Control Number: 45570

Item Number: 302

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

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

REBUTTAL TESTIMONY

OF

ROBERT L. KELLY

ON BEHALF OF

MONARCH UTILITIES I, L.P.

AUGUST 31, 2016

302

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**REBUTTAL TESTIMONY OF
ROBERT L. KELLY**

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Robert L. Kelly. My business address is 1325 N. Grand Avenue, Suite 100, Covina, California.

Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?

A. Yes I did.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR REBUTTAL TESTIMONY.

A. The purpose of my rebuttal testimony is to respond to two areas of the testimony of Mr. Chris Ekrut on behalf of the Office of Public Utility Counsel's (OPUC) specifically, the allocation of gain on sale, adjustments to corporate overhead allocations, and affiliated transactions included in rate base. Additionally, I will be responding to the testimony of Debbie Loockerman and Leila Guerrero, who testify on behalf of Public Utility Commission (Commission) Staff, regarding allocation of gain on sale and adjustments to corporate overhead cost allocation, respectively.

II. ALLOCATION OF GAIN ON SALE

Q. OPUC'S WITNESS CHARACTERIZES MONARCH'S POSITION ON GAIN ON SALE AS " . . . REQUESTING THAT ITS HISTORICAL UNDER-RECOVERY SHOULD BE OFFSET BY THE GAIN ON SALE,

EFFECTIVELY PAYING BACK THE COMPANY FOR THE UNDER-COLLECTED AMOUNTS THROUGH THE FULL ALLOCATION OF THE GAIN ON SALE TO SHAREHOLDERS." IS THIS AN ACCURATE PORTRAYAL OF MONARCH'S POSITION ON THE GAIN ON SALE ISSUE?"

A. No. Monarch made clear in its response to request for information from the Commission Staff[1] that "...Monarch's application does not include any revenue held in abeyance or any costs associated with such revenue." Similarly, Monarch is not requesting revenue held in abeyance as a dollar-for-dollar offset to gain on sale.

Q. THEN PLEASE EXPLAIN THE PURPOSE OF THE ATTACHMENTS TO YOUR DIRECT TESTIMONY, RLK-2, "MONARCH I, L.P. REVENUE HELD IN ABEYANCE," AND RLK-3, "MONARCH I, L.P. REVENUE HELD IN ABEYANCE," EXCLUDING BLUE MOUND.

A. For the Commission to be able to recognize the equities of this case, I provided those two attachments with my direct testimony. Their purpose is not to support what Mr. Ekrut has suggested as a dollar-for-dollar offset. The purpose of Attachment RLK-2 is to address the principle of equity, which is critically important in deciding the proper allocation of the Blue Mound and Midway gains on sale, as established in *Pub. Util. Com'n of Texas v. Gulf States Utilities Co.*[2] This attachment shows the enormous financial burden Monarch has voluntarily absorbed by not seeking full rate relief, first in its 2007 rate case ($2.6 million annually for water and $.6 million

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[1] Monarch Response to Staff RFI 2-42 (Apr. 12, 2016).

[2] *See* 809 S.W.2d 201, 211 (Tex. 1991) (The Court relies on an analysis of all equities involved, when determining the proper allocation of proceeds.)

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 ($6.2 million for water and $1.3 million for sewer).

Attachment RLK-3 builds on this all-important equity issue, providing an estimate of the enormous financial burden since 2008 for all of Monarch as a result of foregoing full rate relief requests. The estimated total burden, excluding Blue Mound, is $42.3 million, over 11 times the amount of the gain on the Blue Mound sale. Thus, the absorption of over $42 million by Monarch weighs heavily in its favor when balancing the equities in determining the treatment of the gain on sale.

Q. DOES MONARCH'S GAIN ON SALE REQUEST CONSTITUTE RETROACTIVE RATEMAKING AS MR. EKRUT SUGGESTS?

A. No. Once again, Monarch is not requesting that any revenue held in abeyance amounts be offset against the gain on sale to the benefit of Monarch shareholders..

