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PUBLIC UTILITY COMMISSION
OFFICE

APPLICATION OF MONARCH
UTILITIES I, L.P. TO CHANGE
RATES FOR WATER AND SEWER
SERVICE

§
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BEFORE THE STATE
OF
ADMINISTRATIVE HEARINGS

ERRATA TO THE DIRECT TESTIMONY OF HEIDI GRAHAM

COMES NOW the Staff (Staff) of the Public Utility Commission of Texas (Commission), representing the public interest and files the attached Errata to the Direct Testimony of Heidi Graham. In support thereof, Staff shows the following:

Staff files the following Errata to the Direct Testimony of Heidi Graham, originally filed on October 27, 2020. The errata corrects calculations to accumulated depreciation and net plant. Additionally, the errata removes disallowances to total utility plant that were not included in Staff's schedules attached to the Direct Testimony of Maxine Gilford.

The errata contains the attached changes and an attached clean copy.

**PUBLIC UTILITY COMMISSION OF
TEXAS LEGAL DIVISION**

/s/Rashmin J. Asher

Rashmin J. Asher

State Bar No. 24092058

Megan Chalifoux

State Bar No. 24073674

Courtney N. Dean

State Bar No. 24116269

1701 N. Congress Avenue

P.O. Box 13326

Austin, Texas 78711-3326

(512) 936-7216

(512) 936-7268 (facsimile)

Rashmin.Asher@puc.texas.gov

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CERTIFICATE OF SERVICE

I certify that, unless otherwise ordered by the presiding officer, notice of the filing of this document was provided to all parties of record on December 1, 2020 in accordance with the Order Suspending Rules, issued in Project No. 50664.

/s/ Rashmin J. Asher

Rashmin J. Asher

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

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



ERRATA TO THE DIRECT TESTIMONY OF HEIDI GRAHAM
INFRASTRUCTURE DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS
DECEMBER 1, 2020

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ATTACHMENTS

- Attachment HG-1 List of Previous Testimonies
- Attachment HG-2 Resume
- Attachment HG-3 Worksheet – Staff’s Depreciation Schedule
- Attachment HG-4 Selected TCEQ Correspondence

1 **I. PROFESSIONAL QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. Heidi Graham, Public Utility Commission of Texas, 1701 N. Congress Avenue, Austin,
4 Texas 78711-3326.
5

6 **Q. By whom are you currently employed and in what capacity?**

7 A. I have been employed by the Public Utility Commission of Texas (Commission) since
8 September 1, 2014. I am a Lead Engineering Specialist in the Engineering Section of the
9 Infrastructure Division.
10

11 **Q. What are your principal responsibilities at the Commission?**

12 A. My responsibilities include reviewing applications to obtain or amend certificates of
13 convenience and necessity (CCN); reviewing applications to obtain or amend rates;
14 providing testimony and participating in settlement negotiations for contested cases; and
15 participating in rulemakings and form development.
16

17 **Q. Please state your educational background and professional experience.**

18 A. I have provided a summary of my educational background and professional regulatory
19 experience in Attachment HG-2 to my direct testimony.
20

21 **Q. Are you a registered professional engineer?**

22 A. No.
23

24 **Q. Have you testified as an expert before the Commission or the State Office of
25 Administrative Hearings (SOAH)?**

26 A. Yes Attachment HG-1 provides a summary of the dockets in which I have filed direct
27 testimony or memoranda in lieu of testimony.
28

29 **Q. On whose behalf are you testifying?**

30 A. I am testifying on behalf of the Staff of the Public Utility Commission of Texas (Staff)

1 **II. PURPOSE AND SCOPE OF TESTIMONY**

2 **Q. What is the purpose of your testimony in this proceeding?**

3 A. The purpose of my testimony is to present recommendations for the invested capital and
4 depreciation associated with the provision of water and sewer service by Monarch Utilities
5 I, L.P. (Monarch).
6

7 **Q. What is the scope of your review?**

8 A. I reviewed the rate application filed by Monarch, as well as the pre-filed direct testimonies
9 and discovery responses.
10

11 **Q. Which issues contained in the Preliminary Order issued by the Commission does your
12 testimony generally address?**

13 A. In my testimony, I will address the following issues identified in the Preliminary Order
14 filed September 24, 2020:

- 15 • Issue No. 3. What is the proper legal name of the utility that currently holds certificate
16 of convenience and necessity (CCN) number 12983? In answering this issue, please
17 identify who owns the equipment and facilities used to provide water service under
18 CCN number 12983. Who operates such equipment and facilities?
- 19 • Issue No. 5. What is the proper legal name of the utility that currently holds CCN
20 number 20899? In answering this issue, please identify who owns the equipment and
21 facilities used to provide sewer service under CCN number 20899. Who operates such
22 equipment and facilities?
- 23 • Issue No. 19. What is the reasonable and necessary depreciation expense?
 - 24 a. For each class of property, what are the proper and adequate depreciation rates
25 and methods of depreciation, including service lives and salvage values?
- 26 • Issue No. 32. What are the reasonable and necessary components of the utility's rate
27 base in accordance with 16 TAC § 24 41(c)?

- 1 • Issue No 34. What is the original cost of the property used and useful in providing
2 service to the public at the time the property was dedicated to public use under TWC §
3 13.185(b) and 16 TAC § 24.41(c)(2)(A) and (B)?
- 4 • Issue No 35 What is the amount, if any, of accumulated depreciation on such property
5 and the resulting net cost?
- 6 • Issue No. 37. Is the utility seeking inclusion of construction work in progress? If so,
7 what is the amount sought and for what facilities? Additionally, has the utility proven
8 that the inclusion is necessary to the financial integrity of the utility and that major
9 projects under construction have been efficiently and prudently planned and managed
10 as required by 16 TAC § 24 41(c)(4)?
11

12 **Q. If you do not address an issue or position in your testimony, should that be interpreted**
13 **as Staff supporting Monarch’s position on that issue?**

14 A No.
15

16 **Q. Have you prepared any attachments to your testimony?**

17 A. I have prepared Attachment HG-1, a summary of dockets in which I have previously
18 provided direct testimony or memoranda in lieu of testimony; Attachment HG-2, a
19 summary of my educational background and professional regulatory experience,
20 Attachment HG-3, Staff’s Depreciation Schedule; and HG-4, a collection of
21 correspondence from the Texas Commission on Environmental Quality (TCEQ) regarding
22 construction on several of Monarch’s public water systems (PWS).
23

