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

BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS

**PREFILED TESTIMONY
OF
JEFFREY SHEETS**

**ON BEHALF OF WATER CUSTOMERS OF
RIO CONCHO AVIATION, INC**

AUGUST 17, 2016

DIRECT TESTIMONY OF JEFFREY SHEETS

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I. Introduction

Q. Please state your name, address, and occupation.

A. My name is Jeffrey Sheets. My address is 598 Aviator Dr, Ft Worth, Tx 76179. I am retired.

II. Relation to Rio Concho Aviation, Inc

Q. What is your relationship to Rio Concho Aviation, Inc?

A. I am a water customer of Rio Concho. I also one of the intervenors in their current rate application.

III. Professional Background

Q. What is your professional background?

A. I graduated from the Ohio State University with a Bachelor of Science degree. Soon thereafter, I entered the US Air Force. After completing USAF Pilot Training a year later, I attended USAF water, land, and POW survival courses. I was then sent to a 3 month aircraft-specific training course to fly the KC-135. I flew the KC-135 for 3 years before I transitioned to the C-141 and attended that 3 month aircraft-specific training course. I flew that aircraft for the next 16 years in the Air Force Reserves all over the world. I participated in Desert Shield and Desert Storm during this time.

I retired after 21 years in the USAF, attaining the rank of Lt Colonel. Additional duties: Junior Officer's Council, Computer officer, Training Coordinator, Assistant Flight Commander, and Flight Commander. I completed the following Professional Military Education courses: Squadron Officer's School and Air Command & Staff College, a graduate-level program. Security clearances held: Secret and Top Secret.

I was hired by American Airlines as a pilot and flew the B-727, S-80, B-757, and B-767 over a 31 year career, on domestic and international routes. I attended 4 long courses and dozens of shorter courses required by AA and the FAA.

I volunteered for committee duty with the Allied Pilots Association (labor union for AA pilots). I accomplished committee work for 12 years working on the Technical Analysis & Scheduling Committee, Communications Committee, and Uniform Committee. I was elected to the APA Board of Directors for two terms serving from 2000 to 2004. While on the Board, I was elected by my fellow board members to the Financial Audit Committee for 3 years and served as it's chairman for 2 years. We audited board members' expenses, committee members' expenses, and committee budgets and expenses. I've conducted hundreds of audits at the union. Following retirement, I attended Tarrant County College for 2 years and obtained my FAA Airframe and Powerplant License, and obtained a 4.0 GPA. I competed for, and won, 2 small merit based scholarships. I obtained an Associate of Science degree after these studies.

IV. Rate case involvement

Q. Why did you get involved with the water rate case?

A. When I began building my hangar in 2014, I was notified of the proposed water rate increase at that time. I compared it to the rates that I was familiar with in Colleyville, Tx where I then lived. Noting that they were much higher. I then researched other local cities to see if Colleyville's rate were inordinately low or the airport rate were extraordinarily high. I concluded the airport water rates were extraordinarily high.

Q. Why didn't you get involved in the 2014 rate case?

A. I gave my research to Steve Grace. Since I was the builder of my hangar/home and was spending 60 to 80 hours each week supervising its construction, I simply didn't have the time to get involved then.

Q. In 2013, did any paving occur on water property at the airport?

A. That date preceded my time at Hicks airport so I can't testify to it.

V. Airport office

1

2 Q. Were you aware that Rio Concho built an airport office in their hangar?

3 A. I briefly saw an office under construction in the framing stage sometime in 2014. I don't recall the month
4 however

5 Q. In 2014, were you aware that Rio Concho opened a water office at the airport?

6 A. No, I was not aware.

7 Q. Can you recall any notice being sent informing water customers of an airport water office in 2014 or 2015?

8 A. No, I cannot recall any notice being sent in 2014 or 2015 nor any time since becoming a water customer. I'm not
9 testifying that no notice was ever sent. Perhaps a notice was sent prior to my first water bill. Perhaps no notice
0 was ever sent. I'm testifying that I don't recall ever getting a notice.

