

Louisiana Public Service Commission

cc: MV



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September 9, 2022

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**VIA HAND DELIVERY**

Ms. Terri Bordelon  
Louisiana Public Service Commission  
Records and Recordings  
602 N. Fifth St.  
Galvez Bldg. 12<sup>th</sup> Floor  
Baton Rouge, LA 70802

2022 SEP -9 PM 3:34  
LA PUBLIC SERVICE  
COMMISSION

**Re: LPSC Docket No. U-36318 – Louisiana Water Company, Inc., ex parte. In re: Application for an increase in Rates, including interim rates, Approval of Formula Rate Plan, Request for Establishment of Regulatory Asset, and Request for Establishment of an Emergency Reserve Fund.**

Dear Ms. Bordelon,

Enclosed for filing, please find the Pre-filed Direct Testimony of Thomas Broady, which includes a Staff Report and Recommendation with Exhibits. Please do not hesitate to contact me if you have any questions concerning this filing.

Sincerely,

Justin M. Bello  
Staff Attorney

Encl.

cc: Service List

**LOUISIANA PUBLIC SERVICE COMMISSION**

**DOCKET NO. U-36318**

**LOUISIANA WATER COMPANY, EX PARTE**

2022 SEP -9 PM 3:34  
LA PUBLIC SERVICE  
COMMISSION

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*In re: Application for an increase in Rates, including interim rates, Approval of Formula Rate Plan, Request for Establishment of Regulatory Asset, and Request of an Emergency Reserve Fund*

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**TESTIMONY OF THOMAS BROADY**

**ON BEHALF OF THE**

**LOUISIANA PUBLIC SERVICE COMMISSION STAFF**

**September 9, 2022**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Thomas Broady. My business address is the Galvez Building, 12<sup>th</sup> Floor, 602 North 5<sup>th</sup> Street Baton Rouge, LA 70821.

**Q. BY WHOME ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by the Louisiana Public Service Commission (“LPSC” or the “Commission”) as an Auditor Supervisor. My position involves the examination, review, analysis, and evaluation of accounting records, reports, financial statements, and other documents of utilities subject to the jurisdiction of the LPSC.

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.**

A. I earned a Bachelor’s Degree in Education with concentrations in Mathematics and History from Nicholls State University. I then graduated from Western International University with a Master’s Degree in Accounting as well as Master’s Degree in Business Administration. I have been employed by the LPSC since May of 2018 and was previously an Account Manager for a regional service company. Since my employment with the LPSC, I have attended and participated in various educational conferences with the National Association of Regulatory Utility Commissioners (“NARUC”), including rate schools, educational and technical conferences, and annual policy summits on utility regulation. I have also attended and participated in annual financial forums as an active member of the Society of Utility and Regulatory Financial Analysts (“SURFA”).

**Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS REGARDING UTILITY RATES?**

A. Yes. In addition to preparing to various Staff memoranda, reports and recommendations, and cost of capital studies, I have presented testimony on numerous occasions before the Commission in various dockets and proceedings.

**Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

A. I am testifying on behalf of the LPSC Staff.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose of my testimony is to provide an objective recommendation to the Commission concerning a requested rate increase by Louisiana Water Company (“LAWCO” or “the Company”) along with its request to implement a Formula Rate Plan (“FRP”), its request for a Regulatory Asset, and its request for an Emergency Reserve Fund.

**Q. WHEN DID THE COMPANY SUBMIT ITS APPLICATION REQUESTING AN INCREASE IN RATES?**

A. The Company filed its application requesting an increase in rates on March 29, 2022.

**Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE COMPANY IN TERMS OF ITS SERVICE TERRITORY AND THE NUMBER OF CUSTOMERS IT SERVES.**

A. The Company is a for-profit public utility providing metered water services to approximately 29,954 residential and 4,029 commercial customers in Acadia, Avoyelles, Calcasieu, Iberia, Rapides, and St. Landry Parishes in Louisiana.

**Q. DID YOU REVIEW THE COMPANY'S APPLICATION?**

A. Yes. I reviewed the Company's application, all supporting documents filed with the application, as well as responses to formal data requests provided by the Company.

