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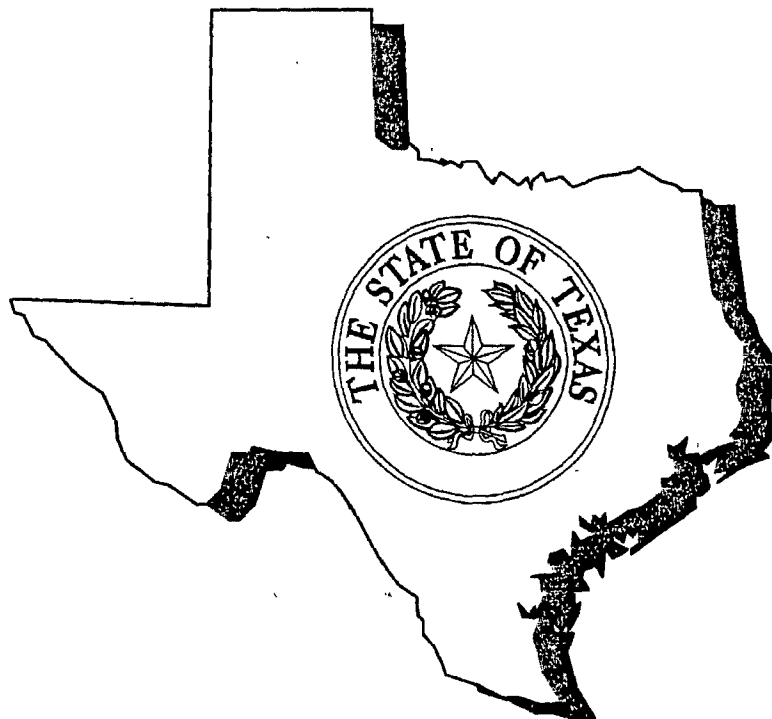
APPLICATION OF MONARCH
UTILITIES I, L.P. TO CHANGE RATES FOR
WATER AND SEWER SERVICE

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BEFORE THE STATE OFFICE

OF

ADMINISTRATIVE HEARINGS



DIRECT TESTIMONY OF

LEILA C. GUERRERO

WATER UTILITY REGULATION DIVISION

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PUBLIC UTILITY COMMISSION OF TEXAS

AUGUST 24, 2016

WITH FIRST ERRATA

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I. PROFESSIONAL QUALIFICATIONS

1
2
3 **Q. Please state your name and business address for the record.**

4 A. My name is Leila C. Guerrero. My business address is 1701 N. Congress Avenue, Austin, Texas.

5 **Q. By whom are you currently employed and how long have you been employed there?**

6 A. I am employed by the Public Utility Commission of Texas (PUC or Commission) as a Financial Examiner
7 since September 1, 2014. Prior to the transfer of water and sewer rate regulation from the Texas Commission
8 on Environmental Quality (TCEQ) to the PUC, I was employed by the TCEQ from May 2006 to August 31,
9 2014, as an Auditor.

10 **Q. Please describe your current job responsibilities at PUC.**

11 A. My responsibilities include reviewing and processing contested and uncontested rate change applications,
12 sale, transfer or merger applications (STMs), application to obtain or amend certificates of convenience and
13 necessity (CCNs), and rate appeals filed with the PUC. For contested applications, my responsibilities
14 include testifying as an expert witness on accounting matters in rate-cases, financial and managerial aspects
15 of CCNs, STMs, and participating in the overall examination, review, and analysis of such applications. My
16 work also involves conducting regulatory audits of the books and records of both water and sewer retail
17 public utilities. Please see the copy of my resume attached to my pre-filed testimony as Attachment LG-1
18 for additional information on my background and qualifications and Attachment LG-2 for the list of my
19 previous testimonies.

20
21 **Q. Please briefly describe your educational background and your past professional experience.**

22 A. I earned a Bachelor of Science degree in Business Administration with an accounting major from the Ortanez
23 University and a Master of Business Administration degree from the University of Santo Tomas in Manila,
24 Philippines. I am a licensed Certified Public Accountant (CPA) in the Philippines and a member of the
25 Philippine Institute of CPAs. I am current with my Continuing Professional Education (CPE) requirements
26 to maintain my CPA license. My continuing education courses include auditing, accounting, and various
27 income tax classes.

28 Prior to joining TCEQ, I was employed by the Texas Department of State Health Services in Austin, Texas,

1 as a lead accountant in the accounting division. Furthermore, my work experience includes more than 30
2 years in various positions, both in technical and managerial level positions in accounting, auditing, cash
3 management, billing and collection, budgeting, financial analysis, and operations of financial institutions. I
4 also possess hands-on experience in dealing with external auditors and CPA firms in the Philippines as well
5 as in the United States.

6 **Q. In the course of your employment with the TCEQ and the PUC, approximately how many rate related**
7 **applications have been assigned to you?**

8 A. I have been assigned over 250 rate related applications including rate change requests and rate appeals during
9 my employment with the TCEQ and the PUC.

10 **II. PURPOSE AND SCOPE OF TESTIMONY**

11 **Q. What is the purpose of your testimony?**

12 A. The purpose of my testimony is to present the Commission Staff's (Staff) recommendation regarding
13 Monarch Utilities I, L.P.'s ("Applicant" or "Monarch") revenue requirement or cost of service, for the test
14 year ending June 30, 2015, with respect to Monarch's rate change application for both water and sewer. This
15 recommendation pertains to the following issues from the preliminary order for this case:

- 16 1. Did Monarch comply with the instructions in the Commission's rate filing package for Class A
17 water utilities?
- 18 2. Is Monarch's application administratively complete, as required by the Commission's procedural
19 rules?
- 20 4. What are the just and reasonable rates for Monarch that are sufficient, equitable, and consistent in
21 application to each customer class and that are not unreasonably preferential, prejudicial, or
22 discriminatory?
- 23 5. What revenue requirement will give the utility a reasonable opportunity to earn a reasonable return
24 on its invested capital used and useful in providing retail service to the public in excess of its
25 reasonable and necessary operating expenses while preserving its financial integrity?
- 26 7. What is the reasonable and necessary cost of providing retail water service?
- 27 8. What adjustments, if any, should be made to Monarch's proposed test-year data?
- 28 18. What is Monarch's reasonable and necessary working capital allowance?

- 1 23. Are Monarch’s proposed pro forma rate-base and expense adjustments consistent with the
2 requirements of 16 Tex. Admin. Code § 24.31 (16 TAC)?
- 3 24. What are Monarch’s reasonable and necessary operations and maintenance expenses?
- 4 25. What are Monarch’s reasonable and necessary administrative and general expenses?
- 5 26. What is the reasonable and necessary amount for Monarch’s advertising expense, contributions, and
6 donations?
- 7 27. If Monarch has a self-insurance plan approved by the Commission or other regulatory authority,
8 what is the approved target amount for the reserve account, and is it appropriate to change that
9 amount? What is the amount of any shortage or surplus for the reserve account for the approved
10 plan, and what actions, if any, should be taken to return the reserve account to the approved target
11 amount?
- 12 28. What are Monarch’s reasonable and necessary expenses, if any, for pension and other post-
13 employment benefits?
- 14 29. Are any expenses, including but not limited to, executive salaries, advertising expenses, legal
15 expenses, penalties and interest on overdue taxes, criminal penalties or fines, and civil penalties or
16 fines, unreasonable, unnecessary, or not in the public interest?
- 17 33. What is the reasonable and necessary amount, if any, for Monarch’s assessment and taxes other than
18 federal income taxes?
- 19 34. What is the reasonable and necessary amount for Monarch’s federal income tax expense?
- 20 38. Is Monarch seeking rates for both water and sewer service? If so, is the revenue requirement
21 properly allocated between water and sewer services?
- 22 39. What is the appropriate allocation of the revenue requirement among rate classes?
- 23 43. Has Monarch made any payments to affiliates?
- 24 a. For affiliate transactions that affect the cost of service, are these transactions reasonable
25 and necessary?
- 26 b. For all affiliated transactions affecting the cost of service, what are the costs to the
27 affiliate(s) for each item or class of items in question, and is the price for each transaction
28 no higher than prices charged by the supplying affiliate(s) to its other affiliate(s) or
29 division(s) for the same item(s), or to unaffiliated person(s) or corporation(s)?
- 30 45. If a refund or surcharge results from this proceeding, how and over what period of time do you
31 recommend that should be made?
- 32 47. What is the appropriate effective date of the rates fixed by the Commission in this proceeding?

1 I will present the Staff's recommendation as to the total revenue requirement or cost of service including
2 operations and maintenance expenses, taxes, and the total invested capital (rate base), inclusive of working
3 capital allowance. As part of my testimony, I have incorporated adjustments recommended by Staff
4 witnesses Ms. Heidi Graham, Ms. Jolie Mathis, Ms. Emily Sears, and Ms. Debi Loockerman. I prepared or
5 supervised preparation of all the attachments in this testimony.

6 **Q. Please explain the scope of your participation in the present proceeding.**

7 A. My participation in this proceeding was conducted with respect to the requirements in Texas Water Code
8 Ann. §§ 13.131, 13.136, 13.182, 13.185, and 13.187 (TWC), and 16 TAC Chapter 24, and can be summarized
9 as follows:

- 10 1. I reviewed the application and information provided by the Applicant subsequent to its original
11 application filing and all supplemental filings and amendments to the application filed regarding
12 this matter;
- 13 2. I reviewed the Applicant's responses to requests for information (RFIs);
- 14 3. I reviewed the information filed by all parties as part of formal discovery and pre-filed testimonies
15 for this proceeding;
- 16 4. I am presenting Commission Staff's ("Staff") recommendation for the revenue requirement and total
17 invested capital necessary to provide continuous and adequate service to the current and future
18 Monarch customers.
- 19 5. Together with Ms. Graham, Ms. Mathis, Ms. Sears, and Ms. Loockerman, I will present my
20 recommendation regarding the approval or denial of the application.

21 **Q. What standards did you apply during your review of this application?**

22 A. I performed my review in accordance with the utility rate-making standards established by TWC Chapter 13;
23 16 TAC Chapter 24; the National Association of Regulatory Utility Commissioners (NARUC) and the
24 *American Water Works Manual of Water Supply Practices, Fifth Edition* (herein referred to as *AWWA MI*
25 *Manual*). In addition, I am guided by the Generally Accepted Accounting Principles (GAAP) and the
26 Generally Accepted Auditing Standards (GAAS). More specifically, because this application was filed by a
27 utility with more than 10,000 active water connections, I reviewed the application with respect to the criteria
28 in TWC § 13.187 for Class A utilities and 16 TAC §§ 24.22, 24.23, 24.24, 24.26, 24.28, 24.29, 24.31, and

1 24.34.

2 **Q. What is the standard that you are using to make your determination concerning the reasonableness of**
3 **costs requested by Monarch in this proceeding?**

4 A. The standards that I am using are:

5 1) 16 TAC § 24.31(b) as effective when the application was filed, which states:

6 “**Allowable expenses.** Only those expenses that are reasonable and necessary to provide service to the
7 ratepayers may be included in allowable expenses. In computing the utility’s allowable expenses,
8 only the utility’s test year expenses as adjusted for known and measurable changes may be
9 considered.”

10 2) TWC § 13.185 (e) which states: “Payment to affiliated interests for costs of any services, or any property,
11 right or thing, or for interest expense may not be allowed either as a capital cost or as expense except to the
12 extent that the regulatory agency finds that payment to be reasonable and necessary. A finding of
13 reasonableness and necessity must include specific statements setting forth the cost to the affiliate of each
14 item or class of items in question and a finding that the price to the utility is no higher than prices charged by
15 the supplying affiliate to its other affiliates or divisions for the same item or items, or to unaffiliated persons
16 or corporations.”

17 **III. SUMMARY OF MONARCH UTILITIES I, L.P.’S REQUEST**

18 **Q. Please explain Monarch’s request.**

19 A. On the original rate change application which was filed on February 29, 2016, Monarch
20 requested a total revenue requirement for both water and sewer of \$30,507,385.¹ On June 2, 2016, Monarch
21 provided errata schedules and the adjusted revenue requirement or cost of service amounted to \$31,515,389,
22 for both water and sewer.²

23 **Q. How much is the operations and maintenance expenses included in the total requested revenue**
24 **requirement or cost of service?**

25 A. The requested operations and maintenance expenses amounted to \$16,152,222 for water and \$2,559,451 for

¹ Monarch Utilities I, L.P., Application for Rate Change (February 29, 2016) (“Application”), Schedule II-A-1 Cost of Service by Water and Sewer; *see also* WP-LG-1, bates p. 3.

² Monarch’s Errata No. 8 (June 2, 2016); *see also* WP-LG-2, bates p. 4.

sewer with a total of \$18,711,673 (\$16,152,222 + \$2,559,451).³

Q. Does Monarch’s requested revenue requirement include any affiliated costs?

A. Yes. The revenue requirement requested by Monarch includes \$3,417,491⁴ of the Parent/SouthWest’s expenses and \$3,074,113⁵ of SWWC Utilities’ shared costs in its test year ending June 30, 2015. A total of \$6,491,604 (\$3,417,491 + \$3,074,113) is included in the miscellaneous expenses with O & M of \$18,711,673.

