

SECTION 3.20--SPECIFIC UTILITY EXTENSION POLICY (Cont.)

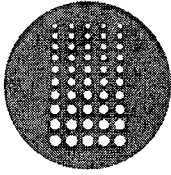
- (b) After the requirements of easements and rights-of-way have been determined, a red line copy will be returned by the Utility to the Developer for final plat preparation.
- (c) Copies of all proposed plats and plans must be submitted to the Utility prior to their submission to the county for approval to insure that they are compatible with the adequate long-term utility needs of potential service customers. Copies will be returned after review by the Utility so that necessary changes may be incorporated into the Developer's final submitted plat(s) and plans.
- (d) The Utility shall be provided with three (3) certified copies of the final plat(s) approved by the County Commissioners Court. At this time, the Utility will begin engineering the facilities necessary to serve the property. Plans and specifications will be prepared and submitted to the TCEQ by the Utility if required by law. If further plat or plans changes are necessary to accommodate the specific service needs of the property and the anticipated customer demands, the Developer will be so notified. Plat amendments must be obtained by the Developer. The Developer shall be notified when all required PUC, TCEQ and or other governmental approvals or permits have been received. No construction of utility plant which requires prior TCEQ plans approval shall be commenced until that approval has been received by the Utility and any conditions imposed by the TCEQ in association with its approvals have been satisfied.
- (e) The Developer shall be required to post bond or escrow the funds necessary to construct all required utility plant, except individual wastewatersewer connections, required to serve the property. Construction shall not commence until funds are available. If the construction is to be done in coordination with the phased development of the property, funds must be provided in advance which are sufficient to complete each phase. No phase or facilities for any phase shall be constructed prior to the bonding or escrowing of all funds associated with that phase.
- (f) At the sole option of the Utility, the Developer may be required to execute a Developer Extension Contract setting forth all terms and conditions of extending service to their property including all contributions-in-aid of construction and developer reimbursements, if any.
- (g) The Utility may require the Developer to commence construction of subdivision improvements within three (3) months of utility plans approval or the Utility may abate its construction activities until full development construction begins. If the Developer stops construction of subdivision improvements for any purpose, the Utility may abate its construction for a similar period.
- (h) As soon as the roads are rough cut and prior to paving, extension lines will need to be constructed at each road crossing. The Developer must notify the Utility sufficiently in advance of this development stage to allow for the necessary utility construction without disruption to other service operations of the Utility. Failure to provide adequate advance notice and cooperation in the construction of necessary utility plant may result in additional delays in obtaining service to the property. The Developer shall be required to pay for all additional costs of road boring or other remedial construction necessary to install adequate utility plant throughout the affected property.

SECTION 3.20--SPECIFIC UTILITY EXTENSION POLICY (Cont.)

Within its certificated area, the Utility shall bear the cost of the first 200 feet of any water main or ~~wastewatersewer~~ collection line necessary to extend service to an individual residential service applicant within a platted subdivision unless the Utility can document:

- (a) that the developer of the subdivision refused to provide facilities compatible with the utility's facilities in accordance with the Utility's approved extension policy after receiving a written request from the Utility; or,
- (b) that the Developer defaulted on the terms and conditions of a written agreement or contract existing between the utility and the developer or the terms of this tariff regarding payment for services, extensions, or other requirements; or in the event the Developer declared bankruptcy and was therefore unable to meet obligations; and,
- (c) that the residential service applicant purchased the property from the Developer after the Developer was notified of the need to provide facilities to the utility. A residential service applicant may be charged the remaining costs of extending service to his property; provided, however, that the residential service applicant may only be required to pay the cost equivalent to the cost of extending the nearest water main or wastewater collection line, whether or not that line has adequate capacity to serve that residential service applicant. The following criteria shall be considered to determine the residential service applicant's cost for extending service:
 - (1) the residential service applicant shall not be required to pay for costs of main extensions greater than 2" in diameter for pressure wastewater collection lines and 6" in diameter for gravity wastewater lines.
 - (2) Exceptions may be granted by the PUC if:
 - (A) adequate service cannot be provided to the applicant using the maximum line sizes listed due to distance or elevation, in which case, it shall be the utility's burden to justify that a larger diameter pipe is required for adequate service;
 - (B) larger minimum line sizes are required under subdivision platting requirements or applicable building codes.
 - (3) If an exception is granted, the Utility shall establish a proportional cost plan for the specific extension or a rebate plan which may be limited to seven years to return the portion of the applicant's costs for oversizing as new customers are added to ensure that future applicants for service on the line pay at least as much as the initial service applicant.

For purposes of determining the costs that service applicants shall pay, commercial customers with service demands greater than residential customer demands in the certificated area, industrial, and wholesale customers shall be treated as developers.



Monarch Utilities I L.P.

A SouthWest Water Company

Return Signed Application to:
Mail: 12535 Reed Rd, Sugar Land, TX 77478
Fax: (832) 209-5395 Phone: (866) 654-7992
Email: turnon@swwc.com
(We must receive second page with signature)

THIS APPLICATION MUST BE COMPLETED, SIGNED AND RETURNED TO MONARCH UTILITIES I L.P. BEFORE SERVICE CAN BE ESTABLISHED. AN APPROVED \$45 FOR AN ACCOUNT TRANSFER FEE MAY BE ASSESSED IF APPLICABLE.

MONARCH UTILITIES I L.P.

CONTRACT/APPLICATION FOR UTILITY SERVICE

Name of Applicant*: _____ Authorized User: _____

**This is the person or other entity in whose name service will be rendered and who will be responsible for all service and other bills.*

Are you **Buying** or **Renting**? _____ Property Close Date/Lease Date: ____/____/____

SSN Last 4 Digits: _____ Driver's License: _____ Date of Birth: ____/____/____

Date to Begin Service (MM/DD/YY): ____/____/____ Is the water currently on? Yes No

Type of service Water Sewer or Both Residential Commercial Industrial or Developer

Service Address: _____

City: _____ State: _____ Zip Code: _____

Lot: _____ Block: _____ Section: _____

Mailing Address if different than above: _____

City: _____ State: _____ Zip Code: _____

Water Emergency Contact (required): Home Phone: Cell Phone: Text: E-mail:

Telephone(s): Home: (____) _____ Day: (____) _____ Cell: (____) _____

Email address: _____

Have you ever been a SouthWest Water Company customer? Yes No

Previous Address: _____

(Street, City, State, Zip)

All utility services to be provided hereunder shall be subject to all terms and conditions of Utility's state-approved tariff(s), Public Utility Commission of Texas ("PUCT") and the rules of the Texas Commission on Environmental Quality ("TCEQ"). This Contract/Application for Utility Service ("Contract/Application") is by and between Monarch Utilities I L.P., a Texas limited partnership, ("Utility") and the applicant ("Customer" or "Applicant") whose name and signature is shown below at the end of this document. **Deposit:** If a residential service applicant does not establish credit to the satisfaction of the utility, the residential service applicant may be required to pay a deposit of \$50 for water service and \$50 for sewer service. No deposit may be required of a residential service applicant who is 65 years of age or older if the applicant does not have a delinquent account balance with the utility or another water or sewer utility. Applicant must provide valid proof of age.

CUSTOMER LIABILITY: Customer shall be liable for any damage or injury to Utility-owned property or personnel by the customer or others under his control. Customer agrees to take no action to create a health or safety hazard or otherwise endanger, injure, damage or threaten Utility's plant, its personnel, or its customers.

LIMITATION ON UTILITY'S PRODUCT/SERVICE LIABILITY: Public water utilities are required to deliver water to the customer's side of the meter or service connection which meets the potability and pressure standards of the TCEQ. Utility will not accept liability for any injury or damage occurring on the customer's side of the meter. Utility will not accept liability for injuries or damages to persons or property due to disruption of water service caused by: (1) acts of God, (2) acts of third parties not subject to the control of Utility, (3) electrical power failures, or (4) termination of water service pursuant to Utility's tariff, TCEQ and PUCT rules.

FIRE PROTECTION: Utility is not required by law and does not provide fire prevention or firefighting services. Utility therefore does not accept liability for fire-related injuries or damages to persons or property caused or aggravated by the availability (or lack thereof) of water or water pressure (or lack thereof) during fire emergencies.

PLUMBING CODE: Utility has adopted the Uniform Plumbing Code. Utility has further adopted its own specific plumbing rules contained in its tariff. Any extensions and/or new facilities shall comply with that code and all standards established by the TCEQ. Where conflicts arise, the more stringent standard must be followed. The piping and other equipment on the premises furnished by the Customer will be maintained by the Customer at all times in conformity with the requirements of the applicable regulatory authorities and all tariffed service rules of Utility. No other water service will be used by the Customer on the same property in conjunction with Utility's service, either by means of a cross-over valve or any other connection. Customer shall not connect, or allow any other person or party to connect, onto any water lines on his premises.

The following undesirable plumbing practices are prohibited by state regulations. Other prohibitions are found in the Uniform Plumbing Code and/or Utility's tariff.

- A. No direct connection between the public drinking water supply and a potential source of contamination is permitted. Potential sources of contamination shall be isolated from the public drinking water system by an air-gap only.
- B. No cross-connection between the public drinking water supply and a private water system is permitted. These potential threats to the public drinking water supply shall be eliminated at the service connection by the installation of an air-gap only.
- C. No connection that allows water to return to the public drinking water supply is permitted.
- D. No pipe or pipe fitting which contains more than 0.25% lead may be used for the installation or repair of plumbing at any connection that provides water for human use.
- E. No solder or flux that contains more than 0.2% lead can be used for the installation or repair of plumbing of any connection that provides water for human use.

RIGHT OF ACCESS AND EASEMENTS: Utility will have the right of access and use of the Customer's premises at all reasonable times for the purpose of installing, inspecting or repairing water mains or other equipment used in connection with its provision of water service, or for the purpose of removing its property and disconnecting lines, and for all other purposes necessary to the operation of Utility's system. If the property to be served does not have dedicated, recorded public utility easements available for Utility's use in providing water utility service to the property, the Applicant (or the Applicant's landlord in the case of a tenant applicant) shall be required to provide Utility with a recorded permanent easement as a condition of service. Such easement shall be in a location acceptable to Utility and shall be for a corridor no less than fifteen (15) feet in width.

LANDLORD GUARANTEE: Applications by tenants must be countersigned by the fee owner of the property. By signing the application, the landlord grants all required rights of access and easements.

PLUMBING INSPECTION: Applicants for service at new consuming facilities or facilities which have undergone extensive plumbing modifications, including remodeling, are required to deliver to the Utility a certificate that their facilities have been inspected by a state-licensed inspector and that they are in compliance with all applicable plumbing codes and are free of potential hazards to public health and safety. Service may be denied until the certificate is received or any identified violations or hazards are remedied. When potential sources of contamination are identified that require the installation of a backflow prevention device, such backflow flow prevention device shall be installed, tested and maintained at the customer's expense.

SEWER REGULATIONS: *(only if sewer service provided)* The Utility only provides "sewage" collection and disposal service to the public. This service is limited to the collection, treatment and disposal of waterborne human waste and waste from domestic activities such as washing, bathing, and food preparation. This service does not include the collection, treatment or disposal of waste of such high BOD or TSS characteristics that it cannot reasonably be processed by the Utility's state-approved wastewater treatment plant within the parameters of the Utility's wastewater discharge permit. **THIS SERVICE DOES NOT INCLUDE THE COLLECTION AND DISPOSAL OF STORM WATERS OR RUN OFF WATERS, WHICH MAY NOT BE DIVERTED INTO OR DRAINED INTO THE UTILITY'S COLLECTION SYSTEM. NO GREASE, OIL, SOLVENT, PAINT, OR OTHER TOXIC CHEMICAL COMPOUND MAY BE DIVERTED INTO OR DRAINED INTO THE UTILITY'S COLLECTION SYSTEM.** It shall be the customer's responsibility to maintain the service line and appurtenances in good operating condition, i.e., clear of obstruction, defects, or blockage. If there is excessive, infiltration or inflow or failure to provide proper pretreatment, the Utility may require the customer to repair the line or eliminate the infiltration or inflow or take such actions necessary to correct the problem.

RESIDENTIAL SINGLE FAMILY GRINDER / SEWAGE STATIONS : *(only if sewer service provided)* The utility will install the grinder pumps, storage tanks, controls and other appurtenances necessary to provide pressurized sewer service to a residential connection. Electric bills are the customer's responsibility. The utility requires that parts and equipment meet the minimum standards approved by the TCEQ, to insure proper and efficient operation of the sewer system.

CUSTOMER AGREEMENT: By signing this application for public utility service, I agree to comply with Utility's rules and tariff and all rules and regulations of applicable regulatory agencies. I guarantee prompt payment of all utility bills for the service address printed above. I will remain responsible for utility bills until the day service is terminated at my request. I agree to take no action to create a health hazard or otherwise endanger, injure, damage or threaten Utility's plant, its personnel, or its customers. I agree to put no unsafe, non-domestic service demands on Utility's system without notice to and permission from Utility.

Signature: _____

Date: ___/___/___

Reference

Number: _____

000403

PUC DOCKET NO. 50994

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

DIRECT TESTIMONY

OF

MUJEEB HAFEEZ

ON BEHALF OF

MONARCH UTILITIES I L.P.

JULY 15, 2020

**DIRECT TESTIMONY OF
MUJEEB HAFEEZ**

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ATTACHMENTS

Attachment MSH-1	SouthWest Water Company Cost Allocation Manual
Attachment MSH-2	SouthWest Water Company Operational Organizational Structure
Attachment MSH-3	Total Corporate Costs by Corporate Function for the 2019 Test Year
Attachment MSH-4	2019 Test Year 3-Factor Allocation Calculation

PUC DOCKET NO. 50994

APPLICATION OF MONARCH	§	PUBLIC UTILITY COMMISSION
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DIRECT TESTIMONY OF
MUJEEB HAFEEZ

I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Mujeeb Hafeez. My business address is 12535 Reed Road, Sugar Land, TX 77478.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by SouthWest Water Company (“SouthWest”) as Assistant Controller within Corporate Shared Services.

Q. BRIEFLY DESCRIBE YOUR PRESENT EMPLOYMENT.

A. My present responsibilities consist of the following for SouthWest and its subsidiaries, including Monarch Utilities I L.P. (“Monarch”): implementing and maintaining an appropriate system of internal controls; ensuring financial records are maintained in compliance with company policies and U.S. Generally Accepted Accounting Principles (“GAAP”); overseeing the general accounting function; providing technical accounting GAAP guidance and support; overseeing internal and external financial reporting; coordinating SouthWest’s annual external audit; and assisting in regulatory proceedings.

Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

1 A. My educational background consists of a Bachelor of Science in Accounting and a
2 Master of Science in Accounting from the University of Houston. I am a Certified
3 Public Accountant in the State of Texas. I have been employed by SouthWest since
4 2018. My professional background prior to being employed by SouthWest includes
5 eight years of public accounting experience with PricewaterhouseCoopers, LLP
6 (“PwC”), a multinational professional services firm and one of the “Big Four” public
7 accounting firms. While at PwC, I served audit clients with a focus in the regulated
8 investor owned and private equity-owned utilities industry, including SouthWest.

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

11 A. No.

12 II. PURPOSE OF DIRECT TESTIMONY

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

14 A. I am testifying on behalf of Monarch.

15 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
16 **PROCEEDING?**

17 A. The purpose of my direct testimony in this proceeding is to discuss SouthWest
18 corporate costs and the allocation methodology of those costs across SouthWest’s
19 subsidiaries, including Monarch.

20 **Q. DOES YOUR DIRECT TESTIMONY DISCUSS MONARCH’S BUSINESS**
21 **OPERATIONS COSTS AND ALLOCATIONS OF THESE COSTS?**

22 A. No. Monarch’s Business Operations costs and other intra-Texas allocations are
23 discussed in the direct testimony of Edward Taussig.

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. OVERVIEW OF SOUTHWEST WATER COMPANY**

14 Q. BROADLY SPEAKING, HOW ARE SOUTHWEST'S UTILITY
15 OPERATIONS ORGANIZED?

16 A. The organization of SouthWest's utility operations is described in detail in the
17 SouthWest Water Company Cost Allocation Manual included in my testimony as
18 Attachment MSH-1. The Cost Allocation Manual also describes the methodologies
19 used by SouthWest to allocate costs, which I will address in my testimony.
20 Additionally, SouthWest's organizational structure depicting its business units and
21 their subsidiary operations is included as Attachment MSH-2.