**Q. WHAT DID THE COMPANY REQUEST IN ITS APPLICATION?**

A. The Company requested an increase in metered water rates that would generate approximately \$1,255,834 in additional revenues with an 10.25% Return on Equity ("ROE") and a 6.28% Return on Rate Base ("ROR"). As requested, the minimum bill would increase \$1.35 for all in-town customers, \$1.50 for all out-of-town customers, and a typical customer using an average of 4,191 gallons of water per month would see an approximate increase of \$2.03 in their monthly water bill.

The Company's proposed metered water rate increase is as follows:

Louisiana Water Company  
Docket No. U-36318  
**Comparison of Present, Proposed and Recommended Rates**  
**For Residential, Commercial, and Public Authority Water Services For 2021**

	Present Rates	Proposed Rates	Proposed (\$) Increase	Proposed (%) Increase
<b>Crowley, DeQuincy, Eunice, Lecompte, Mansura</b>				
<i>In-Town</i>				
First 2,000 gallons, or less	\$16.50	\$17.85	\$1.35	8.18%
All Excess per 1,000	\$3.60	\$4.03	\$0.43	11.94%
<i>Out of Town</i>				
First 2,000 gallons, or less	\$19.10	\$20.60	\$1.50	7.85%
All Excess per 1,000	\$3.60	\$4.03	\$0.43	11.94%
<b>New Iberia:</b>				
<i>In-Town</i>				
First 2,000 gallons, or less	\$16.50	\$17.85	\$1.35	8.18%
All Excess per 1,000	\$4.14	\$4.45	\$0.31	7.49%
<i>Out of Town</i>				
First 2,000 gallons, or less	\$19.10	\$20.60	\$1.50	7.85%
All Excess per 1,000	\$4.14	\$4.45	\$0.31	7.49%

In addition to an increase in metered water rates, LAWCO asked for the implementation of interim water rates. The Commission granted this request at the April 27, 2022 Business and Executive Session and LAWCO implemented 4.31% of the requested increase at that time.

LAWCO's application also asked for the implementation of a Formula Rate Plan ("FRP") with a term of three years for test years ending December 31, 2022, 2023, and 2024 with Annual Filings dues March 1, 2023, 2024, and 2025. The requested FRP asked for calculated ROE dead band with a lower limit of 9.75% and midpoint reset of 10.25%, and an upper limit of 10.75%.

LAWCO's application further asked that they be able to recover the costs associated with the application for a rate increase including but not limited to the

legal costs and outside consultant fees associated with the request through creating a regulatory asset that could be recouped over a three year term.

Finally, LAWCO requested the authority to create an Emergency Reserve Fund with each customer contributing \$1.05 per month for a period not to exceed 12 months to put approximately \$428,117 aside for the sole use of emergency repairs and restoration efforts.

**Q. WHAT DID LAWCO PROVIDE IN SUPPORT OF ITS REQUESTED RATE INCREASE?**

**A.** Along with its application, LAWCO provided financial information for the years ending December 31, 2020 and 2021, including Income Statements and Balance Sheets. LAWCO also provided its 2016 and 2017 General Ledgers, Depreciation Schedules, Bank Statements, Income Tax Returns, Billing Registers, as well as copies of loan agreements, lease agreements, and two sets of data responses. The Company also provided a detailed list of capital improvements completed in 2020 and 2021 totaling \$5,167,868, which included a description of the improvements, the cost, and the date of completion.

**Q. WHAT WAS THE AGREED UPON TEST YEAR BETWEEN AUDIT STAFF AND LAWCO?**

**A.** The Company and Audit Staff agreed to utilize the calendar year end of December 31, 2021 as the test year, with 2020 for comparison.

