



Control Number: 50944



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PUC DOCKET NO. 50944

APPLICATION OF MONARCH  
UTILITIES I L.P. FOR AUTHORITY TO  
CHANGE RATES

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PUBLIC UTILITY COMMISSION  
OF TEXAS

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Commission. The Rate Application is based on a test year ending on December 31, 2019, and is supported by the schedules, workpapers, and testimonies of several witnesses, which are contained in the RFP. The testimonies, tariff, schedules, and workpapers are being filed contemporaneously with this Statement.

An identical application is being filed with the Cities of Bulverde, Flower Mound, Keene, New Fairview, Payne Springs, Point Blank, Shepherd, and Willis. Although Monarch serves within the Cities of Aurora and Coffee City, those two cities have surrendered jurisdiction to the Commission. Applications have not been filed in the Cities of Buda, Ivanhoe, and Kyle because Monarch reached rate agreements with these cities in a previous rate case.

### **III. REQUESTED RELIEF AND EFFECTIVE DATE**

Monarch based its proposed rates on a test year ending December 31, 2019, adjusted for known and measurable changes (“Test Year”), as defined in 16 TAC § 24.3(37). The operating costs in the Test Year are indicative of an ongoing level of costs to operate and maintain the facilities used and useful in providing water and wastewater service. Monarch seeks an overall increase in water revenues of \$3,238,879, or 9.80% over its adjusted Test Year revenues. Additionally, Monarch seeks an overall increase in wastewater revenues of \$647,367, or 14.28% over its adjusted Test Year revenues. Monarch is proposing rate phase-ins for customers of some of those systems acquired or transferred to Monarch since the last rate case.

The effective date of the proposed increase is at least 35 days after required notice in compliance with Commission rules at 16 TAC § 24.27(c)(1). In the event that the proposed rates are suspended pursuant to Commission rules at 16 TAC § 24.33(a)(1), Monarch reserves the right to seek interim rates during the pendency of this proceeding in accordance with Commission rules at 16 TAC § 24.37.

Monarch proposes to consolidate the tariffs of the systems, both water and wastewater, of which it is comprised, in addition to the changes to its rates. Monarch has acquired or transferred from other business units several systems, some of which are pending Commission approval. The final rates will be the same for all Monarch customers regardless of the system in which they receive service. Consequently, certain fees on individual system’s current tariffs have been introduced, deleted, or increased or decreased so as to be uniform for all customers. Significant changes Monarch proposes to its tariffs include: 1) changing the purchased water pass-through mechanism in the water tariff; 2) additions to its wastewater tariff regarding

pretreatment of non-standard wastes; 3) clarifying ownership and responsibility for maintenance of on-site pressure wastewater units; 4) change to the default winter average wastewater usage from 5,000 gallons a month to 4,000 gallons a month; and 5) the addition of a system improvement charge mechanism in both the water and wastewater tariffs.

Monarch is seeking to have the Commission determine its rate base amount during the review of this application. Monarch used a depreciation study to determine depreciation expense in revenue requirement, and is requesting approval of service lives determined therein.

#### **IV. PARTIES AFFECTED**

The Rate Application affects retail water and wastewater utility customers within the territory of Water Certificate of Convenience and Necessity No. 12983 and Sewer Certificate of Convenience and Necessity No. 20899, which have both been issued to Monarch. In addition, Monarch provides retail water and wastewater service within the corporate boundaries of the Cities of Bulverde, Flower Mound, Keene, New Fairview, Payne Springs, Point Blank, Shepherd, and Willis, which have original jurisdiction over retail water and wastewater rates pursuant to Texas Water Code Ann. § 13.042.

#### **V. DESIGNATED REPRESENTATIVE**

Monarch's designated representative for service of pleadings, orders, and other matters related to this Application is:

Brian Bahr  
Director of Regulatory Affairs  
Monarch Utilities I L.P.  
12535 Reed Rd.  
Sugar Land, Texas, 77478  
Telephone: (626) 543-2552  
Facsimile: (626) 331-4848  
[bbahr@swwc.com](mailto:bbahr@swwc.com)

Monarch's authorized legal representatives are:

Lambeth Townsend  
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816 Congress Avenue, Suite 1900  
Austin, Texas 78701  
Telephone: (512) 322-5800  
Facsimile: (512) 472-0532

#### **VI. RATE CASE EXPENSES**

Pursuant to 16 TAC § 24.44, Monarch seeks to recover all reasonable and necessary rate case expenses that it incurs in connection with this and related proceedings. Monarch proposes to recover reasonable and necessary rate case expenses through a surcharge assessed over a 12-month period.

#### **VII. NOTICE**

Pursuant to 16 TAC § 24.27(c), Monarch is providing notice of this Rate Application to all customers of Monarch affected by the rate change, and to the Office of Public Utility Counsel. Notice will be mailed separately to each customer, or hand-delivered. Monarch will mail separate notice to each affected customer. Monarch is providing notice on the Commission-approved form, and will include instructions on how a ratepayer may file a protest. Monarch will provide proof of notice pursuant to Commission rules at 16 TAC § 24.27(b)(5) upon completion of notice, which will consist of an affidavit attesting to the completion of notice.

#### **VIII. MOTION FOR ENTRY OF A PROTECTIVE ORDER**

Monarch requests that a Protective Order of the standard form used by the Commission be entered promptly in this case. The draft Protective Order is included in the RFP. Until a protective order is issued in this proceeding, Monarch will provide access to such confidential materials only to parties that agree in writing to be bound by the proposed protective order as if it had been issued by the Commission.

#### **IX. PRAYER**

WHEREFORE, PREMISES CONSIDERED, Monarch requests that the Public Utility Commission of Texas approve Monarch's requested change in rates to be effective August 19, 2020. Additionally, Monarch requests all other and further relief, general or special, at law or in equity, to which Monarch may show itself to be justly entitled.



Respectfully submitted,  
LLOYD, GOSSELINK,  
ROCHELLE & TOWNSEND, P.C.  
816 Congress Avenue, Suite 1900.  
Austin, Texas 78701  
Telephone: (512) 322-5800  
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/s/ Lambeth Townsend

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**ATTORNEYS FOR  
MONARCH UTILITIES I L.P.**

PUC DOCKET NO. 50944

APPLICATION OF MONARCH	§	PUBLIC UTILITY COMMISSION
UTILITIES I L.P. FOR AUTHORITY TO	§	
CHANGE RATES	§	OF TEXAS

PROTECTIVE ORDER

This Protective Order shall govern the use of all information deemed confidential (Protected Materials) or highly confidential (Highly Sensitive Protected Materials) by a party providing information to the Public Utility Commission of Texas (Commission), including information whose confidentiality is currently under dispute.

It is ORDERED that:

1. Designation of Protected Materials. Upon producing or filing a document, including, but not limited to, records stored or encoded on a computer disk or other similar electronic storage medium in this proceeding, the producing party may designate that document, or any portion of it, as confidential pursuant to this Protective Order by typing or stamping on its face “PROTECTED PURSUANT TO PROTECTIVE ORDER ISSUED IN DOCKET NO. 50944” or words to this effect and consecutively Bates Stamping each page. Protected Materials and Highly Sensitive Protected Materials include not only the documents so designated, but also the substance of the information contained in the documents and any description, report, summary, or statement about the substance of the information contained in the documents.
2. Materials Excluded from Protected Materials Designation. Protected Materials shall not include any information or document contained in the public files of the Commission or any other federal or state agency, court, or local governmental authority subject to the Texas Public Information Act. Protected Materials also shall not include documents or information which at the time of, or prior to disclosure in a proceeding, is or was public knowledge, or which becomes public knowledge other than through disclosure in violation of this Protective Order.
3. Reviewing Party. For the purposes of this Protective Order, a Reviewing Party is a party to this docket.

4. Procedures for Designation of Protected Materials. On or before the date the Protected Materials or Highly Sensitive Protected Materials are provided to the Commission, the producing party shall file with the Commission and deliver to each party to the proceeding a written statement, which may be in the form of an objection, indicating: (1) any and all exemptions to the Public Information Act, Tex. Gov't Code Ann., Chapter 552, claimed to be applicable to the alleged Protected Materials; (2) the reasons supporting the providing party's claim that the responsive information is exempt from public disclosure under the Public Information Act and subject to treatment as protected materials; and (3) that counsel for the providing party has reviewed the information sufficiently to state in good faith that the information is exempt from public disclosure under the Public Information Act and merits the Protected Materials designation.
5. Persons Permitted Access to Protected Materials. Except as otherwise provided in this Protective Order, a Reviewing Party shall be permitted access to Protected Materials only through its Reviewing Representatives who have signed the Protective Order Certification Form. Reviewing Representatives of a Reviewing Party include its counsel of record in this proceeding and associated attorneys, paralegals, economists, statisticians, accountants, consultants, or other persons employed or retained by the Reviewing Party and directly engaged in these proceedings. At the request of the Commissioners or their staff, copies of Protected Materials may be produced by the Commission Staff (Staff) or the Commission's Docket Management and Commission Advising (CADM) to the Commissioners. The Commissioners and their staff shall be informed of the existence and coverage of this Protective Order and shall observe the restrictions of the Protective Order.
6. Highly Sensitive Protected Material Described. The term Highly Sensitive Protected Materials is a subset of Protected Materials and refers to documents or information which a producing party claims is of such a highly sensitive nature that making copies of such documents or information or providing access to such documents to employees of the Reviewing Party (except as set forth herein) would expose a producing party to unreasonable risk of harm, including but not limited to: (1) customer-specific information protected by Tex. Util. Code Ann. § 32.101(c); (2) contractual information pertaining to

contracts that specify that their terms are confidential or which are confidential pursuant to an order entered in litigation to which the producing party is a party; (3) market-sensitive fuel price forecasts, wholesale transactions information and/or market-sensitive marketing plans; and (4) business operations or financial information that is commercially sensitive. Documents or information so classified by a producing party shall bear the designation "HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTIVE ORDER ISSUED IN DOCKET NO. 50944" or words to this effect and shall be consecutively Bates Stamped in accordance with the provisions of this Protective Order. The provisions of this Protective Order pertaining to Protected Materials also apply to Highly Sensitive Protected Materials, except where this Protective Order provides for additional protections for Highly Sensitive Protected Materials. In particular, the procedures herein for challenging the producing party's designation of information as Protected Materials also apply to information that a producing party designates as Highly Sensitive Protected Materials.

7. Restrictions on Copying and Inspection of Highly Sensitive Protected Material. Except as expressly provided herein, only one copy may be made of any Highly Sensitive Protected Materials except that additional copies may be made in order to have sufficient copies for introduction of the material into the evidentiary record if the material is to be offered for admission into the record. A record of any copies that are made of Highly Sensitive Protected Material shall be kept and a copy of the record shall be sent to the producing party at the time the copy or copies are made. The record shall include information on the location and the person in possession of the copy. Highly Sensitive Protected Material shall be made available for inspection only at the location or locations provided by the producing party, except as provided by Paragraphs 9 and 13. Limited notes may be made of Highly Sensitive Protected Materials, and such notes shall themselves be treated as Highly Sensitive Protected Materials unless such notes are limited to a description of the document and a general characterization of its subject matter in a manner that does not state any substantive information contained in the document.
8. Restricting Persons Who May Have Access to Highly Sensitive Protected Material. With the exception of Commission Staff and the Office of Public Utility Counsel (OPC), and

except as provided herein, the Reviewing Representatives for the purpose of access to Highly Sensitive Protected Materials may be persons who are: (1) outside counsel for the Reviewing Party; (2) outside consultants for the Reviewing Party working under the direction of Reviewing Party's counsel; or (3) employees of the Reviewing Party working with and under the direction of Reviewing Party's counsel who have been authorized by the presiding officer to review Highly Sensitive Protected Materials. The Reviewing Party shall limit the number of Reviewing Representatives that review each Highly Sensitive Protected document to the minimum number of persons necessary. The Reviewing Party is under a good faith obligation to limit access to each portion of any Highly Sensitive Protected Materials to two Reviewing Representatives whenever possible. Reviewing Representatives for Commission Staff and OPC, for the purpose of access to Highly Sensitive Protected Materials, shall consist of their respective counsel of record in this proceeding and associated attorneys, paralegals, economists, statisticians, accountants, consultants, or other persons employed or retained by them and directly engaged in these proceedings.

9. Copies Provided of Highly Sensitive Protected Material. A producing party shall provide one copy of Highly Sensitive Protected Materials specifically requested by the Reviewing Party to the person designated by the Reviewing Party who must be a person authorized to review Highly Sensitive Protected Material under Paragraph 8, and be either outside counsel or an outside consultant. Other representatives of the reviewing party who are authorized to view Highly Sensitive Material may review the copy of Highly Sensitive Protected Materials at the office of the Reviewing Party's representative designated to receive the information. Each reviewing party may make two additional copies of Highly Sensitive Protected Materials for outside consultants and/or Reviewing Party's employees whose business offices are located outside of Travis County. The additional copies may be maintained at the outside consultant's offices outside Travis County. All restrictions on Highly Sensitive documents in this Order shall apply to additional copies maintained outside the office of the Reviewing Party's representative designated to receive the information. Any Highly Sensitive Protected documents provided to a Reviewing Party may not be copied except as provided in Paragraph 7 and shall be

returned along with any copies made pursuant to Paragraph 7 to the producing party within two weeks after the close of the evidence in this proceeding. The restrictions contained herein do not apply to Commission Staff, OPC, and the Office of the Attorney General (OAG) when the OAG is a representing a party to the proceeding.

10. Procedures in Paragraphs 10-14 Apply to Commission Staff, OPC, and the OAG and Control in the Event of Conflict. The procedures set forth in Paragraphs 10 through 14 apply to responses to requests for documents or information that the producing party designates as Highly Sensitive Protected Materials and provides to Commission Staff, OPC, and the OAG in recognition of their purely public functions. To the extent the requirements of Paragraphs 10 through 14 conflict with any requirements contained in other paragraphs of this Protective Order, the requirements of these Paragraphs shall control.
11. Copy of Highly Sensitive Protected Material to be Provided to Commission Staff, OPC, and the OAG. When, in response to a request for information by a Reviewing Party, the producing party makes available for review documents or information claimed to be Highly Sensitive Protected Materials, the producing party shall also deliver one copy of the Highly Sensitive Protected Materials to the Commission Staff, OPC (if OPC is a party), and the OAG (if the OAG is representing a party) in Austin, Texas. Provided however, that in the event such Highly Sensitive Protected Materials are voluminous, the materials will be made available for review by Commission Staff, OPC (if OPC is a party), and the OAG (if the OAG is representing a party) at the designated office in Austin, Texas. The Commission Staff, OPC (if OPC is a party), and the OAG (if the OAG is representing a party) may request such copies as are necessary of such voluminous material under the copying procedures set forth herein.
12. Delivery of the Copy of Highly Sensitive Protected Material to Staff and Outside Consultants. The Commission Staff, OPC (if OPC is a party), and the OAG (if the OAG is representing a party) may deliver the copy of Highly Sensitive Protected Materials received by them to the appropriate members of their staff for review, provided such staff members first sign the certification provided in Paragraph 15. After obtaining the agreement of the producing party, Commission Staff, OPC, and the OAG (if the OAG is

representing a party) may deliver the copy of Highly Sensitive Protected Materials received by it to the agreed, appropriate members of their outside consultants for review, provided such outside consultants first sign the certification attached hereto.

13. Restriction on Copying by Commission Staff, OPC, and the OAG. Except as allowed by Paragraphs 7, Commission Staff, OPC, and the OAG may not make additional copies of the Highly Sensitive Protected Materials furnished to them unless the producing party agrees in writing otherwise, or, upon a showing of good cause, the Presiding Officer directs otherwise. Limited notes may be made by Commission Staff, OPC (if OPC is a party), and the OAG (if the OAG is representing a party) of Highly Sensitive Protected Materials furnished to them and all such handwritten notes will be treated as Highly Sensitive Protected Materials as are the materials from which the notes are taken. Commission Staff, OPC (if OPC is a party), and the OAG (if OAG is a representing party) may make two additional copies of Highly Sensitive documents for outside consultants whose business offices are located outside Travis County. All restrictions on Highly Sensitive documents in this Order shall apply to additional copies maintained in the outside consultant's offices.
14. Public Information Requests. In the event of a request for any of the Highly Sensitive Protected Materials under the Public Information Act, an authorized representative of the Commission OPC, or the OAG may furnish a copy of the requested Highly Sensitive Protected Materials to the Open Records Division at the OAG together with a copy of this Protective Order after notifying the producing party that such documents are being furnished to the OAG. Such notification may be provided simultaneously with the delivery of the Highly Sensitive Protected Materials to the OAG.
15. Required Certification. Each person who inspects the Protected Materials shall, before such inspection, agree in writing to the following certification set forth in the attachment to this Protective Order:

I certify my understanding that the Protected Materials are provided to me pursuant to the terms and restrictions of the Protective Order in this docket, and that I have been given a copy of it and have read the Protective Order and agree to be bound by it. I understand that the contents of the Protected Materials, any notes, memoranda, or any other form of information regarding or

derived from the Protected Materials shall not be disclosed to anyone other than in accordance with the Protective Order and unless I am an employee of Commission Staff or OPC shall be used only for the purpose of the proceeding in Docket No. 50944. I acknowledge that the obligations imposed by this certification are pursuant to such Protective Order. Provided, however, if the information contained in the Protected Materials is obtained from independent public sources, the understanding stated herein shall not apply.

