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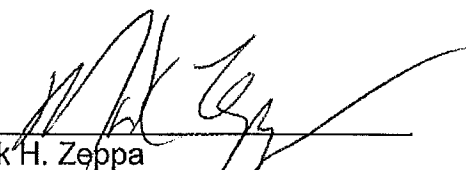
APPLICATION OF DOUGLAS UTILITY  
COMPANY, TO  
CHANGE ITS WATER AND SEWER  
RATES

BEFORE THE STATE OFFICE  
OF  
ADMINISTRATIVE HEARINGS

DOUGLAS UTILITY COMPANY'S RESPONSES TO RAINBOW HOUSING  
ASSISTANCE CORPORATION'S FIRST SET OF INTERROGATORIES

Pursuant to Texas Rule of Civil Procedure 197, Douglas Utility Company ("DUC")  
submits these responses to Rainbow Housing Assistance Corporation's ("Rainbow")  
First Set of Interrogatories.


Respectfully submitted,

By:   
Mark H. Zeppa  
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ATTORNEY FOR DOUGLAS UTILITY CO.

CERTIFICATE OF SERVICE

I, Mark H. Zeppa, hereby certify that copies of the foregoing were provided to the parties  
of record as shown on the Service List below on February 28, 2014, by First Class Mail,  
Facsimile Transmission, hand delivery, or electronic transmission.

  
Mark H. Zeppa

## RAINBOW'S INTEROGATORIES

### INTERROGATORY NO. 1:

Identify each person, (i) participating in the preparation of responses to these Interrogatories or (ii) supplying information used in such preparation. As to each person so identified, indicate the Interrogatories with respect to which he or she was involved.

**RESPONSE:** See list of persons with knowledge of this case in DUC's Responses to the TCEQ Executive Director's ("ED") first requests for disclosure, interrogatories, requests for production and requests for admissions, Disclosure No. 194(e).

### INTERROGATORY NO. 2:

Please provide the factual and legal bases for Your contention that the water and sewage rates charged by Douglas in accordance with the Application should be approved by the TCEQ.

**RESPONSE:** To maintain the utility's financial integrity, to pay operating expenses and taxes and to finance needed capital improvements, DUC is entitled to rate relief under the standards of Water Code Chapter 13, Subchapter F and 30 TAC Chapter 291(B). This position is supported by the rate change application and the prefiled testimony to be filed as scheduled by the Administrative Law Judge ("ALJ")

### INTERROGATORY NO. 3:

As to each person You may call or expect to call as a witness or as an expert witness in the evidentiary hearing in This Matter, or as to each person with whom You have consulted, who is not expected to be called as a witness at the hearing, but whose work product forms a basis, either in whole or in part, of the opinions of each person You may call or expect to call as a witness or as an expert witness in the evidentiary hearing in This Matter:

- (a) identify each person and state whether You may call that person as an expert witness in the evidentiary hearing in This Matter;
- (b) state the subject matter on which each person is expected to testify;
- (c) state the mental impressions and opinions held by each such person and summarize the grounds for each such mental impression and opinion;
- (d) state the facts known to each such person (regardless of when the factual information was acquired) which relate to or form the basis of the mental impressions and opinions held by each person;
- (e) identify each and every document and tangible thing that has been submitted to, prepared by, prepared for or used by each such person or his associates, with regard to the subject matter of This Matter or in anticipation of each such person's testimony; and
- (f) state each such person's qualifications, by knowledge, skill, experience, training or education, in each field of expertise in which You anticipate he may testify.

**RESPONSE:** See DUC's Responses to the TCEQ Executive Director's ("ED") first requests for disclosure, interrogatories, requests for production and requests for admissions, Disclosure No. 194(f).

**INTERROGATORY NO. 4:**

Please identify all documents that You intend to use or introduce into evidence or introduce as an exhibit during or as part of the evidentiary hearing for This Matter.

**RESPONSE:** The identity of all documents DUC plans to use or introduce at trial has not been decided. They will include the rate change application filed with the TCEQ, including amendment, and the prefiled testimony ordered by the ALJ.

**INTERROGATORY NO. 5:**

Please explain in detail why Douglas needs to build a New or Replacement Water and/or Wastewater Treatment Facility and exactly what will be rebuilt, repaired or replaced.

**RESPONSE:** DUC does not propose to build a new or replacement water facility. DUC proposes build a new or replacement sewer treatment facility ("WWTP"). The existing WWTP is physically deteriorated, is rusting through and cannot reasonably be expected to continue providing continuous and adequate sewer service without a significant sewage spill or failure of operation, each of which will create a hazard to public health and safety and to the waters of the state. The TCEQ has advised DUC in an annual inspection letter (shown to all parties at the preliminary hearing) that the utility must correct this problem.

**INTERROGATORY NO. 6:**

Please explain all reasons why Douglas should be allowed to collect a surcharge to fund the New or Replacement Water and/or Wastewater Treatment Facility including, but not limited to an explanation of the just cause(s) for such fund request.

