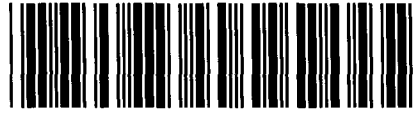


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APPLICATION OF MONARCH § BEFORE THE STATE OFFICE
UTILITIES I, L.P. TO CHANGE RATES § OF
FOR WATER AND SEWER SERVICE § ADMINISTRATIVE HEARINGS

SOAH DOCKET NO. 473-16-5251.WS
PUC DOCKET NO. 46216

MONARCH UTILITIES I, L.P. § BEFORE THE STATE OFFICE
REQUEST FOR RATE CASE EXPENSES § OF
PERTAINING TO DOCKET NO. 45570 § ADMINISTRATIVE HEARINGS

**SUPPLEMENTAL DIRECT TESTIMONY IN SUPPORT OF
UNANIMOUS STIPULATION AND SETTLEMENT AGREEMENT**

OF

CHARLES W. PROFILET, JR.

ON BEHALF OF

MONARCH UTILITIES I, L.P.

JUNE 28, 2017

402

**SUPPLEMENTAL DIRECT TESTIMONY OF
CHARLES W. PROFILET, JR.**

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SUPPLEMENTAL DIRECT TESTIMONY OF
CHARLES W. PROFILET, JR.

I. INTRODUCTION

1
2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

5 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

6 A. Yes, I have.

7 II. PURPOSE OF SUPPLEMENTAL SETTLEMENT TESTIMONY

8 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL SETTLEMENT
9 TESTIMONY?

10 A. My supplemental settlement testimony describes and supports the Unanimous
11 Stipulation and Settlement Agreement (Stipulation) in this case. All the parties to this
12 proceeding support the Stipulation, which settles and resolves all issues in this
13 proceeding.

1 Q. DOES ANY OTHER MONARCH UTILITIES I, LP (MONARCH) WITNESS
2 ADDRESS THE STIPULATION?

3 A. No, I am the only Monarch witness filing such testimony.

4 III. SUMMARY OF THE STIPULATION

5 Q. COULD YOU PLEASE DESCRIBE THE STIPULATION?

6 A. The Stipulation, along with its four attachments, has been filed separately,
7 contemporaneously with the filing of this testimony. It should be considered with this
8 testimony as being sponsored by me. The four attachments to the Stipulation are:

- 9 1. Attachment A—Monarch’s Amended Water & Wasterwater Tariff
- 10 2. Attachment B—Monarch’s Invested Capital Schedules
- 11 3. Attachment C—Monarch’s Gain on Sale Refund Terms
- 12 4. Attachment D—Proposed Commission Final Order

13 The parties signing the Stipulation (the Signatories) request that the Commission
14 approve and implement it.

15 Q. PLEASE IDENTIFY THE SIGNATORIES TO THE STIPULATION.

16 A. Public Utility Commission (Commission) Staff, the Office of Public Utility Counsel
17 (OPUC), and Monarch.

18 Q. PLEASE SUMMARIZE THE KEY TERMS OF THE STIPULATION.

19 A. The Stipulation resolves the retail water and sewer rates that will be charged by
20 Monarch, and provides invested capital schedules that will be binding in future rate
21 cases for the purposes of determining Monarch’s total Rate Base as of June 30, 2015,
22 authorizes carrying costs for purposes of interest during construction, makes certain
23 non-rate related changes to Monarch’s tariff, resolves rate case expenses, provides for

1 the disposition of Monarch's gain on sale proceeds from the sale of its Blue Mound
2 and Midway systems, and addresses future rate case filings.

3 *Retail Water & Sewer Utility Rates*

4 **Q. DESCRIBE THE WATER AND SEWER RETAIL RATES SETTLEMENT IN**
5 **STIPULATION.**

6 A. The Signatories have agreed that Monarch should be allowed to implement the retail
7 water and sewer utility rates contained in the tariff included as Attachment A to the
8 Stipulation for the water and sewer systems included in Monarch's application. The
9 Signatories agreed that the rates in Attachment A are just and reasonable and
10 consistent with the public interest.

