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APPLICATION OF FOREST GLEN §
UTILITY COMPANY TO CHANGE §
RATES §

PUBLIC UTILITY COMMISSION
OF TEXAS

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**FOREST GLEN UTILITY COMPANY'S RESPONSE TO VAN JOHNSON'S THIRD
REQUEST FOR INFORMATION**

TO VAN JOHNSON, 112 Sunrise Hill, Castroville, Texas 78009.

COMES NOW, Forest Glen Utility Company ("Applicant" or "FGU") and submits this Response to Intervenor Van Johnson's Third Request for Information pursuant to Tex. R. Civ. P. 190 through 198 and 16 Tex. Admin. Code § 22.144 ("TAC"). Pursuant to 16 TAC § 22.144(c)(2)(F), these responses may be treated as if they were filed under oath.

Respectfully submitted,

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By:

Helen S. Gilbert

Helen S. Gilbert

ATTORNEYS FOR FOREST GLEN
UTILITY COMPANY

CERTIFICATE OF SERVICE

I hereby certify that I have or will serve a true and correct copy of the foregoing document via hand delivery, facsimile, electronic mail, overnight mail, U.S. mail, or Certified Mail Return Receipt Requested on all parties on the 4th of September 2018.

Helen S. Gilbert

Helen S. Gilbert

**RESPONSE TO VAN JOHNSON THIRD REQUEST FOR INFORMATION TO
FOREST GLEN UTILITY COMPANY**

QUESTION NOS. 3-1 through 3-15

REQUEST FOR INFORMATION NO. 3-1: Did Potranco Ranch developer Mr. Harry Hausman) sign a contractual agreement with McMillin Texas Management Services, LLC, a Texas limited liability company to construct private dwellings and provide waste water reuse to prospective homebuyers?

RESPONSE. No. Also, FGU does not have a contractual relationship with McMillin Texas Development LLC. FGU's requested sewer rate is based on actual costs of service and not on any other agreements or contracts made between other parties.

REQUEST FOR INFORMATION NO. 3-2: Was a contractual agreement signed by McMillin Texas Management Services, LLC and Mr. Harry Hausman, (RE: document 100, p.37, Attachment 1-14) that explained the purposes of Public Improvement District (PID); also outlined in Local Government Code Chapter 372.003(b)(13), which is an assessment to each Potranco Ranch Subdivision owner, at .18 per \$100 of property valuation annually (See Addendum # 1, page 2 (Attachment 1-14 Developer Agreement), to this RFI, for clarification)?

RESPONSE: While Mr. Hausmann is a shareholder and officer of FGU, contracts and agreements he may have signed with other entities have no bearing on FGU's requested rate, which is based solely on the costs of providing service. As we have stated before, FGU receives no funds from the PID.

REQUEST FOR INFORMATION NO. 3-3: In accordance with Local Government Code subchapter of 372.122(b), does FGU reimbursement for expansion of Waste Water Treatment facility? As an immediate follow up, how much monetary reimbursement has the PID provided to FGU for expansion for increased customers since September 2013 to June 28, 2018? The reason for this question is to corroborate Medina County Commissioner #2, Larry Sittre's statement, the PID is paying Mr. Hany Hausman\$1.5M in remuneration for the development of Potranco Ranch Subdivision from the PID.

RESPONSE: As previously stated in answer to your First RFI, the PID has provided \$0 to FGU. The PID does not reimburse FGU for any WWTP expansion costs. FGU recovers its investment costs through rates.

REQUEST FOR INFORMATION NO. 3-4: In your response to my first RFI 1-7, you said Mr. Harry Hausman is a shareholder. However, during a meeting between Mr. Steven Greenberg, CEO FGU, Mr. Cecil Perkins, and me (Van Johnson), two of the Potranco Ranch intervenors, that Mr. Hausman is the majority shareholder, not just a shareholder. Please clarify your response to RFI 1-7.

RESPONSE: Mr. Hausman is the majority shareholder.

REQUEST FOR INFORMATION NO. 3-5: Is Harry Hausman the developer of Potranco Ranch?

RESPONSE: Mr. Hausman is a managing member of 320 Potranco Ranch LLC, which was a developer of the subdivision.

REQUEST FOR INFORMATION NO. 3-6: FGU response to Van Johnson First RFI item 1-9 was "Unknown. Some of these builders have left and been replaced by other builders who may, in turn, also leave. However, 192 lots remain to be sold at this time. You must be aware to the targeted 366 homes to be built in Potranco Ranch Subdivision. How can you derive 192 lots remain without a base number of homes and subtracting the 192 from 366 total is 174 homes have been sold, which befuddles me when you reported in a PUC RFI that 229 connections"? Please rationalize the conflicting statements in your response me and PUC.

RESPONSE: The number of connections may grow over time at varying rates which FGU does not control. The developers and home builder's in FGU's CCN submit their plats to FGU at the time the County approves the platting of lots. FGU plans its capital additions to serve the new customers' homes each year based on the builders' construction schedule. FGU's rate request is based on the cost of providing service to known customers and the expected number of customers in the coming year only. It is not based on potential customers in future years.