Q. MR. EKRUT POINTS TO LANGUAGE IN MONARCH'S LAST SETTLEMENT AGREEMENT, SAYING "MOST RECENTLY, THE COMMISSION CONCLUDED THAT THE RATES AGREED-TO BETWEEN MONARCH AND ITS RATEPAYERS WERE ADEQUATE TO ALLOW THE UTILITY TO RECOVER ITS COST OF SERVICE." DOES THIS LANGUAGE NECESSARILY MEAN THAT RATES ALLOWED IN THAT PROCEEDING PROVIDED FOR FULL RECOVERY OF COST OF SERVICE?

A. No. The language Mr. Ekrut refers to is in the Texas Commission on Environmental Quality (TCEQ) Order dated August 7, 2014, in the Monarch-related SOAH Docket

No. 582-14-3381 approving the settlement agreement: "The rate structure agreed to by the parties, to be effective January 1, 2014 (Phase I) and January 1, 2015 (Phase II), is just, reasonable and adequate to allow the utility to recover its cost of providing service, as required by Sections 13.182 and 13.183 of the Code." The reference to "allow the utility to recover its cost of providing service" in fact cannot be found in either of the sections of the Water Code that are cited, and in fact cannot be found anywhere in the Texas Water Code. The Order language cited by Mr. Ekrut is clearly intended to be perfunctory, and is in no way meant to tie the hands of the Commission and require it to set rates that necessarily cover a utility's full cost of providing service.

Q. IS MR. EKRUT ACCURATE WHEN HE SAYS THAT BY SETTLING PAST RATE CASES, " . . . MONARCH WAS ABLE TO AVOID SUBSTANTIAL FINANCIAL REVIEW BY THE REGULATORY COMMISSION"?

A. The TCEQ's Utility Regulations, 30 Tex. Admin. Code Chapter 291, make no distinction regarding proceedings resolved as a result of settlements versus non-settlements. In fact, it would not be feasible for the TCEQ to try to apply differing standards of review inasmuch as there is no assurance that any case will in fact be resolved by settlement until a settlement is actually reached. Monarch received no preferential treatment by the TCEQ as a result of the prevalence of its rate proceedings being resolved through settlement.

Q. MR. EKRUT SAYS "WHEN A SETTLEMENT IS ACHIEVED AND ISSUES ARE RESOLVED, THE PARTIES SHOULD NOT HAVE TO FACE THE EXACT SAME ISSUES AGAIN." IS THAT AN ACCURATE STATEMENT?

A. No. Quite to the contrary, settlements are never binding or precedential in future proceedings. For example, the TCEQ Order dated October 17, 2014, in the Monarch-related SOAH Docket No. 582-14-3381, which superseded the August 7 Order, could not be clearer. Ordering Paragraph 8 provides as follows:

> Resolution of this docket was the product of settlement by the signatories. Entry of this order consistent with the settlement agreement does not indicate the Commission's endorsement or approval of any principle or methodology that may underlie the settlement agreement. Entry of this order consistent with the settlement agreement shall not be regarded as binding holding or precedent as to the appropriateness of any principle or methodology that may underlie the settlement agreement.[3]

Q. MR. EKRUT CONCLUDES THAT ". . . IT IS DISINGENUOUS FOR MONARCH TO CLAIM THAT THE MONIES COLLECTED BY BOTH MONARCH AND TECON DID NOT FUND, EITHER IN PART OR WHOLE, THE COST OF PROVIDING SERVICE TO THE BLUE MOUND AND MIDWAY SYSTEMS." HAVE CUSTOMERS IN FACT FUNDED DEPRECIATION OF MONARCH'S PLANT ASSOCIATED WITH THE BLUE MOUND AND MIDWAY SYSTEMS?

A. As I said in my direct testimony, it is unquestionable that Monarch shareholders have borne substantially all of Monarch's financial burden since acquisition, including almost all of Monarch's depreciation.

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[3] *Application of Monarch Utilities I, L.P. for a Change in Water and Sewer Rate/Tariff for Certificate of Convenience and Necessity Nos. 12983 and 20899 in* [named counties], *Application Nos. 37714-R and 37715-R (TCEQ Docket No. 2014-0413-UCR)*, Docket No. 42802, Order at 5 (Oct. 17, 2014).

