

BEACH CITY COUNCIL PUBLIC HEARING MINUTES

The Beach City Council met for a Special Session and Public Hearing regarding the Aqua Texas Rate/Tariff Change Application for Rate Payers within the corporate limits of the City of Beach City.

This meeting was held on **Wednesday, December 11, 2013 at 7:00 P.M.** at the Beach City Community Building. Those present were:

MAYOR: Billy Combs

MAYOR PRO TEM: Jackey Lasater

ALDERMAN: Ray Smith, Doug Walker, Paul Newman

ABSENT: Dana Colquitt

CITY ATTORNEY: Daniel Jackson

CITY SECRETARY: Evonne Donnelly

ASSISTANT SECRETARY: Marge Bercaw

Mayor Combs called the meeting to order at 7:07 P.M. on Wednesday, December 11, 2013 and offered the prayer. Alderman Walker led the Pledge of Allegiance to the United States and Texas flags.

I. Public Hearing regarding Aqua Texas Rate/Tariff Change Application for Rate Payers within the corporate limits of the City of Beach City.

Mayor Combs introduced the President of Aqua Texas Inc. Robert Laughman and Attorney Paul Terrill, rate counsel for Aqua Texas. Mayor Combs also noted in attendance are Pct. 4 Commissioner, Rusty Senac, and Pct. 3 Commissioner, Gary Nelson.

Mayor Combs reviewed with those in attendance that this is a public hearing for the citizens of Beach City. Mayor Combs wants to ensure that this meeting is solely about Beach City as he realizes that there are Aqua Texas rate payers and customers who live outside of the corporate limits of Beach City that are also affected by a similar rate filing.

Mayor Combs also remarked that while the City of Beach City has initial jurisdiction regarding the proposed rate increase, it does not mean the City has final jurisdiction. Final jurisdiction lies with the Texas Commission on Environmental Quality - TCEQ. The Utility can appeal the City's decision to the TCEQ and the TCEQ can overturn the City's decision.

Mayor Combs stated that Mr. Laughman and Mr. Terrill will answer questions but the Mayor wants to ensure everyone remains honorable and under control.

Mayor Combs asked Mr. Laughman if he would explain the rate application he has applied for and the reason for the application.

Mr. Robert Laughman introduced himself as Bob Laughman, President of Aqua Texas, Inc. Mr. Laughman stated that Aqua Texas has acquired a variety of utilities in this area including a group known as Gray Utilities which was acquired in approximately 2010. Gray Utilities provided water to the residents of the Barrow Ranch subdivision in Beach City. Gray Utilities had some substantial issues with their Water & Wastewater, according to Mr. Laughman. Aqua TX. came in and put substantial capital into the entire community; of which Beach City is a part. Mr. Laughman also noted that before his company filed for any rate increases they expended the money. He went on to say; that the Beach City community being an incorporated city is different from the rest of the region, as it applies to the rate administration. Most of the rate applications and Aqua TX. rate reviews will be done by TCEQ, but Beach City has primary jurisdiction. Aqua

TX. filed for a rate increase that was for the entire regional area however, as it applies to Beach City, the City Council will have primary jurisdiction on that. If both parties cannot come to terms, ultimately Aqua TX. will have the opportunity to appeal to TCEQ. Mr. Laughman finalized his opening comments by reiterating, he and his rate counsel, Paul Terrill, are here because Beach City is an incorporated community and has primary jurisdiction.

Mayor Combs reviewed with Council the spread sheet before them, a list of existing rates compared to the proposed rates, and gave Council the opportunity to ask questions of Aqua TX. After a brief discussion among Council, the floor was opened up to allow the Barrow Ranch residents to ask questions.

One of the residents, who lives on Tumblewood in Section III of Barrow Ranch, spoke of inadequate water pressure in his home. The resident also stated that he did not receive any of the benefits in his home from the financial investment to update the water system that Mr. Laughman spoke of. Mr. Laughman responded that not enough pressure is unacceptable and he has not heard of this being a significant problem within the overall community and he will address this issue. He also noted that the rates are not broken down by each system or community, but rather by region. This spreads out the capital requirements over a larger region, and therefore mitigating the risks associated with it. An example given by Mr. Laughman is: If Aqua TX. comes in tomorrow and has to spend thirty thousand dollars on the Barrow Ranch System to get his water pressure to where it needs to be; that thirty thousand dollars does not go just to his bill, it goes to the entire regional bill. Also, Aqua TX. has to take the dollars that have been spent to TCEQ and request a reasonable rate of return on it, and that's how the rate of return is established. Costs that can be proven, and dollars that have already been spent. Mr. Laughman was then asked if the basis for the rate increase was for a company profit, or to recover the investment and have a set margin for the return. Mr. Laughman reconfirmed that Beach City has the primary jurisdiction for the rate case and they will have the final vote; other than the appealing process of what the rates will ultimately be. He also went on to say that normally, if this is going through TCEQ they will give a calculated rate of return, based on what has already been spent. The increase has been associated with actual dollars invested in upgrading the old Gray Utility system.