1 Q. When did you become a Rio Concho water customer?

2 A. My first bill was dated July 31, 2014.

3 Q. Have you personally ever seen the airport water office open?

4 A. No, not at any time.

5 Q. Is there a sign on the door with a posting of hours of operation of the airport office?

6 A. No. No business office hours are posted.

7 Q. Did you become aware on or about June 22, 2015 of a drop box added to the outside of 419 Aviator Dr, which
8 is the address of Brunson's hangar?

9 A. Yes. I would estimate that the drop box was installed within the preceding week.

0

1

Q. How do you know it was within preceding week?

A. There was a piece of paper taped to the drop box with the words 'Water Payment Drop Box, Rio Concho Aviation, 817-233-1058' printed on the paper. Since the piece of paper was exposed to the elements and no dried rain drops had stained the paper, I concluded that the paper was posted very recently.

Q. Was that drop box there a month prior to that date?

A. If it was, it went completely unnoticed by myself and several others.

Q. Do you have anything to add regarding the drop box?

A. Yes. In June, I asked the PUC attorney, Kennedy Meier, whether Rio Concho had ever asked for a waiver to the local office requirement as found in PUC Statute 24.81. Mr Meier stated that he didn't know but would ask his staff. In a subsequent conversation, Mr Meier stated that Rio Concho had installed a drop box. The implication was that somehow a drop box suffices as a local office.

Q. What is your opinion on the issue that Rio Concho is charging its water customers for leasing an office inside their hangar, yet no notice was sent informing water customers of its existence?

A. Most small businesses want to show at least a paper loss on their Profit & Loss statement for IRS purposes. A profitable business means the owner pays more taxes, whereas an unprofitable business pays less taxes. In a utility rate case, an unprofitable utility has a greater chance of winning a rate increase than a profitable utility. It becomes a goal to increase expenses in the test year to show a loss and receive a rate increase. Having said that, my personal feeling is that Rio Concho opened the airport office to 'appear' to be in compliance with the PUC Statute 24.81. Rio Concho admits that their office is in their home, as this has IRS benefits for them. Records, computers, books, etc required by the PUC are kept at their house, so the local office is merely a vehicle in which they can expense a large lease payment to their water customers yet 100% of that payment comes back to the Brunson's since they own that airport property and they own the leasing company. The airport office lease merely increases the expense column in this rate case.

1 **Q. What do you think Rio Concho's strategy is with the airport office?**

2 A. If I had to guess, they need a local office to be in compliance with the PUC statutes. That allows them to
3 expense the lease payments to the water customers. It also increases the revenue for their leasing company as
4 those lease payments go to Barbie Land Development, which the Brunson's own. Essentially, they're paying
5 themselves and expensing it to the water customers. I believe they have no intent to ever use this office as their
6 actual water office with records, computer, books, etc as required by the PUC. They admit in Ms Brunson's
7 testimony that their corporate office is in their home. A home office is more comfortable and convenient for
8 them and has IRS benefits. Thus, opening an airport office keeps them in somewhat in compliance with the PUC
9 and puts the expensed lease payments into their pocket. It also increases their expenses during their test year
0 for a water rate increase. If the PUC denies that airport office, then Rio Concho can claim they don't need to
1 comply with the PUC Statute without ever having applied for the waiver as the statute requires. And Rio Concho
2 can claim they were never out-of-compliance with regards to the Statute as the PUC denied it. They'd lose the
3 office expense, but run an 'end around' play around the PUC statute. Don't be surprised if they implement an
4 office rental fee for their home office to make up for the loss of their airport office income.

5 **Q. Do you think Rio Concho is in violation of PUC Statute 24.81?**

6 A. Rio Concho's home office is not within 20 miles of the water facility. Their home office is not within Tarrant
7 County. As best as I can determine, Rio Concho has not applied for a waiver of the local office requirement. Rio
8 Concho's actions and expenses do contribute to harm its water customer via rate increases. In summary, yes,
9 Rio Concho is in violation of Statute 24.81 in about 5 instances. A more detailed discussion of this can be found
0 in our confidential filing this week.

1 **Q. Anything else you'd like to add?**

2 A. Randy Munson testified that 'No charge has ever been made that would affect the ratepayer for this main office
3 space in Aledo. I would direct him to re-look at the capital expenditures for 2013, 2014, and 2015. Clearly there
4 are items that were purchased for their home office that were expensed to the water customers.