In an effort to ameliorate Mr. Ekrut's skepticism about Monarch's revenue held in abeyance, I have taken a different approach with Attachment RLK-1R, based on Monarch's audited financial statements. Attachment RLK-1R compares Monarch's cumulative annual losses since acquisition to its cumulative annual depreciation expense, and concludes that since inception Monarch shareholders have had to absorb cumulatively $16.8 million of Monarch depreciation.

Q. **WHY DOES CUMULATIVE LOST DEPRECIATION NOT DECLINE IN 2014 AND 2015 WHEN MONARCH EARNED INCOME?**

A. Unrecovered depreciation in any year is permanently lost, never to be recovered in future rates.

Q. **WHAT IS THE ECONOMIC IMPACT OF LOST DEPRECIATION ON MONARCH AND ITS CUSTOMERS?**

A. Unrecovered depreciation has the same economic impact, on both Monarch and customers, as contributed plant; that is, it is as though Monarch contributed $16.8 million of plant that customers will never have to pay for.

Q. **DOES THIS MEAN MONARCH IS NOW PROPOSING TO RECOVER A SMALL PORTION OF THIS $16.8 MILLION IN LOST DEPRECIATION BY ALLOCATING THE GAIN ON SALE TO SHAREHOLDERS?**

A. Definitely not. Rather, the point Monarch is making here is that the principle of equity must be considered, given that Monarch has recovered very little of its investment in Monarch, which would include the post-acquisition $1.1 million Monarch invested specifically in Blue Mound, and that Monarch has suffered consistent losses since acquisition through 2013. In light of this heavy burden absorbed entirely by shareholders, an equitable resolution of this gain on sale sharing issue must result in the gain on sale of Blue Mound and Midway being attributed entirely to Monarch shareholders.

Q. MR. EKRUT ALLEGES THAT "... GOING FORWARD, RATEPAYERS WILL BEAR THE BURDEN OF THE SALE OF THE ASSETS. THROUGH A HIGHER UNIT RATE OF SERVICE, RATEPAYERS, NOT SHAREHOLDERS WILL ULTIMATELY FACE LARGER WATER AND SEWER BILLS."[4] IS MR. EKRUT CONSISTENT IN HIS TESTIMONY ON THIS POINT?

A. No. Earlier in his testimony Mr. Ekrut concedes that remaining customers are better off after the sale:

> "... avoiding [infrastructure improvements] does represent a benefit to Monarch's remaining customers. Thus, to the extent those costs can be avoided, the ratepayers do ultimately benefit. However, as I testified earlier, the per-unit cost of service to the remaining customers of Monarch has increased due to the Blue Mound and Midway transactions. This impact negates <u>some</u> of the benefit received from Monarch's avoidance of further capital investment as there are now fewer ratepayers left to absorb exiting system cost.[5]

Q. HAS MONARCH DOCUMENTED THE CUSTOMER IMPACT OF THE AVOIDED BLUE MOUND INFRASTRUCTURE IMPROVEMENTS?[6]

A. Yes. In response to discovery, Monarch provided the annual increase to customers, including Blue Mound customers that would have resulted from the needed Blue Mound improvements if the disposition of Blue Mound had not occurred.

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4 Direct Testimony of Chris Ekrut at 31.

5 *Id* at 25 (emphasis added).

6 Staff RFI No. 16-4.

Attachment RLK-2R shows the calculation of the annual increases to customers that was avoided by the sale of the Blue Mound system.

Q. TURNING NOW TO STAFF WITNESS MS. LOOCKERMAN, MS. LOOCKERMAN CONCLUDES THAT "THE COMMISSION SHOULD INITIALLY ALLOCATE THE PERCENTAGE OF THE ASSETS THAT HAVE BEEN DEPRECIATED TO THE RATEPAYERS BECAUSE THIS IS THE PORTION OF THE ASSETS THAT THEY HAVE "PAID" THROUGH DEPRECIATION EXPENSE." IS MS. LOOCKERMAN CORRECT THAT CUSTOMERS HAVE "PAID" $1,210,573 AND $648,271 OF ACCUMULATED DEPRECIATION FOR THE BLUE MOUND AND MIDWAY SYSTEMS, RESPECTIVELY?

A. No. First, customers do not pay "depreciation" in their water bills. Customers pay for water service. Paying for water and wastewater service does not inure customers with interest in depreciation any more than paying water and wastewater bills inure customers with utility employees' salaries.

