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Patterson Professional Services, LLC

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July 21, 2021

Public Utility Commission
P.O. Box 13326
Austin, Texas 78711-3326

RE: Notice of Temporary Rate for Services Provided for a Nonfunctioning Utility - Horseshoe Bend
Water PWS #1840002

Ladies and gentlemen:

As the Temporary Manager pursuant to TCEQ Docket No. 2018-0923-UCR-E Agreed Order for Horseshoe Bend Water System¹ (the “*System*”), I am providing notice that I will immediately begin charging a temporary rate under Texas Water Code §13.046 and 16 Texas Administrative Code §24.147. The temporary rate for this utility is based on the following information and is necessary to provide continuous and adequate service.

I. Background

On July 3, 2019, the Executive Director of the Texas Commission on Environmental Quality (the “*TCEQ*”) issued an Emergency Order, TCEQ Docket No. 2018-0923-UCR-E (the “*Emergency Order*”) pursuant to Tex. Water Code Chapters 5, 13 and 26 and 30 Tex. Admin Code Chapters 35, 291 and 307 with respect to Castle Water Inc., and the Emergency Order appointed me, Mark Patterson of Patterson Professional Services, LLC (“*Patterson*”), as temporary manager of the System.

On July 17, 2019, Patterson provided notice in Commission Case No. 49759-1 that it would immediately begin charging temporary rates under Texas Water Code §13.046 and 16 Texas

¹ Certificate of Convenience and Necessity No. 10263 and Texas Commission on Environmental Quality Identification No. 1840002.

Administrative Code §24.147 because such rates were necessary to provide continuous and adequate service and requested that such emergency rates “remain in effect until this utility is in compliance with PUC and TCEQ rules.”² The temporary rates Patterson requested were as follows:

Meter Size	Minimum Monthly Charge
¾”	\$42.00
1”	\$57.00
2”	\$175.00
Volumetric Charge (for all usage)	\$4.00 per 1,000 gallons
Temporary Tap Fees	\$1,000 for ¾ inch \$1,250 for 1” \$2,500 for 2”

The above rates requested by Patterson pursuant to Case No. 49759-1 are referenced herein as the “*Temporary Rates*.”

On February 12, 2021, the Commission approved an order setting the following temporary rates (the “*Order*”):

Meter Size	Minimum Monthly Charge
5/8 or ¾”	\$34.00
1”	\$49.00
2”	\$167.00
Temporary Manager’s Fee	\$8.00 per connection per month
Monthly Gallonage Charge (for all meter sizes)	\$4.00 per 1,000 gallons
Temporary Tap Fees	\$1,000 for 5/8 or ¾ inch \$1,250 for 1” \$2,500 for 2”

The above rates approved pursuant to Docket No. 49759 are referenced herein as the “*Approved Rates*.”³

II. Analysis

² Application of Mark Patterson for Temporary Rates for Services Provided for a Nonfunctioning Utility, Docket No. 49759, Application at 1 (July 17, 2019).

³ See Case 49759-47 filed February 12, 2021.

The difference between the Temporary Rates and the Approved Rates was the reduction of the Minimum monthly charges for each meter size by \$8.00 and the addition of the \$8.00 per connection per month Temporary Manager's Fee. However, as the acquisition of the System has been completed, the Temporary Manager's Fee is not available to the new owner Horseshoe Bend Water Company LLC ("**HBWC**"), so this change has the effect of reducing projected System revenue by approximately \$48,288 per annum. HBWC has entered into the framework of a Compliance Plan with the TCEQ (the "**Compliance Plan**") which identifies \$103,281 in estimated repair costs (the "**Repair Costs**"). The Approved Rates create a projected shortfall over 12 months of approximately \$48,029 below the estimated cost of restoring the System to compliance pursuant to the Compliance Plan.

The projected annual revenue of the System under its existing tariff is approximately \$245,990. When added to the \$245,990 projected revenue under the System's existing tariff, the \$103,281 in Repair Costs required by the Compliance Plan suggest the target revenue for the System should be approximately \$349,271.⁴

The Temporary Rates were estimated to generate approximately \$349,530 in annual revenue. After reduction for the \$8.00 per connection per month temporary manager fee, the Approved Rates are estimated to generate approximately \$301,242 in annual revenue. The reduction of the minimum monthly charge from \$42.00 to \$34.00 thus reduces projected revenue from \$349,530 (which is only \$259 higher than the amount suggested by adding estimated Repair Costs required by the Compliance Plan to the System's projected revenue under its existing tariff) to \$301,242 (which is \$48,029 below the amount suggested by adding Repair Costs to the System's projected revenue under its existing tariff).

