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APPLICATION OF RIO CONCHO
AVIATION, INC FOR A
RATE/TARIFF CHANGE

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BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS

REPLY BRIEF
OF
STEVE GRACE & JEFF SHEETS

ON BEHALF OF RATEPAYERS OF
RIO CONCHO AVIATION, INC

JANUARY 10, 2017

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I. Introduction and Summary

In Rio Concho's Initial Brief Introduction and Summary, they stated they filed this rate application "in an effort to increase its rates to a level that would allow it to recover its reasonable and necessary operation expenses and earn a reasonable return on its rate base..."¹ Merriam-Webster's online dictionary defines reasonable as "a) being in accordance with reason, b) not extreme or excessive, c) moderate or fair d) inexpensive". Necessary is defined as "a) absolutely needed, b) logically unavoidable, c) determined or produced by the previous condition of things, d) compulsory."

The Ratepayers believe that Rio Concho is confusing their desires with the definitions of reasonable and necessary. Indeed, the PUC Staff testified "Very few class C water utilities if any, have requested rate increases at the Commission (or previously TCEQ) has asked for life insurance or retirement." "To be able to compete in an open market, the cost of including this level of benefits would likely drive the utility out of business."²

II. Revenue Requirement

Rio Concho wrote "Moreover, in any proceeding involving any proposed change of rate, including rate of return, the burden of proof shall be on the utility to show that the proposed change is just and reasonable."³ The PUC Staff has proposed an overall reduction in Costs of Service by \$33,662.⁴ The Ratepayers proposed a reduction of \$29,159.29.⁵ Since these two figures don't fully overlap, if combined, the reduction amount would exceed the higher reduction proposed by the PUC Staff. Both Staff and Ratepayers do agree on the requirement for a significant reduction in expenses. In that regard, Rio Concho has not met the burden of proof that their request for a rate change is either reasonable or necessary.

¹ Rio Concho's Initial Brief p. 3

² Direct Testimony of Debi Loockerman p. 13, lines 8-12

³ Rio Concho's Initial Brief p. 5-6

⁴ Commission Staff's Initial Brief, Table 2, p. 6

⁵ Ratepayers Response to Rio Concho Aviation p. 33 line 10 to p. 34 line 17

Operations and Maintenance Expenses

Rio Concho writes in their Initial Brief that the PUC Staff only contested Mr. Brunson's salary, meter reading expenses, and vehicle expenses.⁶ While that may be true for the Staff, Rio Concho's Initial Brief ignores the Ratepayer's contested items which includes not only the same as Staff's but also includes Ms Brunson's salary, contract work payments to family children for meter reader duties and office duties, contract work payments to Mr Manus, questionable fuel expenses that the Ratepayers are unable to quantify, expenses incurred in 2014 which were accounted for in test year 2015, and other questionable receipts.⁷ Rio Concho has chosen to ignore the Ratepayers contested items in their initial brief.

1. Kevin Brunson Compensation

The Ratepayers do not possess the background and training required to evaluate Mr Brunson's compensation requirements. We defer to the PUC Staff's expertise in this matter. The Ratepayers do agree with Staff that contracting with an outside company for infrequent emergency calls at \$700/mo would equal \$8400/yr. That yields a savings of \$6,000 when compared to Mr Brunson's compensation. And the Ratepayers can only assume that Ms Brunson's claimed 170 hrs of work each month includes commuting time from their home to the water facility.⁸

2. Meter Reader Compensation

Rio Concho stated that they paid \$300/mo for meter reader compensation.⁹ That is in error. Rio Concho paid \$300 in one month during test year 2015. The other months ranged from \$0.00 to a high of \$275, with the yearly average equaling $(\$2130/12=)$ \$177.50.¹⁰ In seven of those 12 months, meter readers were paid \$180 or less each month.

