

Dear Citizens,

In August 2009, the City Council made a decision to increase water and sewer rates. This decision was based on several issues; the most important was that the Utility Fund had lost money in four of the previous six years from 2002 to 2008 and was projected to lose money in 2009. The regular rate increases prior to 2009 did not generate revenues sufficient to cover utility expenses. There were also utility related capital projects on the horizon that would require additional revenues. After a study was conducted, three options were presented to the City Council. The option selected called for a slight increase in the base rate, and an inclining block rate for water and a slight increase across the board for wastewater. An inclining block means that the customers using more water pay a higher rate. For example, all City of Corsicana customers that use over 25,000 gallons in one month pay \$3.25 per 1000 gallons. This included all of the wholesale customers. The wholesale customers are now and have always been charged the same rates as the inside City retail customers of Corsicana. In fact, the majority of the contracts between the City and the wholesale customers require the rates to be the same.

Several wholesale customers disagreed with the rate structure. They did not believe that they should have to pay the additional \$0.25 per thousand gallons and even questioned the motive of the Council for adopting such a structure. Of Corsicana's twenty wholesale customers, ten of them formed a group called the Navarro County Wholesale Ratepayers and protested the rates to the Texas Commission of Environmental Quality, or "TCEQ". Members of the Navarro County Wholesale Ratepayers are Angus Water Supply, Chatfield Water Supply, Corbet Water Supply, Navarro Mills Water Supply, MEN Water Supply, Rice Water Supply, Community Water Supply, and the Cities of Kerens, Blooming Grove and Frost. The basic claim was that the City of Corsicana had abused its monopoly power and that the rates were discriminatory.

The case was referred to the State Office of Administrative Hearings, or "SOAH". The purpose of SOAH is to provide for an impartial third party judge to hear the evidence and make a recommendation to TCEQ. The City engaged Kay Trostle as the City's attorney, and the Ratepayers were represented by Paul Terrill. Both are attorneys in Austin, and are well-versed in ratemaking and water issues. After several days of depositions and then five additional days of testimony and cross examination, the judge drafted a Proposal For Decision. In the Proposal, the Administrative Law Judge, William Newchurch, found that the ratepayers failed to show that if the City had monopoly power there was no abuse. On November 2, 2011, the TCEQ Commissioners unanimously approved the Proposal For Decision. In addition, the Office of Public Interest Counsel, and the TCEQ Executive Director agreed with the Judge. TCEQ held that the new rate structure did not adversely affect the public interest. This exercise cost all customers of the City of Corsicana well over \$250,000.

It is imperative the Council defend its ability to set rates as required to provide service. The most important point is that the wholesale customers on average use 49 percent of the City of Corsicana's total water production while contributing only 38 percent of the monthly revenue. The City is obligated under the wholesale contracts to treat and have available to the wholesale customers much more water than the wholesale customers ever use. This is because the TCEQ regulations require the Wholesalers to

have a contract to supply a certain amount of water per meter even if it is not historically used. As a result, the City is required to treat and have that amount available to satisfy the contract of the wholesale customers but receives no compensation for doing so. It is necessary to plan for future water supply to make sure all the citizens of Navarro County have ample water and the City has capacity to meet the long term contracts for the wholesale customers. The City of Corsicana takes this role very seriously and expects all water customers to share equally in this burden. Every penny will be needed in the future to accomplish this task. Water revenue not spent on infrastructure improvements is a waste. The amount spent defending the City's rates before TECQ would have made the debt service payment on a substantial capital project. The City is the low-cost alternative for all the wholesale customers and wishes to continue a mutually beneficial relationship. The cost to provide clean, safe drinking water will not decrease. I continue to be proud to be your Mayor.

Warmest Regards,

Chuck McClanahan

Mayor