VI. Other Expensed Items

Q. Do you think Rio Concho increased expenses in order to show a loss?

A. There's no doubt in my mind that occurred.

Q. Would you elaborate please?

A. I signed a Confidentiality Agreement and can't divulge specific numbers here. However, I'm highly suspect of their Automobile expenses, Automobile Maintenance Expenses, Capital Expenditure Additions, Entertainment expenses, Employee Business Expenses, their Contract labor expenses, meter reading expenses, Health Insurance Expenses, Life Insurance Expenses, Office Supplies, Cell phone expenses, HAPA Assessments proportioned unfairly, county taxes proportioned unfairly, and worse, items purchased in 2014 but charged to 2015 as 2015 was the test year.

Q. Some of the items that you suspect seem to be serious. Have you brought this up with the PUC Commission?

A. The water customers are submitting a detailed Confidential Filing this week with our data.

Q. In regards to the items purchased in 2014 but claimed in 2015, was Rio Concho's documentation submitted under oath?

A. The PUC Staff, in Docket 45720-27, requested that answers be made under oath.

Q. You mentioned unfairly proportioned HAPA assessments and county taxes. Please elaborate.

A. Ms. Brunson testified that "the water utility only pays for the property that it actually uses. The property at 171 Aviator Dr. contains water company assets inside a fenced-in area, the fuel pumps, a restaurant, aircraft parking, and automobile parking for the restaurant. It's a large property at 73,302 square feet. Rio Concho has been allocating 25% of the taxes and assessments for that property as a water company expense. Two of us generously measured the fenced-in area containing the water facilities and computed that it was no more than 4800 sq ft in size. That's only 6.55% of the total property. Thus, the water customers have been over-charged for assessments and taxes on this property.

1 Q. You also mentioned Capital Expenditure Additions as being suspect. Please elaborate.

2 A. Items were added to the Capital Expenditure column of Form III-3(a) as found on p 33 of Docket 45720-53 which
3 shows amounts added in 2013, 2014, and 2015. These amounts are itemized on p 52 of this same filing. All are
4 open public documents, not confidential. \$6,011.12 in 2013 was charged to the water company but their 2013
5 Profit and Loss statement has this as a 'Ramp Paving Project' There was a ramp paving project around the fuel
6 pumps in 2013 as testified by other water intervenors and this should be charged to the fuel company, not the
7 water company. In 2014, the office tv purchase shows other items included in that purchase. (I can't detail
8 those purchases due to the confidentiality agreement.) Suffice it to say, I find all of the purchases on this tv line
9 objectionable as a tv is not required nor necessary to accomplish a water company job. The 2015 line contains
0 the vehicle purchase to which I object. All these corrections reduce the equity in the water company, reduce the
1 allowable working cash figure, change depreciation schedules, and affect the outcome of return on equity
2 calculations.

3 VII. Public Numbers worth sharing

4 Q. Are there any public numbers you can share from the non-confidential data?

5 A. This information comes from Rio Conchos water rate filings for their rate increases in 2014 and 2016. Anyone
6 can search the PUC website and find these numbers as they're contained in a public filing. Water revenue is
7 public information as found in those filings. Water revenue increased by \$30,000 in 2015 compared to 2013.
8 I cannot comment on their profit or loss as it was not made public in the 2016 application. That Rio Concho
9 applied for another rate increase might give you an indication. In their current rate increase, they're asking for
0 an additional \$29,000 in water rate revenue. If they were to obtain a full rate increase of \$29,000 on top of the
1 \$30,000 revenue increase since 2013, that would amount to a \$59,000 revenue increase or a 63% increase in
2 revenue based on \$93,000 water utility income in 2013. Remember that there are only 240 water meters in the
3 Rio Concho company. I want to stress that these figures come from non-confidential Rio Concho filings with the
4 PUC and available on the PUC website.

3 Q. A 63% increase would only be required if Rio Concho was deep in the red (loss) in 2013 or their expenses have
4 risen astronomically, or both. What do you think?

