

To: White Bluff Rate Payers

From: White Bluff Rate Payers Committee

John Bass, Scott Shelton, John Upchurch, Marshall Snyder

“The Hearing on the Merits” or the lack thereof

Last week your WBRP Committee spent two days in Austin listening to the testimony of DDU, the PUC, and our own Rate Expert Consultant, Nelisa Heddin. Let me please review just a few of the main highlights of the testimony for you.

- Mr. Randy Gracey, the President of DDU, when asked about a \$3,000,000 loan against all WB DDU assets, stated that he did not know what the money was for, where it was going, or how it was going to be paid back. He further stated that the legal department just called and instructed him to sign these loan papers.
- Mr. Tim Grout, the new CFO of Double Diamond Delaware, stated that the depreciation schedule used in the Rate Application was overstated by roughly \$3,800,000. He noted that the plant and equipment can only be depreciated for ten (10) years. Many items were already past their depreciation schedule. Furthermore, Mr. Grout stated that not all the equipment on the depreciation schedule was at White Bluff. Your WBRP committee thinks this would make quite a difference in the requested amount of water rate increase that would be allowed by the PUC.
- Next up was the PUC staff, most notably Emily Sears. Mr. Carlton, DDU’s attorney, grilled Ms. Sears for several hours. In contention was Ms. Sears’s disallowance of \$40,000 of payroll expense for two DDU full-time employees that are backhoe operators. It seems in the test year (2015) these two operators installed only four (4) new water meters (taps). How long would that take? Maybe a week or two. Ms. Sears sent three separate “Requests for Information” (RFI’s) to DDU regarding the additional duties these employees are assigned. DDU gave the same original response rather than describing the additional assigned duties of these employees. Ms. Sears also disallowed vehicle fuel expense whereby DDU was expensing the fuel cost for two on-call employees when they drive to and from work in DDU vehicles. DDU claims they should be able to expense this because they are on call. Ms. Sears stated that you can only expense this fuel cost if you have a call, while on call. The expense is disallowed for simply driving to and from work.
- The next person to testify was your WBRP Rate Expert Consultant, Nelisa Heddin. Mr. Carlton, DDU’s attorney, asked if Mrs. Heddin was a CPA. She answered no. He asked if she was an attorney. She answered no. Mr. Carlton then passed the witness with no further questions. However, her testimony had already been entered into the record

via detailed written testimony prior to the hearing. The crux of that testimony is that DDI, the developer, had paid for 100% of the infrastructure in WB as compared to the 80%-20% split that DDU claimed in the rate application. DDU did not exist prior to 1996, and most all infrastructure had been installed prior to that date. What matters here is that utility companies are not allowed to receive a rate of return on developer (DDI) contributed assets. The utility company (DDU) can only receive a rate of return on assets that it contributes. DDI, the developer, gets reimbursed for its contributions through lot sales. In summary, utility company cannot receive double reimbursement for assets. Thus, Ratepayers should not have to pay for the infrastructure twice. Both through a lot purchase and then again in the rates charged for water/sewer service.

Our WBRP attorney, Joe Freeland, and our Rate Consultant, Nelisa Heddin, both feel very good about our case. This is not like a jury trial. The Administrative Law Judge (ALJ) will now compile his findings and make a ruling which may go before the entire PUC Board. This could take a couple of months.

Two weeks ago, today, the WBRP Committee sent out a request for donations to as many Rate Payers as we have on record. We were \$5000 short of our next matching funds level. We had large bills to pay. The situation seemed insurmountable within the time frame. This was the day MW/DD put out their announcement about closing the restaurants and golf courses. It was not the best timing for a request, but I did not know about the Double Diamond decision and email at the time. I am very pleased to report to all of you that our goal was reached just yesterday, and we have achieved the next level for matching funds from the WBPOA. It never ceases to amaze me how great the people are who live in White Bluff. You always rise to the occasion and answer a call for help. Thank you all for your continued support. That being said, this battle over the rate increase is not over yet. For those of you who have not contributed, you may (1) mail a check to WBRP, PO Box 37, Whitney, TX 76692. You may drop a check off at the WBPOA office on FM 933, or (3) make your contribution through PAYPAL at the WBPOA website, <http://www.whitebluffpoa.com/>. Just click on the WBRP tab on the top right and then go to the bottom of the page and click on "DONATE".