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DeAnn T. Walker
Chairman

Arthur C. D'Andrea
Commissioner

Shelly Botkin
Commissioner

John Paul Urban
Executive Director



Greg Abbott
Governor

Public Utility Commission of Texas

2019 JAN 14 PM 4:25

COMMISSION
FILING CLERK

TO: DeAnn T. Walker, Chairman
Arthur D'Andrea, Commissioner
Shelly Botkin, Commissioner

All Parties of Record

FROM: Mayson Pearson, Administrative Law Judge **MP**
Docket Management

RE: **Open Meeting of February 7, 2019**
Docket No. 48329 – *Application of Monarch Utilities I, L.P. for a Minor
Tariff Change for New Federal Tax Change Credit Rider*

DATE: January 14, 2019

Enclosed is a copy of the Proposed Order in the above-referenced docket. The Commission is currently scheduled to consider this docket at an open meeting to begin at 9:30 a.m. on Thursday, February 7, 2019, at the Commission's offices, 1701 North Congress Avenue, Austin, Texas. The parties must file corrections or exceptions to the Proposed Order on or before Tuesday, January 23, 2019.

If there are no corrections or exceptions, no response is necessary.

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DOCKET NO. 48329

**MONARCH UTILITIES I, LP FOR A § PUBLIC UTILITY COMMISSION
MINOR TARIFF CHANGE (FEDERAL §
TAX CUT CREDIT RIDER) § OF TEXAS**

PROPOSED ORDER

This Order addresses the May 25, 2018 application of Monarch Utilities I, LP (Monarch) and the August 24, 2018, stipulation and settlement agreement (settlement agreement) entered into between Monarch and Commission Staff regarding Monarch's request for approval of a federal tax cut credit (FTCC) rider to pass through estimated tax savings gained as a result of the Tax Cuts and Jobs Act of 2017 (TCJA)¹. The Commission approves the rider and grants Monarch's requests related to requirements ordered in Project No. 47945² as modified by the settlement agreement.

The Commission adopts the following findings of fact and conclusions of law:

I. Findings of Fact

Applicant

1. Monarch is a domestic limited partnership registered with the Texas secretary of state under file number 800034797.
2. Texas Water Services Group, LLC is the general partner of Monarch.
3. Monarch Utilities, Inc. is the sole limited partner of Monarch.
4. Southwest Water Company indirectly owns both Texas Water Services Group, LLC and Monarch Utilities, Inc.
5. Monarch provides water and sewer services under certificate of convenience and necessity numbers 12983 and 20899.

¹ Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, Pub. L. No. 115-97, 113 Stat. 2054 (Dec. 22, 2017).

² *Proceeding to Investigate and Address the Effects of Tax Cuts and Jobs Act of 2017 on the Rates of Texas Investor-Owned Utility Companies*, Project No. 47945, Amended Accounting Order (Feb. 15, 2018).

Application

6. On May 25, 2018, Monarch filed an application requesting the following:
 - a. Approval of the proposed FTCC rider; and
 - b. Approval to deviate from the requirement in the Order in Project No. 47945 that requires all class A water utilities to record as a regulatory liability beginning on January 25, 2018 the following: (1) the difference between the revenues collected under existing rates and the revenues that would have been collecting had the existing rates been set using the recently approved federal income tax rates; and (2) the balance of accumulated deferred federal income taxes (ADFIT) that now exists because of the decrease in the federal income tax rates.
7. On June 27, 2018, the administrative law judge (ALJ) deemed Monarch's application administratively complete.

Notice

8. On May 25, 2018, notice of the application was issued to all of Monarch's customers within the original ratemaking jurisdiction of the Commission.
9. Monarch provided in its application an affidavit of Robert Kelly, Vice President of Regulatory Affairs of SouthWest Water Company, attesting to the provision of notice to customers on May 25, 2018.

Settlement Agreement

10. On August 24, 2018, Monarch and Commission Staff entered into a settlement agreement that modified Monarch's application and proposed FTCC rider.
11. Attached to the settlement agreement was a proposed tariff that would implement the agreed upon rates.
12. On August 29, 2018, Commission Staff filed the affidavit of Emily Sears in support of the settlement agreement and the modified FTCC rider.

Interim Rates

13. On May 25, 2018, Monarch requested approval to apply the FTCC as an interim rate for its water and wastewater service customers prior to final Commission approval.