**Q. HOW DID YOU EVALUATE LAWCO'S REQUEST FOR A RETURN ON EQUITY OF 10.25% AND A RATE OF RETURN ON RATE BASE OF 6.28%?**

**A.** I reviewed the Company's application and accompanying exhibits, along with financials, detailed documentation, and responses to Staff's data requests. I also reviewed the Company's capital expenditures and determined that they were prudent. I reviewed the Company's own cost of capital and capital assets pricing model provided in the application as well. I also reviewed other Class A Water and Wastewater utilities in Louisiana that have recently been approved a rate increase and an accompanying FRP. The Company requested in its application an ROE of 10.25% and an ROR of 6.28%. After conducting a review of the revenues and capitalization of the Company, the requested initial rates were only generating enough revenue for a 9.75% ROE and a 6.07 ROR based on the Company's filing. The Commission has recently granted other Class A Water and Wastewater Utilities, Inc. of Louisiana and Magnolia Water Utility Operating Company, recent rate increases which included the use of a FRP. The approved rates in those cases had ranges from 9.0% to a 10.0% ROE with annual reviews. Based on the Company's rates requested in the application, the cost of capital study provided in the application, along with similarly sized Company rate increases approved in the last calendar year, I believe that the requested rates for the initial increase using an ROE of 9.75% is reasonable.

**Q. HOW WAS THE COST OF DEBT CALCULATED?**

A. The cost of debt was calculated using the weighted rates of two (2) separate loans with rates ranging from 3.41% to 3.57%. The total amount for all loans was \$25,000,000. As explained in more detail in the Exhibit F, the percentage of each debt was multiplied by its rate to calculate a weighted cost of each loan. The weighted cost of each loan was added together to calculate the total cost of debt of 3.47%.

**Q. WHAT ARE THE RESULTS OF THE WEIGHTED AVERAGE COST OF CAPITAL CALCULATION?**

A. The WACC shows the overall return required by a company to cover both cost of debt and cost of equity. The WACC is calculated by multiplying the appropriate portion of the capital structure by the cost of debt and cost of equity. The weighted returns for debt and equity are then added together for an overall return. When using 9.75% ROE for equity, the WACC calculation for LAWCO was calculated to be 6.08%. Exhibit F has this provided in more detail.

**Q. WHAT IS YOUR CONCLUSION IN REGARDS TO THE ROE USED IN THE INITIAL RATE CHANGE AND FOR THE FRP MOVING FORWARD?**

A. My conclusion was to agree with the requested rates that generated an approximately 9.75% ROE for the initial rate setting. Moving forward with the

FRP, my conclusion would be to use a dead band with an ROE with an upper limit of 10.0%, a lower limit of 9.0% and a midpoint reset of 9.5%.

**Q. USING STAFF'S RECOMMENDED ROE OF 6.75%, WHAT ROR ON RATE BASE DID AUDIT STAFF DETERMINE?**

Using the recommended ROE of 9.75%, I calculated an 6.07 % ROR on rate base using LAWCO's adjusted income statement and an 6.08% ROR on rate base using Staff's adjusted income statement for the Company. The difference comes from \$3,000 in disallowances that Staff had to operating expenses that the Company did not have.

**Q. HOW DID YOU DETERMINE THE COMPANY'S REVENUE REQUIREMENT?**

A. I used the financial data provided in the Company's December 31, 2021 Balance Sheets, along with the additional Cash Working Capital, to calculate a rate base total for the Company. I then multiplied the ROR by the rate base amount in order to determine the earnings required and made the same changes for tax increases that the Company provided in its application. The Rate Base total determined was \$25,936,762.81. When divided into the December 31, 2021 Adjusted Net Operating Income amount of \$1,251, 713, the result provided the actual earned ROR on rate base of 3.48%. I then applied Staff's recommended ROE of 9.75% into the rate base calculations and included the additional revenues of \$1,201,308

from the requested and recommended increase in metered rates. The result was a 6.07% ROR as adjusted by the Company and a 6.08% ROR as adjusted by Staff.

**Q. DID YOU RECOMMEND THAT THE INITIAL RATE INCREASE BE APPROVED AS REQUESTED?**

A. I did with the understanding that this increase would be for a 9.75% ROE to set rates to provide an ROR of 6.08%. The metered rates to get LAWCO to these numbers are the same metered rates the Company sought in the application.