REQUEST FOR INFORMATION NO. 3-7: FGU response to Van Johnson's First RFI item 1-10 was that build out of Potranco Ranch Subdivision would be last quarter of 2018 or first quarter 2019. However, according to Mr. Steven Greenberg, CEO FGU, build out would occur in 2021. Your response to Van Johnson's RFI and Mr. Greenberg's conversation supported by his typed handout express a new revelation as opposed to previous documents that build out would occur 2018 or first quarter 2019. Please explain the shifting build out timeline. (Addendum #2 (Schedule II-3 Other Rev), to this RFI is provided for clarification)

RESPONSE: See response to RFI 3-6.

REQUEST FOR INFORMATION NO. 3-8: FGU response to Van John's First RFI item 1-11, we cannot locate the quotation. Addendum #3 (Sched VI Rate Design Fixed), to this RFI is provided for clarification. Please respond to "At build out of 366 customers, base service charge rate would be \$56.37 per month.

RESPONSE: As stated in response to RFIs 3-6, FGU has no control over the number and rate of new home construction. Our rate request is based on the cost of providing service to the current number of customers and expected number of customers in the coming year. As the number of customers grows, the fixed costs are spread out over a larger base and the unit cost of providing service is potentially reduced. However, the information provided in Addendum 5 to your RFI is not part of the current request for rates subject to this proceeding. The information on Page 2 provides only an example of how FGU is planning to achieve the ability to obtain its full return in the future. As Staff's recent recommendation indicates, the current rate necessary to achieve a full return would exceed \$90 per month. In order to mitigate impacts to its customers, FGU has requested a rate of \$65, which is substantially less than the rate needed to recover all of the reasonable and prudent costs of providing service. There are many factors that would affect what a reasonable rate may be in the future. Any of the cost categories may increase or decrease and at the time a request for rate change is submitted in the future, and all of the costs would be submitted, reviewed, and approved at that time.

REQUEST FOR INFORMATION NO. 3-9: Will Potranco Ranch sewer customers bill be reduced to \$56.37 per month using (Addendum # 3 (Sched VI Rate Design Fixed). What does the \$56.37 per month pertain to sewer, reuse, additional fees, or all the above?

RESPONSE: As stated in our response to RFI 3-8, FGU does not know what future rates will or will not be until it submits a future request for a rate change. All of the factors discussed in RFI 3-8 would apply. FGU's current request for rates and any future requests are based only on the costs of providing sewer service.

REQUEST FOR INFORMATION NO. 3-10: FGU response to Van Johnson's First RFI item 1-14, use Addendum # 2 (Schedule II-3 Other Rev) and 4 to respond to First RFI 1-14: "Funds are used to pay for the cost of operating WWT system that are not covered by rates have been established for normal operations and necessary operations and plant expansion". Is not plant expansion covered under Local Government Code subchapter of 372?

RESPONSE: FGU pays all FGU WWTP expansion costs with FGU funds. As previously stated, FGU has not used any PID funds for the FGU sewer system or WWTP.

REQUEST FOR INFORMATION NO. 3-11: FGU response to Van Johnson's first RFI item 1-15 "Generally having a fixed monthly rate reduces costs overall". Cost for customer is ratcheting up, not reducing. A fixed sewer rate regardless of usage is undeniably baffling when the customer will be charged the same for sewer regardless of usage. Example: 2 people in home get charged the same for sewer as a home with 6 or more occupants, i.e., showers, flushes, etc. Please rationalize fairness of equity.

RESPONSE: As we discussed informally and documented by our application and the PUC Staff's prefiled direct testimony, the price that FGU customers have been paying is substantially less than the cost of providing service. Also, as it relates to fixed verses variable costs, as shown on Schedule VI of the Request for Rates, ninety percent (90%) of the costs of providing service are fixed costs. In many jurisdictions throughout Texas, residential sewer rates are a flat fee. FGU's position is that given that 90% of the costs are fixed, having a variable rate to allocate a mere \$6.50 would have a minimal impact on any one individual customer's actual rate. Conversely, the administrative costs of managing variable rates on

such a small scale would increase which FGU would have to add to the rates charged to ratepayers.

REQUEST FOR INFORMATION NO. 3-12: Why is the requested \$30 fixed increase to sewer charge package under sewer rather than a separate line item charge? As explained in responses to PUC, the additional revenue will shore up shortfalls from the loss of Builder fee (\$2,950) once all lots are sold by end of 2018 or first quarter of 2019. See Addendum # 2 and 4 notes to this RFI for referencing of shortfall and or financial recovery.

RESPONSE: The \$30 increase in rates is necessary to meet the actual costs of providing service.

REQUEST FOR INFORMATION NO. 3-14: FGU response to Van Johnson's First RFI item: 1-19 "As demonstrated by over 3 years of operating expenses, \$35.00 per month is actually less than 50% of the actual costs to which FGU is rightfully and legally entitled to collect by law". If the \$35.00 is less than what FGU is rightfully and legally entitled to collect, why did TCEQ establish in 2012 the sewer rate of \$35.00.

RESPONSE: The TCEQ based the original \$35 per month tariff on the application that FGU submitted at that time. FGU management determined that it would initially charge a rate below the cost of service during the start-up of the facility.

REQUEST FOR INFORMATION NO 3-15: Does FGU in looking back over their initial business plan, see that it is financially unworkable, thus reasoning a 46% sewer rate hike, with additional hikes in 2020 (\$4) and 2021 (\$4)? See Addendum #5 to this RFI, provided by Mr. Steven Greenberg for the additional \$8 increases between 2020 and 2021?

RESPONSE: The request for a rate increase is based solely on the cost of providing service today.