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

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BEFORE THE STATE OFFICE
OF PUBLIC UTILITIES COMMISSION
FILING CLERK
ADMINISTRATIVE HEARINGS

REBUTTAL TESTIMONY

OF

CRAIG D. GOTT, P.E.

ON BEHALF OF

MONARCH UTILITIES I, L.P.

AUGUST 31, 2016

310

**REBUTTAL TESTIMONY OF
CRAIG D. GOTT, P.E.**

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ATTACHMENTS:

CDG-1R	Comparison of “Adjusted Monarch Total” Columns from OPUC 5-2 and Errata HG-4
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FOR WATER AND SEWER SERVICE § ADMINISTRATIVE HEARINGS

REBUTTAL TESTIMONY OF
CRAIG D. GOTT, P.E.

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME AND POSITION.

3 A. My name is Craig D. Gott and I am employed by Suburban Water Systems
4 (Suburban) as Vice President of Field Operations. Suburban is a subsidiary of
5 SouthWest Water Company (SouthWest).

6 Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?

7 A. Yes I did.

8 Q. PLEASE DESCRIBE THE PURPOSE OF YOUR REBUTTAL TESTIMONY.

9 A. I will respond to Public Utility Commission (Commission) Staff witness Heidi
10 Graham's testimony about her recommended disallowances of invested capital. Her
11 recommended disallowances should be rejected because they are based on an
12 apparent misunderstanding of information provided by Monarch and because she has
13 no support for her erroneous conclusions about Monarch's invested capital.

14 Q. WHAT DID YOU REVIEW IN PREPARATION FOR RESPONDING TO MS.
15 GRAHAM'S TESTIMONY?

16 A. I reviewed Ms. Graham's testimony and attachments. I reviewed and analyzed the
17 electronic native files for her Attachments HG-3 and HG-4. After reviewing
18 testimony and attachments, I began preparing my rebuttal testimony. On the

1 afternoon of August 30, 2016, the day before the scheduled filing of my rebuttal
2 testimony, I received Ms. Graham's Errata Attachment HG-4. I then analyzed the
3 revised attachment.

4 **Q. DID THE ERRATA ATTACHMENT HG-4 CHANGE ANY OF YOUR**
5 **INITIAL CONCLUSIONS ABOUT MS. GRAHAM'S TESTIMONY AND**
6 **RECOMMENDATIONS?**

7 A. No. The Errata Attachment HG-4 did not correct any of the errors contained in the
8 original attachment. Also, Errata Attachment HG-4 contained data that was not in the
9 original version.

10 **Q. WHAT PROBLEMS WITH ERRATA ATTACHMENT HG-4 DID YOU**
11 **DISCOVER?**

12 A. Ms. Graham's spreadsheet supporting her recommendations, Errata Attachment
13 HG-4, appears to consist almost entirely of data that has been accidentally corrupted
14 by Commission Staff, possibly because of a faulty attempt at sorting, and
15 consequently the spreadsheet does not provide credible information. Her testimony
16 makes multiple references to work-papers Attachment HG-3 (response to OPUC RFI
17 5-2). Monarch submitted to the Commission Staff a copy of the native Excel of the
18 response to OPUC RFI 5-2, which was functional and not corrupted. A number of
19 columns in Errata Attachment HG-4 are scrambled such that asset numbers do not
20 correspond with associated data. Further, some data does not match column headings
21 (account number, asset number, etc.).