22 Q. DESCRIBE SOUTHWEST'S UTILITY OPERATION IN TEXAS.

1 A. Through water and wastewater facilities located throughout Texas, SouthWest
2 subsidiaries serve customers with water distribution and wastewater collection and
3 treatment services to populations in and around the cities of Austin, Fort Worth,
4 Houston, San Antonio, and several other parts of Texas. These facilities operate
5 collectively as the Texas Utilities (“TXU”) business unit.

6 **Q. HOW ARE THE FINANCIAL RESULTS OF SOUTHWEST’S BUSINESS**
7 **UNITS CURRENTLY REPORTED?**

8 A. As of the end of the 2019 Test Year, the financial results of SouthWest’s operations
9 were reported by six business units. Five business units are attributable to utility
10 operations: Suburban Water Systems (“Suburban”), Texas Utilities (“TXU”), Kiawah
11 Island Utility (“KIU”), Northwest Utilities (“NWU”), and Southeast Utilities
12 (“SEU”). The sixth business unit—Corporate Shared Services—is included in the
13 parent, SouthWest. Corporate Shared Services is comprised largely of indirect costs
14 that benefit SouthWest’s five utility business units and are not directly traceable to
15 any of them. The indirect costs captured in the Corporate Shared Services business
16 unit are allocated to the five utility business units.

17 **Q. PLEASE DISCUSS THE CHANGES IN SOUTHWEST’S ORGANIZATION**
18 **SINCE MONARCH’S LAST GENERAL RATE CASE.**

19 A. In Monarch’s last general rate application, SouthWest’s affiliates were grouped into
20 only three business units: 1) Suburban; 2) TXU; and 3) SEU. However, SouthWest
21 subsequently entered the states of Oregon and South Carolina through acquisitions of
22 existing utility systems. SouthWest also increased its footprint in Alabama through
23 the acquisition of the assets of two separate non-regulated wastewater utility systems.
24 These strategic acquisitions increased SouthWest’s overall operational base, thereby

1 decreasing the percentage of indirect corporate costs allocated to Monarch under the
2 three-factor allocation methodology described further below in my direct testimony.

3 SouthWest has also increased its footprint in Texas through strategic
4 acquisitions. Wiedenfeld Water Works Inc., Dal-High Water LLC, The Villas of
5 Willowbrook, and Romark Utility Company have all been acquired by SouthWest
6 and are included in Monarch's proposed consolidated rates. SouthWest's continued
7 growth, both within and without the State of Texas, is a benefit to customers as the
8 economies of scale generally result in reduced shared costs. As an example, the
9 three-factor allocation to the systems now included in Monarch was 32.2% at the time
10 of Monarch's last rate proceeding. In the current application, the three-factor
11 allocation percentage to these systems is now 24.4%, which represents a decrease of
12 7.8%, or an approximate reduction of \$1.0 million of Test Year corporate costs
13 allocated to Monarch.

14 **IV. INDIRECT COSTS AND ALLOCATION METHODOLOGY**

15 **Q. PLEASE DESCRIBE SOUTHWEST'S COST ALLOCATION MANUAL.**

16 **A.** SouthWest prepared its Cost Allocation Manual in accordance and conformance with
17 the National Association of Regulatory Utility Commissioners' *Guidelines for Cost*
18 *Allocations and Affiliate Transactions* ("NARUC Guidelines"). The foundational
19 principles of the Cost Allocation Manual are to directly charge as much of the
20 incurred costs as possible to the entity that procures any specific service; fairly
21 allocate costs that cannot be directly charged to SouthWest's subsidiaries; and ensure
22 that unauthorized subsidization of unregulated activities by regulated activities, and
23 vice versa, does not occur.

24 **Q. WHAT PRINCIPLES GUIDE THE ALLOCATION OF COSTS?**

1 A. As the Cost Allocation Manual provides, the principles that guide the allocation of
2 costs for products or services provided by SouthWest to its affiliates are as follows:

- 3 • To the extent practicable, in consideration of administrative costs, costs should be
4 collected and classified on a direct basis for each asset, service, or product
5 provided;
- 6 • The general method for charging indirect costs should be on a fully allocated,
7 cost-causative allocation basis, without any associated margin or mark-up;
- 8 • All direct and allocated costs should be traceable on the books of the applicable
9 affiliate;
- 10 • Documentation regarding transactions between the regulated utility and its
11 affiliates should be made available for review by the appropriate Commission or
12 other regulatory authority, upon request, to address their reasonable concerns in
13 the exercise of their responsibility to examine any of the costs sought to be
14 recovered by the utility in rate proceedings; and
- 15 • The primary cost driver of common costs, or a relevant proxy in the absence of a
16 primary cost driver, should be identified and used to allocate the cost to all
17 affiliates.

18 **Q. WHAT COSTS ARE CONSIDERED CORPORATE ALLOCABLE INDIRECT**
19 **COSTS AND WHAT ALLOCATION METHODOLOGY IS USED?**

20 A. Indirect costs are those corporate costs that benefit all SouthWest business unit
21 operations and that are so general in nature as to require proration based on a
22 combination of several pertinent factors. To allocate those costs among the five
23 major business units, the Cost Allocation Manual describes the three-factor allocation

1 methodology consisting of the following factors weighted equally: 1) gross plant; 2)
2 operating expenses including payroll expenses; and 3) payroll.

3 **Q. SPECIFICALLY, IN WHICH AREAS ARE INDIRECT COSTS INCURRED,**
4 **FOR WHAT PURPOSE, AND WHAT IS THEIR MAGNITUDE?**

5 A. As noted in SouthWest’s Cost Allocation Manual, indirect costs are attributable to the
6 following corporate functions, which are essential in providing effective utility
7 service: 1) executive; 2) legal; 3) information technology; 4) human resources; 5)
8 facilities; and 6) finance. The allocable indirect corporate costs for the Test Year
9 total \$12.3 million and are shown by corporate function in Attachment MSH-3.

10 **Q. IS THE \$12.3 MILLION IN CORPORATE COSTS REASONABLE?**

11 A. Yes. As described more fully below, these costs are essential to the successful
12 operation of Monarch, and—due to the shared services model—are more economic
13 for Monarch to obtain via its corporate parent than would be possible on the open
14 market. The amount proposed for inclusion in the current rate application reflects
15 SouthWest’s success at controlling its costs since Monarch’s last filing, Docket No.
16 45570.¹ In that filing, SouthWest’s corporate costs for the test year ending June 30,
17 2015 were \$12.0 million—the compound annual increase is only 0.5% per year, well
18 below annual inflation rates. Details of the services provided by corporate shared
19 services and benefitting Monarch’s customers are discussed below.

20 **Q. PLEASE SUMMARIZE THE BENEFITS THAT CUSTOMERS ACCRUE AS**
21 **A RESULT OF USING SOUTHWEST’S CORPORATE SHARED SERVICES.**

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

1 A. Corporate provides shared services more effectively and efficiently than could be
2 provided to the individual affiliates individually. Customers benefit from economies
3 of scale from the shared services model. Additionally, the costs of SouthWest's
4 Corporate Shared Services are allocated to subsidiaries without any associated margin
5 or mark-up.

6 **Q. PLEASE DESCRIBE THE INDIRECT CORPORATE SHARED SERVICES**
7 **AND THEIR COSTS THAT SOUTHWEST ALLOCATES TO ITS**
8 **AFFILIATES.**

9 A. Broad categories of costs being allocated are Executive, Legal, Information
10 Technology, Finance, Human Resources, and Facilities. A review of Attachment
11 MSH-3 shows that the Executive function accounts for \$3.676 million (29.9%)
12 followed by Finance at \$3.565 million (29.0%) and Information Technology at
13 \$3.310 million (26.9%). The combined cost of Legal, Human Resources, and
14 Facilities is \$1.761 million (14.3%). SouthWest's Corporate Shared Services
15 business unit includes a total of 42 employees for the Test Year. Information
16 Technology has the greatest number employees with 19, followed by Finance with
17 16, and Executive with five. Human Resources and Facilities each have one
18 employee. A discussion of each function's responsibilities and indirect costs follows
19 below.

20 **A. Executive**

21 The executive function is responsible for providing strategic vision and guidance,
22 business strategy and development, executive management and oversight, and the
23 overall direction of the company. The executive function consists of the Board of
24 Directors and a core group of four senior executives; the Chief Executive Officer,

1 Chief Operating Officer, Chief Financial Officer, and General Counsel. Additionally,
2 the executive function includes an administrative assistant who is responsible for
3 providing administrative support to the executive team. These employees are integral
4 and indispensable members of this group.

5 The Test Year cost attributable to the Executive function was \$3.676 million.
6 Approximately \$2.732 million represents payroll and benefits for this function, or
7 74.3% of the total. Total direct compensation provided to the four senior executives
8 (which includes total incentive compensation), when viewed against the market for
9 talent for executives in similar positions, is within the median market competitive
10 range. Elements of the executive compensation program include base salary,
11 short-term at-risk compensation, and long-term at-risk compensation. A portion of
12 the short-term at-risk compensation, and all of the long-term at-risk compensation is
13 based on financial measures. Although total compensation, including the
14 consideration of all incentive compensation, is within the median market competitive
15 range, incentive compensation based on financial measures has been excluded from
16 the Test Year costs.

17 Approximately \$670,000 represents the board of director's fees for six paid
18 board members, or 18.2% of the total. When compared against comparable peer
19 organizations for which compensation data are available from publicly disclosed
20 proxies, SouthWest's board of directors are paid below market median.
21 Approximately \$261,000 consists of the \$120,000 cost of insurance and \$141,000
22 travel and entertainment, representing approximately 7.1% of the total cost. The cost
23 of insurance represents the cost for Directors and Officers and Broad Form Side A,
24 Crime, Cyber Liability, Employment Practices Liability, Property, and broker's fees.

1 Regarding the Directors and Officers and Broad Form Side A insurance, there is risk
2 in the form of legal liability inherent in director and officer positions. No one would
3 serve in these positions unless they were adequately insured against such risk.
4 Therefore, the cost of such insurance is indispensable as a cost of the executive
5 function. Additionally, extensive travel is a requirement at the executive level.
6 Therefore, the cost of travel is indispensable as a cost of the executive function.
7 Together, these indispensable cost components (payroll and benefits, director fees,
8 insurance, and travel) amount to 99.6% of the total cost of this function. Therefore,
9 \$3.676 million represents a necessary and reasonable cost for SouthWest with respect
10 to the executive function.

11 **B. Legal**

12 The Legal function is responsible for corporate governance; transactional,
13 employment, and real estate law; and litigation, general legal affairs, and management
14 of outside counsel. The legal resources of SouthWest consist of only the General
15 Counsel. The cost of this position is included in the Executive function described
16 above as the General Counsel also serves as an executive of SouthWest. Therefore,
17 this represents an efficient structure to address the responsibilities of this function.

18 The adjusted recorded cost of ancillary legal support attributable to the legal
19 function in the Test Year was \$126,000. The legal costs incurred at the corporate
20 level for general corporate matters totaled \$55,000 in the Test Year.

21 One of the most important functions of the General Counsel is managing and
22 administering the efforts and costs of outside counsel. On an ongoing basis,
23 SouthWest has a number of legal matters that are assigned to various outside counsel.
24 It would not be possible for the General Counsel alone to address the volume of

1 litigation, and it would be financially prohibitive to employ the number of in-house
2 counsel that would be needed to address all these legal matters. Therefore, reliance
3 on outside counsel is an efficient way to address many of SouthWest’s legal matters.

4 The cost of outside legal fees attributable to legal matters affecting all
5 SouthWest subsidiaries is subject to wide variation depending upon the number and
6 magnitude of legal issues that arise and their cost to effectively litigate.

7 **C. Information Technology**

8 The information technology (“IT”) function is responsible for identifying,
9 implementing, and maintaining advanced and cost-effective systems solutions in
10 support of SouthWest business. This function is comprised of four groups as follows:

- 11 • Administration—Responsible for working with business units and vendors
12 to ensure the highest quality of services to support business operations.
13 Also develops short and long-range technology objectives, provides
14 contract and project management, evaluates company business goals and
15 objectives, and supports business units from a technology advisory
16 standpoint;
- 17 • Infrastructure, Network, and Computer Desktop Support—Responsible for
18 the planning, architecture, implementation, administration, and support of
19 company data, telecommunications, wide area network infrastructure, and
20 database servers. Also provides frontline desktop and helpdesk technical
21 support, procurement and management of IT assets and serve as the
22 primary point of contact for end users and their computer or system needs;
- 23 • Information and Cyber Security—Responsible for the security
24 configuration of all enterprise systems, IT governance and controls, and

1 risk mitigation. Also develops and configures security roles in all
2 enterprise systems, creates and terminates users, performs password resets,
3 and configures permissions on Outlook public folders and servers. This
4 function monitors automated and manual malicious attacks of company,
5 employee, and customer information assets and identifies, analyzes, and
6 mitigates associated risks; and

- 7 • Business Applications—Responsible for managing the ongoing
8 systems-related business processes, administration, development and
9 project management for company System Applications and Products in
10 Data Processing (“SAP”) enterprise system to include: 1) the core
11 functions of financials, material management, sales and distribution,
12 human resources, payroll and benefits; 2) the industry specific solutions
13 for utilities functions for accounts, meters and meter reading, bill and bill
14 print, and customer relationship management; and 3) business reporting
15 tools. Also responsible for the configuration and maintenance of
16 customer-facing billing and payment applications to ensure the ease-of-use
17 process for customers to view and provide payment for their bills.

18 The total headcount for the Information Technology function is 19. These 19
19 employees are responsible for the IT function and reside at the corporate level. This
20 headcount is assigned to the various IT functions noted above as follows:

- 21 • Administration (1)—Consisting of the Vice President of IT who is
22 responsible for the total IT function;

- 1 • Infrastructure (5)—Consisting of a Manager of Telecommunications, one
2 SAP DBA and Basis Administrator, one Desktop Support Analyst, one
3 Telecommunications Analyst, and one Webmaster;
- 4 • Cyber Security (2)—Consisting of a manager of Infrastructure and a
5 Security Analyst; and
- 6 • Business Applications (11)—Consisting of a Project Director, IT Project
7 Manager, Manager SAP Solution Architect, two Functional Team Leads,
8 one SAP ABAP ISU/CCS Programmer, and five SAP Functional Analysts
9 responsible for various functions within the SAP system.

10 SouthWest maintains minimal headcount for these IT functional areas while
11 still addressing the responsibilities of the various IT functions. Therefore, a
12 headcount of 19 represents an efficient manner to accomplish the responsibilities
13 within the various IT functions. No IT resources are directly employed by Monarch.
14 Responsibility for overall IT systems and related IT functions in support of these
15 systems (including desktop and computer hardware and server support) are totally
16 centralized and accounted for as allocable indirect costs. The importance of the IT
17 function and ultimate benefit to customers cannot be overemphasized in that
18 essentially every aspect of SouthWest, its subsidiary utilities, and ultimately rate
19 payers rely on IT systems and telecommunications. SouthWest realizes that IT is
20 critically important to customers and manages these costs closely. The computer and
21 telecommunications infrastructure and support provided by the IT function is right for
22 SouthWest for the following reasons:

- 23 • To conduct business and address customer requirements, SouthWest
24 requires a skilled and dependable IT function in the areas of

1 Infrastructure/Telecommunications/Desktop Support, Applications, and
2 Cyber Security;

- 3 • Southwest has made a commitment to leveraging a modern applications
4 infrastructure in SAP and also to employing skilled internal resources to
5 efficiently support customer needs and as a result requires fewer resources
6 to execute manual processes;
- 7 • SouthWest is sensitive to the modern reality of manual and automated
8 threats affecting Cyber Security associated with its business applications
9 like SAP and Email, as well as its operational technologies such as
10 supervisory control and data acquisition (“SCADA”); and
- 11 • The SouthWest IT platform for Telecommunications and Infrastructure,
12 Cyber Security, and Applications that exists is a stable, reliable and state
13 of the art computing platform that supports business and customer
14 requirements not only for current needs, but also provides a platform for
15 growth in the future.

16 The adjusted recorded cost attributable to the IT function in the Test Year was
17 \$3.310 million. Approximately \$2.096 million (63.3%) represents payroll and
18 benefits (net of capitalized direct labor). Incentive compensation based on financial
19 measures has been excluded from Test Year costs.

20 In addition to payroll and benefits, significant core non-payroll costs are
21 associated with IT functions. These core ongoing costs are attributable to facilities,
22 data circuitry and connectivity, voice and data network lines, hardware and software
23 licensing and maintenance costs, laptops, copiers, printers, and mobile
24 communication devices. The remaining \$1.214 million of costs-in the IT function

1 relate to these activities. The \$3.310 million represents a necessary and reasonable
2 cost for SouthWest regarding the IT function.