Another resident, who lives on Blackhorse Street, asked if Aqua TX. negotiated with Beach City, would this rate be separate from the regional rate? He also asked what monies have been spent to improve their (Barrow Ranch) water systems? Aqua TX. Rate Counsel Attorney Paul Terrill answered, yes to the first question. Mr. Terrill explained that according to the water code, if you are an incorporated city in TX. then you have jurisdiction over the water and wastewater utilities. Beach City could decline the rate application, approve the rate application, or there could be a settlement. Regarding the monies spent; Mr. Laughman acknowledged that while Barrow Ranch is a newer subdivision and has a newer system, it has required little improvement. Mr. Laughman also noted that the improvements have primarily been made to the outer lying areas, new water plants, etc., in the areas closer to I-10, outside of Beach City. He stated that at this point and time there have not been many dollars spent on system upgrades in Barrow Ranch.

Mr. Terrill said that in 2004 Aqua Texas filed a statewide rate case for all of its regions; Northwest, Southwest and Southeast, this is the Southeast region. The Legislature changed the law in the 90's so the utility companies will have regionalized rates to act as an insurance mechanism, which keeps the cost burden spread out amongst the residents in a particular region. Mr. Terrill said this issue was litigated extensively and offered to email TCEQ's decision on this subject to anyone who would like to read it. Mayor Combs asked if Aqua TX. has a current rate application pending for the Southeast region. Mr. Laughman's response was no, they settled that in 2009-2010. Mayor Combs asked what are the Boundaries of the Southeast

region. Mr. Laughman responded the five counties of: Harris, Montgomery, Chambers, Fort Bend, & Jefferson.

Commissioner Rusty Senac asked if Aqua Texas would give consideration to having a smaller increase, incremented over time so it's not such a large burden to the residents. Mr. Laughman replied that he thinks that would be a reasonable approach to a settlement. Mr. Terrill added that TCEQ has had a lot of difficulty in the past with incremented, or phased in, rate increases. Mr. Terrill thinks that the difficulty TCEQ had stems from an accounting perspective on how the phase in worked over time. He thinks it makes more sense to file for a single step cost increase because of what has happened in the past.

Another resident asked if Aqua TX. has added more chlorine to their water system, due to the strong odor he consistently has coming from his water. Mr. Laughman said he would definitely check into this complaint, and others, since his company had to increase chlorination when they took over Gray Utilities. Another customer said, he has poor water pressure and he has not installed a sprinkler system due to the low water pressure on his street.

Commissioner Senac asked Mr. Terrill to remark on the Senate Bill-SB567, which came about from concern in the State of Texas that a lot of investor owned utilities, water utilities, were filing rate cases with the Texas Commission for Environmental Quality, and TCEQ may have not been doing full due diligence and rubber stamping these rate increases to go through. As a result the last legislative session transferred the rate making jurisdiction to the Public Utilities Commission - PUC.

Commissioner Senac asked the residents if they have experienced other issues on quality with Aqua Texas such as: when they call in if they have a problem with their water service, do they receive good service; are your bills correct and do they make sense to you; lastly, if you have a problem with your water bill and you call in are you getting a good response from Aqua Texas? There were no negative comments from the residents relating to the questions posed from Commissioner Senac.

One resident did ask why they have not been notified by Aqua TX with the "boil water notice" when they lose water and how do they know if the TCEQ required test has been performed afterwards. Mr. Laughman stated that they do not have to test the system if it did not fully depressurize. Mr. Laughman went on to say that they are now using an automated system called Aqua Notify. He is not sure if it has been incorporated into the Gray System at this point. Mayor Combs asked if there are any automatic flush valves installed in these dead end lines or how do you flush the lines out? Mr. Laughman said that they have started installing the flush valves in some areas.

Commissioner Senac asked why there is a twelve inch connection added to the rate request when most people have a three quarter inch connection. Mr. Terrill said that TCEQ has meter equivalencies which is based on what the American Water Works Association - AWWA has established. Start with the smallest meter of five-eighths inch and take the base charge; then for each of the larger meters there is a set multiplier that TCEQ uses to reflect basically the larger capacity of the each one of the lines. Most of the larger lines are not used in residential water lines. Mr. Terrill went on to say that TCEQ wants them to have a tariff on each one of the meter sizes. For instance, if an industrial company came in and wanted a six inch meter then Aqua TX. would be able to tell them what the cost would be, based on the various meter equivalents.

After several more rounds of questions from Council, Mayor and some residents, the meeting adjourned with the understanding that Mayor Combs, Aldermen Lasater & Newman would stay to meet with Mr. Laughman and Mr. Terrill to discuss an amicable agreement to the proposed rate hike.

II. Adjournment: 9:07pm

ATTEST TO:



Evonne Donnelly
City Secretary

APPROVED BY:



Billy Combs
Mayor