22 A comparison of "Adjusted Monarch Total" columns from OPUC 5-2 and Ms.
23 Graham's work-papers (Errata Attachment HG-4) reveals a variance in cost for all but

1 one line item out of 8,790 line items (see Attachment CDG-1R). Monarch uses
2 “Asset Numbers” as a unique identifier in order to link the line items in each of its
3 asset schedules (OPUC 5-2, Staff RFI 10-1(a), Staff RFI 17-1, etc.) together. The
4 corruption of the “Asset Number” identifier column in Ms. Graham’s work-papers
5 raises a serious concern that there is no way to conclusively identify any asset on her
6 entire list of 8,790 items, let alone those Ms. Graham singles out for rate base
7 disallowance. This corruption of the fundamental identifier of Monarch plant assets
8 seriously jeopardizes the integrity of these schedules, rendering them virtually
9 useless. In addition, Ms. Graham’s unreliable data immensely complicated
10 Monarch’s review of the concerns she raises in her testimony.

11 However, after an immense effort wrestling with Ms. Graham’s data, I believe
12 we have identified the assets that Ms. Graham has eliminated. As a result, we have
13 been able to verify that the assets exist and are in service (see Rebuttal Testimony of
14 Gary Rose), and there is no basis whatsoever for eliminating them from rate base.

15 **II. ERRONEOUS CONCLUSION REGARDING CONTRIBUTIONS**
16 **IN AID OF CONSTRUCTION**

17 **Q. ARE MS. GRAHAM’S RATE BASE REDUCTIONS RELATED TO**
18 **CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) CORRECT?**

19 **A.** No. On page 5, lines 19-22, of her testimony, Ms. Graham notes that she has
20 removed plant built using CIAC from Monarch’s rate base. In her Attachment HG-4,
21 Ms. Graham classified 22 line items with “CIAC/Advance” in their description as
22 CIAC in order to exclude them from rate base. These items represent Monarch’s
23 investment and should not be excluded.

1 Monarch purchased TECON in 2004. TECON's practice was to have
2 developers advance funds for the construction of facilities at the time of their
3 construction. TECON would then pay developers for the portion of these assets that
4 became used and useful when customers were connected to the system. These line
5 items represent payments that TECON had made to developers—in effect amounts
6 that TECON invested in this plant. TECON accumulated these investments by
7 NARUC account. These line items were added to Monarch's capital asset registry in
8 July 1, 2004, at the time of the acquisition of TECON, and Monarch used the
9 description provided by TECON—"CIAC/Advance."

10 Monarch has satisfied its burden of proof that all plant is used and useful and
11 in service through the affidavit and testimony of Bret Fenner. Commission Staff
12 never submitted discovery requests regarding "CIAC/Advances." Ms. Graham has
13 provided no true basis for writing it off. To the extent that plant was contributed to
14 TECON, the offsetting CIAC has been recorded and has reduced rate base, and
15 customers are not unfairly burdened. "To the extent that plant and CIAC were
16 recorded prior to October 15, 2002, it has already been accepted as rate base by
17 TCEQ.

18 Because these line items represent used and useful investments to plant, they
19 should be included in Monarch's rate base, and there is absolutely no basis for Ms.
20 Graham's disallowances, or to use Ms. Graham's term "eliminations."

1 **III. ERRONEOUS CONCLUSION REGARDING “NEW TAPS”**

2 **Q. ARE MS. GRAHAM’S RATE BASE REDUCTIONS RELATED TO “NEW**
3 **TAPS” CORRECT?**

4 **A.** No. On page 5, line 23, through page 6, line 13, of her testimony, Ms. Graham notes
5 that there were numerous line items for taps, meters, grinder pumps, and sewage
6 pumps that were described as “new.” Ms. Graham’s elimination of these items is
7 incorrect.

8 In Errata Attachment HG-4, Ms. Graham has classified 1,441 line items as
9 “New Tap.” The bulk of these line items are grinder pumps, described in my direct
10 testimony on page 19, line 20, through page 20, line 5. These line items represent
11 amounts Monarch invested to replace existing pumps that had failed. Ms. Graham’s
12 list also includes a large number of replacement meter boxes and lids, as well as
13 service lines that replaced existing facilities that had reached the end of their useful
14 lives. Ms. Graham has also incorrectly disallowed one line item with a cost of
15 \$17,365 where Monarch installed an interconnection with a neighboring purveyor to
16 receive water for a wholesale purchased water contract. These investments do not
17 represent new connections to customers, were not funded with tap fees, and should
18 not be eliminated.

