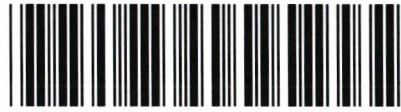




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Cody Faulk's Direct Line (512) 322-5817
Email wfaulk@lglawfirm.com

September 23, 2020



VIA E-FILING

DeAnn T. Walker, Chairman
Arthur C. D'Andrea, Commissioner
Shelly Botkin, Commissioner
Public Utility Commission of Texas
ATTN: CENTRAL RECORDS
1701 N. Congress Avenue, Room 8-100
Austin, Texas 78701

Re: Docket No. 50944; Application of Monarch Utilities I L.P. for Authority to
Change Rates

Dear Commissioners:

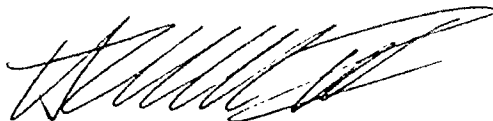
Monarch Utilities I L.P. ("Monarch") files this to clarify its position related to the requested system improvement charge ("SIC") in response to the memorandums filed today by Chairman Walker and Commissioner Botkin in the above-referenced matter. Attached please find page 33 of Monarch's Proposed Water Utility Tariff, which was filed with the Application for Authority to Change Rates filed on July 15, 2020.

Section 13.183(c) of the Texas Water Code contemplates that the only way a SIC can be included is in a full rate case. Monarch is asking for inclusion of a SIC mechanism in its tariff, but acknowledges and fully agrees that any approved SIC mechanism will be subject to any and all terms imposed by the Commission in the pending rulemaking. Monarch's proposed tariff language is intended to avoid having to file another full rate case solely for the establishment of a SIC mechanism.

Monarch believes the suggested approach is a viable way to reduce the administrative burden on the Commission and the utility, as well as costs imposed on customers, as it would avoid unnecessary rate case expenses and the need to exhaust regulatory resources. Monarch representatives will be available during the Open Meeting tomorrow and would welcome the opportunity to further discuss this matter with the Commissioners at such time.

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Respectfully,

A handwritten signature in black ink, appearing to read 'William Faulk III', written in a cursive style.

William "Cody" Faulk, III
Attorney for Applicant,
Monarch Utilities I L.P.

3176/24/8126698

SECTION 1.0 - RATE SCHEDULE (Continued)

SYSTEM IMPROVEMENT CHARGE (“SIC”)

Upon approval by the Commission, Monarch may implement a surcharge to customers to recover capital improvements made by the utility since its most recent general rate case. Capital projects eligible for the SIC must meet the requirements of Commission rules and be approved by the Commission prior to implementation of the SIC. Reconciliations of recoverable costs and revenues associated with the SIC must be submitted to the Commission pursuant to its approved rules. To implement the SIC, Monarch must provide notice to customers prior to the implementation of the SIC in compliance with all notice and other requirements of 16 TAC Ch. 24. The SIC will terminate at the end of the Period of Recovery, or upon total recovery of the costs, whichever occurs first.

The SIC is calculated as follows:

$$SIC = ((NetSI \times RR) + (NetDep \times NtG) + RC) / (MTR \times 12)$$

- SIC = System Improvement Charge, expressed as a monthly surcharge.
- NetSI = Original cost of system improvements less accumulated depreciation and any accumulated deferred income tax liabilities net of deferred tax assets resulting from the system improvements.
- RR = Most recent Commission-approved Rate of Return for the utility.
- NetDep = Net annual depreciation expense applicable to NetSI.
- NtG = Net-to-Gross factor.
- RC = Reconciliation Component, which includes any under- or over-collection of previous SIC.
- MTR = Meter Equivalents, calculated as the total current connections multiplied by AWWA’s meter equivalent factors for each meter size.

TEMPORARY WATER RATE:

Unless otherwise superseded by PUC order or rule, if the Utility is ordered by a court or governmental body of competent jurisdiction to reduce its pumpage, production or water sales, the Utility shall be authorized to increase its approved gallonage charge according to the formula:

$$TGC = \frac{cgc + (pr)(cgc)(r)}{(1.0-r)}$$

Where:

- TGC = temporary gallonage charge;
- cgc = current gallonage charge;
- r = water use reduction expressed as a decimal fraction (the pumping restriction); and
- pr = percentage of revenues to be recovered expressed as a decimal fraction. For this tariff, pr shall equal 0.5.

To implement the Temporary Water Rate, the Utility must comply with all notice and other requirements of 16 TAC § 24.25(j).