Furthermore, as I said in my testimony, it is unquestionable that Monarch shareholders have borne substantially all of Monarch's financial burden since acquisition, including almost all of Monarch's depreciation. In an effort to ameliorate Ms. Loockerman's skepticism about Monarch's revenue held in abeyance, I have taken a different approach with Attachment RLK-1R. The approach I have taken is based on Monarch's audited financial statements, Attachment RLK-1R, which compares Monarch's cumulative annual losses since acquisition to its cumulative annual depreciation expense, and concludes that since inception Monarch shareholders have had to absorb cumulatively $16.8 million of Monarch depreciation.

Q. **WHY DOES CUMULATIVE LOST DEPRECIATION NOT DECLINE IN 2014 AND 2015 WHEN MONARCH EARNED INCOME?**

A. Unrecovered depreciation in any year is permanently lost, never to be recovered in future rates.

Q. **MS. LOOCKERMAN RECOMMENDS THAT "THE RIDER FOR THE SHARING OF THE GAIN SHOULD BE ADDRESSED IN A FUTURE DOCKET TO BE FILED WITHIN ONE MONTH OF THE FINAL DATE IN THIS CASE." DO YOU BELIEVE THERE IS ANY GOOD REASON FOR DEFERRING RESOLUTION OF THIS GAIN ON SALE ISSUE TO A FUTURE DOCKET?**

A. No. The amount of the respective gains on sale of Midway and Blue Mound have not been challenged by anyone in this proceeding. The only disputed issue is whether there should be a sharing of the gain with customers and if so how much, and the parties have not expressed any need for further information on that issue. As a result, there is no basis for deferring resolution of the gain on sale issue to a future proceeding.

Q. **MS. LOOCKERMAN DEFINES REVENUE HELD IN ABEYANCE AS "THE DIFFERENCE BETWEEN REVENUES PROPOSED TO BE COLLECTED IN MONARCH'S PREVIOUS APPLICATIONS AND THE REVENUES PRODUCED BY THE STIPULATED RATES IN THE SETTLEMENTS." IS**

THAT AN ACCURATE DEFINITION AS IT HAS BEEN APPLIED BY MONARCH?

A. No. Revenue held in abeyance, as calculated in Attachments RLK-2 and RLK-3 of my direct testimony, is defined as the difference between revenues proposed to be collected and the revenues that would be required to recover cost of service.

III. ADJUSTMENTS TO CORPORATE OVERHEAD COST ALLOCATION

Q. MR. EKRUT RECOMMENDS THAT THE COMPONENTS OF THE PARENT COMPANY'S ALLOCATION FACTOR BE BASED ON TEST YEAR VALUES AS OPPOSED TO THE 2012 VALUES MONARCH HAS PROPOSED.[7] WHAT ARE THE POSSIBLE RAMIFICATIONS IF MR. EKRUT'S PROPOSAL WERE ADOPTED AS THE STANDARD FOR CORPORATE OVERHEAD COST ALLOCATION?

A. It is critically important that Monarch use corporate cost allocation methodologies that are consistent with Monarch's California and other affiliates. Otherwise, if a non-symmetrical cost allocation methodology is used, corporate costs will be either over- or under-recovered from Monarch's customers. Similarly, because Monarch and its California affiliate do not file rate cases on the same schedule, care must be taken to maintain symmetry to ensure that Monarch uses periods for the underlying data that coincide with the periods used in California. Otherwise, again, corporate costs will be either over- or under-recovered from Monarch customers.

Q. MR. EKRUT ALSO CRITICIZES MONARCH'S ALLOCATION METHODOLOGY FOR IGNORING THE NUMBER OF CUSTOMERS.

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[7] *Id* at 44.

Q. WHY DID MONARCH NOT INCLUDE NUMBER OF CUSTOMERS IN ITS ALLOCATION?

A. As I stated previously, Monarch's California affiliate does not include this factor, and it is important to maintain symmetry in the allocation methodologies.

Q. BESIDE THE ISSUE OF SYMMETRY, IS THERE ANOTHER REASON WHY CUSTOMERS SHOULD NOT BE INTRODUCED AS A FACTOR IN CORPORATE OVERHEAD COST ALLOCATIONS?