19 Also, Ms. Graham’s Errata Attachment HG-4 contains a number of items with
20 “new” in their description that were not eliminated, which demonstrates the
21 inconsistency and arbitrary nature of her eliminations.

22 Monarch has used the term “new” in an abundance of clarity to demonstrate
23 that this work was capital replacement and not repair expense. In any event, none of

1 the taps recorded as plant were funded by tap fees. We have reviewed Ms. Graham's
2 list of eliminated plant in the limited time available to do so, and have established that
3 none of the items on the list were funded by tap fees.

4 As an aside, elimination of the gross plant amount rather than the net
5 undepreciated amount is incorrect because it unfairly and incorrectly refunds past
6 depreciation to customers. Ms. Graham's disallowances are incorrect.

7 **IV. ERRONEOUS CONCLUSION REGARDING HOLIDAY VILLAGES**

8 **Q. PLEASE EXPLAIN HOW MS. GRAHAM MISUNDERSTOOD MONARCH'S**
9 **RESPONSE TO OPUC RFI 1-24 AND INCORRECTLY ELIMINATED**
10 **VALID ASSETS FROM RATE BASE.**

11 A. Ms. Graham incorrectly concluded that the assets listed on the attachment to
12 Monarch's RFI 1-24 response were related to the conference room refurbishment
13 assets, were therefore considered not to be used and useful, and should be eliminated
14 from rate base. Ms. Graham apparently misunderstood that the RFI response
15 indicated that the conference room refurbishment was *not* included in the original rate
16 base, and that the attached list represented the items that were in fact used and useful,
17 and legitimately included in rate base.

18 Monarch's response to OPUC RFI 1-24 clarified that there were no costs for
19 the Holiday Villages conference room refurbishment included in rate base, and items
20 that were included in the attachment to Monarch's response to OPUC RFI 1-24 are
21 used and useful.

22 On page 7, line 20, through page 8, line 2, of her testimony, Ms. Graham
23 correctly characterizes Monarch's response to OPUC RFI 1-24 as saying that

1 Monarch's investment in the Holiday Villages conference room refurbishment was
2 excluded from the rate base in this application.

3 In Monarch's response to OPUC RFI 1-24, I referenced page 55, lines 8-11, of
4 my testimony that describes Monarch's investment in NARUC accounts 340 and 390
5 for Office Furniture and Equipment. OPUC's RFI highlighted an error in my
6 testimony where the description stated that the investment in this category was for
7 "rehabilitating a conference room at the office located at the Holiday Village of
8 Livingston Wastewater Operation." As stated in Monarch's response to the RFI, this
9 error was corrected by pointing out that "the amount shown encompasses office
10 furniture, fixtures, software, and other assets throughout the Monarch system" in the
11 amount of \$205,508.27, and not the conference room rehabilitation. This correct
12 language was used in my Errata Testimony, page 55, lines 8-10, that Ms. Graham has
13 not addressed in her testimony.

14 Monarch's response to OPUC RFI 1-24 included an attachment that detailed
15 the used and useful assets that were included in this category. The list did not include
16 the above-referenced conference room refurbishment that was the subject of OPUC
17 RFI 1-24 because it was not included in rate base. To this point, and in reference to
18 Staff's request for information regarding assets associated with the conference room
19 rehabilitation, the response to the RFI stated that "these assets were excluded from the
20 rate base in the application."

21 Because the list attached to the RFI response was of items representing used
22 and useful investments to plant, those items should be included in rate base, and Ms.
23 Graham's assertion otherwise is incorrect.

