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**P.U.C. Docket No. 45720**

**SOAH DOCKET No. 473-16-3831.WS**

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

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**BEFORE THE STATE OFFICE  
OF  
ADMINISTRATIVE HEARINGS**

**RATEPAYERS RESPONSE TO RIO CONCHO EXCEPTIONS TO PROPOSAL FOR DECISION  
SUBMITTED BY  
STEVE GRACE & JEFF SHEETS**

**ON BEHALF OF RATEPAYERS OF  
RIO CONCHO AVIATION, INC**

### **Introduction to Response**

On April 3, 2017, Rio Concho filed exceptions to the Administrative Law Judge's (ALJ) Proposal for Decision in the Rio Concho Aviation Inc rate increase filing. Whereas the PUC Staff and the Ratepayers only had a handful of exceptions in each of their filings, Rio Concho had 27 pages and multiple exceptions on almost every ALJ topic in the PFD. Almost every Rio Concho exception was simply a reiteration of their Initial Brief and Reply Brief from January 2017.

The Ratepayers do not wish to waste the time of the PUC Commission by simply re-hashing what we've already written in our Initial and Reply briefs. Yet, we do not wish to impart the perception that we do not care what Rio Concho attempts to convey. We have been deeply involved in this case from day one, have invested a significant amount of money and time, and we deeply care about the outcome. For those reasons, we apologize to the Commissions for re-addressing Rio Concho's repetitious Exceptions, mangled application, and faulty math. The Ratepayers strongly wish this wasn't necessary.

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## I. INTRODUCTION, JURISDICTION AND BACKGROUND SUMMARY (PARTS I-III)

Rio Concho states "-Rio Concho has spent approximately \$100,000 to follow the Commissions' process in an effort to obtain an approximately \$30,000 per year increase in its revenue requirement. The ALJ's PDF and proposed order essentially assert that Rio Concho did not present enough evidence to justify its requested increase in rates. How much more cost would have been necessary to meet ALJs requirements?"<sup>1</sup>

Ratepayers response: The expenditure of \$100,000+ was not necessary. That cost was simply a fulfillment of Kevin Brunson's threat to hire a lawyer and pass those cost to the water customers.<sup>2</sup> PUC Staff member Debi Loockerman testified that an attorney was not required to file a rate increase for either Class C or Class B water rate increases.<sup>3</sup> Both Ms Brunson and their consultant, Randy Manus, testified that they were rate case experts so why was hiring an attorney necessary for Rio Concho?<sup>4</sup>

Rio Concho states: Rio Concho's "revenues will be reduced to a level that is less than it has ever received from rates"<sup>5</sup>

Ratepayers Response: This statement is without evidence as Rio Concho has provided no facts to support this statement. If true, the Ratepayers would point to this statement as evidence of over-charging for water services for many years in the past.

## IV. REVENUE REQUIREMENT

### A. Operations and Maintenance Expenses

Rio Concho states: "Rio Concho provided support for \$82,178.83 in operations and maintenance expenses." and "All other operations and maintenance expenses were uncontested."<sup>6</sup>

Ratepayers Response: The second sentence is false. Once again, Rio Concho continues to ignore the Ratepayers contested items of 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, expenses incurred in 2014

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<sup>1</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 3

<sup>2</sup> Ratepayers Initial Brief p 17 & Ratepayers Reply Brief p 16-17; Prefiled testimony of Jeffrey Sheets p 16-17; Prefiled testimony of Stephen Grace p 3

<sup>3</sup> Debi Loockerman Testimony during Dec 5-6 hearing

<sup>4</sup> Ratepayers Initial Brief p 4 & Ratepayers Reply Brief p 5

<sup>5</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 3

<sup>6</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 8

which were accounted for in test year 2015, and other questionable receipts. Rio Concho also ignored the Ratepayers contested items in the Ratepayers Initial Brief.<sup>7</sup>

## **2. Contract Labor**

### **a. Kevin Brunson Compensation**

1. Rio Concho states: "Mr Brunson receives compensation for his on-call and after-hours responses to issues at the water system and his management and strategic planning services related to the water system." Mr Brunson "evaluates and implements programs to improve system operations, such as increased system pressure and back-up power."<sup>8</sup>

Ratepayers Response: Mr Brunson only provided one after-hours service during the test year.<sup>9</sup> One emergency call was resolved by Mr Manus.<sup>10</sup> Neither Mr Brunson, nor Rio Concho, provided any written studies claimed to have been accomplished by Mr Brunson.