A. Yes. California has largely dropped customers as a factor in corporate overhead cost allocations, mainly because the issue has proved to be so contentious and has consumed so much time and resources in rate cases. In the California affiliate's 2012 rate decision, D.12-04-009[8] beginning on page 17, there is a lengthy discussion about the tortuous wrangling over the customer factor, concluding that "[m]ost problematic is the customer count" and that the number of customers should be an irrelevant factor in allocating corporate costs.

Q. MR. EKRUT TAKES EXCEPTION TO APPLYING THE THREE-FACTOR METHOD TO ALLOCATE PARENT COMPANY COSTS DOWN PAST THE MAJOR BUSINESS SEGMENT (TEXAS UTILITIES), ALL THE WAY TO THE INDIVIDUAL AFFILIATES SUCH AS MONARCH. IS THIS APPROACH A JUDGMENT CALL ON THE PART OF MONARCH IN DEVELOPING ITS CORPORATE OVERHEAD COST ALLOCATIONS?

A. No, it is not a judgment call by Monarch. The California Public Utilities Commission has been very specific in defining the three-factor allocation methodology as

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[8] http://docs.cpuc.ca.gov/PublishedDocs/WORD_PDF/FINAL_DECISION/165160.PDF.

extending all the way down to the individual business unit, including Monarch. See Attachment RLK-3R, Corporate Overhead Cost Allocation Workpaper Supporting D.12-02-009.

Q. WHY SHOULD THE COMMISSION EMPLOY A CORPORATE COST ALLOCATION METHODOLOGY THAT WAS ESTABLISHED BY A NON-TEXAS JURISDICTION?

A. As I mentioned previously, if the corporate cost allocation methodology established in the California affiliate's 2012 rate decision, D.12-04-009,[9] is not used here, corporate costs will be either over- or under-recovered, not only by Monarch but also by all other associated entities nationwide. Mr. Ekrut's recommendation would also be contrary to Commission precedent, as the Commission has also determined, as recently as this year that it is appropriate to use the allocation methods adopted by utilities with business segments in non-Texas jurisdictions.[10]

Q. TURNING NOW TO STAFF WITNESS MS GUERRERO, MS. GUERRERO USED THE MOST CURRENT INFORMATION RECORDED IN 2015 AS A BASIS FOR CORPORATE COST ALLOCATIONS RATHER THAN MAINTAINING CONSISTENCY WITH THE ALLOCATION METHODOLOGY USED IN OTHER JURISDICTIONS. MS. GUERRERO RECOMMENDS THAT THE COMPONENTS OF THE PARENT COMPANY'S ALLOCATION FACTOR BE BASED ON THE MOST CURRENT INFORMATION RECORDED IN 2015 RATHER THAN THE 2012

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[9] http://docs.cpuc.ca.gov/PublishedDocs/WORD_PDF/FINAL_DECISION/165160.PDF.

[10] *See Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 43695, Order on Rehearing at 20 (Feb. 23, 2016).

VALUES MONARCH HAS PROPOSED.[11] WHAT ARE THE POSSIBLE RAMIFICATIONS IF MS. GUERRERO'S PROPOSAL WERE TO BE ADOPTED AS THE STANDARD FOR CORPORATE OVERHEAD COST ALLOCATION?

A. It is critically important that Monarch use corporate cost allocation methodologies that are consistent with Monarch's California and other affiliates. Otherwise, if a non-symmetrical cost allocation methodology is used, corporate costs will be either over- or under-recovered from Monarch's customers. Similarly, because Monarch and its California affiliate do not file rate cases on the same schedule, care must be taken to ensure that Monarch uses periods for the underlying data that coincide with California. Otherwise, again, corporate costs will be either over or under recovered from Monarch customers.

Q. REGARDING MS. GUERRERO'S TESTIMONY, DO YOU AGREE WITH MS. GUERRERO'S ADJUSTMENT RELATED TO THE CALCULATION OF TEXAS UTILITIES' AFFILIATE EXPENSES?