24 **Q. Were these attachments prepared by you or under your supervision?**

25 A Yes.
26
27
28
29
30

1 **III. SUMMARY OF MONARCH'S REQUEST**

2 **Q. What is the proper legal name of the utility that currently holds CCN number 12983?**
3 **Who owns the equipment and facilities used to provide water service under CCN**
4 **number 12983? Who operates such equipment and facilities?**

5 A. According to the Secretary of the State of Texas' website, SOS Direct, Monarch Utilities I
6 LP is the legal name of the utility that currently holds water CCN number 12983. Monarch
7 owns and operates the equipment and facilities used to provide water service under this
8 CCN
9

10 **Q. What is the proper legal name of the utility that currently holds CCN number 20899?**
11 **Who owns the equipment and facilities used to provide sewer service under CCN**
12 **number 20899? Who operates such equipment and facilities?**

13 A. According to the Secretary of the State of Texas' website, SOS Direct, Monarch Utilities I
14 LP is the legal name of the utility that currently holds sewer CCN number 20899. Monarch
15 owns and operates the equipment and facilities used to provide service under this CCN.
16

17 **Q. What test year did you consider when preparing your testimony?**

18 A January 1, 2019 through December 31, 2019.
19

20 **Q. What is Monarch requesting through this application?**

21 A. Monarch requested the following in terms of its proposed rate base ¹

Table 3 - Rate Base Summary	
Component	Amount
Gross Plant in Service	\$180,936,554
Accumulated Depreciation	(\$69,359,714)
CWIP	\$1,486,395
Parent Company Rate Base	\$1,575,128
ADFIT (including excess ADFIT)	(\$1,239,342)
Materials & Supplies	\$383,585
Prepayments	\$236,422
Working Cash	\$1,441,199
Other Rate Base Items	(\$10,277,901)
Total Rate Base	\$105,182,326

22

¹ Application at 000082, Direct Testimony of Brian D Bahr at 14 (July 15, 2020) (Bahr Direct)

1 **IV. DEPRECIATION STUDY AND ASSET SERVICE LIVES**

2 **Q. What materials have you relied upon in evaluating and making recommendations**
3 **related to Monarch’s proposed depreciation?**

4 A. I relied primarily on my Attachment HG-3, which contains Staff’s Depreciation Schedule
5 that I built based on the Detailed Computation of Annual Current and Proposed
6 Computation of Annual Depreciation Expense prepared by Monarch witness Dane Watson
7 and included in the application as a PDF file at Attachment DAW-2.² I converted the PDF
8 file to Microsoft Excel spreadsheet and used it as a basis to build an itemized straight-line
9 depreciation schedule that includes each asset’s original cost (plant), current service life,
10 current annual depreciation expense, accumulated depreciation, and net plant.
11

12 **Q. What observations do you have about Mr. Watson’s Appendix B?**

13 A. Appendix B included the computation of the annual depreciation expense for each asset,
14 using both the current and proposed service lives based upon Mr Watson’s Monarch
15 Depreciation Rate Study, included with the application at Attachment DAW-2.³ While the
16 current age and remaining life of each asset was included in his spreadsheets, Mr Watson
17 did not consider the current age or remaining life of each asset when calculating his current
18 and proposed depreciation expenses. Instead, it appears that Mr Watson proposes to
19 calculate depreciation using the whole life method of depreciation—as opposed to the
20 remaining life method—as he used the original cost of each asset at the time it was placed
21 into service when calculating both the current depreciation expenses and proposed
22 depreciation expenses based on the newly-proposed service lives.
23

24 **Q. In creating the Staff Depreciation Schedule at Attachment HG-3, what adjustments**
25 **did you make to Mr. Watson’s Appendix B and why?**

26 A I disagree with the use of the whole life method that Mr. Watson employed. In my opinion,

² Application at 000721, Direct Testimony of Dane Watson, Attachment DAW-2 at Appendix B (July 15, 2020) (Appendix B)

³ Application at 000689 – 000721, Direct Testimony of Dane Watson, Attachment DAW-2 (July 15, 2020) (Monarch Depreciation Rate Study)

1 the correct method to calculate the annual depreciation expense is the remaining life
2 method, which calculates the annual depreciation expense using the net plant balance of
3 each asset at the time the service life is changed. In building Staff's Depreciation Schedule,
4 I calculated the accumulated depreciation for each asset using its age and the current annual
5 depreciation expense I then used the original cost (plant) and accumulated depreciation
6 for each asset to calculate the net plant.
7

8 **Q. What is the result of not using the remaining life method you have described when**
9 **changing the service life of an aged asset, as Mr. Watson's proposed in Appendix B?**

10 A. The result of Mr. Watson's method may be the over-recovery of an amount that has already
11 been paid through the customers' rates For example, in Appendix B, Mr Watson proposed
12 to change the service life of a booster pump for Well #1/PS #1 with a vintage of 2005 from
13 10 years to 30 years ⁴ However, because the current age of the plant was 14.5 years, Mr.
14 Watson's proposed 30-year service life would result in an over-accrual of depreciation.
15 Accordingly, it appears that Mr. Watson's calculations would allow Monarch to recover
16 depreciation that the customers have already paid for through their rates.
17

18 **Q. What is the reasonable and necessary depreciation expense? For each class of**
19 **property, what are the proper and adequate depreciation rates and methods of**
20 **depreciation, including service lives and salvage values?**

21 A My recommended annual depreciation expense is shown in the table below See
22 Attachment HG-3 for Staff's depreciation schedule and calculations
23

	Current Annual Depr. Expense
Shared	\$731,890 60
Sewer	\$613,341 82
Water	\$3,958,281 21
All	\$5,303,513 63

⁴ Application at 000721, Direct Testimony of Dane Watson, Attachment DAW-2 at Appendix B, Line 6440 (July 15, 2020) (Appendix B)

The service lives I recommend are the current lives included in Mr. Watson’s Appendix B.

V. PLANT IN SERVICE

Q. What amount does Monarch claim as the original cost of the property that is used or useful in providing service to the public at the time the property was dedicated to public use under Texas Water Code (TWC) § 13.185(b) and 16 Texas Administrative Code (TAC) § 24.41(c)(2)(A) and (B)?