Q. Did Monarch provide justification in its application regarding the reasonableness of the affiliated costs included in its rate change application?

A. Yes. In response to Staff RFI 5-4, which states, “Please provide an explanation as to why each cost/expense allocated to Monarch from Parent/SouthWest, SWWC Utilities, and/or any other affiliates are reasonable and necessary to provide service to the ratepayers....”⁶ The Applicant provided a list of benefits and services Monarch receive from its affiliates.

IV. DEFINITIONS AND ATTACHMENTS

Q. What is meant by the term revenue requirement?

A. Revenue requirement, or cost of service, is the annual total of dollars it takes to provide retail water or sewer service for a year. The cost of service is the same number, but expressed in terms of expenses. 16 TAC § 24.31(a) states that “Rates are based upon a utility’s cost of rendering service. The two components of cost of service are allowable expenses and return on invested capital.” The revenue requirement may also be expressed as the following equation for the revenue requirement for the utility method:

$$RR = E + D + T + R$$

Where:

RR = Revenue Requirement

E = Operations and Maintenance expenses

D = Depreciation Expense

³ *Id.*, Errata – Schedule II-D-1.1; *see also* WP-LG-2, bates p. 13.

⁴ *Id.*, at p. 12, Errata – WP / IV-2, Adjusted Affiliate Expenses – Parent, Line No. 20 col. (g); *see also* WP-LG-2, bates p. 19.

⁵ *Id.*, p. 13, Errata – WP / IV-2, Adjusted Affiliate Expenses – SWWC Utilities, Inc., Line No. 23 col. (g); *see also* WP-LG-2, bates p. 20.

⁶ Monarch’s Amended Responses to Commission Staff’s Fifth RFI, Staff 5-4 (June 7, 2016); *see also* Monarch’s Amended Response to Staff’s Second RFI, Staff 2-30 (June 7, 2016); *see also* WP-LG-3, bates pp. 26-30; *and* WP-LG-4, bates p. 42.

1 T = Taxes

2 R = Return on Invested Capital

3 To avoid over-recovery, the revenue requirement is typically reduced by other revenues that pay for costs
4 included in the cost of service prior to designing rates to collect the revenue requirement. Costs associated
5 with processing late payments and reconnections are included in the cost of service, making it appropriate to
6 design rates using the revenue requirement less other revenues (late fees and reconnection fees) which
7 represent costs already paid for by the customers.

8 **Q. What period of time is the basis for a revenue requirement?**

9 A. In Texas, a utility method revenue requirement is determined by developing a cost of service based on a
10 historical test year. 16 TAC § 24.31(b) states that, “Only those expenses that are reasonable and necessary
11 to provide service to the ratepayers may be included in allowable expenses. In computing a utility’s allowable
12 expenses, only the utility’s historical test year expenses as adjusted for known and measurable changes may
13 be considered.”

14 **Q. What is the definition of “known and measurable”?**

15 A. 16 TAC § 24.3(33) defines known and measurable (K&M) as “Verifiable on the record as to amount and
16 certainty of effectuation. Reasonably certain to occur within 12 months of the end of the test year.”

17 **Q. What is a test year?**

18 A. 16 TAC § 24.3(52) defines a test year as, “The most recent 12-month period, beginning on the first day of a
19 calendar or fiscal year, for which operating data for a retail public utility are available.”

20 **Q. What test year have you used to review Monarch’s revenue requirement?**

21 A. I used the Applicant’s proposed test year of July 1, 2014, through June 30, 2015, as provided in the rate
22 change application.⁷

23 **Q. Was this pre-filed testimony prepared by you as a result of your review and examination mentioned
24 previously?**

25 A. Yes, it was.

26

⁷ Application at 2.

1 Q. Have you prepared any schedules showing your analysis of the application?

2 A. Yes, I have prepared the following schedules:

- 3 • Attachment LG-1, my resume;
- 4 • Attachment LG-2, a list of my prior pre-filed testimonies;
- 5 • Attachment LG-3.W and LG-3.S, Errata-Attachment LG-3.W and LG-3.S, my recommended revenue
- 6 requirement worksheet for water and sewer respectively;
- 7 • Attachment LG-4.W and LG-4.S, Errata-Attachment LG-4.W and LG-4.S, my recommended
- 8 operations & maintenance expenses and taxes worksheet for water and sewer, respectively;
- 9 • Attachment LG-5.W and LG-5.S, Errata-Attachment LG-5.W and LG-5.S, Staff's calculation of
- 10 weighted average, invested capital, and return for water and sewer, respectively;
- 11 • Attachment LG-6.W and LG-6.S, Errata-Attachment LG-6.W and LG-6.S, Staff's calculation of federal
- 12 income tax worksheet for water and sewer, respectively;
- 13 • Attachment LG-7.W and LG-7.S, Errata-Attachment LG-7.W and LG-7.S, pertaining to my working
- 14 capital allowance worksheet, for water and sewer, respectively;
- 15 • Attachment LG-8, Errata-Attachment LG-8, Staff's Summary and Reconciliation of Monarch's Revenue
- 16 Requirement.

17 Q. Did you prepare your work-papers to support your testimony?

18 A. Yes, I did. I included the following documents, which were either provided by Monarch in response to the
19 RFIs or already in PUC's possession, and are referenced in support of my revenue requirement adjustments.
20 My Confidential Workpapers are as follows:

- 21 • WP-LG-1, List of employees who received salaries, bonuses, allowances, benefits, and other remuneration
- 22 that are included in the cost of service;
- 23 • WP-LG-2, List of withdrawn/terminated employees who received salaries (related to WP-LG-1);
- 24 • WP-LG-3, List of withdrawn/terminated employees who received employee benefits (related to WP-LG-
- 25 1);
- 26 • WP-LG-4, Staff's analysis of salaries, benefits, and payroll taxes of withdrawn employees;
- 27 • WP-LG-5, Staff's analysis of disallowed salaries, benefits, merit increase and full headcount;
- 28 • WP-LG-6, Staff's summary of recommended reduction to salaries, benefits and payroll taxes;

- 1 • **WP-LG-7**, Copy of Monarch’s response to RFI, Staff 5-1 (*3-Factors 2015*);
- 2 • **WP-LG-8**, Staff’s calculation of cost allocation factor for SouthWest;
- 3 • **WP-LG-9**, Monarch’s responses to Commission Staff’s Seventh Request for Information, RFI 7-5 (May 2,
- 4 2016);
- 5 • **WP-LG-10**, Monarch’s confidential attachment to Staff RFI 2-27.a (April 12, 2016).

6 **Q. Please explain what is presented on Attachment LG-3.W and LG-3.S.**

7 A. Attachment LG-3.W and LG-3.S column (c) itemizes the test year revenue requirement as presented in
8 Monarch’s rate application. Column (d) represents adjustments recommended by the Commission Staff to
9 Monarch’s requested revenue requirement for its test year. Column (e) itemizes the Staff recommended
10 revenue requirement for the test year, for water and sewer respectively.

11 **Q. Please explain what is presented on Attachment ~~LG-4.W and LG-4.S~~Errata- Attachment LG-4.W and
12 LG-4.S.**

13 ~~Attachment LG-4.W and LG-4.S~~ Errata-Attachment LG-4.W and LG-4.S show a detailed breakdown of
14 Staff’s adjustments to operations and maintenance expense, other taxes, and federal income taxes, for water
15 and sewer respectively.

16 **Q. Please explain what is presented on Attachment ~~LG-5.W and LG-5.S~~Errata-Attachment LG-5.W and
17 LG-5.S**

18 ~~Attachment LG-5.W and LG-5.S~~ Errata-Attachment LG-5.W and LG-5.S show details in the calculation of
19 Monarch’s weighted cost of capital, invested capital and return, for water and sewer respectively;

20 **Q. Please explain what is presented on Attachment ~~LG-6.W and LG-6.S~~Errata-Attachment LG-6.W and
21 LG-6.S**

22 ~~Attachment LG-6.W and LG-6.S~~ Errata-Attachment LG-6.W and LG-6.S show details in the calculation of
23 Monarch’s federal income taxes, for water and sewer, respectively;

24 **Q. Please explain what is presented on Attachment ~~LG-7.W and LG-7.S~~Errata- Attachment LG-7.W and
25 LG-7.S**

26 ~~Attachment LG-7.W and LG-7.S~~ Errata-Attachment LG-7.W and LG-7.S show details in staff’s calculation
27 of working capital allowance for Monarch, for water and sewer, respectively.

28

V. SUMMARY OF RECOMMENDATIONS

Q. Please summarize Staff's recommendations.

A. Please refer to Attachment LG-3.W and Attachment LG-3.S-Errata-Attachment LG-3.W and LG-3.S. These attachments present the summary of Staff's recommended revenue requirement for the Applicant, for water and sewer, respectively. Attachment LG-3.W-Errata – Attachment LG-3.W shows that Staff recommends a total revenue requirement amount of ~~\$19,355,831~~ \$20,298,032 for water, which is a decrease by ~~(\$6,566,635)~~ (\$5,624,434) to the Applicant's requested revenue requirement for water.

On the other hand, Attachment LG-3.S-Errata – Attachment LG-3.S shows that Staff recommends a total revenue requirement amount of ~~\$3,251,669~~ \$3,366,186 for sewer, which is a decrease by ~~(\$941,510)~~ (\$826,993) to the Applicant's requested revenue requirement for sewer.

Q. Please explain the adjustments you recommend to the Applicant's revenue requirement.

A. I recommend adjustments in several categories. In Section VI, I recommend adjustments to the O&M expenses, related to salaries and wages, employee pension and benefits, bad debts expense, and miscellaneous expenses for both the SouthWest and SWWC allocated costs. I recommend adjustments to some of the taxes other than income taxes specifically on payroll taxes and the impacts of all adjustments on working capital allowance. I also recommend adjustment to the Applicant's requested federal income tax expense as a result other adjustments flowing through to the tax calculation. I will discuss each of these categories in detail.

VI. ADJUSTMENTS TO THE REVENUE REQUIREMENT

Q. As a result of your examination of Monarch's rate change application and additional information submitted by the Applicant, have you proposed any adjustments to Monarch's requested revenue requirement?

A. Yes, please refer to Attachment LG-8-Errata-Attachment LG-8 for a detailed breakdown of my adjustments to Monarch's revenue requirement or cost of service. I used Monarch's rate change application, work papers, schedules, and the general ledger (GL) for the test period ending June 30, 2015, as a baseline for calculating the revenue requirement. I prepared my adjustments based on Monarch's responses to discovery, documents gathered in response to RFIs, and other information provided by Monarch. I will address my recommended adjustments to Monarch's revenue requirement individually, as follows:

1 A. **Salaries and Wages**

2 **Q. Please describe the Applicant’s request for salaries and wages.**

3 A. Monarch requested \$2,987,754 for salaries and wages during the test year plus \$230,435 net adjustments for
4 the known and measurable period, or a total of \$3,218,189⁸ (\$2,987,754 + \$230,435) for both water and
5 sewer. The Applicant’s adjustments during the known and measurable period is a result of the sale of Blue
6 Mound and Midway systems, and includes “increase due to merit and additional headcount.”⁹

7 **Q. Do the requested salaries and wages include salaries of employees who have withdrawn from the**
8 **company during the test year?**

9 A. Yes. The salaries and wages includes salaries of employees who have withdrawn during the test year. This
10 was verified through RFI Staff 2-25, which states, “Please provide list of all employees who received salaries,
11 bonuses, allowances, benefits.... that were included in the cost of service.”¹⁰ In response to Staff’s RFI, the
12 Applicant provided a list of active and withdrawn employees as part of “Confidential Attachment Staff 2-
13 25.a”.¹¹ The list consists of 83 employees which includes 58 active and 25 withdrawn employees. Based on
14 that list, I calculated that the total salaries of withdrawn employees included in the cost of service amounted
15 to \$344,605.¹² Therefore, I recommend that the requested salaries and wages will be reduced by \$344,605.

16 **Q. Do you have additional adjustments for the salaries and wages?**

17 A. Yes. I recommend disallowance of \$159,769 to the Applicant’s known and measurable adjustment on
18 salaries and wages of \$244,729¹³ and recommend to allow only \$84,960 for merit increase, which is a net
19 reduction to the proposed merit increase/salaries and wages by \$159,769 (\$244,729 - \$ 84,960).

20 In response to Staff RFI 7-5, the Applicant provided information (filed confidential) on the increase in salaries
21 and wages “due to merit, additional headcount, and salary survey updates.” Table 1 shows a breakdown of
22 the Applicant’s proposed merit increases.

23

⁸ Monarch’s Errata No. 8, p. 9, Line No. 1 (June 2, 2016); *see also* WP-LG-2, bates p. 16.

⁹ Monarch’s Errata No. 7, pp. 48-50 (May 23, 2016); *see also* WP-LG-5, bates pp. 58-60.