3 **D. Finance**

4 The Finance function is responsible for the accurate and timely accounting for
5 corporate transactions, the accurate and timely preparation of financial statements,
6 preparation of budgets and forecasts, accounts payable, treasury, capital structure, risk
7 management, audit, tax, and providing management with the financial information
8 necessary for informed operating and financial decision making.

9 For the Test Year, a total of 16 employees were devoted to the various efforts
10 within the Finance function. This headcount consists of the following:

- 11 • Accounting (6)—Controller, Assistant Controller, Manager, Senior
12 Accountant, Senior Accountant, Clerk;
- 13 • Payroll (2)—Manager, Clerk;
- 14 • Accounts Payable (2)—Manager, Clerk;
- 15 • Financial Planning & Treasury (3)—Director, Analyst, Analyst;
- 16 • Risk Management (1)—Manager;
- 17 • Tax (1)—Manager; and
- 18 • Internal Audit (1)—Director.

19 There are no consolidated functions at any of the subsidiary levels; i.e.
20 accounting, payroll, accounts payable, treasury, risk management, tax or audit
21 function. All of these consolidated functions are indispensable and are performed
22 appropriately at the corporate level. The 16 employees within the Finance-function
23 are a reasonable number for the activities for which they are responsible and represent
24 an efficient headcount to address the various responsibilities.

1 The adjusted recorded cost attributable to the Finance function in the Test
2 Year was \$3.565 million. Approximately \$2.741 million (76.9%) represents payroll
3 and benefits. Incentive compensation based on financial measures has been excluded
4 from Test Year costs. The cost of SouthWest's annual audit performed by PwC and
5 tax work performed by RSM US LLP and Delta Property Tax Advisors is \$475,000
6 (13.3%). Annual audits are mandatory under SouthWest and Monarch credit
7 agreements (Monarch is charged directly for the audit costs attributable to it). Bank
8 charges and rating agency charges were \$124,000 (3.5%). SouthWest's banks
9 provide an indispensable service at competitive fees for processing cash receipts and
10 payments and providing computer access for monitoring, managing, and facilitating
11 the movement of cash. Additionally, the cost of an annual rating on SouthWest's
12 debt is required by SouthWest's credit agreements. Together, the cost of finance
13 staff, mandatory annual audits and tax filings, bank charges, and credit rating agency
14 charges represent 93.7% of the cost of this function. SouthWest seeks to acquire and
15 retain an efficient and talented finance staff at competitive compensation. SouthWest
16 negotiates reasonable pricing for mandatory annual audits, tax work, and
17 indispensable banking and credit rating agency services. Therefore, the total cost of
18 \$3.565 million represents a reasonable and necessary cost for the finance function.

19 **E. Human Resources**

20 The Human Resources function is responsible for effective policies and procedures in
21 support of the workplace and SouthWest in operation of the business, talent
22 acquisition and retention, management of employee benefit programs, employee and
23 organizational development, compensation administration, succession planning, and

1 rewards and recognition programs that drive performance. The Human Resources
2 function consists of one Vice President, which is an efficient staffing level.

3 The adjusted recorded cost attributable to the Human Resources function in
4 the Test Year was \$1.025 million. Approximately \$498,000 (48.7%) represents
5 payroll and benefits. This level of payroll and benefits is appropriate. Incentive
6 compensation based on financial measures has been excluded from Test Year costs.
7 Additionally, approximately \$403,000 (39.3%) represents the cost attributable for
8 outside services. These outside services consist of professional fees attributable to
9 various consultants and vendors who provide professional advisory, administration,
10 training, and financial services and are indispensable in support of the human
11 resources functions. Together, these two cost components amount to 88.0% of the
12 total cost of this function. The remaining 12.0% of costs relate to employee
13 education and other general and administrative costs. Therefore, the \$1.025 million
14 cost for Human Resources and the indispensable outside services on which this
15 function relies is a reasonable and necessary cost for SouthWest regarding the Human
16 Resources function.

17 **F. Facilities**

18 The Facilities function is responsible for maintenance and operation of a
19 two-story 32,000 sq. ft. corporate office located in Sugar Land, Texas (the Reed Road
20 Facility) and an 8,400 sq. ft. consolidated records retention facility located nearby
21 (the Eldridge Road Facility). A discussion of these facilities follows:

22 **1. Reed Road Facility**

23 In March of 2001, the corporate office facility on Reed Road was leased for a
24 25-year period ending in February 2026. The base rent portion of the lease makes

1 provision for periodic increases in monthly rental payments over the term of the lease.
2 The lease expense for the Reed Road facility for the Test Year is approximately
3 \$408,000.

4 SouthWest subleases a portion of its corporate office space to its Texas
5 Utilities business unit at a Test Year cost of approximately \$230,000 (inclusive of
6 utilities, maintenance and repairs, property tax, property insurance). Net of the lease
7 payments associated with this sublease, SouthWest's lease expense subject to indirect
8 cost allocation for the Test year is approximately \$178,000.

9 Repair and maintenance for the Test Year was \$121,000. SouthWest's
10 property tax for the facilities function totaled \$64,000. Utilities for the corporate
11 office was \$61,000.

12 2. Eldridge Road Facility

13 In February 2013, SouthWest entered into lease agreements for warehouse
14 space on Eldridge Road for records retention. The initial leases have been extended
15 through August 31, 2021, and SouthWest expects to renew the leases. Lease
16 expenses for the Test Year totaled approximately \$58,000. Utilities and repair and
17 maintenance for the Test Year totaled approximately \$4,000.

18 Net annual costs for both the Reed Road and Eldridge Road facilities for the
19 Test Year totaled \$486,000 (\$424,000 for Reed Road and \$62,000 for Eldridge
20 Road).

21 The Facilities function consists of one person at the senior maintenance
22 technician level who is responsible for the daily maintenance and operation of these
23 facilities. One senior facilities and maintenance technician is the minimum and

1 therefore is an efficient headcount for the facilities function to address the
2 responsibilities of this function.

3 The adjusted recorded cost attributable to the Facilities function for the Test
4 Year was approximately \$610,000. Approximately \$94,000 represents payroll and
5 benefits for one person, or 15.4% of the total cost. This level of payroll and benefits
6 is appropriate for a senior maintenance technician. As noted above, approximately
7 \$486,000, or 79.7%, represents the net cost of rent, utilities, maintenance and repair,
8 and property taxes for the Reed Road and Eldridge Road facilities. Together, these
9 cost components amount to 95.1% of the total cost of this function. Therefore, the
10 \$610,000 cost represents a reasonable and necessary cost for SouthWest with respect
11 to the facilities function.

12 V. ALLOCATION OF ALLOWABLE INDIRECT COSTS

13 Q. WHAT METHOD DID SOUTHWEST USE TO ALLOCATE THE INDIRECT 14 COSTS DISCUSSED ABOVE?

15 A. SouthWest incurs two types of costs that are passed on to its affiliates: 1)
16 SouthWest's costs that directly benefit a particular affiliate, which are directly
17 identifiable with that affiliate (direct costs); and 2) SouthWest's costs that are not
18 identifiable with particular affiliates and that benefit all or multiple affiliates (indirect
19 costs). Indirect costs are generally allocated by the three-factor methodology or to a
20 much lesser extent, a specific methodology.

21 The three-factor methodology is used to allocate the vast majority of
22 Corporate Shared Services costs that are either not directly assigned to an affiliate or
23 are not subject to any of the specific-allocation methodologies. SouthWest uses the
24 following factors, equally weighted:

- 1 • Gross Plant;
- 2 • Operating Expenses Including Payroll Expenses; and
- 3 • Payroll Expenses.

4 The application of the three-factor methodology for the Test Year is shown in
5 Attachment MSH-4. The three-factor method for allocating corporate indirect costs
6 resulted in an allocation of \$3.0 million to Monarch for the Test Year based on an
7 allocation factor of 24.4% (see Attachment MSH-4).

8 As noted above, to a much lesser extent, some of SouthWest's indirect costs
9 are allocated using specific allocation methods in the alternative to the three-factor
10 allocation method. Indirect costs allocated using a specific allocation method are
11 limited to premiums for consolidated insurance coverages, bank earnings allowances,
12 employee medical insurance administrative charges, employee dental insurance, and
13 IT maintenance costs. The specific allocation methods for these indirect costs are
14 fully described in the SouthWest Cost Allocation Manual.

15 **Q. IS THIS THE SAME ALLOCATION METHODOLOGY MONARCH**
16 **PROPOSED IN ITS LAST RATE CASE?**

17 A. Yes, it is. The three-factor methodology is consistently used to ensure that corporate
18 costs are fairly allocated to Monarch customers when considering that this is the same
19 methodology being used to allocate costs to all affiliates of SouthWest.

20 VI. INSURANCE COSTS

21 **Q. WHAT KINDS OF INSURANCE DOES SOUTHWEST RETAIN?**

22 A. SouthWest has identified risks to its assets, income, employees, information systems,
23 and management, as well as the environment and third parties. To mitigate the
24 potential financial loss associated with these risks, SouthWest has chosen to transfer a

1 portion of these risks to the insurance marketplace. SouthWest pays premiums to
2 carriers in the marketplace in return for their acceptance of these transferred risks.

3 SouthWest retains various types of consolidated insurance coverages to ensure
4 business sustainability including workers' compensation, auto, primary, umbrella,
5 premises pollution, property, employment practices, cyber technology, crime,
6 directors and officers, and broad form Side A. SouthWest's subsidiaries, including
7 Monarch, benefit from the economies of scale achieved by obtaining consolidated
8 coverages, rather than each of its affiliates obtaining separate policies. The
9 consolidated insurance premiums and related broker fees are indirect costs that are
10 allocated using a specific methodology.

11 **Q. WHAT METHODOLOGIES ARE USED TO ALLOCATE INSURANCE**
12 **COSTS?**

13 A. As detailed in SouthWest's Cost Allocation Manual, costs of insurance coverages are
14 allocated to affiliates based on the cost driver that determines the pricing of that
15 particular policy. For example, property insurance costs are allocated based on the
16 affiliate's proportion of property value relative to the whole. Certain coverages (e.g.,
17 directors and officers, crime, and broad form Side A) function primarily at the
18 corporate level; therefore, the premiums for these policies are allocated entirely to
19 SouthWest corporate for further reallocation to SouthWest subsidiaries using the
20 three-factor method.

21 **VII. APPROPRIATENESS OF ALLOCATION METHODS**

22 **Q. PLEASE EXPLAIN WHY SOUTHWEST'S ALLOCATION**
23 **METHODOLOGIES ARE AN APPROPRIATE METHOD FOR**
24 **ALLOCATING THE INDIRECT COSTS DISCUSSED ABOVE.**

1 A. Based on its combination of regulated and non-regulated affiliates, an allocator
2 comprised of the three factors and the specific allocation methods described above
3 best reflect the underlying cost drivers associated with the circumstances and business
4 model of SouthWest and its subsidiaries.

5 **Q. ARE SOUTHWEST'S ALLOCATION METHODOLOGIES USED**
6 **CONSISTENTLY AMONGST ALL OF ITS SUBSIDIARIES INSIDE AND**
7 **OUTSIDE OF TEXAS?**

8 A. SouthWest employs the same allocation methodologies for allocating indirect
9 corporate costs in all of its operating jurisdictions. Therefore, corporate costs
10 allocated to Monarch are no higher than prices charged by SouthWest to its other
11 affiliates for the same item or items.

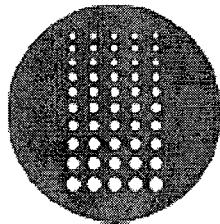
12 **Q. DOES SOUTHWEST PROVIDE SERVICES TO ANY UNAFFILIATED**
13 **PERSONS OR CORPORATIONS?**

14 A. No. SouthWest serves solely as a corporate parent to its subsidiaries and provides no
15 services to any third parties.

16 **VIII. CONCLUSION**

17 **Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?**

18 A. Yes.



**SouthWest
Water Company**

Cost Allocation Manual

Effective Date: August 26, 2019

Cost Allocation Manual

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1. INTRODUCTION

The purpose of this Cost Allocation Manual ("CAM") is to provide a detailed explanation of services provided by SouthWest Water Company ("SWWC" or "Company") and its affiliates to other entities within the SWWC organization and to describe the direct charge and indirect charge methodologies used for allocating those costs.

This CAM has been completed in accordance and conformance with the National Association of Regulatory Utility Commissioners *Guidelines for Cost Allocations and Affiliate Transactions* ("NARUC Guidelines"). More specifically, the founding principles of this CAM are to a) directly charge as much of the incurred costs as possible to the entity that procures any specific service, b) fairly allocate costs that cannot be directly charged to the Company's subsidiaries and c) ensure that unauthorized subsidization of unregulated activities by regulated activities, and vice versa, does not occur.

SWWC will periodically evaluate its cost allocation methodologies to determine if changes to such processes are appropriate, and revise those methodologies as necessary.

2. RESPONSIBILITY OF MAINTAINING THE CAM

The overall responsibility for SWWC's cost allocation policies and procedures will be with the SWWC Chief Financial Officer. The day-to-day responsibility for maintaining the CAM and ensuring that accounting records reflect the policies and procedures described in the CAM will be that of the SWWC Corporate Controller.

3. DEFINITIONS

- a. Affiliates - any entity whose outstanding voting securities are more than 10 percent owned or controlled, directly or indirectly, by SWWC. "Affiliate" does not include a mutual water company, a joint powers authority, other governmental or quasi-governmental agency or authority, a public/private partnership, a watermaster board, a water basin association, or a groundwater management authority in which the Company directly or indirectly participates or in which the Company is directly or indirectly a member or shareholder. For purposes of this CAM, "affiliate" does not refer to ownership levels above SWWC or other entities owned or controlled by such.
- b. Commission - Appropriate State Regulatory Commission (e.g. California Public Utilities Commission).
- c. Cost Allocation Manual/CAM - an indexed compilation and documentation of the Company's cost allocation policies and related procedures.
- d. Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).
- e. Cost Center - a function or service where costs are accumulated.
- f. Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.

- g. Department/Function – a function or service for which costs are accumulated.
- h. Direct Costs - costs incurred by one entity for the exclusive benefit of, or specifically identified with, one or more entities, and which are directly charged (or assigned) to the entity or entities that specifically benefit. Under the NARUC Guidelines, "Direct Costs" are defined as "costs which can be specifically identified with a specific service or product."
- i. Fully Allocated Costs – the sum of the direct, indirect, and other economic costs of all equipment, vehicles, labor, related fringe benefits and overheads, real estate, furniture, fixtures, computer hardware and software, and other administrative resources utilized, and other assets utilized and costs incurred, directly or indirectly in the providing of services from the Company to an affiliate.
- j. Common Costs/Indirect Costs - costs incurred by one entity that benefit all or multiple SWWC affiliates and which are charged to the benefiting affiliates using a methodology and set of logical allocation factors that establish a reasonable link between cost causation and cost recovery. Under the NARUC Guidelines, "Indirect Costs" are defined as "costs that cannot be identified with a particular service or product. This includes but is not limited to overhead costs, administrative, general, and taxes."
- k. Non-Regulated – those non-tariffed entities, products, and services which are not subject to rate and service regulation by state regulatory authorities.
- l. Regulated - that which is subject to rate and service regulation by state regulatory authorities.
- m. Shared Services – Corporate oversight, support, and services common to SWWC operations as a whole provided by the corporate functions of management, legal, information technology, finance, human resources, and facilities.
- n. Corporate Capital – assets utilized by Shared Services and/or utilized in common among affiliates.
- o. Subsidization - the recovery of costs from one class of customers or business unit, which are more properly attributable to another.

4. GENERAL PRINCIPLES

The following principles guide the allocation of costs for products or services provided by SWWC to its affiliates.

- To the extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service, or product provided;
- The general method for charging indirect costs should be on a fully allocated, cost-causative allocation basis;
- All direct and allocated costs should be traceable on the books of the applicable affiliate;
- Documentation regarding transactions between the regulated utility and its affiliates should be made available for review by the appropriate Commission or other regulatory authority upon request to address their reasonable concerns in their exercise of their responsibilities in examining any of the costs sought to be recovered by the utility in rate proceedings;

- The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost to all affiliates.