A. Monarch claims a gross plant in service amount of \$180,936,554. Monarch witness Brian Bahr sponsors a summary of the gross plant in service in his *Table 2—Gross Plant in Service Support*, which has been replicated in part below.⁵

Support	Amount
Prior Commission Determination (Docket No. 45570)	\$128,166,141
Prior Commission Determination (Docket No 47736)	\$18,925,134
Invoices, Contracts, & Work Orders	\$33,476,010
Trended RCNLD Studies	\$369,269
	\$180,936,554

~~Mr. Bahr claims that these amounts are supported by prior Commission rate base determinations; invoices, contracts, and work orders for projects with investment greater than \$50,000; and a trended Replacement Cost New Less Depreciation (RCNLD) study.⁶ However, there was no trending study provided with the application to support the \$369,269 amount claimed for “Trended RCNLD Studies” Further, the itemized trended amounts for each asset cannot be identified in Mr. Watson’s Attachment DAW-2. Therefore, this amount is not justified.~~

Additionally, Mr. Bahr sponsors the Schedule II-A-3 Balance Sheet, which also provides amounts related to the utility plant.⁷ Consistent with *Table 2—Gross Plant in Service Support*, shown above, the Schedule II-A-3 Balance Sheet claims \$180,936,554 as

⁵ Application at 00083, Bahr Direct at 15.

⁶ Direct Testimony of George Freitag at 7-8 (Freitag Direct).

⁷ Application at 000848, Bahr Direct, Schedule II-A-3 Balance Sheet (Balance Sheet)

1 the adjusted book value for gross utility plant in service as of December 31, 2019.⁸

2 The Schedule II-A-3 Balance Sheet also contains a breakdown of amounts
3 considered in calculating the total utility plant. Specifically, it shows that Monarch
4 proposes to claim amounts of \$1,575,128 for net parent company assets, \$6,908,718 for
5 Construction Work In Progress (CWIP), and \$871,841 for completed construction not
6 classified, resulting in a total proposed utility plant amount of \$190,292,243.⁹
7

8 ~~Q. What adjustments do you recommend be made to Monarch's proposed original cost~~
9 ~~of its gross plant in service under TWC § 13.185(b) and 16 TAC § 24.41(e)(2)(A)~~
10 ~~and (B)?~~

11 ~~A. I recommend that the proposed amount of \$369,269 attributed to the Trended RCNLD~~
12 ~~Studies be disallowed as it has not been supported in the application.~~
13

14 **Q. What amounts do you recommend for original cost for the shared, sewer and water**
15 **categories of plant in service, and how will these be used by Staff?**

16 A. The following table includes my recommendation for original cost of plant in service for
17 each category. Staff witness Maxine Gilford will use these numbers in the calculation of
18 rate base.

Plant	
Shared	\$7,963,825.46
Sewer	\$23,087,863.83
Water	\$149,900,389.36
All	\$180,952,078.65

19 **Q. What is the amount, if any, of accumulated depreciation on such property and the**
20 **resulting net cost?**

⁸ *Id*

⁹ *Id*

1 A. The following table includes my recommendation for accumulated depreciation for each
2 category. See Attachment HG-3 for Staff's depreciation schedule and calculations.

3

	Accumulated Depreciation
Shared	\$2,242,693.39 \$3,544,489.09
Sewer	\$7,862,528.72 \$9,033,575.73
Water	\$49,353,400.84 \$59,464,845.59
All	\$59,458,622.95 \$72,042,910.41

4
5

6 **VI. TOTAL UTILITY PLANT AND RATE BASE**

7 **Q. You mentioned that Monarch included CWIP expenses in calculating its proposed**
8 **total utility plant amount. What amount of CWIP expenses seek to include in its rate**
9 **base and for which facilities?**

10 A. Though Monarch claims a total CWIP balance of \$6,908,718 for utility plant assets,
11 Monarch requests the inclusion of only \$1,486,395 of CWIP expenses in its proposed rate
12 base.¹⁰ The \$1,486,395 of CWIP expenses included in the proposed rate base match the
13 CWIP balance at the end of the test year of December 31, 2019.¹¹ In Brian Bahr's
14 testimony, he claims that the CWIP balance included in Monarch's requested rate base
15 relates to major projects that have already been completed by the utility and are in use and
16 providing service to customers.¹² However, neither Mr. Bahr nor any other Monarch
17 witness has identified the particular assets that were included in the CWIP balance as of
18 December 31, 2019.

¹⁰ *Id.*, Application at 000082, Bahr Direct at 14

¹¹ *See* Application at 001233, WP/II-B-2

¹² Application at 000084, Bahr Direct at 16

1
2 **Q. Do you agree with the inclusion of the proposed CWIP?**

3 A. No The inclusion of CWIP balances in a rate base is addressed under 16 Texas
4 Administrative Code (TAC) § 24.41(c)(4), which states:

5 The inclusion of CWIP is an exceptional form of relief. Under ordinary
6 circumstances, the rate base consists only of those items that are used
7 and useful in providing service to the public. Under exceptional
8 circumstances, the commission may include CWIP in rate base to the
9 extent that the utility has proven that:

- 10 (A) the inclusion is necessary to the financial integrity of the
11 utility; and
12 (B) major projects under construction have been efficiently and
13 prudently planned and managed.

14 Monarch has not provided adequate support to show that the inclusion of CWIP is
15 necessary to the financial integrity of the utility and that the major projects under
16 construction have been efficiently and prudently planned and managed. Specifically, there
17 was no testimony to demonstrate any exceptional circumstance that would make the
18 inclusion of CWIP necessary

19 Additionally, though Brian Bahr references the testimonies of Monarch witnesses
20 Terry Benton and Tim Williford, who provide a description of projects in which Monarch
21 has made investments greater than \$50,000 since 2015, it is not clear which particular
22 assets are included in the proposed CWIP expenses or whether those assets are in service.¹³
23 I reviewed the Texas Commission on Environmental Quality's (TCEQ) online records for
24 the public water systems listed as subject to the major capital investments included in
25 Monarch's proposed CWIP expenses.¹⁴ My review of TCEQ records revealed that, among
26 the identified public water systems (PWS), certain public water supply wells that TCEQ
27 approved for construction in 2018 and 2019, have not yet been approved for use to date in
28 2020.¹⁵ Specifically, there is new construction not yet approved for use at Monarch's

¹³ See Application at 000083, Bahr Direct at 15, Application at 000475 – 000477, Direct Testimony of Terry Benton at 8-10 (July 15, 2020) (Benton Direct), Application at 000501-000509, Direct Testimony of Timothy J Williford at 11-19 (July 15, 2020) (Williford Direct)

