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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**

**SUPPLEMENTAL DIRECT TESTIMONY IN SUPPORT OF
UNANIMOUS STIPULATION AND SETTLEMENT AGREEMENT**

OF

BRIAN D. BAHR

ON BEHALF OF

MONARCH UTILITIES I L.P.

JULY 16, 2021

**SUPPLEMENTAL DIRECT TESTIMONY OF
BRIAN D. BAHR**

TABLE OF CONTENTS

	Page
I. INTRODUCTION	3
II. PURPOSE OF SUPPLEMENTAL SETTLEMENT TESTIMONY	3
III. SUMMARY OF THE STIPULATION	4
IV. PUBLIC INTEREST	11

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

SUPPLEMENTAL DIRECT TESTIMONY OF
BRIAN D. BAHR

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Brian D. Bahr. My business address is 1620 Grand Avenue Parkway, Suite
4 140, Pflugerville, Texas 78660.

5 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

6 A. Yes. I filed direct testimony and rebuttal testimony in this proceeding in support of
7 Monarch's application.

8 II. PURPOSE OF SUPPLEMENTAL SETTLEMENT TESTIMONY

9 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL SETTLEMENT
10 TESTIMONY?

11 A. The purpose of my testimony is to support the Unanimous Stipulation and Settlement
12 Agreement (Stipulation) reached in this proceeding by Monarch Utilities I L.P.
13 (Monarch), the Staff of the Public Utility Commission of Texas (Commission), Office
14 of Public Utility Counsel (OPUC), and Kathy Nielsen (collectively, Signatories).

15 Q. DOES ANY OTHER MONARCH WITNESS ADDRESS THE STIPULATION?

16 A. Monarch witness Lambeth Townsend addresses the reasonableness of rate case
17 expenses incurred and the Stipulation's terms related to the recovery of rate case
18 expenses in his Third Supplemental Direct Testimony.

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III. SUMMARY OF THE STIPULATION

Q. WHAT ARE THE KEY PROVISIONS OF THE STIPULATION?

A. The Stipulation includes the following key terms:

1. **Retail Water Utility Rates.** The Signatories agree that Monarch will be allowed to implement the retail water utility rates contained in the tariff included as Attachment B to the Stipulation for the water systems included in Monarch’s Rate Application. The Signatories agree that Monarch’s water rates for the Water Services and Diamond systems will go into effect upon approval of a Final Order in this proceeding, with no additional phases. Monarch will forego recovery of the revenues associated with the final phase-ins previously approved for the Water Services and Diamond systems in Docket No. 47736. The Signatories agree that the rates shown on Attachment B are just and reasonable and consistent with the public interest.
2. **Retail Wastewater Utility Rates.** The Signatories agree that Monarch will be allowed to implement the retail wastewater utility rates contained in the tariff included as Attachment C to the Stipulation for the wastewater systems included in Monarch’s Rate Application. Monarch will not apply an increase in the base wastewater charge. The change to the revenue requirement for wastewater will be recovered consistent with Monarch’s ratio of test year fixed versus variable revenues. The Signatories agree that Monarch’s wastewater rates for the Water Services and Diamond systems will go into effect upon approval of a Final Order in this proceeding, with no additional phases. Monarch will forego recovery of the revenues associated with the final phase-ins previously approved for the Water Services and Diamond systems in Docket No. 47736. The Signatories agree that the rates shown on Attachment C are just and reasonable and consistent with the public interest.

1 3. **Revenue Requirement and Rate Base.** The Signatories agree that Monarch’s
2 total annual revenue requirement for rate design, which does not include miscellaneous
3 revenue and contract revenue, is \$34,950,000.