¹⁰ Commission Staff’s Second RFI, Staff 2-25 (March 31, 2016); *see also* WP-LG-6, bates p. 95.

¹¹ Monarch’s Responses to Staff’s Second RFI, Confidential Attachments Staff 2-25.a *and* Staff 2-40 (April 12, 2016); *see also* Confidential WP-LG-1 and Confidential WP-LG-3.

¹² *Id.*; *see also* Confidential WP-LG-2.

¹³ Monarch’s Responses to Commission Staff’s Seventh RFI, Staff 7-5, filed confidential (May 2, 2016); *see also* Confidential WP-LG-9, *and* WP-LG-5, bates p. 60.

Table 1 – Breakdown of Merit Increases

	Amount
Open HC during Test Year: Salaries/Wages/OT	\$ 146,453
Merit Increase – Full Headcount	144,523
Salary Survey Updates	29,956
Total	\$ 320,832
Less: Temporary Labor Costs	(76,103)
Total Known and Measurable - Schedule II-D-1.2(SH)	\$ 244,729¹⁴

The attached Confidential list,¹⁵ shows a total of 140 employee positions and the corresponding new rates per pay period. I calculated my recommended salary increase, by subtracting the total old rate of \$272,307.66 (sum of old rates of 140 employees per pay period) from the total new rate of \$280,476.87 (sum of new rates for 140 employees per pay period), which equals to \$ 8,169.21 (\$280,476.87 - \$272,307.66). I calculated the total annual increase, by multiplying the difference of \$ 8,169.21 by 26 (total number of pay periods per year), which equals to \$212,399.46 (\$ 8,169.21 x 26). Then I calculated the average salary increase per employee by dividing \$212,399.46 by 140 (total number of employee positions on the list) and multiplied by 56¹⁶ (actual number of employees for Monarch as of June 30, 2016) which equal to \$ 84,960 (\$212,399.46/140 = \$ 1,517.14 x 56). Therefore, I recommend disallowance of \$159,769 for merit increases, full head count, and salary survey updates. Please see Table 2 for my calculation of recommended disallowed merit increase:

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ Monarch’s Responses to Staff’s Fifteenth RFI (July 25, 2016), Staff 15-1; *see also* WP-LG-7, bates pp. 103-109.

Table 2 – Calculation of Disallowed Merit Increases

Detailed Item Accounts	Amount
Total salaries of 140 employee positions on the list – new rates	\$280,476.87
Less: Total salaries of 140 employee positions on the list - old rates	\$272,307.66
Salary increase per pay period	\$ 8,169.21
Multiply by 26 pay periods per year	x 26
Total salary increase of 140 employee positions per year	\$212,399.46
Divided by 140 (to get the average increase/employee/year)	/ 140
Average increase per employee per year	\$ 1,517.14
Multiply by 56 Monarch’s employees	x 56
Total recommended increase per year	\$84,960
Less: Applicant’s known and measurable merit increase	\$244,729
Staff recommended disallowance for merit increase	(\$159,769)

My succeeding discussions confirms the actual head count of Monarch’s employees for the test year and the known and measurable period.

Q. How many full time employees did Monarch have as of June 30, 2015, and June 30, 2016?

A. Monarch had 58 full time employees as of June 30, 2015, and 56 as of June 30, 2016.¹⁷

Q. Are the 58 and 56 employees, respectively, the “direct employees” that work for Monarch? If not, how many are direct employees that work for Monarch and how many employees work for more than one affiliated company?

A. Table 3 shows the breakdown of employees that work for Monarch.

Table 3 - Breakdown of Monarch’s Employees

Monarch’s Employees	As of June 30, 2015	As of June 30, 2016
Employees that provide services to Monarch	58	56
Minus employees that work for more than one affiliated company	15	12
Monarch’s direct employees	43	44

¹⁷ *Id.*

B. Employee Pension and Benefits

Q. Please describe the Applicant’s request for employee pension and benefits.

A. Monarch requested \$869,414 for employee pension and benefits during the test year plus \$36,487 for the known and measurable period, or a total of \$905,901¹⁸ (\$869,414 + \$36,487) for water and sewer, respectively.

Q. How much is the total employee pension and benefits for the 25 withdrawn employees which was included in the cost of service in this rate filing package?

A. A total of \$193,802 employee pension and benefits is included in the cost of service for the 25 withdrawn employees.¹⁹ Confidential WP-LG-3 shows the list of withdrawn employees and the corresponding pension and benefits. Table 4 shows a detailed breakdown of my recommended reduction to employee benefits for the 25 withdrawn employees.

Table 4 – Breakdown of Employee Benefits of Withdrawn Employees

Employee Benefits	Amount
Annual 401K	\$ 14,118
Annual Medical/Dental	\$129,200
Annual Employee Benefits – Others	\$ 11,629
Annual Uniforms	\$ 15,180
Workman’s Compensation	\$ 8,495
Annual Training	\$ 15,180
Total Employees Benefits for Withdrawn Employees	\$ 193,802

Q. Do you have other adjustments for the employee pensions and benefits?

A. Yes. I recommend that the increase in employee pensions and benefits “due to merit, additional headcount, and salary survey” be reduced by \$21,892. I used similar calculation as I did for the salaries and wages adjustment on the merit increases. I divided the proposed \$36,487²⁰ increase in employee benefits by 140²¹

¹⁸ Monarch’s Errata No. 8, p. 9, Line No. 2 (June 2, 2016); *see also* WP-LG-2, bates p. 16.

¹⁹ Monarch’s Responses to Staff’s Second RFI, Confidential Attachment Staff 2-25.a (April 12, 2016); *see also* Confidential WP-LG-3.

²⁰ Monarch’s Errata No. 7, p. 50 (May 23, 2016); *see also* WP-LG-5, bates p. 60, Line No. 3 col. (e).

²¹ Monarch’s Responses to Commission Staff Seventh RFI, Staff 7-5, Confidential (May 2, 2016); *see also* Confidential WP-LG-9.

(number of employees with increase), which is equal to \$260.62 increase per employee, then multiply that number by 56 (number of employees for Monarch as of June 30, 2016), equals \$14,595 (\$260.62 x 56). Therefore, I recommend disallowance of \$21,892 (\$36,487 – 14,595) from the proposed increase in employee pension and benefits:

C. Payroll Taxes.

Q. What is the effect on the payroll taxes of your recommended adjustment to salaries and wages?

A. As a result of my recommended adjustment to Monarch’s salaries and wages, payroll taxes will be reduced by \$44,693. Table 5 shows a breakdown of my recommended adjustment for payroll taxes.²² Please see Confidential WP-LG-4, LG-5, and LG-6 for more details.

Table 5 - Breakdown of Recommended Adjustment to Payroll Taxes

Payroll Taxes	Amount
Social Security (FICA)	\$31,272
Medicare	\$ 7,313
Federal Unemployment Tax Act (FUTA)	\$ 1,174
State Unemployment Tax Act (SUTA)	\$ 4,934
Recommended reduction to payroll taxes	\$44,693

D. Bad Debts.

Q. Please describe the Applicant’s request for bad debts expense.

A. Monarch’s cost of service includes bad debts expense amounting to \$333,023.²³ This amount consists of \$334,142 during the test year and a negative adjustment of \$1,119 for the known and measurable period with a net amount of \$333,023 (\$334,142 - \$1,119) for both water and sewer.

Q. Does the bad debts expense requested in the application includes amount allocable to Blue Mound and Midway?

A. Yes. The amount of \$18,870 is allocable to Blue Mound and \$4,783 for the shared accounts, with a total of \$23,653 included in the bad debts expense in the application. This was verified through Staff RFI 12-1, which states, “Reference Errata – Schedule II-A-1……, how much is the total amounts due to or allocable

²² Confidential WP-LG-4, LG-5, and LG-6.

²³ Monarch’s Errata No. 8, p. 9, Line No. 19 (June 2, 2016); see also WP-LG-2, bates p. 16, Line No. 19 col (m).

1 to Blue Mound and Midway?”²⁴ Because Blue Mound and Midway have been sold and should not be
2 included in future costs of service, I recommend that bad debts expense be reduced by ~~\$23,653~~\$18,870 for
3 both water and sewer.

4 **Q. What is Monarch’s internal policy in calculating allowance for doubtful accounts (or allowance for
5 probable losses) and writing off bad debts on accounts receivables from customers?**

6 A. “Monarch reserves according to these percentages of Accounts Receivables that are past due: 25% of 31-60
7 day balance + 50% of 61-90 day balance + 100% of > 90 day balance...”²⁵

8 In addition, the Applicant explained that, “After the final billing *dunning process*, if a balance remains unpaid
9 on a customer’s account, then an automatic write-off will occur and the balance will be charged to allowance
10 for doubtful accounts...”²⁶

11 **E. Miscellaneous Expense.**

12 **Q. Please explain the Applicant’s request for miscellaneous expense.**

13 A. Monarch’s requested O&M expense in the amount of \$18,711,672,²⁷ which includes miscellaneous expense
14 of \$6,788,311. Table 6 shows the break-down of Monarch’s requested miscellaneous expense.

15 **E.1 “Miscellaneous Expense – Affiliate – SWWC, Utilities, Inc.”**

16 **Table 6 - Break-down of Miscellaneous Expense**

Miscellaneous Expense	Water	Sewer	Total
Miscellaneous Expense – Others	\$ 220,666 ²⁸	\$ 76,040 ²⁹	\$ 296,706
Miscellaneous Expense –Affiliates:			
Parent / SouthWest	\$2,939,042	\$ 478,449	\$3,417,491 ³⁰
SWWC Utilities, Inc.	<u>\$2,578,432</u>	<u>\$ 495,681</u>	<u>\$3,074,113³¹</u>
Total	\$5,738,140	\$1,050,170	\$6,788,310

17 ²⁴ Monarch’s Responses to Commission Staff’s Twelfth RFI 12-1 (July 19, 2016); *see also* WP-LG-8, bates p. 118.

²⁵ Monarch’s Responses to Commission Staff’s Second RFI, Staff 2-39 (April 12, 2016); *see also* WP-LG-9, bates p. 123.

²⁶ Monarch’s Responses to Commission Staff’s Twelfth RFI, Staff 12-2 (July 19, 2016); *see also* WP-LG-8, bates p. 114.

²⁷ Monarch’s Errata No. 8, p. 5 (June 2, 2016); *see also* WP-LG-2, bates p.12, Line No. 62 col. (g).

²⁸ *Id.* *see also* WP-LG-2 at p. 10, Line No. 22 col. (d).

²⁹ *Id.*, at Line No. 43 col. (d).

³⁰ *Id.*, at 12; *see also* WP-LG-2, bates p. 19, Line No. 20 col. (g).

³¹ *Id.*, at 13; *see also* WP-LG-2, bates p. 20, Line No. 23 col. (g).

1 Q. What comprises the “Miscellaneous Expense – Affiliate – SWWC Utilities, Inc.” (“SWWC”)?

2 A. The “Miscellaneous Expense – Affiliate – SWWC Utilities, Inc.” is comprised of salaries and wages,
3 employee benefits, payroll taxes, and other expenses incurred by SWWC in its operations of all Texas
4 Utilities (“TXU”).³² The proposed expense is an affiliate transactions which must meet the requirements of
5 TWC § 13.185(e). The SWWC’s expenses are shared and allocated to the different utilities in Texas. The
6 TXU costs are allocated based on meter equivalents factor calculated using prior year end “active
7 connections.....”³³

8 Q. What period is the basis of SWWC’s allocated costs?

9 A. The allocated costs from SWWC is based on expenses incurred during the test year, from July 2014 to June
10 2015.

11 Q. What is the break-down of SWWC’s allocated costs to Monarch?

12 A. Table 7 shows the breakdown of SWWC’s costs allocated for Monarch, as claimed by Monarch.

13 **Table 7 – Applicant’s Break-down of SWWC costs allocated for Monarch**

SHARED COSTS	
TXU Management Fee (\$5,522,384 x 54.37% ³⁴)	\$3,002,758
East Shared Services (from Monarch)	(\$ 104,476)
West Shared Services (\$2,889,041 x 16.47% ³⁵)	\$ 475,793
Total	\$3,374,075³⁶

14
15 Q. What is the “East Shared Services” cost?

16 A. The “East Shared Services” pertains to costs incurred by Monarch which include costs associated with
17 rendering service to other TXUs. Monarch receives credit for those costs rendered to other TXUs. My
18 calculation on Table 8 shows that Monarch receives a total of \$198,885 credit for services rendered to the
19 affiliated companies, an increase by \$94,409 (\$198,885 - \$104,476) credit for Monarch compared to the
20 Applicant’s calculation. My succeeding discussions show the result of my review of the TXU shared costs

³² *Id.*; see also WP-LG-2, bates p. 20.

³³ Monarch’s Errata No. 7, pp. 151-155 (May 23, 2016); see also WP-LG-5, bates pp. 69-73.

³⁴ Monarch’s Amended Attachment Response to OPUC’s RFI 2-14.b, bates p. 75 (June 6, 2016); see also WP-LG-10, bates p. 126.

³⁵ *Id.*

³⁶ *Id.*

1 calculation in more detail.