**Q. DID YOU RECOMMEND THAT LAWCO BE ALLOWED TO IMPLEMENT A FORMULA RATE PLAN AS REQUESTED?**

A. I did recommend that LAWCO be allowed to implement an FRP but with a few changes to the language provided in the request. There was language included in the FRP that LAWCO had added that included the use of a System Acquisition Regulatory Asset ("SARA") as well as language that would have allowed them to remove the cost of its preferred stock prior to any calculated return on equity determinations. The SARA component of the FRP was designed by Staff in other dockets to address issues that are not present with LAWCO. Those issues include a significant number of acquisitions of water and wastewater systems in varying degrees of disrepair. LAWCO has not made a significant number of acquisitions that would warrant them not needing to wait for FRP review periods to address those concerns for costs. The language asking to include the cost of preferred stock prior to any calculated ROE determinations has not been included in any prior FRP language that Staff reviewed and would open arbitrarily increase the Company's earnings on equity.

**Q. CAN YOU PROVIDE A SUMMARY OF THE RECOMMENDED FRP?**

A. Yes. The recommended FRP would be for a term of three years with test years ending December 31, 2022, 2023, and 2024 with annual filings occurring on or before March 1, 2023, 2024, and 2025. The FRP would consist of a calculated return on equity dead band with a lower limit of 9.00%, an upper limit of 10.00%, and a midpoint reset of 9.5%. If earnings in a test year fall within the dead band, no rate reset would be necessary. If earnings fall above or below the dead band a rate reset would occur to the 9.5% reset.

**Q. WHAT DID YOU RECOMMEND IN REGARDS TO THE COMPANY'S REQUEST TO CREATE A REGULATORY ASSET?**

A. Audit staff agrees with the treatment of the cost of the regulatory filings. This is a standard practice where we want the Company to be able to recoup those costs over time. Audit Staff is recommending that they be allowed to do so over a three year period with reporting to occur in each of the test years of the FRP to ensure that no double recovery of those expenses occur.

**Q. WHAT DID YOU RECOMMEND IN REGARDS TO THE COMPANY'S REQUEST TO ESTABLISH AN EMERGENCY RESERVE FUND?**

A. LAWCO is requesting to implement an emergency fund in case the need arises for emergency repairs, restoration efforts, etc. Staff agrees that our recent history of winter storms, hurricanes, and pandemic responses have been a significant financial undertaking for all of our utilities. LAWCO is seeking approximately \$428,117 which would come from a monthly surcharge to customers of \$1.05 for a period not to exceed 12 months. The fund would be dedicated solely to emergency repairs

and restoration efforts and any use of the funds would be reported in the annual FRP filings to ensure that no double recovery of those expenses occur.

**Q. DID YOU HAVE ANY OTHER RECOMMENDATIONS?**

A. Yes. Audit Staff is recommending the following:

1. LAWCO be authorized to earn an increase in annual revenues in the amount of \$1,201,308.00 in order to earn a Return on Rate Base of 9.75%, following completion of the following: (1) the issuance of an Order in this matter, (2) LAWCO's filing into the record of this proceeding a final revised tariff and Rider Schedule FRP consistent with the Order, and (3) Staff's review and acceptance of the revised tariff and Rider FRP.
  
2. In order to achieve the authorized revenue increase, LAWCO be authorized to increase its metered water rates as follows:

	Present Rates	Recommended Rates	Recommended (\$) Increase
<b>Crowley, DeQuincy, Eunice, Lecompte, Mansura</b>			
<i>In-Town</i>			
First 2,000 gallons, or less	\$16.50	\$17.85	\$1.35
All Excess per 1,000	\$3.60	\$4.03	\$0.43
<i>Out of Town</i>			
First 2,000 gallons, or less	\$19.10	\$20.60	\$1.50
All Excess per 1,000	\$3.60	\$4.03	\$0.43
<b>New Iberia:</b>			
<i>In-Town</i>			
First 2,000 gallons, or less	\$16.50	\$17.85	\$1.35
All Excess per 1,000	\$4.14	\$4.45	\$0.31
<i>Out of Town</i>			
First 2,000 gallons, or less	\$19.10	\$20.60	\$1.50
All Excess per 1,000	\$4.14	\$4.45	\$0.31