For the ten month period from October 2020 to June 2021, net cash provided by operating activities of the System was \$83,774 and net cash spent on capital expenditures was \$133,860. The deficit of \$51,135 under the prior Temporary Rates equals just over \$5,000 per month and would be exacerbated under the Approved Rates.

⁴ \$245,990 (System's projected revenue under existing tariff) + \$103,281 (Repair Costs in Compliance Plan) = \$349,271.

In addition to the \$133,860 in capital expenditures reflected by the System's financials and the ongoing costs of completing the Compliance Plan, HBWC intends to replace substantially all of the meters that have not already been replaced in the System over the 12-month period ended July 31, 2022 at an additional cost of approximately \$75,829.

III. Authority

Ordering Paragraph 10 of the Order provides "[i]f the temporary rates approved in this Order do not result in a reasonable rate for the services provided to the nonfunctioning utility or to bring the utility into compliance with Commission and TCEQ rules, the temporary manager may implement revised temporary rates and file notice to the Commission of the revised Temporary rates."

IV. Temporary Rates

I have therefore implemented the following rates:

Meter Size	Minimum Monthly Charge
¾"	\$42.00
1"	\$57.00
2"	\$175.00

Volumetric Charge (for all \$4.00 per 1,000 gallons usage)

Temporary Tap Fees	\$1,000 for ¾ inch
	\$1,250 for 1"
	\$2,500 for 2"

I respectfully request the Commission confirm the above rates.

Respectfully yours,



Mark Patterson
Patterson Professional Services
Temporary Manager

Exhibit A

Compliance Plan

Horseshoe Bend Water System

Compliance Plan For TCEQ Enforcement Order

PWS 1840002

CCN 10263

<u>Violation</u>	<u>Citation</u>	Proposed By <u>HBWC</u>	Approved By <u>TCEQ</u>	Estimated <u>Cost</u>	
Failure to equip air compressor injection lines with filtration	290.43(d)(3)	Resolved	NA	-	
Sanitary Control Easements	290.41(c)(1)(F)	6 Months	180 Days	380	
Plant Operations Manual	290.42(l)	6 Months	180 Days	380	
Monitoring Plan	290.121(a) and (b)	6 Months	180 Days	380	
Drought Contingency Plan	288.20(a)	6 Months	90 Days	760	
Customer Service Inspections	290.46(j)	6 Months	180 Days	190	
Backflow Prevention Assembly Test & Maintenance Forms	290.44(h)	6 Months	180 Days	190	
Ground storage tank and pressure tank inspection forms	290.46(m)(1)	6 Months	90 Days	5,380	*
Well calibration	290.46(s)(1)	6 Months	90 Days	380	
Well completion data	290.46(n)(2)	6 Months	180 Days	190	
Failure to maintain the door of the gas chlorine room at both plants	290.42(e)(5)	6 Months	30 Days	2,501	
Failure to provide working well meters (Well No. 1 and Well No. 5)	290.41(c)(3)(N)	6 Months	180 Days	4,000	
Failure to provide a well casing vent on Well #5	290.41(c)(3)(K)	6 Months	90 Days	250	
Failure to provide an all weather access road to each wellsite	290.41(c)(3)(P)	12 Months	365 Days	8,000	
Failure to maintain the GST at the Lower Pump Station free of holes	290.43(m)(4)	15 Months	210 Days	37,900	**
Failure to provide a production capacity of 0.6 gpm per connection	290.45(b)(1)(D)(i)	18 Months	365 Days	30,000	***
Failure to provide a service pump capacity of 0.6 gpm per connection	290.45(b)(1)(D)(iii)	18 Months	365 Days	12,400	****

* Assuming will need to replace both pressure tanks

** Includes the cost to repair, coat interior, and paint exterior

*** Received an ACR on November 24, 2020 for 0.44 gpm / connection

**** ACR received on November 24, 2020 requires 1.30 gpm / connection

103,281