2 **Q. Did you review the calculation made by the Applicant on TXU’s allocated costs to Monarch? If so,**
3 **please explain your findings.**

4 **A.** Yes, I did. My review of the cost allocation shows that, for the TXUG Management Fee; for “2014/2015
5 average allocation”, Monarch received 46.94% allocated cost for water and 7.43% for sewer or a total of
6 54.37%. The Applicant allocated \$3,002,758 for Monarch ($\$5,522,384 \times 54.37\%$); from the total TXUG
7 Management fee of \$5,522,384 incurred for the test year. My calculation shows that \$3,002,520 of the TXUG
8 Management Fee should be allocated to Monarch ($\$5,522,384 \times 54.37\%$).

9 For the “**East Shared Services**”, my review of the allocation schedule shows that Tenkiller Utilities
10 (Oklahoma) (“Tenkiller”) received 1.77% of Monarch’s cost for water and 1.58% for sewer, with a total of
11 3.35%. However, the Applicant’s calculation showed that only \$90,602.02 or 1.62% of Monarch’s “East
12 Shared Services” costs was allocated to Tenkiller ($\$5,602,378 \times 1.62\%$). In addition, the cost allocation data
13 showed SWWC Utilities, Inc. received 0.20% of Monarch’s cost, but the Applicant calculated 0.25% of
14 Monarch’s “East Shared Services”.

15 For the “**West Shared Services**” or (Austin Shared Services), the Applicant calculated that Monarch received
16 \$475,792.96 or 16.47% of the “West Shared Services” costs ($\$2,889,041 \times 16.47\%$). My calculation shows
17 that Monarch should receive 17%, 15.55% for water and 1.45% for sewer for the “West Shared Services”.
18 Please see Table 8 for my calculation of TXU’s allocated costs for Monarch and my recommended
19 adjustment.

Table 8 – Staff’s Calculation of SWWC’s Allocated Costs for Monarch

SHARED COSTS (W=water, S=sewer)	Sub-Totals	Total Amount
TXU Management Fee ³⁷ [46.94% (W) + 7.43% (S) = 54.37% x \$5,522,384 = \$3,002,520]		\$3,002,520
East Shared Services allocated to: (from Monarch)		
Tenkiller Utilities ³⁸ [1.77% (W) + 1.58% (S) = 3.35% x \$5,602,378 = \$187,680]	(\$187,680)	
SWWC (0.20% x \$5,602,378 = \$11,205)	(\$ 11,205)	(\$ 198,885)
West Shared Services ³⁹ [15.55% (W) + 1.45% (S) = 17% x \$2,889,041 = \$491,137]		\$ 491,137
Total costs allocated for Monarch		\$3,294,772
Less:		
Pro-forma Adjustments	(\$300,244) ⁴⁰	
K & M Adjustments	(\$110,622) ⁴¹	(\$410,866)
Staff calculation – Monarch’s share of SWWC’s Costs		\$2,883,906
Less: Amount allocated for Monarch per application		(\$3,074,113) ⁴²
Staff recommended adjustment to reduce SWWC’s allocated cost for Monarch		(\$190,207)

Based on my calculation, I recommend that “Miscellaneous Expense – Affiliate – SWWC Utilities, Inc.” be reduced by a total of \$190,207 for water and sewer, and that the resulting allocated expense of \$2,883,906 meets the requirements of TWC § 13.185(e).

E.2 “Miscellaneous Expense – Affiliate – Parent/SouthWest”

Q. What comprises the “Miscellaneous Expense – Affiliate - Parent/SouthWest”?

A. The “Miscellaneous Expense – Affiliate – Parent/SouthWest” is comprised of expenses like salaries and wages, employee benefits, payroll taxes, general and administrative expenses, and all other expenses incurred by the parent company, SouthWest Water Company (“Parent” or “SouthWest”).⁴³ The “Miscellaneous Expense - Affiliated Expense – SouthWest” shows a total amount of \$11,999,618⁴⁴ and Monarch received an allocated share of 29.03%, which equals to \$3,483,489 (\$11,999,618 x 29.03%).⁴⁵ The Applicant reduced

³⁷ *Id.*

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ Monarch’s Errata No. 8, p.13 (June 2, 2016); *see also* WP-LG-2, bates p. 20.

⁴¹ *Id.*

⁴² *Id.*

⁴³ *Id.*, at 12; *see also* WP-LG-2, bates p. 19.

⁴⁴ *Id.*, at Line No. 17 col. (g).

⁴⁵ *Id.*, at Line Nos. 17-19 col. (g).

1 this amount by \$65,998⁴⁶ as a result of the sale of Blue Mound and Midway, which gave Monarch a net
2 allocated share of \$3,417,491 (\$3,483,489 - \$65,998)⁴⁷ of SouthWest's total expenses.

3 The Applicant described the indirect corporate services that SouthWest allocates to affiliates as, "Broad
4 categories of costs being amortized are Executive, Legal, Information Technology, Finance, Human
5 Resources, and Facilities."⁴⁸

6 **Q: Where did you derive the 29.03% cost allocated rate for Monarch?**

7 A. The 29.03% cost allocated rate for Monarch was derived from the "Cost Allocation Manual" ("Manual")
8 submitted with the original rate change application.⁴⁹ However, on May 23, 2016, the Applicant reduced the
9 allocated rate for Monarch from 29.03% to 28.48%⁵⁰ to reflect the corrections made to the original
10 application, to exclude the Blue Mound and Midway accounts. Consequently, on June 2, 2016, the Applicant
11 filed "Errata No. 8"⁵¹ which intended to revise *some* of the schedules filed on May 23, 2016, with "Errata
12 No. 7".⁵² The Errata No. 8 includes "Errata – WP/IV-2 Adjusted Affiliate Expenses – Parent, Updated
13 6/2/2016,"⁵³ which the Applicant, **revised again** the cost allocation for Monarch's share of SouthWest's
14 expenses. At this time, the Applicant reverted back to the former cost allocated rate of 29.03% for Monarch
15 and made an adjustment for the sale of Blue Mound and Midway, instead.⁵⁴

16 On the revised calculation on June 2, 2016, Monarch deducted the allocated rate of 29.03% from 28.48%
17 which equals (0.55%).⁵⁵ The total SouthWest's original expenses of \$11,999,618 was multiplied by (0.55%)
18 which equals (\$65,998) [$\$11,999,618 \times (0.55\%)$]. The amount of (\$65,998) was then deducted from
19 \$3,483,489, which gives Monarch an allocated share of \$3,417,491 ($\$3,483,489 - \$65,998$) from SouthWest's
20 expense. Table 9 shows the Applicant's calculation for the most recent amount requested for "Miscellaneous
21 Expense – Affiliate Expense – Parent/SouthWest". The data on Table 9 is an excerpt from "Errata- WP/IV-

⁴⁶ *Id.*, at Line No. 19 col. (g).

⁴⁷ *Id.*, at Line No. 20 col. (g).

⁴⁸ Monarch's Amended Responses to Staff's Second RFI, 2-30, p. 5 (June 7, 2016); and Robert Kelly Direct, pp. 23-27 (February 29, 2016); *see also* WP-LG-4, bates p. 42 and WP-LG-2, bates p. 18.

⁴⁹ Application at Vol 4 of 5, pp. 996-1005 (February 29, 2016); *see also* WP-LG-11, bates pp. 132-141.

⁵⁰ Monarch's Errata 7 at 150 (May 23, 2016); *see also* WP-LG-5, bates p. 68.

⁵¹ Monarch's Errata No. 8 (June 2, 2016); *see also* WP-LG-2, bates pp. 8-20.

⁵² Monarch's Errata No. 7 (May 23, 2016).

⁵³ Monarch's Errata No. 8 at 12 (June 2, 2016); *see also* WP-LG-2, bates p. 19.

⁵⁴ *Id.*, Line No. 19 col (b).

⁵⁵ *Id.*

Table 9 – Miscellaneous Expense Affiliate- Parent/SouthWest

Account Items	Amount
Adjusted Total Expenses Parent/SouthWest	\$11,999,618
Multiply by cost allocated rate for Monarch	29.03%
Amount Allocated from Parent to Monarch	\$3,483,489
Adjust allocation rate for sales of Blue Mound and Midway	
28.48% - 29.03% = (0.55%) x \$3,483,489	\$(65,998)
Total Parent Expenses Allocated for Monarch (6/2/2016)	\$3,417,491⁵⁷

Q. Please describe the Applicant’s Corporate Cost Allocation Methodology for SouthWest.

A. The cost allocation for SouthWest is based on a *3-factor allocation methodology* as approved by the California Public Utilities Commission (“CPUC”) in Decision 14-12-038⁵⁸ The three factors used were *direct operating expense, payroll, and end of year gross plant, recorded 2012.*⁵⁹

Q. The allocation factor used by the Applicant was based on the information “recorded 2012.” Did Staff request the most current information?

A. Yes. Staff requested the most current information as of the test year, which is the 2015 data, through Staff RFI No. 5-12, which states: “Please provide the 2015 Corporate Allocation Factor (CAF) for Parent/SouthWest....”⁶⁰

Q. What was the Applicant’s response to Staff RFI No. 5-12?

A. The Applicant’s response was, “See Schedule IV-4-1 for Cost Allocation Manual which includes the 2015 cost allocation factors and calculations for Parent/SouthWest.”⁶¹

Q. What is “Schedule IV-4-1” referred to by the Applicant in response to Staff RFI No. 5-12?

A. The “Schedule IV-4-1” being referred to by the Applicant in response to Staff RFI No. 5-12 is the “SWWC Cost Allocation Manual.”

⁵⁶ *Id.*

⁵⁷ *Id.*, Line 20 col (g).

⁵⁸ Application at Vol 4 of 5, bates p. 1000 (February 29, 2016); *see also* WP-LG-11, bates p. 136.

⁵⁹ *Id.*

⁶⁰ Commission Staff’s Fifth RFI, Staff 5-12 (April 11, 2016); *see also* WP-LG-12, bates p. 151.

⁶¹ Monarch’s Responses to Staff’s Fifth RFI, Staff 5-12 (April 22, 2016); *see also* WP-LG-13, bates p. 157.

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Q. Did the Applicant use the 2015 information current for the test year in calculating the *revised allocation factor* in “Schedule IV-4-1” in Staff RFI No. 5-12?

A. No. The Applicant revised the “Corporate Cost Allocation” *only* to exclude Blue Mound and Midway from Monarch’s data. All other data used (direct operating expense, payroll, and end of year gross plant) for the other affiliates were exactly the same data “recorded 2012”.⁶²

Q. In your review and calculation of the corporate cost allocation, did you use the same “3-factor allocation methodology” used by the Applicant?

A. Yes. I did.

Q. Did you also use Monarch’s information recorded 2012? If not, what did you use?

A. No, I did not use the information recorded 2012. I used the most current information recorded in 2015 because, although the allocation factors are acceptable, if one uses the 2012 data, the result will not meet the requirements of TWC § 13.185(e) for affiliated transactions. Using the 2012 costs for allocation purposes results in charges to Monarch that are higher than prices charged to other affiliates or divisions because the allocation factors do not match the current data.

Q. Why did you use information recorded 2015, instead of the recorded 2012 as approved by the California Public Utility Commission (CPUC)?

A. Monarch’s application is based on a test year ending June 30, 2015, and known measurable period ending June 30, 2016. In my opinion, the data recorded 2015 is more appropriate and accurate to use for this proceeding, instead of the information recorded 2012 because the test year is different and more current information is now available. Although I used the 2015 information in my calculation, I applied the same 3-factor allocation methodology as approved by CPUC.

Q. Do you have the data for direct operating expenses, payroll, and end of year gross plant for the years 2013, 2014, and 2015?

A. Yes, I do.

⁶² Monarch’s Errata 7 at bates p. 150 (May 23, 2016); *see also* WP-LG-5, bates p. 68.

1 **Q. Did you get this data from the original application?**

2 A. No. The data for direct operating expenses, payroll, and end of year gross plant for years 2013, 2014, and
3 2015, were not included in the original application. However, this data was requested in RFI Staff 5-1.⁶³

4 **Q. Did the Applicant provide the information you requested in RFI Staff 5-1?**

5 A. Yes. In response to RFI Staff 5-1, the Applicant provided the staff's requested information for the years
6 2013, 2014, and 2015 (filed confidential).⁶⁴ Using the information obtained from the Applicant's response
7 to Staff's RFI No. 5-1, I calculated the cost allocation factors for SouthWest using the *3-factor allocation*
8 *methodology*.⁶⁵ I used the direct operating expense, payroll, and end of year gross plant, recorded 2015.

9 **Q. Did the Applicant include the 2015 3-factor data for Blue Mound and Midway in their response to RFI**
10 **Staff 5-1?**

11 A. Yes. The Applicant's response to RFI Staff 5-1 (Confidential) includes *3-factor data* for Blue Mound and
12 Midway.

