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

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BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS

2017 APR -3 AM 10:52
PUBLIC UTILITY COMMISSION
FILING CLERK

COMMISSION STAFF'S EXCEPTIONS TO THE PROPOSAL FOR DECISION

COMES NOW the Staff (Staff) of the Public Utility Commission of Texas (Commission), representing the public interest, and files these Commission Staff's Exceptions to the Proposal for Decision, and would show the following:

INTRODUCTION

On March 23, 2017, the Administrative Law Judges (ALJs) issued a Proposal for Decision (PFD) in this proceeding. Staff commends the ALJs for a thoughtful and well-reasoned decision. While Staff fully supports the ALJs' recommendations, Staff makes the following limited exceptions to the PFD for clarity.

STAFF'S EXCEPTIONS

I. INTRODUCTION

No exceptions.

II. JURISDICTION, NOTICE, AND PROCEDURAL HISTORY

1. Jurisdiction and Notice

No exceptions.

2. Procedural History

No exceptions.

III. BACKGROUND

The PFD states that Rio Concho's proposed rate is \$7.67 per 1,000 gallons.¹ While Rio Concho's original application proposed a volumetric rate of \$7.67 per 1,000 gallons, Rio Concho

¹ PFD at 5.

witness Randal Manus' Direct Testimony² adjusted the requested volumetric rate from \$7.67 to \$7.19, and Rio Concho's Response to Staff RFI 4-5(f)³ further adjusted the requested rate from \$7.19 to \$7.05.⁴ Therefore, Rio Concho's final amended proposed volumetric rate was \$7.05 per 1,000 gallons.

IV. REVENUE REQUIREMENT

No exceptions.

1. Operations and Maintenance Expenses

No exceptions.

1. Ms. Brunson's Salary

No exceptions.

2. Contract Labor

No exceptions.

a. Payments to Mr. Brunson

No exceptions.

b. Meter Reading Expense

No exceptions.

c. Payments to Mr. Manus

No exceptions.

d. Undetermined Expenses

No exceptions.

e. Total Recommended Disallowance

No exceptions.

3. Transportation Expense

Rio Concho requested \$3,283 in test year transportation expenses, with a known and measurable change of \$688, for a total requested amount of \$3,971.⁵ The PFD recommends a

² Ex. RCA-4 at 7.

³ Staff Ex. 13 at RCA000926.

⁴ See Staff's Initial Brief at 26, fn. 141.

⁵ Ex. RCA-2 at 18.

reduction of \$2,064.⁶ This would leave a recommended transportation expense of \$1,907.⁷ This \$1,907 is composed of the \$1,239 that the ALJs recommend is a reasonable transportation expense amount⁸ plus the \$688 in requested known and measurable changes. However, the text of the PFD states that in addition to the proper mileage being adjusted down to \$1,239, “the ALJs further find, because there is no justification in the application, or record evidence, for the \$688 in known and measurable changes, Rio Concho’s requested transportation expense should be further reduced.”⁹ This language seems to indicate that the ALJs intended to disallow all, or at least a portion of, the requested \$688 in known and measurable changes. However, the full \$688 is included in the ALJs’ recommended transportation expenses of \$1,907.¹⁰

Additionally, in the table entitled “ALJs’ Recommended Transportation Expenses,” the known and measurable change is listed as \$668.¹¹ Staff recommends that this number be corrected to \$688.¹²

2. Administrative and General Expenses

1. Employee Benefits

a. Evidence

No exceptions.

b. Argument

No exceptions.

c. ALJs’ Recommendation

No exceptions.

2. Office Rent Expenses

a. Evidence

No exceptions.

b. Argument

⁶ PFD at 24.

⁷ \$3,971- \$2,064 = \$1,907.

⁸ PFD at 23-24.

⁹ *Id.* at 23.

¹⁰ *Id.* at 24; *see also id.* at 77, Finding of Fact No. 21.

¹¹ *Id.* at 24.

¹² Ex. RCA-2 at 18.

No exceptions.

c. ALJs' Recommendation

No exceptions.

3. Professional Services Expense

No exceptions.

4. Insurance

No exceptions.

5. Office Supplies and Expenses

No exceptions.

6. Miscellaneous Expenses

a. Clothing

No exceptions.

b. Retail Memberships

No exceptions.

c. Travel Expenses

No exceptions.

d. Cell Phone Expenses

No exceptions.

e. Audi Connect Expenses

No exceptions.

3. Affiliate Transactions

No exceptions.

4. Depreciation

1. Audi Q5

No exceptions.

2. Paving

No exceptions.

3. Television and Related Items

No exceptions.

4. Office Equipment

No exceptions.

5. Taxes

1. Federal Income Tax

No exceptions.

2. Other Taxes and Assessments

No exceptions.

6. Return on Invested Capital

No exceptions.