A. No. Monarch applied a weighted average calculation in calculating the percentage of East Shared and West Shared overhead applied to each of the areas. Only after the weighted average is calculated can the total percentage allocated to each utility be calculated. The $11,776,616 shown on Page 25 Lines 3 and 6 is based on Errata – WP/IV-2 – Adjusted Affiliate Expenses – Parent filed May 23, 2016. However, Errata -WP/IV-2 – Adjusted Affiliate Expenses - Parent filed June 2, 2016 shows the Parent Expenses are $11,999,618. Using the correct Parent Company Expenses from

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[11] Direct Testimony of Leila Guerrero at 23.

the Errata schedule filed on 06/02/2016 would change Ms. Guerrero's calculation as shown in her Table 10 as shown below:

Account Items	Amount
Total Parent Expenses	$11,999,618
Multiply by Staff's cost allocated rate	22.60%
Staff's amount Allocated from Parent to Monarch	$2,711,914
Less:	
Amount Requested in the Application	$3,417,491
Staff's Recommended Reduction to Miscellaneous Expense - Affiliate - Parent/SouthWest	$ (705,577)

In addition, in her Table 8, Ms. Guerrero erroneously excluded known and measurables in her calculations.

IV. AFFILIATED TRANSACTIONS INCLUDED IN RATE BASE

Q. MR. EKRUT HAS RECOMMENDED AN ADJUSTMENT TO REMOVE 100% OF THE ECO MARGIN FROM RATE BASE, WITHOUT CONSIDERING THE MERITS OF THIS ADJUSTMENT, DO YOU AGREE WITH THE ACCURACY OF HIS CALCULATIONS?

A. No. Mr. Ekrut failed to consider the offsetting reduction in theoretical depreciation reserve benefits over Monarch's proposed five-year refund period. Disallowing ECO margin assets from rate base would reduce the amount of theoretical depreciation reserve benefits by $883,372 for water and $58,403 for wastewater. See Attachment RLK-4R.

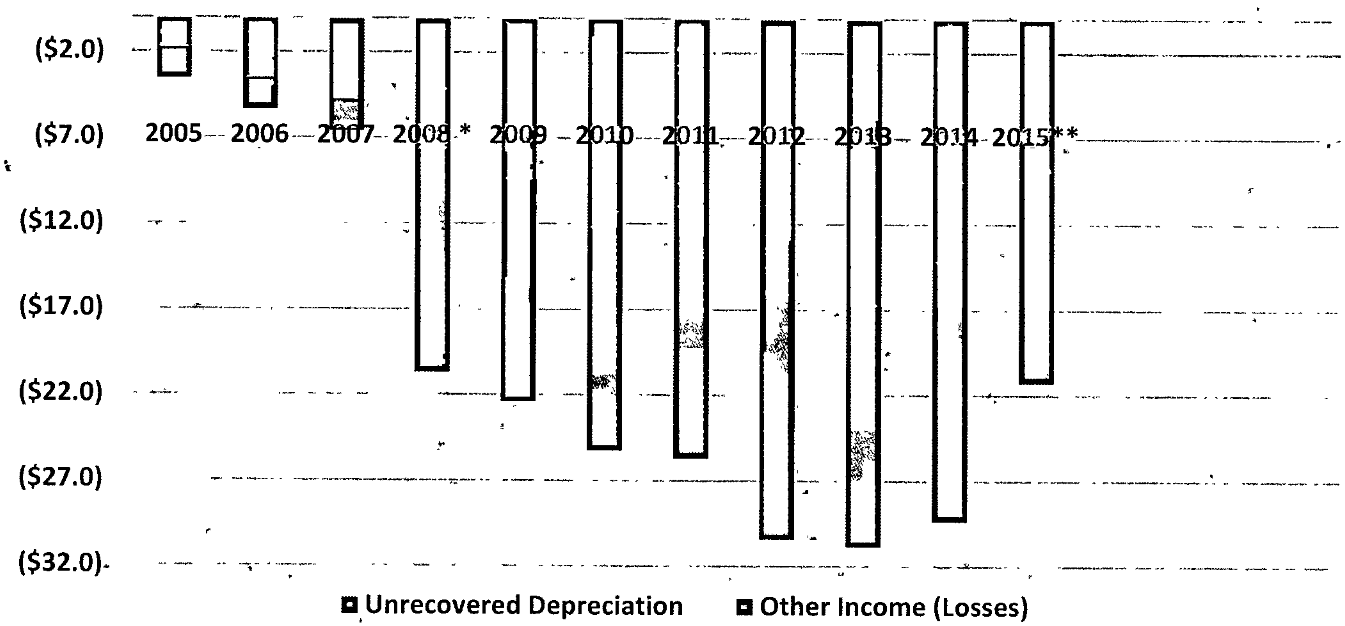
Q. ARE YOU ADDRESSING THE MERITS OF MR. EKRUT'S ADJUSTMENT?