3. LAWCO be ordered to continue its compliance with all Louisiana Department of Health and Environmental Protection Agency compliance standards.
4. LAWCO is authorized to recover prudently incurred costs through a Formula Rate Plan, subject to the terms and conditions recommended herein. The FRP shall be subject to a three-year term, to include test-years ending December 31 of 2022, 2023, and 2024. Attached hereto as **Exhibit 1-FRP** is the proposed Rider FRP, which defines the procedure by which the rates in Magnolia's rate schedule may be periodically adjusted during the term of the FRP.
5. LAWCO shall submit its annual FRP filing based on the test year ending December 31<sup>st</sup> no later than March 1<sup>st</sup> of the Filing Year, with the initial filing due by March 1, 2023 for the 2022 test year.
6. Annual FRP Filings shall be developed from independently audited financial statements maintained in accordance with the NARUC Chart of Accounts for Class A Water and Wastewater Companies.
7. Staff and any intervenors will have until June 1 of the Filing Year to review and propose any deficiencies or corrections. The Company shall then have until July 1 of the Filing year to review any proposed deficiencies or corrections and to file a revision to the proposed FRP Rate changes, if necessary.
8. Any FRP Rate Changes shall become effective on August 1, for bills rendered on and after the first billing cycle for the month.
9. Rate increases or reductions will be uniformly implemented through adjustments to the base charge for all residential and commercial water and wastewater customers.
10. To the extent that a rate increase authorized by the final order during the Filing Year results in lower rates than an August 1<sup>st</sup> rate adjustment do customers, refunds must be issued to said customers, plus interest, applied at the Company's WACC.
11. CWIP is disallowed from inclusion in rate base.
12. Net Income will be based on actual test year results, and adjusted for any known and measurable changes, subject to Staff's review.
13. Rate case expenses incurred in Docket U-36318 will be amortized over the three-year term of the FRP. LAWCO shall provide calculations showing the amortization

of these expenses and the reduction of the associated regulatory asset in each of the Test Year Filings.

14. If LAWCO's capitalization increases its equity above 50% in any of the test year filings, then a hypothetical 50/50 capital structure will be used when determining return on rate base.
15. For the purposes of determining the necessity of a rate adjustment, a dead band equal to 50 basis points above and below the allowed midpoint ROE of 9.5% will be established.
16. To the extent that the earned ROE falls within the dead band, no rate changes shall be made.
17. To the extent that the earned ROE falls more than 50 basis points above or below the allowed midpoint ROE of 9.5%, a rate change shall be made to apply a midpoint ROE reset.
18. The earnings bandwidth for the FRP shall be a range of values with a lower limit equal to 9.00% ROE, a midpoint of 9.5% ROE, and an upper limit of 10.00% ROE.
19. LAWCO be authorized to establish an emergency reserve fund. For this purpose, they will be authorized and to collect a surcharge of approximately \$1.05 per customer for a period not to exceed twelve (12) months. These funds must be solely used for emergency repairs and/or restoration of service efforts after an emergency. LAWCO must submit, in its annual Test Year Filings, the balance of these funds. Any expenses covered by these funds must be removed from test year expenses. If these funds are expended, and the Company intends to replenish these funds, LAWCO must seek approval from the Commission.

**Q. DO YOU BELIEVE STAFF'S RECOMMENDATION IS FAIR, REASONABLE, AND IN THE PUBLIC INTEREST?**

**A.** Yes, I do.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

**A.** Yes, it does.

BEFORE THE  
LOUISIANA PUBLIC SERVICE COMMISSION

DOCKET NO. S-36318

LOUISIANA WATER COMPANY, INC.,  
EX PARTE

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*In Re: Application for an increase in Rates, including interim rates, Approval of Formula Rate Plan, Request for Establishment of Regulatory Asset, and Request for Establishment of an Emergency Reserve Fund*

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AFFIDAVIT

STATE OF LOUISIANA

PARISH OF EAST BATON ROUGE

BEFORE ME, the undersigned notary public, duly qualified and commissioned in and for the State and Parish aforesaid, personally came and appeared, THOMAS BROADY ("Affiant"), Auditor Supervisor with the Louisiana Public Service Commission, who after being duly sworn, did depose and say that Affiant prepared and reviewed the above and foregoing Testimony; that the matters contained therein are true and accurate to the best of Affiant's knowledge, information, and belief; and that the Affiant adopts the same as his sworn testimony in this proceeding.