V. RATE OF RETURN

1. Return on Equity

No exceptions.

2. Cost of Debt

No exceptions.

3. Capital Structure

No exceptions.

4. Overall Rate of Return

No exceptions.

VI. RATE DESIGN

No exceptions.

VII. RATE CASE EXPENSES

No exceptions.

1. Just, Reasonable, and Necessary Rate Case Expenses

No exceptions.

1. Mr. Manus' Invoices

No exceptions.

2. The John Carlton Law Firm Invoices

No exceptions.

3. ValueScope Invoices

No exceptions.

4. Rio Concho's Hearing-Related Expenses

No exceptions.

2. Surcharge

No exceptions.

3. Rate Case Expenses Summary

No exceptions.

VIII. CONCLUSION

No exceptions.

IX. FINDINGS OF FACT

Finding of Fact No. 9 states that this matter was referred to the State Office of Administrative Hearings (SOAH) on April 25, 2016.¹³ The Order of Referral in this case was issued on April 26, 2016.¹⁴ Accordingly, Staff proposes the following correction:

New Finding of Fact:

9. On April 26, 2016, the Commission referred this case to the State Office of Administrative Hearings (SOAH) for a contested case hearing.

Staff requests that Finding of Fact Nos. 16 and 21 be revised accordingly if any changes are made to the recommended transportation expense amount as discussed above in Section IV (Revenue Requirement), subsection 3 (Transportation Expense).

Finding of Fact No. 22 states that Rio Concho's requested employee benefit expenses are \$14,788.¹⁵ However, Rio Concho's application shows a requested employee benefit expense amount of \$13,788.¹⁶ Accordingly, Staff proposes the following correction:

¹³ PFD at 76.

¹⁴ Order of Referral.

¹⁵ PFD at 78.

¹⁶ Staff Ex. 13 at RCA000914.

New Finding of Fact:

22. Rio Concho's requested employee benefit expenses of \$13,788 are unreasonable and unnecessary for the provision of water service for a utility with approximately 240 connections and for an owner-operated utility.

Finding of Fact No. 39 assigns a "return on debt."¹⁷ Staff believes that "cost of debt" is the appropriate term, and accordingly proposes the following correction:

New Finding of Fact:

39. Rio Concho has no debt. It is reasonable to assign a cost of debt of 5.03%, based on the average rate for Baa utility bonds for every month of the 2015 test year.

Finding of Fact No. 43 states that Rio Concho incurred rate case expenses in the amount of \$107,569 and includes a table of the charges broken out by the person/firm charging the expense.¹⁸ In the "Rate Case Expenses" discussion in the PFD, the ALJs found that while Rio Concho was requesting \$108,156 in rate case expenses,¹⁹ only \$91,657 of the requested expenses are reasonable rate case expenses.²⁰ The table provided in Finding of Fact No. 43 shows a total rate case expense amount of \$107,569, which does not match either number. The table appears to include the full requested amount of Randal Manus, ValueScope, Inc., the Carlton Law Firm, and Barbie Brunson expenses, but uses the requested amount minus the ALJs' disallowance for "other expenses."²¹ Staff requests clarification as to whether this Finding of Fact was intended to show the full amount of rate case expenses that Rio Concho has requested, or the amount of expenses that the ALJs determined were reasonable and necessary rate case expenses.

X. CONCLUSIONS OF LAW

No exceptions.

¹⁷ PFD at 79.

¹⁸ PFD at 80.

¹⁹ PFD at 63.

²⁰ PFD at 74.

²¹ Rio Concho sought \$1,590.90 in "Other Expenses" that were provided during discovery. The ALJs recommend that Staff's disallowances of \$955 be adopted, resulting in a reasonable expense amount of \$1,004 in "other expenses." PFD at 72.

XI. ORDERING PARAGRAPHS

No exceptions.

CONCLUSION

For the reasons discussed above, Staff respectfully requests that any final order in this proceeding be revised consistent with the above exceptions.

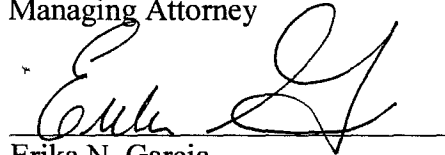
Dated: April 3, 2017

Respectfully submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

Margaret Uhlig Pemberton
Division Director

Stephen Mack
Managing Attorney



Erika N. Garcia
State Bar No. 24092077
Matt Arth
State Bar No. 24090806
(512) 936-7290
Public Utility Commission of Texas
1701 N. Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326
(512) 936-7268 (facsimile)
Erika.garcia@puc.texas.gov

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CERTIFICATE OF SERVICE

I certify that a copy of this document was served on all parties of record on April 3, 2017, in accordance with 16 TAC § 22.74.



Erika N. Garcia