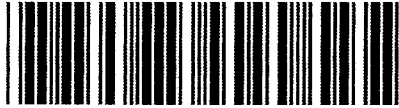




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APPLICATION OF RIO CONCHO
AVIATION, INC. FOR A
RATE/TARIFF CHANGE

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BEFORE THE STATE OFFICE OF
FILING CLERK
ADMINISTRATIVE HEARINGS

PREFILED DIRECT TESTIMONY & EXHIBITS
OF
RANDAL MANUS

ON BEHALF OF
RIO CONCHO AVIATION, INC. NO. 1

EXHIBIT RCA-4

AUGUST 5, 2016

DIRECT TESTIMONY OF RANDY MANUS

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**DIRECT TESTIMONY OF
RANDAL MANUS**

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Randal Manus. I am a consultant to public water systems, real estate investors, and CEO of SoloPass. My business address for consulting and real estate investing is 7 Greenfield Lane, Weatherford, Texas 76087.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I attended the University of Texas at Arlington from 1978-1980 to study accounting. From 1979-1989, I was Maintenance Supervisor for the Fort Worth Boat Club and responsible for maintaining the 13-acre facility, including management and day-to-day operations of the public water system and wastewater treatment facilities. From 1990-1993, I was employed by Dake Construction Company as an estimator for water and wastewater construction projects. I successfully bid projects for the City of Fort Worth, the Trinity River Authority, the City of Bridgeport and others.

From 1993-2006, I was the Harbor Master for the Fort Worth Boat Club and responsible for Harbor Operations, Construction Projects, budgeting, scheduling, and oversight of the Maintenance Supervisor, assuring compliance with Regulatory Guidelines.

From 1995 – 2005, I provided contract services for day-to-day operations, reporting, and evaluations for small public water systems.

1 Beginning in 1995, I began providing contract consulting services for utility systems
2 that include pre-compliance inspections, evaluation of testing and reporting
3 requirements, completing and filing of statutory reports, rate case filings, and
4 compliance audits.

5 From 2001-2006, I provided contract services to the City of Reno for water system day-
6 to-day operations, reporting, onsite disposal inspections and City Administrator duties,
7 which included internal audits, budgeting, and management of staff.

8 From 2005 – 2010, I began a joint venture partnership with Rhino Group, L.P. to
9 develop residential projects, construct single and multifamily dwellings, and manage a
10 real estate portfolio.

11 Since 2010, I have continued to provide contract consulting services for utility systems,
12 manage my personal real estate portfolio and serve as CEO of SoloPass.

13 I have previously held licenses as a Ground Water Treatment Operator C, Wastewater
14 Treatment Operator C, OSSF Designated Representative and Customer Service
15 Inspector.

16 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**
17 **PROCEEDING?**

18 **A:** I am presenting testimony on behalf of Rio Concho Aviation, Inc. ("Rio Concho")

19 **Q. PLEASE DESCRIBE THE WORK YOU HAVE PERFORMED FOR RIO**
20 **CONCHO?**

21 **A:** In the mid 1990s, I contracted with Rio Concho to be the licensed operator for about
22 2 years. Since then Rio Concho has asked me to consult on numerous issues from

1 equipment and compliance to reporting. Most recently I was asked to consult on the
2 current rate case and application preparation.

3 **II. PURPOSE AND SCOPE**

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

5 A. To present testimony to support the validity of Rio Concho's rate increase request.

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITY
7 COMMISSION ON COST OF SERVICE AND/OR RATE MATTERS?**

8 A. No

9 **Q. WHAT WAS YOUR ROLE PREPARING THE APPLICATION ATTACHED
10 TO MS. BRUNSON'S TESTIMONY AS EXHIBIT RCA-2?**

11 A. I used information supplied to me by Ms. Brunson to prepare the application.

12 **Q. PLEASE PROVIDE AN OVERVIEW APPLICATION?**

13 A. The application represents Rio Concho's revenue requirements, which are reasonable
14 and necessary for the operation of the public water system.

15 **Q. HOW WAS THE APPLICATION COMPLETED IN ORDER TO DETERMINE
16 THE RATES FOR RIO CONCHO?**

17 A. The application was completed according to the instructions.

18 **Q. TO YOUR KNOWLEDGE, ARE THERE ANY ERRORS WITHIN THE
19 APPLICATION AS IT EXISTED AT THE TIME IT WAS FILED?**

20 A. Yes.

1 **Q. PLEASE EXPLAIN THE ERRORS.**

2 A. At the Commission staff request, proofs were done for the Property and Liability
3 Insurance, Property taxes and HAPA assessments. The results of those findings are as
4 follows;

5 Property and Liability Insurance was understated by (\$3.92),

6 Property Taxes were overstated by \$291.59,

7 HAPA assessments were overstated by \$415.65

8 After reviewing the Professional Services invoices that were submitted it was found
9 that an invoice had been miscoded. The result is an overstatement of \$243.75 of
10 Professional Services Reported.

11 On Schedule II-3(b) column D in the Header say "Test Year revenues netted against
12 COS" and that is how it was reported understating Schedule II-3(b) line 8 column D by
13 \$1,966.58.