**RESPONSE:** To protect public health and safety and the waters of the state of the state, DUC must make major capital outlays to fund the new or rebuilt WWTP. These capital improvements cannot be avoided to maintain compliance with TCEQ rules and DUC's wastewater discharge permit ("the Permit"). DUC does not have the cash or capital to do this. DUC's owner does not have the private resources to fund this construction. DUC is too small to have access to public capital markets since the cost of making public offerings will exceed the amount of construction money needed. As an investor-owned utility ("IOU"), DUC is not eligible for state or federal funding. Even if it were eligible, the length of time acquiring such funding and the loan origination costs do not make these feasible alternatives. This left DUC with the with local bank financing.

Water Code §13.183(b) allows the TCEQ to grant an IOU additional revenues

from customers to fund capital improvements. This statute was enacted to address the very problem a small IOU like DUC faces. Taking this statute and a loan application to Infinity Bank of Houston, DUC was able to get a loan for the WWTP project. DUC will not be able to service this loan without the additional capital improvement revenues requested.

**INTERROGATORY NO. 7:**

Please explain all reasons why Douglas does not fund the New or Replacement Water and/or Wastewater Treatment Facility and include those charges in its rates rather than collect a surcharge.

**RESPONSE:** DUC currently does not have the cash or cash flow to operate the utility and service the loan for the WWTP construction. If DUC gets all of its requested cost of service and proposed rates, it will have the cashflow to service the loan without the surcharge. If there is a reduction in the final approved cost of service, DUC will need the surcharge to make up the difference in the revenues needed to service the debt.

**INTERROGATORY NO. 8:**

Please identify the amount of waste water treated by Douglas in the Test Year and the time since the Text Year.

**RESPONSE:** This information will be found in the MORs from TNG that will be made available for inspection upon appointment with the Law Offices of Mark H. Zeppa, PC.

**INTERROGATORY NO. 9:**

Please identify what is the current waste water treatment facility capability or capacity of Douglas' waste water treatment facility.

**RESPONSE:** This information is found in the TPDES permit that will be made available for inspection upon appointment with the Law Offices of Mark H. Zeppa, PC.

**INTERROGATORY NO. 10:**

Please identify what will be the waste water treatment capability or capacity of the New or Replacement Water and/or Wastewater Treatment Facility.

**RESPONSE:** The same as is permitted now.

**INTERROGATORY NO. 11:**

Please identify any projections related to future water and waste water needs of Customers served by Douglas.

**RESPONSE:** With the proposed work on the WWTP, the water and sewer plant

in service should be adequate to meet foreseeable customer demands. No formal projections or studies have been made.

**INTERROGATORY NO. 12**

Please explain the basis for Douglas' rate design structure as specified in the Application.

**RESPONSE:** Douglas has followed the rate design methodology routinely approved by the TCEQ in IOU rate cases and is the basic rate design presented in the TCEQ's rate change application form. It is supported by the American Water Works Association ("AWWA") ratemaking manuals.

**INTERROGATORY NO. 13:**

Please explain why Douglas believes the use of the rate design structure as specified in the Application is just and reasonable in regard to all Customers, all classes of service and/or customer classes served by Douglas.

**RESPONSE:** DUC's customer classes, both water and sewer, are based upon the coincident peak water demand that sized water meter can put on the DUC. The customary 5/8 x 3/4-inch 10 GPM water meter has been used as the base customer class for both water and sewer rates. Differences between customer classes are a function of apply the base 5/8 x 3/4-inch monthly rate times the AWWA meter equivalency factors adopted by the TCEQ in its rate change application form. Uniform gallonage charges are applied to all customer classes regardless of meter size. They only change by the volume of water a customer consumes. Customers in different customer classes based on meter size will pay the same gallonage rate as a customer in another customer class consuming the same amount of water during the same time period. No customer is to be charged a rate that is unreasonably discriminatory or preferential to any other customer in his/her class. This methodology is routinely approved by the TCEQ in IOU rate cases and is the basic rate design presented in the TCEQ's rate change application form. It is supported by the American Water Works Association ("AWWA") M-4 Manual.

**INTERROGATORY NO. 14:**

Please explain why Douglas believes the use of the rate design structure is not discriminatory in regard to all Customers and all classes of service and/or customer classes served by Douglas.

**RESPONSE:** See Interrogatory 13.

**INTERROGATORY NO. 15:**

Please explain why Douglas believes the surcharge amounts requested by Douglas are not discriminatory in regard to all Customers and all classes of service (customer

classes) served by Douglas.

**RESPONSE:** See Interrogatory 6 and 13.

**INTERROGATORY NO. 16:**

Please explain why Douglas believes the surcharge amounts requested by Douglas are just and reasonable in regard to all Customers and all classes of service (customer classes) served by Douglas.

**RESPONSE:** See Interrogatory 6 and 13.

**INTERROGATORY NO. 17:**

Please identify who prepares and sends out the Douglas Customer bills or invoices for both the water service and for the sewage service provided by Douglas.

**RESPONSE:** TNG Utility Corp., See list of persons with knowledge of this case in DUC's Responses to the TCEQ Executive Director's ("ED") first requests for disclosure, interrogatories, requests for production and requests for admissions, Disclosure No. 194(e).