### **b. Meter Reader Compensation**

Rio Concho states: "Incredibly, the ALJs proposes to eliminate Rio Concho's meter reading expenses. Given the market cost for meter reading services, Rio Concho's requested \$300 is more than reasonable."<sup>11</sup>

Ratepayers Response: Ms Brunson testified that her duties included reading meters.<sup>12</sup> If her salary includes meter reading duties, why are the water customers paying her children and friends for this duty? The Ratepayers call it double expensing. The ratepayers shouldn't be paying twice to get meters read, regardless of the cost of reading meters.<sup>13</sup> Rio Concho proposes to spend an additional \$3600/yr in order to "save" \$6600/yr.<sup>14</sup> There is no logic in that statement. The Ratepayers propose that Ms Brunson read the meters as she specified was included in her duties, thus saving \$3600/yr.<sup>15</sup> The Ratepayers also noted that Rio Concho proposes to pay its meter readers a higher hourly pay rate than Ms Brunson receives as Vice President.<sup>16</sup>

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<sup>7</sup> Ratepayers Reply Brief p 4-7

<sup>8</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 9

<sup>9</sup> Tr.at 62:10-13; Staff Ex. 7 (Rio Concho's Response to Staff RFI 4-2)

<sup>10</sup> Staff Ex. 5 (Rio Concho's Response to Staff RFI 3-4)

<sup>11</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 10

<sup>12</sup> Prefiled Direct Testimony & Exhibits of Barbie Brunson, p 3, line 14

<sup>13</sup> Ratepayers Initial Brief p 6-7

<sup>14</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 10

<sup>15</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 10

<sup>16</sup> Ratepayers Initial Brief p 6-7

### 3. Vehicle Expense

Rio Concho continues to protest the use of the 2015 Audi Q5 SUV as a legitimate vehicle expense not only for depreciation purposes but also for mileage from their home/home office (they're the same) to the water facility site at the Hicks airport. This is the same tired argument that they made in their initial brief. They've added nothing new to their argument.

Ratepayers Response: Both the PUC Staff, the Ratepayers, & the ALJ's conclude that Rio Concho is using commuting mileage from their home to the airport water facilities.<sup>17</sup> Please re-read the transportation paragraphs in the Ratepayers Initial & Reply briefs<sup>18</sup>, the Staff's Initial Brief and reply brief<sup>19</sup>, and the ALJ's PFD.<sup>20</sup>

As a reminder, Ms Brunson used her 2 seat sports car for 4 consecutive months of water company business in 2013.<sup>21</sup> If a sports car is capable, why was it necessary to purchase a luxury SUV?

### B. Administrative and General Expenses

Rio Concho writes: "The Commission's application form for Class B utilities includes office salaries, management salaries, employee pensions & benefits....."<sup>22</sup>

Ratepayers Response: Rio Concho continues to confuse the Class B forms with it's Class C classification. Just because the PUC requires a Class C utility to use the Class B application does not mean that all of the blocks in the application apply to a Class C utility. Those blocks may or may not apply to a Class B utility, but they certainly don't all apply to a Class C utility.

#### a. Ms Brunson Retirement Benefits

Rio Concho writes:

1) "Ms Brunson is entitled to a reasonable retirement benefit."

2)"Rio Concho provided several examples of utility companies that provide retirement benefits."

