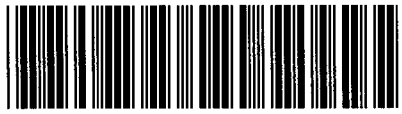

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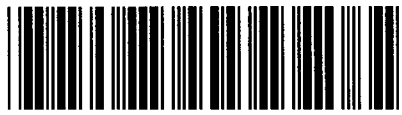

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PUC DOCKET NO. 45720
SOAH DOCKET NO. 473-16-3831.WS

APPLICATION OF RIO CONCHO AVIATION, INC. FOR A RATE/TARIFF CHANGE	**§** **§** **§**	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

REBUTTAL TESTIMONY
OF
RANDAL MANUS

ON BEHALF OF
RIO CONCHO AVIATION, INC.

EXHIBIT RCA-8

SEPTEMBER 27, 2016

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REBUTTAL TESTIMONY OF RANDAL MANUS

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EXHIBITS

REBUTTAL TESTIMONY OF RANDAL MANUS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Randal Manus. My business address is 7 Greenfield Lane, Weatherford Texas 76087

II. REBUTTAL TO NOVAK TESTIMONY

Q. DO YOU AGREE WITH MR. NOVAK'S RECOMMENDATION REGARDING RATE OF RETURN FOR RIO CONCHO?

A. No.

Q. WHY NOT?

A. Mr. Novak's recommendations regarding cost of debt and return on equity do not take into consideration the size or type of water utility that Rio Concho is or its capital structure.

Q. WHAT ARE YOUR CONCERNS REGARDING MR. NOVAK'S RECOMMENDATIONS RELATED TO RIO CONCHO'S COST OF DEBT?

A. Mr. Novak's analysis presumes that Rio Concho is similar to a proxy group of 8 very large utility companies that have ready access to a very competitive lending market. Rio Concho has asked her bank about a possible loan and corresponding interest rate. The result was interest rates between 7.58% and 17.7%. These rates more accurately reflect the increased rates that a small utility like Rio Concho will incur when seeking a loan in the marketplace. If an assumed capital structure is used to calculate the rate

of return, then a cost of debt that more accurately reflects the interest rate for loans that Rio Concho can obtain should be used.

Q. WHAT INTEREST RATE SHOULD BE USED FOR RIO CONCHO'S COST OF DEBT?

A. Based upon the research done by Rio Concho, as conservative cost of debt would be 8.5%.

Q. WHY?

A. Based upon Ms. Brunson's research, a utility her size cannot obtain credit for any lower amount. The interest rate on the vehicle loan is an anomaly specific to the auto industry and is based on Ms. Brunson's personal loan, not the credit worthiness of Rio Concho at a commercial loan rate.

Q. WHAT ARE YOUR CONCERNS REGARDING MR. NOVAK'S RECOMMENDATIONS RELATED TO THE RETURN ON EQUITY FOR RIO CONCHO?

A. Mr. Novak also fails to consider Rio Concho's size and type of utility in determining the return on equity. The Commission's application actually adjusts for utilities like Rio Concho by adding 7% to the average BAA bond rate during the test year. This additional 7% add a risk premium for small utilities. Mr. Scheig's testimony and analysis corroborates this method by determining an appropriate cost of equity at 12.3%.

Q. WHAT ARE YOUR CONCERNS REGARDING MR. NOVAK'S RECOMMENDATIONS RELATED TO THE CAPITAL STRUCTURE OF RIO CONCHO?

A. Just as his errors for determinations of the debt rate and return on equity, Mr. Novak also fails to consider Rio Concho's size and type of utility when he states that Rio Concho's capital structure is "not in line." Rio Concho is a small utility without a significant amount of growth potential. The fact that the utility has so little debt is because the utility has been in operation for decades and has not been required to expand the system or make any large capital improvements that would have required financing. Rio Concho is so unlike the large utilities that it cannot be grouped with them for purposes of determining what might be an appropriate capital structure. Mr. Novak's statement that "a water company's optimal capital structure runs at 50% common equity and 50% long term debt" is simply unfounded.

Q. WHAT IS YOUR RECOMMENDATION REGARDING RIO CONCHO'S RATE OF RETURN?

A. The Commission should apply the methodology set forth in the application to determine rate of return for small water systems. Small water system simply are not the same as large companies and must be treated differently. The rate of return should be approved at 10.78%.

Q. WHY IS MR. NOVAK'S RECOMMENDED RATE OF RETURN INADEQUATE?

A. His recommendation does not: provide a return similar to that being earned by other enterprises with corresponding risk and uncertainties; offer a return level reasonably sufficient to assure financial soundness; or offer a return sufficient to maintain and support Rio Concho's credit and ability to raise necessary capital.

III. REBUTTAL TO ENGLISH TESTIMONY

Q. DO YOU AGREE WITH MS. ENGLISH'S RECOMMENDATIONS REGARDING RATE BASE AND RATE DESIGN?

A. No.

Q. WHY NOT?

A. Like Mr. Novak, Ms. English fails to consider the size and type of system that Rio Concho is when making her recommendations.