14 On Schedule II-3(b) line 6 column B "Groundwater District Fees" were reported
15 \$674.94. This overstates the historical revenue because this is what I consider a pass
16 through and nowhere else in the rate application is this offset.

17 **Q. HOW DO THOSE ERRORS IMPACT THE APPLICATION AS SUMITTED?**

18 A. The combined effect overstates the revenue requirement by \$947.07, not including
19 factors of the rate application.

20 Understating Schedule II-3(b) line 8 column D by \$1,966.58. overstates the volumetric
21 charge by \$0.42 per 1000 gallons in the modified formula.

1 The \$674.94 reported on Schedule II-3(b) line 6 column B "Groundwater District Fees"
2 overstates the Historical Revenue on Schedule I-1 which affects the calculation for
3 Schedule I-1 line 33 Requested Annual Revenue Increase

4 Q. **HOW WOULD THOSE ERRORS BE CORRECTED?**

5 A. In terms of the rate case, the adjusted figures would be corrected on the appropriate
6 Schedules and the rate application recalculated to generate a revenue requirement
7 reflecting the changes. These errors or recalculation values have already been corrected
8 moving forward. I have prepared Exhibit RCA-4A Corrected Revenue Requirement
9 Worksheet to show the corrected revenue requirement of \$151,097.22. This revenue
10 requirement correction results in reduction of the proposed volumetric rate from \$7.68
11 per 1000 gallons to \$7.19 per 1000 gallons. The proposed \$39.75 base charge remains
12 the same.

13 **III. DEVELOPMENT OF TOTAL REVENUE REQUIREMENT**

14 Q. **PLEASE PROVIDE AN OVERVIEW OF THE REVENUE REQUIREMENT**
15 **UNDERLYING RIO CONCHO'S PROPOSED RATES.**

16 A. The revenue requirement is the result of numerous calculations. It starts with adding all
17 the expenses, taking equipment in service and calculating depreciation expense,
18 establish the equity in the utility, establish the debt in the utility, establish the return on
19 equity, and the debt rate. These are the major components used calculate the rest of the
20 rate application including working capital, rate of return, and federal income tax.

1 **Q. DOES THE APPLICATION ACCURATELY REPRESENT THE REVENUES**
2 **THAT WOULD BE GENERATED BY THE CURRENT WATER RATES FOR**
3 **RIO CONCHO?**

4 **A. No.**

5 **Q. WHY NOT?**

6 **A.**The test year revenues include revenues collected under the prior rate application that
7 used rates that were higher than the rates that were finally approved. No refunds were
8 required in that docket, and so the revenues are inflated from what would be expected
9 under the currently approved rates. If the currently approved rates had been in effect
10 for the entire year, the test year revenues would have been approximately \$116,037,
11 and the requested revenue requirement increase would have been approximately
12 \$35,979. The total revenue requirement for the test year would remain the same.

13 **Q. PLEASE EXPLAIN THE METHODS USED FOR ARRIVING AT THE**
14 **FIGURES IN THE APPLICATION.**

15 **A.**Using General Accepted Accounting Principles (GAAP), complying with the
16 Commission rules, following the rate application instructions and schedules, and using
17 the information supplied by Rio Concho, I arrive at the figures shown in the rate
18 application.

1 Q. HAVE YOU REVIEWED THE DOCUMENTATION SUPPORTING THE
2 ACTUAL EXPENDITURES TO DETERMINE IF RIO CONCHO'S
3 FINANCIAL RECORD KEEPING RESULTS IN AN ACCURATE REVENUE
4 REQUIREMENT?

5 A. Yes.

6 Q. PLEASE DISCUSS THE REVIEW YOU'VE CONDUCTED.

7 A. Using my years of experience, I reviewed the cash disbursements journal looking any
8 irregularities, then followed up by examining individual invoices as required.

9 Q. IN YOUR OPINION, IS THE FY 2015 REVENUE REQUIRMENT UTILIZED
10 BY RIO CONCHO A REASONABLE REFLECTION OF THE UTILITY'S
11 COST FOR THIS TIME PERIOD.

12 A. Yes.

13 IV. COST ALLOCATION

14 Q. PLEASE DESCRIBE THE VARIOUS BUSINESS ACTIVITIES OF RIO
15 CONCHO AVIATION, INC.

16 A. Rio Concho has three revenues streams: property leasing; fuel sales; and the public
17 water system.

18 Q. WHAT COSTS ARE INCURRED BY RIO CONCHO THAT SHOULD BE
19 SHARED AMONG THE VARIOUS BUSINESS ACTIVITIES?

20 A. Rio Concho has costs for vehicle expense, HAPA assessments, property taxes and
21 liability insurance that should be shared among the various business activities.

1 **Q. PLEASE EXPLAIN HOW THOSE COSTS ARE ALLOCATED AMONG THE**
2 **VARIOUS BUSINESS CONCERNS?**

3 A. The following percentages were allocated to the water system:

- 4 • Vehicle expense at 60%;
- 5 • HAPA assessment of one parcel of land at 25% of assessment;
- 6 • Property taxes of one parcel of land at 25% of assessed tax; and
- 7 • Liability insurance at 1/3 of policy cost.