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<sup>17</sup> Ratepayers Initial Brief p 8-9 & p 16; Ratepayers Reply Brief p 5-6 & p 11

<sup>18</sup> Ratepayers Initial Brief p 8-9 & p 16; Ratepayers Reply Brief p 5-6 & p 11

<sup>19</sup> PUC Staff's Initial Brief p 12; PUC Staff's Reply Brief p 6

<sup>20</sup> ALJ's Proposal for Decision, p 19

<sup>21</sup> Ratepayers Reply Brief p 11

<sup>22</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 12

3)"It is her only full-time job."

4) "As Mr Manus testified, retirement benefits are commonly accepted and expected within the full-time workforce."<sup>23</sup>

**Ratepayers Response:**

1) Facts don't support this claim, especially in a private 2 person company.<sup>24</sup> "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."<sup>25</sup>

2) Examples provided were not in any of Rio Concho's supplied written documents.

3) While the water company may be Ms Brunson's only full time job, she divides her time with their Fuel company and their land leasing company, Barbie Land Development. Why don't the other Brunson-held companies contribute toward her retirement? Why has it taken Ms Brunson 20 years to start a retirement annuity only to have it start in the test year?<sup>26</sup>

4) Mr Manus is a lay witness with no expertise "that retirement benefits are commonly accepted and expected within the full-time workforce."<sup>27</sup>

**b. Key Employee Insurance**

Rio Concho writes: "This policy was erroneously issued with Mr Brunson as the beneficiary and characterized as a life insurance policy."<sup>28</sup>

**Ratepayers Response:**

1) Rio Concho never called this life insurance policy a "key employee" insurance policy until the PUC Staff started questioning the policy.<sup>29</sup>

2) The net effect of the beneficiary change from Mr Brunson to Rio Concho is the same since Rio Concho is a privately owned company with the Brunson's as owners.<sup>30</sup>

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<sup>23</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 13

<sup>24</sup> Ratepayers Reply Brief p 8

<sup>25</sup> Direct testimony of Debi Loockermann, p 13, lines 7-14

<sup>26</sup> Ratepayers Reply Brief p 8

<sup>27</sup> PUC Staff's Reply brief p 7

<sup>28</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 13

<sup>29</sup> Ratepayers Reply Brief p 8

<sup>30</sup> Ratepayers Reply Brief p 8

- 3) An insurance policy for 3.6 times the annual salary of Ms Brunson<sup>31</sup> benefits the owners of Rio Concho not the ratepayer who are being asked to fund the policy.
- 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.<sup>32</sup>
- 5) PUC Staff testified that no other Class C utilities expense life insurance premiums to their water customers.<sup>33</sup>

## 2. On-Site Office Rent

Rio Concho writes: "Rio Concho's rent includes utilities. The Ratepayer argue that this rent is unreasonable."

"The Ratepayer's argument relies on speculative calculations that are not based upon any evidence in the record."<sup>34</sup>

Ratepayers Response: We certainly don't argue that rent to include utilities is unreasonable, nor have we ever argued that aspect. We do argue that the \$6,000/yr lease is simply a bonus payment to themselves since it's expensed to the water ratepayers. It's an instant profit payment on top of their water company income.<sup>35</sup>

We also argue that Rio Concho has inflated the space used by the utility in order to lower the square footage price when compared to office rents nearby.<sup>36</sup> There is simply not enough square footage in their hangar to house the footprint of two airplanes, a 210 sq foot office, and an additional 690 sq feet of floor space for water company use. Even if all the speculative math was eliminated from the Ratepayers calculations, there is no disguising the fact that Rio Concho, to competitively compare to surrounding office spaces, had to justify it's \$500/mo lease when their hangar office is only 210 sq ft. That is not competitive with nearby office space, so Rio Concho inflated the sq footage used to make the lease payments competitive.<sup>37</sup>

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<sup>31</sup> PUC Staff Initial Brief p 14

<sup>32</sup> Ratepayers Reply Brief p 8

<sup>33</sup> Direct Testimony of Debi Loockermann, p 13, lines 7-14

<sup>34</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 14-15

<sup>35</sup> Ratepayers Initial Brief p 11

<sup>36</sup> Ratepayers Initial Brief p 11

<sup>37</sup> Ratepayers Initial Brief p 11

#### 4. Insurance

Rio Concho states "The total property insurance premium is \$3014, with \$1044 allocated to Rio Concho. Ms Brunson testified that the allocation of the property insurance premium approximates the square footage of the properties (both parcels) used by each of the Brunson's businesses. The total liability insurance premium is \$2695, with \$912.47 allocated to Rio Concho. Mr Manus testified that Rio Concho historically allocated one-third of the liability policy premiums to the utility."