5. SWWC ORGANIZATIONAL STRUCTURE

SWWC is a private, investor-owned company currently providing water and wastewater utility services to customers in Alabama, California, Oklahoma, Oregon, South Carolina, and Texas. The Company is comprised of the following business units:

- Through water distribution facilities located in Los Angeles and Orange Counties, SWWC provides high-quality drinking water to customers located in California. These facilities operate as Suburban Water Systems ("SWS").
- Through water and wastewater facilities located throughout Texas, SWWC serves customers with water distribution and wastewater collection and treatment services to populations primarily in and around the cities of Austin, Ft. Worth, Houston, San Antonio, and several other parts of Texas. These facilities operate collectively as Texas Utilities ("TXU").
- Through wastewater collection facilities near the Birmingham and Huntsville areas in Alabama and through operations and maintenance contracts (to a much smaller extent), SWWC provides wastewater collection and treatment services to customers located in Alabama. These facilities operate collectively as Southeast Utilities ("SEU").
- Through water and wastewater facilities located in Oregon, SWWC serves customers with water distribution and wastewater collection and treatment services. These facilities operate collectively as Northwest Utilities ("NWU").
- Through water and wastewater facilities located on Kiawah Island, SWWC serves customers in South Carolina with water distribution and wastewater collection and treatment services. These facilities operate as Kiawah Island Utility ("KIU").

6. SCOPE OF SERVICES PROVIDED BY SWWC

Shared Services are provided by the SWWC corporate functions of management, legal, information technology, finance, human resources, and facilities. Costs associated with these Shared Services are allocated to cost centers within SWS, TXU, SEU, NWU, and KIU. These services are described below:

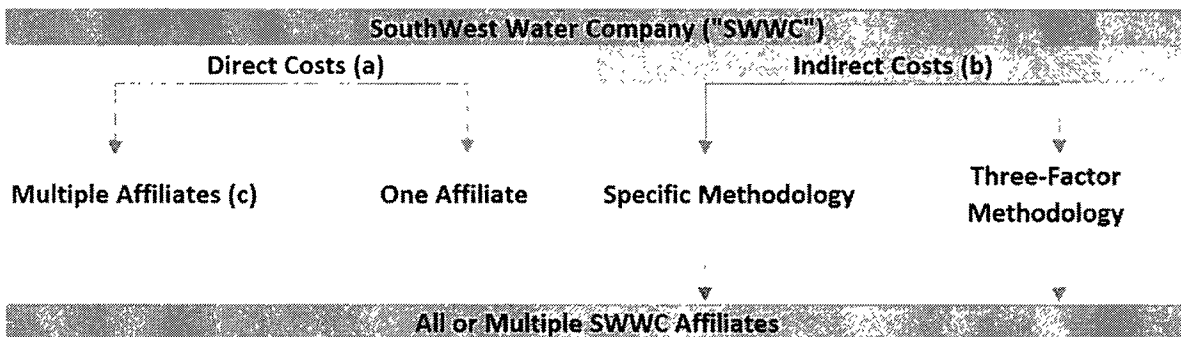
Service Provided	Description of Services Provided
Executive	The executive function is responsible for providing strategic vision and guidance, business strategy and development, executive management and oversight, and the overall direction of the company. The executive function consists of the Board of Directors and a core group of four senior executives; the CEO, COO, CFO, and General Counsel.
Legal	The legal function is responsible for corporate governance; transactional, employment, and real estate law; litigation, general legal affairs, and management of outside counsel.
Human Resources	The human resource function is responsible for effective policies and procedures in support of the workplace and the company in operation of the business, talent acquisition and retention, management of employee benefit and workers compensation

Service Provided	Description of Services Provided
	programs, employee and organizational development, compensation administration, succession planning, and rewards and recognition programs that drive performance.
Facilities	The facilities function is responsible for maintenance and operation of a corporate office located in Sugar Land, Texas and a consolidated records retention facility located nearby.
Finance	The finance function is responsible for the accurate and timely accounting for corporate transactions, the accurate and timely preparation of financial statements, preparation of budgets and forecasts, accounts payable, treasury, capital structure, risk management, audit, tax, and providing management with the financial information necessary for informed operating and financial decision making.
Information Technology	<p>The information technology function is responsible for identifying, implementing, and maintaining advanced and cost-effective systems solutions in support of Company business. This function is comprised of four groups as follows:</p> <p><u>Administration</u> – responsible for working with business units and vendors to ensure the highest quality of services to support business operations. Also develops short and long-range technology objectives, provides contract and project management, evaluates company business goals and objectives, and supports business units from a technology advisory standpoint.</p> <p><u>Infrastructure, Network, and Computer Desktop Support</u> – responsible for the planning, architecture, implementation, administration, and support of Company data, telecommunications, wide area network infrastructure, and database servers. Also provides frontline desktop and helpdesk technical support, procurement and management of IT assets and serve as the primary point of contact for end users and their computer or system needs.</p> <p><u>Information and Cyber Security</u> – responsible for the security configuration of all enterprise systems, IT governance and controls, and risk mitigation. Also develops and configures security roles in all enterprise systems, creates and terminates users, performs password resets, and configures permissions on Outlook public folders and servers. This function monitors automated and manual malicious attacks of company, employee and customer information assets and identifies, analyzes, and mitigates associated risks.</p> <p><u>Business Applications</u> – responsible for managing the ongoing systems-related business processes, administration, development and project management for company SAP enterprise system to include (1) the core functions of financials, material management, sales and distribution, human resources, payroll and benefits, (2) the industry specific solutions for utilities functions for accounts, meters and meter reading, bill and bill print, and customer</p>

Service Provided	Description of Services Provided
	relationship management, and (3) business reporting tools. Also responsible for the configuration and maintenance of customer-facing billing and payment applications to ensure the ease-of-use process for customers to view and provide payment for their bills.

7. COST ALLOCATION METHODOLOGY

As illustrated in the figure below, SWWC incurs two types of costs that are passed on to its affiliates: (1) SWWC's costs that directly benefit a particular affiliate, which are directly identifiable with that affiliate (direct costs); and (2) SWWC's costs that are not identifiable with particular affiliates and which benefit all or multiple affiliates (indirect costs).



- (a) Costs that are directly assignable to an SWWC Affiliate
- (b) Costs that benefit all SWWC Affiliates. Certain indirect costs are subject to specific allocation methodologies, while all other indirect costs are allocated using the Three-Factor Methodology.
- (c) Costs that are directly assignable to two or more affiliates, but not all of the affiliates. These costs are directly assigned to affiliates as per the vendor invoice or equally if not specified on invoice.

On occasion there may be costs which are incurred for the benefit of two or more affiliates, but not all of the affiliates. These costs are directly assigned to affiliates as per the vendor invoice, or, if the invoice doesn't specify a share for each affiliate, the costs are generally assigned equally to the affiliates that benefited from the service.

Certain types of direct costs are allocated based on the methodologies in the table below:

Type of Cost	Allocation Methodology
Consolidated insurance coverages	The cost of certain of the Company's consolidated insurance coverages are allocated to affiliates based on the cost driver that determined the pricing of the policy. For example, the cost of property insurance is allocated to affiliates based on their respective property values as a proportion of the total property value of the Company.
Earnings allowances (bank)	Certain earnings allowances from the Company's primary banking relationship are allocated to affiliates based on their

Type of Cost	Allocation Methodology
	respective bank fees as a proportion of total bank fees of the Company.
Employee medical insurance administrative charges and other ancillary employee benefits	Administrative charges related to the employee medical insurance plans and the cost of other ancillary employee benefits are allocated to affiliates based on their respective headcounts as a proportion of the total headcount of the Company.
Employee dental insurance	The cost of employee dental insurance is allocated to affiliates based on their number of employees participating in the dental plan as a proportion of the total number of employees participating in the Company's dental plan.
IT Maintenance Costs	The cost of on-going maintenance of the Company's Enterprise Resource Planning ("ERP") System and Microsoft applications is allocated to affiliates based on their number of software licenses as a proportion of the total number of software licenses of the Company.

Indirect Cost Allocation

Three-Factor Methodology

The Three-Factor Methodology is used to allocate costs which are either not directly assigned to an affiliate or are not subject to any of the specific allocation methodologies noted above. Based on its combination of regulated and non-regulated affiliates, an allocator comprised of the three components listed below best reflects the underlying cost drivers associated with the circumstances and business model of SWWC. The Company utilizes the following factors, equally weighted:

- Gross Plant;
- Operating Expenses Including Payroll Expenses; and
- Payroll Expenses

The three-factor formula used to allocate the SWWC Shared Services costs is determined using the process shown below. Note: the information below provides a simplified hypothetical example to demonstrate how the Three-Factor Methodology would be calculated based on allocation to only two hypothetical affiliates.

Three-Factor Methodology Example

Factor	Affiliate 1	Affiliate 2	Affiliates Total	Affiliate 1 % of Total	Factor Weight	Affiliate 1 Allocation
Gross Plant (\$)	700	550	1,250	56.0%	33.3%	18.7%
Operating Expenses Including Payroll Expenses(\$)	102	48	150	68.0%	33.3%	22.7%
Payroll Expenses (\$)	45	30	75	60.0%	33.3%	20.0%
Total Allocation						61.4%

As can be seen from these hypothetical numbers in the table above, Affiliate 1 would be allocated 61.4% of the total indirect costs incurred by SWWC, based on application of the Three-Factor Methodology. Affiliate 2 would be allocated the remaining 38.6%.

8. CORPORATE CAPITAL

SWWC makes certain capital investments such as corporate headquarters, IT systems, etc. that benefit the various operating affiliates. The costs of these investments are distributed monthly in the form of an intercompany operating expense charge which captures the depreciation expense and cost of capital associated with the particular assets, or an alternative method of capital allocation based on the particular needs of the project. All costs to service the investment, including the cost of capital, depreciation, and all other associated costs, are allocated to SWWC's affiliates using the Three-Factor Methodology. From time to time, the distribution of costs associated with a particular corporate capital investment may use an alternate method.

9. AUDIT, RECORD KEEPING & AFFILIATE TRANSACTION RULES

Records of each affiliate will be maintained such that all affiliate transactions are auditable. The records will document the cost of transactions, the methods used to distribute the costs, and descriptions of the services provided. The regulator will have access to records, consistent with applicable laws, regarding transactions between SWWC and its affiliates. All affiliates subject to affiliate transaction rules, whether state or federal, will comply with such requirements.

10. UPDATING ALLOCATIONS

The Three-Factor Methodology allocation percentages are updated annually. The updated percentages come into effect each January 1st and are valid through December 31st. The factors and weightings are expected to remain constant; it is the underlying information used to calculate the allocation percentages that is updated annually, such as the most recent gross plant figures, or the most recent operating expenses, for example. With respect to the Company's internal accounting records, these annual updates to the allocation percentages are based on the most recent actual information (for gross plant) and budgeted information (for operating expenses and payroll expenses). However, with respect

to rate case proceedings for the Company's regulated affiliates, the underlying information for the factors will be based on the applicable recorded year or historical test year.

An entity/affiliate acquired or sold by SWWC is not added to or deducted from the Three-Factor Methodology until the year following such acquisition or disposition.

11. REGIONAL BUSINESS UNIT ALLOCATIONS

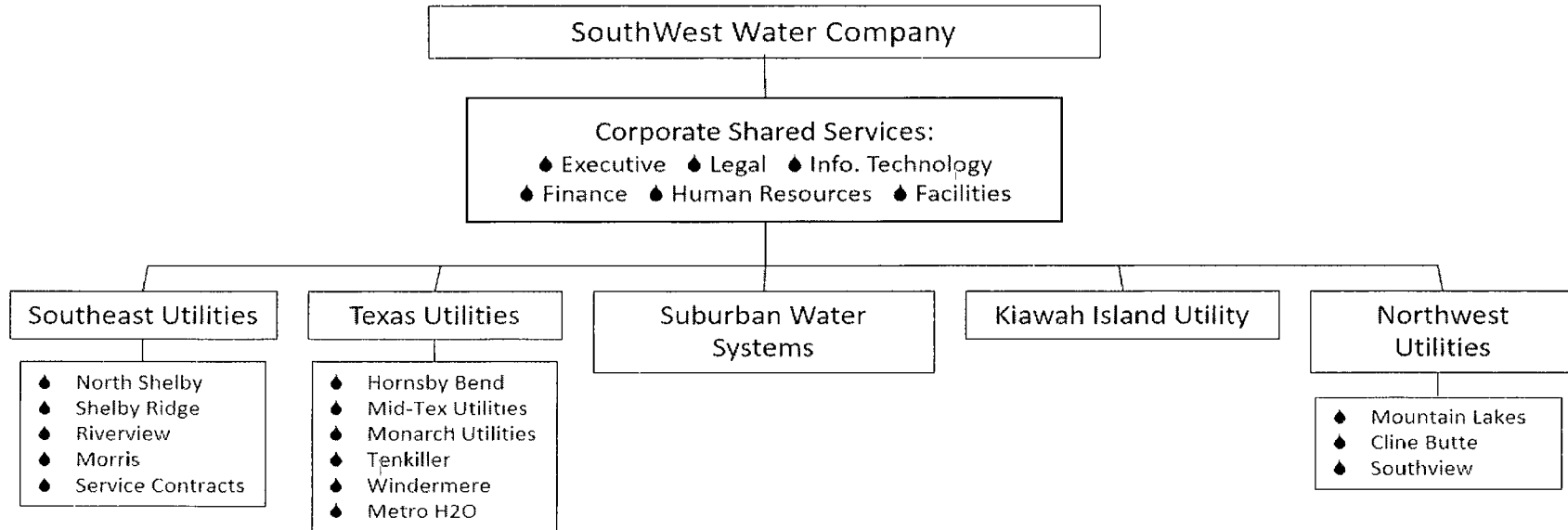
Certain shared goods and services may be provided by business units to the business unit's operating facilities or to those of another business unit. The costs of these services may be categorized as direct or indirect.

Direct costs are assigned directly to the cost center of the specific benefitting facility incurring the services. Indirect costs are allocated to cost centers based on a reasonable allocation methodology, such as Equivalent Dwelling Units ("EDUs") or Meter Equivalents. An EDU is the estimated average sanitary flow from a single-family dwelling. Meter equivalents are calculated by multiplying prior year end "active" connections by the meter equivalent factors published by the American Water Works Association ("AWWA"), as shown in the following table.

Meter Size	Meter Equivalent factor based on 5/8"
5/8 inch	1.00
3/4 inch	1.50
1 inch	2.50
1-1/2 inch	5.00
2 inch	8.00
3 inch	15.00
4 inch	25.00
6 inch	50.00
8 inch	80.00
10 inch	115.00

Source: AWWA Costs

Operational Organization Structure



As of December 31, 2019

TOTAL CORPORATE COSTS BY CORPORATE FUNCTION

Function	2019 - Adjusted Test	
	Year	% of Total
Executive	\$ 3,675,923	29.9%
Facilities	609,734	5.0%
Finance	3,564,955	29.0%
Human Resources	1,024,680	8.3%
Information Technology	3,310,436	26.9%
Legal	126,457	1.0%
Total	\$ 12,312,184	100.0%

3-Factor Calculation
2019 Test Year

Business Unit	Factor 1: Direct Operating Expense 2019 Actuals		Factor 2: Payroll Expense 2019 Actuals		Factor 3: End of Year Gross Plant Recorded YE 2019		3 Factors %	
	Amount \$	%	Amount \$	%	Amount \$	%	Total	Average
Total Suburban Water Systems	44,223,581	45.9%	10,799,837	41.0%	326,739,907	41.5%	128.4%	42.8%
Total Northwest Utilities	1,763,541	1.8%	458,153	1.7%	24,765,521	3.1%	6.6%	2.2%
Texas Utilities								
Monarch Utilities	21,555,290	22.4%	7,314,488	27.8%	181,835,335	23.1%	73.2%	24.4%
Windermere	5,029,642	5.2%	1,767,622	6.7%	56,334,343	7.2%	19.1%	6.4%
Hornsby Bend Ops	2,833,680	2.9%	674,308	2.6%	40,489,323	5.1%	10.6%	3.5%
Mid-Tex	742,567	0.8%	104,770	0.4%	3,350,748	0.4%	1.6%	0.5%
Tenkiller	542,685	0.6%	193,115	0.7%	1,188,311	0.2%	1.4%	0.5%
Metro H2O	1,142,447	1.2%	202,179	0.8%	1,359,585	0.2%	2.1%	0.7%
Total Texas Utilities	31,846,310	33.1%	10,256,482	38.9%	284,557,645	36.1%	108.1%	36.0%
Total Southeast Utilities	11,385,538	11.8%	3,958,162	15.0%	101,389,770	12.9%	39.7%	13.2%
Total Kiawah Island Utility	7,120,536	7.4%	884,755	3.4%	50,209,159	6.4%	17.2%	5.7%
TOTAL	96,339,506	100.0%	26,357,388	100.0%	787,662,002	100.0%	300%	100.0%

PUC DOCKET NO. 50994

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

DIRECT TESTIMONY

OF

JEFF FARNEY

ON BEHALF OF

MONARCH UTILITIES I L.P.