¹⁴ See Application at 000475 – 000477, Benton Direct at 8-10

¹⁵ See, e.g., Attachment HG-4

1 Comanche Harbor & Port O'Call (PWS ID No. 1110022) and Silver Saddle Acres (PWS
2 ID No 2200299) systems.¹⁶

3 Therefore, these wells cannot be considered to be used or useful in providing
4 service at this time. My review of TCEQ records also revealed other types of TCEQ-
5 approved construction on projects that have not been verified to be in use or useful at this
6 time, including construction on a ground storage tank in the Holiday Villages of Fork, PWS
7 ID No 2500058, that received TCEQ approval in 2019 but that I have not been able to
8 verify was actually constructed.¹⁷

9 Monarch has not identified in their testimony which specific assets are proposed as
10 CWIP expenses or whether those assets are completed.¹⁸ Therefore, Monarch has not
11 shown how major projects under construction have been efficiently and prudently planned
12 and managed as required under 16 TAC § 24.41(c)(4) and has not met the requirements
13 necessary to include CWIP expenses in the rate base. Monarch's request to include the
14 \$1,486,395 CWIP balance at the end of the test year of December 31, 2019 in its rate base
15 should be denied.
16

17 ~~Q. What thoughts do you have on Monarch's proposal to include amounts for "net~~
18 ~~parent company assets" and "completed construction not classified" in its total utility~~
19 ~~plant?~~

20 ~~A. The proposed amounts were not supported by Monarch and should be disallowed.~~
21

22 **Q. What adjustments do you recommend be made to Monarch's proposed total utility**
23 **plant and rate base?**

24 A I recommend that the proposed amounts of \$1,575,128 in net parent company assets,
25 \$6,908,718 of CWIP expenses, and \$871,841 of costs attributed to completed construction
26 ~~not classified~~ be disallowed from inclusion in Monarch's total utility plant rate base as they

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¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ Application at 000083, Bahr Direct at 15

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1 it have ~~has~~ not been supported by testimony. I also recommend that the amount of
2 \$1,486,395 in CWIP expenses be disallowed from the proposed rate base as they are
3 unsupported.

4 **VII. RECOMMENDATION**

5 **Q. What are the reasonable and necessary components of the utility's rate base in**
6 **accordance with 16 TAC § 24.41(c)? Please summarize your recommendations**
7 **regarding plant in service, depreciation, and net plant.**

8 A. In the tables below, I have summarized my recommended amounts for specific components
9 of rate base. See Attachment HG-3 for Staff's Depreciation Schedule.

	Plant	Current Annual Depr. Expense	Accumulated Depreciation	Net Plant
Shared	\$7,963,825.46	\$731,890.60	\$2,242,693.39	\$5,721,132.07
Sewer	\$23,087,863.83	\$613,341.82	\$3,544,489.09	\$4,419,336.37
Water	\$149,900,389.36	\$3,958,281.21	\$7,862,528.72	\$15,225,335.11
			\$9,033,575.73	\$14,054,288.10
			\$49,353,400.84	\$100,546,988.52
			\$59,464,845.59	\$90,435,543.76
All	\$180,952,078.65	\$5,303,513.63	\$59,458,622.95	\$121,493,455.70
			\$72,042,910.41	\$108,909,168.24

10
11 **Q. Do you have any other recommendations?**

12 A. Yes. I recommend that the Commission order Monarch to calculate depreciation in their
13 next base rate case using the straight-line remaining life method instead of the whole life
14 method, based on my testimony in Section IV about these methods.

15
16 **IX. CONCLUSION**

17 **Q. Does this conclude your direct testimony?**

18 A. Yes.

Heidi Graham
Public Utility Commission of Texas (PUCT)
List of Previous Testimonies

Testimonies for TCEQ Staff

Docket	Company	Application Type
SOAH 582-08-4354	James Maib dba H2O Systems Plus	Rate application - Water
SOAH 582-08-2863	Lower Colorado River Authority	Rate Appeal - Water
SOAH 582-08-4353	Interim-La Ventana	Sale, Transfer, Merger - Water
SOAH 582-09-0660	North San Saba WSC	Rate Appeal - Water
SOAH 582-09-0592	City of Nixon	CCN Amendment - Water
SOAH 582-10-3422	Denton Co WCID No 1	Rate Appeal - Water
SOAH 582-10-5999	City of Kerrville	CCN Amendment - Water
SOAH 582-13-4616	HHJ dba Decker Utilities	Rate Application - Water and Sewer
SOAH 582-13-4616	M E.N. WSC	Cost of Service Appeal - Water

Testimonies for PUCT Staff

PUC Docket	SOAH Docket	Company	Application Type
42858	473-14-0366	SJWTX, Inc.	Rate Application - Water
42857	473-14-5138	City of Austin	Wholesale Appeal
42866	473-14-5144.WS	West Travis County PUA	Wholesale Appeal
42862	473-14-5139	Town of Woodloch	Rate Appeal – Water and Sewer
42860	473-14-5140	Douglas Utility Company	Rate Settlement – Water and Sewer
42864	473-14-5146	Enchanted Harbor	Rate Application - Water
42919	473-15-0372	Double Diamond	Rate Application - Water
42924	473-15-0371	Crystal Springs Water Co. Inc	CCN Amendment - Water
42942	473-15-0623.WS	Castle Water, Inc.	Rate Application - Water
43554	473-15-1230.WS	Mansions of Turkey Creek	Rate Appeal – Water and Sewer
44046	473-15-4390.WS	Laguna Vista/Laguna Tres	Sale Transfer Merger
44657	473-16-0927 WS	Interim-La Ventana	Sale Transfer Merger
43076	473-16-2094.WS	Consumers Water, Inc.	Rate Application - Water
45570	473-16-2873.WS	Monarch Utilities I, LP	Rate Application – Water and Sewer
46256	473-17-1641.WS	Liberty Utilities	Rate Application – Sewer
46662	473-17-4964.WS	North Texas MWD	Wholesale Appeal
47814	473-18-1344.WS	City of Forney	Wholesale Appeal

Heidi Graham
1701 N. Congress Ave.
PO Box 13326
Austin, Texas 78711-3326
512-936-7139
heidi.graham@puc.texas.gov

Work Experience

Program Specialist VII, Lead Engineering Specialist

4/2020 – Present, Public Utility Commission of Texas, Austin, Texas
Review applications to obtain or amend certificates of convenience and necessity (CCN); review applications to increase rates; provide testimony for contested cases, participating in negotiating settlements for those cases; and participate in rulemakings and application and form development.

Program Specialist VII, Director of the Water Utility Engineering Section

5/2016 – 4/2020, Public Utility Commission of Texas, Austin, Texas
Lead a team of experts who review applications to obtain or amend certificates of convenience and necessity (CCN), review applications to increase rates; provide testimony for contested cases and participating in negotiating settlements for those cases; and participate in rulemakings and application and form development.