In addition, Reviewing Representatives who are permitted access to Highly Sensitive Protected Material under the terms of this Protective Order shall, before inspection of such material, agree in writing to the following certification set forth in the Attachment to this Protective Order:

I certify that I am eligible to have access to Highly Sensitive Protected Material under the terms of the Protective Order in this docket.

A copy of each signed certification shall be provided by the reviewing party to counsel for the producing party and served upon all parties of record.

16. Disclosures Between Reviewing Representatives and Continuation of Disclosure Restrictions After a Person is no Longer Engaged in the Proceeding. Any Reviewing Representative may disclose Protected Materials, other than Highly Sensitive Protected Materials, to any other person who is a Reviewing Representative provided that, if the person to whom disclosure is to be made has not executed and provided for delivery of a signed certification to the party asserting confidentiality, that certification shall be executed prior to any disclosure. A Reviewing Representative may disclose Highly Sensitive Protected Material to other Reviewing Representatives who are permitted access to such material and have executed the additional certification required for persons who receive access to Highly Sensitive Protected Material. In the event that any Reviewing Representative to whom Protected Materials are disclosed ceases to be engaged in these proceedings, access to Protected Materials by that person shall be terminated and all notes, memoranda, or other information derived from the protected material shall either be destroyed or given to another Reviewing Representative of that party who is authorized pursuant to this Protective Order to receive the protected



materials. Any person who has agreed to the foregoing certification shall continue to be bound by the provisions of this Protective Order so long as it is in effect, even if no longer engaged in these proceedings.

17. Producing Party to Provide One Copy of Certain Protected Material and Procedures for Making Additional Copies of Such Materials. Except for Highly Sensitive Protected Materials which shall be provided to the Reviewing Parties pursuant to Paragraph 9, and voluminous Protected Materials, the producing party shall provide a Reviewing Party one copy of the Protected Materials upon receipt of the signed certification described in Paragraph 15. Except for Highly Sensitive Protected Materials, a Reviewing Party may make further copies of Protected Materials for use in this proceeding pursuant to this Protective Order, but a record shall be maintained as to the documents reproduced and the number of copies made, and upon request the Reviewing Party shall provide the party asserting confidentiality with a copy of that record.
18. Procedures Regarding Voluminous Protected Materials. Production of voluminous Protected Materials will be governed by 16 Tex. Admin. Code § 22.144(h). Voluminous Protected Materials will be made available in the producing party's voluminous room, in Austin, Texas, or at a mutually agreed upon location, Monday through Friday, 9:00 a.m. to 5:00 p.m. (except on state or Federal holidays), and at other mutually convenient times upon reasonable request.
19. Reviewing Period Defined. The Protected Materials may be reviewed only during the Reviewing Period, which shall commence upon entry of this Protective Order and continue until the expiration of the Commission's plenary jurisdiction. The Reviewing Period shall reopen if the Commission regains jurisdiction due to a remand as provided by law. Protected materials that are admitted into the evidentiary record or accompanying the evidentiary record as offers of proof may be reviewed throughout the pendency of this proceeding and any appeals.
20. Procedures for Making Copies of Voluminous Protected Materials. Other than Highly Sensitive Protected Materials, Reviewing Parties may take notes regarding the information contained in voluminous Protected Materials made available for inspection or they may make photographic, mechanical, or electronic copies of the Protected

Materials, subject to the conditions hereof; provided, however, that before photographic, mechanical, or electronic copies can be made, the Reviewing Party seeking photographic, mechanical, or electronic copies must complete a written receipt for copies on the attached form identifying each piece of Protected Materials or portions thereof the Reviewing Party will need.

21. Protected Materials to be Used Solely for the Purposes of These Proceedings. All Protected Materials shall be made available to the Reviewing Parties and their Reviewing Representatives solely for the purposes of these proceedings. Access to the Protected Materials may not be used in the furtherance of any other purpose, including, without limitation: (1) any other pending or potential proceeding involving any claim, complaint, or other grievance of whatever nature, except appellate review proceedings that may arise from or be subject to these proceedings; or (2) any business or competitive endeavor of whatever nature. Because of their statutory regulatory obligations, these restrictions do not apply to Commission Staff or OPC.
22. Procedures for Confidential Treatment of Protected Materials and Information Derived from those Materials. Protected Materials, as well as a Reviewing Party's notes, memoranda, or other information regarding or derived from the Protected Materials are to be treated confidentially by the Reviewing Party and shall not be disclosed or used by the Reviewing Party except as permitted and provided in this Protective Order. Information derived from or describing the Protected Materials shall be maintained in a secure place and shall not be placed in the public or general files of the Reviewing Party except in accordance with the provisions of this Protective Order. A Reviewing Party must take all reasonable precautions to insure that the Protected Materials including notes and analyses made from Protected Materials that disclose Protected Materials are not viewed or taken by any person other than a Reviewing Representative of a Reviewing Party.
23. Procedures for Submission of Protected Materials. If a Reviewing Party tenders for filing any Protected Materials, including Highly Sensitive Protected Materials, or any written testimony, exhibit, brief, motion, or other type of pleading or other submission at the Commission or before any other judicial body that quotes from Protected Materials or discloses the content of Protected Materials, the confidential portion of such submission

shall be filed and served in sealed envelopes or other appropriate containers endorsed to the effect that they contain Protected Material or Highly Sensitive Protected Material and are sealed pursuant to this Protective Order. If filed at the Commission, such documents shall be marked "PROTECTED MATERIAL" and shall be filed under seal with the Presiding Officer and served under seal to the counsel of record for the Reviewing Parties. The Presiding Officer may subsequently, on his/her own motion or on motion of a party, issue a ruling respecting whether or not the inclusion, incorporation or reference to Protected Materials is such that such submission should remain under seal. If filing before a judicial body, the filing party: (1) shall notify the party which provided the information within sufficient time so that the providing party may seek a temporary sealing order; and (2) shall otherwise follow the procedures set forth in Tex. R. Civ. P. 76a.

24. Maintenance of Protected Status of Materials During Pendency of Appeal of Order Holding Materials are not Protected Materials. In the event that the Presiding Officer at any time in the course of this proceeding finds that all or part of the Protected Materials are not confidential or proprietary, by finding, for example, that such materials have entered the public domain or materials claimed to be Highly Sensitive Protected Materials are only Protected Materials, those materials shall nevertheless be subject to the protection afforded by this Protective Order for three (3) full working days, unless otherwise ordered, from the date the party asserting confidentiality receives notice of the Presiding Officer's order. Such notification will be by written communication. This provision establishes a deadline for appeal of a Presiding Officer's order to the Commission. In the event an appeal to the Commissioners is filed within those three (3) working days from notice, the Protected Materials shall be afforded the confidential treatment and status provided in this Protective Order during the pendency of such appeal. Neither the party asserting confidentiality nor any Reviewing Party waives its right to seek additional administrative or judicial remedies after the Commission's denial of any appeal.
25. Notice of Intent to Use Protected Materials or Change Materials Designation. Parties intending to use Protected Materials shall notify the other parties prior to offering them

into evidence or otherwise disclosing such information into the record of the proceeding. During the pendency of Docket No. 50944 at the Commission, in the event that a Reviewing Party wishes to disclose Protected Materials to any person to whom disclosure is not authorized by this Protective Order, or wishes to have changed the designation of certain information or material as Protected Materials by alleging, for example, that such information or material has entered the public domain, such Reviewing Party shall first file and serve on all parties written notice of such proposed disclosure or request for change in designation, identifying with particularity each of such Protected Materials. A Reviewing Party shall at any time be able to file a written motion to challenge the designation of information as Protected Materials.

26. Procedures to Contest Disclosure or Change in Designation. In the event that the party asserting confidentiality wishes to contest a proposed disclosure or request for change in designation, the party asserting confidentiality shall file with the appropriate Presiding Officer its objection to a proposal, with supporting affidavits, if any, within five (5) working days after receiving such notice of proposed disclosure or change in designation. Failure of the party asserting confidentiality to file such an objection within this period shall be deemed a waiver of objection to the proposed disclosure or request for change in designation. Within five (5) working days after the party asserting confidentiality files its objection and supporting materials, the party challenging confidentiality may respond. Any such response shall include a statement by counsel for the party challenging such confidentiality that he or she has reviewed all portions of the materials in dispute and without disclosing the Protected Materials, a statement as to why the Protected Materials should not be held to be confidential under current legal standards, or alternatively that the party asserting confidentiality for some reason did not allow such counsel to review such materials. If either party wishes to submit the material in question for in camera inspection, it shall do so no later than five (5) working days after the party challenging confidentiality has made its written filing.
27. Procedures for Presiding Officer Determination Regarding Proposed Disclosure or Change in Designation. If the party asserting confidentiality files an objection, the appropriate Presiding Officer will determine whether the proposed disclosure or change

in designation is appropriate. Upon the request of either the producing or reviewing party or upon the presiding officer's own initiative, the presiding officer may conduct a prehearing conference. The burden is on the party asserting confidentiality to show that such proposed disclosure or change in designation should not be made. If the Presiding Officer determines that such proposed disclosure or change in designation should be made, disclosure shall not take place earlier than three (3) full working days after such determination unless otherwise ordered. No party waives any right to seek additional administrative or judicial remedies concerning such Presiding Officer's ruling.

28. Maintenance of Protected Status During Periods Specified for Challenging Various Orders. Any party electing to challenge, in the courts of this state, a Commission or Presiding Officer determination allowing disclosure or a change in designation shall have a period of ten (10) days from: (1) the date of an unfavorable Commission order; or (2) if the Commission does not rule on an appeal of an interim order, the date an appeal of an interim order to the Commission is overruled by operation of law, to obtain a favorable ruling in state district court. Any party challenging a state district court determination allowing disclosure or a change in designation shall have an additional period of ten (10) days from the date of the order to obtain a favorable ruling from a state appeals court. Finally, any party challenging a determination of a state appeals court allowing disclosure or a change in designation shall have an additional period of ten (10) days from the date of the order to obtain a favorable ruling from the state supreme court, or other appellate court. All Protected Materials shall be afforded the confidential treatment and status provided for in this Protective Order during the periods for challenging the various orders referenced in this Paragraph. For purposes of this Paragraph, a favorable ruling of a state district court, state appeals court, supreme court or other appellate court includes any order extending the deadlines set forth in this Paragraph.
29. Other Grounds for Objection to Use of Protected Materials Remain Applicable. Nothing in this Protective Order shall be construed as precluding any party from objecting to the use of Protected Materials on grounds other than confidentiality, including the lack of required relevance. Nothing in this Protective Order constitutes a waiver of the right to argue for more disclosure, provided, however, that unless and until such additional

disclosure is order by the Commission or a court, all parties will abide by the restrictions imposed by the Protective Order.

30. Protection of Materials from Unauthorized Disclosure. All notices, applications, responses, or other correspondence shall be made in a manner which protects Protected Materials from unauthorized disclosure.
31. Return of Copies of Protected Materials and Destruction of Information Derived from Protected Materials. Following the conclusion of these proceedings, each Reviewing Party must, no later than thirty (30) days following receipt of the notice described below, return to the party asserting confidentiality all copies of the Protected Materials provided by that party pursuant to this Protective Order and all copies reproduced by a Reviewing Party, and counsel for each Reviewing Party must provide to the party asserting confidentiality a letter by counsel that, to the best of his or her knowledge, information, and belief, all copies of notes, memoranda, and other documents regarding or derived from the Protected Materials (including copies of Protected Materials) that have not been so returned, if any, have been destroyed, other than notes, memoranda, or other documents which contain information in a form which, if made public, would not cause disclosure of the substance of Protected Materials. As used in this Protective Order, “conclusion of these proceedings” refers to the exhaustion of available appeals, or the running of the time for the making of such appeals, as provided by applicable law. If, following any appeal, the Commission conducts a remand proceeding, then the “conclusion of these proceedings” is extended by the remand to the exhaustion of available appeals of the remand, or the running of the time for making such appeals of the remand, as provided by applicable law. Promptly following the conclusion of these proceedings, counsel for the party asserting confidentiality will send a written notice to all other parties, reminding them of their obligations under this Paragraph. Nothing in this Paragraph shall prohibit counsel for each Reviewing Party from retaining two (2) copies of any filed testimony, brief, application for rehearing, hearing exhibit, or other pleading which refers to Protected Materials provided that any such Protected Materials retained by counsel shall remain subject to the provisions of this Protective Order.

32. Applicability of Other Law. This Protective Order is subject to the requirements of the Public Information Act, the Open Meetings Act, and any other applicable law, provided that parties subject to those acts will give the party asserting confidentiality notice, if possible under those acts, prior to disclosure pursuant to those acts.
33. Procedures for Release of Information Under Order. If required by order of a governmental or judicial body, the Reviewing Party may release to such body the confidential information required by such order; provided, however, that: (1) the Reviewing Party shall notify the party asserting confidentiality of such order at least five (5) calendar days in advance of the release of the information in order for the party asserting confidentiality to contest any release of the confidential information; (2) the Reviewing Party shall notify the producing party that there is a request for such information within five (5) calendar days of the date the Reviewing Party is notified of the request for information; and (3) the Reviewing Party shall use its best efforts to prevent such materials from being disclosed to the public. The terms of this Protective Order do not preclude the Reviewing Party from complying with any valid and enforceable order of a state or federal court with competent jurisdiction specifically requiring disclosure of Protected Materials earlier than contemplated herein.
34. Best Efforts Defined. The term “best efforts” as used in the preceding paragraph requires that the Reviewing Party attempt to ensure that disclosure is not made unless such disclosure is pursuant to a final order of a Texas governmental or Texas judicial body or written opinion of the Texas Attorney General which was sought in compliance with the Public Information Act. The Reviewing Party is not required to delay compliance with a lawful order to disclose such information but is simply required to timely notify the party asserting confidentiality, or its counsel, that it has received a challenge to the confidentiality of the information and that the Reviewing Party will either proceed under the provisions of Tex. Gov’t Code Ann. § 552.301, or intends to comply with the final governmental or court order.
35. Notify Defined. Notify, for purposes of Paragraphs 32, 33, and 34, shall mean written notice to the party asserting confidentiality at least five (5) calendar days prior to release; including when a Reviewing Party receives a request under the Public Information Act.

However, the Commission or OPC may provide a copy of Protected Materials to the Open Records Division of the OAG as provided herein.

36. Requests for Non-Disclosure. If the producing party asserts that the requested information should not be disclosed at all, or should not be disclosed to certain parties under the protection afforded by this Order, the producing party shall tender the information for in camera review to the presiding officers within 10 calendar days of the request. At the same time, the producing party shall file and serve on all parties its argument, including any supporting affidavits, in support of its position of non-disclosure. The burden is on the producing party to establish that the material should not be disclosed. The producing party shall serve a copy of the information under the classification of Highly Sensitive Protected Material to all parties requesting the information that the producing party has not alleged should be prohibited from reviewing the information. Parties wishing to respond to the producing party's argument for non-disclosure shall do so within five working days. Responding parties should explain why the information should be disclosed to them, including why disclosure is necessary for a fair adjudication of the case if the material is determined to constitute a trade secret. If the presiding officer finds that the information should be disclosed as Protected Material under the terms of this Protective Order, the presiding officer shall stay the order of disclosure for such period of time as the presiding officer deems necessary to allow the producing party to appeal the ruling to the commission.
37. Sanctions Available for Abuse of Designation. If the presiding officer finds that a producing party unreasonably designated material as Protected Material or as Highly Sensitive Protected Material, or unreasonably attempted to prevent disclosure pursuant to Paragraph 36, the presiding officer may sanction the producing party pursuant to 16 Tex. Admin. Code § 22.161.
38. Modification of Protective Order. Each party shall have the right to seek changes in this Protective Order as appropriate from the presiding officer.
39. Breach of Protective Order. In the event of a breach of the provisions of this Protective Order, the producing party, if it sustains its burden of proof required to establish the right to injunctive relief, shall be entitled to an injunction against such breach without any



requirements to post bond as a condition of such relief. The producing party shall not be relieved of proof of any element required to establish the right to injunctive relief. In addition to injunctive relief, the producing party shall be entitled to pursue any other form of relief to which it is entitled.