13 **Q. In your calculation of the cost allocation factor for SouthWest, did you use the same "3-factor data for**
14 **2015" as provided by the Applicant in response to RFI Staff 5-1?**

15 A. Yes, I used the same *3-factor data for 2015*. However, for purposes of calculating an accurate cost allocation
16 factor, I excluded the data for the Blue Mound and Midway because these two utilities were sold in 2015.
17 Confidential WP-LG-8 shows staff's calculation for the 2015 cost allocation factor for SouthWest.⁶⁶

18 **Q. In your calculation, what is the cost allocation rate for Monarch using the 3-factor data for 2015?**

19 A. In my calculation using the 2015 data and excluding Blue Mound and Midway, the cost allocation rate for
20 Monarch will be reduced from 29.03% to 22.6%, a reduction of 6.43% (29.03% - 22.60%).

21 **Q. What dollar amount results from using your recommended cost allocation rate of 22.6% for Monarch?**

22 A. The 22.6% cost allocation rate for Monarch is equivalent to \$2,661,515 of SouthWest's total expenses.

23 **Q. What is the basis of your calculation for the \$2,661,515 cost allocation for Monarch?**

24 A. I used the total SouthWest's expenses of \$11,776,616 from May 23, 2016 "Errata –WP/IV-2 – Adjusted

⁶³ Commission Staff's Fifth RFI, Staff 5-1 (April 11, 2016); *see also* WP-LG-12, bates p. 149.

⁶⁴ Monarch's Supplemental Response to Staff's Fifth RFI, Confidential Attachment Staff 5-1 (April 29, 2016); *see also* Confidential WP-LG-7.

⁶⁵ Confidential WP-LG-8.

⁶⁶ *Id.*

Affiliate Expenses – Parent⁶⁷ (\$11,776,616 x 22.6% = \$2,661,515).

Q. Why did you use the \$11,776,616 as the basis in calculating the cost allocation rate for Monarch?

A. I used \$11,776,616 as my basis in calculating the cost allocation rate for Monarch in this proceeding because this amount does not include Blue Mound and Midway, so I opine that this is more appropriate amount to use as my basis. Furthermore, my calculations provide an affiliate expense that is no higher than prices charged by the supplying affiliate to its other affiliates or divisions for the same item or items, as required by TWC § 13.185(e).

Q. What is the result of your own calculation of the Miscellaneous Expense – Affiliate - Parent?

A. My calculation will reduce the requested “Miscellaneous Expense – Affiliate – Parent/SouthWest” by \$755,976 (\$3,417,491 - \$2,661,515) for Monarch’s share in the allocated costs. I divided this adjustment between water and sewer using the 86%:14%⁶⁸ allocation factor of the Applicant for water and sewer, respectively, my recommended adjustment will reduce the Miscellaneous Expense – Affiliated Expense – SouthWest by \$650,139 and \$105,837, for water and sewer, respectively. Table 10 shows my calculation of Staff’s recommended adjustment for SouthWest’s allocated cost for Monarch.

Table 10 – Staff’s Calculation of SouthWest’s Allocated Cost for Monarch

Account Items	Amount
Total Parent Expenses	\$11,776,616
Multiply by Staff’s cost allocated rate	22.6%
Staff’s Amount Allocated from Parent to Monarch	\$2,661,515
Less:	
Amount Requested in the Application	\$3,417,491
Staff’s Recommended Reduction to Miscellaneous Expense – Affiliate – Parent/SouthWest	(\$ 755,976)

F. Working Capital Allowance.

Q. Please describe the Applicant’s request for working capital allowance.

A. Monarch requested \$473,393 for working cash allowance, \$427,304 and \$46,089, for water and sewer, respectively.

⁶⁷ Monarch’s Errata No. 7 at 258 (May 23, 2016); see also WP-LG-5, bates p. 85.

⁶⁸ *Id.*, at 84 and 239; see also WP-LG-5, bates pp. 63 and 80.

1 **Q. Please describe your adjustment to the working capital allowance calculation included in the rate base.**

2 A. My adjustment to working capital allowance uses the Applicant’s methodology and changes the total for the
3 inclusion of Staff’s recommended disallowances to the Applicant’s request. I included the impacts of Staff’s
4 recommended O & M adjustments, taxes other than income taxes adjustments, and the federal income tax
5 adjustment. However, pursuant to 16 TAC § 24.31(c)(2)(C)(iii)(IV)(-a-), which states, “The lead-lag study
6 will use the cash method; all non-cash items, including but not limited to depreciation, amortization, deferred
7 taxes, prepaid items, and return (including interest on long-term debt and dividends on preferred stock), will
8 not be considered.” Therefore, I excluded interest expense in my calculation. The impacts of Staff’s
9 adjustments to working capital allowance are shown on Attachment LG-7.W for water and Attachment LG-
10 7.S for sewer. My recommended amount will decrease the working capital allowance and rate base by
11 (\$47,180) and (\$8,267), for water and sewer, respectively.

12 **G. Other Revenues (Miscellaneous Fees).**

13 The Applicant posted miscellaneous or other revenues of (\$1,096,220.21) for water and (\$202,294.87) for
14 sewer.⁶⁹ This account consists of customer penalties, connect fees, late charges, return check fees, tap fees,
15 and other income. This amount is a reduction to the revenue requirement. Staff agrees with the Applicant
16 and I recommend (\$1,096,220) for water and (\$202,295) for sewer for due to “Other Revenues” be deducted
17 from the revenue requirement.

18 **H. Federal Income Taxes.**

19 The Applicant calculated a total of \$2,358,492⁷⁰ (\$2,033,015 for water and \$325,476 for sewer) for federal
20 income tax and requested the same amount for federal income taxes.⁷¹ Based on Staff’s adjustments to
21 Monarch’s O & M, depreciation, and other expenses, I calculated the federal income tax amount by
22 multiplying the taxable income the corresponding tax rate of 34%. Attachment LG-4.W and LG-4.S, Errata
23 -- Attachment LG-4.W and LG-4.S Schedule 1(c) and Attachment LG-6.W and LG-6.S Errata – Attachment
24 LG-6.W and LG-6.S show a detailed Staff calculation of the utility’s federal income taxes. The
25 recommended amount for federal income tax amount equals ~~\$954,622~~\$954,662 (\$2,033,015 -

⁶⁹ *Id.*, at 249; *see also* WP-LG-5, bates p. 81.

⁷⁰ *Id.*, at 76-77; *see also* WP-LG-5, bates pp. 61-62.

⁷¹ Monarch’s Errata No. 8, p. 4 (June 2, 2016); *see also* WP-LG-2, bates p. 11.

1 ~~\$1,078,393~~ \$1,078,353) for water and ~~\$187,663~~ \$187,571 (~~\$325,476 - \$137,813~~ \$137,905) for sewer, which is
2 a decrease by ~~\$1,078,393~~ and ~~\$137,813~~ \$1,078,353 and \$137,905, for water and sewer, respectively.

3 **I. Return on Invested Capital.**

4 Monarch calculated a total of \$6,918,242 (\$5,963,512 for water + \$954,730 for sewer)⁷² for return on invested
5 capital. I recommend to reduce the amount by a total of ~~(\$3,204,384), [(\$2,859,793) + (\$344,591)]~~
6 (\$3,204,552), [(\$2,859,664) + (\$344,888)] for water and sewer, respectively. Staff calculated the return by
7 adding the net plant plus the working cash allowance, other prepayments, materials and supplies inventory,
8 and deducting other rate base items like customers deposits, contributions in aid of construction, and customer
9 advances for construction. Staff then multiplied that total by the weighted average cost of capital calculated
10 by Ms. Sears' rate of return of 7.47%, for both water and sewer. ~~Attachment LG-5.W and Attachment~~
11 ~~LG-5.S~~ Errata – Attachment LG-5.W and Errata Attachment LG-5.S show the calculation of the return
12 on invested capital for water and sewer, respectively, in greater detail.

13 **J. Rate-Case Expense.**

14 The issue of rate-case expenses is severed from this case and will be addressed in Docket No. 46216. Mr.
15 Andrew Novak is assigned as the subject matter expert for the rate-case expenses for this proceeding.
16 Therefore, I will not discuss rate-case expense in my testimony.

17 **VII. FINAL RECOMMENDATION**

18 **Q. How much is the revenue requirement requested by Monarch?**

19 A. Based on the rate change application, Monarch requested a total revenue requirement of \$31,515,389. Staff
20 reduced this amount by (\$101,228) for unaccounted / no reference *Other Expense Items* and other
21 revenues/miscellaneous income of (\$1,298,515), for both water and sewer.⁷³ Therefore, the net revenue
22 requirement requested by Monarch amounts to \$30,115,645. Please see ~~Attachment LG-8~~ Errata Attachment
23 LG-8 for the Staff's summary and reconciliation of the revenue requirement.

⁷² Monarch's Errata No. 7, pp. 27-29 (May 23, 2016); Monarch's Errata No. 8, p. 4 (June 2, 2016); *see also* WP-LG-5, bates pp. 55-57 and WP-LG-2, bates p. 4.

⁷³ Attachment LG-8

1 Q. How much is the total Staff adjustments made to Monarch's requested revenue requirement?

2 A. Staff made a total negative adjustment of ~~(\$7,508,145), [(\$6,566,635) (\$7,503,641), [(\$6,562,402) for water~~
3 and ~~(\$941,510)](\$941,239)~~ for sewer], which reduced the total revenue requirement to
4 ~~\$22,607,500~~\$23,664,218. (Please see ~~Attachment LG-3.W, LG-3.S and Attachment LG-8-Errata-~~
5 Attachment LG-3.W, Errata-Attachment LG-3.S and Errata-Attachment LG-8 for more details).

6 Q. What is your final recommended revenue requirement?

7 A. Based on Staff's combined adjustments to the Applicant's requested revenue requirement or cost of service,
8 I calculated a net revenue requirement of ~~\$22,607,500~~\$23,664,218 ~~(\$19,355,831)~~\$20,298,031 for water and
9 ~~\$3,251,669~~\$3,366,187 for sewer). This amount will be used by Ms. Heidi Graham for preparing the
10 Commission Staff's recommended rates. ~~Attachment LG-3.W and LG-3.S, Errata-Attachment LG-3.W and~~
11 LG-3.S column (e) provides a more detailed breakdown of Staff revenue requirement calculation.

12 Q. Does this conclude your pre-filed testimony?

13 A. Yes; however, I reserve the right to supplement this testimony during the course of the hearing and as new
14 information or additional evidence is presented.

ATTACHMENT LG-1

RESUME

Monarch Utilities I, L.P.

Application for Water and Sewer Rate/Tariff Change

SOAH Docket No. 473-16-2873.WS

PUC Docket No. 45570

LEILA C. GUERRERO
Professional Experience

**Financial Examiner – September 1, 2014 to present – Water Utility Regulation Division
Public Utility Commission, Austin, Texas**

- Review retail water and sewer utility rate change applications, utility cost of service information, and process applications through final action dates to ensure rates are just and reasonable. Conduct special utility audits as directed;
- Participate in utility case certificates of convenience and necessity (CCN) or rates settlement negotiations, prepare and provide testimony for evidentiary hearings, including discussing the outcome of audits prepared on utility books and records in relation to rate case proceedings for contested applications/cost of service appeals, CCNs, and sale, transfer, mergers (STMs);
- Review, audit, analyze, and prepare comprehensive reports of complex business plans and/or financial, managerial, and technical capacity information for public water systems and retail public water or sewer utilities submitted for review;
- Provide assistance for retail public water or sewer utilities in developing business plans; financial, managerial, and technical information; and in following the strategies set forth in the plans. Prepare analyses and written testimony on financial, accounting, and cost-recovery issues in rate proceedings and other cases before the Commission;
- Serve as Expert Witness, present testimony, defend position under cross-examination, and work closely with attorneys and other professional staff in the pre-hearing and post-hearing stages of contested cases;
- Conduct investigations and audits related to compliance with Commission rules and the determination of reasonable levels of expenses and revenues.

Assigned Cases - TCEQ and PUC

Number of Rates Review Completed	= 250
Number of Hearings, Negotiations, and Agenda Attended	= 180
Number of Administrative Rate Reviewed Applications	= 675
Number of CCN and STM Applications Completed	= 145
Number of Contested Rates, CCN and STM Applications	= 165

**Auditor – May 2006 to August 31, 2014 – Financial Review, Water Supply Division,
Texas Commission on Environmental Quality (TCEQ), Austin, Texas**

- Conducted on-site and desk audits for rate cases, record-keeping evaluations, & special audits / projects: this includes reviewing clients' financial statements, general ledgers, books, records, invoices and other supporting documents;
- Reviewed, analyzed and processed utility retail rate applications, certificate of convenience and necessity (CCN), & sale/transfer/ or merger (STM) related applications to provide recommendations which are supported by applicants' information and financial data;
- Reviewed contested and uncontested water/sewer CCN's & STM's related applications and prepared detailed and comprehensive recommendations based on professional judgment in compliance with the applicable rules and regulations;
- Performed administrative review of rate related applications to include the analysis of financial information and notices to determine if any additional information is needed. Attended formal or informal hearings & settlements and served as "Expert Witness", as appropriate;
- Prepared and presented verbal and written testimonies for evidentiary hearings, and contested agenda to help the Commissioners in making decisions;
- Provided written and verbal customer service on rates, STM's, CCN's and other utility related matters;
- In-charge of the Team in the absence of supervisor, as assigned. Trained/ assisted new auditors, as needed. Assisted with special projects as assigned.