Rio Concho points to a quote to provide meter reading services at a cost of \$840/mo as justification for raising their meter reader expenses.¹¹ Yet, there were never more than 3 meter readers in any

⁶ Rio Concho's Initial Brief, p. 7

⁷ Ratepayers Response to Rio Concho Aviation, multiple pages

⁸ Rio Concho's Initial Brief, p. 8

⁹ Id. p. 8

¹⁰ Response to Commission Staff's 1st RFI, p. RCA000083

¹¹ Rio Concho's Initial Brief, p. 8

month during the test year, and 2 of the 3 are Brunson children. In addition, the Ratepayers have argued that Ms Brunson's self-described duties includes meter reading.¹² To compensate her for this and then to additionally compensate family children and friends for the same item is a double expense to which the Ratepayers have objected.¹³

2.a. Water Billing

The Ratepayer have also objected to paying the same family children and friends for billing and filing duties (\$815.02) which is also in Ms Brunson's self-described duties.¹⁴ Also not addressed in Rio Concho's Initial Brief are payments to Mr Manus for regulatory reporting and compliance, and accounting review. Of the \$2,430 paid to Mr Manus in 2015, the Ratepayers estimate \$1155 was for actual water maintenance and \$1275 was for office work in which Ms Brunson stated she was an expert.¹⁵ Rio Concho failed to address this topic in their Initial Brief.

3. Vehicle Expenses

Rio Concho stated that gasoline, repairs and other operating expenses on their SUV related to their utility operations totaled \$3,971.22 during the test year.¹⁶ The Ratepayers object to this figure on the following grounds:

- a. The true test year costs were \$688.01 less than their claimed \$3971. The \$688 K&M figure¹⁷ is for an estimate for new tires which weren't purchased. The vehicle was only 6 month old when that tire estimate was given. To include estimates on expenses which only occur every 2nd or 3rd year on an annual expense claim inflates their actual vehicle costs which isn't fair to the Ratepayers. If the K&M figure is allowed to remain, it should be reduced by at least 50% to account for new tires not being a required purchase each year, but every second or third year.
- b. The \$3,971.22 figure includes gas receipts for numerous family vehicles not involved in water operations. The Ratepayers submitted evidence during the SOAH hearing that Rio Concho made two or more purchases of fuel on the same day which greatly exceeded the Audi SUV's 19.8

¹² Prefiled Direct Testimony & Exhibits of Barbie Brunson, p. 3, line 14

¹³ Ratepayers Response to Rio Concho Aviation p. 22 lines 7 to p. 24 line 11

¹⁴ Prefiled Direct Testimony & Exhibits of Barbie Brunson, p. 3, lines 13-19

¹⁵ Rio Concho Aviation's Response to Commission Staff's 4th RFI, p 10, RFI 4-13 and 4-14

¹⁶ Rio Concho's Initial Brief, p. 9

¹⁷ Rio Concho Aviation's Response to Commission Staff's 1st RFI, p. RCA 000124

gallon gas tank capacity. The Audi requires premium fuel, yet receipts were included showing regular and diesel fuel purchased.

- c. Mileage routes submitted to account for Rio Concho's claimed 60% water company usage showed out-of-the-way routing to go to a Walmart and a BBVA Compass bank near their home vs several Walmarts and BBVA Compass banks directly passed on the route to the water facility.
- d. Mileage routes given to PUC Staff were misleading at best.¹⁸ Walmarts, a post office, and a BBVA Compass bank branch are all much closer to the airport office than Rio Concho testified.
- e. Rio Concho argues in their Initial Brief that Rio Concho is not seeking to recover any expenses associated with its corporate office.¹⁹ However, Rio Concho's Depreciation schedule shows Office Equipment \$4150 in 1995, Sideboard \$487.07 & Lamp \$213.85 in 2013 purchased before Rio Concho had an operational local office at the airport. This doesn't include the more recent items (chairs, TV, Desk & Chair) that duplicate items already expensed in their home office.
- f. The airport office that Rio Concho established to comply with PUC Commission rules on a local office is a double-edged sword. Yes, Rio Concho requires a local office, which they did not have between 2010 and 2014 (at the earliest), which violated TCEQ Statute 291.81(d) and PUC Statute 24.81, but Rio Concho has never notified its customers that a water office exists at the airport which also is a requirement of Statute 24.81. Rio Concho's Initial Brief does not address their non-compliance with PUC Statutes, which the Ratepayers contested.²⁰

The Ratepayers agree with the PUC Staff that the Audi SUV is used to commute from the Brunson's home to the water facility. Only mileage from the water facility to nearby Walmarts, bank, post office, water testing facilities, or supplies should be applied to water company expenses. This mileage is significantly less than the 50% required by IRS regulations to allow for a vehicle deduction. As such, the Ratepayers agree with the PUC Staff that only an IRS mileage rate reimbursement expense should be allowed which will cover fuel, oil, tires, and insurance expenses for the vehicle.