11 **Q. WHAT WILL THE EFFECTIVE DATE OF THESE RATES BE?**

12 A. The effective date will relate back to the effective date of the interim rates,
13 September 1, 2016, following Commission approval of the rates contained in
14 Attachment A.

15 **Q. ARE THESE RATES JUST AND REASONABLE AND CONSISTENT WITH**
16 **THE PUBLIC INTEREST?**

17 A. They are, and the Signatories have agreed that the rates included in Attachment A to
18 the Stipulation are just and reasonable and consistent with the public interest.

19 *Rate Base*

20 **Q. DESCRIBE THE RATE BASE SETTLEMENT IN THE STIPULATION.**

21 A. The Signatories have agreed that approval of invested capital (Rate Base), as of
22 June 30, 2015, of \$82,005,713 is reasonable and in the public interest, and further
23 agree to the depreciation rates, which are to be consistently applied, and rate base

1 components as set out in detail in the three schedules attached to the Stipulation as
 2 Attachment B. Monarch will use these values for both regulatory accounting and
 3 other regulatory purposes unless altered by a subsequent Commission order. The
 4 Signatories have agreed that the schedules, attached to the Stipulation as Attachment
 5 B, shall be precedential in future rate cases. The Signatories have also agreed that no
 6 specified return on equity is needed or authorized as a result of this proceeding.

7 **Q. DID THE SIGNATORIES COME TO AN AGREEMENT AS TO THE**
 8 **ACCOUNTING FOR THE REMOVAL OF CERTAIN AFFILIATE MARGINS**
 9 **AND THE ADJUSTMENT OF ACCUMULATED DEPRECIATION?**

10 A. Yes. The Signatories agreed that for Monarch’s books and records to reflect the
 11 removal of certain affiliate margins and the adjustment of accumulated depreciation
 12 contemplated by Attachment B, Monarch will book journal entries summing to the
 13 following:
 14

Journal Entries	Dr	Cr
101 - Utility Plant in Service		8,426,873
108.1 - Accumulated Depreciation of Utility Plant in Service	2,524,383	
421 - Nonutility Loss (Income)	5,902,490	
<i>Eliminate ECO Margin</i>		
108.1 - Accumulated Depreciation of Utility Plant in Service	7,267,306	
421 - Nonutility Loss (Income)		7,267,306
<i>Adjust accumulated depreciation to reflect PUCT-approved depreciation rates as consistently applied</i>		

Composite Entry

101 - Utility Plant in Service		8,426,873
108.1 - Accumulated Depreciation of Utility Plant in Service	9,791,689	
421 - Nonutility Loss (Income)		1,364,816

Eliminate ECO Margin and adjust accumulated depreciation to reflect PUCT-approved depreciation rates as consistently applied

1

2 **Q. DID THE SIGNATORIES COME TO AN AGREEMENT AS TO PARTIALLY**
3 **RETIRED ASSETS?**

4 A. Yes. The Signatories further agreed that partially retired items contained in
5 Monarch's rate application will remain in accumulated depreciation and in Rate Base
6 as of the end of the test year, June 30, 2015. Prospectively, after the end of the test
7 year, Monarch has agreed to end its accounting for partial retirements. Any
8 remaining unretired plant with undefined retirement units, formerly subject to being
9 partially retired, will be accounted for as a life span group and will be retired as a
10 unit.

11 *Carrying Costs*

12 **Q. DESCRIBE THE SETTLEMENT REGARDING CARRYING COSTS.**

13 A. The Signatories agreed that Monarch should be allowed to record interest during
14 construction at Monarch's actual cost of debt. Monarch has also agreed that no other
15 Commission approved carrying charge is needed or authorized as a result of this
16 proceeding.

17 *Tariff Provisions*

1 **Q. DESCRIBE THE SETTLEMENT AS TO PROPOSED CHANGES TO**
2 **MONARCH'S TARIFF.**

3 A. The Signatories agreed that Monarch should be allowed to implement the other tariff
4 provisions included in Attachment A to the Stipulation, that are not directly related to
5 rates, which were presented in its original rate filing package. The Signatories have
6 agreed that Attachment A to the Stipulation should be the governing water and sewer
7 utility rates, terms, and conditions for Monarch ratepayer customers.