"The ALJs recommended a reduction solely based upon testimony by the Ratepayers that Ms Brunson's allocation for the insurance was faulty. Rio Concho's evidence supports it requested amount."<sup>38</sup>

Ratepayers Response: The Ratepayers find several examples of incorrect numbers in Rio Concho's filings. In their original application, I-1 Revenue Requirement Summary, line 19, Insurance was listed as \$2542.<sup>39</sup> That was revised as the same form has a figure of \$2545.96 as of the time of the PUC hearing in Dec.<sup>40</sup> Compare either of those figures with Rio Concho's submitted receipts which showed Liability policy of \$2435/yr to US Specialty Insurance Company.<sup>41</sup> So is the liability policy premium \$2695 as Rio Concho claims or \$2435 as shown on the receipt which Rio Concho supplied? No quickbooks register was supplied with definitive payments.

As we previously wrote, "When discussing the property and liability insurance calculations, Ms Brunson stated that each policy was divided by 1/3 and approximates the square footage of property utilized by each of Rio Concho's business activities." 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." Rio Concho contradicts itself concerning the land at 171 Aviator Dr. In one instance, Rio Concho uses 33% as the approximate square footage, and in another instance, Rio Concho uses 25% of the same square footage.<sup>42</sup> That doesn't even address the fact that Rio Concho's math is incorrect above since 1/3 of \$2695 is not \$912.47 and \$1044 is not 1/3 of \$3014. Rio Concho has had ample time to correct these errors and yet they maintain their calculations are correct, when the math clearly shows a discrepancy.

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<sup>38</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 15

<sup>39</sup> Rio Concho Application 45720-3 p 6

<sup>40</sup> Staff Exhibit p RCA 914

<sup>41</sup> Second Supplemental Response to Staff's First RFI, p RCA 196

<sup>42</sup> Ratepayers Reply Brief p 14



#### 6.a. Clothing

Rio Concho repeats their initial brief claim that they need \$600/yr to clean and replace clothing worn while Ms Brunson digs trenches, replaces water line and meters, and completes other repairs.<sup>43</sup>

The Ratepayers maintain their objection that Ms Brunson hires contract labor for even minor repairs and does not dig trenches, replace water lines nor meters, and hires out all repairs.<sup>44</sup>

#### d. Cell Phone Expenses

Rio Concho writes: "Ratepayer Mr Sheets makes a blanket statement without referring to any evidence that Rio Concho is claiming \$1987 for two cell phone numbers." "and Mr Sheets unsupported testimony should not be given any weight."<sup>45</sup>

#### Ratepayers Response:

1) Rio Concho submitted a Quickbooks register showing \$1986.84 which included 12 months of cell phone bills (\$1879.33) and 3 other cell phone charges (\$107.51).<sup>46</sup> If any of those charges were not intended to be claimed by Rio Concho water, we would expect Rio Concho to edit, draw a line through, or somehow annotate that this particular charge was not to be included in water expenses. Rio Concho did no edits nor strike-throughs. Rio Concho provided no evidence that any of the cell phone charges were pro-rated by 1/3, 1/4, or 60%. And since Rio Concho did not provide a spreadsheet of their claims showing which items were being charged to the water company, the Ratepayers concluded that the entire cell phone expense was being charged 100% to the water company. As we stated previously, their accounting methods are poor.