4. Clothing Expenses

In Rio Concho's Initial Brief, they claim the \$600/yr to clean and replace clothing that Ms Brunson wears while digging trenches, replacing water lines and meters, and completing other repairs for the

¹⁸ Ratepayers Initial Brief, p. 8, lines 13-29,

¹⁹ Rio Concho's Initial Brief, p. 9

²⁰ Ratepayer's Response to Rio Concho Water Rate Increase Application, p. 8-12

utility.²¹ The Ratepayers would point the Commission to Rio Concho's contract labor expenses to verify that trench digging, replacing water lines or meters, or other repairs are conducted by contract labor. Testing a water meter was billed to a plumber for \$25. Three other repairs were billed to the same plumber at \$40, \$50, and \$30. These were obviously minor repairs that Ms Brunson should have been able to accomplish, yet she had contract labor accomplish it. The Ratepayers speculate that Ms Brunson merely supervises the contract labor and doesn't actually accomplish any of these repairs herself. When was the last time Ms Brunson dug a trench? \$600/yr for cleaning and replacing clothing is not reasonable nor necessary.

5. Ms Brunson's Salary

Rio Concho chose to not address the Ratepayers objections to Ms Brunson's salary. The Ratepayers first objected to the excess two payments which occurred during test year 2015 in Aug 2016.²² Rio Concho explained these two payments as vacation sell back. This inflated test year salary was entered on Rio Concho's final I-1 Revenue Requirement Summary, line 5 Employee Labor, without any correction in the K&M column for the overpayment.²³ Does Rio Concho plans to sell back those 2 weeks of vacation every year?

Administrative and General Expenses

Rio Concho's Initial Brief includes this statement: "The Commission's application form for Class B utilities includes office salaries, management salaries, employee pensions & benefits,"²⁴ Rio Concho interprets that to mean Rio Concho is eligible for these items even though they are NOT a Class B utility, and even though the application form was designed to assist a Class B utility to complete the application accurately. Rio Concho is a Class C utility. Simply utilizing a Class B application does not make Rio Concho eligible for these benefits.

Rio Concho states they provided evidence to support \$40,891.28 in administrative and general expenses and that these expenses were all reasonable and necessary for the operation of the utility.²⁵ Rio Concho fails to consider all other Class C utilities. The Ratepayers must quote PUC Staff again. "Very

²¹ Rio Concho's Initial Brief, p. 10

²² Ratepayer's Response to Rio Concho Water Rate Increase Application, p. 13, lines 1-10

²³ Ratepayers Initial Brief p. 5 lines 29-31 and p. 6 lines 1-4

²⁴ Rio Concho's Initial Brief p. 10

²⁵ Rio Concho's Initial Brief p. 11

few class C water utilities if any, have requested rate increases at the Commission (or previously TCEQ) has asked for life insurance or retirement.” “To be able to compete in an open market, the cost of including this level of benefits would likely drive the utility out of business.”²⁶

1. Ms Brunson’s Retirement Benefits

Contrary to Mr Manus’s testimony²⁷, retirement benefits are NOT commonly accepted and expected within the full-time workforce. Rio Concho is ignoring the what is occurring to Defined Benefit Retirement plans in the USA. One need only google that to see that fewer companies today are offering those plans. Only 5% of companies with four or fewer employees offer a retirement plan.²⁸ The Texas Municipal Retirement System requires employee participation through payroll deductions before they match contributions. Ms Brunson apparently does not make any contributions toward her own retirement. According to PUC Staff, no other Class C utility provides retirement benefits.²⁹

Further, Ms Brunson’s retirement policy didn’t even begin until test year 2015. Why did she wait 20 years to consider her retirement? The Ratepayers believe this is an additional attempt to justify and escalate Rio Concho expenses to apply for a rate increase.