JULY 15, 2020

**DIRECT TESTIMONY OF
JEFF FARNEY**

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ATTACHMENTS

Attachment JF-1	Letter Supporting Amazon Web Services Infrastructure Decision
Attachment JF-2	Memo Regarding Cybersecurity and Cloud Computing Program (CONFIDENTIAL)

PUC DOCKET NO. 50994

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

DIRECT TESTIMONY OF
JEFF FARNEY

I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jeff Farney. My business address is 12535 Reed Rd., Sugar Land, Texas
77478.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by SouthWest Water Company (“SouthWest”) as Vice President of
Information Technology (“IT”) within its Corporate Shared Services.

Q. BRIEFLY DESCRIBE YOUR PRESENT EMPLOYMENT.

A. In my current position, I am responsible for defining, implementing, and maintaining
efficient, effective, and secure technology solutions that support SouthWest business
operations, including Monarch Utilities I L.P. (“Monarch”).

**Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
BACKGROUND.**

A. I earned a Mechanical Engineering degree from the University of Texas at Austin in
1988 and a Master of Business Administration from Texas Tech University in 1990.
I am also a graduate of the Federal Bureau of Investigation (“FBI”) Chief Information
Security Officer (“CISO”) Academy in 2017, which focused on cyber security
briefings and threat intelligence associated with the water industry. I have been with
SouthWest since October 2012 and am responsible for IT Strategy and Operations for

1 Applications, Infrastructure, Telecommunications, and Cyber Security. Prior to
2 joining SouthWest, I worked primarily in the IT consulting field, including 12 years
3 with Accenture, with my last role as Associate Partner in the Energy & Utilities
4 Practice. I also spent eight years at LyondellBasell Chemical as Global Head of
5 Information Services supporting the Human Resources and Finance function
6 applications.

7 I have a total of 30 years of experience in IT, including approximately 25
8 years in project and organization management responsible for planning and executing
9 small-, medium-, and large-scale programs, plus managing IT departments
10 responsible for internal customer service.

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

13 A. No.

14 **II. PURPOSE OF DIRECT TESTIMONY**

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

16 A. I am testifying on behalf of Monarch.

17 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
18 **PROCEEDING?**

19 A. The purpose of my direct testimony in this proceeding is to discuss SouthWest's
20 capital program as it relates to IT infrastructure investment.

21 **Q. WAS THIS MATERIAL PREPARED BY YOU OR UNDER YOUR**
22 **SUPERVISION?**

23 A. Yes, it was.

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

3 A. Yes, I do.

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

6 A. Yes, it does.

7 Q. WHAT SCHEDULES IN THE RATE FILING PACKAGE ARE YOU
8 SPONSORING?

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

10 III. CAPITAL PROGRAM

11 Q. PLEASE IDENTIFY THE IT ELEMENTS OF SOUTHWEST'S 2019
12 CAPITAL PROGRAM.

13 A. The table below shows a summary of the IT elements of SouthWest's 2019 capital
14 program:

<u>IT Element</u>	<u>Amount</u>
Cyber Security	\$257,619.87
Facilities	\$13,131.06
Hardware	\$828,698.74
Software/Website	\$433,126.51
Telecommunications	\$846,416.48
SAP Upgrades	\$2,905,452.30

15 Q. PLEASE DESCRIBE THE IT ELEMENTS OF SOUTHWEST'S 2019
16 CAPITAL PROGRAM.

17 A. IT components of SouthWest's 2019 capital program include the following:

- 18 • Cyber Security—The scope of the cyber security implementation was primarily to
19 implement appliances that identify, protect, detect, and respond to cyber security

1 threats. The scope of these efforts included malware anti-virus software that uses
2 advanced technology to identify and mitigate threats, plus configuration of
3 SouthWest's firewall appliances that protect the corporate network. As part of
4 each of these components, SouthWest leverages its relationships with government
5 law enforcement organizations including the FBI, Infragard, and Water
6 Information Sharing and Analysis Center ("ISAC"). Through my involvement
7 with these groups, I have relationships with the Houston FBI field office that have
8 been very beneficial in bolstering our readiness and cyber posture to work to
9 prevent and mitigate attacks.

- 10 • Facilities—The scope of this spend included upgrading the building security
11 system at SouthWest's corporate headquarters in Sugar Land, Texas, where the
12 Texas Utilities management, accounting, and customer service teams work.
- 13 • Hardware—The scope of this work included implementing computing hardware
14 in both the Houston and the Dallas disaster recovery data centers. Also included
15 was an important hardware item called an uninterruptable power supply ("UPS"),
16 plus the procurement and deployment of computers and monitors for employees,
17 hardware in the data center that supports a Wifi upgrade, and an important switch
18 and router upgrade for the Sugar Land, Texas office.

19 The computing hardware in both the Houston and Dallas data centers
20 supported key operations for the primary and backup computing resources.
21 Among the applications supported by this hardware are Geographical Information
22 System ("GIS") technology and associated servers for storage plus cyber security.
23 The UPS installed in SouthWest's corporate headquarters in Sugar Land,
24 Texas—where the Texas Utilities management, accounting, and customer service

1 teams work—helps ensure that electrical power to the customer call center
2 remains online even during power outages of short and long duration. The
3 computer equipment that connects to the SouthWest network is for employees to
4 support business operations and customer service whether at the office or working
5 remote. The Wifi upgrade is necessary to sustain current technology, and the
6 associated cyber security protocols to protect data access and information
7 transfers.

- 8 • Software/Website—The scope of this work was a combination of upgrading
9 SouthWest’s website—that also includes Monarch’s website hosting—installing
10 software that backs up a critical virtual computing platform called VM Ware,
11 and the implementation of the upgraded SouthWest email and collaboration
12 platform called Office 365. The new website features the presentation of useful
13 information for customers, including Monarch customers, which allows them to
14 work in a self-service manner. For example, Monarch customers were able to
15 use the updated website to sign up for text alerts for billing and outage
16 notifications. When complete, the upgraded website will be fully ADA
17 compliant and also provide content in Spanish. Many of the computing
18 resources run on what are known as virtual machines, which are extremely
19 efficient and flexible as compared to traditional hardware servers. There is
20 unique technology that performs backups for this type of computing, and this
21 was the scope. The Office 365 implementation was a strategic upgrade of both
22 the email processing platform and an associated collaboration suite. With the
23 email servers managed by Microsoft, SouthWest was able to reduce risk
24 associated with both email security and reliability. The collaboration suite that

1 includes Teams, One Drive, and SharePoint has been instrumental to supporting
2 employees and business processes during the remote workforce model during the
3 2020 COVID-19 pandemic.

- 4 • Telecommunications—This project included the software, hardware, and labor to
5 implement the call center standard platform Cisco Collaboration Enterprise
6 Solution and a product called Unified Contact Center Express. The scope
7 included voice instant messaging audio and video conferencing. It offers an
8 integrated customer support technology platform with the market leader in
9 customer call center automation, and provides excellent service for customers.
10 In addition, it offers a fully integrated suite of products as opposed to a disjointed
11 architecture requiring resources to manage multiple vendors to run the Call
12 Center adjunct applications. With the Cisco platform, various features are
13 geared toward improving the efficiency of customer service, such as: 1) Courtesy
14 Customer Callback if they choose to not sit on hold; 2) customer web-based chat,
15 teleconferencing, and video conferencing; and 3) unified communications
16 software that integrates with Office 365. This platform also enabled our call
17 center agents to work remotely during the COVID-19 pandemic and continue to
18 take customer calls via the Cisco platform. In addition, employees were able to
19 utilize some of the collaboration tools available including the video conferencing
20 application called Cisco WebEx.

21 Another important need met by this upgrade is that the hardware to be
22 replaced would have been approximately ten years old and thus increasingly
23 unstable and vulnerable to cyber threats that were neither known nor understood
24 when the platform was designed.

- 1 • SAP Upgrades—The coordinated effort of upgrading SAP to its most recent
2 proven commercialized version (referred to as the “SAP Upgrade”) plus
3 implementing SAP’s in memory data base platform Business Suite on Hana
4 (referred to as “Hana”) provided numerous benefits to SouthWest and Monarch’s
5 customers, as well as business operations and information technology support.
6 The SAP Upgrade scope involved technically moving from the prior version of
7 SAP being used by SouthWest, called ERP Central Component (“ECC”) and
8 Customer Relationship Management & Billing (“CRM&B”) Enhancement Pack
9 4 (“EP4”), to ECC CRM&B EP8 for Hana. To provide context on how critical
10 these applications are to the business, ECC and CRM&B run applications that
11 include modules within the SAP Industry Solution Utilities package (“ISU”),
12 Financial / General Ledger / Controlling (“FICO”), Customer Accounting
13 (“FICA”), Metering and Meter Read Interfaces, Billing and Collections,
14 Inventory Management, Procurement, Service Order Management, Customer
15 Information System (“CIS”), Human Resources (“HR”), Benefits, and Payroll.
16 SouthWest had been using EP4 since the original implementation in 2011.
17 Without this upgrade, the system would have become increasingly unstable and
18 the likelihood of application failures and security breaches would have increased,
19 along with the risk of negatively affecting business operations and customer
20 service.

21 The upgrade also provided cyber security updates that contribute to
22 compliance with Payment Card Industry (“PCI”) regulations that protect
23 customer cardholder information. By upgrading the system to the current
24 version of ECC EP8, many risks to our customers were greatly reduced. SAP

1 Business Suite on Hana (replacing Microsoft SQL Server database) is a database
2 that not only supports the ECC modules noted previously but also brings together
3 transactions and analytics on a single in-memory platform in order to improve
4 performance and functionality. This allows for elimination of the existing SAP
5 ECC & CRM&B interfaces to Microsoft SQL Databases, which is not ideal as it
6 included a multi-vendor solution and required constant attention.

7 The Hana platform will provide many other benefits. A significant
8 number of manual processes and technical interfaces were required to move data
9 from the transactional system (ECC) to the reporting system (Business
10 Warehouse) in order to produce information for the Texas Public Utility
11 Commission. The Hana platform puts this information in one central location
12 and thus enables improved timeliness and quality of reporting. Implementing
13 Hana in conjunction with the upgrade also allows for the eventual
14 implementation of Advanced Metering Infrastructure (“AMI”), and the ability to
15 store and process large amounts of data that interface with smart meters to help
16 customers better manage water consumption. Hana also includes advanced
17 analytics to enable improved customer service.

18 **Q. PLEASE IDENTIFY THE IT ELEMENTS OF SOUTHWEST’S 2018**
19 **CAPITAL PROGRAM.**

20 A. The table below shows a summary of the IT elements of SouthWest’s 2018 capital
21 program:

<u>IT Element</u>	<u>Amount</u>
Cyber Security	\$46,197.92
Facilities	\$41,438.10
Hardware	\$56,068.44
Software / Website	\$8,053.80
SAP Upgrades	\$164,187.07
Infrastructure Reliability Upgrade	\$1,550,370.00

1 **Q. PLEASE DESCRIBE THE IT ELEMENTS OF SOUTHWEST'S 2018**
2 **CAPITAL PROGRAM.**

3 A. The IT components of SouthWest's 2018 capital program include the following:

- 4 • Cyber Security—The scope of the cyber security implementation was primarily
5 the procurement of licenses for the email gateway that monitors inbound and
6 outbound emails and address any cyber security issues. Among the items that this
7 security application addresses are threats involving malware, ransomware, and
8 payloads that are sent via email.
- 9 • Facilities—The scope of this spend covered upgrades of two air conditioner units
10 at SouthWest's corporate headquarters in Sugar Land, Texas where the Texas
11 Utilities Management, Accounting, and Customer Service groups operate.
- 12 • Hardware—The scope of the hardware implementation included refreshing laptop
13 computers and monitors for employees after the three- to four-year window
14 expired for their prior machines. As part of this effort, the computer operating
15 systems were upgraded to Microsoft Windows 10, which enabled a number of
16 functional enhancements and cyber security features.
- 17 • Software/Website—The scope of this project was primarily to procure software
18 licenses to support employee computing needs.
- 19 • SAP Upgrades—The scope of this area included key human resources and payroll
20 items, such as updating SouthWest's payroll systems to account for the Federal

1 Tax Cut and Jobs Act. In addition, new automation was implemented to enhance
2 customer service processes. These included improved precision to help field
3 workers identify premise addresses in large complexes to reduce the time of
4 service. Other items include supporting non-utility billing to unify the customer
5 payment experience for supplementary services like backflow testing.
6 Automation was also implemented to provide additional installment plans for
7 customers who needed extra time to pay their invoices.

- 8 • Infrastructure Reliability Upgrade—In order to enhance the robustness of the
9 computing infrastructure, we implemented an Infrastructure as a Service
10 (“IAAS”) model to run SouthWest’s SAP system hosted by Amazon Web
11 Services (“AWS”). This was in lieu of purchasing hardware for a leased data
12 center, and was the best approach for supporting this platform and ultimately
13 providing service to our customers in a reliable and cost-effective manner. After
14 consultation with industry experts, an agreement was reached with AWS for cloud
15 computing services for a 41-month period from July 2018–November 2021. The
16 parties are also working on an extension through 2023, and this approach and
17 budget has been approved by SouthWest’s board of directors.

18 Recommendations for the best approach (traditional data center vs. IAAS
19 via AWS) were provided by smartShift Technologies, which is included with my
20 direct testimony as Attachment JF-1. Protiviti—a leading cyber security
21 firm—documents Protiviti’s support of the Cloud Computing Strategy, as well as
22 the excellent track record of SouthWest in terms of cyber security, in a memo
23 included with my direct testimony as Confidential Attachment JF-2.

1 Q. PLEASE IDENTIFY THE IT ELEMENTS OF SOUTHWEST'S 2017
2 CAPITAL PROGRAM.

3 A. The table below shows a summary of the IT elements of SouthWest's 2017 capital
4 program:

<u>IT Element</u>	<u>Amount</u>
Cyber Security	\$81,119.91
Hardware	\$62,161.57
Software / Website	\$857,771.50
SAP Upgrades	\$139,642.21

5 Q. PLEASE DESCRIBE THE IT ELEMENTS OF SOUTHWEST'S 2017
6 CAPITAL PROGRAM.

7 A. IT components of SouthWest's 2017 capital program include the following:

- 8 • Cyber Security—The scope of the cyber security implementation involved the
9 implementation of upgraded technology to secure customer payment information,
10 plus an upgrade of the SouthWest's virtual private network ("VPN") technology
11 called Net Motion. The VPN allows employees to access SouthWest's network
12 while not physically located in one of our offices in a safe and secure manner.
13 This also serves as a perimeter defense against cyber attacks.
- 14 • Hardware—The primary component of the hardware purchase was a Wifi
15 Controller that manages the Wifi access points distributed throughout office
16 workplaces. Wifi enables employees to access SouthWest's network and
17 computer applications to provide customer service and back office functions.
- 18 • Software/Website—The primary scope of the software implementation was an
19 upgrade of the software used to support our field operations via a work order,
20 dispatch, and tracking system called Work Manager. This system is integrated

1 with SAP and the customer service functionality and enables an automated,
2 efficient process by which the field operator can respond to customer requests,
3 asset maintenance, and other mission critical operations processes.

- 4 • SAP Upgrades—The primary scope in this area included upgrading functionality
5 that provides services for our customers. Among the items that enhanced
6 customer service processes included automating the customer refund process,
7 adding new billing and payment functionality, and supporting customer service
8 metric reporting. In addition, some of the configuration that supports employee
9 human resources processes, such as time entry and overtime tracking, were
10 enhanced. Features that automate the processing and posting of customer
11 payments to their accounts were also upgraded.

12 IV. ALLOCATIONS AND BENEFITS

13 **Q. HOW ARE SOUTHWEST'S IT PROJECTS ALLOCATED TO MONARCH?**

14 A. Mujeeb Hafeez provides detail in his direct testimony on the allocations to Monarch
15 of corporate costs, including parent company rate base, of which the above-described
16 projects are part.