8 **Q. HOW DID YOU DETERMINE THE ALLOCATION FOR VEHICLE**
9 **EXPENSE?**

10 A. I used the previous rate discussed and approved by staff in the negotiated settlement in
11 the previous Rate Case and have since done a proof to substantiate the claim. The proof
12 is provided in section VI of my testimony, below.

13 **Q. HOW DID YOU DETERMINE THE ALLOCATION FOR THE HAPA**
14 **ASSESSMENT AND THE PROPERTY TAXES?**

15 A. I used data that the utility supplied. On the parcel of land that has multiple activities,
16 the utility historically used 25% of the assessed fees; and the other parcel 100% of
17 assessed fees were used.

18 **Q. HOW DID YOU DETERMINE THE ALLOCATION FOR LIABILITY**
19 **INSURANCE?**

20 A. I used data that the utility supplied. The utility historically used 1/3 of the policy
21 premiums.

1 **Q. WHERE ARE THE COSTS THAT HAVE BEEN ALLOCATED TO THE**
2 **WATER SYSTEM FOUND WITHIN THE APPLICATION?**

3 A. The Schedules, Table, and Attachment reflecting the vehicle allocated expenses are
4 Schedule I-1, II-9, II-16, III-1, III-2, III-3, III-3(a), III-5, III-6, III-7, IV(a), V, Table
5 III-3, and Attachment 3.

6 The Schedules reflecting the HAPA allocated expenses are Schedule I-1, II-19, III-2,
7 III-5, and V.

8 The Schedules reflecting the Property Taxes allocated expenses are Schedule I-1, III-
9 2, III-5, IV (a) and V.

10 The Schedules reflecting the Liability Insurance allocated expenses are Schedule I-1,
11 II-16, III-2, III-5, and V.

12 **V. VOLUME RELATED EXPENSES**

13 **Q. PLEASE EXPLAIN THE VOLUME RELATED EXPENSES THAT ARE**
14 **SHOWN IN THE APPLICATION.**

15 A. The water system only has two volume related expenses, electricity for the production,
16 treatment and distribution of water and chlorine for the disinfection of the water.

17 **Q. HOW DID YOU DETERMINE THE APPROPRIATE AMOUNTS TO**
18 **INCLUDE IN THE APPLICATION?**

19 A. A single electric meter is used for all of the water production and distribution
20 requirements. All of the 100% chlorine (sodium hypochlorite) that is purchased by the
21 water system is used in the treatment process.

1 **VI. NON-VOLUME RELATED EXPENSES**

2 **Q. PLEASE EXPLAIN THE NON-VOLUME RELATED EXPENSES THAT ARE**
3 **SHOWN IN THE APPLICATION.**

4 A. All non-volume related expenses reported in the rate application are those reasonable
5 and necessary costs required to carry on the day-to-day operations of the utility.

6 **Q. HOW DID YOU DETERMINE THE APPROPRIATE AMOUNTS TO**
7 **INCLUDE IN THE APPLICATION?**

8 A. I reviewed the actual expenses incurred by the utility.

9 **Q. WERE ANY OF THE CONTRACT LABOR EXPENSES CONSIDERED**
10 **AFFILIATED TRANSACTIONS?**

11 A. Yes.

12 **Q. HOW DID YOU DETERMINE THE AMOUNT OF CONTRACT LABOR**
13 **EXPENSES THAT WERE REASONABLE AND WERE NOT HIGHER THAN**
14 **WOULD HAVE BEEN PAID TO UNAFFILIATED ENTITIES OR PERSONS ?**

15 A. Relying upon my construction, municipal and water system experience, I examined
16 all areas of contract labor and found all invoices to be reasonable and necessary.
17 For the affiliated transactions, I examined additional information. In regards to money
18 paid to Kevin Brunson I took into account statements as to what Kevin's
19 responsibilities are and broke it down into three categories: Executive Officer; after
20 hours response; and, the availability of the use of equipment from affiliated
21 companies at no additional charge. Kevin is not an employee of the company and is
22 paid as a contractor. In calculating like kind, this reduces the payment calculations by

1 around 9% or $\$14,400 * 0.91 = \$13,104 / 52 \text{ weeks} = \252 per week like kind. Out of
2 the \$252 per week I allocated \$100 per week for Executive Responsibilities and
3 Duties, I allocated \$125 per week for after hours stand-by or 24 hours per day*7 days
4 per week=168 hours per week less Rio Concho staff at 40 hours per week = 168 -
5 40= 128 coverage hours or just less than \$1 per coverage hour, including mileage,
6 equipment and tool with no additional charge for the length of time to correct the
7 problem. The remaining \$27 per month I allocated the availability of equipment use
8 from affiliated companies such as backhoe, skid loader, trailers, and trucks at no
9 additional charge. I have also been provided with a quote to provide only after hours
10 stand-by for \$750.00 per month reaffirming my assessment that the pay Mr. Brunson
11 receives is reasonable.