4 The Signatories agree that approval of invested capital (Rate Base), as of
5 December 31, 2019, of \$103,695,931—which includes \$111,576,840 of net plant
6 minus certain adjustments listed on Attachment D—is reasonable and in the public
7 interest. Monarch’s Rate Base includes a total Accumulated Deferred Federal Income
8 Tax (ADFIT) of \$831,540, and excess ADFIT of \$407,802. The Signatories further
9 agree that Monarch will apply the depreciation rates as proposed in the Rate
10 Application, and Monarch will continue to use over-recovery prevention tools as
11 discussed in the rebuttal testimony of Dane Watson. Monarch will use these values for
12 both regulatory accounting and other regulatory purposes unless altered by a
13 subsequent Commission order.

14 The Signatories agree that facilities used and useful in providing utility service
15 as of December 31, 2019—as set out in Attachment D—shall be binding in future rate
16 cases for the purposes of determining Monarch’s total Rate Base as of December 31,
17 2019.

18 4. **Rate of Return and Capital Structure.** The Signatories agree to a ratio of
19 45% debt to 55% equity for Monarch’s cost of capital. Monarch will have a 6.17%
20 cost of debt and a 9% return on equity. These ratios and percentages result in a total
21 cost of capital of 7.73%.

22 5. **Tariff Provisions.** The Signatories agree that Attachment B to the Stipulation
23 will be the governing water utility rates, terms, and conditions for Monarch’s ratepayer
24 customers. The Signatories agree that Attachment C to the Stipulation will be the

1 governing wastewater utility rates, terms, and conditions for Monarch's ratepayer
2 customers.

3 Monarch will recover 2019 purchased water costs in the amount of \$3,166,067
4 via pass-through mechanisms contained in the tariff included as Attachment B to the
5 Stipulation. Monarch will recover 2019 purchased wastewater treatment service costs
6 in the amount of \$249,514 via pass-through mechanisms contained in the tariff included
7 as Attachment C to the Stipulation. Monarch will continue to recover purchased water
8 costs for the systems included in Monarch's tariff approved in Docket No. 45570 using
9 the pass-through mechanism that was approved in Docket No. 45570. Monarch will
10 continue to recover purchased water costs for the legacy Water Services system
11 included in the tariff approved in Docket No. 47736 using the pass-through mechanism
12 that was approved in Docket No. 47736. For all other systems that do not have a pass-
13 through mechanism contained in the tariffs included as Attachments B and C to the
14 Stipulation, Monarch will file pass-through approval applications with the Commission
15 in accordance with 16 Texas Administrative Code (TAC) § 24.25(b)(2), and will not
16 seek to recover purchased water or wastewater treatment service costs from systems
17 that do not incur purchased water or wastewater treatment service costs.

18 **6. Future Rate Change Applications.** Monarch agrees to file a full rate case no
19 earlier than one year from the date of the final order in this docket and no later than
20 three years from the date of the final order in this docket. In Monarch's next base rate
21 case, Monarch will provide and propose in its application the use of a labor functional
22 allocator composed of all non-administrative costs directly assigned to each of the
23 water or wastewater functions to the maximum extent possible. Monarch will file a

1 true-up in March of 2022 and annually thereafter, and will seek a good cause exception
2 from 16 TAC § 24.25(b)(2)(c)(v), which Commission Staff and OPUC will not oppose.

3 7. **Rate Case Expenses.** The Signatories agree that Monarch is entitled to recover
4 up to \$525,000 in reasonable and necessary rate case expenses for this proceeding to
5 be collected via surcharge to its customers. Monarch may collect the surcharge over a
6 24-month period or until the full amount in rate case expenses is collected, whichever
7 occurs first. Monarch may not seek to recover any additional rate case expenses
8 incurred in connection with this Rate Application in a future proceeding.

9 8. **Interim Rates.** The refund or surcharge calculated, under Texas Water Code
10 (TWC) § 13.187(n) and 16 TAC § 24.37(h), after the signing of a final order for the
11 difference between the settled rates and the phase 1 and phase 2 interim rates, effective
12 on September 18, 2020 and February 1, 2021, respectively, will include all tariffed rates
13 that would have been charged to customers, including base and pass-through rates.