17 **Q. PLEASE DISCUSS SPECIFICALLY HOW MONARCH'S CUSTOMERS**
18 **BENEFIT FROM SOUTHWEST'S CAPITAL IT PROJECTS.**

19 A. The benefits of SouthWest's IT projects accrue to customers of all its operating units,
20 including Monarch. A strong corporate IT function enhances reliability and security
21 of the systems that are necessary to provide safe and reliable water and wastewater
22 service.

1 **Q. IN YOUR OPINION ARE SOUTHWEST'S CAPITAL IT PROJECTS ALL**
2 **USED AND USEFUL FOR MONARCH'S PROVISION OF UTILITY**
3 **SERVICE TO ITS CUSTOMERS?**

4 A. Yes, based on my role as Vice President of IT, I can attest that all of the capital IT
5 projects listed in my testimony are all used and useful to the provision of service to
6 Monarch's customers and aid in the reliability and security of the systems that are
7 necessary to provide safe and reliable water and wastewater service.

8 **V. CONCLUSION**

9 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

10 A. Yes, it does.



6 Liberty Sq., Suite 2214, Boston, MA 02109
Phone: 617-528-2100 | Fax: 716-535-1695
connect@smartshiftech.com

July 26, 2019

Mr. Jeff Farney
Director IT
SouthWest Water Company
12535 Reed Road
Sugar Land, TX 77478

RE: SAP Infrastructure Selection

Dear Mr. Farney,

This letter has been prepared by smartShift Technologies to provide feedback on SouthWest Water Company's decision to select Amazon Web Services (AWS) to provide infrastructure hosting for SouthWest Water Company's critical SAP systems.

smartShift Technologies, headquartered in Boston, is a global technology and services provider specializing in SAP and enterprise system modernization and migration. smartShift has completed over 700 successful SAP modernization projects. Six of the top-ten SAP customers in the world utilize smartShift's technology and expertise. smartShift is also a consulting, migration, and managed service provider partner to leading cloud infrastructure providers including AWS, Microsoft Azure, Google Cloud, Virtustream, and others. smartShift does not have exclusivity agreements with any infrastructure vendors and provides vendor agnostic guidance and support for its customers.

smartShift was engaged by SouthWest Water Company in 2017 to provide advisement services for SouthWest Water Company's SAP upgrade initiative. smartShift reviewed SouthWest Water Company's existing infrastructure, present-state and proposed future-state SAP landscapes, proposed architectures, and goals and objectives with respect to critical and necessary upgrades to modernize SouthWest Water Company's SAP systems.

smartShift facilitated a review and vendor selection process to identify and evaluate best-in-class infrastructure options for SouthWest Water Company's SAP systems, including comparison of traditional on premise options to offerings now available from cloud hyperscalers such as AWS and private cloud specialist infrastructure providers such as Virtustream. During the evaluation, AWS's Cloud Economics Team was also engaged to provide assistance with overall cost optimization review and to support verification of accounting treatment in alignment with SouthWest Water Company's finance team and independent accountants.

As a result of the evaluation and selection process, Amazon Web Services was selected at the best-choice provider for SouthWest Water Company's SAP infrastructure needs.

The following were key findings supporting the decision to use AWS for SouthWest Water Company's SAP infrastructure:

- SAP certified infrastructure, best practices, and solution offerings for SAP on AWS have matured since 2016 and are now market leading. In-fact, SAP itself utilizes AWS infrastructure for the SAP National Security Services Secure Cloud and for SAP's HEC (HANA Enterprise Cloud) infrastructure service offerings.



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- AWS is able to provide a more cost effective solution vs. other alternatives, making AWS a good fiscal choice.
- AWS is able to provide far higher reliability than is possible via a traditional data center approach and at far lower cost. For example AWS provides multi-data center and multi-region availability and disaster recovery, and Amazon's S3 storage reliability is unsurpassed at 99.999999999% design durability.
- AWS is able to provide greater information and asset security than would be possible via a traditional data center approach. This is confirmed by both Forrester Research, and Gartner, made evident by AWS's market-leading assurance program certifications, and demonstrated by the use of AWS as a strategic vendor by high-security national security and defense organizations including the DoD, NSA, and CIA.
- AWS is able to support capitalization accounting requirements and enhanced system security through their "dedicated hosts" capability, which provides the ability to reserve and use specific, dedicated physical machines.

After evaluating the alternatives, for the reasons noted above as well as the favorable overall economics, improved reliability for SouthWest Water users and customers, and ability to support future business demands without constraints, SouthWest Water Company selected AWS. It is smartShift's professional opinion that this decision was and remains an excellent choice.

Sincerely,

Jack (Scott) Loose

VP of Operations

smartShift Technology, Inc.

sloose@smartshiftech.com

617-335-5100

**Attachment JF-2 is
Confidential and being
provided under seal.**

PUC DOCKET NO. 50994

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

DIRECT TESTIMONY

OF

EDWARD TAUSSIG

ON BEHALF OF

MONARCH UTILITIES I L.P.

JULY 15, 2020

**DIRECT TESTIMONY OF
EDWARD TAUSSIG**

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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
EDWARD TAUSSIG

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Edward Taussig. My business address is 12535 Reed Road, Sugar Land,
4 TX 77478.

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

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

8 Q. BRIEFLY DESCRIBE YOUR PRESENT RESPONSIBILITIES.

9 A. My present responsibilities consist of assisting Kirk Michael, Chief Financial Officer
10 of SouthWest, and Jeffrey L. McIntyre, President of Monarch, on Financial Planning
11 and Analysis matters.

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

14 A. My professional and educational experience encompasses functions including audit,
15 contract management, financial analysis, operations, and strategic planning. I
16 graduated from The University of Texas at Austin with a BA in Finance and A.B.
17 Freeman School of Business with an MBA in Finance. I have been working in the
18 Texas Utilities business unit of SouthWest for 12 years. Before that, I was employed

1 in various financial roles in the aerospace, banking, computer hardware and software,
2 and natural gas transmission industries.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

4 A. No.

5 **II. PURPOSE OF DIRECT TESTIMONY**

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

7 A. I am testifying on behalf of Monarch.

8 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
9 **PROCEEDING?**

10 A. The purpose of my direct testimony in this proceeding is to discuss Texas field
11 operations and business operations costs and allocations. I also discuss Monarch's
12 labor costs, including both payroll costs and employee headcount.

13 **Q. WAS THIS MATERIAL PREPARED BY YOU OR UNDER YOUR**
14 **SUPERVISION?**

15 A. Yes, it was.

16 **Q. INsofar AS THIS MATERIAL IS FACTUAL IN NATURE, DO YOU**
17 **BELIEVE IT TO BE CORRECT?**

18 A. Yes, I do.

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

21 A. Yes, it does.

1 Q. WHAT SCHEDULES IN THE RATE FILING PACKAGE ARE YOU
2 SPONSORING?

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

4 III. TEXAS MANAGEMENT COSTS AND ALLOCATIONS

5 Q. PLEASE SUMMARIZE SOUTHWEST'S ORGANIZATIONAL STRUCTURE
6 WITHIN THE STATE OF TEXAS.

7 A. Texas Utilities ("TXU") is a business unit of SouthWest.¹ TXU consists of four
8 utilities: 1) Monarch; 2) SWWC Utilities, Inc.; 3) Midway Water Utilities, Inc.; and
9 4) Metro Water Systems, Inc. Monarch is the largest utility in TXU, with water and
10 wastewater operations in 34 counties and serving approximately two-thirds of TXU's
11 overall connections.

12 In response to the Commission's request for increased transparency of cost
13 allocations, TXU reorganized its organization structure to house the majority of
14 employees in Monarch. Monarch contains employees in two general classifications:
15 (a) Field Operations employees handling day-to-day field work in utility service
16 areas; and (b) Business Operations employees providing administrative, customer
17 service, accounting, regulatory, legal, and engineering functions supporting the
18 business.²

19 Q. PLEASE DESCRIBE THE COSTS INCURRED ASSOCIATED WITH FIELD
20 OPERATIONS EMPLOYEES DURING THE 2019 TEST YEAR.

¹ See detailed description of SouthWest corporate structure in the testimony of Mujeeb Hafeez.

² These employees are identified in the Cost Allocation Manual as Regional Business Unit Allocations. See Schedule VI-4.1 Cost Allocation Manual: Item 11, Page 8.

1 A. Key categories of Field Operations costs incurred during the test year include
2 employee, production and treatment, materials and repairs, vehicles, information
3 technology, and property taxes.

4 **Q. PLEASE DESCRIBE HOW FIELD OPERATIONS COSTS ARE CHARGED**
5 **TO MONARCH.**

6 A. Field Operations costs are charged to Monarch either directly via a work order or
7 allocated across the four TXU utilities based on American Water Works Association
8 (“AWWA”) meter equivalents. The Cost Allocation Manual describes the method for
9 Regional Business Unit Allocations.³

10 **Q. WHAT AMOUNT OF FIELD OPERATIONS COSTS ARE INCLUDED IN**
11 **MONARCH’S REQUESTED REVENUE REQUIREMENT?**

12 A. The total amount of allocated TXU Field Operations shared costs included in
13 Monarch’s requested revenue requirement is \$7,799,553.⁴

14 **Q. PLEASE DESCRIBE THE COSTS THAT WERE INCURRED ASSOCIATED**
15 **WITH BUSINESS OPERATIONS EMPLOYEES DURING THE 2019 TEST**
16 **YEAR.**

17 A. Key categories of Business Operations costs incurred during the test year include
18 employee, office lease, vehicle, printing, communications, office supplies,
19 information technology, bad debt, bank charges, gross receipts taxes, regulatory fees,
20 insurance, travel related, and professional fees.

³ See Schedule VI-4.1 Cost Allocation Manual: Item 11, Page 8.

⁴ See Monarch East Shared and West Shared (line 47 and 61) in Schedule IV-9.

1 **Q. PLEASE DESCRIBE HOW MANAGEMENT COSTS ARE ALLOCATED TO**
2 **MONARCH.**

3 A. Business Operations costs are allocated across the four TXU utilities based on
4 AWWA meter equivalents as described in the Cost Allocation Manual.

5 **Q. WHAT AMOUNT OF ALLOCATED BUSINESS OPERATIONS COSTS**
6 **HAVE BEEN INCLUDED IN MONARCH'S REQUESTED REVENUE**
7 **REQUIREMENT IN THIS FILING?**

8 A. The total amount of allocated TXU Business Operations shared costs included in
9 Monarch's requested revenue requirement is \$4,520,916.⁵

10 **Q. WAS MONARCH ALLOCATED ANY COSTS OTHER THAN THOSE FOR**
11 **FIELD OPERATIONS AND BUSINESS OPERATIONS DURING THE TEST**
12 **YEAR?**

13 A. Yes. Please refer to the direct testimony of Mujeeb Hafeez for a description of
14 SouthWest's Corporate Shared Costs and allocation of those costs to Monarch.

15 **IV. TEST YEAR LABOR COSTS**

16 **Q. PLEASE EXPLAIN MONARCH'S EMPLOYEE HEADCOUNT**
17 **STRUCTURE.**

18 A. Monarch has a total headcount of 144 employees, including the TXU business unit
19 employees discussed above in Section III of my direct testimony. The 91 Field
20 Operations employees are divided into two regions, East and West, supported by 53
21 Business Operations personnel.

⁵ See Line 33 "Monarch" on Schedule IV-9.

1 **Q. WHICH OPEN POSITIONS AS OF THE END OF THE TEST YEAR HAVE**
2 **BEEN FILLED AS OF APRIL 31, 2020?**

3 A. Monarch has filled eight of the test year-end open headcount as of April 30, 2020,
4 including the following:

- 5 • General Counsel—Responsible for all TXU related legal matters;
- 6 • Manager, Design and Construction—Manage design, permitting and
7 construction;
- 8 • Planning Manager, TXU—Water/wastewater system planning and asset
9 management;
- 10 • Customer Care Manager—Manages call center personnel and operations;
- 11 • Customer Care Representative—Handles customer service requests;
- 12 • GIS Analyst II—Development and maintenance of GIS data;
- 13 • Two Field Technicians—Assist with facility, maintenance, and service; and
- 14 • Vice President of Engineering—Leads and directs TXU engineering matters
15 and department personnel.

16 **Q. IS MONARCH REQUESTING THE RECOVERY OF THE COSTS**
17 **ASSOCIATED WITH THE EMPLOYEES THAT HAVE FILLED THE**
18 **POSITIONS OPEN AT THE END OF THE TEST YEAR?**

19 A. Yes. All costs associated with the nine employees referenced above have been
20 included as known and measurable changes to Monarch's operation and maintenance
21 costs. Monarch still has open positions yet to be filled as of the date of this testimony.

22 **Q. PLEASE DESCRIBE THE FUNCTIONALIZATION FACTORS USED IN**
23 **THIS PROCEEDING.**

1 A. The shared costs were functionalized for water and wastewater operations by using
2 meter equivalents. Schedule II-F-a,c,d provides support for the functionalization that
3 Monarch has used in this filing. Schedule II-F-b,f provides a description of, and
4 rationale for, the factors. Monarch has determined that meter equivalents as of
5 December 31, 2018—which are based on representative delivery capacity of the
6 meters as of that date—are the most equitable and administratively efficient form of
7 distributing shared costs in this filing. This functionalization is used wherever costs
8 are shared between water and wastewater.

9 **V. CONCLUSION**

10 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

11 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

TERRY BENTON

ON BEHALF OF

MONARCH UTILITIES I L.P.

JULY 15, 2020

**DIRECT TESTIMONY OF
TERRY BENTON**

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1 Operations for Monarch. I have a bachelor's degree from Dallas Baptist University
2 majoring in business.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

4 A. No.

5 **II. PURPOSE OF DIRECT TESTIMONY**

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

7 A. I am testifying on behalf of Monarch.

8 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
9 **PROCEEDING?**

10 A. The purpose of my direct testimony in this proceeding is to discuss Monarch's capital
11 investment in its water and wastewater systems in its East Region.

12 **Q. WAS THIS MATERIAL PREPARED BY YOU OR UNDER YOUR**
13 **SUPERVISION?**

14 A. Yes, it was.

15 **Q. INsofar AS THIS MATERIAL IS FACTUAL IN NATURE, DO YOU**
16 **BELIEVE IT TO BE CORRECT?**

17 A. Yes, I do.

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

20 A. Yes, it does.

21 **Q. WHAT SCHEDULES IN THE RATE FILING PACKAGE ARE YOU**
22 **SPONSORING?**

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

- 1 • Monarch’s water and wastewater systems are spread all over the state of
2 Texas. There are not always three qualified bidders that work in various
3 different parts of the state;
- 4 • Of the limited vendors available, often the larger vendors are not interested in
5 the smaller projects that are typical of Monarch’s systems;
- 6 • Monarch works with some trusted vendors with whom it has past experience
7 and has developed confidence and trust in the work product. The
8 development of trust affords many cost and schedule savings that are not
9 available when working with untested vendors;
- 10 • Many projects are small and are duplicated in a number of locations. It is
11 often more efficient to use one vendor to perform these tasks as it simplifies
12 scheduling, invoicing, and project coordination. Working with a single
13 vendor on a project that has many locations saves costs because it reduces
14 mobilization costs;
- 15 • The bidding process demands a significant amount of engineering and
16 administrative resources. To minimize overhead costs and contribution to
17 customer rates, Monarch is purposely arranged as a lean organization that has
18 very few engineers and administrative staff. The few engineers on staff spend
19 most of their time investigating project sites, developing solutions,
20 coordinating vendors, and inspecting construction. Further, the dispersed
21 geography of Monarch’s service areas results in engineers spending many
22 hours a week driving;
- 23 • In emergencies, the use of the sole source and single source contracts are
24 applied to the process. In these instances, time is of the essence and the

1 selection of a contractor that is pre-qualified or has a previous work history is
2 critical to resolve the customer outage/inconvenience as quickly as possible;

- 3 • Of main importance in considerations are the life cycle costs of the items to be
4 replaced/installed. Obtaining the greatest return for the money spent is of
5 utmost importance, so the longevity of the items installed are considered.
6 Specific brands can perform better and last longer, and these are not always
7 provided with the lowest bidder; and
- 8 • Operations costs are valued and reviewed extensively to ensure the best value
9 is obtained with each project decision that couples with the brands and life
10 cycle costs.

11 **Q. FOR THE PURPOSES OF THIS TESTIMONY, HOW ARE ASSETS**
12 **CATEGORIZED?**

13 A. This testimony separates capital costs into those investments made in the Wastewater
14 system, the Water system, and those Shared Assets used to support both water and
15 wastewater operations in Monarch's East Region. These costs are further separated
16 into asset categories defined in the "Uniform System of Accounts for Class A
17 Wastewater Utilities," and "Uniform System of Accounts for Class A Water
18 Utilities," published in 1996 by the National Association of Regulatory Utility
19 Commissioners ("NARUC"). In addition to discussing the general need for
20 investment in these categories, my testimony will also address specific projects
21 representing significant investment.