2. Key Employee Insurance

During test year 2015, Rio Concho purchased a life insurance policy with Mr Brunson as the beneficiary. As a result of Staff’s questioning, Rio Concho now calls this policy a “Key Employee” life insurance policy and changed the beneficiary from Mr Brunson to Rio Concho via a simple phone call.³⁰ The Ratepayers object for the following:

- 1) if the current operator had to be replaced, Rio Concho would simply advertise for a new operator and pay that person a salary just as they do currently,
- 2) The net effect of the beneficiary change is the same whether it’s Mr Brunson or Rio Concho since Rio Concho is a privately owned company with the Brunson’s as owners,
- 3) a life insurance policy benefits the Rio Concho owners and not the Ratepayers who currently fund the policy,

²⁶ Direct Testimony of Debi Loockerman p. 13, lines 8-12

²⁷ Rio Concho Initial Brief, p. 11

²⁸ Ratepayers Response to Rio Concho Aviation Water Rate Increase Application, p. 15, lines 1-11

²⁹ Direct Testimony of Debi Loockerman, p 13, lines 7-14

³⁰ Rio Concho Aviation’s Initial Brief, p. 11

4) The type of life insurance has never been adequately described by the Brunson's. It could be term insurance or whole life insurance with a cash value at some point in the future. Mr Brunson testified that he didn't know what type of policy it was during the SOAH hearing.

5) Lastly, the Ratepayers point to PUC Staff testimony that other Class C utilities do not expense life insurance premiums to their water customers.³¹

3. On-Site Office Rent

The Ratepayers have mixed emotions on this issue. We want Rio Concho to comply with PUC Statutes, in this case, 24.81 Local Office requirements. During the SOAH hearing, Rio Concho was made aware that they were NOT in compliance between 2010 and 2014 or 2015. The Ratepayers contend that Rio Concho is still not in compliance as they've never notified their water customers of the airport office location as required in this statute. If the Commission requires Rio Concho to use the local airport office, then all contested vehicle commuting expenses would be disallowed as would the depreciation of the Audi SUV. The Ratepayers would like to see this occur.

The opposite side of this argument is that Rio Concho is expensing \$6,000 in annual rent to the Ratepayers which is in addition to the true water company total revenue requirement. The Ratepayers essentially pay the \$6,000 to Rio Concho which in turn pays Barbi Land Development, which is owned by the Brunson's. The \$6,000 is a "pass through" expense directly into the Brunson's pocket over and above any profit the water company might earn and inflates the operating expense of the water company.

In addition, Rio Concho expenses portions of their property insurance and liability insurance to the water company to cover the airport office which is located inside their airport hangar. That hangar also contains the Brunson's two private aircraft. Thus, the net expense of the airport office is greater than \$6,000.

The Ratepayers don't like either outcome in regards to the airport office but will side with the Staff's argument that Rio Concho must have a local office per PUC Statute.

³¹ Direct Testimony of Debi Loockerman, p 13, lines 7-14

4. Ms. Bruson's Health Insurance

Rio Concho's Initial Brief did not address health insurance which again was contested by the Ratepayers.³² Data submitted by the Ratepayers show that for firms with fewer than 50 employees, only 26.2% of Texas firms offer health insurance. In an era where more and more companies require increasing employee contributions toward their health care, we object to paying 100% of the health insurance premium for Rio Concho's one employee. The Ratepayers also note that health insurance premiums were expensed to Rio Concho water customers beginning in test year 2015 for the first time.³³ This is another attempt to inflate Rio Concho's test year expenses.

Other Expenses

Rio Concho's Initial Brief did not address Office Supplies and Expenses that the Ratepayers contested.

A) We objected to the Audi Connect expenses (\$180)³⁴ which projects a Wi-Fi signal they use to get internet in their airport water office. This simply duplicates a Wi-Fi signal their cell phone can project which is already expensed to the water customers.

B) The cellular telephone bill is expensed to the water company at 100%, even though Rio Concho has a fuel company, a land leasing company for the restaurant, and land leasing for aircraft parking. Why is this cellular bill not being split in thirds by the other Rio Concho companies? In addition, we note that the cell phone bill includes two telephone lines, when Rio Concho only has one employee. Why are we getting expensed for the second line?³⁵

C) Tire repair for \$15 on 11/18/2015 in addition to a \$995 charge for Road Hazard Tire & Wheel when the vehicle was purchased.³⁶

³² Ratepayer's Response to Rio Concho Aviation's Water Rate Increase Application, p. 14, lines 1-14

³³ Rio Concho's Rate Change Application, Schedule II-11

³⁴ Ratepayer's Response to Rio Concho Aviation's Water Rate Increase Application, p. 28, lines 12-17

³⁵ Ratepayer's Response to Rio Concho Aviation's Water Rate Increase Application, p. 28, lines 1-10

³⁶ Ratepayer's Response to Rio Concho Aviation's Water Rate Increase Application, p. 31, lines 6-7

D) Office supply expenses to include filler paper, ring binders, and notebooks which either of their teenage children would use for school.³⁷ We noted inkjet cartridges purchased but Rio Concho doesn't use an inkjet printer for customer billing.