FURTHER AFFIANT SAYETH NOT.



Thomas Broady

Auditor Supervisor

Louisiana Public Service Commission

SWORN TO AND SUBSCRIBED before me this 9<sup>th</sup> day of September, 2022.



NOTARY PUBLIC

Bar Roll # 25039

My commission is for life.

**LOUISIANA PUBLIC SERVICE COMMISSION**

**AUDIT MEMORANDUM**

**FOR**

**Louisiana Water Company  
Docket No. U-36318**

**Prepared by: Thomas Broady**

**September 9, 2022**

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## SUMMARY

Louisiana Water Company (“LAWCO” or “the Company”) filed an application with the Louisiana Public Service Commission on March 29, 2022, requesting authority for an initial increase and adjustment in retail rates, approval of formula rate plan, request for interim rates, request for establishment of regulatory assets, and request for establishment of emergency reserve fund (“Application”). The Application was published in the Commission’s Official Bulletin #1268, dated April 1, 2022, for a fifteen (15) day intervention period. No interventions were filed. The Company provides water services to approximately 29,954 residential customers and 4,029 commercial customers in Acadia, Avoyelles, Calcasieu, Iberia, Rapides, and St. Landry Parishes in Louisiana.

The Application stated that an increase is necessary because current rates are insufficient to cover current operating expenses necessary for providing high quality water services, do not provide for a fair rate of return on investment, do not cover costs associated with proposed upgrades, and are not sufficient to cover capital improvements and expenditures that are underway, as well as those needed in the immediate future. The Company’s last rate case was granted in May 2019 pursuant to Commission Order No. U-35100 and was based on a 2017 test year. The Company asserts that since the 2017 test year, it has spent approximately \$20.7 million on upgrades and improvements to its assets. Due to the increase in rate base, LAWCO’s actual Return on Equity (“ROE”) earned in 2021 was 2.12%. LAWCO’s previously authorized ROE is 11.25%, which is significantly above the current ROE of 2.12%.<sup>1</sup> As a result, LAWCO’s rates are below the level necessary to provide an adequate return on investment.

The Company is requesting an increase in its metered water rates for residential, commercial and public authority customers in the total amount of \$1,255,834 per year that would generate a 10.25% ROE and an approximate 6.28% Return on Rate Base (“ROR”). As requested, an average customer, using 4,950 gallons per month, would see a \$2.51, or an 8.59%, increase in their monthly bill.<sup>2</sup>

In its application, LAWCO also requested authority to grant interim rate relief. The application indicated that the Company had dramatic increases in its cost of power and chemicals, as well as lime sludge removal expenses, that necessitated the increase. At the April 27, 2022 Business and Executive Session, the Commission granted LAWCO the authority to implement a 4.31% interim increase in its metered water rates.<sup>3</sup>

In its application, LAWCO requested authority to implement a Formula Rate Plan (“FRP”). The Company asserted that the initial increase in rates would allow LAWCO to maintain rate stability and ensure that the utility maintains financial integrity and a sound financial condition, allowing LAWCO to continue to provide safe and reliable water services to its customers. The proposed FRP calls for yearly reviews of submitted financial information with appropriate revenue and

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<sup>1</sup> LAWCO was authorized an 11.25% ROE and a 8.34% ROR in Docket No. U-35100.

<sup>2</sup> Based on the Company’s average customer count and consumption totals included in the Application.