5 A. Their public filing in 2014 used 2013 as their test year. That public filing shows that Rio Concho was
6 approximately \$8900 in the red in 2013. Subtract that from the \$59,000 revenue increase and we're left with
7 over \$50,000 in the revenue increase column compared to 2013. I would say their expenses have risen
8 astronomically.

9 VIII. 2015 Audi Expenses

10 Q. In regard to Ms Brunson's Audi Q5 vehicle that was expensed to its water customers, have you seen her drive
11 that vehicle on the airport?

12 A. Yes.

13 Q. Have you seen Ms Brunson drive any other vehicle on the airport? If yes, what vehicle was it?

14 A. Yes. I've seen her drive a gray/silver Audi TT, a two seat sports car. I saw her drive this vehicle to the airport
15 within the last two weeks preceding this filing.

16 Q. To be clear, you've seen Ms Brunson drive two different Audi vehicles to the airport.

17 A. Yes.

18 Q. Does Ms Brunson expense both cars to the water company?

19 A. That's unknown. Both cars require premium fuel so there's no way to tell which vehicle is getting filled up by
20 examining gas receipts. I did find 5 instances in which regular gas was expensed in 2015 so it may be that other
21 vehicles are being used. In addition, I found one instance in which the diesel fuel was purchased. I know that
22 wasn't used in either Audi. I simply have no idea what vehicles are being fueled or used for water company
business.

Q. Is Rio Concho expensing their vehicle costs at 60% to their water customers?

A. Yes, based on what they perceive was an agreement with the PUC Staff in the last rate case. I would point out that the PUC Staff has already objected to any agreement in that rate case. I would also like to note the following: Rio Concho Aviation, Inc is the umbrella corporation over three other companies, Rio Concho water, Rio Concho Fuel, and Rio Concho Leasing. The one property they share can be found at 171 Aviator Dr. For HAPA assessments and county taxes, Rio Concho attributes 25% of those fees to the water company. Yet for the 60% vehicle cost, they charge the water company 100% of that 60%. They're also using 100% of that 60% purchase price to add to the water company capital costs.

IX. 2015 Audi Capital Expense

Q. Do you object to the purchase of the Audi Q5 as a water company vehicle?

A. Yes. All water meters and water company facilities are contained within the boundaries of the airport. A golf cart can easily drive around the airport and many residents use golf carts specifically for that purpose. Rio Concho purchased a golf cart to read meters, look for water leaks, accomplish flush-outs, etc. The vast majority of Ms Brunson's duties can be accomplished via the golf cart. The Audi is simply a means to get her from her home to the airport. She uses the Audi to commute. She admits to using the Audi to drop off water samples for testing averaging once per month and two additional tests for the Lower Colorado River Authority. That's 14 trips in an entire year. She also uses the vehicle to purchase chlorine at a Walmart near her home. Again, that's an expense that can be eliminated by continuing to purchase chlorine from KDS Water Service as Rio Concho did toward the end of 2015. The cost of the chlorine bottles are cheaper than that purchased at Walmart; they deliver for free, and there's no state sales tax. She also goes to the bank twice a week, a task many of us accomplish weekly. In short, the vehicle is a luxury, not required by the water company.

X. Rio Concho's receipts

Q. What were the pilots' union record keeping requirements when you were on their Financial Audit Committee?

A. In most cases, the members submitted claims a week at a time. Some preferred filing monthly. We had the occasional member who filed every few months. In all cases, a member had to prove the expense. If he lost a receipt, he had to show some union duty or travel day for union business so that the union could reimburse him. Lost receipts can be regenerated via credit card statements or cancelled checks. In no case, would a Quickbooks entry be sufficient. That's simply not documentation.

A member that submitted dozens of receipts in a date jumbled order would find himself denied with the instruction to return when the documents were in order and were listed in an excel file in date order. The Finance Department and the Financial Audit Committee were strict with our union membership, but we were fair

Q. Compare that requirement with what you saw in Rio Concho's receipts.

A. It was a night and day difference. Rio Concho filed one confidential document that was 297 pages in length, numerous receipts were missing with only a Quickbooks register to make a claim. In addition, non-water company related receipts were filed which confused me, and I saw at least one instance in which one receipt was filed twice even though the date was missing. In my experience, a filing submitted with this extent of disarray is a clue that data is missing. That has proven to be the case here too.