Affiliate Transactions

Discussed earlier in this document in On-Site Office Rent (p. 9).

Depreciation

Rio Concho's Initial Brief references their requested Depreciation Schedule as found in their Exhibit RCA-2, page 32, row 20, column E and Commission Staff Exhibit 13, page RCA 000914, line 25.³⁸ The Ratepayers are in disbelief again at Rio Concho's sloppy application, now continuing into its Initial Brief. The figure they point to in both references is \$10,526.66 which was shown to be incorrect during the Dec 5-6 SOAH hearing. The figure was corrected to 10,451.43.

The Ratepayers do object to the TV, DVD player, wall mount, antenna, and DVD movie that Rio Concho is attempting to write off. The TV does not receive cable, cannot receive the Weather channel and is limited to local ABC, NBC, CBS broadcasts which may or may not interrupt their programming to update local weather. Instead, Ms Brunson's cell phone can obtain numerous weather apps, including free radar apps, which would give a much faster weather depiction than the local channels. The DVD player was to watch training videos, yet Ms Brunson testified during the SOAH hearing that her laptop had a DVD player within it and could be used to watch training videos. Lastly, Ms Brunson's own TCEQ Water Qualifications show only online training accomplished since 2010, a full four years prior to the purchase of the TV, DVD player, and other items.

The Ratepayers object to the capital cost and depreciation attributed to the Audi SUV. Rio Concho claims it is necessary to operate the water system. Rio Concho used a 2 seat sports car for four months in 2013 while their other vehicle was being repaired.³⁹ In addition, we've seen Ms Brunson drive that sports car in 2015 and 2016 to the airport water facility. We agree that she needs a vehicle to pick up parts, drop off water samples, go to the bank or post office. But is a new luxury SUV necessary when she's shown that a 2 seat sports car is sufficient for the job? We agree with the PUC Staff that Ms

³⁷ Ratepayer's Response to Rio Concho Aviation's Water Rate Increase Application, p. 30, lines 17-20 and p. 31, lines 1-5

³⁸ Rio Concho's Initial Brief, p. 13

³⁹ Rio Concho Aviation's Response to Commission Staff's 1st RFI, p. RCA 000301

Brunson is commuting to the airport water facility from her home and thus, the vehicle is not being used by the 50% required by the IRS, but closer to 15.9% as testified by PUC Staff.⁴⁰ The vehicle is also titled to Ms Brunson and not Rio Concho.

The following items on the Depreciation schedule were also objected to by the Ratepayers and ignored by Rio Concho in their Initial Brief.⁴¹

- 1) The Ratepayers objected to the Paving Depreciation expense (\$6,011.12)⁴² in 2013, which Rio Concho ignored in their Initial Brief. We're confident the PUC Staff was not aware of the two underground aviation fuel tanks in this area which are also benefitted by the paving protecting this area, protecting aircraft propellers, and paving accomplished on both sides of the fuel pumps even though there are no water lines on the north side of the fuel pumps.⁴³
- 2) The Ratepayers objected to the Depreciation of the side board and lamps.⁴⁴ These items were purchased in 2013, prior to the start of construction of the local airport office. They were used in the home office which has been shown to not have been in compliance with PUC Statute 24.81.
- 3) The Ratepayers objected to the Office Chairs in the Depreciation schedule purchased in 2014.⁴⁵ This was a home office expense purchased after Rio Concho claimed their local airport office was operational, so we must ask why the ratepayers are funding two offices? In addition, Rio Concho admitted that not a single water customer drove to their home office during the entire test year 2015.⁴⁶
- 4) The Ratepayers object to the Desk & Chair \$335.47 purchased in 9/2015 with the same argument: How many offices do the Ratepayers have to furnish? Rio Concho depreciated