SIGNED AT AUSTIN, TEXAS as of the \_\_\_\_\_ day of \_\_\_\_\_, 2020.

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**Protective Order Certification**

I certify my understanding that the Protected Materials are provided to me pursuant to the terms and restrictions of the Protective Order in this docket, and that I have been given a copy of it and have read the Protective Order and agree to be bound by it. I understand that the contents of the Protected Materials, any notes, memoranda, or any other form of information regarding or derived from the Protected Materials shall not be disclosed to anyone other than in accordance with the Protective Order and unless I am an employee of Commission Staff or OPC shall be used only for the purpose of the proceeding in Docket No. 50944. I acknowledge that the obligations imposed by this certification are pursuant to such Protective Order. Provided, however, if the information contained in the Protected Materials is obtained from independent public sources, the understanding stated herein shall not apply.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Party Represented

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

I certify that I am eligible to have access to Highly Sensitive Protected Material under the terms of the Protective Order in this docket.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Party Represented

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

DOCKET NO. 50944

I request to view/copy the following documents:

Document requested	# of Copies	Non-Confidential	Confidential &/or H.S.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Party Represented

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

**PUC DOCKET NO. 50944**

<b>APPLICATION OF MONARCH UTILITIES I L.P. FOR AUTHORITY TO CHANGE RATES</b>	§ § §	<b>PUBLIC UTILITY COMMISSION  OF TEXAS</b>
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**STATEMENT UNDER SECTION 4 OF THE PROTECTIVE ORDER AND LIST OF  
CONFIDENTIAL/HIGHLY SENSITIVE INFORMATION**

Monarch Utilities I L.P., (“Monarch”) filing package includes customer specific information, confidential employee related information, proprietary information, commercially or competitively sensitive information, and/or trade secret information, or information whose public disclosure of this information would be contrary to contractual obligations to which Monarch is bound. The public disclosure of this information would harm Monarch or third parties with whom Monarch must maintain an ongoing business relationship. Therefore, this information is protected under the Public Information Act, Tex. Gov’t Ann. §§ 552.101, 552.102, 552.104, and 552.110. The following is a list of schedules, exhibits, and workpapers that include such information, along with the sponsoring witness, the designation of the information, and the applicable legal exemption.

**Confidential and Highly Sensitive Material**

Witness(es)	Exempt Material	Designation	Exempt Under Tex. Gov’t Code
Terry Benton and Timothy Williford	Schedule II-B-1.1 Original Cost of Utility Plant for Water/Sewer	Confidential	§§ 552.101, 552.110
Edward Taussig	Schedule II-C-7 Capital Requirements	Confidential	§ 552.110
Bruce Fairchild	Schedule II-C-10 Rating Agency Reports/Prospectus	Confidential	§ 552.110
Edward Taussig	Schedule II-D-9.1.d. Payroll Detail - Merit Increases and Management Salary Increases	Confidential	§§ 552.101, 552.102
Edward Taussig	Schedule II-D-9.1.e Payroll Detail - Total Annual Payroll Increases	Confidential	§§ 552.101, 552.102

Edward Taussig	Schedule II-D-9.1.f Payroll Detail - Test Year vs Requested Reconciliation	Confidential	§§ 552.101, 552.102
Edward Taussig	Schedule II-D-9.1.g Payroll Detail - Employee Benefits and Incentive Compensation	Confidential	§§ 552.101, 552.102
Edward Taussig	Schedule II-D-9.3.d Other Payroll Information - Incentive Compensation and Bonus Plans	Confidential	§§ 552.101, 552.102
Victoria Shupak	Schedule II-E-3.23 Federal Tax Returns	Confidential	§§ 552.101, 552.110
George Freitag	Schedule II-H-2 Contracts	Confidential	§§ 552.101, 552.110
Mujeeb Hafeez	Schedule V-1 Audit Reports	Confidential	§§ 552.101, 552.110
Brian Bahr	WP/II-C-8 PDF of relevant information	Confidential	§ 552.110
Edward Taussig	WP/II-D-9.1.d Payroll Detail – 2020 Merit Increases or Management Salary Adjustments	Confidential	§§ 552.101, 552.102
Edward Taussig	WP/II-D-9.1.f Payroll Detail – Test Year vs. Requested Reconciliation	Confidential	§§ 552.101, 552.102
Edward Taussig	WP/II-D-9.1.g Payroll Detail – Employee Benefits and Incentive Compensation	Confidential	§§ 552.101, 552.102
Edward Taussig	WP/II-D-9.3.d Payroll Detail - Merit Increases and Management Salary Increases	Confidential	§§ 552.101, 552.102
Edward Taussig	WP/V-2.1 1Q19 YTD Budget Variance Reports	Confidential	§§ 552.101, 552.110
Edward Taussig	WP/V-2.2 2Q19 YTD Budget Variance Reports	Confidential	§§ 552.101, 552.110
Edward Taussig	WP/V-2.3 3Q19 YTD Budget Variance Reports	Confidential	§§ 552.101, 552.110
Edward Taussig	WP/V-2.4 4Q19 YTD Budget Variance Reports	Confidential	§§ 552.101, 552.110
Edward Taussig	WP/V-2.5 1Q20 YTD Budget Variance Reports	Confidential	§§ 552.101, 552.110

Edward Taussig	WP/V-3 Operating and Capital Budgets	Confidential	§§ 552.101, 552.110
Bruce Fairchild	Attachment BHF-6 Financial Statements	Confidential	§§ 552.101, 552.110

I certify that I have reviewed the information sufficiently to state in good faith that the information is exempt from public disclosure under the Public Information Act or Tex. Util. Code § 32.101(c) and merits the applicable designation of Confidential (Protected) Materials or Highly Sensitive (Highly Sensitive Protected) Materials detailed in the Protective Order accompanying this Application.

/s/ Lambeth Townsend

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LAMBETH TOWNSEND

**ATTORNEY FOR  
MONARCH UTILITIES I L.P.**

Date: July 15, 2020

3176/24/8084373

**PUC DOCKET NO. 50994**

<b>APPLICATION OF MONARCH</b>	<b>§</b>	<b>PUBLIC UTILITY COMMISSION</b>
<b>UTILITIES I L.P. FOR AUTHORITY TO</b>	<b>§</b>	
<b>CHANGE RATES</b>	<b>§</b>	<b>OF TEXAS</b>

**DIRECT TESTIMONY**  
**OF**  
**JEFFREY L. MCINTYRE**

**ON BEHALF OF**  
**MONARCH UTILITIES I L.P.**

**JULY 15, 2020**

**DIRECT TESTIMONY OF  
JEFFREY L. MCINTYRE**

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**ATTACHMENTS**

Attachment JLM-1	Witness List
Attachment JLM-2	Schedule Sponsors
Attachment JLM-3	Organization Chart of SouthWest Water Company entities





1 water service to more than 56,000 water and wastewater customers in Texas. This  
2 responsibility includes ensuring that all Company activities are carried out in  
3 compliance with local, state, and federal laws and regulations, and standards of good  
4 business practice.

5 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND.**

6 A. I graduated from Brock University in St. Catharines, Ontario in 1998 with a  
7 certificate in Adult Education. I have held several professional certifications in water  
8 and wastewater operations and engineering, including operating certifications for  
9 water and wastewater treatment, water distribution, and wastewater collection as well  
10 as stationary and power engineering, and compressor and refrigeration plant  
11 operation. I am a member of the Water Environment Federation and the American  
12 Water Works Association and have been a member of their respective chapters in  
13 Ontario, West Virginia, Pennsylvania, and now in Texas. I currently serve on the  
14 Board of Directors of Texas Association of Water Companies, Inc., a Texas trade  
15 association of investor-owned water and wastewater companies.

16 **Q. PLEASE STATE YOUR PROFESSIONAL BACKGROUND.**

17 A. From March 2017 to August 2019, I served as President of Pennsylvania American  
18 Water and Senior Vice President, Mid-Atlantic Division for American Water, with  
19 additional oversight responsibility for West Virginia American Water. In this dual  
20 role, I had executive level oversight of the regulated businesses in Pennsylvania and  
21 West Virginia serving nearly one million combined water and wastewater customers.  
22 My responsibilities were consistent with those of my current position at SouthWest. I  
23 had similar functional responsibilities in the role of President of West Virginia  
24 American Water from March 2012 to February of 2017 serving a population of

1 approximately 550,000. During my tenure at West Virginia American Water, I  
2 provided testimony in two general rate case proceedings as well as several other  
3 matters before the West Virginia Public Service Commission.

4 Previously, I served as Vice President, Contract Services Group of American  
5 Water Enterprises, Inc., from 2010 to 2012. American Water Enterprises comprises  
6 American Water's market-based business units that offer operations and maintenance  
7 contract services across the U.S. and Canada, including design, construction, and  
8 operation of community onsite water and wastewater systems; service-line protection  
9 programs; water and wastewater management for military bases; and other innovative  
10 solutions that address a variety of challenges facing the industry. In this role, I was  
11 responsible for overseeing all water and wastewater operation and maintenance  
12 ("O&M") contracts in Canada and the U.S. for municipal, industrial, and private  
13 facility owners. I held several progressive positions at American Water Enterprises  
14 through its subsidiary American Water Canada Corp. I joined American Water in  
15 2002 as Director of Operations with American Water Canada Corp. In this role, I  
16 was responsible for overseeing the Canadian O&M business, including 25 client  
17 contracts and over 200 water and wastewater treatment, distribution, and collection  
18 facilities across the province of Ontario.

19 Before joining American Water, I was Manager of Water Quality for The City  
20 of Hamilton, Ontario, where I was responsible for the operation and maintenance of  
21 three wastewater treatment plants treating up to 105 million gallons per day (MGD), a  
22 230 MGD conventional water treatment plant, four communal well systems, and over  
23 160 pumping stations and reservoirs. I was also responsible for capital planning and  
24 implementation activities for these facilities, maintaining O&M agreements, and

1 overseeing the city's certified environmental laboratory. I also led the city's efforts to  
2 improve storm water and wastewater discharges affecting water quality in Hamilton  
3 Harbor, at an anticipated cost of over \$600 million. My additional experience  
4 includes positions with Philip Utilities Management Corporation, the Regional  
5 Municipality of Hamilton-Wentworth, and the Royal Canadian Navy.

6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

7 A. I am testifying on behalf of Monarch.

8 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THIS**  
9 **COMMISSION?**

10 A. No.

11 **II. PURPOSE OF TESTIMONY**

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. I will testify concerning the ownership structure and general description of Monarch.  
14 I will give an overview of Monarch's regulatory compliance and customer service. I  
15 will also give an overview of Monarch's request to the Public Utility Commission of  
16 Texas ("Commission") to change Monarch's rates. A list of the individuals providing  
17 testimony in support of Monarch's request and the subject matter of their testimonies  
18 is attached to my testimony as Attachment JLM-1.

19 **Q. WHAT SCHEDULES IN THE RATE FILING PACKAGE ARE YOU**  
20 **SPONSORING?**

21 A. A list of the schedule sponsors is attached to my testimony as Attachment JLM-2.  
22 That list includes all the schedules that I sponsor.

1           **III.       OWNERSHIP STRUCTURE AND GENERAL DESCRIPTION**

2   **Q.     PLEASE DESCRIBE THE OWNERSHIP STRUCTURE OF MONARCH.**

3   A.     Monarch Utilities I L.P. is a Texas limited partnership. Texas Water Services Group,  
4         LLC, is the general partner and owns 0.1% of Monarch Utilities I L.P. Monarch  
5         Utilities, Inc., is a limited partner and owns 99.9% of Monarch Utilities I L.P., and is  
6         the sole member of Texas Water Services Group, LLC. New Mexico Utilities, Inc.,  
7         owns 100% of Monarch Utilities, Inc. SouthWest owns 100% of New Mexico  
8         Utilities, Inc.

9                 SouthWest also owns 100% of other utilities in Texas, including SWWC  
10                Utilities, Inc. (“SWWCU”) and Midway Water Utilities, Inc. (“Midway”). Also,  
11                within Texas, SouthWest operates an unregulated, wholesale water supply company  
12                called Metro-H2O Ltd. (“Metro”). SouthWest refers to Monarch, SWWCU, Midway,  
13                and Metro, collectively, as the Texas Utilities. During the test year ending December  
14                31, 2019, Midway did not have any utility assets or operations. An organization chart  
15                of SouthWest entities is provided as Attachment JLM-3 to my testimony.

16   **Q.     PLEASE PROVIDE A GENERAL DESCRIPTION OF SOUTHWEST WATER**  
17         **COMPANY.**

18   A.     SouthWest, headquartered in Sugar Land, Texas, has a long history of providing  
19         outstanding customer service to its regulated utility customers. SouthWest’s roots  
20         date back to 1925, when Able Garnier drilled a well on his 300-acre ranch in what is  
21         now the City of La Puente, California. Today, SouthWest serves several hundred  
22         thousand customers in Alabama, California, Oregon, South Carolina, and Texas. The  
23         Company employs approximately 405 talented and dedicated employees.

24   **Q.     PLEASE PROVIDE A GENERAL DESCRIPTION OF MONARCH.**

1 A. Monarch is a Class A utility providing both water and wastewater utility service.  
2 Monarch holds Certificate of Convenience and Necessity (“CCN”) No. 12983 for  
3 water service to about 30,000 customers in 115 separate water systems located in 32  
4 counties. On average, Monarch has fewer than 1,000 customers per county, and  
5 fewer than 300 customers per water system. These small water systems are in rural  
6 areas of the state and are geographically distant from each other.

7 Monarch holds CCN No. 20899 for wastewater service to about 4,400  
8 customers in 12 separate wastewater systems located in nine counties. On average,  
9 Monarch has greater than 500 customers per county, and just over 350 customers per  
10 wastewater system. These small wastewater systems are in rural areas of the state  
11 and are geographically distant from each other. Monarch typically also provides  
12 water service to these wastewater customers.

13 **Q. PLEASE DESCRIBE MONARCH’S RESPONSE TO THE COMMISSION’S**  
14 **PREVIOUS REQUEST FOR CLARIFICATION OF ITS ORGANIZATIONAL**  
15 **STRUCTURE.**

16 A. As part of the last general rate case of Monarch’s affiliated utility, SWWC Utilities,  
17 Inc., the Commission requested additional clarification about the organization and  
18 structure of SouthWest Water Company’s subsidiaries in Texas. In response to the  
19 Commission’s requests to better understand SouthWest’s corporate structure and the  
20 structure of its affiliates, SouthWest has attempted to simplify its organizational  
21 structure in Texas. As part of this project, SouthWest has transferred, or is in the  
22 process of transferring, the assets of four systems to Monarch. These systems are:

- 1           • SWWC Utilities, Inc. DBA Southwest Utility Company (Docket No. 49103);<sup>1</sup>  
2           • SWWC Utilities, Inc. DBA Inverness Utility Company, Inc. (Docket No.  
3           49383);<sup>2</sup>  
4           • Ni America Texas, LLC (Docket No. 49660);<sup>3</sup> and  
5           • SWWC Utilities, Inc. DBA Water Services, Inc. (Docket No. 50319).<sup>4</sup>

6   **Q.   PLEASE DESCRIBE MONARCH’S RESPONSE TO THE COMMISSION’S**  
7   **REQUESTS FOR LARGER WATER UTILITIES TO ACQUIRE SMALL,**  
8   **UNDERFUNDED, AND INEFFICIENTLY RUN UTILITIES.**

9   A.   Since the test year of its last rate case, Monarch has acquired the assets of three  
10   utilities:

- 11           • Dal-High Water LLC (Docket No. 47922),<sup>5</sup> with 46 water customers and its  
12           most recent base rate increase in 1993;  
13           • Romark Utility Company (Docket No. 45317),<sup>6</sup> with 125 water customers and  
14           no reliable records of original cost of gross plant in service; and

---

<sup>1</sup> *Application of SWWC Utilities, Inc. DBA Southwest Utility Company and Monarch Utilities I L.P. for Sale, Transfer, or Merger of Facilities and Certificate Rights in Harris County, Docket No. 49103, Corrected Notice of Approval (Apr. 2, 2020).*

<sup>2</sup> *Application of SWWC Utilities, Inc. DBA Inverness Utility Company, Inc. and Monarch Utilities I L.P. for Sale, Transfer, or Merger of Facilities and Certificate Rights in Travis County, Docket No. 49383 (pending).*

<sup>3</sup> *Application of Ni America Texas. LLC and Monarch Utilities I L.P. for Sale, Transfer, or Merger of Facilities and Certificate Rights in Johnson and Wise Counties, Docket No. 49660 (pending).*

<sup>4</sup> *Application of SWWC Utilities, Inc. DBA Water Services, Inc. and Monarch Utilities I L.P. for Sale, Transfer, or Merger of Facilities and Certificate Rights in Bandera, Bexar, Comal, Gillespie, Guadalupe, Hays, Kendall, Kerr, and Medina Counties, Docket No. 50319 (pending).*

<sup>5</sup> *Application of Dal-High Water LLC and Monarch Utilities I L.P. for Sale, Transfer, or Merger of Facilities and Certificate Rights in Henderson County, Docket No. 47922, Notice of Approval (Mar. 18, 2019).*

<sup>6</sup> *Application of Monarch Utilities I L.P. and Romark Utility Company for Sale, Transfer, or Merger of Facilities and Certificate Rights in Polk County, Docket No. 45317, Notice of Approval (Dec. 5, 2016).*

1           • Villas of Willowbrook Homeowners Association, Inc. (Docket No. 45715),<sup>7</sup>  
2           with 21 water and 21 wastewater customers and a previous service provider  
3           not allowing new connections or willing to provide permanent water and  
4           wastewater service.