12 In evaluating the payments to affiliates for meter reading, I was provided with a quote
13 that greatly exceeded the amount of \$300.00 currently being paid for meter reading.

14 In addition, this money is split equally between affiliates and non-affiliates who
15 participate in the monthly meter reading.

16 For the affiliated transactions, I believe that the higher degree of scrutiny for
17 reasonableness and necessity has been met.

18 **Q: HOW DID YOU DETERMINE THE AMOUNT OF TRANSPORTATION**
19 **EXPENSES THAT WERE REASONABLE?**

20 A. I made calculations of actual usage of the vehicle for water system operations
21 compared to the overall mileage of the vehicle.

1 The main office for Rio Concho Aviation, Inc. is located at 221 West Hill Dr, Aledo
2 Texas 76008. It has been at this location for approximately twenty years. Pursuant to
3 Texas Administrative Code Title 16, Part II § 24.81(d), in 2013 Rio Concho Aviation,
4 Inc. leased space and constructed an office within its CCN to be in compliance with
5 Commission rules. No charge has ever been made that would affect the ratepayers for
6 this main office space in Aledo.

7 The following automobile expense allocations are based on started and finishing the
8 day at the main office of the company.

9 Mileage calculations are based on Google maps.

10 Main Office- at 221 West Hill Drive, Aledo, Texas 76008

11 Water System Office- 419 Aviator Drive, Fort Worth, Texas 76179

12 Bank – 2817 Fort Worth Hwy, Hudson Oaks, Texas 76087

13 Laboratory – 1101 S. Main Street, Fort Worth, Texas 76104

14 Post Office - 1145 Santa Fe Drive, Weatherford, Texas 76086

15 Route 1 – Main Office to Water System to Main Office-68.4 miles

16 Route 2 – Main Office to Bank to Water System to Main Office-73.9 miles

17 Route 3 – Main Office to Water System to Laboratory to Main Office-79.6

18 miles

19 Route 4 – Main Office to Post Office to Main Office-12.8 miles

20 Route 5 – Main Office to Capitol Complex to Main Office-415 miles

21 Route 6 – Main Office to Annual Water Conference to Main Office-415 miles

1 The following calculations only represent the minimum vehicle usage required to
2 operate the system for the test year 2015.

3 Route 1- 3 times per week x 68.4 miles x 52 weeks = 10,670.4 miles

4 Route 2- 2 times per week x 73.9 miles x 52 weeks = 7,685.6 miles

5 Route 3 [(79.6) minus Route 1 (68.4)] x 12 months = 134.4 miles

6 Route 4- 2 times per month x 12.8 miles x 12 months = 307.2 miles

7 Route 5 1 time during the test year = 415.0 miles

8 Route 6 1 time during the test year = 415.0 miles

9 Total minimum mileage for test year 2015 19,627.6 miles

10 The vehicle was placed in service January 1, 2015 with a mileage of 1629 miles. On
11 December 31, 2015 the vehicle mileage was 33,351. $33,351 - 1629 = 31,351$ total
12 miles driven for 2015. Mileage allocated the water system $19,628 / \text{total miles driven}$
13 $31,351 = 62.61$ percent.

14 The above calculations represent only the daily recurring routine. It does not include
15 trips require to get parts or supplies as needed nor does it represent additional trips the
16 bank, lab, Post Office or night and weekend calls. This being said, the actual percent
17 is more likely around 70%.

18 **VII. ADMIN & GENERAL EXPENSES**

19 **Q. PLEASE EXPLAIN THE ADMINISTRATIVE AND GENERAL EXPENSES**
20 **THAT ARE SHOWN IN THE APPLICATION.**

21 **A.** The Administrative and General expenses shown in the application represent the
22 reasonable and necessary expenses to operate the utility.

1 **Q. HOW DID YOU DETERMINE THE APPROPRIATE AMOUNTS TO**
2 **INCLUDE IN THE APPLICATION?**

3 A. The amounts included in the rate application are the actual cost incurred by the utility
4 that are reasonable and necessary for the operation of the utility.

5 **Q. HOW DID YOU DETERMINE THE AMOUNT OF EMPLOYEE PENSIONS**
6 **AND BENEFITS EXPENSES THAT WERE REASONABLE?**

7 A. Employee Benefits are always subjective. I looked at Ms. Brunson strictly as an
8 employee, without any other connection to Rio Concho. In doing so, I considered
9 how many years she has been employed, her education level, her position in the
10 company, which is full-time, and what level of benefits it would take hire a like-kind
11 employee to replace her. I was, and I am, aware that small water systems tend to
12 have less benefits but that doesn't mean that those benefits should not be provided. I
13 consider it the Commission's responsibility to allow for these benefits for all systems
14 where a full time employee is required. Using the proposed rate as requested, which
15 includes the employee pension, the effective rate would still be lower for around 60%
16 of the Rio Concho ratepayers than the two closest water systems which are owned by
17 Aqua Texas.

