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SOAH DOCKET NO. 473-20-4709.WS
PUC DOCKET NO. 50944

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

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BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS

OFFICE OF PUBLIC UTILITY COUNSEL'S STATEMENT OF POSITION

The Office of Public Utility Counsel (“OPUC”), representing the interests of residential and small commercial consumers in Texas, respectfully submits this statement of position pursuant to 16 Texas Administrative Code (“TAC”) § 22.124. OPUC did not pre-file direct testimony on the issue of return on equity (“ROE”), cost rate of long-term debt, capital structure, or overall rate of return in this proceeding, but has reviewed the application, discovery responses, and testimony filed by Monarch Utilities I, L.P. (“Monarch” or the “Company”), as well as the direct testimony of the Staff of the Public Utility Commission of Texas (“Staff”) and takes the following positions.

I. INTRODUCTION

In this proceeding, Monarch requests that the Commission approve an overall rate of return of 8.32% based on:

- a proposed cost rate of long-term debt of 6.26%;
- a proposed ROE of 10.0%;
- a proposed long-term debt ratio of 45%; and
- a proposed equity ratio of 55%.¹

Staff contests Monarch’s proposed ROE, cost rate of long-term debt, capital structure (comprised of long-term debt and equity), and overall rate of return.² Specifically, Staff recommends a lower overall rate of return based on a lower ROE, a lower cost rate of long-term debt, and a capital structure that reflects a debt-to-equity ratio that is higher in debt and lower in equity than Monarch proposes in its application.³ OPUC agrees with Staff that the Company’s proposed ROE, capital structure, and overall rate of return should be rejected by the Commission.

¹ Direct Testimony of Bruce Fairchild at 46:1-5.

² Direct Testimony of Emily Sears at 10:13-11:3.

³ *Id*

II. OPUC SUPPORTS STAFF'S RECOMMENDATIONS RELATED TO ROE, CAPITAL STRUCTURE, AND OVERALL RATE OF RETURN

The evidentiary record demonstrates that Monarch's proposed ROE, capital structure, and overall rate of return are inflated and should not be adopted by the Commission. As demonstrated by Staff's pre-filed direct testimony, an appropriate and reasonable ROE for Monarch is significantly lower than the Company's proposal, Monarch's actual weighted cost of debt, unadjusted for net proceeds, should be used, the capital structure should include a higher debt ratio than proposed by the Company, and the resulting overall rate of return proposed by the Company should not be adopted by the Commission.

OPUC agrees with Staff's recommendations for a significantly lower ROE than Monarch's proposed ROE of 10.0%. Monarch's reliance on Commission approved ROEs for electric utilities to determine an appropriate ROE for a water utility is misplaced. As demonstrated in Staff witness Ms. Emily Sears's Direct Testimony, the two industries are subject to different regulations and the results of the risk premium methodology for electric utilities compared to the results of the risk premium methodology for water utilities further demonstrates the two industries are not directly comparable.⁴ For purposes of determining the appropriate cost rate of long-term debt, Monarch's actual weighted cost of debt, unadjusted for net proceeds, of 6.17% should be used in light of the fact that the Company's hypothetical capital structure includes more debt than its actual capital structure and thus, the higher amount of synchronized interest expense subsumes any differences for net proceeds.⁵ For ratemaking purposes, a capital structure of 46% debt and 54% equity based on the current five-year average capital structure of the barometer group identified in Ms. Sears's Direct Testimony is appropriate.

Based on an appropriate and reasonable ROE of 8.5%, a cost rate of long-term debt of 6.17%, and a capital structure that reflects a 46/54 debt-to-equity ratio, the Commission should adopt an overall rate of return of 7.43%. OPUC believes this rate of return is well supported by

⁴ Direct Testimony of Emily Sears at 25:4-17.

⁵ *See id.* at 14.13-15:1 (using Ms. Sears's recommended return, unadjusted for net proceeds, still allows Monarch to recover its interest expense).

the evidentiary record and presents the Company with a reasonable opportunity to attract and hold investors, while balancing the interests of its ratepayers.⁶

III. CONCLUSION

OPUC supports an ROE of 8.5%, a cost rate of long-term debt of 6.17%, a capital structure that reflects a 46/54 debt-to-equity ratio, and an overall rate of return of 7.43%. OPUC reserves the right to amend or supplement this statement of position by the deadline set forth in the Commission's rules and to file rebuttal testimony. OPUC reserves the right to participate at the hearing, cross-examine witnesses, and file briefs related to the issue of rate of return. OPUC further requests such other relief to which it may be entitled.

⁶ See *Fed Power Comm'n v. Hope Nat. Gas Co*, 320 U.S. 591, 603 (1944) (“... the fixing of ‘just and reasonable’ rates[] involves a balancing of the investor and consumer interests.”).

Dated: October 29, 2020

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CERTIFICATE OF SERVICE

SOAH Docket No. 473-20-4709.WS
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I hereby certify that a copy of the foregoing document was served on all parties of record in this proceeding on this 29th day of October 2020, by facsimile, electronic mail, and/or first class, U.S. mail.

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