5           Monarch is also in the process of obtaining Commission approval to acquire the  
6           assets of Goins Utility Service LLC (Docket No. 50424),<sup>8</sup> a small system that was  
7           serving without a Commission approved CCN, which is not included in the instant  
8           rate case but will be included in subsequent rate cases if the acquisition is approved  
9           by the Commission.

10           In addition to the utilities acquired by Monarch, SouthWest recently closed, or  
11           is in the process of acquiring, the assets of other utilities through its subsidiary  
12           Midway, including Double Diamond Utilities Company, Inc. and Double Diamond  
13           Properties Construction Company (Docket No. 50059)<sup>9</sup> and Champs Water Company  
14           (Docket No. 50895).<sup>10</sup>

15   **Q.    IS MONARCH PROPOSING TO CONSOLIDATE THE RATES OF ALL ITS**  
16   **UTILITY SYSTEMS IN THIS PROCEEDING?**

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<sup>7</sup> *Application of Villas of Willowbrook Homeowners Association, Inc. and Monarch Utilities I L.P. for Sale, Transfer, or Merger of Facilities and Certificate Rights in Harris County, Docket No. 45715, Notice of Approval (Apr. 25, 2017).*

<sup>8</sup> *Application of Monarch Utilities I L.P. and Goins Utility Service LLC for Sale, Transfer, or Merger of Facilities and Uncertificated Area in Polk County, Docket No. 50424 (pending).*

<sup>9</sup> *Application of Double Diamond Utilities Company, Inc., Double Diamond Properties Construction Company, and Midway Water Utilities, Inc. for Sale, Transfer, or Merger of Facilities and Certificate Rights in Hill, Palo Pinto, Johnson, and Gray Counties, Docket No. 50059, Order No. 9 Approving Sale and Transfer to Proceed (May 11, 2020).*

<sup>10</sup> *Application of Champs Water Company and Midway Water Utilities, Inc. for Sale, Transfer, or Merger of Facilities and Certificate Rights in Harris and Montgomery Counties, Docket No. 50895 (pending).*



1 A. Yes. Monarch is the utility that was serving in 24 counties on January 1, 2003  
2 referenced in Texas Utilities Code § 13.145(b), which is exempted from the  
3 requirements of Section 13.145. To avoid customer rate shock, the requested  
4 consolidation of tariffs and rates is proposed to occur over a phase-in period of  
5 varying years for the systems being consolidated. The factual basis demonstrating  
6 that Monarch is the utility fitting the description in Section 13.145(b) is described in  
7 detail in the testimony of George Freitag.

#### 8 IV. COVID-19 RESPONSE

9 **Q. PLEASE DESCRIBE HOW MONARCH'S CUSTOMERS HAVE BEEN**  
10 **AFFECTED BY THE COVID-19 PANDEMIC.**

11 A. Aside from the social, economic, employment, and health effects our customers may  
12 have experienced, their water and wastewater utility service with SouthWest has  
13 operated much as it normally would. The one exception is the face-to-face contact  
14 we normally provide customers was restricted because of our social distancing  
15 protocols. Customers received the enhanced benefits of no disconnects, no late fees  
16 through the end of May, having service restored regardless of account status, and the  
17 availability of extended payments plans.

18 **Q. PLEASE DESCRIBE THE ISSUES MONARCH FACED AS A RESULT OF**  
19 **THE COVID-19 PANDEMIC.**

20 A. In reacting to the COVID-19 pandemic, we needed to maintain our employees'  
21 health. Monarch quickly responded to ensure customers had, and were able to  
22 maintain access to, potable water necessary for proper hygiene and effective  
23 wastewater services so they could isolate at home. This required SouthWest to have  
24 employees work independently to the greatest extent possible. Our customer service

1 representatives were able to work remotely from home, as did most of our  
2 administrative and leadership functions. Some work requires the effort of more than  
3 one employee, such as installation of water main repair clamps. Historically, these  
4 employees would drive together as part of a crew. We made changes such that they  
5 would drive separately, work independently as much as possible, and only when  
6 required work in close proximity with additional Personal Protective Equipment  
7 (“PPE”), followed by disinfection of all shared tools.

8 Our capital investment and maintenance programs have continued with  
9 additional protective measures. We have been somewhat successful in engaging  
10 additional construction crews, and we have been able to accelerate capital delivery  
11 where municipal entities have suspended work. Additionally, our operations teams  
12 have been effective at advancing certain repair work as they are not experiencing the  
13 normal disconnect work activity.

14 To date, our efforts have been highly effective in keeping employees safe  
15 while delivering high-quality service to our customers. Considering how effective  
16 our response has been, we are being cautious in our approach to returning to our  
17 offices, which is currently not scheduled to occur before Labor Day this year.

18 **Q. HAS MONARCH PREVIOUSLY DESCRIBED ITS RESPONSE EFFORTS**  
19 **TO THE COMMISSION?**

20 A. Yes. On March 13, 2020, Monarch communicated via telephone with Chairman  
21 Walker, and by voicemail to Executive Director JP Urban, that Monarch had decided  
22 to voluntarily implement a suspension of all disconnect orders on residential accounts  
23 generated due to lack of payment. The Commission issued an order to the same

1 effect several days later. Additionally, in Project No. 50664,<sup>11</sup> SouthWest submitted a  
2 response on March 24, 2020 to the Commission's request to describe the response  
3 initiatives it had implemented for its Texas operations, including Monarch.

4 **Q. PLEASE DESCRIBE MONARCH'S RESPONSE, GENERALLY, TO THE**  
5 **COVID-19 PANDEMIC.**

6 A. Monarch has taken proactive efforts to find ways to assist customers in this  
7 challenging time. These initiatives include suspending disconnections because of  
8 nonpayment, suspending late fees (through the end of May), and allowing payment  
9 terms for connection fees. We also reviewed our customer records and restored  
10 service to customers who were previously disconnected regardless of whether the  
11 account balance had been paid. Our customer service agents were empowered to  
12 offer extended payment plans to customers that were having difficulty paying their  
13 water bill as well.

14 To protect the health of our employees so that we could continue to provide  
15 service throughout the pandemic, Monarch implemented enhanced social distancing  
16 guidelines. All customer service, billing, and office personnel were provided the  
17 technology necessary to work from home, allowing them to continue service  
18 operations without interruption. Field personnel were assigned individual trucks and  
19 instructed to work individually to the extent possible, and to only work in teams (with  
20 enhanced PPE) when absolutely necessary because of the nature of the task.

21 All in-person meetings were suspended, and all communications and training  
22 of personnel was transitioned to video conferences or phone calls. Monarch prepared  
23 and presented to all employees extensive training on how employees could protect

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<sup>11</sup> *Issues Related to the State of Disaster for Coronavirus Disease 2019*, Project No. 50664 (pending).

1 themselves from infection from COVID-19. Any employee exhibiting a fever was  
2 instructed to stay home, and any employee diagnosed with COVID-19 was required  
3 to stay out of the workforce until he or she met CDC guidelines for a return to work.

4 Some work, such as bill printing, mail and courier receiving, and accounts  
5 payable, required attendance by our employees at our office locations. Manager  
6 approval was required in each case along with PPE and social distancing  
7 requirements to mitigate the potential risk of contracting COVID-19. At our  
8 Pflugerville office—a location where social distancing cannot adequately be  
9 maintained—employees could only enter one at a time during scheduled periods.

10 Using contacts known to our SouthWest Board of Directors and management  
11 staff, we literally searched the globe to secure sourcing of PPE, securing it from  
12 wherever it could be found, and in some cases flying it in from overseas.

13 Finally, Monarch made monetary donations to food banks across our service  
14 territory to provide much needed food and supplies to our customers.

15 **Q. HAS MONARCH TRACKED ITS COSTS RELATED TO ITS RESPONSE TO**  
16 **THE COVID-19 PANDEMIC?**

17 A. Yes. As of the end of May 2020, Monarch has accrued a regulatory asset in the  
18 amount of \$308,181.71 related to its expenditures as a result of COVID-19.

19 **Q. IS MONARCH REQUESTING RECOVERY OF ITS REGULATORY ASSET**  
20 **IN ITS APPLICATION?**

21 A. No. Even though Texas is in the midst of the reopening process following  
22 stay-at-home orders, the effects of COVID-19 will continue to be felt for a long time.  
23 On June 26, 2020, Governor Abbott, in response to increasing COVID-19 cases and  
24 hospitalization, issued an executive order halting the re-opening process, rolling back

1 certain activities, and requiring certain businesses to reclose. That said, we have no  
2 “crystal ball” to indicate what may happen next, but our current view is that we  
3 anticipate long-term negative customer effects. Monarch is recording its additional  
4 costs, and bad debt expense, incurred related to its response to COVID-19 and, absent  
5 Commission direction to the contrary, intends to request recovery of these costs in its  
6 next general rate case.

7 **Q. IS IT APPROPRIATE TO RECORD A REGULATORY ASSET FOR THE**  
8 **COSTS ASSOCIATED WITH MONARCH’S RESPONSE TO THE COVID-19**  
9 **PANDEMIC?**

10 A. Yes. Monarch recognizes that many of its customers have been negatively affected  
11 by the economic decline related to COVID-19. Monarch, as well, has expended  
12 considerable resources in response to the declared state of disaster to ensure that  
13 customers continue to receive reliable, safe water and wastewater services.

14 **V. REGULATORY COMPLIANCE**

15 **Q. PLEASE DESCRIBE GENERALLY MONARCH’S COMMITMENT TO**  
16 **SAFETY AND WATER QUALITY.**

17 A. Ensuring the health and safety of our employees and protecting our product is the top  
18 priority for Monarch, critical to our success, and vital to our customers’ health. As  
19 President of Texas Utilities, it is my commitment is to ensure that that every  
20 employee chooses safety in every job, every day. Employee health and safety is the  
21 responsibility of every employee, and to that end, every employee has safety goals. A  
22 safe workplace increases employee morale, increases our commitment to one another,  
23 and, in the long run, makes for a more engaged and productive workforce.

1 Monarch has provided water service to its customers for many years, and we  
2 are acutely aware that water is the only utility product intended for customers to  
3 ingest; our customers rely on us to provide them with safe and reliable service. Water  
4 quality is of paramount importance to the health and well-being of our customers;  
5 beyond health and safety concerns, customers also have significant aesthetic concerns  
6 about the water we treat and deliver to them. The direct testimony of Timothy J.  
7 Williford details our compliance with water and wastewater regulations.

8 **Q. ARE THERE ANY NEW COMPLIANCE ISSUES?**

9 A. Yes, new issues arose after the test year, but all have been resolved. Timothy J.  
10 Williford provides details in his direct testimony.

11 **VI. VALUE OF WATER**

12 **Q. PLEASE DESCRIBE THE VALUE OF SERVICES CUSTOMERS RECEIVE**  
13 **FROM MONARCH.**

14 A. Many Americans are not accustomed to paying, and have not been aware of, the true  
15 cost of treating and delivering clean, safe water to their taps. The historic  
16 underpricing of water is largely because of the perception that water is “free”—a  
17 fundamental human need supplied by the earth itself. No one is charged for taking a  
18 bucket of water from a stream or other natural source of water supply. That water,  
19 however, is not safe to drink. The vast infrastructure required to treat and deliver that  
20 water safely where it is needed is far from free. When customers appreciate the true  
21 value of water, this not only helps water utilities continue to provide customers with  
22 safe and clean water, but has the added benefit of encouraging more conservative use  
23 and ensuring a sustainable supply for future generations.

1           Only three percent of the drinking-quality water delivered to American homes  
2 is used for drinking on a typical day, while the vast majority of it goes to watering  
3 lawns and gardens, washing clothes and dishes, bathing, flushing, and other uses.  
4 Under Monarch’s proposed rates, an annual residential bill for water service, for the  
5 majority of Monarch customers, of \$1,145 in 2021 equates to just over \$3.14 per day.  
6 In other words, for only the price of a cup of coffee, an average residential customer  
7 has all the water he or she and their family needs to drink, cook with, wash with,  
8 garden with, etc. It is hard to imagine a better bargain.

9   **Q.   HOW DOES THE PRICE OF WATER COMPARE TO BOTTLED WATER**  
10 **AND TO OTHER COMMODITIES?**

11 A.   According to a 2010 survey of American voters by the ITT Corporation, 79% of  
12 voters and 75% of industrial and agricultural businesses agree that more time  
13 addressing water issues is needed. At the same time, 95 % of voters believe water is  
14 the most important service they receive, including electricity and heat. Eighty percent  
15 of voters say water infrastructure needs reform, about 40% say “major reform” is  
16 necessary, and 63% say they are willing to pay more on their water bills to address  
17 the nation’s infrastructure needs. Yet despite this, water and wastewater service is  
18 typically the lowest percentage utility cost per household—of the total utility charges,  
19 water and wastewater together are, on average, only 14.6% of a household’s utility  
20 budget, compared to gas/oil at 17%, telephone at 29.8%, and electricity at 38.3%.<sup>12</sup>

21           For many Americans, bottled water is perceived to have a greater value than  
22 tap water—a result of successful marketing strategies and a price tag that, depending

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<sup>12</sup> Adam Reichenberger, A Comparison of 25 Years of Consumer Expenditures by Homeowners and Renters, *U S Bureau of Labor Statistics—Beyond the Numbers: Prices and Spending*, Vol. 1, No. 15 (2012).

1 on the brand, is equivalent to the cost of gasoline and 250 to 10,000 times more  
2 expensive than tap water.<sup>13</sup> Sales of bottled water tripled from the 1990s to the 2000s,  
3 despite the reality that the source of 25–40% of bottled water sold in the U.S. is tap  
4 water. What’s more, the 60–75% of bottled water that is not sourced from tap has a  
5 potentially bigger downside: FDA standards regulating bottled water are far less  
6 rigorous than those set by the EPA, which governs tap water. Moreover, because  
7 bottled water is typically packaged in plastic containers, it has a deleterious effect on  
8 the environment (an effect that we do not create).

9 **VII. CUSTOMER SERVICE**

10 **Q. PLEASE DESCRIBE MONARCH’S CUSTOMER SERVICE**  
11 **IMPROVEMENTS SINCE ITS LAST GENERAL RATE CASE.**

12 A. Monarch has continued to invest in its people and systems with the goal of improving  
13 customer service. In 2017, Monarch partnered with a third-party vendor to assist with  
14 the collection of new customer information, thereby decreasing the amount of time  
15 necessary to process new accounts. That same year, we gave our Customer Service  
16 Representatives the authority to waive certain fees while on the call with the customer  
17 rather than requiring them to process a request and wait on a manager’s approval.

18 In 2018, we began using Trumpia<sup>14</sup> to send customers messages when there is  
19 a water leak in their system, as well as to provide reminders on their water bill

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<sup>13</sup> Tom Standage, *Bad to the Last Drop*, New York Times, Aug. 1, 2005, at A15.

<sup>14</sup> Trumpia is a web-based software utilized to send text and email alerts to our customers whenever there is an outage or repair that could potentially lead to a service interruption, boil water notice, drought information, and any other necessary information about their water service. The software is aware and fully compliant with the Telephone Consumer Protection Act and customers consent before enrolling into the text alerting system and can remove themselves whenever they would like to do so. For further details visit: <https://www.trumpia.com/>.



1 approaching the due date. We also initiated an additional payment option whereby  
2 customers can pay their monthly bills via direct payment from a bank account. We  
3 also changed the way we administered payment installment plans to make the process  
4 simpler and easier for the customer.