**Lead / Accountant - Accounting Division - April 2005 – May 2006
Texas Department of State Health Services (DSHS) - Austin, Texas**

- Managed seven (7) team members. Served as technical lead on fiscal matters and work status, which involved overseeing, advising, and directing the payment distribution activities of DSHS and ensured that all business processes and procedures were being followed.
- Oversaw and coordinated with the Texas Comptroller of Public Accounts (CPA) on direct deposit cancellations, debit requests, and release requests for federal fund held warrants. Approved disbursement vouchers and warrant cancellations;
- Managed / oversaw the distribution of payroll checks for DSHS employees in the Central Office and all State Hospitals in Texas
- Coordinated with Budget Division, other DSHS departments, and other state or federal agencies, including the CPA;
- Ensured compliance with federal and state rules, regulations and agency operating procedures. Reviewed, analyzed, interpreted accounting data and transactions for accuracy and efficiency. Prepared financial reports for the division;
- Reviewed encumbrances, analyzed, and approved adjusting entries, refund of revenues, and refund of expenditures.

AFP Savings & Loan Assn., Inc.– September 1983 to April 2003 - Manila, Philippines

VP/Manager – Billing and Collection Division (December 2001 - April 2003)

- Oversaw the daily operations and activities of the billing and collection division. Work involved establishing goals and objectives, developed guidelines, policies, and procedures; developed schedules, priorities, and standards for achieving established goals; coordinated and evaluated the division's activities; monitored compliance with company rules, policies and procedures;
- Supervised / managed 80 (eighty) employees and directed the billing & collection activities of the company all over the country. Ensured that all staff adhered to all company rules, policies & procedures;
- Ensured that all loans granted were billed and all receivables were collected in a timely manner; maintained at least 98% collection efficiency target and 100% billing efficiency;
- Established and maintained good business relationship and represented the company to outside agencies like the finance and computer centers of all the branches of service of the Armed Forces and the Philippine National Police and other financial institutions on billing and collection matters.
- Prepared annual budget, plans and programs for the division. Presented reports to the management and the Board of Trustees in conference.

VP/Branch Manager – Operations Department (March 1995 – December 2001)

- Managed the largest branch office of the company and generated loan production with an average of P3.5 billion yearly. Managed and maintained the branch's overall efficiency, productivity and profitability.
- Oversaw the daily operations and activities of the branch. Work involved establishing goals and objectives, developed guidelines, policies, and procedures, developed schedules, priorities, and standards for achieving established goals; coordinated and evaluated the branch's activities, monitored compliance with company rules, policies and procedures.
- Supervised / managed 90 (ninety) staff and ensured that all company guidelines, policies & procedures were adhered to by the employees
- Administered, directed, and accomplished the branch's objectives by managing the efficiency of the branch operations activities like cash operations, membership, lending, customer relations, accounting, including the branch's marketing functions. Ensured that quality service were provided to all customers/clients. Approved loans and withdrawal transactions. Principal check signatory of the branch;
- Prepared annual budget, plans and programs for the branch, and presented reports to all officers and the Board of Trustees during the quarterly and annual conferences,
- Conducted lectures / orientation seminars to new employees particularly on the "Products and Services" of the company.

AVP/Manager – Cash Management Division (March 1992 – March 1995)

- Supervised, managed, and directed 25 (twenty-five) staff and ensured that all company rules, guidelines, policies & procedures were adhered to by the employees. Oversaw the daily operations and activities of the Cash Management Division;
- Directed the investments and cash operations activities of the company. Principal check signatory of the company. Coordinated, maintained good rapport, and served as the company's representative to all depository banks of the company and other financial institutions.
- Supervised the daily cash requirements of all branches and made sure that funds were sent to their respective depository banks in a timely manner;
- Prepared daily investment reports for the management and prepared recommendation as to which bank the excess funds were deposited;
- Evaluated company's depository banks; conducted review and analysis on the viability, liquidity and stability of all depository banks of the company and prepared recommendation to the top management;
- Performed other duties and projects as required by the SVP, or the General Manager/President.

Chief Accountant – Comptrollership Department (September 1983 – March 1992)

- Provided oversight, direction, and oversaw the overall function of the general accounting - Comptrollership Department and ensured compliance with Generally Accepted Accounting Principles (GAAP); supervised staff (accountants, bookkeepers, and accounting clerks) of at least 15 (fifteen). Ensured that all accounting staff adhered to accounting rules and regulations, management rules, policies and procedures. Provided trainings and day-to-day guidance to accountants and other accounting staff; served as mentor to new accountants;
- Managed and maintained the company's general ledgers and consolidated trial balance of the branch offices of the company all over the country; reviewed and consolidated financial reports of all branch offices;
- Responsible in the preparation of financial statements, management reports, periodic reports to the Central Bank of the Philippines (Central Bank), Bureau of Internal Revenue (BIR), Securities and Exchange Commission (SEC) and other governmental agencies;
- Reviewed accounting transactions and approved cash disbursement vouchers;
- Monitored budget, cash flows, and capital expenditures of the company.
- Reviewed and approved cash/bank reconciliation statements; oversaw reconciliation of fixed asset accounts, accounts receivable, accounts payables, and other accounts of the company. Performed account analysis and analysis of financial data;
- Prepared, reviewed, and finalized monthly & year-end adjusting entries, journals entries, accruals, and amortization of prepaid expenses and deferred charges. Prepared annual capital expenditures and expense budget for the division;
- Provided assistance to the external auditors and the Central Bank auditors in conducting their audits;
- Served as a member of the Ad-hoc Audit Committee and prepared financial reports for the committee;
- Performed other duties and projects as required by the SVP Comptroller and the GM / President.

Other Positions held:

Accountant – February – September 1983
Consumer Finance Corporation, Manila, Philippines

Staff Auditor — July 1982 – February 1983
T. D. Ligutan & Co., CPA's, Manila, Philippines

Education:

- NARUC Utility Rate School, San Diego California, May 2008
- Master of Business Administration (MBA), 1995
University of Santo Tomas, Manila, Philippines
- Bachelor of Science in Business Administration (BSBA), 1981
Major in Accounting (Graduated Cum Laude)
Ortanez University, Manila, Philippines

Certification:

Certified Public Accountant - Philippines, 1982

Professional Organizations / Affiliations:

- Philippine Institute of Certified Public Accountants (PICPA)
- ASEAN Federation of Accountants (AFA)

ATTACHMENT LG-2

PRIOR PRE-FILED TESTIMONIES

Monarch Utilities I, L.P.

Application for Water and Sewer Rate/Tariff Change

SOAH Docket No. 473-16-2873.WS

PUC Docket No. 45570

LEILA C. GUERRERO
PUBLIC UTILITY COMMISSION OF TEXAS (PUC)
LIST OF PREVIOUS TESTIMONIES

Testimonies written/filed with TCEQ and PUC

SOAH Docket No. 582-09-2069; TCEQ Docket No. 2008-1811-UCR
Application of Southern Water Corporation for Water and Sewer Rate/Tariff Change
Appeal of Southern Water Corporation from the Ratemaking Action of the City of Houston
Testimony on Cost of Service and Revenue Requirement filed November 6, 2009

SOAH Docket No. 582-09-3549; TCEQ Docket No. 2009-0372-UCR
Application of Wiedenfeld Water Works, Inc. for Water Rate/Tariff Change
Testimony on Cost of Service and Revenue Requirement filed April 2, 2010

SOAH Docket No. 582-10-3419; TCEQ Docket No. 2010-0292-UCR
Application of Woodland Hills Water Company for Water Rate/Tariff Change
Testimony on Cost of Service and Revenue Requirement filed September 17, 2010

SOAH Docket No. 582-13-2405; TCEQ Docket No. 2012-2707-UCR
Application of Wiedenfeld Water Works, Inc. for Water Rate/Tariff Change
Testimony on Cost of Service and Revenue Requirement filed on January 21, 2014

SOAH Docket No. 473-15-0371; PUC Docket No. 42924
Application of Crystal Springs Water Co., Inc. to Amend Water CCN
Testimony on Financial and Managerial Analysis filed February 25, 2015

SOAH Docket No. 473-14-5139.WS; PUC Docket No. 42862
SOAH Docket No. 473-15-1710.WS; PUC Docket No. 43720
Appeal from Outside City Customers of the Town of Woodloch for Water and Sewer Rates
Appeal from Outside City Customers of the Town of Woodloch for Rate-Case Expense Surcharge
Testimony on Rate-Case Expense filed May 5, 2015

SOAH Docket No. 473-14-5143.WS; PUC Docket No. 42861
Application of the City of Georgetown and Chisholm Trail Special Utility District for Sale, Transfer or Merger
Testimony on Financial and Managerial Analysis filed June 5, 2015

SOAH Docket No. 473-15-4944.WS; PUC Docket No. 44236
Application of Custom Water Company, LLC for Water Rate/Tariff Change
Testimony on Cost of Service and Revenue Requirement filed October 23, 2015

SOAH Docket No. 473-15-4435.WS; PUC Docket No. 43242
Application of Wiedenfeld Water Works, Inc. for Water Rate/Tariff Change
Testimony on Cost of Service and Revenue Requirement filed November 20, 2015

SOAH Docket No. 473-16-2094.WS; PUC Docket No. 43076
Application of Consumers Water, Inc. for Water Rate/Tariff Change
Testimony on Cost of Service and Revenue Requirement filed July 26, 2016

SOAH Docket No. 473-16-2873.WS; PUC Docket No. 45570
Application of Monarch Utilities I, L.P. for Water and Sewer Rate/Tariff Change
Testimony on Cost of Service and Revenue Requirement filed August 24, 2016

ERRATA-ATTACHMENT LG-3.W

REVENUE REQUIREMENT - Water

Monarch Utilities I, L.P.

Application for Water and Sewer Rate/Tariff Change

SOAH Docket No. 473-16-2873.WS

PUC Docket No. 45570

PUBLIC UTILITY COMMISSION OF TEXAS

Utility Name: Monarch Utilities I. L. P.
 Docket Number: 45570 - Water-ER

Preliminary - Subject To Change

Version: 20070403

9:21 AM
 2 Sep-16

SCHEDULE I - REVENUE REQUIREMENT

Errata-Attachment LG-3.W

	TEST PERIOD PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
Operations and Maintenance	\$16,310,354	-\$158,258	\$16,152,096	(\$1,442,857)	\$14,709,239
Depreciation and Amortization	\$2,873,876	(\$41,925)	\$2,831,951	(\$1,143,092)	\$1,688,859
Other Taxes	\$862,742	\$117,838	\$980,580	(\$38,436)	\$942,144
Federal Income Taxes		\$2,033,015	\$2,033,015	(\$1,078,353)	\$954,662
Return		\$5,963,512	\$5,963,512	(\$2,859,664)	\$3,103,848
Revenue Requirement	\$20,046,972	\$7,914,182	\$27,961,154	(\$6,562,402)	\$21,398,752
Theoretical Depreciation Adjustment		(\$937,968)	(\$937,968)	\$937,968	\$0
Other Revenues - Taps, Recon, late fee, Etc.	(\$1,096,220)	(\$4,500)	(\$1,100,720)		(\$1,100,720)
Total Reduction in Revenue Requirement	(\$1,096,220)	(\$942,468)	(\$2,038,688)		(\$1,100,720)
Base Rate Revenue	\$18,950,752	\$6,971,714	\$25,922,466	(\$5,624,434)	\$20,298,032

ERRATA-ATTACHMENT LG-3.S

REVENUE REQUIREMENT - Sewer

Monarch Utilities I, L.P.

Application for Water and Sewer Rate/Tariff Change

SOAH Docket No. 473-16-2873.WS

PUC Docket No. 45570

PUBLIC UTILITY COMMISSION OF TEXAS

Utility Name: Monarch Utilities I, L.P.

Docket Number: 45570 - Sewer-ER

Preliminary - Subject To Change

Version: 20070403

9:21 AM

2-Sep-16

SCHEDULE I - REVENUE REQUIREMENT **Errata-Attachment LG-3.S**

	TEST PERIOD PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
Operations and Maintenance	\$2,733,007	(\$173,431)	\$2,559,576	(\$242,264)	\$2,317,312
Depreciation and Amortization	\$588,496	(\$32,660)	\$555,836	(\$209,925)	\$345,911
Other Taxes	\$93,134	\$20,968	\$114,102	(\$6,257)	\$107,845
Federal Income Taxes		\$325,476	\$325,476	(\$137,905)	\$187,571
Return		\$954,730	\$954,730	(\$344,888)	\$609,842
Revenue Requirement	\$3,414,637	\$1,095,083	\$4,509,720	(\$941,239)	\$3,568,481
Theoretical Depreciation Adjustment		(\$114,246)	(\$114,246)	\$114,246	\$0
Other Revenues - Taps, Recon, late fee, Etc.	(\$202,295)		(\$202,295)		(\$202,295)
Total Reduction in Revenue Requirement	(\$202,295)	(\$114,246)	(\$316,541)	\$114,246	(\$202,295)
Base Rate Revenue	\$3,212,342	\$980,837	\$4,193,179	(\$826,993)	\$3,366,186

**ERRATA-ATTACHMENT LG-4.W
OPERATIONS AND MAINTENANCE EXPENSES
AND TAXES WORKSHEET - Water**

Monarch Utilities I, L.P.