18 **Q. HOW DID YOU DETERMINE THE AMOUNT OF OFFICE RENTAL**
19 **EXPENSES THAT WERE REASONABLE?**

20 A. I used comparable listings for available rentals from a licensed realtor and found the
21 rate offered by one of the Brunson's affiliated companies to be far below the market
22 rate.

1 **Q. WOULD THE OFFICE RENTAL EXPENSE BE CONSIDERED AN**
2 **AFFILIATED TRANSACTION?**

3 A. Yes.

4 **Q. HOW DID YOU DETERMINE THAT THE PRICE FOR THE AFFILIATED**
5 **TRANSACTION WAS NOT HIGHER THAN WOULD HAVE BEEN PAID TO**
6 **UNAFFILIATED ENTITIES OR PERSONS?**

7 A. The original proposed use of the space that one of the Brunson's affiliated companies
8 leased to Rio Concho was an airplane hangar. Seeing the Commission regulations that
9 an office was required to be within 20 miles of the utility, Rio Concho searched for
10 suitable Office space to comply. Being unable to locate a suitable office space at any
11 price, the Brunson changed the purposed use of an asset held by an affiliated
12 company to the benefit of the utility. The comparable listings for available rentals
13 from a licensed realtor found the closet property, which was inferior for the purposed
14 use required, was \$800.00 per month, compared to the current lease of \$500.00 per
15 month with an affiliate company, which has utilities included. If the Brunsons choose
16 to not renew this lease, return the space to its purposed use and acquire office space
17 within the 20 mile radius, this space would not be available for lease to another party.
18 For the affiliated transaction, I believe that the higher degree of scrutiny of the
19 reasonableness and necessity has been met.

20 **Q. HOW DID YOU DETERMINE THE AMOUNT OF OFFICE SUPPLIES**
21 **EXPENSES THAT WERE REASONABLE?**

22 A. I used actual expenses incurred that were required to operate and maintain the utility.

1. **Q. HOW DID YOU DETERMINE THE AMOUNT OF PROFESSIONAL**
2. **SERVICES EXPENSES THAT WERE REASONABLE?**

3. A. Based on my experience as a management professional who has used different
4. accounting firms for like kind work, I believe that the expenses billed are reasonable
5. and necessary.

6. **Q. HOW DID YOU DETERMINE THE AMOUNT OF INSURANCE EXPENSES**
7. **THAT WERE REASONABLE?**

8. A. Based on my experience as a management professional who has put insurance
9. requirements out for bid, I believe the current rates are reasonable and necessary.

10. **Q. HOW DID YOU DETERMINE THE AMOUNT OF RATE CASE EXPENSES**
11. **THAT WERE REASONABLE?**

12. A. I used actual cost of time and material required to develop the rate application and
13. associated notice and filing requirements. The time and material costs were
14. reasonable for completing the application form and compiling the documents to file
15. with the Commission.

16. **Q. HOW DID YOU DETERMINE THE AMOUNT OF REGULATORY**
17. **EXPENSES THAT WERE REASONABLE?**

18. A. Regulatory expenses are set by law. The actual required regulatory expense paid was
19. the amount used in the rate application.

1 **Q. HOW DID YOU DETERMINE THE AMOUNT OF MISCELLANEOUS**
2 **EXPENSES THAT WERE REASONABLE?**

3 A. I used my experience to examine all miscellaneous expenses and found all that are
4 reported in the rate application to be reasonable and necessary.

5 **VIII. DEPRECIATION, TAXES AND LICENSE FEES**

6 **Q. PLEASE EXPLAIN HOW DEPRECIATION WAS CALCULATED FOR THE**
7 **APPLICATION?**

8 A. The depreciation schedule was calculated using Commission service life standards
9 and Schedule III-3 of the rate application.

10 **Q. PLEASE DESCRIBE HOW THE VALUES OF THE ASSETS LISTED ON**
11 **SCHEDULE III-3 OF THE APPLICATION WERE DETERMINED.**

12 A. I have no knowledge of how values were determined prior to 2008, but those values
13 have been accepted and utilized in prior rate applications by the water system. Values
14 from 2008 to current are based on purchased price when incorporated into the utility.

15 **Q. PLEASE DESCRIBE THE PLANT ADDITIONS THAT ARE SHOWN ON**
16 **SCHEDULE III-3(a) FOR 2013.**

17 A. The Plant additions listed for 2013 are individually listed in attachment 3 of the rate
18 application.

19 **Q. PLEASE DESCRIBE THE PLANT ADDITIONS THAT ARE SHOWN ON**
20 **SCHEDULE III-3(a) FOR 2014.**

21 A. Plant additions listed for 2014 are individually listed in attachment 3 of the rate
22 application.

1 **Q. PLEASE DESCRIBE THE PLANT ADDITIONS THAT ARE SHOWN ON**
2 **SCHEDULE III-3(a) FOR 2015.**

3 A. Plant additions listed for 2015 are individually listed in attachment 3 of the rate
4 application.

5 **Q. PLEASE DESCRIBE HOW THE AMOUNT OF ACCUMULATED**
6 **DEPRECIATION WAS CALCULATED?**

7 A. Depreciation was calculated using the Commission service life schedule.

8 **Q. PLEASE EXPLAIN HOW THIS CALCULATION TIES BACK TO THE**
9 **PRIOR RATE APPLICATION.**

10 A. The depreciation schedule is fluid and reflects in-service assets back to the beginning
11 of the utility. The same depreciation schedule is used year after year with additions
12 for new equipment place in service and removal of equipment removed service thus
13 tying it back to the prior application.