2) Along with the above Quickbooks register, Rio Concho submitted the first page of each of the cell phone bills for Mar, Apr, and Dec. None of the other months included the first page. For the months of Mar and Apr, the ATT bill clearly shows two cell phone numbers (817-233-1058 and 817-565-2975).<sup>47</sup> The monthly bill for Mar was \$153.54 and the bill for Apr was \$153.69. As Rio Documented in their receipts, their Jan cell phone bill was \$297, Feb was \$110, Mar, Apr, May, Jun were \$154, Jul, Aug, Sep, Oct, Nov, and Dec were \$143 (all numbers rounded off here).<sup>48</sup> For the year, ATT cell phone charges averaged \$156.61 monthly, and when combined with

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<sup>43</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 16

<sup>44</sup> Ratepayers Reply Brief p 7

<sup>45</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 16-17

<sup>46</sup> Second Supplemental Response to Staff's First RFI, p RCA 167

<sup>47</sup> Second Supplemental Response to Staff's First RFI, p RCA 170-171

<sup>48</sup> Second Supplemental Response to Staff's First RFI, p RCA 167

the 3 other cell charges, the annual monthly average was \$165.57. None of the bills or first pages contained any breakdown of charges. Is unlimited data being expensed? Is unlimited texting being expensed? Are international calls being expensed? Neither the PUC Staff, Ratepayers, nor ALJ's have any method of determining what is being expensed. And since Rio Concho operates a land leasing company, and a fuel company at the same airport location as the water company, the Ratepayers questioned why the entire cell phone expense was being charged to the water company.<sup>49</sup>

The Ratepayers are forced to conclude that in contradiction to Rio Concho's accusations of "blanket statements" and "unsupported testimony", that Rio Concho review the evidence that they provided the PUC during this rate case.

#### **D. Depreciation**

Rio Concho writes: "Rio Concho's requested invested capital and proposed depreciation are shown in detail on attachment 3 to the application." Their footnote specifies RCA-2, page 32 and the Staff Exhibit 13, page RCA p 914.<sup>50</sup>

Ratepayers Response: As documented in our Initial Brief, Rio Concho claimed depreciation of \$10,154.14, \$10,526.66, \$10,451, and \$10,562.66 in different areas of application.<sup>51</sup> On the Staff's exhibit (p 914), depreciation was listed as \$10,526.66. However, the Ratepayers discovered an error on the depreciation schedule during the Dec PUC hearing. Rio Concho's Munson acknowledged the error and the correct the depreciation entry to \$10,451.43. Even though this error was found and acknowledged by Rio Concho during the PUC hearing, Rio Concho continues to reference the incorrect figure on p. RCA 914.<sup>52</sup> The Ratepayers do not understand why Rio Concho, after having been corrected and agreed to the correction, continue to reference incorrect figures.

Rio Concho's claim for the television, DVD play, wall mount and antenna also included a \$5 charge for the "Dumb and Dumber" movie DVD.<sup>53</sup> When the Ratepayers pointed this DVD purchase out to Rio Concho in Aug<sup>54</sup>, Rio Concho had ample time to amend this entry and remove the \$5 DVD. Yet, Rio Concho did neither, claiming

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<sup>49</sup> ALJ's Proposal for Decision, p 43

<sup>50</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 17

<sup>51</sup> Ratepayers Initial Brief p 12

<sup>52</sup> Ratepayers Initial Brief p 12 & Attachment 9

<sup>53</sup> Second Supplemental Response to Staff's First RFI. p RCA 338

<sup>54</sup> Response to Rio Concho Documents/Submissions p 18

the full charge on their depreciation schedule, as evidenced in their numerous revisions to their rate application culminating in Staff Exhibit p RCA 914, in which Rio Concho still attempted to have the Ratepayers pay for the this DVD. The audacity displayed by Rio Concho knows no bounds.

As to the TV, DVD player, wall mount, and antenna, these items simply repeat the capabilities of Ms Brunson's laptop computer. Weather and training DVD's can be played on her laptop.