Engineering Specialist V

9/2014 – 5/2016, Public Utility Commission, Austin, Texas
Process Convenience and Necessity (CCN) applications. Perform depreciation studies, quality of service evaluations, design rates for rate applications and testify in hearings.

Engineering Specialist V

12/2006 – 8/2014, Texas Commission on Environmental Quality, Austin, Texas
Review plans, specifications and engineering reports for new or modified public water systems to ensure compliance with Federal and State standards. Process Convenience and Necessity (CCN) applications. Perform depreciation studies, quality of service evaluations, design rates for rate applications and testify in hearings.

Education

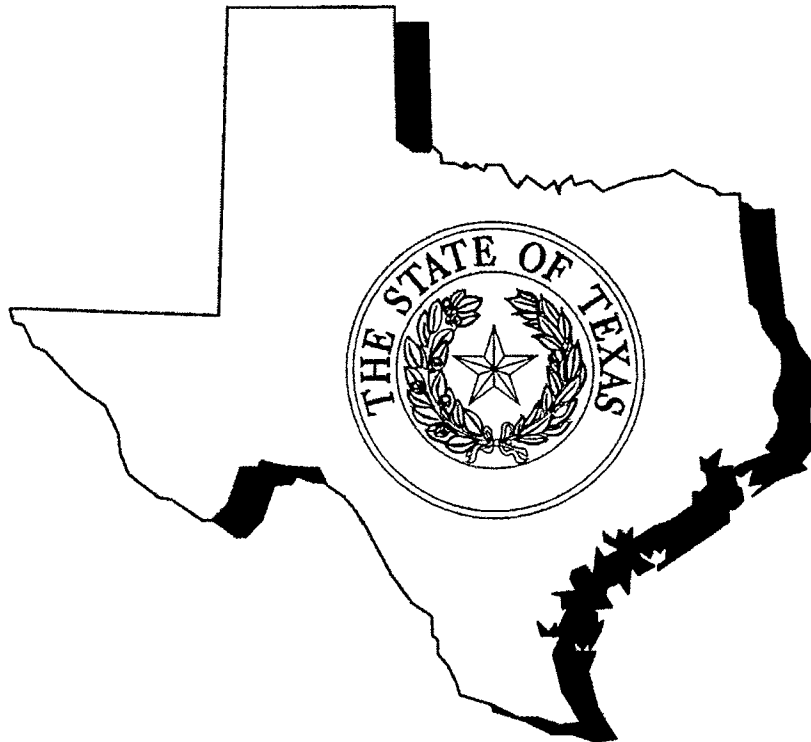
8/1983 - 5/1988, University of Missouri, Rolla, Missouri
Bachelor's Degree in Mechanical Engineering

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**ERRATA TO THE DIRECT TESTIMONY OF HEIDI GRAHAM
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1 **I. PROFESSIONAL QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. Heidi Graham, Public Utility Commission of Texas, 1701 N. Congress Avenue, Austin,
4 Texas 78711-3326.

5

6 **Q. By whom are you currently employed and in what capacity?**

7 A. I have been employed by the Public Utility Commission of Texas (Commission) since
8 September 1, 2014. I am a Lead Engineering Specialist in the Engineering Section of the
9 Infrastructure Division.

10

11 **Q. What are your principal responsibilities at the Commission?**

12 A. My responsibilities include reviewing applications to obtain or amend certificates of
13 convenience and necessity (CCN); reviewing applications to obtain or amend rates;
14 providing testimony and participating in settlement negotiations for contested cases; and
15 participating in rulemakings and form development.

16

17 **Q. Please state your educational background and professional experience.**

18 A. I have provided a summary of my educational background and professional regulatory
19 experience in Attachment HG-2 to my direct testimony.

20

21 **Q. Are you a registered professional engineer?**

22 A. No.

23

24 **Q. Have you testified as an expert before the Commission or the State Office of
25 Administrative Hearings (SOAH)?**

26 A. Yes. Attachment HG-1 provides a summary of the dockets in which I have filed direct
27 testimony or memoranda in lieu of testimony.

28

29 **Q. On whose behalf are you testifying?**

30 A. I am testifying on behalf of the Staff of the Public Utility Commission of Texas (Staff).

1 **II. PURPOSE AND SCOPE OF TESTIMONY**

2 **Q. What is the purpose of your testimony in this proceeding?**

3 A. The purpose of my testimony is to present recommendations for the invested capital and
4 depreciation associated with the provision of water and sewer service by Monarch Utilities
5 I, L.P. (Monarch).

6
7 **Q. What is the scope of your review?**

8 A. I reviewed the rate application filed by Monarch, as well as the pre-filed direct testimonies
9 and discovery responses.

10
11 **Q. Which issues contained in the Preliminary Order issued by the Commission does your
12 testimony generally address?**

13 A. In my testimony, I will address the following issues identified in the Preliminary Order
14 filed September 24, 2020:

- 15 • Issue No. 3. What is the proper legal name of the utility that currently holds certificate
16 of convenience and necessity (CCN) number 12983? In answering this issue, please
17 identify who owns the equipment and facilities used to provide water service under
18 CCN number 12983. Who operates such equipment and facilities?
- 19 • Issue No. 5. What is the proper legal name of the utility that currently holds CCN
20 number 20899? In answering this issue, please identify who owns the equipment and
21 facilities used to provide sewer service under CCN number 20899. Who operates such
22 equipment and facilities?
- 23 • Issue No. 19. What is the reasonable and necessary depreciation expense?
 - 24 a. For each class of property, what are the proper and adequate depreciation rates
25 and methods of depreciation, including service lives and salvage values?
- 26 • Issue No. 32. What are the reasonable and necessary components of the utility's rate
27 base in accordance with 16 TAC § 24.41(c)?