⁴⁰ Direct Testimony of Debi Loockerman, p. 12, lines 19-20

⁴¹ Rio Concho's Initial Brief, p. 14, lines 1-2

⁴² Ratepayer's Response to Rio Concho Aviation's Water Rate Increase Application, p. 17, lines 1-11 and Ratepayers Initial Brief, p. 13, lines 1-29 and p. 14, lines 1-10

⁴³ Ratepayers Initial Brief, p. 13-14 and Attachments 12 & 13

⁴⁴ Ratepayer's Response to Rio Concho Aviation's Water Rate Increase Application, p. 17, lines 12-16

⁴⁵ Ratepayer's Response to Rio Concho Aviation's Water Rate Increase Application, p. 19, lines 1-6

⁴⁶ Rio Concho's Response to Ratepayers First Request for Information, p. 10, RFI 1 27

Office Equipment in 1995 (\$4150.00) that is still being used 21 years later. Logically, that must be furniture.⁴⁷

- 5) Lastly, the Ratepayers objected to a missing Salvage value for the 1995 Ford Truck.⁴⁸ This item was retired to the Brunson farm where it is still being used today. If it had value for the Brunson farm, it would have had value to any other farmer. Today, this truck's Kelly Blule Book value ranges from \$3602 to \$5436, but obviously had a much higher value when it was first retired to the Brunson farm. Why is this Salvage value not on their depreciation schedule as required by GAAP and PUC Statute?

Taxes

i. Federal Income Tax Expense

The Ratepayers defer to the PUC Staff for their expertise in this area.

ii. Other Assessments and Taxes

Rio Concho contradicted itself when explaining the calculations on county taxes and airport assessments. Ms Brunson stated "The water utility only pays for the property that it actually uses."⁴⁹ The Ratepayers protested this inaccuracy in August.⁵⁰ We wrote that we had no argument with the property at 100 Aviator Dr. as it is used exclusively for water company use. Our argument was, and still is, with the property at 171 Aviator Dr. As shown in Appendix 3⁵¹ and again in our Initial Brief⁵² Attachments 12 and 13, Rio Concho assigns 25% of this large property (73,302 sq feet) =18,325 sq ft to the water company. Viewing the Google map on Attachment 12 shows that the restaurant consumes nearly 2/3 of the total square footage of this lot when surrounding parking is included. The Fueling area consumes close to another 1/3. The fenced-in water facility generously measured (64' by 75'=) 4800 sq ft or 6.5% of the total square footage of the property. We'd have to add the repaved area to the west of the fenced-in area to get 100%. However, this area shows aircraft parking spots, underground

⁴⁷ Ratepayers Initial Brief, p. 14, lines 27-29 and p. 15, lines 1-3

⁴⁸ Ratepayer's Initial Brief, p. 15, lines 4-27 and p. 16, lines 1-5

⁴⁹ Prefiled Direct Testimony & Exhibits of Barbie Brunson, p. 28 line 6

⁵⁰ Ratepayers Response to Rio Concho Aviation's Water Rate Increase Application, p. 26, lines 11-21, & p. 27, lines 1-11.

⁵¹ Ratepayers Response to Rio Concho Aviation's Water Rate Increase Application, Appendix 3, p. 38

⁵² Ratepayer's Initial Brief, Attachments 12-13

aviation fuel tanks, and taxi markings to get to the fuel pumps as shown in Attachment 13⁵³. That area is better assigned to Rio Concho Aviation Fuel company. Why does Rio Concho split the taxes and assessments by 25%? Most likely for ease of calculations. But in no case, is Ms Brunson's statement that the water company only pays for the property it uses accurate. We continue to argue that only 6.55% of the total property (the fenced-in area) is utilized by the water company.⁵⁴

The Ratepayers also contested Rio Concho's taxes as paid to Tarrant and Denton Counties. Rio Concho assigns 25% to the water company. The Ratepayers would reduce this to 6.55% for \$283.53 vs Rio Concho's \$1082.19, a savings of \$796.66 in favor of the water customers.⁵⁵

When discussing the property and liability insurance calculations, Ms Brunson stated that each policy was divided by approximately 1/3 and "approximates the square footage of property utilized by each of Rio Concho's business activities."⁵⁶

To sum up, Rio Concho's property and liability insurance is divided by thirds based on square footage utilized by each company, but Rio Concho's taxes and assessments are divided by fourths because "the water system was estimated to use 25% of the area, so 25% of the assessed taxes for that parcel of land were used in the rate application."⁵⁷

