-0.15%	333	218,802	-0.15%	424	197,604	-0.21%	1,093	633,753	-0.17%
Corporate - SG&A	15,895	217,347	-7.31%	13,383	218,802	-6.12%	12,529	197,604	-6.34%	41,807	633,753	-6.60%
Pretax Income			-2.16%			1.48%			0.57%			0.02%
Income Tax			0.76%			-0.52%			-0.20%			-0.01%
Net Income			-1.40%			0.96%			0.37%			0.01%

Source: 2007 Southwest Water Company 10-K