14 *Retail Water and Sewer Utility Rates*

15 **Q. DESCRIBE THE SETTLED RETAIL WATER RATES.**

16 A. The Signatories have agreed that Monarch will be allowed to implement the retail water
17 utility rates contained in the tariff included as Attachment B to the Stipulation for the
18 water systems included in Monarch's Rate Application. The Signatories agree that
19 Monarch's water rates for the Water Services and Diamond systems will go into effect
20 upon approval of a Final Order in this proceeding, with no additional phases. Monarch
21 will forego recovery of the revenues associated with the final phase-ins previously
22 approved for the Water Services and Diamond systems in Docket No. 47736. The
23 Signatories agree that the rates shown on Attachment B are just and reasonable and
24 consistent with the public interest.

1 **Q. DESCRIBE THE SETTLED RETAIL SEWER RATES SETTLEMENT.**

2 A. The Signatories agree that Monarch will be allowed to implement the retail wastewater
3 utility rates contained in the tariff included as Attachment C to this Stipulation for the
4 wastewater systems included in Monarch’s Rate Application.

5 **Q. WHAT WILL THE EFFECTIVE DATE OF THESE RATES BE?**

6 A. The rates contained in Attachments B and C will be effective for usage on and after the
7 date of the Commission’s final order setting the rates in this docket. To the extent the
8 phase 1 and phase 2 interim rates, effective on September 18, 2020 and February 1,
9 2021, respectively, differ from the final rates approved by the Commission in this
10 docket, the interim rates are subject to refund or surcharge consistent with 16 TAC §
11 24.37(h).

12 **Q. ARE THESE RATES JUST AND REASONABLE AND CONSISTENT WITH**
13 **THE PUBLIC INTEREST?**

14 A. They are, and the Signatories have agreed that the rates included in Attachments B and
15 C to the Stipulation are just and reasonable and consistent with the public interest.

16 **Q. IS MONARCH REQUIRED TO MEET THE REQUIREMENTS OF TWC**
17 **§ 13.145(A)(1) IN ORDER TO CONSOLIDATE ITS SYSTEMS UNDER A**
18 **SINGLE TARIFF?**

19 A. No. As discussed in the record, Monarch is exempted from these requirements due to
20 the exclusion provided in TWC § 13.145(b) which states that required proof of
21 substantial similarity “does not apply to a public utility that provided utility service in
22 only 24 counties on January 1, 2003,” which is a situation applicable to Monarch.¹

¹ TWC § 13.145(b).

Revenue Requirement and Rate Base

1
2 **Q. DESCRIBE THE RATE BASE SETTLEMENT IN THE STIPULATION.**

3 A. The Signatories have agreed that approval of invested capital (Rate Base), as of
4 December 31, 2019, of \$103,695,931—which includes \$111,576,840 of net plant
5 minus certain adjustments listed on Attachment D—is reasonable and in the public
6 interest. Monarch’s Rate Base includes a total ADFIT of \$831,540 and excess ADFIT
7 of \$407,802. The Signatories further agreed that Monarch will apply the depreciation
8 rates as proposed in the Rate Application, and Monarch will continue to use over-
9 recovery prevention tools as discussed in the Rebuttal Testimony of Dane Watson.
10 Monarch will use these values for both regulatory accounting and other regulatory
11 purposes unless altered by a subsequent Commission order. The Signatories also
12 agreed that facilities used and useful in providing utility service as of December 31,
13 2019—as set out in Attachment D to the Stipulation—shall be binding in future rate
14 cases for the purposes of determining Monarch’s total Rate Base as of December 31,
15 2019.

16 **Q. DID THE SIGNATORIES COME TO AN AGREEMENT AS TO A REVENUE**
17 **REQUIREMENT?**

18 A. Yes. The Signatories agreed that Monarch’s total annual revenue requirement for rate
19 design, which does not include miscellaneous revenue, purchased water and
20 wastewater treatment costs, and contract revenue, is \$34,950,000.

