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APPLICATION OF RIO CONCHO		BEFORE THE STATE OFFICE
AVIATION, INC FOR A		OF
RATE/TARIFF CHANGE		ADMINISTRATIVE HEARINGS

**PREFILED TESTIMONY & EXHIBITS**

**OF**

**Stephen Grace**

**ON BEHALF OF WATER CUSTOMERS OF**

**RIO CONCHO AVIATION, INC**

**AUGUST 17, 2016**

## **Resume: Stephen Grace**

I graduated from Texas Tech with a Bachelor of Science Degree in Electrical Engineering December 1977 and with a Distinguished Graduate Award from the Airforce ROTC detachment. After graduation, I commissioned in to the U.S Air Force where I then attended pilot training. I graduated # 2 in my class and was awarded the A-10 for my first assignment at Myrtle Beach AFB. At Myrtle beach, I represented the A-10 community in the Air Force 'Gun Smoke' competition. Also while there in the squadron, I worked in the weapons division where I briefed and instructed pilots on how to better employ the A-10 more effectively and how to obtain better bombing and gunnery results. I was the first A-10 pilot to be selected to participate in the U.S. Air Force Aggressor program while also just a lieutenant, something which never previously occurred. While in the 64<sup>th</sup> Aggressor squadron, I was put in charge of scheduling range times for training flights, briefing and debriefing large aerial combat training missions, 'Red Flag' and on many occasions traveling to other AF bases to conduct air to air combat training.

I flew the A-10 for two years and then the F-5 as an air to air combat instructor for 4 years.

Before I was hired by American Airlines I taught math and science classes in the Fort Worth school system, 1984 – 1985.

I was hired at American Airlines, 1985, I have flown the B-727, B-767 /757, MD 11, FK-100 and currently fly the B-787. I have also held the position of the National Strike Preparedness Chairman for my union. During my employment I have built and continue to fly my personal airplane, a RV-8, for pleasure and as a performer in airshows for the past 7 years.

I have two business I own and operate which entails extensive record and book keeping.

My flying business; I've operated now for well over 6 years. I keep detailed records of days worked and all expenses, both, reimbursed and non-reimbursed. These records consist of training costs, hotel stays, pay, etc. Keeping track of maintenance records and required inspections, and fuel used for both my airplane and other private jets are another task I perform. This can be a challenging task given working all hours of the day and night therefore being precise is a must.

My construction business; keeping a log of receivables and billing receipts. Working with different entities and putting all the pieces together to make deadlines. Records must be kept so I can pass along a detailed summary and completed tax return to my CPA. She reviews my work and then advises me of any mistakes or omissions prior to filling.

1    **Q.     Sate your name and address**

2    A.     Stephen Grace; 917 Aviator Dr. Fort Wörth Texas 76179

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

4    A.     I got involved in the prior water rate case in 2014 because I felt the water rates were too  
5           high prior to that rate case. I got involved with the 2016 rate case for the same reason.

6    **Q.     Please explain some of the history of these rate cases.**

7    A.     In the 2014 rate case, a rate agreement was reached between the protesters and Rio  
8           Concho through settlement offer procedures and then the effective rate was further  
9           reduced by the PUC Staff in 2015. Less than a year later, we were informed of yet  
10          another rate increase request by Rio Concho. With the PUC reducing the agreed to rates  
11          just a year earlier, I was compelled to get involved.

12   **Q.     Did you interpret anything Kevin Brunson said at the March 2016 public hearing as**  
13   **being threatening?**

14   A.     Yes. Mr. Brunson, in the informational meeting in March 2016, stated 'my numbers will  
15          substantiate the rate increase requested' He also said we have the right to protest **BUT** if  
16          we did he would hire a lawyer and charge us, the consumers, with a bill of no less than  
17          \$30K.

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

2    A.    There are almost yearly paving projects around the airport. I have worked with the Hicks  
3           Airport Pilots Association (HAPA) paving committee in the past and am aware of most  
4           paving issues / projects. The only paving done anywhere near the water property was  
5           actually a resurfacing and painting project around the fuel pumps and helicopter landing  
6           area. This property has absolutely nothing to do with the water system. To be clear. I'm  
7           stating that the 2013 charge of \$6011 included in this year's rate case, but not included in  
8           the 2014 rate case, should not be recorded as an expense of the water company.