14 **Q. PLEASE EXPLAIN THE TAXES THAT WERE INCLUDED IN THE**
15 **APPLICATION.**

16 A. The taxes assessed and paid for the benefit of the utility and included in the rate
17 application are property taxes to two entities, the Tarrant County Tax Assessor-
18 Collector for all associated property taxes except the school district and the Denton
19 County Tax Assessor-Collector for the school district taxes.

1. **Q. PLEASE EXPLAIN HOW THE PROPERTY TAXES WERE DETERMINED**
2. **FOR THE WATER SYSTEM.**

3. A. The water system sits on two parcels of land. One parcel is for the well, and 100% of
4. the assessed tax was used. The other parcel of land contains 3 different areas, the
5. water system was estimated to use 25% of the area, so 25% of the assessed taxes for
6. that parcel of land were used in the rate application.

7. **Q. PLEASE EXPLAIN HOW THE PAYROLL TAXES WERE DETERMINED**
8. **FOR THE WATER SYSTEM.**

9. A. Payroll Taxes were calculated using current rates for FICA, Medicare, SUI, FUTA
10. for the proposed annual payroll.

11. **Q. PLEASE EXPLAIN HOW THE OPERATOR LICENSE FEE WAS**
12. **DETERMINED.**

13. A. The Operator license fee was calculated using the current rate for a Class D
14. Groundwater license renewal as imposed by the Texas Commission on
15. Environmental Quality.

16. **Q. PLEASE EXPLAIN HOW THE FEDERAL INCOME TAX WAS**
17. **DETERMINED FOR THE WATER SYSTEM.**

18. A. The Federal Income Tax was calculated using Schedule V of the rate application.

1 **IX. WORKING CASH ALLOWANCE, RATE BASE AND RETURN**

2 **Q. PLEASE EXPLAIN HOW THE AMOUNT OF WORKING CASH**
3 **ALLOWANCE WAS CALCULATED.**

4 A. The working cash required was calculated using Commission formulas in Schedule
5 III-5 of the rate application.

6 **Q. PLEASE EXPLAIN HOW THE AMOUNT OF RATE BASE FOR THE TEST**
7 **YEAR WAS CALCULATED.**

8 A. The Rate Base was calculated using Schedule III-2 of the rate application.

9 **Q. WHAT IS THE REQUESTED RATE OF RETURN?**

10 A. 10.78%

11 **Q. HOW WAS IT CALCULATED?**

12 A. Using the formula for determining the Rate of Return as described in the Class B/C
13 Rate Application instructions, page 10, the first paragraph and formulas in Schedule
14 III-1 of the rate application.

15 **Q. DID YOU REVIEW THE REQUESTED RATE OF RETURN ON EQUITY?**

16 A. Yes.

17 **Q. WHAT IS THE REQUESTED RETURN ON EQUITY**

18 A. 12.49%

19 **Q. WHAT IS YOUR OPINION ABOUT THE REASONABLENESS OF THE**
20 **REQUESTED RATE OF RETURN ON EQUITY?**

21 A. Assumptions were made that the Commission has or had, at the time that the
22 instructions for the Class B/C Rate Application Form were written, employed or

1 contracted with an "expert" on such matters. I also believed that such "expert" would
2 only recommend a rate that would be fair and reasonable to both to the rate payer and
3 the public water system. Based on those assumptions and my own knowledge of risk
4 based investments, I concur with the Commission's formula for determining the
5 Return on Equity as described in the Class B/C Rate Application instructions, page
6 10, the first paragraph.

7 **Q. DID YOU REVIEW THE DEBT RATE FOR THE SYSTEM?**

8 A. Yes.

9 **Q. WHAT IS THE REQUESTED DEBT RATE?**

10 A. 3.9%.

11 **Q. HOW WAS IT DETERMINED?**

12 A. Using the actual interest rate on the single debt item.

13 **Q. WHAT IS YOUR OPINION ABOUT THE REASONABLENESS OF THE**
14 **REQUESTED DEBT RATE?**

15 A. I believe that it reflects the actual cost to the utility and is reasonable and necessary.

16 **Q. HOW WAS THE OVERALL RATE OF RETURN ON RATE BASE**
17 **CALCULATED?**

18 A. Using the Commission formulas and the worksheet on Schedule III-1 of rate
19 application.

20 **Q. WHAT IS YOUR OPINION ABOUT THE REASONABLENESS OF THE**
21 **REQUESTED RETURN ON RATE BASE?**

22 A. I believe that the requested rate of return is reasonable and necessary.

1 **X. DEVELOPMENT OF BILLING DETERMINANTS**

2 **Q. CAN YOU PLEASE SUMMARIZE THE BILLING DETERMINANTS THAT**
3 **WERE USED FOR THE TEST YEAR?**

4 **A. The billing determinants were the billed volume usage during the test year and the**
5 **number of customers.**

