

Thank you Mr. Chairman and Committee members for allowing me to speak to you today. My name is Simon Sequeira. I am one of the owners and the President of Quadvest Utility Company. I am here today to address the committee concerning many of the issues facing IOUs and their customers.

Last year, many of the smaller IOUs joined together to form the Texas Alliance of Water Providers. The TAWP was formed to give smaller utilities a voice in the legislative process, and to tell our story. We were finding that other people were telling our story for us, and we did not like the way our story was being told.

There are many IOUs out there that take pride in serving their water customers for a fair price. Today, I want to tell you a story about one of those companies--my company, Quadvest. Quadvest is a family owned and operated IOU serving approximately 20,000 customers, primarily in Montgomery County. Today, Quadvest is the largest IOU in Montgomery County.

We are very concerned about rapidly escalating water rates. Importantly, Quadvest and most other IOUs have not participated in these extraordinary rate hikes. We do not need those types of hikes to conduct our business and obtain a reasonable return on our investment. To illustrate this point, in 1984, our rates were \$20 flat rate that included 3,000 gallons and \$1.50/1,000 over 3,000 gallons. Today, our rates are \$28.75 flat rate and \$1.75/1,000 gallons. So,

for 10,000 gallons of water Quadvest rates have increased only \$15.75 in 27 years.

We are not unique among the small IOUs in Texas. You will find that the vast majority are able to operate with a reasonable return without the types of rates and rate hikes imposed by the few IOUs that have brought scrutiny on the industry. There are many other IOUs whose rates are lower than Quadvest. My family and I have invested millions of dollars into utility infrastructure over the years and we have experienced rapid growth. Yet, like most other IOUs, we are still able to charge a fair price and make a fair return without unreasonable rate hikes.

We know there are a lot of people out there that believe IOUs overcharge and mistreat their customers. That perception is the result of a few bad actors and is simply not the case for the vast majority of IOUs. Many of us live in and around the communities that we serve. We consider ourselves part of the community, and we behave accordingly.

Allow me to provide one anecdote to illustrate these comments. Quadvest recently acquired a utility called HHJ, Inc. HHJ served about 1,400 people in Decker Prairie, Texas, just north of Tomball. In August of 2007, HHJ, filed for bankruptcy protection. Three months later, in November of 2007, HHJ filed for a rate increase and, despite being on shaky financial ground, began charging its customers the substantially higher proposed rates in February 2008. For various reasons, this rate application

subsequently bounced between SOAH and the TCEQ for over 3 years. During that three-year period, HHJ continued to charge its proposed rates to its customers every month, while it became further delinquent on its financial obligations. Eventually, HHJ ran out of options and the bankruptcy judge lifted the stay in the principal's bankruptcy proceeding, resulting in creditor foreclosures on HHJ's assets, including the water utility assets, in the fall of 2010.

Despite the bankruptcy proceedings, however, HHJ's rate application continued to proceed through the rate hearing process, with HHJ continuing to charge its proposed rates all along the way. By the time the TCEQ Commissioners finally approved the rate for the utility--a rate substantially lower than the proposed rate--the defunct utility had overcharged its customers approximately \$360,000.

Fortunately for the HHJ customers, Quadvest took possession of HHJ's assets in December of 2010. More fortunate for its customers, Quadvest volunteered to refund the customers the overcharged rates. And, let me emphasize . . . Quadvest volunteered to refund the overcharged rates. We had no legal obligation to do so.

With the TCEQ Executive Director's concurrence, Quadvest sought an agreed resolution to the still-pending HHJ rate case beginning in January 2011--under which Quadvest would voluntarily commit to reimburse the customers the overcharged rates as part of the transfer of the utility. For various reasons--legal, procedural, and,

importantly, HHJ's posture--that agreement did not happen. The result was a HHJ rate case that proceeded to the Commission, culminating in an order requiring a defunct utility to reimburse the overcharged rates it had no financial means to reimburse.

Despite all of this, Quadvest maintained its commitment to reimburse those rates--to voluntarily do what defunct HHJ could not do under its TCEQ order obligation. Quadvest is in the process of providing those refunds while substantially improving the water and wastewater service to the former HHJ customers. We look forward to working with you to identify process improvements that will allow utilities like Quadvest to protect customer interests more efficiently.

Thank you for allowing me the opportunity to provide these comments.