1. **V. ERRONEOUS CONCLUSION REGARDING EXPENSED ITEMS**

2 **Q. PLEASE EXPLAIN HOW MS. GRAHAM ARBITRARILY SELECTED**
3 **CAPITALIZED ITEMS FOR REMOVAL FROM RATE BASE ON THE**
4 **ERRONEOUS ASSUMPTION THAT THEY WERE NOT USED AND**
5 **USEFUL.**

6 A. On page 6, lines 15-23, of her testimony, Ms. Graham inconsistently eliminates some
7 capital items with claimed cost less than \$750.00 that she considers not used and
8 useful while not eliminating others she considers as used and useful. Ms. Graham has
9 not demonstrated why some items were deemed used and useful and why some were
10 not, and why she has arbitrarily eliminated \$970,801.12 without explanation.

11 Of the \$970,801.12 that Ms. Graham eliminated from rate base there is an
12 item with cost of \$648,411.27, which is far greater than \$750.00. Specifically, this
13 line item refers to the Public Utilities Service Agreement with the City of Pottsville
14 described in my direct testimony on page 26, lines 10-20. Further, Ms. Graham
15 eliminated \$49,029.00 for "Re-work Stainless steel headers SO#953601" at the Oak
16 Trail Shores water treatment plant representing capital work required to extend the
17 life of Monarch's treatment plant asset, and \$45,628.41 for "WWTP Engineering
18 Evaluation; PINP/Arrowhead/SP" that was prepared as part of constructing facilities
19 for Monarch's Pinnacle Club wastewater operations. Ms. Graham's testimony did
20 not address these specific used and useful items with value greater than \$750.00, and
21 thus they should not be eliminated from rate base.

22 Ms. Graham's Errata Attachment HG-4 also incorrectly considers items
23 described as "test hydro tank" as not used and useful. In 2005, and immediately

1 subsequent to the 2004 acquisition of TECON, Monarch executed an initiative to use
2 a qualified third party to inspect TECON's hydro-pneumatic (hydro) tanks, to ensure
3 they complied with ASME and TCEQ requirements, at a cost of \$121,095.00.
4 Because of TECON's lack of maintenance, many of these hydro tanks had to be
5 replaced in subsequent years. The cost of these inspections is part of the capital cost
6 of replacing these facilities. The replaced hydro tanks are still in service today, are
7 used and useful, and these line items should not be eliminated from rate base.

8 In summary, Ms. Graham's testimony and Errata Attachment HG-4 arbitrarily
9 and without explanation classified capital items to not be "used and useful," and on
10 these grounds erroneously removed them from rate base. As described above, these
11 items are used and useful and should not be removed from rate base.

12 **VI. ERRONEOUS CONCLUSION REGARDING RETIRED ASSETS**

13 **Q. PLEASE EXPLAIN WHY MS. GRAHAM'S COMPLETE ELIMINATION OF**
14 **THE RATE BASE AMOUNT REQUESTED FOR ITEMS LISTED ON THE**
15 **ATTACHMENT TO THE RESPONSE TO STAFF RFI 10-1(A) IS**
16 **INCORRECT.**

17 **A.** On page 7, lines 12-13, of her testimony, Ms. Graham discusses the elimination of
18 capital items listed on an attachment to Monarch's response to Staff RFI 10-1(a)
19 because "Monarch did not provide any explanation of any retirement decisions for the
20 retired assets...." Staff RFI 10-1(b) requested that Monarch provide for each asset
21 retired the date of retirement, service life at the time of retirement, the reason it was
22 retired, and all adjusting journal entries. Monarch's RFI response noted that
23 documents detailing the reason for the retirement of individual assets were

1 voluminous and so were made available for inspection at Monarch's office. Ms.
2 Graham did not review these documents.