Application for Water and Sewer Rate/Tariff Change

SOAH Docket No. 473-16-2873.WS

PUC Docket No. 45570

PUBLIC UTILITY COMMISSION OF TEXAS

Preliminary - Subject To Change

Utility Name:

Monarch Utilities I, L.P.

Docket Number:

45570 - Water-ERRATA(6.2.2016)

version: 20070403

Test Period:

From: 7/1/2014 To: 6/30/2015

9:21 AM

2-Sep-16

SCHEDULE I(a) - OPERATIONS & MAINTENANCE

Errata-Attachment LG-4.W

	TEST PERIOD PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
SALARIES AND WAGES - EMPLOYEES	2,599,117	196,268	2,795,385	(433,761)	2,361,624
EMPLOYEE PENSIONS & BENEFITS	748,047	31,379	779,426	(185,497)	593,929
PURCHASED WATER	2,200,251	(129,534)	2,070,717		2,070,717
PURCHASED POWER	875,266	(55,203)	820,063		820,063
CHEMICALS	423,846	(15,419)	408,427		408,427
MATERIALS AND SUPPLIES	1,485,273	(30,855)	1,454,418		1,454,418
CONTRACT SERVICES - LEGAL	27,597	(23,708)	3,889		3,889
CONTRACT SERVICES - TESTING	174,650	(4,770)	169,880		169,880
CONTRACT SERVICES - OTHER	718,848	(10,468)	708,380		708,380
PROFESSIONAL SERVICES	0		0		0
TRANSPORTATION EXPENSES	774,020		774,020		774,020
EMPLOYEE LABOR	0		0		0
BAD DEBT EXPENSE	287,519	(1,119)	286,400	(9,882)	276,518
RENTAL - BLDG/REAL PROPERTY	129,194	(78,175)	51,019		51,019
RENTAL - EQUIPMENT	36,507		36,507		36,507
INSURANCE	55,598		55,598		55,598
REGULATORY EXPENSE (RATE CASE)	0		0		0
REGULATORY EXPENSE - OTHERS	0		0		0
MISCELLANEOUS EXP - OTHERS	220,666		220,666		220,666
MISCELLANEOUS EXP - AFFILIATES	5,553,955	(36,654)	5,517,301	(813,717)	4,703,584
TOTAL	16,310,354	(158,258)	16,152,096	(1,442,857)	14,709,239

SCHEDULE I(b) - OTHER TAXES

	TEST YEAR PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
AD VALOREM TAXES	497,084	(21,328)	475,756		475,756
PAYROLL TAXES	241,134	24,542	265,676	(38,436)	227,240
OTHER TAXES-MISC	124,524	114,624	239,148		239,148
NON-REVENUE RELATED	862,742	117,838	980,580	(38,436)	942,144
TWC ASSESSMENT			0		0
REVENUE RELATED TAXES	0	0	0		0
TOTAL OTHER TAXES	862,742	117,838	980,580	(38,436)	942,144

SCHEDULE I(c) - FEDERAL INCOME TAXES

REVENUE REQUIREMENT	21,398,752
LESS	
OPERATIONS AND MAINTENANCE	-14,709,239
DEPRECIATION AND AMORTIZATION	-1,688,859
OTHER TAXES	-942,144
INTEREST EXPENSE	-1,250,681
TAXABLE INCOME	2,807,830
TAXES @ FACTOR :	0
SI B-TOTAL	954,662
LESS:	
SURTAX EXEMPTION	0
FEDERAL INCOME TAXES	954,662

**ERRATA-ATTACHMENT LG-4.S
OPERATIONS AND MAINTENANCE EXPENSES
AND TAXES WORKSHEET - Sewer**

Monarch Utilities I, L.P.

Application for Water and Sewer Rate/Tariff Change

SOAH Docket No. 473-16-2873.WS

PUC Docket No. 45570

PUBLIC UTILITY COMMISSION OF TEXAS

Preliminary - Subject To Change

Utility Name:

Monarch Utilities I, L.P.

Docket Number:

45570 - Sewer-RRATA(6 2 2016)

version 20070403

Test Period:

From: 7/1/2014 To: 6/30/2015

9:21 AM

2-Sep-16

SCHEDULE I(a) - OPERATIONS & MAINTENANCE

Errata-Attachment LG-4.S

	TEST PERIOD PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
SALARIES AND WAGES EMPLOYEES	\$382,486	\$34,797	\$417,283	(\$70,613)	\$346,670
EMPLOYEE PENSIONS & BENEFITS	\$121,451	\$5,108	\$126,559	(\$30,197)	\$96,362
PURCHASED WASTEWATER TREATMENT	\$261,760	(\$179,141)	\$82,619		\$82,619
PURCHASED POWER	\$147,915	(\$43)	\$147,872		\$147,872
CHEMICALS	\$56,660	(\$1,226)	\$55,434		\$55,434
MATERIALS AND SUPPLIES	\$219,964	(\$3,305)	\$216,659		\$216,659
CONTRACT SERVICES - LEGAL	\$8,799	(\$8,713)	\$86		\$86
CONTRACT SERVICES - TESTING	\$62,299		\$62,299		\$62,299
CONTRACT SERVICES - OTHER	\$102,682	\$525	\$103,207		\$103,207
PROFESSIONAL SERVICES	\$0		\$0		\$0
TRANSPORTATION EXPENSES	\$125,945		\$125,945		\$125,945
SLUDGE REMOVAL EXPENSE	\$101,204		\$101,204		\$101,204
BAD DEBT EXPENSE	\$46,623		\$46,623	(\$8,988)	\$37,635
RENTAL - BLDG REAL PROPERTY	\$21,032	(\$12,726)	\$8,306		\$8,306
RENTAL - EQUIPMENT	\$5,617		\$5,617		\$5,617
INSURANCE	\$9,520		\$9,520		\$9,520
REGULATORY EXPENSE (RATE CASE)	\$0		\$0		\$0
REGULATORY EXPENSE - OTHERS	\$0		\$0		\$0
MISCELLANEOUS EXP - OTHERS	\$76,040		\$76,040		\$76,040
MISCELLANEOUS EXP - AFFILIATES	\$983,010	(\$8,707)	\$974,303	(\$132,466)	\$841,837
TOTAL	\$2,733,007	(\$173,431)	\$2,559,576	(\$242,264)	\$2,317,312

SCHEDULE I(b) - OTHER TAXES

	TEST YEAR PER COMPANY (a)	COMPANY ADJUST (b)	COMPANY TEST YEAR (c)=(a)+(b)	STAFF ADJUST (d)	STAFF TEST YEAR (e)=(c)+(d)
AD VALOREM TAXES	\$39,307	(\$1,687)	\$37,620		\$37,620
PAYROLL TAXES	\$39,254	\$3,995	\$43,249	(\$6,257)	\$36,992
OTHER TAXES-MISC	\$14,573	\$18,660	\$33,233		\$33,233
NON-REVENUE RELATED	\$93,134	\$20,968	\$114,102	(\$6,257)	\$107,845
TWC ASSESSMENT			\$0		\$0
REVENUE RELATED TAXES	\$0	\$0	\$0		\$0
TOTAL OTHER TAXES	\$93,134	\$20,968	\$114,102	(\$6,257)	\$107,845

SCHEDULE I(c) - FEDERAL INCOME TAXES

REVENUE REQUIREMENT	\$3,568,481
LESS:	
OPERATIONS AND MAINTENANCE	-\$2,317,312
DEPRECIATION AND AMORTIZATION	-\$345,911
OTHER TAXES	-\$107,845
INTEREST EXPENSE	-\$245,733
TAXABLE INCOME	\$551,681
TAXES @ FACTOR :	\$0
SUB-TOTAL	\$187,571
LESS:	
SURTAX EXEMPTION	\$0
FEDERAL INCOME TAXES	\$187,571

ERRATA-ATTACHMENT LG-5.W
WEIGHTED COST OF CAPITAL,
INVESTED CAPITAL, AND RETURN - Water

Monarch Utilities I, L.P.

Application for Water and Sewer Rate/Tariff Change

SOAH Docket No. 473-16-2873.WS

PUC Docket No. 45570

PUBLIC UTILITY COMMISSION OF TEXAS

Preliminary - Subject To Change

Utility Name: Monarch Utilities I, L.P.

Docket Number: 45570 - Water-ERRATA(6.2.2016)

version 20070403

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SCHEDULE I(d) - WEIGHTED COST OF CAPITAL

Errata-Attachment LG-5.W

PAYEE	PRINCIPAL AS OF	INTEREST RATE	PERCENTAGE	WEIGHTED AVERAGE
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
Total Debt	\$25,350,684			6.45%

Hypothetical

Total Debt	\$25,350,684	6.36%	47.37%	3.01%
EQUITY	\$53,516,723	8.48%	52.63%	4.46%
TOTAL	\$78,867,407		100.00%	7.47%

SCHEDULE I(e) - INVESTED CAPITAL & RETURN

	COMPANY AMOUNT (a)	STAFF ADJUST (b)=(c)-(a)	STAFF AMOUNT (c)
PLANT IN SERVICE	116,290,690	(43,593,649)	72,697,041
ACCUMULATED DEPRECIATION	43,672,447	(16,585,736)	27,086,711
NET PLANT	72,618,243	(17,016,261)	45,581,982
WORKING CASH ALLOWANCE	427,304	(27,295)	400,009
OTHER PREPAYMENTS	52,369		52,369
MATERIALS AND SUPPLIES	299,601		299,601
CUSTOMERS DEPOSITS	(547,859)		(547,859)
CONTRIBUTIONS IN AID OF CONSTRUCTION	(3,744,812)		(3,744,812)
CUSTOMER ADVANCES FOR CONSTRUCTION	(490,442)		(490,442)
TOTAL INVESTED CAPITAL	68,614,404	(27,063,556)	41,550,848
RATE OF RETURN	8.69%	-1.22%	7.47%
RETURN	5,963,512	-2,859,664	3,103,848

ERRATA-ATTACHMENT LG-5.S
WEIGHTED COST OF CAPITAL,
INVESTED CAPITAL, AND RETURN - Sewer

Monarch Utilities I, L.P.

Application for Water and Sewer Rate/Tariff Change

SOAH Docket No. 473-16-2873.WS

PUC Docket No. 45570

PUBLIC UTILITY COMMISSION OF TEXAS

Preliminary - Subject To Change

Utility Name:

Monarch Utilities I, L.P.

Docket Number:

45570 - Sewer-ERRATA(6/2/2016)

version: 20070403

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2-Sep-16

SCHEDULE I(d) - WEIGHTED COST OF CAPITAL

Errata-Attachment LG-5.S

PAYEE	PRINCIPAL AS OF	INTEREST RATE	PERCENTAGE	WEIGHTED AVERAGE
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
			0.00%	0.00%
Total Debt	\$25,350,684			6.45%

Total Debt	\$25,350,684	6.36%	47.37%	3.01%
EQUITY	\$53,516,723	8.48%	52.63%	4.46%
TOTAL	\$78,867,407		100.00%	7.47%

SCHEDULE I(e) - INVESTED CAPITAL & RETURN

	COMPANY AMOUNT (a)	STAFF ADJUST (b)=(c)-(a)	STAFF AMOUNT (c)
PLANT IN SERVICE	20,359,143	(5,469,383)	14,889,755
ACCUMULATED DEPRECIATION	7,191,114	(1,543,233)	5,647,881
NET PLANT	13,168,029	(3,811,960)	9,336,069
WORKING CASH ALLOWANCE and OTHER PREPAYMENTS	46,089	(8,518)	37,571
OTHER PREPAYMENTS	5,830		5,830
MATERIALS AND SUPPLIES	52,507		52,507
CUSTOMERS DEPOSITS	(28,242)		(28,242)
CONTRIBUTIONS IN AID OF CONSTRUCTION	(1,163,057)		(1,163,057)
CUSTOMER ADVANCES FOR CONSTRUCTION	(76,795)		(76,795)
TOTAL INVESTED CAPITAL	12,004,361	(3,840,478)	8,163,883
RATE OF RETURN	7.95%	0.48%	7.470%
RETURN	954,730	44,888	609,842

**ERRATA-ATTACHMENT LG-6.W
FEDERAL INCOME TAX WORKSHEET - Water**

Monarch Utilities I, L.P.

Application for Water and Sewer Rate/Tariff Change

SOAH Docket No. 473-16-2873.WS

PUC Docket No. 45570

PUBLIC UTILITY COMMISSION OF TEXAS

Preliminary - Subject To Change

Utility Name:

Monarch Utilities I, L.P.