5 In 2019, we expanded the practice of alerting customers of a pending bill due  
6 date to include making outbound phone calls to customers that had not signed up for  
7 Trumpia. We instituted an Elderly Rate to provide payment assistance to customers  
8 over the age of 65. We relaxed the standard to qualify for our leak relief program,  
9 which resulted in more customers qualifying, and we enhanced the program by  
10 making a onetime major leak relief option available.

11 **Q. PLEASE DESCRIBE MONARCH'S CUSTOMER OUTREACH APPROACH.**

12 A. SouthWest maintains a long-term commitment to both water stewardship and being a  
13 responsible partner in the communities we serve. Employees are residents of many of  
14 the neighborhoods we serve, so we know how precarious life can be for many  
15 Texans. With our own media platforms, including digital and direct-to-household  
16 communications, we continually educate residents on water conservation, safety,  
17 swimming and watering guidance, and so on. But our service does not stop at water.  
18 For many years, we have piloted and expanded writing contests in local schools,  
19 getting students to think critically about the value of water in their own community.  
20 SouthWest has been a proud supporter of the Make-A-Wish Foundation—granting  
21 ten wishes for critically ill young people is just one way we are humbled to give back.  
22 When COVID-19 came to Texas, we knew that delivering safe, reliable water was not  
23 our only responsibility.

1           With Texas schools and families in a state of transition, we are developing a  
2 free, STEM-based, and self-guided knowledge bank for educators and parents. We  
3 have also been an active participant in the racial injustice conversation happening in  
4 communities across the state and nation, devoting time and funds to helping the water  
5 utility workforce be as diverse and inclusive as possible.

6           These are not all the ways we have worked to continually improve our  
7 communities across Texas. We donate our time and expertise to park improvement  
8 projects, repurposing out-of-service field laptops for students in need, waterway  
9 clean-up and anti-dumping initiatives, and sit on various local boards and nonprofit  
10 committees, as well. Our 151 employees in the state take immense pride in delivering  
11 life-preserving water each and every day—our service to the state through other  
12 charitable and educational outreach is a point of pride for all of us.

13           SouthWest knows that transparency and timeliness are essential components  
14 of an informed customer base. To educate all affected customers and the broader  
15 communities on what rate filings are, how they are determined, and how rate  
16 adjustments are a requisite part of utilities' ability to treat, maintain, and upgrade  
17 critical water and wastewater system, we have sent letters to every affected  
18 household, have worked with newspapers to publish educational articles in recent  
19 weeks, and have communicated with State Representatives and State Senators in  
20 relevant districts to make sure they are clear on the rate filing process, their affected  
21 constituents, and the investments we have made in recent years. In all of this, we  
22 have provided means for feedback and have informed customers of the factors that  
23 guide this process so they are informed and can follow along should they wish.

24 **Q. DOES MONARCH OFFER ANY CUSTOMER ASSISTANCE PROGRAMS?**

1 A. In 2011, SouthWest established the Help2Others (or H2O) program, which was  
2 subsequently renamed the Water Assist program. This program provides charitable  
3 assistance to customers in financial, emergency, and/or catastrophic distress to meet  
4 water-related costs. The program is designed to assist customers whose total  
5 combined household income does not exceed 125% of the current Federal Poverty  
6 Guidelines. Qualified customers currently receive, on a monthly basis for customers  
7 over the age of 65 and on a quarterly basis for all other customers, a \$20 credit for  
8 water service or a \$40 credit for water and wastewater service. During the 2019 Test  
9 Year, 161 Monarch customers—including the systems transferred or pending transfer  
10 to Monarch—and 190 SouthWest customers in Texas received assistance through this  
11 program. The Water Assist program is company-funded and is not included in  
12 Monarch’s revenue requirement.

13 Another benefit available to certain water customers as a part of this rate filing  
14 is the expansion of the Income Qualified Elderly Customers program to now include  
15 customers who were not previously a part of Monarch.

#### 16 **VIII. STAFFING AND AFFILIATES**

17 **Q. PLEASE DISCUSS HOW MONARCH STAFFS ITS BUSINESS**  
18 **OPERATIONS.**

19 A. Monarch continues to invest in its people and systems with the goal of improving  
20 customer service. We recognize our duty to staff our business in a manner consistent  
21 with the provision of safe and adequate utility service. This requires a constant  
22 evaluation of the right mix of internal and contract labor, straight time versus  
23 overtime, training programs, and replacing labor with technology. In this vein, we

1 continue to evaluate costs and expenses going forward, always looking for the best  
2 solution for the unique and changing challenges we face.

3 A large portion of our costs is labor, and as a position becomes vacant in our  
4 organization, we look to the value of that position. We review the need for that  
5 position overall and consider whether it should be transferred to another area,  
6 modified, or eliminated. Cost control and improved business performance are the  
7 goals of these efforts. We continue to evaluate the new roles that will be created as  
8 new regulatory requirements are promulgated and the appropriate positions that  
9 Monarch will need to optimize new technology and most effectively serve our  
10 customers. The direct testimony of Edward Taussig provides additional detail  
11 regarding test year labor costs for Monarch operations and management.

12 **Q. PLEASE DISCUSS THE SUPPORT PROVIDED TO MONARCH BY**  
13 **SOUTHWEST.**

14 A. As Monarch's corporate parent, SouthWest provides many essential services on a  
15 more cost-efficient basis than were Monarch a standalone entity. Services provided  
16 by corporate include information technology, legal, finance, and executive leadership,  
17 among others. Please see the direct testimony of Mujeeb Hafeez for additional detail  
18 on corporate services, costs, and allocations.

19 **IX. OVERVIEW OF THE APPLICATION**

20 **Q. WHAT IS MONARCH'S OVERALL GOAL?**

21 A. Our goal is to provide quality water and wastewater services as efficiently as possible,  
22 with customer experience in mind, and by doing so, to increase the value of our  
23 services.

24 **Q. WHEN WERE MONARCH'S CURRENT RATES SET?**

1 A. The Commission approved Monarch's current rates in Docket No. 45570,<sup>15</sup> which  
2 were based on a test year of July 1, 2014 through June 30, 2015. In other words,  
3 Monarch's current rates were set based on its cost of service from approximately five  
4 years ago.

5 **Q. WHAT TEST YEAR IS MONARCH USING IN ITS CURRENT FILING?**

6 A. The Test Year used for the current rate application, January 1, 2019 through  
7 December 31, 2019, is four and a half years removed from Monarch's test year in its  
8 last general rate case.

9 **Q. WHY IS MONARCH FILING THIS RATE APPLICATION NOW?**

10 A. Monarch takes its obligation to meet customer needs and expectations very seriously,  
11 but providing those services is not without cost and not exempt from economic  
12 trends. In addition to capital projects to maintain, repair, and improve its systems,  
13 Monarch's operating expenses have experienced inflationary increases as well. It is  
14 not possible to meet customer expectations for service without timely recovery of  
15 these necessary expenditures. It is important that a utility file for rate relief when its  
16 ability to earn a fair rate of return is compromised. If a utility's ability to earn a fair  
17 rate of return is compromised, then its ability to invest in maintaining and improving  
18 the systems is impaired.

19 The best way to ensure that appropriate levels of capital investments are  
20 consistently and appropriately funded is through predictable and timely recovery of  
21 such investments, meaningful recognition of revenue trends, and the return on the  
22 capital devoted to serving our customers' needs. Timely cost recognition and

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<sup>15</sup> *Application of Monarch Utilities I L P. for Authority to Change Rates*, Docket No. 45570, Final Order (Aug. 21, 2017).

1 recovery of an appropriate revenue requirement in turn provides an incentive for  
2 continued capital infusion by investors who are called upon to put their capital at risk.  
3 Investor willingness to commit capital to the Company will result in a stronger and  
4 more reliable water system for both current and future customers.

5 A financially healthy utility focused on efficiency and customer service is able  
6 to attract the capital investments necessary to provide safe and reliable service, and  
7 maintain the technological expertise necessary to comply with increasing water  
8 quality standards. We are very mindful that controlling operating expenses can allow  
9 an eight-fold ability to invest capital without affecting customers' rates. Since the last  
10 test year, operating expenses have increased by a compound annual growth rate in  
11 line with the consumer price index. More importantly, control of operating expenses  
12 mitigates rate increases for Monarch customers. Monarch's financial health is in our  
13 customers' interest, as it helps ensure our ability to provide safe and reliable service  
14 at the lowest reasonable cost, supports more consistent planning and efficient  
15 deployment of resources, and contributes to economic and employment stability.

16 **Q. PLEASE SUMMARIZE MONARCH'S REQUESTS IN THIS PROCEEDING.**

17 A. Monarch makes the following requests as part of its application:

- 18 • To increase water revenues by 9.80% relative to the adjusted 2019 test year;
- 19 • To increase wastewater revenues by 14.28% relative to the adjusted 2019 test  
20 year;
- 21 • To consolidate Monarch's tariffs and rate schedules through phase-ins over  
22 varying periods up to ten years;
- 23 • To implement a new purchased water pass-through mechanism;
- 24 • To implement a system improvement charge mechanism;

- 1 • To cease monthly refunds related to the Tax Cut and Jobs Act;
- 2 • To be authorized to earn a 8.32% return on rate base based on a debt to equity
- 3 ratio of 45/55 capital structure, with a 10% return on equity;
- 4 • To add language to Monarch’s tariff regarding pretreatment of wastewater;
- 5 • A rate base determination of \$105,182,326;
- 6 • Inclusion in rate base of an allocated amount of SouthWest’s corporate rate base;
- 7 • Inclusion in rate base of the December 31, 2019 CWIP balance of capital projects
- 8 completed as of May 30, 2020;
- 9 • To “clean up” the language in its tariffs through minor changes to its tariff
- 10 language; and
- 11 • To recover reasonable and necessary rate case expenses for the instant filing.

12 Monarch proposes each of the above requests in this application with the intent to  
13 reach the goal shared by Monarch and the Commission: balancing benefits to  
14 customers and cost recovery for the utility.

15 **Q. IS MONARCH REQUESTING IN THIS APPLICATION TO RECOVER ITS**  
16 **ACTUAL COST OF SERVICE FOR THE TEST YEAR?**

17 A. Yes. In its last general rate case application, Monarch requested to recover less than  
18 its full cost of service, the difference between its actual cost of service and requested  
19 cost of service being referred to as “forgone revenue” or “revenue held in abeyance.”  
20 In its current filing, Monarch is not requesting recovery of any of that “forgone  
21 revenue” and is requesting only its actual cost of service.

22 **Q. IS MONARCH SEEKING A RATE BASE DETERMINATION IN THIS**  
23 **PROCEEDING?**

24 A. Yes.

1 **Q. PLEASE SUMMARIZE MONARCH'S RATE BASE.**

2 A. In its last proceeding, the Commission determined Monarch's rate base as of June 30,  
3 2015 to be \$82,005,713. Since that date, Monarch has invested additional capital into  
4 infrastructure improvements. Monarch has also added the assets of seven systems  
5 (three by asset acquisition and four by intercompany transfer). In total, Monarch's  
6 requested rate base is \$105,182,326. This amount is supported by Commission  
7 precedent, supporting documentation (e.g., invoices), and via trending by  
8 Replacement Cost New Less Depreciation studies. Additional description of the  
9 components of Monarch's invested capital can be found in the direct testimonies of  
10 Brian Bahr, George Freitag, Tim Williford, and Terry Benton.

11 **Q. IS MONARCH SEEKING TO MAKE REVISIONS TO ANY OF THE**  
12 **SERVICE PROVISIONS IN ITS TARIFF?**

13 A. Yes. George Freitag addresses these revisions in his testimony.

14 **Q. DOES MONARCH SERVE CUSTOMERS INSIDE THE MUNICIPAL**  
15 **LIMITS OF ANY CITY?**

16 A. Yes. Monarch serves customers within the cities of Bulverde, Ivanhoe, Kyle, Buda,  
17 Coffee City, Keene, Aurora, Flower Mound, New Fairview, Point Blank, Sheppard,  
18 Willis, and Payne Springs.

19 **Q. DOES MONARCH SEEK TO CHANGE RATES FOR CUSTOMERS INSIDE**  
20 **THOSE CITIES?**

21 A. Yes. Monarch is filing applications for a rate change in eight of the 13 cities. Two of  
22 the remaining cities have ceded original rate jurisdiction to the Commission, and the  
23 remaining three cities have existing rate agreements in effect.

24 **Q. WHAT IS MONARCH'S PROPOSED CAPITAL STRUCTURE?**



1 A. Monarch's proposed capital structure is 45% debt and 55% equity. Please see the  
2 direct testimony of Bruce Fairchild for a complete analysis of Monarch's proposed  
3 capital structure.

4 **Q. WHAT IS MONARCH'S PROPOSED RETURN ON EQUITY?**

5 A. Monarch's proposed return on equity is 10%. Bruce Fairchild provides detailed  
6 testimony on Monarch's cost of capital and requested return.

7 **Q. HAS MONARCH COMPLETED A DEPRECIATION STUDY?**

8 A. Yes. Please see the direct testimony of Dane Watson for details of the depreciation  
9 study performed for Monarch's assets.

10 **Q. IS MONARCH REQUESTING THE RECOVERY OF RATE CASE**  
11 **EXPENSES ASSOCIATED WITH THE PREPARATION AND PROCESSING**  
12 **OF THIS RATE APPLICATION AT THE COMMISSION?**

13 A. Yes. Please see the direct testimony of Lambeth Townsend for details of the rate case  
14 expenses associated with preparing and processing this application, and reasonable  
15 estimates associated with completing this process.

16 Monarch is very aware of the cost involved to process a rate case—we believe  
17 that our consolidation of utility assets into Monarch, along with use of an approved  
18 System Improvement Charge, reduces regulatory lag and creates incentives for  
19 acquisition of troubled systems, all of which serve to reduce the number of rate case  
20 filings and extend the time period between rate cases.

21 **Q. IS MONARCH PROPOSING ANY SPECIFIC METHODS TO MITIGATE**  
22 **POTENTIAL RATE SHOCK?**

1 A. Yes. Please see the direct testimony of Brian Bahr for details on Monarch's phased in  
2 approach to move customers from current to single tariff rates over various time  
3 periods.

4 **X. CONCLUSION**

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 A. Yes.