- 1 • Issue No. 34. What is the original cost of the property used and useful in providing
- 2 service to the public at the time the property was dedicated to public use under TWC §
- 3 13.185(b) and 16 TAC § 24.41(c)(2)(A) and (B)?
- 4 • Issue No. 35. What is the amount, if any, of accumulated depreciation on such property
- 5 and the resulting net cost?
- 6 • Issue No. 37. Is the utility seeking inclusion of construction work in progress? If so,
- 7 what is the amount sought and for what facilities? Additionally, has the utility proven
- 8 that the inclusion is necessary to the financial integrity of the utility and that major
- 9 projects under construction have been efficiently and prudently planned and managed
- 10 as required by 16 TAC § 24.41(c)(4)?
- 11

12 **Q. If you do not address an issue or position in your testimony, should that be interpreted**

13 **as Staff supporting Monarch’s position on that issue?**

14 A. No.

15

16 **Q. Have you prepared any attachments to your testimony?**

17 A. I have prepared Attachment HG-1, a summary of dockets in which I have previously

18 provided direct testimony or memoranda in lieu of testimony; Attachment HG-2, a

19 summary of my educational background and professional regulatory experience;

20 Attachment HG-3, Staff’s Depreciation Schedule; and HG-4, a collection of

21 correspondence from the Texas Commission on Environmental Quality (TCEQ) regarding

22 construction on several of Monarch’s public water systems (PWS).

23

24 **Q. Were these attachments prepared by you or under your supervision?**

25 A. Yes.

26

27

28

29

30

1 **III. SUMMARY OF MONARCH'S REQUEST**

2 **Q. What is the proper legal name of the utility that currently holds CCN number 12983?**
3 **Who owns the equipment and facilities used to provide water service under CCN**
4 **number 12983? Who operates such equipment and facilities?**

5 A. According to the Secretary of the State of Texas' website, SOS Direct, Monarch Utilities I
6 LP is the legal name of the utility that currently holds water CCN number 12983. Monarch
7 owns and operates the equipment and facilities used to provide water service under this
8 CCN.
9

10 **Q. What is the proper legal name of the utility that currently holds CCN number 20899?**
11 **Who owns the equipment and facilities used to provide sewer service under CCN**
12 **number 20899? Who operates such equipment and facilities?**

13 A. According to the Secretary of the State of Texas' website, SOS Direct, Monarch Utilities I
14 LP is the legal name of the utility that currently holds sewer CCN number 20899. Monarch
15 owns and operates the equipment and facilities used to provide service under this CCN.
16

17 **Q. What test year did you consider when preparing your testimony?**

18 A. January 1, 2019 through December 31, 2019.
19

20 **Q. What is Monarch requesting through this application?**

21 A. Monarch requested the following in terms of its proposed rate base.¹

Table 3 - Rate Base Summary	
Component	Amount
Gross Plant in Service	\$180,936,554
Accumulated Depreciation	(\$69,359,714)
CWIP	\$1,486,395
Parent Company Rate Base	\$1,575,128
ADFIT (including excess ADFIT)	(\$1,239,342)
Materials & Supplies	\$383,585
Prepayments	\$236,422
Working Cash	\$1,441,199
Other Rate Base Items	(\$10,277,901)
Total Rate Base	\$105,182,326

¹ Application at 000082, Direct Testimony of Brian D. Bahr at 14 (July 15, 2020) (Bahr Direct).

1 **IV. DEPRECIATION STUDY AND ASSET SERVICE LIVES**

2 **Q. What materials have you relied upon in evaluating and making recommendations**
3 **related to Monarch's proposed depreciation?**

4 A. I relied primarily on my Attachment HG-3, which contains Staff's Depreciation Schedule
5 that I built based on the Detailed Computation of Annual Current and Proposed
6 Computation of Annual Depreciation Expense prepared by Monarch witness Dane Watson
7 and included in the application as a PDF file at Attachment DAW-2.² I converted the PDF
8 file to Microsoft Excel spreadsheet and used it as a basis to build an itemized straight-line
9 depreciation schedule that includes each asset's original cost (plant), current service life,
10 current annual depreciation expense, accumulated depreciation, and net plant.
11

12 **Q. What observations do you have about Mr. Watson's Appendix B?**

13 A. Appendix B included the computation of the annual depreciation expense for each asset,
14 using both the current and proposed service lives based upon Mr. Watson's Monarch
15 Depreciation Rate Study, included with the application at Attachment DAW-2.³ While the
16 current age and remaining life of each asset was included in his spreadsheets, Mr. Watson
17 did not consider the current age or remaining life of each asset when calculating his current
18 and proposed depreciation expenses. Instead, it appears that Mr. Watson proposes to
19 calculate depreciation using the whole life method of depreciation—as opposed to the
20 remaining life method—as he used the original cost of each asset at the time it was placed
21 into service when calculating both the current depreciation expenses and proposed
22 depreciation expenses based on the newly-proposed service lives.
23

24 **Q. In creating the Staff Depreciation Schedule at Attachment HG-3, what adjustments**
25 **did you make to Mr. Watson's Appendix B and why?**

26 A. I disagree with the use of the whole life method that Mr. Watson employed. In my opinion,

² Application at 000721, Direct Testimony of Dane Watson, Attachment DAW-2 at Appendix B (July 15, 2020) (Appendix B).

³ Application at 000689 – 000721, Direct Testimony of Dane Watson, Attachment DAW-2 (July 15, 2020) (Monarch Depreciation Rate Study).

1 the correct method to calculate the annual depreciation expense is the remaining life
2 method, which calculates the annual depreciation expense using the net plant balance of
3 each asset at the time the service life is changed. In building Staff's Depreciation Schedule,
4 I calculated the accumulated depreciation for each asset using its age and the current annual
5 depreciation expense. I then used the original cost (plant) and accumulated depreciation
6 for each asset to calculate the net plant.
7

8 **Q. What is the result of not using the remaining life method you have described when**
9 **changing the service life of an aged asset, as Mr. Watson's proposed in Appendix B?**

10 A. The result of Mr. Watson's method may be the over-recovery of an amount that has already
11 been paid through the customers' rates. For example, in Appendix B, Mr. Watson proposed
12 to change the service life of a booster pump for Well #1/PS #1 with a vintage of 2005 from
13 10 years to 30 years.⁴ However, because the current age of the plant was 14.5 years, Mr.
14 Watson's proposed 30-year service life would result in an over-accrual of depreciation.
15 Accordingly, it appears that Mr. Watson's calculations would allow Monarch to recover
16 depreciation that the customers have already paid for through their rates.
17

18 **Q. What is the reasonable and necessary depreciation expense? For each class of**
19 **property, what are the proper and adequate depreciation rates and methods of**
20 **depreciation, including service lives and salvage values?**

21 A. My recommended annual depreciation expense is shown in the table below. See
22 Attachment HG-3 for Staff's depreciation schedule and calculations.
23

	Current Annual Depr. Expense
Shared	\$731,890.60
Sewer	\$613,341.82
Water	\$3,958,281.21
All	\$5,303,513.63

⁴ Application at 000721, Direct Testimony of Dane Watson, Attachment DAW-2 at Appendix B, Line 6440 (July 15, 2020) (Appendix B).