6 **Q. HOW WAS THE NUMBER OF CUSTOMERS DETERMINED?**

7 **A. I calculated the number of customers following the Commission instruction.**

8 **Q. WHAT IS YOUR OPINION ABOUT THE ACCURACY OF THE VOLUME**
9 **USAGE AND NUMBER OF CUSTOMERS UTILIZED FOR RATE**
10 **DEVELOPMENT IN THE APPLICATION?**

11 **A. I believe that they accurately reflect the flow and number of connections from one day**
12 **to the next.**

13 **Q. HOW WERE THE LEVELS OF WATER CONSUMPTION BY RIO CONCHO**
14 **CUSTOMERS DEVELOPED FOR THE TEST YEAR?**

15 **A. All water consumed is metered.**

16 **Q. WHAT IS YOUR OPINION ABOUT THE LEVELS OF WATER**
17 **CONSUMPTION USED BY RIO CONCHO FOR RATE DEVELOPMENT IN**
18 **THE APPLICATION?**

19 **A. Based on the information provided, the level of water consumption used in the rate**
20 **application is accurate.**

1 **XI. RATE DESIGN**

2 **Q. BASED ON RIO CONCHO'S EXISTING RATES IN PLACE PRIOR TO THE**
3 **THIS APPLICATOIN, AND THE REVENUE REQUIREMENTS WHICH**
4 **YOU'VE PREVIOUSLY TESTIFIED TO, PLEASE SUMMARIZE THE**
5 **ADDITIONAL REVENUE THAT IS ANTICIPATED TO BE GENERATED**
6 **UNDER THE PROPOSED RATES?**

7 A. I estimate that the proposed rate will generate additional revenue of \$24,399 in base
8 rate charges and \$10,163 in volumetric charges.

9 **Q. CAN YOU BRIEFLY DESCRIBE THE CURRENT WATER RATE DESIGN**
10 **UTILIZED BY RIO CONCHO?**

11 A. The current rate design uses a modified structure with a lower non-volumetric base rate
12 and a higher volumetric usage rate.

13 **Q. BASED ON YOUR EXPERIENCE WITH RIO CONCHO, WHAT**
14 **PRINCIPLES LED TO THE WATER RATE DESIGN RIO CONCHO**
15 **CURRENTLY EMPLOYS?**

16 A. Rio Concho employs a lower base and higher volumetric rate to promote water
17 conservation.

18 **Q. IN YOUR OPINION, HOW DOES THE PROPOSED RIO CONCHO RATE**
19 **DESIGN PROMOTE WATER CONSERVATION?**

20 A. Using the volume related expenses and the Commission formula to recover such
21 expenses results in a \$1.00 per 1000 gallon charge. The proposed modified rate

1 schedule lowers the base rate and increases the gallon charge to promote water
2 conservation by charging more when a customer uses more water.

3 **Q. IN YOUR OPINION, WHAT ELEMENTS OF THE RIO CONCHO WATER**
4 **RATE STRUCTURE ADDRESS REVENUE STABILITY?**

5 A. Both the proposed base rate and volume charge promote stability.

6 **Q. WHAT PERCENTAGE OF REVENUE IS ESTIMATED TO BE GENERATED**
7 **THROUGH RIO CONCHO'S FIXED MINIMUM WATER CHARGE?**

8 A. I estimate that the water system will recover 76% of its revenue from the fixed charge.

9 **Q. IN YOUR OPINION, IS THE LEVEL OF REVENUE RECOVERED BY RIO**
10 **CONCHO WITHIN THE FIXED PORTION OF ITS RATE STRUCTURE**
11 **REASONABLE?**

12 A. Yes.

13 **XII. RATE CASE EXPENSES**

14 **Q. IS RIO CONCHO REQUESTING RECOVERY OF RATE CASE EXPENSES**
15 **AS PART OF THIS PROCEEDING?**

16 A. Yes.

17 **Q. CAN YOU PLEASE PROVIDE A SUMMARY OF THE RATE CASE**
18 **EXPENSES INCURRED BY THE UTILITY THROUGH THE PROVISION OF**
19 **SERVICES BY YOU RELATED TO THIS APPLICATION?**

20 A. Expenses incurred by the utility for my services are for developing the rate application,
21 overseeing that all procedural requirements were met; assisting in responding to
22 requests for information, and expenses related mediation and providing testimony

1 should a hearing be required. To date my fees for these services total \$2,145.00, not
2 including the costs to prepare the application that are reflected in the application and
3 discussed above.

4 **Q. DOES THIS REPRESENT THE UTILITY'S TOTAL REQUEST FOR RATE**
5 **CASE EXPENSES?**

6 A. No. The utility is incurring additional costs of legal representation in order to obtain
7 approval because of intervening ratepayers and issues that the Commission staff has
8 raised.