8 **Q. BRIEFLY DESCRIBE THE NON-RATE TARIFF CHANGES THAT HAVE**
9 **BEEN AGREED TO BY THE SIGNATORIES.**

10 A. The Signatories have agreed to four changes to Monarch's tariff, in addition to the
11 rate changes I previously discussed.

12 1. Monarch replaces its "Purchased Sewer Pass-Through Clause" with a "Sewer
13 Pass-Through Gallonage Charge Adjustment." The revised pass-through
14 clause adds a true-up feature that adjusts for over- or under-collections in the
15 past 12 months.

16 2. Monarch updates Section 2.12 in its Sewer Tariff regarding "Residential
17 Single Family Grinder / Sewage Stations" relating to ownership and repairs to
18 onsite grinder pumps, storage tanks, controls, and other appurtenances.
19 Regarding multi-family and commercial receiving tank / lift stations, Monarch
20 deletes certain language regarding responsibility for maintaining and repairing
21 all equipment necessary to connect service locations to Monarch's collection
22 lines.

1 3. In the Water Tariff, Monarch replaces its “Purchased Water and / or District
2 Fee Pass-Through Clause” with a “Water Pass-Through Gallonage Charge
3 Adjustment.” The revised pass-through clause adds a true-up feature that
4 adjusts for over- or under-collections in the past 12 months.

5 4. Regarding the Supplemental Emergency Service Rate, Monarch clarifies in
6 our Water Tariff that the rate is determined based on inch-diameter of the
7 service line and not the meter size, and also clarifies that any metered usage
8 on that account will be billed at the highest tier.

9 *Settlement of Rate Case Expenses*

10 **Q. DESCRIBE THE RATE CASE EXPENSE SETTLEMENT IN THE**
11 **STIPULATION.**

12 A. The Signatories have agreed that rate case expenses that Monarch has incurred, or
13 will incur in relation to this proceeding and that are not in rates, have been subsumed
14 within the gain on sale proceeds Monarch received from the sale of its Blue Mound
15 and Midway system assets.

16 **Q. WERE THE REVIEW AND RECOVERY OF THESE RATE CASE**
17 **EXPENSES PREVIOUSLY SEVERED FROM THIS DOCKET NO. 45570?**

18 A. Yes, they were. Specifically, SOAH Order No. 15 in this Docket No. 45570 severed
19 the issue of rate case expense review and recovery into a new proceeding, Docket No.
20 46216, *Monarch Utilities I, LP Request for Rate Case Expenses Pertaining to Docket*
21 *No. 45570*. The Signatories have agreed that they will file a Joint Motion to Dismiss
22 Commission Docket No. 46216, *Monarch Utilities I, L.P. Request for Rate Case*

1 **IV. WHY THE COMMISSION SHOULD APPROVE AND**
2 **IMPLEMENT THE STIPULATION**

3 **Q. SHOULD THE COMMISSION APPROVE AND IMPLEMENT THE TERMS**
4 **OF THE STIPULATION?**

5 A. Yes, it should. The settlement proposal now being offered should be approved and
6 implemented.

7 First, as I have discussed above, both the agreed Rate Base and the agreed
8 rates present reasonable compromises and are supported by Monarch and
9 Commission Staff's evidence. All of the parties to this proceeding have agreed to the
10 comprehensive settlement of all issues in this proceeding as presented by the
11 Stipulation.

12 Second, the rate case expense issue and the disposition of gain sale issue are
13 now settled, so the parties and Commission can avoid the time and expense of
14 litigation.

15 Third, Monarch has agreed not to file a base rate proceeding until February
16 28, 2019, which provides rate certainty to its customers.

17 All things considered, the Stipulation should be approved and implemented as
18 resulting in just and reasonable rates and an outcome that is in the public interest.

19 **Q. IS THIS STIPULATION IN THE PUBLIC INTEREST?**

20 A. Yes. The Signatories agree that the Stipulation is in the public interest.

21 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT SUPPLEMENTAL DIRECT**
22 **TESTIMONY?**

23 A. Yes, it does.