1 The service lives I recommend are the current lives included in Mr. Watson’s Appendix B.
2

3 **V. PLANT IN SERVICE**

4 **Q. What amount does Monarch claim as the original cost of the property that is used or**
5 **useful in providing service to the public at the time the property was dedicated to**
6 **public use under Texas Water Code (TWC) § 13.185(b) and 16 Texas Administrative**
7 **Code (TAC) § 24.41(c)(2)(A) and (B)?**

8 A. Monarch claims a gross plant in service amount of \$180,936,554. Monarch witness Brian
9 Bahr sponsors a summary of the gross plant in service in his *Table 2—Gross Plant in*
10 *Service Support*, which has been replicated in part below.⁵
11

Support	Amount
Prior Commission Determination (Docket No. 45570)	\$128,166,141
Prior Commission Determination (Docket No. 47736)	\$18,925,134
Invoices, Contracts, & Work Orders	\$33,476,010
Trended RCNLD Studies	\$369,269
	\$180,936,554

12 Additionally, Mr. Bahr sponsors the Schedule II-A-3 Balance Sheet, which also
13 provides amounts related to the utility plant.⁶ Consistent with *Table 2—Gross Plant in*
14 *Service Support*, shown above, the Schedule II-A-3 Balance Sheet claims \$180,936,554 as
15 the adjusted book value for gross utility plant in service as of December 31, 2019.⁷

16 The Schedule II-A-3 Balance Sheet also contains a breakdown of amounts
17 considered in calculating the total utility plant. Specifically, it shows that Monarch
18 proposes to claim amounts of \$1,575,128 for net parent company assets, \$6,908,718 for
19 Construction Work In Progress (CWIP), and \$871,841 for completed construction not
20 classified, resulting in a total proposed utility plant amount of \$190,292,243.⁸
21

⁵ Application at 00083, Bahr Direct at 15.

⁶ Application at 000848, Bahr Direct, Schedule II-A-3 Balance Sheet (Balance Sheet).

⁷ *Id.*

⁸ *Id.*

1 **Q. What amounts do you recommend for original cost for the shared, sewer and water**
2 **categories of plant in service, and how will these be used by Staff?**

3 A. The following table includes my recommendation for original cost of plant in service for
4 each category. Staff witness Maxine Gilford will use these numbers in the calculation of
5 rate base.

Plant	
Shared	\$7,963,825.46
Sewer	\$23,087,863.83
Water	\$149,900,389.36
All	\$180,952,078.65

6 **Q. What is the amount, if any, of accumulated depreciation on such property and the**
7 **resulting net cost?**

8 A. The following table includes my recommendation for accumulated depreciation for each
9 category. See Attachment HG-3 for Staff's depreciation schedule and calculations.

	Accumulated Depreciation
Shared	\$3,544,489.09
Sewer	\$9,033,575.73
Water	\$59,464,845.59
All	\$72,042,910.41

11

12 **VI. TOTAL UTILITY PLANT AND RATE BASE**

13 **Q. You mentioned that Monarch included CWIP expenses in calculating its proposed**
14 **total utility plant amount. What amount of CWIP expenses seek to include in its rate**
15 **base and for which facilities?**

16 A. Though Monarch claims a total CWIP balance of \$6,908,718 for utility plant assets,
17 Monarch requests the inclusion of only \$1,486,395 of CWIP expenses in its proposed rate

1 base.⁹ The \$1,486,395 of CWIP expenses included in the proposed rate base match the
2 CWIP balance at the end of the test year of December 31, 2019.¹⁰ In Brian Bahr's
3 testimony, he claims that the CWIP balance included in Monarch's requested rate base
4 relates to major projects that have already been completed by the utility and are in use and
5 providing service to customers.¹¹ However, neither Mr. Bahr nor any other Monarch
6 witness has identified the particular assets that were included in the CWIP balance as of
7 December 31, 2019.

8
9 **Q. Do you agree with the inclusion of the proposed CWIP?**

10 A. No. The inclusion of CWIP balances in a rate base is addressed under 16 Texas
11 Administrative Code (TAC) § 24.41(c)(4), which states:

12 The inclusion of CWIP is an exceptional form of relief. Under ordinary
13 circumstances, the rate base consists only of those items that are used
14 and useful in providing service to the public. Under exceptional
15 circumstances, the commission may include CWIP in rate base to the
16 extent that the utility has proven that:

- 17 (A) the inclusion is necessary to the financial integrity of the
18 utility; and
19 (B) major projects under construction have been efficiently and
20 prudently planned and managed.

21 Monarch has not provided adequate support to show that the inclusion of CWIP is
22 necessary to the financial integrity of the utility and that the major projects under
23 construction have been efficiently and prudently planned and managed. Specifically, there
24 was no testimony to demonstrate any exceptional circumstance that would make the
25 inclusion of CWIP necessary.

26 Additionally, though Brian Bahr references the testimonies of Monarch witnesses
27 Terry Benton and Tim Williford, who provide a description of projects in which Monarch
28 has made investments greater than \$50,000 since 2015, it is not clear which particular

⁹ *Id*; Application at 000082, Bahr Direct at 14.

¹⁰ *See* Application at 001233, WP/II-B-2.

¹¹ Application at 000084, Bahr Direct at 16.

1 assets are included in the proposed CWIP expenses or whether those assets are in service.¹²

2 I reviewed the Texas Commission on Environmental Quality's (TCEQ) online records for
3 the public water systems listed as subject to the major capital investments included in
4 Monarch's proposed CWIP expenses.¹³ My review of TCEQ records revealed that, among
5 the identified public water systems (PWS), certain public water supply wells that TCEQ
6 approved for construction in 2018 and 2019, have not yet been approved for use to date in
7 2020.¹⁴ Specifically, there is new construction not yet approved for use at Monarch's
8 Comanche Harbor & Port O'Call (PWS ID No. 1110022) and Silver Saddle Acres (PWS
9 ID No. 2200299) systems.¹⁵

10 Therefore, these wells cannot be considered to be used or useful in providing
11 service at this time. My review of TCEQ records also revealed other types of TCEQ-
12 approved construction on projects that have not been verified to be in use or useful at this
13 time, including construction on a ground storage tank in the Holiday Villages of Fork, PWS
14 ID No. 2500058, that received TCEQ approval in 2019 but that I have not been able to
15 verify was actually constructed.¹⁶

16 Monarch has not identified in their testimony which specific assets are proposed as
17 CWIP expenses or whether those assets are completed.¹⁷ Therefore, Monarch has not
18 shown how major projects under construction have been efficiently and prudently planned
19 and managed as required under 16 TAC § 24.41(c)(4) and has not met the requirements
20 necessary to include CWIP expenses in the rate base. Monarch's request to include the
21 \$1,486,395 CWIP balance at the end of the test year of December 31, 2019 in its rate base
22 should be denied.

