

To: White Bluff Rate Payers

From: White Bluff Rate Payers Committee

John Upchurch, Marshall Snyder, Scott Shelton, John Bass

White Bluff Utility Rate Case-What you need to know, and how it will affect our future rates.

A significant part of challenging a Water/Sewer Rate Case is knowing what must be achieved to be successful. In the case of WB, it is defined in two ways. First, we must achieve a fair and equitable rate structure for the water and sewer services provided based on accurate financial data from DDU. Just as important to the community's future, is the establishment of an official "Rate Base" as defined by the PUC (Public Utility Commission). As I understand it, a "Rate Base" is established when the Ratepayers, the PUC staff, and DDU all agree on the value of the assets of the utility as they exist today. Those assets will remain at that established value for all future water rate applications. In other words, we will not have to re-litigate the original cost of the same infrastructure the next time a rate case is filed by DDU. In the 2008-2010 water rate case, as well as the current rate case, the majority of expenses were for litigating asset value issues. Once a "Rate Base" is established, DDU will not be able to ask for a rate increase by inflating asset values and infrastructure expenditures to "demonstrate" they need a rate increase. DDU would have to ask for a rate increase based solely on documented increased expenses and/or "**NEWLY**" installed infrastructure assets. Achieving this "Rate Base" standard is a must and we are very close to achieving this.

The next part of successfully challenging a Water/Sewer Rate Case is to have the PUC staff see the issues the same way you see them. PUC staff verifies those issues by their own independent research in the matter. We believe as a committee we have succeeded in this effort as demonstrated by the opening paragraph of the PUC brief that was filed with the ALJ (Administrative Law Judge) last Wednesday.

I. INTRODUCTION AND SUMMARY

Double Diamond Utility Company, Inc. (DDU) is a utility that owns and operates several

water and sewer utility systems in North Texas. In this case, DDU is seeking a rate increase for the White Bluff water system, the White Bluff sewer system, the Cliffs water system, and the Cliffs sewer system. DDU proposes revenues in this proceeding that are excessive, as the result of several accounting maneuvers that are not consistent with public policy, Commission precedent, or the Texas Water Code. DDU proposes to require ratepayers to pay for costs not related to the provision of utility service, such as personal cell phone use, personal commuting use of utility vehicles, and the allocation of resort overhead and expenses unrelated to the utility.

DDU also proposes to treat certain utility plant as expenses to be recovered annually instead of depreciating these assets over a useful life. Further, DDU proposes a return on equity that is far in excess of the 8.79% rate recommended by Staff witness Emily Sears, who uses methodologies that are reflective of market conditions and Commission precedent for water utilities. DDU's proposals on all of these issues should be denied. Finally, the Commission should disallow various operations and maintenances expenses, administrative and general expenses, and tax expenses, as discussed below. Staff recommends that the Administrative Law Judge (ALJ) cost of service model and rate design in this proceeding and require them to be used for number running purposes. SOAH Docket No 473-17-0119.WS Commission Staffs Initial Brief Page 4 of 41.

I will repeat. The PUC staff says the **“DDU proposals on all of these issues should be denied”**.

The most important factor in a rate case challenge is ratepayer support, which in this case, is the WB Community support for our endeavor. Just in case you wondered, the Cliffs has their own committee and financial support for this case.

Your WBRP committee has been involved for more than fourteen (14) months on your behalf. For some of you, this effort might seem trivial as compared to losing your golf courses, restaurants and other amenities. Please, let me assure you, this effort is not trivial. All these issues seem to emanate from the same source. In March of 2013 DDD (Double Diamond Delaware) secured a \$3,000,000 loan using all the WB assets of DDU as collateral. To the best of our

knowledge, not one penny of the loan proceeds was spent on WB utility infrastructure. We believe this was an interest only two (2) year note with a balloon payment. In March of 2015 the note was renewed for another two years. The monthly interest expense for this note was included in the DDU Water/Sewer Rate Application and was to be charged to **YOU** the Ratepayers. Thus, a Water/Sewer Rate Increase was filed by DDU asking for a 44% increase in your rates. At about that same time it is discovered that DDU does not have clear title to some of the property that is pledged to the lender as collateral for the \$3,000,000 loan. Shortly thereafter, DDI (Double Diamond Inc.) began paying a \$25,000 monthly payment to the lender. DDI makes this payment because DDU does not have cash flow to cover that monthly payment. But let's do a little math. If a water/sewer bill averages \$80 a month and there is an increase of 44%, that bill would then become $\$80 \times 44\% = \$35.20 + \$80 = \115.20 . There are about 900 Ratepayers give or take a few. Either way, $\$35.20$ (rate increase) $\times 900$ (ratepayers) $= \$31,680$ monthly. You can subtract from the \$31,680 the DDI accounts in WB and I'll bet you end up with just about \$25,000 a month increase in cash flow to DDU. Any ideas for what that money is going to be used for? Yes, you could end up paying back a \$3,000,000 loan on behalf of DDD and get absolutely nothing in return for it. Not one thin dime that we can find has been spent on infrastructure improvements in WB by DDU. Now what I have shared with you is conjecture on my part. I do not have complete information to confirm this likely scenario. However, based on the information available, some have surmised this to be the most plausible conclusion.

This week your WBRP Committee received a bill in excess of \$26,000 for legal expenses for this rate case. Quite frankly, we only have a little over \$13,000 in the WBRP account. This bill was for preparation of "The Hearing on the Merits" testimony and motions to compel DDU to provide evidence to support its requested rate increase. The Hearing lasted four days with two attorneys and the Rate Expert for WBRP as well as the preparation and filing of a 27 page brief with the ALJ assigned to the case. In addition, transcripts of the Hearing had to be obtained. All were legitimate expenses needed to successfully contest the requested DDU rate increase. We have come a long way

and need to continue our efforts to contest this rate increase request through to its final conclusion. I for one wish to see this contested rate case all the way to the end once and for all. Therefore, I will commit another \$200 as my additional share to support this cause. I hope each one of you will do the very best you can to help out. You may (1) mail a check to WBRP at PO BOX 37, Whitney, TX 76692. (2) Drop a check off for WBRP at the POA office across from the front gate. Or (3) use Paypal, just click on the WBPOA website, <http://www.whitebluffpoa.com/>, and then click on “**WBRP**”, then go to the bottom of the page and click on “**DONATE**”. With your continued support there is no doubt we will prevail in this rate case that will affect our utility rates for years to come.