Q. HOW DOES SHE FAIL TO DO SO WHEN CONSIDERING THE RATE BASE?

A. Ms. English excludes assets that are used by Rio Concho and useful to provide water service to its customers. She arbitrarily chooses to exclude a bookcase ("sideboard"), television, DVD player and lamp that are located in Rio Concho's office at 419 Aviator Drive. The collective value of these assets is less than $1400. As explained by Ms. Brunson in her rebuttal testimony, all of these assets are used by Rio Concho when operating the utility. While Rio Concho may be a small utility company, even a small utility company is entitled to have a functional office with a light source, a place for books and materials and television to monitor weather and watch training videos.

More significantly, Ms. English also excludes the Audi that is used for utility operations. She provides no basis for her exclusion other than stating that the vehicle is titled in Ms. Brunson's name and claiming that it is primarily used to commute. She gives no explanation to support her statement about commuting, and the identity of the holder of title to the vehicle does not make it any less used and useful to the utility. My direct testimony explains in detail how the Audi is used. Ms. English does not, and cannot, testify that the vehicle is not used and useful for utility purposes. Nor can she dispute the mileage calculations that I provided. Those calculations clearly show that more than 60% of the vehicle mileage is related to utility operations.

Ms. English does not dispute that a vehicle is necessary for utility operations, but she states that the golf cart and 1995 truck are sufficient for Mr. Brunson to complete her duties. As shown in Exhibit RCA-2, page 32, line 15, the 1995 truck is a fully depreciated asset. It is beyond its useful life. No utility should be required to rely upon a 20-year-old vehicle for its daily operations. There is no depreciation charged to the utility for that old truck and there is no rate base value assigned to that old truck. This is appropriate considering Ms. Brunson's rebuttal testimony that the 1995 truck is no longer in used for daily operations, has over 230,000 miles on it and a manual transmission and would cost more to keep running than the costs that the utility has requested for the Audi that was placed in service in 2015. In fact the 1995 truck is so old that, according to Mr. Brunson in her rebuttal testimony, she used a 2004 Excursion to complete her duties until January 2015, when the Audi was acquired and the 2004 Excursion retired from service.

Q. HOW DOES MS. ENGLISH FAIL TO DO TO CONSIDER THE SIZE AND TYPE OF SYSTEM THAT RIO CONCHO WHEN CONSIDERING THE RATE DESIGN?

A. Ms. English simply ignores the facts that she recites in her own testimony and does not even address the alternative rate design that was proposed by Rio Concho. In doing so, Ms. English proposes a rate design that, while it may be appropriate for the typical residential water system, is wholly inappropriate for a system like Rio Concho. As testified by Ms. English, Rio Concho's average daily use is barely half of a typical average daily use for a residential system. This is because the Rio Concho systems serves a small airport. The customers consist of owners of airplanes who have hangars to keep their aircraft out of the weather, small commercial business and a few full time residents living in their hangars. Despite this reduced usage, Rio Concho must maintain a water system capable of meeting the state's requirements for service, just like a typical residential system.

Because of its unique situation, Rio Concho requested an alternative rate design, as allowed by the Commission's rules and the application form. Ms. English provide no testimony as to why Rio Concho's proposed rate design is inadequate. She simply ignores it. Rio Concho's propose alternative rate design shifts some fixed costs to the variable portion of the rate design, but still yields a splits of 21% variable and 79% fixed. Given the lack of growth and consistency of customer usage over the years as described by Ms. Brunson, this alternative rate design is very appropriate for the water system and supports the state's policy of water conservation. If Ms. English's rate

design were used, the Rio Concho rate would be weighted much too heavily on variable costs – 13.3% variable (14890/111936) and 86.7% (97047/111936) fixed - and provide much less incentive for water conservation. Rio Concho's rate design actually provides better balance between the fixed and variable components of revenue.

Q. WHAT OTHER PORTIONS OF MS. ENGLISH'S TESTIMONY DO YOU DISAGREE WITH?

A. I do not agree with Ms. English's use of the revised revenue requirement proposed by Ms. Loockerman. The appropriate revenue requirement for Rio Concho is set forth in my prefiled testimony, Exhibit RCA-4.

IV. REBUTTAL TO LOOCKERMAN TESTIMONY

Q. DO YOU AGREE WITH MS. LOOCKERMAN'S TESTIMONY REGARDING THE RIO CONCHO REVENUE REQUIREMENT?

A. No.

Q. WHY NOT?

A. It contains several errors in calculation and excludes costs that are reasonable and necessary to provide water service, such as contract labor, transportation, clothing, benefits and others.

Q. **PLEASE EXPLAIN WHY YOU DISAGREE WITH MS. LOOCKERMAN'S EXCLUSION OF CONTRACT LABOR EXPENSES.**

A. As described in Mr. Brunson's rebuttal testimony, his compensation is reasonable and necessary for the operation of the water system. Ms. Loockerman's exclusion of those costs is not appropriate or justified.