So does the water company use 33% or 25% of the land at 171 Aviator Dr? Even Rio Concho's own testimony contradicts itself. Again, the Ratepayers measured the actual fenced-in water facility area and find it's only 6.55% of the total. This would reduce water company expenses by \$1095.57 on the airport assessments, and another \$798.66 in taxes.⁵⁸

⁵³ Ratepayer's Initial Brief, Attachments 12-13

⁵⁴ Ratepayer's Response to Rio Concho Aviation Water Rate Increase Application, p. 26, lines 10-21 and p. 27, lines 1-11

⁵⁵ Ratepayer's Response to Rio Concho Aviation Water Rate Increase Application, p. 27, lines 12-20

⁵⁶ Prefiled Direct Testimony & Exhibits of Barbie Brunson, p. 27, lines 11-12

⁵⁷ Prefiled Direct Testimony & Exhibits of Randal Manus, p. 21, lines 1-6

⁵⁸ Ratepayer's Response to Rio Concho Aviation Water Rate Increase Application, p. 26, lines 10-21 and p. 27, lines 1-11

Return on Invested Capital

Rio Concho's Initial Brief mentions the two items that the Staff and Ratepayers contested: the TV and assorted purchases, and the Audi SUV.⁵⁹ We agree with that statement but find that Rio Concho again errors when stating: "There were no other challenges to the proper inclusion of other Rio Concho water system assets as invested capital."⁶⁰ We've already discussed those missing items in this document beginning on page 11 so we won't list them again to not be repetitive.

III. Rate of Return

Return on Equity

The Ratepayers do not possess a background in investment principles nor accounting and we freely admitted this in our Initial Brief.⁶¹ However, Rio Concho makes some illogical statements in their Initial Brief on this topic.

Rio Concho writes: "If Rio Concho is only allowed a return on equity of 8.48%, why would anyone want to invest their money in it when they could achieve a substantially higher return investing in these larger systems?"⁶² Rio Concho is a privately held company which is not open to outside investment. It's been that way for the 21 years that the Brunson's have owned the water company. Their statement also is contradicted by Mr Brunson's statement during the PUC hearing that he receives phone calls weekly from companies wanting to purchase their water company, even though Rio Concho has been unprofitable or barely profitable on paper for several years. Mr Brunson's statement indicates that there is frequent and continued interest in purchasing Rio Concho water company. It would appear, that even barely profitable water companies are in demand, thus a return of 8.48% seems quite adequate.

Cost of Debt

Rio Concho wishes to use 8.4% as a hypothetical debt rate that Ms Brunson was quoted by her bank, yet Rio Concho provides no documentation for this quote. The Ratepayers attempted to introduce an explanation from BBVA Bank (Rio Concho's bank) that this rate was for an unsecured loan. A secured loan would be more than 2% lower than their stated 8.4%.

⁵⁹ Rio Concho's Initial Brief, p. 15

⁶⁰ Rio Concho's Initial Brief, p. 16

⁶¹ Ratepayer's Initial Brief, p. 16

⁶² Rio Concho's Initial Brief, p 17

Capital Structure

The Ratepayers defer to the PUC Staff's expertise and recommendation for what is appropriate for Rio Concho.

Overall Rate of Return

Throughout this section III. Rate of Return, Rio Concho argues that they want to be compared to other utilities in regards to Return on Equity and Cost of Debt, but not compared to other utilities when discussing Capital Structure and Overall Rate of Return because Rio Concho is fundamentally different than other utilities.⁶³ Perhaps the PUC Staff adjusted their figures in this section III because Rio Concho is unlike other water utilities and necessitated adjustment. The Ratepayers defer to the PUC Staff's expertise and recommendation for what is appropriate for Rio Concho.

IV. Rate Design

The Ratepayers defer to the PUC Staff's expertise and recommendation for what is appropriate for Rio Concho.

V. Rate Case Expenses

Recovery of Rate Case Expenses

While Rio Concho believes, it has "proven its requested revenue requirement increase of \$30,929.73"⁶⁴, the PUC Staff and the Ratepayers would heartily disagree. We remind Rio Concho that the Staff has recommend a \$33,662 reduction in overall costs and the Ratepayers have proposed a reduction of \$29,159.29. We would conclude that Rio Concho is far from proving its case for a \$30k rate increase.