<sup>3</sup> See Order No. U-36318 dated May 10, 2022.

expense adjustments in the form of a Rider applied to all base rate revenues. The proposed FRP would adjust rates using a proposed ROE bandwidth of 9.75% to 10.75%, with a midpoint level of 10.25%. In the proposed FRP, if revenue levels were to fall below or exceed the bandwidth, rates would be reset to the 10.25% midpoint.

In the Application, LAWCO asked that a regulatory asset be established for the filing costs related to the instant filing, including but not limited to legal and outside consulting costs, and that such costs be amortized over three (3) years and be recoverable within the mechanics of the FRP or via surcharge.

Additionally, LAWCO requested that the Commission authorize a reserve fund on a minimum target balance equal to approximately one (1) month of the Company's operating costs, which is approximately \$428,117. The reserve fund will provide for costs associated with emergencies of the system and would aid the Company in its ability to cover unexpected expenses that arise in the course of providing water services. In order to fulfil this surcharge, LAWCO is requesting to collect \$1.05 per month surcharge per customer to be deposited into an Emergency Reserve Fund for a period not to exceed twelve (12) months. The surcharge would be listed as an individual line item on each customer bill and be solely dedicated for emergency repairs, costs associated with maintaining service, and restoration efforts.

Staff reviewed the Company's application and accompanying exhibits, along with financials, detailed back-up documentation, and responses to Staff's data requests. Staff also reviewed the Company's capital expenditures and determined that they were prudent. All parties agreed to a December 31, 2021 test year. Staff prepared exhibits to show the Company's proposed increase as well as Staff's recommended increase.

Staff ultimately determined that LAWCO's requested rates were justified, but that the requested rates would result in an ROE of 9.75%. Staff believes that this ROE is justified for the initial rate increase in order for the Company to continue to attract capital from debt sources. Staff recommends an initial rate increase as requested by LAWCO that would generate additional annual revenues in the amount of \$1,201,308. Staff also recommends the implementation of a Formula Rate Plan, with changes, for a three-year term, with the test years being 2022, 2023, and 2024. Staff further recommends the approval of the use of a regulatory asset, to be included in the FRP annual filings, for recovery of expenses associated with the rate application, and that LAWCO be allowed to implement a surcharge of \$1.05 per customer, per month, for a period of 12 months, to create an Emergency Reserve Fund.

## **BACKGROUND**

LAWCO was established in 1983 when it acquired the water utility assets and service operations of Central Louisiana Electric Company in the communities of Crowley, DeQuincy, Eunice, Lecompte, Loreauville, Mansura and New Iberia. The Company has continued to grow and now serves approximately 29,954 residential and 4,029 commercial customers in Acadia, Avoyelles, Calcasieu, Iberia, Rapides, and St. Landry Parishes.

The Company is a wholly owned subsidiary of Utility Holdings, Inc (“UHI”). However, UHI does not directly own or operate any utility assets nor does it have any employees or provide any services to LAWCO. As such, UHI is not a regulated utility company. LAWCO is affiliated with Baton Rouge Water Company (“BRWC”), an LPSC regulated utility company, through common ownership, as UHI owns 84% of BRWC. BRWC provides back-office support for LAWCO that includes billing, collecting, accounting, human resources and data processing support.

The Company’s principal address is 8755 Goodwood Boulevard, Baton Rouge, Louisiana 70806. LAWCO’s principal officers include W. E. Edrington, III, President; Hays D. Owen, Secretary and Assistant Treasurer; Roger A. Simmons, Treasurer and Assistant Secretary; and Peter R. Hollis, Vice President-Engineering. Directors include Eugene H. Owen, William Gregory Jones, Patrick J. Kerr, Hays D. Owen, and Davis J. Lauve.

## **PREVIOUS RATE INCREASE (Order No. U-35100)**

According to LAWCO’s Water Tariff, the Company was granted its last rate increase in Commission Order No. U-35100, dated May 20, 2019.

The Company was allowed to increase its *in-town* rates for customers in Crowley, DeQuincy, Eunice, LeCompte, and Mansura from \$14.90 to \$16.50 and out-of-town rates from \$17.06 to \$19.10. In addition, rates for these customers in excess of 2,000 gallons increased from \$3.07 to \$3.60 per 1,000 gallons.