Q. How did you know that the receipt was filed twice if the date was missing?

A. The remaining document had a time stamp and a bar code of the transaction which matched the duplicated receipt.

Q. Approximately what percentage of receipts vs claimed amounts were submitted?

A. 87% of the receipts for bleach were submitted.

62.5% of the receipts for car washes were submitted.

68% of the fuel receipts were submitted.

Q. Based on all the missing receipts, the use of Quickbooks as a source document, the jumbled date order of the receipts, how would you grade their document submission?

A. I would grade their submission of documents as a 'D' Missing receipts; no documentation, no substantiation. It was definitely below average. I felt sorry for the PUC Staff for having to sift through this data as I did.

Q. Do you think their submission of receipts would be acceptable in an IRS audit?

A. You only need to read through the IRS regulations on receipts or documentation to know that more proof would have been required of their expenses via credit card statements, cancelled checks, etc. Failing that proof, a great deal would be denied. In an IRS audit, the burden of proof is on the taxpayer, not the IRS.

XI. Double Expensing

Q. What do you mean by double expensing?

A. I call it that to describe the act of paying one person a salary to do a job and then getting billed by contract labor for accomplishing the same job. The accomplishment of the job generates two payments either in salary and/or hourly wages.

Q. Please give me an example of double expensing.

A. Ms Brunson testified that she read water meters, does invoicing, creates customer billing, padlocks meters and other duties. Yet, she hires her children and their friends to do these jobs and pays them a wage for doing the job. The result is the job is expensed twice to the water customers. If she's being paid a salary to accomplish specific tasks, but hires someone else to do it, shouldn't that payment come from her salary?

Q. Any other examples of double expensing?

A. Kevin Brunson is paid to be an on-call emergency repair specialist. Yet Rio Concho records show an emergency repair being paid to Randy Munson in November 2015. I also note monthly payments to Randy Munson for the same duties that Ms Brunson states that she's paid to accomplish. I found one instance of a tire repair in November 2015, although it was a small charge. Yet, Rio Concho purchased a Road Hazard Tire & Wheel warranty when they purchased this vehicle less than year earlier. I would call that a double expense also.

XII. Ms Brunson's Salary

Q. Is Ms Brunson's salary accurate?

A. I can't discuss the actual salary. Ms Brunson is paid weekly. For most employees that means 52 paychecks a year. Ms Brunson paydays were mostly on a Tuesday. There were 52 Tuesdays in 2015 so you would expect 52 paychecks. Without getting specific, I found that Ms Brunson was paid her full weekly salary more than 52 times in 2015.

Q. Is her salary the extent of her compensation and benefits?

A. No. Water customers are paying for 100% of the premiums for her medical insurance, life insurance, and retirement annuity.

Q. Do you find this objectionable, and why?

A. Please remember that Rio Concho Aviation, Inc is a 2 person corporation, comprised of husband and wife. Within that corporation is a water company with 240 meters and one employee. Comparing benefits of this small utility to that offered by a large utility is folly. It's an apples and oranges comparison. If a comparison was made of employee costs including benefits of a large company in relation to total revenue or total cost of operation, how would that compare to the same ratio of employee cost including benefits at Rio Concho water? Rio Concho would probably complain that it wasn't a fair comparison due to economies of scale. I agree. It's not fair, which is why the employee costs including benefits of a one person company cannot be the same as that

1 offered by a large company. The economies of scale simply don't support the extensive benefits that Rio
2 Concho wants to claim and expense to their water customers.

