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APPLICATION OF MONARCH § BEFORE THE STATE OFFICE OF
UTILITIES I L.P. FOR AUTHORITY TO §
CHANGE RATES § ADMINISTRATIVE HEARINGS

REDACTED REBUTTAL TESTIMONY
OF
EDWARD TAUSSIG

ON BEHALF OF
MONARCH UTILITIES I L.P.



NOVEMBER 19, 2020

584

**REDACTED REBUTTAL TESTIMONY OF
EDWARD TAUSSIG**

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EDWARD TAUSSIG**

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.**

3 A. My name is Edward Taussig. My business address is 12535 Reed Road, Sugar Land,
4 TX 77478. I work for Monarch Utilities I L.P. (“Monarch”) as the Finance Director.
5 Monarch is owned by SouthWest Water Company (“SouthWest”).

6 **Q. ARE YOU THE SAME EDWARD TAUSSIG WHO PROVIDED DIRECT**
7 **TESTIMONY IN THIS CASE?**

8 A. Yes.

9 **II. PURPOSE OF REBUTTAL TESTIMONY**

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
11 **PROCEEDING?**

12 A. The purpose of my rebuttal testimony is to respond to the direct testimony of Mr.
13 Chris Ekrut, witness on behalf of the Office of Public Utility Counsel (“OPUC”),
14 regarding personnel-related expense, and the direct testimony of Mr. Adrian Narvaez,
15 witness on behalf of the Public Utility Commission (“Commission”) Staff, regarding
16 functional allocations by meter equivalents.

17 **III. RESPONSE TO LABOR COST ADJUSTMENT**

18 **Q. WHAT DID MR. EKRUt RECOMMEND REGARDING MONARCH’S**
19 **REQUESTED EMPLOYEE COSTS?**

1 A. Mr. Ekrut recommended Monarch's employee costs be based on payroll information
2 ending August 2020, resulting in a reduction of [REDACTED] FTE to Monarch's requested
3 headcount and an associated reduction to Monarch's requested revenue requirement
4 of [REDACTED].¹

5 **Q. DO YOU AGREE WITH MR. EKRUT'S RECOMMENDATION**
6 **REGARDING MONARCH'S EMPLOYEE COSTS?**

7 A. No. Monarch requests all 144 originally requested positions, because of a continued
8 increase in employees on board since the end of the test year, reaching a total of [REDACTED]
9 on October 19, 2020 and again on November 2, 2020. Monarch's headcount total has
10 continued increasing since August, even in a restricted COVID-19 environment that
11 has made the hiring process more challenging. Therefore, Monarch is on pace to
12 reach the 144 filled positions. This staffing level will allow Monarch to reduce total
13 overtime expenditures. Overtime expenditures are financially inefficient and make
14 employee retention difficult.

15 **Q. PLEASE DISCUSS HOW MONARCH STAFFS ITS BUSINESS**
16 **OPERATIONS.**

17 A. We recognize our duty to staff our business in a manner consistent with the provision
18 of safe and adequate utility service. This requires a constant evaluation of the right
19 mix of internal and contract labor, straight time versus overtime, training programs,
20 and replacing labor with technology. In this vein, Monarch continues to evaluate
21 costs and expenses going forward, always looking for the best solutions for the
22 unique and changing challenges we face.

¹ CONFIDENTIAL Direct Testimony of Chris Ekrut at 13:9 (Oct. 20, 2020).

1 A large portion of Monarch’s costs is labor, and as a position becomes vacant
2 in the organization, we look to the value of that position. We review the need for that
3 position overall and consider whether it should be transferred to another area,
4 modified, or eliminated. Cost control and improved business performance are the
5 goals of these efforts. We continue to evaluate the new roles that will be created as
6 new regulatory requirements are promulgated and the appropriate positions that
7 Monarch will need to optimize new technology and most effectively serve our
8 customers. At this time, the staffing level of 144 is appropriate for Monarch’s water
9 and wastewater operations.

10 **IV. RESPONSE TO FUNCTIONALIZATION ADJUSTMENTS**

11 **Q. WHAT DID MR. NARVAEZ RECOMMEND REGARDING MONARCH’S**
12 **REQUESTED FUNCTIONALIZATION OF COSTS BETWEEN WATER AND**
13 **WASTEWATER?**

14 A. Mr. Narvaez recommended that meter equivalents as of December 31, 2019 should be
15 used for functionalization of test year costs rather than December 31, 2018 meter
16 equivalents. He also recommended that Monarch be required to provide labor-based
17 functionalization in its next general rate case filing.²

18 **Q. DO YOU AGREE WITH MR. NARVAEZ’S RECOMMENDATION**
19 **REGARDING USING DECEMBER 31, 2019 FUNCTIONALIZATION**
20 **FACTORS FOR THE TEST YEAR?**

21 A. No. There are multiple reasons why Staff’s recommendation to use December 31,
22 2019 functionalization factors for its test year costs is inappropriate. Primarily, the

² Direct Testimony of Adrian Narvaez at 13:1–27 (Oct. 27, 2020) (Narvaez Direct).