Rio Concho further states: "There were no other challenges, besides paving, to the proper inclusion of the Rio Concho water system assets or the depreciation of those as shown in the Application."<sup>55</sup>

The Ratepayers response: Rio Concho once again chooses to ignore the protests of the Ratepayers. The Ratepayers objected to the sideboard and lamps, the chairs, desk and chair, and missing Salvage value for the 1995 truck that Rio Concho claims is retired.<sup>56</sup>

### **1. Audi Q5**

Rio Concho states "the SUV is necessary for the operation of the water system."<sup>57</sup>

Ratepayers Response: The Ratepayers advocate that the mileage from the home/home office to the water facilities at the airport are commuting miles and thus not eligible for expenses. In addition, the home office does not meet the requirements of PUC Statute 24.81, nor its predecessor TCEQ Statute 291.81(d) in which Rio Concho failed compliance from 2010 and 2014.<sup>58</sup>

In addition, Rio Concho submitted evidence that Ms Brunson drove a 2 seat sports car for four months in 2013 while their other vehicle was being repaired.<sup>59</sup> Ms Brunson also stated that she occasionally drove her daughters car (a VW) to the airport in an attempt to explain why regular unleaded gas was purchased.<sup>60</sup> The Ratepayers must ask why a SUV is required when she found a two seat sports car adequate for four continuous months in 2013 and her daughter's VW adequate on certain days in 2015. Stating that the SUV is necessary simply fails the logic test.

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<sup>55</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 18

<sup>56</sup> Ratepayers Initial Brief p 12-13

<sup>57</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 18

<sup>58</sup> Ratepayers Initial Brief p 6

<sup>59</sup> Rio Concho Aviation's Response to Staff's 1<sup>st</sup> RFI, p RCA 301

<sup>60</sup> Ms Brunson testimony during Dec 5-6 PUC Hearing

In addition, the 1995 truck that Rio Concho claims has been retired, is actually still in use on the family farm, and despite strict guidance in PUC Statutes regarding Salvage value, Rio Concho has continued to ignore the Salvage value correction on their Depreciation schedule.

## **2. Paving**

Rio Concho writes: "Rio Concho's paving costs for areas over the utility's water lines were \$6011.12. Mr. Sheet's argument cites to documents that are not evidence and not part of the record."

Ratepayers Response: Rio Concho did not produce any documents or provide any invoices to verify the claimed \$6011 expense. Rio Concho did not produce any documents showing the water portion of the paving was a part of a larger portion of a paving expense. Was the entire project \$18,033 of which 1/3 would be \$6011 which was attributable to the water company? No one knows and Rio Concho did not testify any other way except to expense the entire \$6011 to the water company.

The Ratepayers produced a google map in Aug showing the entire lot at 171 Aviator Dr.<sup>61</sup> The 2013 Ramp Repaving was highly evident as it was a different color than the rest of the pavement on that lot. Anyone with any aviation training will recognize aircraft parking lines, helicopter parking lines, aircraft taxi lines on both sides of the fuel pumps, the enclosed water facilities, and the labeled fuel pumps. There are no above ground aviation fuel tanks visible in the picture as the tanks are underground.

To sum up, a large area of the ramp was re-paved. The area re-paved apparently covers some water lines but also contains underground aviation fuel tank, two fuel pumps, aircraft parking, helicopter parking, and aircraft taxi lines. All this can be deduced from the Aug 2016 google map which the Ratepayers submitted. For Rio Concho to claim these documents are not in evidence and not part of the record is simply false.