Docket Number:

45570 - Water-ERR

version: 20070403

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Errata-Attachment LG-6.W

RETURN 3,103,848
 INTEREST 1,250,681 (TOTAL INVESTED CAPITAL * WEIGHTED AVERAGE LEI DEBT)
 TAXABLE INCOME 1,853,167

TAX CALCULATIONS FYE 07-01-87

RATE	BRACKET	SURTAX
15%	0 - 50,000	
25%	50,001 - 75,000	5,000
34%	75,001 - 100,000	11,750
39%	100,001 - 335,000	16,750
34%	335,001 -	

USE THE FOLLOWING RULE TO DETERMINE THE APPROPRIATE TAX BRACKET:

IF TAXABLE INCOME (RETURN - INTEREST) IS:

- 0 - 42,500 USE 15%
- 42,501 - 61,250 USE 25%
- 61,251 - 77,750 USE 34%
- 77,751 - 221,100 USE 39%
- 221,101 OR OVER USE 34%

INCOME RANGE	IF TAXABLE INCOME IS	THE TAX RATE IS	THE TAX INCLUDING THE SURTAX EXEMPTION IS	AND THE SURTAX EXEMPTION IS
0 - 42,500	0	0.00%	0	0
42,501 - 61,250	0	0.00%	0	0
61,251 - 77,750	0	0.00%	0	0
77,751 - 221,100	0	0.00%	0	0
221,100 -	1,853,167	34.00%	954,662	0
Total	1,853,167	34.00%	954,662	0

Tax Grossed-Up = ((1/1 - .34)) x 34%

1/.66 x 34% = 51.5152%

Tax Calculation

ERRATA-ATTACHMENT LG-6.S
FEDERAL INCOME TAX WORKSHEET - Sewer

Monarch Utilities I, L.P.

Application for Water and Sewer Rate/Tariff Change

SOAH Docket No. 473-16-2873.WS

PUC Docket No. 45570

PUBLIC UTILITY COMMISSION OF TEXAS

Preliminary - Subject To Change

Utility Name: Monarch Utilities I, L.P.
Docket Number: 45570 - Sewer-ERR

version: 20070403

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Errata-Attachment LG-6.S

RETURN 609,842
 INTEREST 345,733 (TOTAL INVESTED CAPITAL * WEIGHTED AVERAGE YIELD)
 TAXABLE INCOME 364,109

TAX CALCULATIONS FYE 07-01-87

RATE	BRACKET	SURTAX
15%	0 - 50,000	
25%	50,001 - 75,000	5,000
34%	75,001 - 100,000	11,750
39%	100,001 - 335,000	16,750
34%	335,001 -	

USE THE FOLLOWING RULE TO DETERMINE THE APPROPRIATE TAX BRACKET:
 IF TAXABLE INCOME (RETURN - INTEREST) IS:

- 0 - 42,500 USE 15%
- 42,501 - 61,250 USE 25%
- 61,251 - 77,750 USE 34%
- 77,751 - 221,100 USE 39%
- 221,101 OR OVER USE 34%

INCOME RANGE	IF TAXABLE INCOME IS	THE TAX RATE IS	THE TAX INCLUDING THE SURTAX EXEMPTION IS	AND THE SURTAX EXEMPTION IS
0 - 42,500	0	0.00%	0	0
42,501 - 61,250	0	0.00%	0	0
61,251 - 77,750	0	0.00%	0	0
77,751 - 221,100	0	0.00%	0	0
221,100 -	364,109	34.00%	187,571	0
Total	364,109	34.00%	187,571	0

Tax Grossed-Up = $((1/1-.34)) \times 34\%$
 $1/1.66 \times 34\% = 51.5152\%$

Tax Calculation

ERRATA-ATTACHMENT LG-7.W
WORKING CAPITAL ALLOWANCE -
WORKSHEET - Water

Monarch Utilities I, L.P.

Application for Water and Sewer Rate/Tariff Change

SOAH Docket No. 473-16-2873.WS

PUC Docket No. 45570

Monarch Utilities I, L.P.

PUC Docket No. 45570

SOAH Docket No. 473-16-2873.WS

Working Cash Allowance - Water

Errata - Attachment LG-7.W

	PER APPLICATION			STAFF CALCULATION		
	Average Days Lag	Test Year Expense	Dollar-Days Lag	Average Days Lag	Test Year Expense	Dollar-Days Lag
Purchased Water	33.63	2,096,476.90	70,504,518.15	33.63	2,070,717.00	69,638,212.71
Materials and Supplies	1.26	1,448,300.35	1,824,858.44	1.26	1,454,418.00	1,832,566.68
Purchased Power	51.73	836,702.16	43,282,602.74	51.73	820,063.00	42,421,858.99
Interest	36.00	1,142,685.46	41,136,676.56	36.00		0.00
Contract Services	53.78	872,832.65	46,940,939.92	53.78	882,149.00	47,441,973.22
Taxes Other than Income	77.07	862,485.00	66,471,718.95	77.07	823,620.00	63,476,393.40
Transportation Expense	13.30	592,787.55	7,884,074.42	13.30	774,020.00	10,294,466.00
Chemicals	30.50	417,140.94	12,722,798.67	30.50	408,427.00	12,457,023.50
Pension and Benefits	21.96	713,688.36	15,672,596.39	21.96	593,929.00	13,042,680.84
Other	30.50	340,681.53	10,390,786.67	30.50	340,681.53	10,390,786.67
Income Taxes	314.50	61,602.13	19,373,869.89	314.50	61,602.13	19,373,869.89
Salaries and Wages	13.00	<u>2,516,859.18</u>	<u>32,719,169.34</u>	13.00	<u>2,361,624.00</u>	<u>30,701,112.00</u>
(ref Errata - Schedule II-B-7 h(W))		11,902,242.21	368,924,610.11		10,591,250.66	321,070,943.89
Sched II-B-7		44.10	368,922,910.90		44.10	
Revenue Lag Days		<u>31.00</u>			<u>30.31</u>	
Expense Lag Days		13.10			13.79	
Net Expense Lag Days						
Working Cash (Exp x Net Exp Lag Days/365)		427,176.36			400,008.80	
Per Errata-Schedule- II-B-7 a-g		427,304.00			(427,304.00)	
Staff Adjustment						<u>(27,295)</u>

ERRATA-ATTACHMENT LG-7.S
WORKING CAPITAL ALLOWANCE -
WORKSHEET - Sewer

Monarch Utilities I, L.P.

Application for Water and Sewer Rate/Tariff Change

SOAH Docket No. 473-16-2873.WS

PUC Docket No. 45570

Errata - Attachment LG-7.S

Monarch Utilities I, L.P.
PUC Docket No. 45570
SOAH Docket No. 473-16-2873.WS
Working Cash Allowance - Sewer

	<u>PER APPLICATION</u>			<u>STAFF CALCULATION</u>		
	<u>Average</u>	<u>Test Year</u>	<u>Dollar-Days</u>	<u>Average</u>	<u>Test Year</u>	<u>Dollar-Days</u>
	<u>Days Lag</u>	<u>Expense</u>	<u>Lag</u>	<u>Days Lag</u>	<u>Expense</u>	<u>Lag</u>
Purchased Water	30.50	220,025.63	6,710,781.72	30.50	216,659.00	6,608,099.50
Materials and Supplies	46.89	148,095.91	6,944,217.22	46.89	147,872.00	6,933,718.08
Purchased Power	36.00	217,957.93	7,846,485.48	36.00	0.00	0.00
Interest	29.80	174,907.89	5,212,255.12	29.80	165,592.00	4,934,641.60
Contract Services	213.50	57,608.46	12,299,406.21	213.50	50,930.00	10,873,555.00
Taxes Other than Income	15.91	109,612.52	1,743,935.19	15.91	125,945.00	2,003,784.95
Transportation Expense	31.50	55,479.73	1,747,611.50	31.50	55,434.00	1,746,171.00
Chemicals	30.50	131,669.21	4,015,910.91	30.50	96,362.00	2,939,041.00
Pension and Benefits	16.11	99,843.40	1,608,477.17	16.11	99,843.40	1,608,477.17
Other	314.50	11,397.87	3,584,630.12	314.50	11,397.87	3,584,630.12
Income Taxes	13.00	423,034.97	5,499,454.61	13.00	346,670.00	4,506,710.00
Salaries and Wages	31.30	82,619.41	2,585,987.53	31.30	82,619.41	2,585,987.53
Purchased WW Treatment	36.41	101,203.56	3,684,821.62	36.41	101,203.56	3,684,821.62
Sludge Removal		1,833,456.49	63,483,974.39		1,500,528.24	52,009,637.57
Revenue Lag Days		43.8				43.8
Expense Lag Days	34.63	34.6			34.66	
Net Expense Lag Days	9.20	9.2			9.14	
Working Cash (Exp x Net Exp Lag Days) (365)		46,213.15			37,571.23	
Per Errata-Schedule- II-B-7.a-g		46,089.00			(46,089)	
Staff Adjustment					<u>(8,518)</u>	

**ERRATA-ATTACHMENT LG-8
STAFF'S SUMMARY OF ADJUSTMENTS TO
REVENUE REQUIREMENT**

Monarch Utilities I, L.P.

Application for Water and Sewer Rate/Tariff Change

SOAH Docket No. 473-16-2873.WS

PUC Docket No. 45570

Monarch Utilities I, L.P.

PUC Docket No. 45570

SOAH Docket No. 473-16-2873.WS

Test Year Ending June 30, 2015

Staff Summary and Reconciliation - Revenue Requirement

ERRATA - Attachment LG-8

	Reference Schedule	Total	Water	Sewer
Applicant's Requested Revenue Requirement	II-D-1	\$18,711,672	\$16,152,096	\$2,559,576
Operations and Maintenance	II-E	\$3,462,372	\$2,873,876	\$588,496
Depreciation and Amortization	II-E-4	(574,555)	(541,225)	(\$32,661)
Other Expenses	II-E-2	\$956,863	\$862,055	\$94,808
Taxes Other than Federal Income Taxes	II-E-3	\$2,358,491	\$2,033,015	\$325,476
Federal Income Taxes, Utility Operating Income	II-E-3	\$137,819	\$118,524	\$19,295
State Income Taxes, Utility Operating Income	II-E-3	\$6,918,242	\$5,963,512	\$954,730
Return on Rate Base	II-B	\$101,228	\$112,718	(\$11,490)
Other Expense Items	no reference	\$32,572,102	\$28,073,871	\$4,498,231
Total Unadjusted Cost of Service	II-E-5	(\$4,500)	(\$4,500)	\$0
Less: Other Revenue Items - Credit	II(W) / III(S)	\$1,052,214	(\$937,968)	(\$114,246)
Theoretical Depreciation Adjustment	Errata Schedule II-A-1-6/2/2016	\$31,515,388	\$27,131,403	\$4,383,985
Adjusted Revenue Requirement per Applicant	no reference	(\$101,228)	(\$112,718)	\$11,490
Less: Other Expense Items	Monarch's Errata WP/II G-1.h	\$1,298,515	(\$1,096,220)	(\$202,295)
Other Revenues / Miscellaneous Income		\$30,115,645	\$25,922,465	\$4,193,180
Net Requested Revenue Requirement				
Less: Staff Adjustments	WP-LG-4/LG5 Confidential	(\$504,374)	(\$433,761)	(\$70,613)
Salaries and Wages	WP-LG-4/LG5 Confidential	(\$215,694)	(\$185,497)	(\$30,197)
Employee pensions and benefits	Monarch's Response to Staff RFI 12-1	(\$18,870)	(\$9,882)	(\$8,988)
Bad Debts Expense	Table 10 of LG-DT	(\$755,976)	(\$650,139)	(\$105,837)
Miscellaneous Expense - SouthWest	Table 8 of LG-DT	(\$190,207)	(\$163,578)	(\$26,629)
Miscellaneous Expense - SWWC	Errata-Attachment LG-4-W and LG-4.S	(\$1,685,121)	(\$1,442,857)	(\$242,264)
Sub-Total	WP-LG-4/LG5 Confidential	(\$44,693)	(\$38,436)	(\$6,257)
Payroll Taxes	Errata-Attachments LG-3.W and LG-3.S	(\$1,353,017)	(\$1,143,092)	(\$209,925)
Depreciation	Errata-Attachments LG-3.W and LG-3.S	(\$1,216,258)	(\$1,078,353)	(\$137,905)
Federal Income Taxes	Errata-Attachments LG-3.W and LG-3.S	(\$3,204,552)	(\$2,859,664)	(\$344,888)
Return on Rate Base	Errata-Attachments LG-3.W and LG-3.S	(\$7,503,641)	(\$6,562,402)	(\$941,239)
Staff's Total Adjustments	II(W) / III(S) Errata-Attachment LG-3.W and LG-3.S	\$1,052,214	\$937,968	\$114,246
Theoretical Depreciation Adjustment		(\$6,451,427)	(\$5,624,434)	(\$826,993)
Staff's Total Adjustments with Theoretical Depm.		\$23,664,218	\$20,298,031	\$3,366,187
Staff's Revenue Requirement				