<u>Witness</u>	<u>Affiliation</u>	<u>Area Of Testimony</u>
Jeffrey L. McIntyre	Monarch—Texas Utilities	Ownership Structure, Overview Of Filing, Regulatory Compliance, Customer Service, Drivers of Rate Increase, COVID-19 Response, Value of Water
Brian D. Bahr	Monarch—Texas Utilities	Cost of Service, Rate Base, System Improvement Charge, Acquisitions and Transfers, Purchased Water Pass-Through
George Freitag, P.E.	Monarch—Texas Utilities	Requested Rates, Design Of Consolidated Rates, Proposed Phase-In Of Rate Increases, Tariff Changes, Trending of Plant, Used and Useful Plant
Mujeeb Hafeez	Monarch—Texas Utilities	Corporate Organization, Costs and Allocations
Jeff Farney	SouthWest Water Company	Corporate Rate Base
Edward Taussig	Monarch—Texas Utilities	Field Operations, Business Operations Costs and Allocations, Labor, Payroll
Terry Benton	Monarch—Texas Utilities	Gross Plant Additions
Timothy J. Williford	Monarch—Texas Utilities	Compliance With State and Federal Regulations For Drinking Water, Gross Plant Additions

Victoria R. Shupak	SouthWest Water Company	Tax Cuts and Jobs Act of 2017, Income Tax Expense, Contributions in Aid of Construction
Bruce Fairchild	Financial Concepts & Applications, Inc.	Cost of Capital, Capital Structure
Dane Watson	Alliance Consulting Group	Depreciation
Lambeth Townsend	Lloyd Gosselink Rochelle & Townsend, P.C.	Rate Case Expense

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Bahr, Brian	Schedule II-A-2.1(W) Statement of Income - Water - per Book
Bahr, Brian	Schedule II-A-2.1(S) Statement of Income - Wastewater - per Book
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Bahr, Brian	Schedule II-A-3 Balance Sheet
Bahr, Brian	Schedule II-A-3.1 Comparative Balance Sheet
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Bahr, Brian	Schedule II-A-3.3 Special Cash Accounts
Bahr, Brian	Schedule II-A-3.5 Uncollectible Accounts
Bahr, Brian	Schedule II-A-3.6 Prepayments
Bahr, Brian	Schedule II-A-3.7 Significant Assets
Bahr, Brian	Schedule II-A-3.8 Deferred Asset Accounts
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Bahr, Brian	Schedule II-B (W) Rate Base Summary - Water
Bahr, Brian	Schedule II-B (S) Rate Base Summary - Wastewater
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Bahr, Brian	Schedule II-B-4 Plant Held for Future Use
Bahr, Brian	Schedule II-B-5 Accumulated Provision Balances
Bahr, Brian	Schedule II-B-6 Materials and Supplies - 13-Month Average
Bahr, Brian	Schedule II-B-6.a Materials and Supplies - Inventory Valuation Method
Bahr, Brian	Schedule II-B-6.b Materials and Supplies - Model Used to calculate needed material and supply level
Bahr, Brian	Schedule II-B-7.a-g Working Capital
Bahr, Brian	Schedule II-B-7.h(W) Cash Working Capital - Water
Bahr, Brian	Schedule II-B-7.h(S) Cash Working Capital - Wastewater
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Bahr, Brian	Schedule II-B-11 Regulatory Assets
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Bahr, Brian	Schedule II-C-8 Financial Tests and Ratios
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Bahr, Brian	Schedule II-D-3.2 Contribution and Donation Expense
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Bahr, Brian	Schedule II-E-4.2 Below the Line Expenses
Bahr, Brian	Schedule II-E-4.3 Nonrecurring or Extraordinary Expenses
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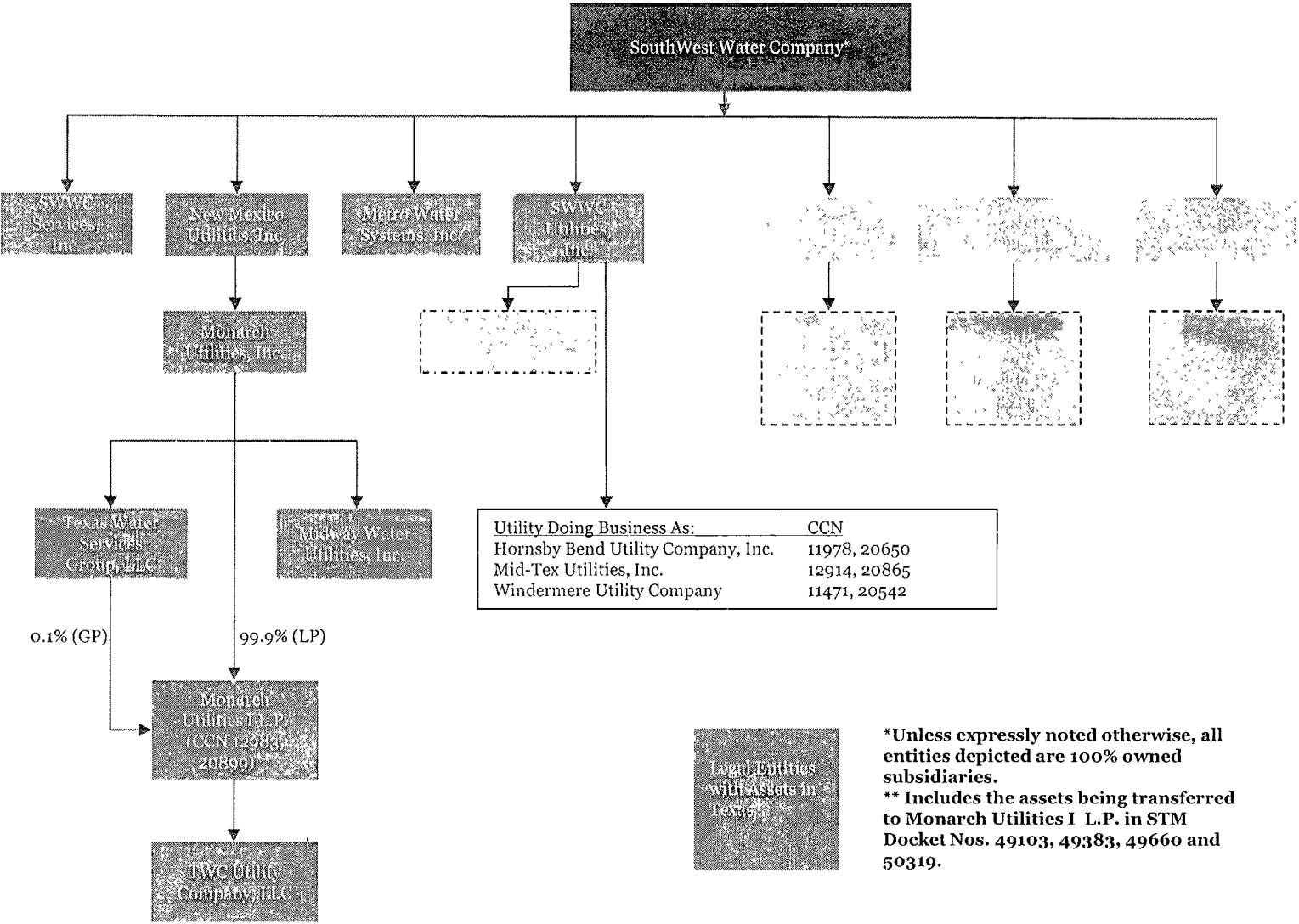


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Sponsor	Schedule Description
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Watson, Dane	Schedule II-E-1(SH) Depreciation Expense - Shared Operations
Watson, Dane	Schedule II-E-1.1 Depreciation Methods
Watson, Dane	Schedule II-E-1.2 Changes in Depreciation Methods
Watson, Dane	Schedule II-E-1.4(W) Depreciation Studies Water
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Legal Entities  
with Assets in  
Texas

\*Unless expressly noted otherwise, all entities depicted are 100% owned subsidiaries.  
\*\* Includes the assets being transferred to Monarch Utilities I L.P. in STM Docket Nos. 49103, 49383, 49660 and 50319.

**PUC DOCKET NO. 50994**

<b>APPLICATION OF MONARCH</b>	<b>§</b>	<b>PUBLIC UTILITY COMMISSION</b>
<b>UTILITIES I L.P. FOR AUTHORITY TO</b>	<b>§</b>	
<b>CHANGE RATES</b>	<b>§</b>	<b>OF TEXAS</b>

**DIRECT TESTIMONY**

**OF**

**BRIAN D. BAHR**

**ON BEHALF OF**

**MONARCH UTILITIES I L.P.**

**JULY 15, 2020**

**DIRECT TESTIMONY OF  
BRIAN D. BAHR**

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PUC DOCKET NO. 50994

APPLICATION OF MONARCH § PUBLIC UTILITY COMMISSION  
UTILITIES I L.P. FOR AUTHORITY TO §  
CHANGE RATES § OF TEXAS

DIRECT TESTIMONY OF  
BRIAN D. BAHR

I. INTRODUCTION

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

3 A. My name is Brian D. Bahr. My business address is 1325 N. Grand Avenue, Suite  
4 100, Covina, California 91724.

5 Q. FOR WHOM DO YOU WORK AND IN WHAT CAPACITY?

6 A. I work for Monarch Utilities I L.P. (“Monarch”) as Director of Regulatory Affairs.  
7 Monarch is owned by SouthWest Water Company (“SouthWest”).

8 Q. BRIEFLY DESCRIBE YOUR PRESENT EMPLOYMENT.

9 A. My present responsibilities generally consist of preparing and managing regulatory  
10 filings for the Texas Utilities Business Unit. In addition, as necessary, I provide  
11 regulatory support to other SouthWest subsidiaries in Oregon and the Southeast.

12 Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL  
13 BACKGROUND.

14 A. My professional and educational experience encompasses functions including  
15 accountancy, audit, analysis, regulation, and management. I graduated from Brigham  
16 Young University with a Bachelor of Arts in Accountancy and later earned the  
17 Certificate of Public Management from Willamette University. I received a Master of  
18 Business Administration from the University of La Verne with an emphasis in  
19 Finance. I also hold Grade II certifications as a Water Distribution Operator and



1 Water Treatment Operator in the State of California. Prior to joining SouthWest, I  
2 was employed by the Oregon Public Utility Commission as a Senior Utility Analyst.  
3 I also gained experience earlier in my career working in the audit and assurance  
4 practice of PricewaterhouseCoopers LLP in the field of alternative investments.

5 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THIS**  
6 **COMMISSION?**

7 A. Yes. I provided testimony in the general rate case of SWWC Utilities, Inc. DBA  
8 Water Services, Inc., Docket No. 47736.<sup>1</sup>

9 **II. PURPOSE OF DIRECT TESTIMONY**

10 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

11 A. I am testifying on behalf of Monarch.

12 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
13 **PROCEEDING?**

14 A. The purpose of my direct testimony in this proceeding is to discuss Monarch's  
15 requested revenue requirement and adjustments to Monarch's recorded 2019 test  
16 year, summarize Monarch's requested rate base, describe Monarch's proposed  
17 System Improvement Charge ("SIC") mechanism, explain Monarch's proposed  
18 purchased water pass-through ("PWP") mechanism, and support Monarch's rate case  
19 expenses (excluding external legal and external expert witness costs, descriptions of  
20 which can be found in the direct testimony of Lambeth Townsend).

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<sup>1</sup> *Application of SWWC Utilities, Inc. DBA Water Services, Inc for Authority to Change Rates*, Docket No. 47736, Final Order (Oct. 16, 2019).

1 Q. WAS THIS MATERIAL PREPARED BY YOU OR UNDER YOUR  
2 SUPERVISION?

3 A. Yes, it was.

4 Q. INsofar AS THIS MATERIAL IS FACTUAL IN NATURE, DO YOU  
5 BELIEVE IT TO BE CORRECT?

6 A. Yes, I do.

7 Q. INsofar AS THIS MATERIAL IS IN THE NATURE OF OPINION OR  
8 JUDGMENT, DOES IT REPRESENT YOUR BEST JUDGMENT?

9 A. Yes, it does.

10 Q. WHAT SCHEDULES IN THE RATE FILING PACKAGE ARE YOU  
11 SPONSORING?

12 A. A list of schedules I sponsor is included in the testimony of Jeffrey L. McIntyre.

13 **III. REVENUE REQUIREMENT**

14 Q. WHAT TEST YEAR DID MONARCH USE FOR THIS FILING?

15 A. The Public Utility Commission of Texas (“Commission”) rules at 16 Tex. Admin.  
16 Code (“TAC”) § 24.3(37) define “Test Year” as the “most recent 12-month period,  
17 beginning on the first day of a calendar or fiscal year quarter, for which operating  
18 data for a retail public utility are available.” Monarch’s requested revenue  
19 requirement is based on amounts recorded for the 2019 calendar year, which, after  
20 normalizing and pro forma adjustments, is an appropriate representation of  
21 Monarch’s cost of service during that period.

22 Q. WHAT IS MONARCH’S REQUESTED REVENUE REQUIREMENT?

1 A. Monarch’s requested revenue requirement for water is \$36,276,849. Its requested  
2 revenue requirement for wastewater is \$5,181,507. The components of Monarch’s  
3 requested revenue requirement are detailed in the Revenue Requirement Model  
4 included with the filing, and summarized in Schedules II-A.

5 Consistent with standard ratemaking protocol in Texas, Monarch’s requested  
6 revenues are based on its historical 2019 test year cost of service after normalization  
7 and pro forma adjustments. The general components of cost of service include  
8 operating expenses, allocated corporate overhead, depreciation on infrastructure,  
9 taxes, and a return on rate base. Details of each of these are found in the Revenue  
10 Requirement Model schedules and supporting workpapers, as well as discussed  
11 generally by expert witnesses providing direct testimony on behalf of Monarch in the  
12 instant case.

13 **IV. NORMALIZATION AND PRO FORMA ADJUSTMENTS**

14 **Q. WHAT ARE “NORMALIZING” ADJUSTMENTS?**

15 A. Generally, a utility’s recorded test year costs represent its cost of service used to set  
16 rates. However, certain test year expenses are disallowed by statute from being  
17 included for recovery in rates. Additionally, certain expenses were incurred during  
18 the 2019 test year that are not expected to occur regularly going forward and are  
19 therefore removed from Monarch’s requested revenue requirement.

20 **Q. PLEASE IDENTIFY THE NORMALIZATION ADJUSTMENTS MONARCH**  
21 **MADE TO ITS RECORDED 2019 TEST YEAR BALANCES.**

22 A. A list of test year normalization and pro forma adjustments is included in Schedules  
23 II-D-1.2(W), II-D-1.2(S), and II-D-1.2(SH) of the rate filing package as well as in the  
24 table below. Note that those adjustments listed as “shared” were allocated between

1 the respective water and wastewater revenue requirements using the allocation  
 2 methodology described in the direct testimony of Edward Taussig.

3 **Table 1—Normalization Adjustments to 2019 Test Year**

<u>Function</u>	<u>Acct #</u>	<u>Acct</u>	<u>Amount</u>	<u>Description</u>
Water	601	Salaries and Wages - Employees	\$13,198	Annualize Inverness Point O&M
Water	610	Purchased Water	\$16,327	Annualize Inverness Point O&M
Water	615	Purchased Power	\$2,310	Annualize SW Utility O&M
Water	615	Purchased Power	\$20,188	Annualize Inverness Point O&M
Water	615	Purchased Power	(\$2,029)	Eliminate Aero Valley O&M
Water	618	Chemicals	\$8,837	Annualize Inverness Point O&M
Water	620	Materials and Supplies	\$404	Annualize SW Utility O&M
Water	620	Materials and Supplies	\$77,187	Annualize Inverness Point O&M
Water	620	Materials and Supplies	(\$24,935)	Eliminate Aero Valley O&M
Water	633	Contractual Services - Legal	\$1,007	Annualize SW Utility O&M
Water	633	Contractual Services - Legal	\$1,007	Annualize Inverness Point O&M
Water	635	Contractual Services - Testing	\$897	Annualize SW Utility O&M
Water	635	Contractual Services - Testing	\$5,362	Annualize Inverness Point O&M

<u>Function</u>	<u>Acct #</u>	<u>Acct</u>	<u>Amount</u>	<u>Description</u>
Water	635	Contractual Services - Testing	(\$1,282)	Eliminate Aero Valley O&M
Water	636	Contractual Services - Other	\$2,601	Annualize SW Utility O&M
Water	636	Contractual Services - Other	\$10,945	Annualize Inverness Point O&M
Water	636	Contractual Services - Other	(\$150)	Eliminate Aero Valley O&M
Water	642	Rental of Equipment	\$1,052	Annualize Inverness Point O&M
Water	670	Bad Debt Expense	(\$546)	Annualize SW Utility O&M
Water	670	Bad Debt Expense	\$135	Annualize Inverness Point O&M
Water	675	Miscellaneous Expenses	\$26,688	Normalize SW Utility
Water	675	Miscellaneous Expenses	\$74,252	Normalize Inverness Point
Water	675	Miscellaneous Expenses	(\$480)	Eliminate - Fines & Penalties
Water	675	Miscellaneous Expenses	(\$6,795)	Allocation of Corp OH Assessment
Water	675	Miscellaneous Expenses	(\$130)	Eliminate Accretion Expense Monarch- Asset Ret. Oblig.
Water	675	Miscellaneous Expenses	(\$4,431)	Eliminate Corp Depreciation Allocation
Water	675	Miscellaneous Expenses	(\$24,521)	Eliminate Advertising

<u>Function</u>	<u>Acct #</u>	<u>Acct</u>	<u>Amount</u>	<u>Description</u>
Water	675	Miscellaneous Expenses	(\$91,346)	Eliminate Lobbying Expense
Water	675	Miscellaneous Expenses	(\$14,669)	Eliminate - Lobbying Expense Water Services
Wastewater	775	Miscellaneous Expenses	(\$3,986)	Eliminate - Advertising
Wastewater	775	Miscellaneous Expenses	(\$14,965)	Eliminate - Lobbying Expense
Shared	620	Materials and Supplies	\$134,072	IT Maintenance Allocation
Shared	675	Miscellaneous Expenses	(\$110,540)	Eliminate Accretion Expense Monarch-Asset Retirement Obligation
Shared	675	Miscellaneous Expenses	(\$407,389)	Adjust Depreciation for Assets incl. in Parent Company rate base
Shared	675	Miscellaneous Expenses	(\$856,124)	Allocation of Corp OH Assessment
Shared	675	Miscellaneous Expenses	\$447,127	Corp Depreciation

1 **Q. WHAT ARE “PRO FORMA” ADJUSTMENTS?**

2 A. Pro forma adjustments are also commonly referred to as “Known and Measurable”  
3 adjustments, which are widely known as changes that are verifiable on the record as  
4 to amount and certainty of effectuation, are reasonably certain to occur within 12  
5 months of the end of the test year. Commission rules at 16 TAC § 24.41(b) allow  
6 known and measurable changes to allowable expenses. Commission rules at 16 TAC  
7 § 24.41(c)(5) allow for qualifying known and measurable additions to rate base.