22 **Q. PLEASE IDENTIFY THE MAJOR CAPITAL INVESTMENTS MONARCH**
23 **HAS MADE SINCE THE LAST GENERAL RATE CASE IN ITS WATER**
24 **SYSTEMS IN THE MONARCH EAST REGION.**

1 A. In Monarch’s last general rate case, a test year ending June 30, 2015 was used. A list
 2 of major capital investments in the water systems in the Monarch East Region since
 3 Monarch’s last general rate case is provided in the table below:¹

4 **Table 1—Major Water Capital Projects in East Region Since June 30, 2015**

<u>Year Completed</u>	<u>Systems</u>	<u>Amount</u>
2016	Tower Terrace GST Replacement	\$202,713.52
2016	Ivanhoe Distribution System Repair	\$180,285.33
2016	Ivanhoe Line Replacements	\$115,172.90
2016	Lake Livingston WSC Interconnect	\$107,283.09
2016	Cherokee Shores Intake Replacement	\$60,303.15
2016	Tanglewood Line Replacement	\$112,007.52
2016	HPT Replacement at Hulon Lake East	\$69,941.05
2016	Metroplex Operations Building	\$72,652.67
2016	Carolynn East Gravity Filter Repair	\$71,045.08
2017	AMR Installation at Ni Texas	\$308,204.97
2017	Oak Trail Shores RO Membrane Replacement	\$113,323.34
2017	Tanglewood Distribution System Repair	\$167,111.05

¹ Monarch defines a “major capital investment” as a discrete project of a cost amount greater than \$50,000.

2017	Cl Switchover at Ni Texas	\$118,259.26
2017	Governors Point Line Replacement	\$79,413.42
2017	Dorothy Lane Water Well Rehab	\$83,593.55
2018	Oak Trail Shores Gravity Filters	\$183,605.94
2019	Ridgecrest Carbon Filters	\$155,358.47
2019	Western Lake Estates Line Replacement	\$957,664.73
2019	Lollipop Well	\$358,375.32
2019	Ivanhoe Line Replacement	\$537,199.44
2019	2019 System Pressure Reliability	\$369,630.40
2019	Comanche Harbor / Ports O' Call Water Well	\$249,664.03
2019	Oak Trail Shores Filter Installation	\$351,170.25
2019	Beachwood Estates SWTP Intake Replacement	\$219,170.90
2019	Tanglewood Line Replacement	\$277,655.93
2019	Tanglewood Line Replacement	\$113,038.44
2019	Raywood Line Replacement	\$79,249.42
2019	Pinwah Pines Activated Carbon Contactors	\$147,103.09
2019	Oak Trail Shores RO Pump Replacement #2	\$56,808.05
2019	Oak Trail Shores RO Pump Replacement #1	\$59,860.68
2019	Cedar Valley-Line Replacements	\$99,587.39
2019	Turbidimeter Replacements	\$56,068.59

2019	Oak Terrace Well #3	\$63,334.55
2020	Silver Saddle Well and GST	\$316,381.17
2020	Holiday Villages of Fork GST Installation	\$75,640.20

1 **Q. PLEASE DESCRIBE THE MAJOR CAPITAL INVESTMENTS MONARCH**
2 **HAS MADE SINCE THE LAST GENERAL RATE CASE IN ITS WATER**
3 **SYSTEMS IN THE MONARCH EAST REGION.**

4 A. Details of the listed capital projects are provided below:

- 5 • In 2016, Monarch invested \$202,713.52 in the Tower Terrace system. This
6 includes the replacement of two 31,280-gallon Ground Storage Tanks that were
7 failing due to age. The replacement results in operational reliability, protection
8 against catastrophic failure, and fewer customer outages. This project was started
9 in June 2015 and was completed in June 2016. This project was not due to a
10 TCEQ or EPA enforcement order. However, the project was required to ensure
11 our utility system is in compliance with all TCEQ or EPA requirements.
- 12 • In 2016, Monarch invested \$180,285.33 in the Ivanhoe system. The project
13 consisted of installing approximately 3,500 lineal feet of water line along
14 Lancelot Drive, Galahad Drive, Merlin Lane, and Ivanhoe Drive. This project
15 replaced a section of water line that was in poor condition and had experienced
16 multiple water line breaks, thereby decreasing water loss and improving reliability
17 for customers.
- 18 • In 2016, Monarch invested \$115,172.90 in the Ivanhoe system. The project
19 consisted of installing approximately 9,825 lineal feet of water line along
20 Charmaine Drive and Galahad Loop. This project replaced a section of water line

1 that was in poor condition and had experienced multiple water line breaks,
2 thereby decreasing water loss and improving reliability for customers.

- 3 • In 2016, Monarch invested \$107,283.09 in the Pinwah Pines system. The project
4 consisted of the design, permitting, and installation of a public water supply
5 interconnect with Lake Livingston Water Supply Corporation. The interconnect
6 provides an alternate source of water to what had been a single-well system.
- 7 • In 2016, Monarch invested \$60,303.15 in the Cherokee Shores system. This
8 project replaced the main intake supply line for the existing surface water
9 treatment plant. This plant is the sole source of potable water for the system.
- 10 • In 2016, Monarch invested \$112,007.52 in the Tanglewood system. The project
11 consisted of installing approximately 1,867 lineal feet of water line along
12 Lakecrest to the intersection of Tanglewood Trail. This project replaced a section
13 of water line that was in poor condition and had experienced multiple water line
14 breaks, thereby decreasing water loss and improving reliability for customers.
- 15 • In 2017, Monarch invested \$308,204.97 in the Ni America Texas systems. The
16 project consisted of the conversion of approximately 1,141 existing meters to
17 automatic meter reading (“AMR”) meter equipment. With time and use, the
18 mechanical components of water meters deteriorate, resulting in a continual
19 decline in poor meter accuracy and under registering. Water not registered is
20 considered water loss, and the cost to produce and distribute this water is included
21 in the water rates charged to all water customers. This results in inequitable
22 billing for customers who use less water or who have more accurate meters.
23 Further, accurate meter reading and billing is required to send price signals to
24 customers to encourage water conservation that is so important to Monarch’s

1 ability to meet customer demands during periods of extended drought, which is
2 often experienced throughout Texas.

- 3 • In 2017, Monarch invested \$113,323.34 in the Oak Trail Shores system. This
4 system operates a surface water treatment plant utilizing Reverse Osmosis. Due
5 to high suspended solids from the source, the membrane media must be changed
6 to allow continuous treatment capacity.
- 7 • In 2017, Monarch invested \$167,111.05 in the Tanglewood system. The project
8 consisted of installing approximately 2,440 lineal feet of water line along
9 Lakecrest to the intersection of Whispering Road. This project replaced a section
10 of water line that was in poor condition and had experienced multiple water line
11 breaks, thereby decreasing water loss and improving reliability for customers.
- 12 • In 2017, Monarch invested \$118,259.26 in the Ni America Texas systems. The
13 systems were acquired in 2015 and the chlorine was converted from gas to liquid
14 in 2016 for safety reasons. The Ni America Texas systems consist of eight
15 systems located in Johnson and Wise counties.
- 16 • In 2018, Monarch invested \$183,605.94 in the Oak Trail Shores system. The
17 existing gravity filters experienced a catastrophic failure due to age. This
18 required the replacement of the media, air scouring equipment, and new diffusers,
19 as well as new structures for stability.
- 20 • In 2018, Monarch invested \$155,358.47 in the Ridgecrest system. This
21 installation was constructed to reduce residual effects caused by chlorine addition.
22 The supply of purchased water is received containing these constituents and has
23 caused violations of the Maximum Contaminant Levels for Primary Drinking
24 Water Standards.

- 1 • In 2019, Monarch invested \$957,664.73 in the Western Lake Estates system. This
2 project was originated following a major pipeline break, in a remote area, which
3 caused the interruption of service to customers over a one-week period.
4 Following this event, Monarch undertook the installation of approximately 14,482
5 lineal feet of water line, which had been in poor condition and experienced
6 multiple breaks, along Rifleman Road, Cedar Hill, Post Oak Trail, Red Oak Trail,
7 Mesquite Trail, Cedar Trail, Longhorn Trail, Gun Barrel Drive, Shotgun Drive,
8 Comanche Trail, Wagon Wheel Trail, and Lakeview Trail. This project was
9 started in May 2019 and was completed in May 2020, and resulted in decreased
10 service interruptions, improved reliability, and decreased water loss. This project
11 was not due to a TCEQ or EPA enforcement order. However, the project was
12 required to ensure our utility system is in compliance with all TCEQ or EPA
13 requirements.
- 14 • In 2019, Monarch invested \$358,375.32 in the Lollipop Water Works system.
15 The project consisted of the design, permitting, and installation of a public water
16 supply well. The well provides a new source of raw water to replace the original
17 well that failed due to iron contamination for this single-well system. This project
18 was started in April 2018 and was completed in November 2019.
- 19 • In 2019, Monarch invested \$537,199.44 in the Ivanhoe system. The project
20 consisted of installing approximately 24,863 lineal feet of water line along Mill
21 Creek and Lancelot, Little John, Marion, Stonehenge, and various others. This
22 project replaced a section of water line that was in poor condition and had
23 experienced multiple water line breaks, thereby decreasing water loss and
24 improving reliability for customers. This project was started in July 2019 and was

1 completed in May 2020. This project was not due to a TCEQ or EPA
2 enforcement order. However, the project was required to ensure our utility
3 system is in compliance with all TCEQ or EPA requirements.

- 4 • In 2019, Monarch invested \$369,630.40 into various systems to improve
5 reliability. The project consisted of the installation of 11 backup generators to
6 ensure operability of water facilities during power failures. The systems are
7 located in an area generally with a one-way power feed, in remote areas that are
8 difficult to access quickly during outage events. This project was started in April
9 2019 and was completed in May 2020.
- 10 • In 2019, Monarch invested \$249,664.03 in the Comanche Harbor/Ports O' Call
11 system. The project consisted of the design, permitting, and installation of a
12 public water supply well. The well provides an alternate source of raw water to
13 what had been a single-well system, thereby reducing potential outages and
14 improving system resiliency and reliability. This project was started in April
15 2018 and completed in October 2019.
- 16 • In 2019 and on-going Monarch invested \$351,170.25 in the Oak Trail Shores
17 system. This includes the installation of a new gravity sand filter to maintain
18 adequate capacity for treatment of surface water. The project consists of a new
19 gravity sand filter, yard piping, filtration media, and controls. This project added
20 redundancy to the treatment system to provide better backwash capabilities, add
21 capacity to an area that created a reduced output, and allow for improved
22 maintenance activities to the facility.
- 23 • In 2019, Monarch invested \$219,170.90 in the Beachwood Estates system. This
24 project replaced the main intake supply line for the existing surface water

1 treatment plant to improve reliability. This plant is the sole source of potable
2 water for the system.

- 3 • In 2019, Monarch invested \$277,655.93 in the Tanglewood system. The project
4 consisted of installing approximately 4,900 lineal feet of water line along Lake
5 Point Loop. This project replaced a section of water line that was in poor
6 condition and had experienced multiple water line breaks, thereby decreasing
7 water loss and improving reliability for customers.
- 8 • In 2019, Monarch invested \$113,038.44 in the Tanglewood system. The project
9 consisted of installing approximately 1,870 lineal feet of water line along
10 Whispering Road and Hacienda. This project replaced a section of water line that
11 was in poor condition and had experienced multiple water line breaks, thereby
12 decreasing water loss and improving reliability for customers.
- 13 • In 2019, Monarch invested \$79,249.42 in the Raywood system. The project
14 consisted of installing approximately 3,865 lineal feet of water line along County
15 Road 120, County Road 119C, and County Road 119D. This project replaced a
16 section of water line that was in poor condition and had experienced multiple
17 water line breaks, thereby decreasing water loss and improving reliability for
18 customers.
- 19 • In 2019, Monarch invested \$147,103.09 in the Pinwah Pines system. This
20 installation was constructed to reduce disinfection by-products caused by chlorine
21 addition. The supply of purchased water contains Trihalomethane and Haloacetic
22 Acids, and has previously caused violations of the Maximum Contaminant Levels
23 for Primary Drinking Water Standards. The installation of the Granulated

1 Activated Carbon system to remove the primary drinking water related issues has
2 been successful, generating results to bring the system into compliance.

- 3 • In 2019 and 2020, Monarch invested \$316,381.17 in the Silver Saddle system.
4 The project consisted of the design, permitting, and installation of a public water
5 supply well. The well provides a new source of raw water to what is a single-well
6 system. The existing well has lost capacity to fully supply customers. A new
7 Ground Storage Tank of 33,000 gallons is replacing the existing ground storage
8 tank, due to capacity issues and deterioration, to provide additional storage
9 capacity during peak usage periods.
- 10 • In 2019 and 2020, Monarch invested \$75,640.20 in the Holiday Villages of Fork
11 system. This includes the replacement of a 32,000-gallon Ground Storage Tank
12 that was failing due to age. The replacement results in operational reliability, and
13 fewer customer outages.
- 14 • In 2016, Monarch invested \$69,941.05 in the Hulon Lakes system. The project
15 included the replacement of a failed hydro-pneumatic tank. This tank is to
16 regulate water distribution system pressure and reduce water surges into the
17 system improving reliability.
- 18 • In 2016, Monarch invested \$72,652.67 in the Metroplex Homesteads system. The
19 Addition of an operations building that included offices, a meeting room, a
20 restroom, and a warehouse provided a place to complete administrative tasks,
21 allow safety meetings, facilitate operations-discussions, and to improve inventory
22 reliability and accountability.
- 23 • In 2016, Monarch invested \$71,045.08 in the Carolyn Estates system. The project
24 consisted of the rehabilitation of multiple gravity sand filters necessary for the

1 treatment of water. This includes the replacement of the sand media,
2 rehabilitation of the filter structure, as well as the drain system and air bubble
3 diffusers. This allows for continuous treatment of water filtered prior to
4 distribution.

- 5 • In 2017, Monarch invested \$79,413.42 in the Governors Point system. This
6 included 4,000 lineal feet of pipeline replacement. The streets impacted were
7 Governor High Drive and Governor Ferguson Drive.
- 8 • In 2017, Monarch invested \$83,593.55 in the Twin Creeks system. The project
9 replaced a failing well that supplies water to the system, increasing reliability.
- 10 • In 2019, Monarch invested \$56,808.05 in the Oak Trail Shores water system.
11 This included the replacement of the reverse osmosis pressure pump #2. This
12 pump replaced a failed pump that is used to pressurize the reverse osmosis
13 membranes for the treatment of water.
- 14 • In 2019, Monarch invested \$59,860.68 in the Oak Trail Shores water system.
15 This included the replacement of the reverse osmosis pressure pump #1. This
16 pump replaced a failed pump that is used to pressurize the reverse osmosis
17 membranes for the treatment of water.
- 18 • In 2019, Monarch invested \$99,587.39 in the Cedar Valley system. This included
19 the replacement of 13,000 lineal feet of pipelines including Cedar Lakeside,
20 Cedar Valley, River View, River View Terrace, Riverside, Arrowhead Hill,
21 Buffalo Circle, and York Crest. This project improved reliability and reduced
22 customer outages.
- 23 • In 2019, Monarch invested \$56,068.59 in the Beachwood Estates water system.
24 This includes the replacement of turbidimeters that are required for continuous

1 operation of a surface water treatment plant. These turbidimeters measure the
2 amount of fine particulate matter within the water to ensure that permit
3 parameters are met.

- 4 • In 2019, Monarch invested \$63,334.55 in the Oak Terrace system. The project
5 replaced a failing well that supplies water to the system, increasing reliability.

6 **Q. PLEASE IDENTIFY THE MAJOR CAPITAL INVESTMENTS MONARCH**
7 **HAS MADE SINCE THE LAST GENERAL RATE CASE IN ITS**
8 **WASTEWATER SYSTEMS IN THE MONARCH EAST REGION.**

9 A. In Monarch’s last general rate case, a test year ending June 30, 2015 was used. A list
10 of major capital investments in wastewater systems in the Monarch East Region since
11 Monarch’s last general rate case is provided in the table below:²

12 **Table 2—Major Wastewater Capital Projects in East Region Since June 30, 2015**

<u>Year Completed</u>	<u>Systems</u>	<u>Amount</u>
2016	Holiday Village of Livingston WWTP Expansion	\$327,250.60
2016	Tower Terrace Collection System	\$51,546.47
2017	Champion Glen Lift Station Replacement	\$140,953.28
2017	Decker Hills Inflow & Infiltration Project	\$80,332.39
2019	Holiday Villages of Fork WWTP Expansion	\$356,739.79

² Monarch defines a “major capital investment” as a discrete project of a cost amount greater than \$50,000.