1 recommendation is divergent from previous practice before the Commission and the
2 policies laid out by SouthWest’s cost allocation manual, by which Monarch abides,
3 and because it results in unnecessary and cumbersome accounting adjustments both in
4 this rate case and going forward.

5 **Q. DID STAFF PROPOSE A SIMILAR ADJUSTMENT TO**
6 **FUNCTIONALIZATION FACTORS IN MONARCH’S PREVIOUS**
7 **GENERAL RATE CASE?**

8 A. No. Mr. Narvaez states that using end-of-test-year functionalization factors is
9 “standard Commission ratemaking practice.”³ However, in Monarch’s last general
10 rate case, Commission Staff did not challenge Monarch’s proposed functionalization
11 factors and used them for purposes of functionalizing their recommended
12 adjustments.⁴ Mr. Ekrut, OPUC’s expert witness, also did not challenge the
13 functionalization factor in that case and used it repeatedly to functionalize his
14 recommended adjustments.⁵ Commission Staff’s and OPUC’s implicit acceptance of
15 Monarch’s requested functionalization factors speaks to the reasonableness of the
16 methodology then as well as now.

17 **Q. ARE THE POLICIES FOR FUNCTIONALIZATION IN SOUTHWEST’S**
18 **COST ALLOCATION MANUAL REASONABLE?**

³ Narvaez Direct at 8:25–26.
⁴ *Application of Monarch Utilities I L.P. for Authority to Change Rates*, Docket No. 45570, Redacted Direct Testimony of Leila Guerrero at 25:13–14 (Aug. 24, 2016).
⁵ Docket No. 45570, Redacted Direct Testimony of Chris Ekrut at 35–37, and 49 (Aug. 17, 2016).

1 A. Yes. The cost allocation manual has been, and is, used by SouthWest’s subsidiaries
2 and has previously been reviewed by this Commission,⁶ as well as others. The
3 policies therein are reasonable and appropriate and are applied consistently by
4 SouthWest to ensure fair allocation and functionalization of costs.

5 **Q. PLEASE EXPLAIN WHY MR. NARVAEZ’S RECOMMENDATION WOULD**
6 **RESULT IN ADJUSTMENTS THAT ARE UNNECESSARY AND**
7 **CUMBERSOME.**

8 A. Mr. Narvaez asserts that “end-of-test-year meter equivalents are more representative
9 of the meter equivalents you can expect going forward . . .”⁷ and that “the purpose of
10 a functional cost of service model is not to reflect [sic] a Utility’s management and
11 reporting practices.”⁸ However, Mr. Narvaez neglects to consider that a utility’s
12 accounting practices are interrelated with, and informed by, regulatory policies. To
13 the extent possible, Monarch strives to maintain its financial records consistent with
14 regulatory records. Adopting a policy in which functionalization factors are not
15 determined until the end of the year would not allow Monarch to record its
16 functionalized costs incurred throughout the year in a timely manner. For example,
17 how would Monarch record its costs in April if the appropriate functionalization
18 factor isn’t determined until the following January? Such a practice is unsound and
19 unnecessary, especially given that the rounded functionalization factors based on
20 December 31, 2018 and December 31, 2019 are both the same; the functional

⁶ *Application of SWWC Utilities, Inc. dba Water Services, Inc. for Authority to Change Rates*, Docket No. 47736 (Oct. 16, 2019).

⁷ Narvaez Direct at 8:16-17.

⁸ Narvaez Direct at 8:3-4.

1 allocation split rounds to 88 percent water and 12 percent wastewater whether using
2 December 2018 or December 2019 meter equivalents due to Monarch's slow growth.

3 **Q. WHAT DID MR. NARVAEZ RECOMMEND REGARDING THE**
4 **TREATMENT OF MONARCH'S SHARED PLANT?**

5 A. Mr. Narvaez contends that because Monarch's investment in shared plant, as well as
6 administrative and general ("A&G") expenses, and payroll-related taxes are not
7 driven by meter equivalents that a labor-based functional allocator should be used in
8 Monarch's next base rate case.

9 **Q. DO YOU AGREE WITH MR. NARVAEZ'S RECOMMENDATION**
10 **REGARDING THE PROVISION OF LABOR-RELATED**
11 **FUNCTIONALIZATION FACTORS IN MONARCH'S NEXT GENERAL**
12 **RATE CASE?**

13 A. No. Meter equivalents are an appropriate functionalization method and have been
14 used consistently by Monarch, the Commission, and the water utility industry.
15 Monarch currently does not have a systematic process to track and assign labor costs
16 by function, and has not planned for the capital investment necessary to track such
17 costs. There are a number of situations where the labor hours are charged to a
18 general project but SouthWest's computer systems and processes cannot efficiently
19 track the labor hour functionalization. Absent significant information technology
20 upgrades, Monarch is unable to provide labor-related functionalization factors for all
21 hours due to the varying sizes and geographic distribution of these water and
22 wastewater systems.

23 **V. CONCLUSION**

24 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

1 A. Yes, it does.