14. In a notice issued on June 27, 2018, the ALJ granted Monarch's request and approved the FTCC rider on an interim basis.
15. On August 24, 2018, Monarch and Commission Staff filed an agreed motion to implement new interim rates, as modified by the settlement agreement.
16. In a notice issued on October 1, 2018, the ALJ granted the agreed motion and approved the FTCC rate as modified by the settlement agreement on an interim basis.

Federal Tax Cut Credit Rider

17. Per the settlement agreement, Monarch modified its initial, proposed FTTC and agreed on a credit of \$900,000 for all water and sewer divisions in Texas. Monarch and Commission Staff agreed on a \$227,233.38 credit for January 8, 2018 through September 1, 2018, when the credits go into effect. This amount will be credited back to customers over six months.
18. The FTCC rider does not address the accounting and rate-making treatment of excess accumulated deferred federal income tax arising from changes to the federal tax law in the TCJA.
19. The rates established by this Order accurately reflect the federal income tax rate reduction from 34% to 21% on Monarch's annual federal income tax expenses.

Evidentiary Record

20. In a notice issued on September 11, 2018, the ALJ admitted the following evidence into the record: The application of Monarch for a minor tariff change for new federal tax change credit rider filed May 25, 2018; Commission Staff's memorandum to the Commission filed August 23, 2018; the stipulation and settlement agreement (Exhibit 1 to the Agreed Motion to Implement Interim Rates and Admit Evidence filed August 27, 2018); and Commission Staff's affidavit in support of the settlement agreement filed August 29, 2018.

Informal Disposition

21. More than 15 days have passed since the completion of notice provided in this proceeding.
22. Commission Staff and Monarch are the only parties to this proceeding.
23. This decision is not adverse to any party.

24. No protests, motions to intervene, or requests for hearing have been filed.

II. Conclusions of Law

1. Monarch is a water and sewer utility as defined in Texas Water Code (TWC) § 13.002(23) and 16 Texas Administrative Code (TAC) § 24.3(76).
2. The Commission has jurisdiction over the application under TWC §§ 13.041, 13.181, and 13.182.
3. Monarch is a class A utility as defined in TWC § 13.002(4-a) and 16 TAC § 24.3(15).
4. The Commission has the authority to approve the FTCC under 16 TAC § 24.25(b)(2)(A)(v).
5. The Commission has the authority to implement the approved FTCC as a pass-through provision under 16 TAC § 24.25(b)(2)(C).
6. The notice provided to customers complies with 16 TAC § 24.25(b)(2)(F).
7. The application complies with the Order in Project No. 47945.
8. The Commission processed the application in accordance with the TWC and Commission rules.
9. The rates established by this Order are just and reasonable under TWC § 13.182(a).
10. In accordance with TWC § 13.182(b), the rates established by this Order are not unreasonably preferential, prejudicial, or discriminatory and are sufficient, equitable, and consistent in application to each class of customer.
11. The overall revenues produced by the rates established in this Order conform to TWC § 13.183.
12. The requirements for informal disposition in 16 TAC § 22.35 have been met in this proceeding.

III. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders:

1. The Commission approves Monarch's modified FTCC rider attached to the settlement

agreement.

2. The approved FTCC rider must remain in effect until Monarch's next rate case.
3. Monarch may defer for future regulatory treatment any amortization of the protected and unprotected excess accumulated deferred federal income taxes (ADFIT) that it makes for accounting purposes and reflect such deferred liability amounts in the determination of Monarch's rates in its next base rate application.
4. Monarch must address, with its next rate case, the regulatory liability required by the Accounting Order in Project No. 47945 for the balance of ADFIT that exists because of the decrease in the federal income tax rates.
5. Within 10 days of the date of this Order, Monarch must file a clean copy of the approved FTCC rider for Central Records to be marked *Approved* and kept in the Commission's tariff book.
6. The Commission denies all other motions and any other requests for general or specific relief, if not expressly granted.

Signed at Austin, Texas the _____ day of January 2019.

PUBLIC UTILITY COMMISSION OF TEXAS

DEANN T. WALKER, CHAIRMAN

ARTHUR C. D'ANDREA, COMMISSIONER

SHELLY BOTKIN, COMMISSIONER