1 Q. PLEASE IDENTIFY THE PRO FORMA ADJUSTMENTS MONARCH MADE  
 2 TO ITS RECORDED 2019 TEST YEAR BALANCES.

3 A. A list of test year pro forma adjustments is provided in the table below. Similar to the  
 4 normalization adjustments, those adjustments listed as “shared” were allocated  
 5 between the respective water and wastewater revenue requirements using the  
 6 allocation methodology described in the direct testimony of Edward Taussig.

7 **Table 2—Known and Measurable Adjustments to 2019 Test Year**

<u>Function</u>	<u>Acct #</u>	<u>Acct</u>	<u>Amount</u>	<u>Description</u>
Water	601	Salaries and Wages - Employees	\$4,039	STM Transfer Ni Texas
Water	601	Salaries and Wages - Employees	\$6,051	STM Transfer Water Services
Water	610	Purchased Water	\$17,740	STM Transfer Ni Texas
Water	610	Purchased Water	\$233,889	STM Transfer Water Services
Water	615	Purchased Power	\$58,356	STM Transfer Ni Texas
Water	615	Purchased Power	\$190,314	STM Transfer Water Services
Water	618	Chemicals	\$10,947	STM Transfer Ni Texas
Water	618	Chemicals	\$45,714	STM Transfer Water Services
Water	620	Materials and Supplies	\$63,804	STM Transfer Ni Texas
Water	620	Materials and Supplies	\$111,592	STM Transfer Water Services

<u>Function</u>	<u>Acct #</u>	<u>Acct</u>	<u>Amount</u>	<u>Description</u>
Water	633	Contractual Services - Legal	\$300	STM Transfer Ni Texas
Water	633	Contractual Services - Legal	\$14,568	STM Transfer Water Services
Water	635	Contractual Services - Testing	\$12,751	STM Transfer Ni Texas
Water	635	Contractual Services - Testing	\$53,495	STM Transfer Water Services
Water	636	Contractual Services - Other	\$34,908	STM Transfer Ni Texas
Water	636	Contractual Services - Other	\$143,074	STM Transfer Water Services
Water	642	Rental of Equipment	\$327	STM Transfer Water Services
Water	650	Transportation Expenses	(\$55,012)	STM Transfer Water Services
Water	659	Insurance - Other	\$109	STM Transfer Water Services
Water	667	Regulatory Commission Expenses- Other	\$54,072	STM Transfer Water Services
Water	667	Regulatory Commission Expenses- Other	(\$54,072)	Eliminate Water Services Rate Case Expenses
Water	670	Bad Debt Expense	\$17,184	STM Transfer Ni Texas
Water	670	Bad Debt Expense	\$9,286	STM Transfer Water Services
Water	675	Miscellaneous Expenses	\$534,549	STM Transfer Ni Texas



<u>Function</u>	<u>Acct #</u>	<u>Acct</u>	<u>Amount</u>	<u>Description</u>
Water	675	Miscellaneous Expenses	\$2,221,459	STM Transfer Water Services
Water	675	Miscellaneous Expenses	(\$3,007)	Eliminate Accretion Expense - Ni Asset Ret. Oblig.
Water	675	Miscellaneous Expenses	(\$4,406)	Eliminate - Ni Lobbying Exp'
Water	675	Miscellaneous Expenses	(\$20,483)	Eliminate Accretion Exp.-Wtr Svcs Asset Ret Oblig.
Water	675	Miscellaneous Expenses	(\$169,296)	Allocation of Corp OH Assessment
Water	675	Miscellaneous Expenses	(\$75,318)	Eliminate Corp Depreciation Allocation
Water	675	Miscellaneous Expenses	(\$5,350)	Eliminate Advertising
Shared	601	Salaries and Wages - Employees	\$649,770	Payroll and Related Cost Adjustments
Shared	604	Employee Pensions and Benefits	\$204,138	Payroll and Related Cost Adjustments
Shared	636	Contractual Services - Other	(\$51,154)	Payroll and Related Cost Adjustments
Shared	656	Insurance - Vehicle	\$17,688	Increase in Vehicle Insurance
Shared	657	Insurance - General Liability	\$11,348	Increase in General Liability Insurance
Shared	658	Insurance - Workman's Compensation	\$4,031	Increase in Workman's Compensation Insurance

<u>Function</u>	<u>Acct #</u>	<u>Acct</u>	<u>Amount</u>	<u>Description</u>
Shared	659	Insurance - Other	\$71,937	Increase in Other Insurance
Shared	675	Miscellaneous Expenses	(\$3,000)	Reverse Pflugerville Chamber of Commerce Dues
Shared	675	Miscellaneous Expenses	\$25,000	Dues Texas Water Association
Shared	675	Miscellaneous Expenses	(\$142,990)	Allocation of Corp OH Assessment

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**V. RATE BASE SUMMARY**

**Q. WHAT WAS MONARCH’S RATE BASE AS OF DECEMBER 31, 2019?**

A. Monarch’s rate base as of December 31, 2019 was \$105,182,326.

**Q. WHAT ARE THE MAJOR COMPONENTS OF MONARCH’S RATE BASE?**

A. Consistent with standard ratemaking protocol in Texas, Monarch’s rate base is comprised of Gross Plant in Service, Accumulated Deferred Taxes, Working Cash, and a portion of Construction Work in Progress (“CWIP”). Working Capital is \$1,441,199, which is the result of Monarch’s lead/lag study performed for the test year. The amount of CWIP included is \$1,486,395, which is discussed more fully further below in my direct testimony. Accumulated deferred taxes (“ADFIT”) are included in the amount of \$831,540 and excess deferred taxes of \$407,802; both these amounts are discussed in the direct testimony of Victoria R. Shupak. Monarch has also included an allocated portion of its corporate rate base, \$1,574,893, which is discussed in the testimony of Mujeeb Hafeez and Jeffrey Farney. Net Plant in Service is \$111,576,840, which is calculated as the difference between Monarch’s

1 Gross Plant in Service of \$180,936,554 and the Accumulated Depreciation balance of  
2 \$69,359,714.

3 **Table 3—Rate Base Summary**

<b><u>Component</u></b>	<b><u>Amount</u></b>
Gross Plant in Service	\$180,936,554
Accumulated Depreciation	(\$69,359,714)
CWIP	\$1,486,395
Parent Company Rate Base	\$1,575,128
ADFIT (including excess ADFIT)	(\$1,239,342)
Materials & Supplies	\$383,585
Prepayments	\$236,422
Working Cash	\$1,441,199
Other Rate Base Items	(\$10,277,901)
<b>TOTAL RATE BASE</b>	<b>\$105,182,326</b>

4 **Q. HOW IS THE ORIGINAL COST OF MONARCH'S GROSS PLANT IN**  
5 **SERVICE SUPPORTED?**

6 A. Monarch's gross plant in service is supported in three ways: 1) a previous rate base  
7 determination by the Commission; 2) appropriate documentation of original cost,  
8 including relevant invoices, contracts, and/or work orders; and 3) trending analysis  
9 applied to a Replacement Cost New Less Depreciation ("RCNLD") study. A  
10 summary of the support for Monarch's Gross Plant in Service is shown in the table  
11 below.

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**Table 2—Gross Plant in Service Support**

<b><u>Support</u></b>	<b><u>Amount</u></b>	<b><u>Percentage</u></b>
Prior Commission Determination (Docket No. 45570)	\$128,166,141	70.8%
Prior Commission Determination (Docket No. 47736)	\$18,925,134	10.5%
Invoices, Contracts, & Work Orders	\$33,476,010	18.5%
Trended RCNLD Studies	\$369,269	0.2%
<b>TOTAL</b>	<b>\$180,936,554</b>	<b>100%</b>

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The Gross Plant in Service supported by invoices, contracts, and work orders for projects with investment greater than \$50,000 is discussed in the direct testimonies of Timothy Williford and Terry Benton. The Gross Plant in Service supported by trended RCNLD studies is discussed in the testimony of George Freitag. The Gross Plant in Service previously approved by Commission order can be reconciled to Monarch’s previous general rate case, Docket No. 45570,<sup>2</sup> and the previous general rate case of SWWC Utilities, Inc. dba Water Services, Inc., Docket No. 47736.

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**Q. PLEASE CLARIFY WHAT AMOUNT OF CWIP MONARCH IS REQUESTING BE INCLUDED IN RATE BASE.**

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A. As noted above, Monarch has included in its requested rate base the portion of its December 31, 2019 CWIP balance that relates to major projects that have already currently have been completed. Descriptions of the projects that are greater than \$50,000 are included in the direct testimonies of Timothy Williford and Terry Benton. Note that Monarch is not requesting the full amount of these projects, as that would be considered a known and measurable adjustment subject to the Commission rule requiring known and measurable adjustments to rate base must be at least 10% of

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<sup>2</sup> *Application of Monarch Utilities I L.P. for Authority to Change Rates*, Docket No. 45570, Final Order (Aug. 21, 2017).

1 total rate base.<sup>3</sup> Rather, Monarch is including only the CWIP balance as of December  
2 31, 2019, which is subject to the rule requiring included CWIP be reasonably and  
3 prudently planned and necessary for the financial integrity of the utility.<sup>4</sup>

4 **Q. ARE THE CAPITAL PROJECTS FOR WHICH CWIP IS INCLUDED**  
5 **NECESSARY FOR THE FINANCIAL INTEGRITY OF THE UTILITY?**

6 A. Yes. One of the meanings of the word “integrity” is “the state of being whole.”  
7 Disallowing Monarch’s test year CWIP balance related to major projects already in  
8 service would fundamentally be a detriment to Monarch’s ability to be made whole in  
9 terms of matching revenues with expenses, the use of a test year, and Monarch’s  
10 ability to earn its Commission-approved return.

11 Additionally, financial integrity in a regulatory setting references a utility’s  
12 ability to maintain its credit and attract capital on reasonable terms. Having financial  
13 integrity allows a utility to finance, on reasonable terms, the improvements necessary  
14 to maintain its systems in order to provide safe, reliable service to customers.  
15 Revenues should be sufficient to recover operating costs as well as the cost of debt  
16 and equity used to finance the utility’s rate base.<sup>5</sup>

17 The projects that the December 31, 2019 CWIP balance is included in rate  
18 base have already been completed by the utility and are in use and providing service  
19 to customers. Costs for these projects have already been expended by Monarch. By  
20 disallowing those costs already incurred as of the end of the test year, the  
21 Commission would necessarily be disallowing prudently incurred test year costs,

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<sup>3</sup> 16 TAC § 24.41(c)(5).

<sup>4</sup> 16 TAC § 24.41(c)(4).

<sup>5</sup> Please see direct testimony of Bruce Fairchild for discussion of Monarch’s cost of capital.

1 which is contrary to standard ratemaking and accounting guidelines of matching  
2 revenues and costs.

3 Additionally, by disallowing these costs, the Commission would detrimentally  
4 affect Monarch's rate of return, as approved by the Commission. Given that capital  
5 improvements are an immediate drag on a utility's earned return until included in  
6 rates, any decision the Commission makes regarding Monarch's approved rate of  
7 return would already be inherently less than what the Commission approves due to  
8 Monarch's capital expenditures incurred during the test year and not included in rates.  
9 Therefore, disallowing the test year CWIP balance for major projects already in  
10 service would be detrimental to Monarch's financial integrity.

11 **Q. ARE THE ASSETS INCLUDED IN PLANT IN SERVICE USED AND**  
12 **USEFUL IN SERVING CUSTOMERS?**

13 A. Yes. Please see the direct testimony of George Freitag regarding the used and useful  
14 status of assets included in plant in service.

15 **VI. SYSTEM IMPROVEMENT CHARGE MECHANISM**

16 **Q. PLEASE SUMMARIZE THE NEED FOR A SIC MECHANISM FOR WATER**  
17 **AND WASTEWATER UTILITIES IN TEXAS.**

18 A. Currently, when a water or wastewater utility in Texas invests in the infrastructure of  
19 its systems, the utility may not begin recovering its investment until approved through  
20 a general rate case. Not only is recovery delayed, but the depreciation expense  
21 incurred between the date the plant is placed in service and the date on which  
22 recovery of the expense is approved is never recovered by the utility. Additionally,  
23 the utility forgoes the opportunity to begin earning an appropriate return on its  
24 investment until new rates are approved through a general rate case. This lag

1 between the date costs are incurred and when those costs begin to be recovered  
2 disincentivizes utilities from making investments in their systems to ensure customers  
3 receive reliable, high-quality water.

4 **Q. DOES THE NATIONAL ASSOCIATION OF REGULATORY UTILITY**  
5 **COMMISSIONERS (“NARUC”) ENDORSE SIC MECHANISMS FOR USE**  
6 **BY WATER AND WASTEWATER UTILITIES?**

7 A. Yes. SIC mechanisms have been endorsed by NARUC since at least 2005 as a best  
8 practice for water utilities, as it promotes needed capital investment and cost-effective  
9 rates.<sup>6</sup> Approval of this mechanism also serves to promote consolidation and  
10 acquisition of small, non-functioning utilities as it will encourage acquiring utilities to  
11 invest in needed infrastructure improvements for the non-functioning utility and  
12 enable recovery of such investment in a more timely manner. Additionally,  
13 customers benefit from SIC mechanisms through three primary ways: 1) the ability  
14 for utilities to begin recovering investment costs more quickly serves to reduce the  
15 frequency of general rate cases, thereby reducing administrative costs ultimately  
16 borne by customers; 2) by decreasing the frequency of rate cases, the SIC mechanism  
17 will allow rates to increase more gradually and result in customers experiencing fewer  
18 instances of rate shock; and 3) incentivizing investment in utility assets improves  
19 resiliency, reliability, and quality of service.

20 **Q. HAVE OTHER STATES RECOGNIZED THE BENEFITS TO CUSTOMERS**  
21 **OF A SIC MECHANISM?**

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<sup>6</sup> <https://pubs.naruc.org/pub.cfm?id=539EEFF7-2354-D714-51C7-C73A90C9F445> and  
<https://pubs.naruc.org/pub/FA86A4CE-0F06-7899-27F8-D923A23EEAE4>

1 A. Yes. Based on research conducted by the National Association of Water Companies,  
2 at least 13 other states have currently adopted SIC mechanisms for water utilities.  
3 Monarch’s proposed SIC methodology follows, in part, the precedent set specifically  
4 by the Pennsylvania Public Utility Commission (“PPUC”). In a publication issued by  
5 the PPUC regarding system improvement charges, the PPUC encourages the use of a  
6 SIC to “accelerate the replacement of existing aging facilities.” In the same  
7 document, the PPUC states, “System improvement charges reduce the frequency and  
8 the associated costs of base rate cases while maintaining a high level of customer  
9 protections. System improvement charges are designed to provide ratepayers with  
10 improved service quality, greater rate stability, fewer main breaks, fewer service  
11 interruptions, increased safety, and lower levels of unaccounted for energy or  
12 wastewater. In light of today’s difficult financial markets, system improvement  
13 charges are the type of innovative regulatory policies expected as rating agencies  
14 tighten ratings benchmarks and are a key element in maintaining access to capital  
15 markets on reasonable terms.”<sup>7</sup>

16 **Q. PLEASE SUMMARIZE THE CHANGES MADE TO THE TEXAS WATER**  
17 **CODE IN 2019 RELATED TO SIC MECHANISMS.**

18 A. Senate Bill 700 was signed by the Texas governor on June 14, 2019. Senate Bill 700,  
19 in part, authorizes utilities to implement a SIC mechanism. As enrolled, it revises  
20 Section 13.183(c) of the Texas Water Code (“TWC”) to read:<sup>8</sup>

21 To ensure that retail customers receive a higher quality,  
22 more affordable, or more reliable water or sewer service, to  
23 encourage regionalization, or to maintain financially stable

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<sup>7</sup> [http://www.puc.state.pa.us/general/consumer\\_ed/pdf/DSIC\\_FS.pdf](http://www.puc.state.pa.us/general/consumer_ed/pdf/DSIC_FS.pdf)

<sup>8</sup> <https://legiscan.com/TX/text/SB700/2019>



1 and technically sound utilities, the regulatory authority, by  
2 rule or ordinance, as appropriate, may adopt specific  
3 alternative ratemaking methodologies for water or sewer  
4 rates to allow for more timely and efficient cost recovery.  
5 Appropriate alternative ratemaking methodologies are the  
6 introduction of new customer classes, the cash needs  
7 method, and phased and multi-step rate changes. The  
8 regulatory authority may also adopt system improvement  
9 charges that may be periodically adjusted to ensure timely  
10 recovery of infrastructure investment.<sup>9</sup>

11 **Q. HAS THE COMMISSION OPENED A RULEMAKING PROJECT TO**  
12 **ADDRESS RULE CHANGES RELATED TO SIC MECHANISMS?**

13 A. Yes. The Commission has opened Project No. 50322<sup>10</sup> to address alternative  
14 ratemaking mechanisms for water and wastewater utilities. Based on the schedule  
15 published May 20, 2020, in Project No. 49710, Implementation Activities, 86<sup>th</sup>  
16 Legislature (R.S.), strawman rules related to alternative ratemaking mechanisms are  
17 anticipated to be filed in July 2020, and publication of proposed rules anticipated  
18 August 13, 2020.<sup>11</sup>

19 **Q. IS MONARCH ALLOWED TO PROPOSE A SIC MECHANISM PRIOR TO**  
20 **THE ADOPTION OF RELATED ADMINISTRATIVE RULES BY THE**  
21 **COMMISSION?**

22 A. Yes. Monarch is allowed to include a SIC mechanism under TWC § 13.183(c); the  
23 Commission's pending administrative rules merely govern the procedural aspects of  
24 the mechanism. By way of precedent, following the legislative change allowing  
25 utilities to use Fair Market Value determinations to set rate base for an acquired

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<sup>9</sup> Tex. Water Code. Ann. § 13.183(c) (West 2008 and Supp. 2018) (underline added).