9 **Q. WERE THE EXPENSES INCURRED BY YOU REASONABLE, NECESSARY,**
10 **AND SPECIFIC TO THIS DOCKET?**

11 A. Yes.

12 **XIII. CONCLUSION**

13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 A. Yes. However, with the Administrative Law Judge's permission I would request the
15 right to amend, delete and/or add to my testimony as additional facts become known.

EXHIBIT RCA-4A

UTILITY NAME: RIO CONCHO AVIATION, INC.
SCHEDULES - CLASS C RATE/TARIFF CHANGE

I-1 REVENUE REQUIREMENT SUMMARY

PUC Docket No. 45720

Test Year End:

2015

A	B	C	D	E	F=D+E	G
			Historical Test Year	K & M Changes	Adjusted Test Year	
Line No.	Acct No.	Account Name				Reference/ Instruction
		Volume related expenses:				
1	610	Purchased water	\$ -	\$ -	\$ -	Schedule II-3
2	615	Power Expense-production only	\$ 3,048.19	\$ -	\$ 3,048.19	Schedule II-4
3	618	Other volume related expenses	\$ 1,619.76	\$ -	\$ 1,619.76	Schedule II-5
4		Total volume related exp	\$ 4,667.95	\$ -	\$ 4,667.95	add lines 1-3
		Non-volume related Expenses				
5	601.1	Employee labor	\$ 41,568.12	\$ -	\$ 41,568.12	Schedule II-6 Line 1
6	620	Materials	\$ 3,514.60	\$ -	\$ 3,514.60	Schedule II-7
7	631-636	Contract Work	\$ 26,986.94	\$ 1,470.00	\$ 28,456.94	Schedule II-8
8	650	Transportation expenses	\$ 3,283.21	\$ 688.01	\$ 3,971.22	Schedule II-9
9	664	Other Plant Maintenance	\$ -	\$ -	\$ -	Schedule II-10
10		Total non-volume related exp.	\$ 75,352.87	\$ 2,158.01	\$ 77,510.88	Add Lines 5-9
		Admin. & general expenses				
11	601.2	Office Salaries	\$ -	\$ -	\$ -	Schedule II-6 Line 2
12	601.3	Mgmt. Salaries	\$ -	\$ -	\$ -	Schedule II-6 Line 3
13	604	Employee pensions & benefits	\$ 6,360.21	\$ 7,427.55	\$ 13,787.76	Schedule II-11
14	615	Purchased Power-Office Only	\$ -	\$ -	\$ -	Schedule II-4
15	670	Bad Debt expense	\$ -	\$ -	\$ -	Schedule II-12
16	676	Office services & rentals	\$ 6,000.00	\$ -	\$ 6,000.00	Schedule II-13
17	677	Office Supplies & expenses	\$ 7,461.87	\$ -	\$ 7,461.87	Schedule II-14
18	682	Professional Services	\$ 475.00	\$ 1,200.00	\$ 1,675.00	Schedule II-15
19	684	Insurance	\$ 2,545.96	\$ -	\$ 2,545.96	Schedule II-16
20	666	Regulatory (rate case) expense	\$ 226.91	\$ 1,567.00	\$ 1,793.91	Schedule II-17
21	667	Regulatory expense (other)	\$ 175.00	\$ 420.35	\$ 595.35	Schedule II-18
22	675	Miscellaneous Expenses	\$ 7,031.43	\$ -	\$ 7,031.43	Schedule II-19
23		Total admin & general expense	\$ 30,276.38	\$ 10,614.90	\$ 40,891.28	Add Lines 11-22
24		Total operating expenses	\$ 110,297.20	\$ 12,772.91	\$ 123,070.11	Lines 4 + 10 + 23
25	403	Depreciation	\$ 10,526.66	\$ -	\$ 10,526.66	Sch III-3, Col E, Line 50
26	408	Taxes Other than income	\$ 4,368.26	\$ 324.54	\$ 4,692.80	Sch IV(b), Line 8
27	409-410	Income Tax expense	\$ -	\$ 1,802.87	\$ 1,802.87	Schedule V, Line 7
28		TOTAL EXPENSES	\$ 125,192.12	\$ 14,900.32	\$ 140,092.45	
29		TOTAL HISTORIC REVENUE	\$ 116,037.00			Sch I-2, Line 6
30		HISTORICAL TEST YEAR RETURN	\$ (9,155.12)			Line 30 less Line 29
31		REQUESTED RETURN			\$ 11,004.77	Schedule III-1, Line 3
32		TOTAL REVENUE REQUIREMENT			\$ 151,097.22	Line 28 plus Line 31
33		REQUESTED ANNUAL REVENUE INCREASE		(to notice)	\$ 35,060.22	Line 32 less Line 29
34		PERCENTAGE INCREASE			0.24	Line 36 divided by Line 33
35		LESS: OTHER REVENUES			\$ 2,336.58	Sch. II-3(b), Col. D, Line 8
36		REVENUE FOR RATE DESIGN		(to notice)	\$ 148,760.64	Line 33 minus Line 35