Amount of Rate Case Expenses that are Just, Reasonable, and Necessary, and in the Public Interest.

Rio Concho states: "This case could not have been processed by Rio Concho for any less." The Ratepayer strongly disagree. PUC Staff testified in the SOAH hearing that Rio Concho did not need to hire an attorney to fill out a Class B rate increase application.⁶⁵ Two of the three intervenors provided

⁶³ Rio Concho's Initial Brief, p. 19

⁶⁴ Rio Concho's Initial Brief, p. 20

⁶⁵ Ratepayers Initial Brief, p. 17, lines 8-30 and p. 18, lines 1-20.

testimony that Mr Brunson hired an attorney as a result of a threat to the water customers to pass on those legal costs.⁶⁶

As Stephen Grace testified, "It is my opinion that this rate increase is not in the best interest of the customers, but in the best interest of the Brunson's, aka. Rio Concho."⁶⁷ In that same light, having the water customers pay rate case expenses to fulfill Mr Brunson's threat benefits Rio Concho, not the water customers.

Rio Concho states: "The proposed increase in rates for customers of Rio Concho system would have been approximately \$13.09 per month for the average user of 1620 gallons in the Rio Concho system."⁶⁸ The amount of errors in Rio Concho's application, testimony, and now their Initial Brief is simply astounding. Comparing current rates to either Rio Concho's original rate application or their final revised rate figures do not amount to \$13.09 for the average user of 1620 gallons/month. Stated another way: $\$13.09 \times 240 \text{ users} \times 12 \text{ months} = \$37,699.20$ which exceeds their stated request. Their math is appalling.

Rio Concho also states: "Even with the increase the proposed base rates are less than the base rates for the neighboring Aqua Texas system and the costs to an average Rio Concho customer using 1600 gallons of water would be about the same."⁶⁹ The Ratepayers provided Ratepayers Exhibit 2 during the SOAH hearing. Let's review the facts.

First, the company compared is Aqua America and not Aqua Texas as stated in Rio Concho's Initial Brief⁷⁰: The name is on the bottom of our exhibit.

Aqua America's Base rate= \$45.06 Gallonage = \$2.85/1000 gallons

Rio Concho: Proposed base rates= \$39.75 Gallonage=proposed \$7.05/1000 gallons

The algebraic formula for finding the breakeven points is:

$$\$45.06 + X(\$2.85) = \$39.75 + X(\$7.05)$$

⁶⁶ Prefiled testimony of Jeffrey Sheets, p. 16, lines 19-22 and p. 17, lines 1-10
Prefiled testimony of Stephen Grace, p. 3, lines 12-17

⁶⁷ Prefiled testimony of Stephen Grace, p. 8, lines 8-10

⁶⁸ Rio Concho's Initial Brief, p. 21

⁶⁹ Rio Concho's Initial Brief, p. 21

⁷⁰ Rio Concho's Initial Brief, p 21

Solving for X results in 1264 gallons as a monthly break even figure. An Aqua America customer using 1264 gallons of water would have a bill of \$48.66. A Rio Concho customer using 1264 gallons of water would also have a bill of \$48.66 at Rio Concho's final proposed rates.

Is Rio Concho's statement "an average Rio Concho customer using 1600 gallons of water would be about the same" true? No, it's only true at the break even point. At the break even figure, anything above that gallonage would be cheaper at Aqua America. Thus, Rio Concho's bill for 1600 gallons would be \$51.03 and Aqua America's bill would be \$49.62, a difference of \$1.41 or 2.8% higher than Aqua America. Rio Concho's math is consistently in error.

Surcharge

In a worst case scenario for the water customers, if we had to pay a surcharge, we agree with the PUC Staff that a surcharge over 3 years would be an undue burden on the water customers.⁷¹ We agree with Staff's recommendation of a surcharge over 5 years if this case meets the 51% requirement for Rio Concho.

VI. Interim Rates and Effective Dates

VII. Issues Not Addressed.

The Ratepayer have no comments on these two sections.

Conclusion

For all the reasons discussed in our Prefiled Testimonies, Initial Brief and our Reply Brief, the Ratepayers respectfully request the presiding officers issue a proposal for decision that combines the Staff's and Ratepayer's recommendations.

⁷¹ Commission Staff's Initial Brief, p. 36