<sup>10</sup> *Alternative Ratemaking Mechanisms for Water and Sewer Utilities*, Project No. 50322 (pending).

<sup>11</sup> *Implementation Activities, 86<sup>th</sup> Legislature*, Project No. 49710, Updated Rulemaking Plan at 2 (May 20, 2020).

1 utility, SJWTX, Inc. D/B/A Canyon Lake Water Service Company filed a notice of  
2 Fair Market Value determination with the Commission on December 20, 2019, which  
3 was processed by the Commission even though rules had not yet been adopted by the  
4 Commission.<sup>12</sup>

5 **Q. PLEASE DESCRIBE MONARCH'S PROPOSED SIC MECHANISM.**

6 A. Consistent with TWC § 13.183(c), Monarch proposes to include a SIC mechanism in  
7 its tariffs that will allow Monarch to implement a surcharge in order to more timely  
8 recover costs incurred for system improvements. For Monarch's proposed tariff  
9 revision to include the SIC mechanism, please see Monarch's proposed tariff in the  
10 direct testimony of George Freitag. Under the SIC mechanism, Monarch may request  
11 recovery of costs incurred for improvements to its system outside of a general rate  
12 case. These costs would be recovered from customers by way of a SIC surcharge.  
13 The surcharge amount would be calculated on the basis of connection meter  
14 equivalents. Please note that Monarch is not requesting in this general rate case  
15 adoption of a SIC amount, but merely the approval of a SIC mechanism in its tariffs,  
16 which will allow Monarch to request a SIC amount at a future date.

17 **Q. IS MONARCH PROPOSING IN THE INSTANT PROCEEDING A RATE OF**  
18 **RETURN TO BE APPLICABLE TO ITS FUTURE REQUESTS UNDER ITS**  
19 **PROPOSED SIC MECHANISM?**

20 A. Yes. Monarch proposes that its rate of return approved by the Commission in the  
21 instant proceeding be used for future applications under its proposed SIC mechanism.

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<sup>12</sup> See *Notice of Intent to Determine Fair Market Value*, Project No. 49859, SJWTX, Inc. DBA Canyon Lake Water Service Company's Confidential Notice of Intent Letter in Compliance with Section 13.305 of the Texas Water Code with Cover Letter and Third Party Appraisal (Dec. 20, 2019)..

1 Please see the direct testimony of Bruce Fairchild for discussion of Monarch's  
2 requested rate of return.

3 **Q. WHAT CHECKS AND BALANCES ARE IN PLACE TO ENSURE THE SIC**  
4 **IS CONSISTENTLY USED FOR THE BENEFIT OF CUSTOMERS?**

5 A. As with any rate change by a utility, any surcharge Monarch proposes under its SIC  
6 mechanism will be thoroughly reviewed by Commission Staff to ensure that the  
7 calculations are accurate, the amount for recovery is appropriate, and the public  
8 interest is satisfied.

9 **VII. PURCHASED WATER PASS-THROUGH**

10 **Q. PLEASE DESCRIBE MONARCH'S CURRENT PURCHASED WATER**  
11 **PASS-THROUGH MECHANISM.**

12 A. Monarch's current purchased water pass-through mechanism was approved by the  
13 Commission in Docket No. 45570. The mechanism requires a true-up every 12  
14 months. The amount to be recovered annually is calculated as the projected annual  
15 purchased water and groundwater district cost increases, plus the amount of previous  
16 over- or under-collection, divided by the product of the year-end meter equivalents  
17 and the average annual usage per meter equivalent from Monarch's most recent  
18 general rate case.

19 **Q. WHY IS MONARCH PROPOSING A NEW PASS-THROUGH**  
20 **MECHANISM?**

21 A. Monarch's current pass-through mechanism includes cost projections and calculations  
22 of usage per meter equivalent in Monarch's last general rate case. Monarch believes  
23 the purpose of the mechanism, which is timely recovery of increases in purchased  
24 water costs and groundwater fees, can be accomplished through a simpler, more

1 accurate calculation. Additionally, Monarch expects the new pass-through will be  
2 easier to track, review, and administer. The proposed new pass-through mechanism  
3 will track Monarch's expenditures, dollar for dollar, and allow recovery of those  
4 expenses, dollar for dollar, without the use of a cost projection component. In this  
5 way, the new pass-through mechanism will function similarly to a balancing account  
6 in that only actual costs incurred will be tracked and recovered.

7 **Q. PLEASE DESCRIBE MONARCH'S PROPOSED NEW PURCHASED**  
8 **WATER PASS-THROUGH MECHANISM.**

9 A. The pass-through mechanism will track the difference in the actual cost of purchased  
10 water versus the cost of purchased water during the test year of Monarch's most  
11 recent general rate case. This difference will then be multiplied by the number of  
12 units (e.g., gallons) of water purchased by Monarch during the year to meet customer  
13 demand. This amount, in addition to any prior over- or under-recovery, will then be  
14 used to set a monthly customer gallonage pass-through rate for the year by dividing it  
15 by the total gallons sold during the same period in which the costs were incurred.

16 Consistent with 16 TAC § 24.25(b)(2)(D), a true-up will be filed annually that  
17 will allow any over- or under-collection to be rolled over into subsequent true-ups. It  
18 is anticipated Monarch will file in the first quarter of each year the true-up for the  
19 preceding calendar year's costs. In other words, a surcharge would be applied  
20 beginning in April and ending the following March to recover the incremental  
21 purchased water costs and groundwater fees incurred in the preceding January  
22 through December time period. In this way, Monarch avoids "pancaking" its  
23 surcharges on top of each other while also maintaining a consistent annual schedule  
24 of filings. For Monarch's proposed tariff revision to update its pass-through

1 mechanism, please see Monarch's proposed tariff in the direct testimony of George  
2 Freitag.

3 **Q. PLEASE DESCRIBE THE BENEFITS OF THE PROPOSED NEW**  
4 **PASS-THROUGH MECHANISM.**

5 A. The primary benefit of the proposed new pass-through mechanism is that it will be  
6 easier to implement, track, and review. The calculation is simple in that the  
7 mechanism tracks the difference in actual costs versus those approved in the most  
8 recent general rate case. Actual costs are supported by actual invoices, which can  
9 easily be reviewed by Commission Staff in true-up proceedings.

10 **Q. IS MONARCH ALSO PROPOSING CHANGES TO ITS EXISTING**  
11 **WASTEWATER PASS-THROUGH MECHANISM?**

12 A. Yes. Monarch has an approved wastewater treatment pass-through mechanism in its  
13 existing tariffs but has not sought in the past recovery of any costs under this  
14 mechanism. Monarch proposes to include in its tariffs a revised wastewater treatment  
15 pass-through mechanism with calculations substantially similar to those of the water  
16 pass-through mechanism. Please see the direct testimony of George Freitag for  
17 Monarch's proposed tariff, including the proposed mechanism language and  
18 calculation.

19 **VIII. RATE CASE EXPENSES**

20 **Q. WHAT ARE RATE CASE EXPENSES?**

21 A. Rate case expenses include costs incurred both internally and externally to prepare,  
22 process, and litigate this rate application. Internal costs include expenses such as  
23 travel, printing, copying, and postage. External costs include contracting external

1 witnesses and legal counsel. Please see the testimony of Lambeth Townsend for  
2 details of costs incurred by Monarch's external legal counsel and expert witnesses.

3 **Q. DOES MONARCH PROPOSE TO RECOVER AS PART OF THIS FILING**  
4 **ITS RATE CASE EXPENSES INCURRED?**

5 A. Yes, it does. Monarch seeks recovery of all reasonable rate case expenses incurred as  
6 part of the preparation, processing, and litigation of this case.

7 **Q. WHAT AMOUNT OF EXPENSES IS MONARCH PROPOSING TO**  
8 **RECOVER?**

9 A. As of May 30, 2020, Monarch has not recorded any internal rate case expenses.  
10 Additionally, Monarch reserves the right to request recovery of any internal rate case  
11 expenses to be recorded as this application is processed by the Commission.  
12 Monarch intends to supplement its application throughout the proceeding with  
13 updated rate case expenses.

14 **Q. HOW DOES MONARCH PROPOSE TO RECOVER FROM CUSTOMERS**  
15 **ITS RATE CASE EXPENSES?**

16 A. Monarch proposes to recover its rate case expenses by way of a surcharge to be  
17 applied on all customer bills for a period of 12 months or until all approved costs  
18 have been recovered, whichever is later.

19 **Q. HAS MONARCH PROVIDED THE INFORMATION REQUIRED BY 16 TAC**  
20 **§ 24.44(b)?**

21 A. Yes, it has. 16 TAC § 24.44(b) requires utilities seeking recovery of rate case  
22 expenses to submit information sufficiently detailing and itemizing all rate case  
23 expenses. Monarch is compliant with this requirement through this direct testimony.

1 Q. HOW SHOULD THE COMMISSION DETERMINE WHETHER  
2 MONARCH'S RATE CASE EXPENSES ARE REASONABLE AND  
3 NECESSARY?

4 A. Section 24.44(c) of the Commission's Substantive Rules identifies which factors  
5 should be considered in determining which rate cases expenses are reasonable and  
6 necessary. In summary, the Commission should evaluate the nature, extent, and  
7 difficulty of the work performed for which expenses are incurred and ensure that no  
8 costs deemed "excessive" should be approved for recovery.

9 Q. HAS MONARCH ENDEAVORED TO LIMIT INTERNAL RATE CASE  
10 EXPENSES IN THE PREPARATION OF THIS APPLICATION?

11 A. Yes, Monarch has endeavored to tightly control its costs throughout the preparation  
12 of this application and will continue to do so throughout the entirety of the  
13 proceeding. Any rate case expenses recorded after May 30, 2020 of which Monarch  
14 requests recovery will be only those determined to be reasonable and necessary in my  
15 professional opinion.

16 IX. CONCLUSION

17 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

18 A. Yes, it does.

**PUC DOCKET NO. 50994**

**APPLICATION OF MONARCH                    §        PUBLIC UTILITY COMMISSION  
UTILITIES I L.P. FOR AUTHORITY TO       §  
CHANGE RATES                                §    OF TEXAS**

**DIRECT TESTIMONY  
OF  
GEORGE FREITAG, P.E.**

**ON BEHALF OF  
MONARCH UTILITIES I L.P.**

**JULY 15, 2020**



**DIRECT TESTIMONY OF  
GEORGE FREITAG, P.E.**

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**ATTACHMENTS**

Attachment GF-1	TCEQ Certified Copy of Order, SOAH Docket No. 582-02-07 12, TCEQ Docket Nos. 2001-1079-UCR & 2001-1080-UCR, Application Nos. 33531 & 33532-R
Attachment GF-2	Certificate of Amendment of Monarch Utilities, Inc.
Attachment GF-3	Certificate of Filing of Monarch Utilities I L.P.
Attachment GF-4	Proposed Water Tariff (Clean & Redlined)
Attachment GF-5	Proposed Wastewater Tariff (Clean & Redlined)

PUC DOCKET NO. 50994

APPLICATION OF MONARCH § PUBLIC UTILITY COMMISSION  
UTILITIES I L.P. FOR AUTHORITY TO §  
CHANGE RATES § OF TEXAS

DIRECT TESTIMONY OF  
GEORGE FREITAG, P.E.

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is George Freitag. My business address is 1620 Grand Avenue Parkway,  
4 Suite 150, Pflugerville, TX 78660.

5 Q. FOR WHOM DO YOU WORK AND IN WHAT CAPACITY?

6 A. I work for Monarch Utilities I L.P. (“Monarch”) as the Texas Regulatory Manager.  
7 Monarch is owned by SouthWest Water Company (“SouthWest”).

8 Q. BRIEFLY DESCRIBE YOUR PRESENT EMPLOYMENT.

9 A. I am responsible for preparing and monitoring certain regulatory filings for  
10 SouthWest’s regulated utilities in Texas. These include filings before the Public  
11 Utility Commission of Texas (“Commission”) related to Certificate of Convenience  
12 and Necessity amendments; Sale, Transfer, and Merger applications; purchased water  
13 pass-through applications; minor tariff amendments; and rate change applications.  
14 Additionally, I work closely with our customer service and operations staff in matters  
15 related to customer service issues and other regulatory compliance issues.

16 Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL  
17 BACKGROUND.

18 A. I have bachelor’s degrees in engineering from Mississippi State University and in  
19 business from the University of Texas at Austin. I am licensed as a Professional

1 Engineer in Texas. My trade association memberships include the American Water  
2 Works Association and the Water Environment Federation. I am on the board of  
3 directors of the Independent Water and Sewer Companies of Texas. Over the years, I  
4 have attended numerous seminars and training classes on utility ratemaking, finance,  
5 and technical operations.

6 I have approximately 40 years of experience in water and wastewater utility  
7 functions. Before joining SouthWest in January 2010, I worked for the consulting  
8 firm of GDS Associates, Inc. ("GDS") for ten years. While there, I completed a  
9 variety of projects, including preparation of water and wastewater rate studies for  
10 utilities of various sizes and types, support for aquifer district water use pass-through  
11 fees and related issues, water and wastewater capacity exception requests, utility asset  
12 valuation studies, facilities and operations review of military base systems for  
13 privatization proposals, support of clients in water and wastewater compliance  
14 proceedings, preparation of a capital asset accounting manual, and energy efficiency  
15 surveys of hospitals. I was part of the technical advisory team to the 2004 State of  
16 Texas Water Conservation Task Force that prepared the comprehensive *Water*  
17 *Conservation Best Management Practices Guide*.

18 Before working at GDS, I worked for the Texas Natural Resource  
19 Conservation Commission, now the Texas Commission on Environmental Quality  
20 ("TCEQ") and its predecessor agencies, where my duties included providing general  
21 management and technical assistance to water and wastewater utilities. I participated  
22 in numerous rate, certification, and enforcement proceedings. I was a principal point  
23 of contact for both utilities and consumers in resolving water conservation and  
24 drought contingency issues, quality of service questions, and water utility

1 management issues. I was instrumental in the development of a multi-agency  
2 program to assist small and low-income communities in resolving water and  
3 wastewater facility needs. From 1997 to 1999, I was chairman of the National  
4 Association of Regulatory Utility Commissioners Staff Subcommittee on  
5 Technology.

6 In the early years of my professional career, I worked for an engineering  
7 consulting firm and the Texas Water Quality Board and successor environmental  
8 regulatory agencies in the areas of wastewater compliance inspections and design  
9 plan and specifications review.

10 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

11 A. I am testifying on behalf of Monarch.

12 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THIS**  
13 **COMMISSION?**

14 A. Yes. While employed by the Commission in the 1980s, I testified in various  
15 proceedings. I provided testimony more-recently in Monarch's previous general rate  
16 case, Docket No. 45570,<sup>1</sup> and in the general rate case of SWWC Utilities, Inc. DBA  
17 Water Services, Inc., Docket No. 47736.<sup>2</sup>

18 **II. PURPOSE OF TESTIMONY**

19 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
20 **PROCEEDING?**

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<sup>1</sup> *Application of Monarch Utilities I L P for Authority to Change Rates*, Docket No. 45570, Final Order (Aug. 21, 2017).

<sup>2</sup> *Application of SWWC Utilities, Inc DBA Water Services, Inc for Authority to Change Rates*, Docket No. 47736, Final Order (Oct. 16, 2019).