Rate of Return and Capital Structure

21
22 **Q. DID THE SIGNATORIES AGREE TO AN APPROPRIATE RATE OF**
23 **RETURN AND CAPITAL STRUCTURE?**

1 A. Yes. The Signatories have agreed to a ratio of 45% debt to 55% equity for Monarch's
2 cost of capital. Monarch will have a 6.17% cost of debt and a 9% return on equity.
3 These ratios and percentages result in a total cost of capital of 7.73%.

4 *Purchased Water Costs*

5 **Q. DESCRIBE THE SETTLEMENT REACHED AS TO RECOVERY OF**
6 **MONARCH'S PURCHASED WATER COSTS AND WASTEWATER**
7 **TREATMENT COSTS.**

8 A. The Signatories agreed that Monarch will recover 2019 purchased water costs in the
9 amount of \$3,166,067 via pass-through mechanisms contained in the tariff included as
10 Attachment B to this Stipulation. Monarch will recover 2019 purchased wastewater
11 treatment service costs in the amount of \$249,514 via pass-through mechanisms
12 contained in the tariff included as Attachment C to the Stipulation. Monarch will
13 continue to recover purchased water costs for the systems included in Monarch's tariff
14 approved in Docket No. 45570 using the pass-through mechanism that was approved
15 in Docket No. 45570. Monarch will continue to recover purchased water costs for the
16 legacy Water Services systems included in the tariff approved in Docket No. 47736
17 using the pass-through mechanism that was approved in Docket No. 47736. For all
18 other systems that do not have a pass-through provision contained in the tariffs included
19 as Attachments B and C to this Stipulation, Monarch will file pass-through approval
20 applications with the Commission in accordance with 16 TAC § 24.25(b)(2), and will
21 not seek to recover purchased water or wastewater treatment service costs from systems
22 that do not incur purchased water or wastewater treatment service costs.

Future Rate Case

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Q. DESCRIBE THE SETTLEMENT REACHED AS TO FUTURE RATE CASE FILINGS BY MONARCH.

A. Monarch has agreed to file a full rate case no earlier than one year from the date of the final order in this docket and no later than three years from the date of the final order in this docket. In Monarch’s next base rate case, Monarch will provide and propose in its application the use of a labor functional allocator composed of all non-administrative costs directly assigned to each of the water or wastewater functions to the maximum extent possible. Monarch will file a true-up in March of 2022 and annually thereafter, and will seek a good cause exception from 16 TAC § 24.25(b)(2)(c)(v), which Commission Staff and OPUC will not oppose.

IV. PUBLIC INTEREST

Q. SHOULD THE COMMISSION APPROVE AND IMPLEMENT THE TERMS OF THE STIPULATION?

A. Yes, it should. The settlement proposal now being offered should be approved and implemented.

First, as I have discussed above, both the agreed Rate Base and the agreed rates present reasonable compromises and are supported by Monarch, OPUC, and Commission Staff’s evidence. All parties to this proceeding have agreed to the comprehensive settlement of all issues in this proceeding as presented by the Stipulation.

Second, the rate case expense issue is now settled, so the parties and Commission can avoid the time and expense of litigation.

1 Third, Monarch has agreed to file a full rate case no earlier than one year from
2 the date of the final order in this docket and no later than three years from the date of
3 the final order in this docket, which provides rate certainty to its customers.

4 All things considered, the Stipulation should be approved and implemented as
5 resulting in just and reasonable rates and an outcome that is in the public interest.

6 **Q. IS THIS STIPULATION IN THE PUBLIC INTEREST?**

7 A. Yes. The Signatories agree that the Stipulation is in the public interest.

8 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT SUPPLEMENTAL DIRECT**
9 **TESTIMONY?**

10 A. Yes, it does.