3 **Q. MS GRAHAM ALLEGES THAT "MONARCH DID NOT PROVIDE ANY**
4 **EXPLANATION OF ANY RETIREMENT DECISIONS FOR THE RETIRED**
5 **ASSETS PROVIDED IN THEIR RESPONSE TO STAFF RFI 10-1(A), IN MR.**
6 **ROBINSON'S TESTIMONY OR HIS DEPRECIATION STUDY OR AN**
7 **EXPLANATION AS TO WHY RETIRED ASSETS WERE INCLUDED IN**
8 **THE LIST OF NON-RETIRED ASSETS INCLUDED IN MR. FENNER'S**
9 **ATTACHMENT BWF-2 AND THEIR LATER FILING PROVIDED IN**
10 **RESPONSE TO OPUC RFI 5-2." THEN MS. GRAHAM CONCLUDES THAT**
11 **"IN SHORT, I REMOVED ASSETS FROM MONARCH'S TOTAL CAPITAL**
12 **ASSETS."**¹ **PLEASE COMMENT.**

13 A. Monarch is totally perplexed. Ms. Graham is saying that because she believes
14 Monarch did not provide an adequate showing regarding the reasonableness of its
15 retirement decisions, that she would disallow assets that are not retired. In fact, Ms.
16 Graham does not recommend disallowing any retired assets, only non-retired assets
17 for which there is no basis for disallowing. Also, while Ms. Graham is correct in her
18 claim that certain asset numbers appear on Monarch's response to OPUC RFI 5-2 as
19 well as Monarch's response to Staff RFI 10-1(a), it is incorrect to eliminate the entire
20 value of the asset when the retirements listed on the response to Staff RFI 10-1(a)
21 represent partial retirement units while the remaining non-retired units under that
22 asset number are still in service.

¹ Direct Testimony of Heidi Graham at 7, lines 12-17.

1 In the normal course of business, Monarch may book asset value adjustments
2 and partial retirements. Asset value adjustments happen when the initial basis of an
3 asset is corrected because of changes in costs. Examples include reductions due to
4 invoice credits received after the asset is capitalized, and trailing costs. Monarch may
5 also partially retire a larger asset when a component needs to be replaced.

6 For example, an asset described as a distribution system may include pipes,
7 pumps, tanks, and other components. If a unit such as a tank has to be replaced,
8 Monarch will use the Handy Whitman Index of Public Utility Construction Costs to
9 determine the appropriate amount to retire. The larger asset will be reduced and the
10 remaining balance will remain in service.

11 A specific example is Monarch's requested amount of \$1,743,851.31 for a
12 Reverse Osmosis Treatment Plant installed in 2009 in its Oak Trails Shores system
13 that represents the original cost less the two entries for partial retirements of
14 \$59,279.77 and \$10,513.63, as shown in Monarch's response to the RFI, Attachment
15 Staff 10-1(a). This plant continues to be in service today, it is used and useful, and
16 should remain in rate base.

17 The elimination of the entire value of a used and useful asset because of
18 partial retirements is improper; these line items should not be eliminated from rate
19 base. Also, by eliminating the rate base amount requested for plant that has already
20 had its value reduced by partial retirements, Ms. Graham is effectively retiring the
21 asset twice, which is incorrect. And further, completely removing the amount
22 requested for these items has the effect of returning past depreciation to customers.
23 For these reasons, the original cost of these items should remain in rate base.

1 Q. ARE THE ASSETS IDENTIFIED IN OPUC RFI 5-2 THAT MS. GRAHAM
2 FOUND IN STAFF RFI 10-1(A) IN SERVICE, AND USED AND USEFUL?

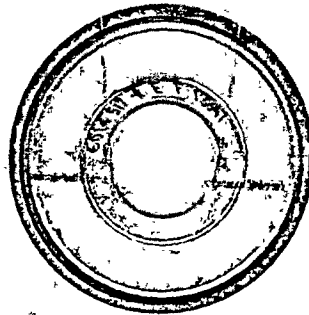
3 A. Yes, see the rebuttal testimony of Gary Rose.

4 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

5 A. Yes.

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NATIVE SPREADSHEETS