A. No. Mr. Profilet addresses this proposed adjustment in his rebuttal testimony.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

Monarch I, LP
Cumulative Net Loss Since Acquisition, Audited ($Millions)



* Includes ($14.0) charge for goodwill impairment

** Includes $4.3 gain on sale of Blue Mound and Midway

Attachment RLK-2R

Annual Impact on Cost of Service

Higher Blue Mound Net Book Value	2,759,816
Total Active Customers, Including Blue Mound	24304
Higher Investment Per Customer Resulting From Blue Mound	114
Annual Revenue Requirement Factor (cost of capital, depreciation, income taxes)	0.12
Annual Water Bill Increase Per Customer, Including Blue Mound Customers	13.63

Line Number	Company	Direct Operating Expense Recorded 2009		End of Year Gross Plant Recorded 2009		Customer Recorded 2009		Payroll Recorded 2009		Total	Average
		Amount, $	Percent	Amount, $	Percent	Number	Percent	Amount, $	Percent	Percent	(Percent)
	ALLOCATION FACTORS										
11.	Suburban Water Systems	27,221,789	18.2%	181,567,267	41.4%	75,392	57.8%	6,361,682	13.5%	130.9%	32.7%
	Texas Utilities										
12.	Monarch Utilities	14,144,170	9.5%	115,286,257	26.3%	27,110	20.8%	4,149,724	8.8%	65.4%	16.4%
13.	Windermere	3,850,973	2.6%	43,321,714	9.9%	10,093	7.7%	371,671	0.8%	21.0%	5.3%
14.	Hornsby Bend	1,172,707	0.8%	19,787,710	4.5%	3,593	2.8%	129,900	0.3%	8.4%	2.1%
15.	Diamond	309,195	0.2%	2,635,182	0.6%	713	0.5%	57,649	0.1%	1.4%	0.4%
16	Water Services Inc	1,154,965	0.8%	5,798,378	1.3%	1,904	1.5%	342,687	0.7%	4.3%	1.1%
17.	Huntington	27,945	0.0%	649,846	0.1%	126	0.1%	9,904	0.0%	0.2%	0.1%
18.	Inverness	158,138	0.1%	1,688,352	0.4%	129	0.1%	48,431	0.1%	0.7%	0.2%
19.	Midway	140,485	0.1%	1,007,688	0.2%	396	0.3%	18,565	0 0%	0.6%	0.2%
20.	SW Utilities	20,225	0.0%	46,347	0.0%	42	0.0%	5,123	0.0%	0.0%	0.0%
21.	Tenkiller	119,868	0.1%	1,069,188	0.2%	521	0.4%	32,902	0.1%	0.8%	0.2%
22.	Metro - Continued Operations	457,952	0.3%	8,751,124	2.0%	1	0.0%	8,218	0.0%	2.3%	0 6%
	Southeast Utilities										
23.	SW Alabama Onsite	118,155	0.1%	4,405,544	1.0%	154	0.1%	-	0.0%	1.2%	0.3%
24	Riverview Wastewater	2,940,970	2 0%	28,079,171	6.4%	4,200	3.2%	369,991	0.8%	12.4%	3.1%
25.	North Shelby & Other	1,953,689	1.3%	10,558,819	2.4%	4,717	3 6%	226,572	0.5%	7 8%	2.0%
26.	North County Water	87,087	0.1%	1,330,081	0.3%	197	0.2%	-	0.0%	0.6%	0.2%
27.	SW Mississippi	129,878	0.1%	68,288	0.0%	669	0.5%	-	0.0%	0.6%	0.2%
28	Non-Utility	95,256,928	63.8%	12,660,996	2.9%	547	0.4%	35,011,360	74.3%	141.4%	35.4%
29.	TOTAL	149,265,119	100.0%	438,711,952	100.0%	130,504	100.0%	47,144,378	100.0%	400.0%	100.0%