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

10   A.    Prior to and after the electronic billing started in 2015, I had no idea there was a water  
11           office located on the airport. All water bills paid were sent to the Brunson's home office  
12           address. I have never been aware of an airport office for Rio Concho.

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

15   A.    I cannot recall any such notice.

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

17   A.    No

18   **Q.    Did you observe a drop box added to the outside of 419 Aviator Dr. which is**  
19           **the address of Brunson's hangar?**

1 A. Yes. I became aware of the drop box after the interveners brought up the PUC  
2 regulations on how far the office can be from the facility during this current rate increase  
3 dispute. It was discussed with the PUC attorney, Kennedy Meier. I observed the drop  
4 box on June 22, 2016.

5 **Q. Was that drop box there a month prior to that date or even two weeks prior to that**  
6 **date?**

7 A. No, this drop box appeared one afternoon on their hanger which houses their two  
8 airplanes and a golf cart. It was installed within the week prior to the June 22<sup>nd</sup> 2016  
9 date.

10 **Q. How can you be sure of that date?**

11 A. I took a picture of the drop box with my cell phone. In addition, I noted a paper notice on  
12 the drop box that was so new it had not been rained on yet.

13 **Q. What is your opinion on the issue that Rio Concho was charging its water customers**  
14 **\$6,000/yr. for leasing an office inside their hangar, yet no notice was sent informing**  
15 **water customers of its existence?**

16 A. This is an accounting scheme which allows the Brunson's to pay themselves while at the  
17 same time running up their 'expenses' to Rio Concho Water. I will also submit that  
18 there is no appreciable water company business or work performed in the hangar. I have  
19 never seen the hangar open.

1   **Q.    In regard to Mrs. Brunson's Audi Q5 vehicle that was expensed to its water**  
2       **customers, have you seen her drive that vehicle on the airport?**

3    A.    Yes, on many occasions.

4   **Q.    Have you seen Mrs. Brunson drive any other vehicle on the airport?  If yes, what**  
5       **vehicle was it?**

6    A.    Yes.  I've seen her drive a gray/silver Audi TT  a two seat sports car.

7   **Q.    Have you ever see the water system flushed?**

8    A.    I have been associated with Hicks field for well over 8 years and have resided full time  
9       for over 3 years.  Yes, I have seen the system flushed BUT only 1 time and I believe it  
10      was being flushed by Mrs. Brunson's children as there were no adults around at the time.

11  **Q.    Why do you believe Rio Concho is raising their water rates?**

12  A.    Since the water company is a monopoly.  Rio Concho can raise rate indiscriminately as  
13      there is no competition for water at the airport.  The only impediment to raising rates is  
14      the PUC.  I believe Rio Concho is taking advantage of the rate payers at Hicks Airfield as  
15      the water customers have nowhere else to turn.  As stated in the CCR's 'the drilling of  
16      wells, water. oil and gas is prohibited' by the property owners/residents of the airport.

17      If Rio Concho were to continue to raise the price of aviation fuel pilots would go  
18      elsewhere for that fuel.  Pilots have a choice.  Indeed, many pilots already do purchase

1 fuel elsewhere because Rio Concho's fuel price is considerably higher than several other  
2 close airfields. We don't have that same option with our airport water.

3 **Q. What is Rio Concho?**

4 A. The Brunson's are Rio Concho. To my knowledge they own and operate the water.  
5 aviation fuel, restaurant and land development businesses. Kevin and Barbie Brunson are  
6 the owners of Rio Concho; thus Rio Concho is synonymous with the Brunson's. There  
7 are no other stock holders.

8 **Q. Do you believe Rio Concho is trying to keep the cost of the rate increase down?**

9 A. No, I do not. Considering their capital expenditures, benefits, contract labor expenses,  
10 and desired rate of return, they show no desire to keep costs low for their water  
11 consumers. Also, they are doing exactly what Mr. Brunson threatened: Hire an attorney.  
12 run up rate case expenses, and charge those expenses to the water customers.