## **4. Office Equipment**

Rio Concho states the chairs, lamp and sideboard are all reasonable for a working office environment.<sup>62</sup>

Ratepayers Response: The sideboard and lamp were purchased in 2013, well before the construction of the hangar office. These items were obviously purchased for their home office. The home office wasn't in compliance with PUC Statute 24.81 at any time from 2010 to 2014 at the earliest. Thus the Ratepayers continue to object to this purchase being expensed.<sup>63</sup>

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<sup>61</sup> Response to Rio Concho Documents/Submissions, Appendix 3

<sup>62</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 19

<sup>63</sup> Ratepayers Initial Brief p 14

The chairs, desk and chairs were apparently purchased for the hangar office. The Ratepayers object as Rio Concho still shows Office Equipment purchased in 1995 for \$4150 which Rio Concho is still using 21 years later. We know of no office equipment that has a service life of 10 years but is still in use 21 years later other than office furniture. The Ratepayers object and ask why we're being charged to furnish two office via the new charges in 2014 and 2015?<sup>64</sup>

#### **F. Return on Invested Capital**

Rio Concho writes: "Rio Concho's requested invested capital and proposed depreciation are shown in detail on attachment 3 to the application."<sup>65</sup>

Ratepayers Response: The Ratepayers have previously addressed this depreciation schedule earlier in this document. Their referenced Exhibit RCA-2 page 32 (\$10,562.66) does not match the Staff Exhibit 13, p RCA 914 (\$10,526.66). As discussed previously in this document, the Ratepayers, during the Dec 5-6 PUC hearing, showed Rio Concho that their depreciation schedule was in error. The Ratepayers included both their faulty schedule and the corrected schedule in their Initial Brief.<sup>66</sup> For Rio Concho to continue to use faulty claims in their Exceptions to the PFD show a continued carelessness toward accuracy and facts.

#### **V. Rate of Return**

##### **A. Return on Equity**

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?"<sup>67</sup>

Ratepayers Response: Rio Concho wrote this same sentence in their Initial Brief. We found it illogical then and now. Our arguments remain the same now as we responded in our Reply Brief.<sup>68</sup> We would also point out that when compared with savings account interest rates today or bond rates of return today, a 8.48% return would be welcome for almost any investor. The Ratepayers, as most anyone else, would be eager to invest where they might generate an 8.48% return in today's environment.

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<sup>64</sup> Ratepayers Initial Brief p 14-15

<sup>65</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 20

<sup>66</sup> Ratepayers Initial Brief p 12 and attachments 8 & 9

<sup>67</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 21-22

<sup>68</sup> Ratepayers Reply Brief, p 15

## VI. Rate Design

Rio Concho writes: "If the ALJ's recommendation is followed for Rio Concho's requested expenses, the base rate will be unreasonable high for lower water usage customers, and high water usage customers will not have as much incentive to reduce consumption."<sup>69</sup>

Ratepayers Response: This statement almost defies logic. Let's review:

	Rio Concho requested rates in March 2016		Rio Concho revised rates		PUC Staff recommended rates		ALJ's proposed rates in PFD	
Hypothetical User of:	Base Rate	39.75	Base Rate	39.75	Base Rate	33.69	Base Rate	23.13
	Gallage	7.67	Gallage	7.05	Gallage	3.20	Gallage	5.28
500 Gal		\$43.59		\$43.28		\$35.29		\$25.77
1,000 Gal		\$47.42		\$46.80		\$36.89		\$28.41
1,620 Gal	avg user	\$52.18		\$51.17		\$38.87		\$31.68
2,000 Gal		\$55.09		\$53.85		\$40.09		\$33.69
3,000 Gal		\$62.76		\$60.90		\$43.29		\$38.97
5,000 Gal		\$78.10		\$75.00		\$49.69		\$49.53
10,000 Gal		\$116.45		\$110.25		\$65.69		\$75.93

By Rio Concho's backwards logic, if we follow the ALJ's recommendations, "the Base rate will be unreasonably high for lower water usage customers." Considering the ALJ's recommendation is the lowest of the base rates in this table, this Rio Concho statement is absolutely false.

Rio Concho also states that "high water usage customers will not have as much incentive to reduce consumption." The average Rio Concho water customer used only 53 gallons per day as compared to the average residential water customer's use of 93 gallons per day.<sup>70</sup> Water conservation is already being observed by Rio Concho customers. However, the PUC Staff's recommendations have the lowest gallonage rate in the table at only \$3.20/1000 gallons. The ALJ's gallonage recommendation is 65% higher than the Staff's recommendation. Again, Rio Concho's statement is absolutely false and defies logic.