¹² See Application at 000083, Bahr Direct at 15, Application at 000475 – 000477, Direct Testimony of Terry Benton at 8-10 (July 15, 2020) (Benton Direct); Application at 000501-000509, Direct Testimony of Timothy J. Williford at 11-19 (July 15, 2020) (Williford Direct).

¹³ See Application at 000475 – 000477, Benton Direct at 8-10.

¹⁴ See, e.g., Attachment HG-4.

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ Application at 000083, Bahr Direct at 15.

1 **Q. What adjustments do you recommend be made to Monarch's rate base?**

2 A. I recommend that the proposed amounts of \$1,575,128 in net parent company assets be
3 disallowed from inclusion in Monarch's rate base as it has not been supported by testimony.
4 I also recommend that the amount of \$1,486,395 in CWIP expenses be disallowed from
5 the proposed rate base as they are unsupported.
6

7 **VII. RECOMMENDATION**

8 **Q. What are the reasonable and necessary components of the utility's rate base in**
9 **accordance with 16 TAC § 24.41(c)? Please summarize your recommendations**
10 **regarding plant in service, depreciation, and net plant.**

11 A. In the tables below, I have summarized my recommended amounts for specific components
12 of rate base. See Attachment HG-3 for Staff's Depreciation Schedule.

	Plant	Current Annual Depr. Expense	Accumulated Depreciation	Net Plant
Shared	\$7,963,825.46	\$731,890.60	\$3,544,489.09	\$4,419,336.37
Sewer	\$23,087,863.83	\$613,341.82	\$9,033,575.73	\$14,054,288.10
Water	\$149,900,389.36	\$3,958,281.21	\$59,464,845.59	\$90,435,543.76
All	\$180,952,078.65	\$5,303,513.63	\$72,042,910.41	\$108,909,168.24

13

14 **Q. Do you have any other recommendations?**

15 A. Yes. I recommend that the Commission order Monarch to calculate depreciation in their
16 next base rate case using the straight-line remaining life method instead of the whole life
17 method, based on my testimony in Section IV about these methods.
18

19 **IX. CONCLUSION**

20 **Q. Does this conclude your direct testimony?**

21 A. Yes.

Heidi Graham
Public Utility Commission of Texas (PUCT)
List of Previous Testimonies

Testimonies for TCEQ Staff

Docket	Company	Application Type
SOAH 582-08-4354	James Maib dba H2O Systems Plus	Rate application - Water
SOAH 582-08-2863	Lower Colorado River Authority	Rate Appeal - Water
SOAH 582-08-4353	Interim-La Ventana	Sale, Transfer, Merger - Water
SOAH 582-09-0660	North San Saba WSC	Rate Appeal - Water
SOAH 582-09-0592	City of Nixon	CCN Amendment - Water
SOAH 582-10-3422	Denton Co. WCID No. 1	Rate Appeal - Water
SOAH 582-10-5999	City of Kerrville	CCN Amendment - Water
SOAH 582-13-4616	HHJ dba Decker Utilities	Rate Application - Water and Sewer
SOAH 582-13-4616	M.E.N. WSC	Cost of Service Appeal - Water

Testimonies for PUCT Staff

PUC Docket	SOAH Docket	Company	Application Type
42858	473-14-0366	SJWTX, Inc.	Rate Application - Water
42857	473-14-5138	City of Austin	Wholesale Appeal
42866	473-14-5144.WS	West Travis County PUA	Wholesale Appeal
42862	473-14-5139	Town of Woodloch	Rate Appeal – Water and Sewer
42860	473-14-5140	Douglas Utility Company	Rate Settlement – Water and Sewer
42864	473-14-5146	Enchanted Harbor	Rate Application - Water
42919	473-15-0372	Double Diamond	Rate Application - Water
42924	473-15-0371	Crystal Springs Water Co. Inc.	CCN Amendment - Water
42942	473-15-0623.WS	Castle Water, Inc.	Rate Application - Water
43554	473-15-1230.WS	Mansions of Turkey Creek	Rate Appeal – Water and Sewer
44046	473-15-4390.WS	Laguna Vista/Laguna Tres	Sale Transfer Merger
44657	473-16-0927.WS	Interim-La Ventana	Sale Transfer Merger
43076	473-16-2094.WS	Consumers Water, Inc.	Rate Application - Water
45570	473-16-2873.WS	Monarch Utilities I, LP	Rate Application – Water and Sewer
46256	473-17-1641.WS	Liberty Utilities	Rate Application –Sewer
46662	473-17-4964.WS	North Texas MWD	Wholesale Appeal
47814	473-18-1344.WS	City of Forney	Wholesale Appeal

Heidi Graham
1701 N. Congress Ave.
PO Box 13326
Austin, Texas 78711-3326
512-936-7139
heidi.graham@puc.texas.gov

Work Experience

Program Specialist VII, Lead Engineering Specialist

4/2020 – Present, Public Utility Commission of Texas, Austin, Texas

Review applications to obtain or amend certificates of convenience and necessity (CCN); review applications to increase rates; provide testimony for contested cases, participating in negotiating settlements for those cases; and participate in rulemakings and application and form development.

Program Specialist VII, Director of the Water Utility Engineering Section

5/2016 – 4/2020, Public Utility Commission of Texas, Austin, Texas

Lead a team of experts who review applications to obtain or amend certificates of convenience and necessity (CCN); review applications to increase rates; provide testimony for contested cases and participating in negotiating settlements for those cases; and participate in rulemakings and application and form development.

Engineering Specialist V

9/2014 – 5/2016, Public Utility Commission, Austin, Texas

Process Convenience and Necessity (CCN) applications. Perform depreciation studies, quality of service evaluations, design rates for rate applications and testify in hearings.

Engineering Specialist V

12/2006 – 8/2014, Texas Commission on Environmental Quality, Austin, Texas

Review plans, specifications and engineering reports for new or modified public water systems to ensure compliance with Federal and State standards. Process Convenience and Necessity (CCN) applications. Perform depreciation studies, quality of service evaluations, design rates for rate applications and testify in hearings.

Education

8/1983 - 5/1988, University of Missouri, Rolla, Missouri

Bachelor's Degree in Mechanical Engineering