

### **3. Why does Frognot WSC have rate increases?**

In May 2002, during a routine State Survey, Texas Commission on Environmental Quality (“TCEQ”) placed Frognot WSC on notice that it was approaching 85% of capacity with the two wells that were in place. TCEQ required Frognot WSC to begin planning for a third well. In October 2004, Frognot WSC was cited by TCEQ during a routine State Survey for not having all plans in place to begin drilling the third well.

At that time, the Frognot WSC Board of Directors began pursuing financing possibilities. After much research, the Board sought financing through the United States Department of Agriculture Rural Development (“USDARD”). While securing the funding, the second war in Iraq began. The war caused prices to go up, which in turn significantly increased the cost of the third well at CR 825 from an original estimate of \$684,000.00 to an actual cost of \$1,109,000.00. In 2006, USDARD made funding available to Frognot WSC. In April 2008, Frognot WSC received approval from TCEQ to place the third well online, which it did.

Unfortunately, in 2006 our country as a whole began to experience an economic meltdown. The Frognot WSC service area was not immune. Income declined. For example, in the prior 20 years, Frognot WSC had average sales of 18 meters per year. In contrast, since 2008, Frognot WSC has sold only 6 meters, even though with the addition of the third well, Frognot WSC has the ability to grow by 640 connections. While income tanked, Frognot WSC’s fixed expenses remained the same.

Rate increases are never popular but are necessary to help keep Frognot WSC moving forward!