<sup>69</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 24-25

<sup>70</sup> ALJ's Proposal for Decision, p 60-61; Staff Ex. 1 (English direct) at 8.

## VII. Rate Case Expenses

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

Rio Concho writes: "This case could not have been processed by Rio Concho for any less. The Commission's process is burdensome and expensive for utility systems. A simple application for a \$30,000 increase in revenue requirement in a 240 customer system has taken over a year....."<sup>71</sup>

Ratepayer Response: As we have stated earlier in this document, if this "simple application" was so simple, why did Rio Concho hire an attorney? Both Ms Brunson and Mr Manus testified that they were rate case experts.<sup>72</sup> An attorney was NOT necessary to complete this Class B rate increase application.<sup>73</sup> Not only did Rio Concho NOT convince the PUC Staff that a rate increase was necessary, but Rio Concho also failed to convince the ALJ's that a rate increase was necessary as evidenced by the Staff's water rate recommendation and the ALJ's water rate recommendation.

Rio Concho writes: "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 customer using 1600 gallons of water would be about the same."

Ratepayer Response: We addressed this subject in our Reply Brief, which Rio Concho has completely ignored.<sup>74</sup>

- 1) The company name is Aqua America and not Aqua Texas. The Ratepayers supplied the data.<sup>75</sup>
- 2) Aqua America's base rate is \$45.06 compared to Rio Concho's requested \$39.75, but the gallonage rate at Aqua America is \$2.85/1000 vs Rio Concho's requested \$7.05/1000.<sup>76</sup>
- 3) The breakeven point is 1264 gallons per month. By that, we mean a Rio Concho customer using 1264 gallons of water would have a bill of \$48.66 at Rio Concho's final proposed rates. At Aqua American 1264 gallons of water would also have a bill of \$48.66.<sup>77</sup> The average Rio Concho customer using 1620 gallons per month would have a LOWER water bill at Aqua America than at Rio Concho.
- 4) Conclusion: Rio Concho ignores the facts that the Ratepayers submitted in January and chooses to make an unsupported statement again without any basis in fact.

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<sup>71</sup> Rio Concho Aviation, Inc Exceptions to the PFD, p 26

<sup>72</sup> Rio Concho Aviation's Response to Commission Staff's 4<sup>th</sup> RFI, p 10

<sup>73</sup> Debi Loockerman Testimony during Dec 5-6 hearing

<sup>74</sup> Ratepayers Reply Brief p 17-18

<sup>75</sup> Ratepayers Reply Brief p 17-18

<sup>76</sup> Ratepayers Reply Brief p 17-18

<sup>77</sup> Ratepayers Reply Brief p 17-18

### VIII. Ratepayer's Conclusion

The Ratepayers apologize to the Commission again for the repetitious reply to Rio Concho's Exceptions. We wish it wasn't necessary.

Rio Concho's application is filled with inconsistencies, does not follow the Rate Application directions, skips explanations required, fails to follow PUC & GAAP accounting rules, fails to follow IRS guidelines, and contains many basic math errors. Further, their documentation lacks organization, and a document showing which items on each receipt are being expensed vs a personal purchase was not provided. The Ratepayers were forced to consider each receipt as a complete claimed expense even though many purchases may not have been water company related. Numerous receipts in almost every category were missing. Although outside of the Commission's review, Rio Concho is/was in violation of PUC Statutes.

The Ratepayers found that many of our arguments were simply ignored by Rio Concho and never addressed by any of their filings.

The Ratepayers have suggested previously that Rio Concho desperately needs a qualified accountant to advise on legal issues in accounting, to help with their application, and generally provide the guidance they seemingly need.<sup>78</sup>

The Ratepayers are pleased with the expertise of the PUC Staff and the findings of the ALJ's as written in their PFD. We hope the Commission also agrees with their findings.

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<sup>78</sup> Ratepayers Initial Brief p 21