Monarch Utilities I, LP
All Water Systems-Eco Margin Calculation

Summary of Original Cost of Utility Plant In Service as of June 30, 2015,
Related Annual Depreciation Expense Under Proposed Rates
And Calculated Theoretical Depreciation Reserve

NARUC Account No (a)	Description (b)	Eco-Margin Original Cost 6-30-15 (c)	Total Proposed Rates Rate % (d)	Total Proposed Rates Annual Accrual (e)	Theoretical Depreciation Reserve (f)	Depreciated Eco-Margin Plant In Service (g)
	DEPRECIABLE PLANT					
	Source of Supply					
307 20	Wells & Springs	1,006,526.68	2.71%	27,276 87	129,915.22	876,611.46
	Total Source of Supply Plant	1,006,526.68	2 71%	27,276.87	129,915.22	876,611.46
	Pumping Plant					
304 20	Pumping Structures & Improvements	0.00	2 77%	0.00	0.00	0.00
309 20	Other Plant & Equipment	0 00	5 44%	0.00	0.00	0 00
310 20	Electrical Equipment	793,832 57	2 44%	19,369.51	144,966.48	648,866 09
311 20	Electric Pumping Eq	607,901 52	3.18%	19,331 27	119,493.54	488,407.98
311 30	Other Pumping Eq	0 00	0 00%	0 00	0 00	0.00
311 40	Booster Pumping Eq	0.00	0.00%	0 00	0.00	0 00
	Total Pumping Plant	1,401,734.09	2.76%	38,700.78	264,460 02	1,137,274 07
	Water Treatement Plant					
304 30	WT Structures & Improvements	1,158,960 32	2 00%	23,179 21	210,104.02	948,856 30
320.30	Water Treatment Equipment	716,151 24	3.00%	21,484.54	199,691.41	516,459 83
	Total Water Treatment Plant	1,875,111.56	2 38%	44,663 75	409,795 43	1,465,316 13
	Transmission & Distribution Plant					
304 40	T & D Structures & Improvements	0.00	2.51%	0.00	0.00	0.00
330 40	Distr Reservoirs & Standpipes	1,322,317.57	3.08%	40,727.38	247,834.13	1,074,483.44
331 40	Water Lines	1,614,990 89	1.85%	29,877.33	186,952 24	1,428,038.65
	Total Trans & Distr Mains	1,614,990 89	1 85%	29,877 33	186,952.24	1,428,038.65
333 40	Services	83,901.30	5.43%	4,555.84	17,638.95	66,262 35
334.40	Meters	19,401 43	5.82%	1,129.16	7,734 99	11,666.44
335 40	Hydrants	7,339.71	2.56%	187 90	1,552.56	5,787.15
339 20	Other Plant & Equipment	0.00	0.00%	0 00	0 00	0.00
	Total Trans & Distr Plant	3,047,950.91	2.51%	76,477.61	461,712.87	2,586,238.04
	General Plant					
304 50	Adm & Gen Structures & Improvements	75,873 43	2.78%	2,109.28	19,534.56	56,338.87
	Total Structures & Improvements	75,873 43	2 78%	2,109.28	19,534 56	56,338 87
340 50	Office Furniture & Equipment	3,826 57	2.17%	83.04	2,221 22	1,605.35
	Total Office Furniture & Equipment	3,826.57	2.17%	83.04	2,221.22	1,605 35
341 50	Transportation Equipment	0.00	5.35%	0.00	0 00	0.00
344 50	Laboratory Equipment	341.93	4 10%	14.02	148 42	193.51
345 50	Power Operated Equipment	2,503 97	-2.92%	-73 12	1,160.51	1,343 46
346 50	Communication Equipment	56,248 51	7 94%	4,466 13	31,696 85	24,551 66
347 50	Tools, Shop & Garage Equipment	78.11	15 85%	12.38	25 83	52 28
	Total General Plant	138,872 52	4 76%	6,611 73	54,787 39	84,085.13
	TOTAL DEPRECIABLE PLANT	7,470,195 75	2 59%	193,730 74	1,320,670 93	6,149,524.82