2019	Beachwood Estates WW Manhole Rehabilitation	\$81,840.30
2019	Holiday Villages of Livingston WWTP Equalization Basin	\$107,193.90

1 **Q. PLEASE DESCRIBE THE MAJOR CAPITAL INVESTMENTS MONARCH**
2 **HAS MADE SINCE THE LAST GENERAL RATE CASE IN ITS**
3 **WASTEWATER SYSTEMS IN THE MONARCH EAST REGION.**

4 A. Details of the listed capital projects are provided below:

- 5 • In 2016, Monarch invested \$327,250.60 in the Holiday Villages of Livingston
6 system. The Wastewater Treatment plant was expanded due to increasing flows
7 over and above the rated capacity. In addition, the project included replacements
8 of failing equipment consisting of air blowers, yard piping, disinfection
9 equipment, and new fencing.
- 10 • In 2016, Monarch invested \$51,546.47 in the Tower Terrace wastewater
11 collection system. The system experienced pipeline failures due to root
12 intrusions, ground shifting, roadway failures and accidental damage by others.
13 Repairs have reduced Inflow and Infiltration reducing the unnecessary treatment
14 of rain water.
- 15 • In 2017, Monarch invested \$174,214.62 in the Decker Hills system. This lift
16 station is a part of the Decker Hills system and had extensive wear from age. The
17 project replaced the containment canister, the pumps and motors, all electrical
18 equipment and controls. The impacts resulted in reduced outages and improved
19 performance.
- 20 • In 2017, Monarch invested \$80,332.39 in the Decker Hills system. This project
21 consisted of field investigation and rehabilitation effort to determine and

1 remediate the locations of inflow and infiltration into the sanitary sewer system.
2 It included smoke testing of pipelines, cleaning of the system to remove
3 blockages and identify repair locations, closed-circuit television recording of
4 pipelines, and repairs to specific locations that in cases included pipeline
5 replacements.

- 6 • In 2019, Monarch invested \$356,739.79 in the Holiday Villages of Fork system.
7 The Wastewater Treatment plant was expanded due to increasing flows over and
8 above the rated capacity, as well as replacing failing equipment consisting of air
9 blowers, yard piping, disinfection equipment, and new fencing.
- 10 • In 2019, Monarch invested \$81,840.30 in the Beachwood Estates system. The 12
11 manholes were very old and constructed of brick, thereby allowing excessive
12 inflow and infiltration into the system. The excessive flows created impacts to the
13 treatment system related to capacity, and this project alleviated premature plant
14 expansion.
- 15 • In 2019, Monarch invested \$107,193.90 in the Holiday Villages of Livingston
16 system. The Wastewater Treatment plant was experiencing increasing flows over
17 and above the rated capacity, and with continuous flows an equalization basin was
18 constructed to provide steady flow into the treatment works while eliminating
19 hydraulic surges.

20 **Q. PLEASE IDENTIFY THE MAJOR CAPITAL INVESTMENTS MONARCH**
21 **HAS MADE SINCE THE LAST GENERAL RATE CASE THAT BENEFIT**
22 **BOTH ITS WATER AND WASTEWATER SYSTEMS IN THE MONARCH**
23 **EAST REGION.**

1 A. In Monarch’s last general rate case, a test year ending June 30, 2015 was used. A list
 2 of major capital investments that benefit both water and wastewater systems in the
 3 Monarch East Region since Monarch’s last general rate case is provided in the table
 4 below:³

5 **Table 3—Major Shared Capital Projects in East Region since June 30, 2015**

<u>Year Completed</u>	<u>Systems</u>	<u>Amount</u>
2016	Decker Hills Operations Building	\$67,570.35
2016	Holiday Village of Livingston Operations Building	\$67,908.20
2017	Cherokee Office Building	\$94,114.40
2019	2019 Monarch System Remote Monitor	\$464,487.45
2020	GIS and Model System Upgrades	\$122,191.73
2020	Western Lakes Estates—Remote Monitoring	\$66,519.24

6 **Q. PLEASE DESCRIBE THE MAJOR SHARED CAPITAL INVESTMENTS**
 7 **MONARCH HAS MADE SINCE THE LAST GENERAL RATE CASE IN THE**
 8 **MONARCH EAST REGION.**

9 A. Details of the listed capital projects are provided below:

- 10 • In 2016, Monarch invested \$67,570.35 in the Decker Hills system. The
 11 addition of an operations building that included offices, a meeting room, a
 12 restroom, and a warehouse provided a place to complete administrative tasks,

³ Monarch defines a “major capital investment” as a discrete project of a cost amount greater than \$50,000.

- 1 allow safety meetings, facilitate operations discussions, and served to improve
2 inventory reliability and accountability.
- 3 • In 2016, Monarch invested \$67,908.20 in the Holiday Villages of Livingston
4 system. The Addition of an operations building that included offices, a
5 meeting room, a restroom, and a warehouse provided a place to complete
6 administrative tasks, allow safety meetings, facilitate operations discussions,
7 and to improve inventory reliability and accountability.
 - 8 • In 2017, Monarch invested \$94,114.40 in the Cherokee Shores system. The
9 Addition of an operations building that included offices, a meeting room, a
10 restroom, and a warehouse provided a place to complete administrative tasks,
11 allow safety meetings, facilitate operations discussions, and to improve
12 inventory reliability and accountability.
 - 13 • In 2019, Monarch invested \$464,487.45 into 35 facilities to improve
14 reliability. The project consisted of the installation of SCADA components
15 that allow for operational monitoring of the existing water facilities and allow
16 for future growth, as needed. The project included an analysis of the water
17 facilities, followed by the installation of remote terminal units for the
18 following sites: Ground Storage Tank, Pumps and Wells. Additional work
19 included installation of antenna towers, antennas, and coax, as required for
20 each site, as well as programming and testing. Improvements include the
21 ability to monitor remotely the power consumption, the ground storage tank
22 levels, and the chemical supplies on-hand.
 - 23 • In 2019 and 2020, Monarch invested \$122,191.73 in the various systems
24 across Texas East to improve the Geographic Information System (“GIS”).

1 The implemented structure improves mapping, identifies asset locations, and
2 provides access to valves and meters. Improvements are created by
3 distributing data and applications to staff that use them on a day-to-day basis.
4 The implementation allows our company to capture and preserve historical
5 data and knowledge, realize major gains in consistency and availability of
6 data, and obtain considerable savings in the cost of acquiring and maintaining
7 data. This facilitates reduced customer outages, quicker response times to
8 emergencies, and improved management of expenses.

9 • In 2019, Monarch invested \$66,519.24 into the Western Lakes Estates Remote
10 Monitoring project to improve system reliability. The project consisted of the
11 installation of SCADA components that allow for operational monitoring of
12 the existing water facilities and allow for future growth as needed. The
13 project included an analysis of the water facilities, followed by the installation
14 of remote terminal units for the following sites: Ground Storage Tank, Pumps
15 and Wells. Additional work included installation of antenna towers, antennas,
16 and coax, as required for each site, as well as programming and testing.

17 **Q. ARE ALL OF THE CAPITAL PROJECTS IDENTIFIED AND DESCRIBED**
18 **ABOVE CURRENTLY USED AND USEFUL IN PROVIDING SERVICE TO**
19 **MONARCH CUSTOMERS?**

20 A. Yes, these projects are all currently used and useful to the provision of utility service
21 in Monarch's East Region. Please see the direct testimony of George Freitag.

22 **IV. CONCLUSION**

23 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

24 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
TIMOTHY J. WILLIFORD

ON BEHALF OF
MONARCH UTILITIES I L.P.

JULY 15, 2020

**DIRECT TESTIMONY OF
TIMOTHY J. WILLIFORD**

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1 deficiency notices from the Texas Commission on Environmental Quality (“TCEQ”).
2 My job also includes filing routine environmental and special compliance reports
3 with the appropriate state and federal authorities.

4 **Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
5 **BACKGROUND.**

6 A. I received a Bachelor of Applied Arts and Science degree from Lamar University in
7 1999. I have an “A” Water and “A” Wastewater Operator license. I received a
8 Certified Safety and Health Official certificate from the Texas Engineering Extension
9 Services and Texas A&M University in 2012. I joined ECO Resources, now
10 SouthWest Water Company, in July 2005. As the compliance coordinator, I ensured
11 drinking water and wastewater reports were submitted to the TCEQ accurately and in
12 a timely manner. I also assisted in drinking water and wastewater inspections. I
13 stepped into the role of Senior Environmental Health and Safety Manager in 2012. I
14 am responsible for ensuring all SouthWest facilities in Texas comply with state and
15 federal regulations. My duties include tracking wastewater permits and drinking
16 water compliance, preparing and filing compliance reports with state and federal
17 regulatory agencies, documenting and handling notices of violation, and reporting to
18 management. In addition, I manage the safety program for SouthWest in Texas. I
19 ensure the company and employees comply with Occupational Safety and Health
20 Administration (“OSHA”) regulations. I am responsible for preparing OSHA reports
21 and reporting to SouthWest management. Prior to joining ECO Resources, I worked
22 for the TCEQ Wastewater Permitting Section as a Pretreatment Coordinator from
23 2003 to 2005. I conducted reviews and audits of 15 Publicly Owned Treatment

1 Works' pretreatment programs in the state. I also reviewed and provided regulatory
2 language for municipal permit application renewals.

3 In addition to my regulatory background, I have over seven years of
4 laboratory experience. I worked for the Sabine River Authority in the Environmental
5 Services Division from 1996 to 2001. I began there as a laboratory analyst and was
6 promoted to team leader for the wet chemistry section. I worked as laboratory
7 manager for ECO Resources, from 2001 to 2003. While working in the laboratory, I
8 performed analysis of drinking water and wastewater. I assisted in the development
9 of laboratory procedures and quality control manuals. As team leader and manager, I
10 ensured analyses were conducted and reported timely and accurately while complying
11 with federal and state standard methods.

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

14 A. Yes. I provided testimony in Monarch's last general rate case, Docket No. 45570,¹
15 and in the rate case of SWWC Utilities, Inc. DBA Water Services, Inc., Docket No.
16 47736.²

17 **II. PURPOSE OF DIRECT TESTIMONY**

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

19 A. I am testifying on behalf of Monarch.

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

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

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

1 A. The purpose of my direct testimony in this proceeding is to detail Monarch's
2 compliance with state and federal regulations regarding drinking water treatment. I
3 also describe capital projects added in the ten aforementioned counties since
4 Monarch's last general rate case.

5 **Q. WAS THIS MATERIAL PREPARED BY YOU OR UNDER YOUR**
6 **SUPERVISION?**

7 A. Yes.

8 **Q. INsofar AS THIS MATERIAL IS FACTUAL IN NATURE, DO YOU**
9 **BELIEVE IT TO BE CORRECT?**

10 A. Yes, I do.

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

13 A. Yes, it does.

14 **Q. WHAT SCHEDULES IN THE RATE FILING PACKAGE ARE YOU**
15 **SPONSORING?**

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

17 **III. MONARCH'S COMPLIANCE IMPROVEMENT**

18 **Q. HAS MONARCH SEEN AN IMPROVEMENT IN QUALITY OF SERVICES**
19 **SINCE ITS LAST GENERAL RATE CASE?**

20 A. Yes. Monarch routinely performs internal reviews of its systems to identify and
21 prioritize deficiencies. Production capacity, storage capacity, security issues, and
22 proper maintenance or operation of equipment and facilities were system issues
23 identified in 2004 at the time of acquisition. Monarch continues to identify and

1 resolve deficiencies. To mitigate potential public health threats and ensure
2 appropriate steps were taken to achieve compliance, Monarch continues to work with
3 TCEQ staff to bring its systems into compliance. As of December 31, 2019, for the
4 systems included in this rate application, there were 200 drinking water inspections
5 performed by TCEQ since June 30, 2015—155 of those inspections resulted in “no
6 violations found.” During the same period, there were 22 wastewater inspections
7 performed by TCEQ—13 of those inspections resulted in “no violations found.”
8 Monarch has not had any Category A deficiencies noted in any of its water or
9 wastewater systems in the 16 years since it was acquired by SouthWest.

10 **Q. WHAT IS THE CURRENT STATUS OF COMPLIANCE FOR MONARCH?**

11 A. As of the end of the test year, there was one Agreed Order assigned and two open
12 violations. The remaining open Agreed Order will be resolved in August 2020, upon
13 Monarch’s completion of a rule exception requirement granted by TCEQ. The
14 remaining open violations relate to an exceedance of the secondary maximum
15 contaminant level for iron, and a distribution line capacity rule affecting 21 homes.
16 Monarch is actively working to resolve these violations by means of chemical
17 treatment and distribution system upgrades.

18 **IV. STATE AND FEDERAL REGULATIONS**

19 **Q. WHO REGULATES WATER SERVICE IN TEXAS?**

20 A. There are two agencies that regulate water service: the federal Environmental
21 Protection Agency (“EPA”), and the TCEQ. For the most part, however, the EPA has
22 delegated much of its regulatory authority to the states, including Texas, under the
23 terms of the Safe Drinking Water Act and the Clean Water Act. As a result of these

1 delegations, the TCEQ serves as the primary regulatory authority for water service in
2 Texas.

3 **Q. PLEASE DESCRIBE THE STATE AND FEDERAL REGULATORY**
4 **STANDARDS FOR DRINKING WATER.**

5 A. Congress adopted the federal drinking water standards in 1974 when it enacted title
6 XIV of the Public Health Services Act, more commonly known as the Safe Drinking
7 Water Act (“SDWA”). The SDWA has twice been amended, once in 1986 and again
8 in 1996. Under the SDWA, Congress authorized the EPA to promulgate federal
9 standards to protect the public health and promote safe drinking water. The SDWA
10 further authorized the EPA to delegate its authority thereunder to the individual states
11 if certain requirements were met.

12 Initially, the EPA promulgated several drinking water standards that
13 prescribed maximum contaminant levels (“MCLs”) for drinking water. These
14 standards regulate the level of contaminants in the drinking water. There are
15 essentially two levels of drinking water standards, referred to as primary and
16 secondary standards. The first level, primary standards, is designed to protect
17 consumers and eliminate public health risks. Examples of this type of standard
18 include MCLs for coliform and fecal bacteria, and potentially cancer-causing
19 constituents. The second level of drinking water standards is directed toward taste
20 and odor. Examples of this type of standard include MCLs for iron, sulfate and
21 manganese.

22 Under the terms of the SDWA, states were free to either follow the MCL
23 standards set by the EPA or could impose even higher standards for public drinking

1 water. Although the federal drinking water standards remain in place, the EPA has
2 since delegated much of its authority to the individual states, including Texas.

3 By comparison, Texas has always taken an aggressive approach to drinking
4 water regulation. Since the 1940's, Texas has imposed stringent standards for
5 drinking water similar to those enacted by Congress and the EPA under the SDWA.
6 Texas was also one of the first states to require chlorination of drinking water from
7 wells to prevent bacteria in the drinking water supply. The TCEQ is responsible for
8 enforcing both federal and state drinking water standards in Texas, and Monarch is
9 required to comply with all of these standards.

10 **Q. PLEASE DESCRIBE THE STATE AND FEDERAL STANDARDS FOR**
11 **WASTEWATER.**

12 A. Congress adopted wastewater treatment standards in 1977 when it enacted the federal
13 Water Pollution Control Act, more commonly referred to as the Clean Water Act
14 ("CWA"). The CWA established a permitting process that authorized the EPA to
15 issue permits for wastewater discharge. This permitting process is better known as
16 the National Pollutant Discharge Elimination System ("NPDES"). Like the SDWA,
17 Section 402(b) of the CWA authorized the EPA to delegate its NPDES, permitting
18 authority to the states if certain requirements were met. The EPA has delegated its
19 federal permitting authority to Texas.

20 In addition to these federal permitting standards, the State of Texas has
21 enacted its own permitting standards in Chapter 26 of the Texas Water Code. In the
22 past, a utility wanting to provide wastewater treatment services had to secure separate
23 permits from the EPA and the TCEQ. Since the EPA delegated its permitting