3 Add to this argument that most employees of large companies today contribute to their health insurance, pay
4 for their own term life insurance, and contribute toward their own retirement. That is what is occurring with
5 large companies and employee benefits. If Rio Concho wants these benefits for their one employee, why isn't
6 that one employee contributing just like the large company's require? Why are all these expenses being paid by
7 the water customers at 100%? It's just not logical nor fair

8 **XIII. Water meter reading fees**

9 **Q. Discuss the increase in water meter reading fees.**

0 **A.** As I stated earlier, reading the meters is listed under the duties of Ms Brunson. To pay meter readers to
1 accomplish what we already pay Ms Brunson to accomplish is double expensing. While I can't discuss the
2 specific numbers due to the confidentiality agreement, I will state that meter reading fees as found on Rio
3 Concho's 2013, 2014, and 2015 P&L statements show that this expense decreased 67% in 2014 compared to
4 2013. In 2015, fees increased 6.5% compared to 2013. Overall, meter reading fees are relatively flat when
5 comparing 2013 to 2015. However, Rio Concho has requested a 69% increase in meter reading fees in their
6 current rate increase compared to 2015. Rio Concho's data show that 59.4% of the annual meter reading fee
7 was paid to the Brunson's children in 2015. I doubt that the children can impose an increase of that magnitude
8 on their parents. Thus, I can only conclude that Rio Concho is again increasing their costs to justify a rate
9 increase.

0 **XIV. Insurance Premiums**

1 **Q. Did Ms Brunson testify as to the amount of the insurance premiums and how they're broken out for the water**
2 **company?**

A. Yes and No. She testified that the property insurance was \$3014 of the which the portion charged to the water was \$1044.77. That is 34.66% of the total premium with no explanation as to why it wasn't one third of the total premium. She also testified that the liability policy was \$2695, even though the premium statement supplied by Rio Concho was \$2435. The water company portion was \$912.47 which (using their higher \$2695 number) works out to 33.85% again with no explanation as to why it wasn't exactly one third. Randy Munson testified that the Liability Insurance was one third of the policy cost. 33.85% is not one third. The last two receipts are in Confidential RCA 000194-202 as requested by the PUC Staff. If interest was charged due to monthly payments, that detail was missing from the data supplied to the staff in Rio Concho's documentation. The total insurance cost given to the Staff was \$2542. The insurance number on line 19 of Form I-1 Revenue Requirement Summary line 19 is \$2545.96 as testified by Randy Munson. They're close but they don't match.

Q. Does this reinforce your grade 'D' for their receipts as submitted?

A. It most certainly does. Again, I feel sorry for the PUC staff. What numbers are they supposed to use when Rio Concho's data is so incoherent? 'Garbage In, Garbage Out'

XV. Recovery of Rate Case Expense

Q. Has Rio Concho argued for recovery of rate case expenses?

A. Yes.

Q. Has attorney John Carlton also argued for recovery of rate case expenses?

A. Yes.

Q. What is your view of recovery of rate case expenses?

A. Rio Concho has filed for a rate increase 3 times in the last 3 years: a 2014 filing, a Class C filing in 2015 which was withdrawn, and this filing in 2016. Rio Concho's rate request, if granted, would add \$59,000 of revenue to their 2013 water revenue of \$92,000, or a 63% increase. In the March 28th 2016 public meeting to explain the water

1 rate increase, Kevin Brunson stated to the audience, paraphrasing, if you protest, I'll simply hire an attorney and
2 you'll have to pay those costs too. It was a non-veiled threat.

3 As the intervenors have progressed in the current rate case discussions with the PUC and attorney Carlton, we
4 have questioned Rio Concho's desire to continue to commit what I term as 'suicide' To continue to progress
5 along this path is idiocy on their part. Their numbers simply do not justify a rate increase and I would argue that
6 they do justify a water rate decrease. If the PUC grants rate recovery, this not only discourages water rate case
7 protests in the future, it also blesses Rio Concho to apply for many future rate case increases knowing they can
8 hire an attorney and dispense those costs among their 240 water customers. There simply isn't any slap-on-the-
9 wrist to Rio Concho for pursuing this case, or any future case, if they can expense the rate case costs to their
0 customers.

1 **Q. Based on the topics you've discussed in this testimony, do you have figure as to how much Rio Concho's**
2 **expenses would decrease if they implemented what you've proposed here?**

3 **A.** Conservatively, I estimate a reduction of approximately \$25,000 in their expenses. Confidentiality requires me
4 to not go into any further depth.

5 **XVI. Conclusion**

6 **Q.** Does this conclude your testimony?

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