13 **Q. Did Rio Concho ask for recovery of rate case expense?**

14 A. According to Mrs. Brunson's direct testimony: 'We have incurred approximately  
15 \$30,000 in rate case expenses as of the filing of this testimony. We expect to incur an  
16 additional \$40,000 in rate case expenses if this application continues all the way through  
17 the contested case process. 'We propose to collect our rate case expenses as a surcharge  
18 on our customers' water bills until our full costs are recovered. We are confident that the  
19 rate increase proposed is reasonable and just and in the best interest of the water utility  
20 and its customers. Further, we are disappointed that this course of action was necessary;



1 We expected the PUC to be more expedient and competent in their review of the rate case  
2 we presented.

3 **Q. Did the Rio Concho attorney also ask for recovery of rate case expense?**

4 A. As stated in the direct testimony of John Carlton: 'A large portion of the rate case  
5 expenses that the utility seeks to recover includes my attorney's fees and costs for legal  
6 services rendered to respond to discovery. attempt settlement, prepare evidence and  
7 testimony in support of the utility's rates and prosecute the application to completion and  
8 final decision before the Commission. It is my opinion that this rate increase is not in  
9 the best interest of the customers but in the best interest of the Brunson's, aka, Rio  
10 Concho.

11 **Q. Do you agree with Ms Brunson's testimony when she stated that 'the majority of  
12 those utilities provide health insurance benefits for their employees?'**

13 A. I wasn't able to find specific information on what utility companies provide. I think a  
14 better question would be what percentage of small companies provide health insurance  
15 benefits? I would welcome any data she might provide to support her statement.

16 I found a 2013 article which stated for firms with fewer than 50 employees, only 26.2%  
17 of Texas firms offered health insurance. I agree that everyone should have health  
18 insurance, but I don't agree that a small water company with one employee should be  
19 offered 100% free health insurance to be paid by the water customers.

1     **Q.     Have you found another similar water system and know their water rates?**

2     A.     Yes. The Silver Wings Airport system currently provides water to 16 homes, with a  
3           maximum of 35 homes that can be on their system. Their homes lots are spread out over  
4           and area much larger than the total area of Rio Concho's distribution area which has 240  
5           metered lots. These **are their current water rates** for Silver Wings Airport;

6           Base rate   \$35 /month, including the first 1,000 gallons

7           \$2.50 / 1,000 gal up to 10,000 gal

8           \$2.75 1,000 gal up to 20,000 gal

9           \$3.00 / 1,000 gal above 20,000 gal

10

11          Compare that to Rio Concho's current and proposed rates:

12

13          Current:                      Proposed                      Increase:

14

15          Base rate   \$31              \$39.75              28.2%

16

17          \$5.50/1000 gal              \$7.67/1000 gal              39.45%

18

19          Considering Silver Wings Airport fewer number of water customers but greater land area  
20          in comparison to Rio Concho water. I am having a very difficult time with the Rio  
21          Conchos Rate Increase request. As a reminder, Rio Concho last rate request was disputed  
22          and lowered by the PUC in 2015.

1 **Q. Ms Brunson testified that ‘a reasonable retirement benefit is commonly accepted**  
2 **and expected in the U.S.’ Do you agree?**

3 A. I think what has occurred to Defined Benefit Plans in the USA is reprehensible. Airport  
4 water customers have had their retirement plans eliminated, reduced, or frozen due to  
5 company bankruptcies. However, I cannot ignore the facts of what has occurred in  
6 regards to retirement plans. One article I found stated that as of Aug 2013, only 5  
7 percent of companies with four or fewer employees offer a retirement plan. I would not  
8 expect a small company to offer the same benefits as a large company. Rio Concho  
9 water has one employee. Ms Brunson’s expectation that her retirement premium should  
10 be 100% funded by the water customers is not realistic in the current environment. I feel  
11 Ms Brunson should be setting aside a portion of her salary for her retirement just as the  
12 majority of large companies require today.

13 **Q. Does Ms Brunson also have a life insurance benefit?**

14 A. Ms Brunson has a life insurance policy that is 100% funded by the water  
15 customers. Based on what I read on the policy page supplied, this policy has a cash  
16 value upon maturity, and is not a term policy. Are the water customers funding a life  
17 insurance policy that will have an investment return for the Brunson’s at some point in  
18 the future? I encourage the PUC staff to investigate this policy. I know of no company  
19 that offers free life insurance for its employees. Even term insurance has a required  
20 employee paid premium. To expect the water customers to pay for her life insurance is  
21 unfathomable.