However, it evens appears that Ms. Loockerman made a mistake in calculating her reduction to the revenue requirement. She appears to have relied upon a discovery response that included an accrued earnings payable to Mr. Brunson, but was never actually requested by Rio Concho as part of its revenue requirement. This results in Ms. Loockerman removing an excess $2400 from Rio Concho's revenue requirement ($16,835-$14,435) (See Schedule II-8 of Exhibit RCA-2 and the attached Exhibit RCA-8A, Rio Concho's response to Staff RFI 1-5(c), Bates No. RCA000098 and RCA000099 for support that the total amount paid to Mr. Brunson and requested by the utility in the revenue requirement was $14,435).

Ms. Loockerman also makes an error with respect to the water meter reading contract labor costs. She states that the known and measurable changes for meter reading costs were only $655. Actual meter reading costs during the test year were $2130, not $2945 as stated by Ms. Loockerman (See Exhibit RCA-8B, Bates No. RCA000268, provided in response to Staff RFI 1-5(a)). The figures on RCA000264, which is cited by Ms. Loockerman, are in error and not from the test year. Using the correct figures results in a known and measureable change of $1470, as stated in the application (Exhibit RCA-2, Schedule II-8). This is an $815 error by Ms. Loockerman.

It appears that these errors resulted from the voluminous amounts of production and repeated requests from information by Staff from Rio Concho. Given the nearly 200 requests from Staff, it is surprising there weren't more mistakes in the information provided. Using the source data and figures makes it clear what the actual costs were during the test year.

Q. DO YOU AGREE WITH MS. LOOCKERMAN'S CALCULATION OF THE RATE CASE EXPENSE 51% THRESHHOLD?

A. No.

Q. WHY NOT?

A. Ms. Loockerman's $7.67 per 1,000 gallons does not reflect the adjusted rate calculations and the gallons charged of $7.05 as reflected on Bates No. RCA000926, which was provided in response to Staff RFI 4-5(f) (Attached as Exhibit RCA-8C). 4,662,000 gallons per year times $7.05 equals $32,867.00. The total revenue requirement at the amended requested rates, $115,911 plus the $32,867 equals $148,778. In addition, Rio Concho listed $1794 in rate case expense that should be excluded from the corrected amount of $148,778 when calculating "A" since it is covered through an assessment instead of the rate. This would make the new calculation "A" be: $146,984.00 minus $116,037.00; equals $30,947.00; times 51%; equals $15,783. We disagree with Ms. Loockerman's calculation, but would agree with the calculation using values as stated above to set the 51% threshold at a revenue requirement of $131,820.

($146,984-$116,037=$30,947)

($30,947 * 51% = $15,783)

($15,783+$116,037=$131,820)

V. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

UTILITY NAME: RIO CONCHO AVIATION, INC.
SCHEDULES - CLASS C RATE/TARIFF CHANGE
ATTACHMENT 4 ALTERNATE RATE DESIGN
PUC Docket No. 45720 Test Year End: 2015

Line No.	A	B	C
	DETERMINATION OF FIXED COST		
1	Gross Revenues to be Recovered	SCH I-1, Line 36	$ 148,760.64
	Less Variable cost:		
2	Purchased Water- Account 610	SCH I-1, Col. F, Line 1	$ -
3	Purchased power - Account 615	SCH I-1, Col. F, Line 2	$ 3,048.19
4	Other volume related - Account 618	SCH I-1, Col. F, Line 3	$ 1,619.76
5	Other volume related or allocated (attach schedule)		
6			
7			
8			
9			
10	VOLUME RELATED COST	Lines 2 through 9	$ 4,667.95
11	TOTAL FIXED COST	Line 1 minus Line 10	$ 144,092.69
12	FIXED COSTS TO BE RECOVERED IN VOLUMETRIC CHARGE	Line 20 minus Line 10	$ 28,181.69
13	% OF FIXED COSTS RECOVERED IN VOLUMETRIC CHARGE	Line 11 divided by Line 12	20%
14	TO BE RECOVERED THROUGH BASE SERVICE CHARGE	Line 19 divided by Line 11	80%
15			
16			
17	TOTAL METER EQUIVALENTS	SCH I-3, Col H, Line 9	243
18	REQUESTED BASE RATE PER MONTH		$ 39.75
19	TOTAL REVENUE FROM REQUESTED BASE RATE	Line 17 x Line 18 x 12 months	$ 115,911.00
20	REVENUE RECOVERED IN VOLUMETRIC CHARGE	Line 1 minus Line 19	$ 32,849.64
21	TOTAL WATER SALES IN 1,000 GALS	Sch II-1(a), Col C, Line 4	4662
22	VOLUMETRIC RATE (CHARGE PER 1,000 GALS)	Line 20 / Line 21	$ 7.05
23	FOR ALL WATER SALES IN 1,000 GALLONS	Line 22 or attach calculations	
	BASE SERVICE CHARGE (PER 5/8" X 3/4")		

	Meter Size	Line 18	Equivalency	Base Rate/Size
24	5/8 X 3/4"	$ 39.75	X 1.0=	
25	3/4"		X 1.5=	
26	1"		X 2.5=	
27	1 1/2"		X 5.0=	
28	2"		X 8.0=	
29	3"		X 15.0=	
30	4"		X 25.0=	