The Company was allowed to increase its *in-town* rates for customers in New Iberia from \$14.90 to \$16.50 and out-of-town rates from \$17.06 to \$19.10. In addition, rates for these customers in excess of 2,000 gallons increased from \$3.88 to \$4.13 per 1,000 gallons.

This increase in rates provided additional revenues in the amount of \$1,434,935 per year, an 11.25% ROE, and a 8.34% ROR.

## **COMPANY’S REQUEST**

On March 29, 2022, LAWCO filed an application with the Louisiana Public Service Commission requesting authority for an initial increase and adjustment in retail rates, approval of formula rate

plan, request for interim rates, request for establishment of regulatory assets, and request for establishment of emergency reserve fund. The Company's request was published in the Commission's Official Bulletin #1268, dated April 1, 2022, for a fifteen (15) day intervention period. No interventions were filed.

The Company claimed that an increase is necessary because current rates are insufficient to cover current operating expenses, do not provide for a fair rate of return on investment, do not cover cost associated with proposed upgrades, and are not sufficient to cover capital improvements and expenditures that are underway as well as needed in the immediate future. The Company asserts that since the 2017 test year, it has spent approximately \$20.7 million on upgrades and improvements to its assets. Due to the increase in rate base, LAWCO's actual Return on Equity ("ROE") earned in 2021 was 2.12%. LAWCO's previously authorized ROE is 11.25%, which is significantly above the current ROE of 2.12%.<sup>4</sup> As a result, LAWCO's rates are below the level necessary to provide an adequate return on investment.

The Company is requesting an ROE of 10.25% and an ROR of 6.28% ROR. In order to achieve these returns, the Company is requesting an increase in its metered water rates for residential, commercial, and public authority customers in the total amount of \$1,255,834 per year. As requested, an average customer using 4,950 gallons per month, would see a \$2.51, or an 8.59% increase in their monthly bill. (See Exhibits A, A-1, and A-3)<sup>5</sup>

### **AUDIT STAFF'S REVIEW AND ANALYSIS OF COMPANY'S REQUEST**

The Commission's Audit Division conducts rate analyses in accordance with accounting and regulatory principles established by the National Association of Regulatory Utility Commissioners ("NARUC"). The Audit Staff utilizes NARUC's Chart of Accounts as a guide for review and assembly of financial data for utility companies. In fact, the Audit Staff encourages all regulated water utility companies to establish and/or incorporate NARUC's complete listing of accounts within its respective accounting system. The Audit Staff also requests that a water utility adhere to the NARUC guidelines of capitalizing assets on the balance sheet versus expensing on the income statement, as well as following NARUC categories for utilities: Class A, B or C, which are based on annual revenues. The monetary levels for capitalizing are as follows:

1. Class A (Revenues of \$1,000,000 or more) monetary level for capitalizing is \$750.<sup>6</sup>
2. Class B (Revenues of \$200,000 to \$999,999) monetary level for capitalizing is \$400.
3. Class C (Revenues less than \$200,000) monetary level for capitalizing is \$150.

Audit Staff also encourages a utility to utilize a straight-line depreciation method for all fixed assets based on the IRS Publication 946, Appendix B, when determining the recoverable life of assets, as this is the method followed by Staff during rate reviews.

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<sup>4</sup> LAWCO was authorized an 11.25% ROE and a 8.34% ROR in Docket No. U-35100.

<sup>5</sup> Based on the Company's average customer count and consumption totals included in the Application.

<sup>6</sup> LAWCO is classified as a Class A utility.

Once Audit Staff has made all necessary adjustments pursuant to the above-referenced guidelines, Audit Staff then determines the appropriate rate-setting methodology in order to determine the Company's revenue requirement.<sup>7</sup> Considering that LAWCO has over \$30 million in net utility plant assets, Audit Staff chose to use the return on rate base method. This method is intended to provide for an adequate return on capital invested by the Company.

Audit Staff then utilizes specialized accounting practices of public utilities, as outlined in the Deloitte and Touche ("D&T") Regulated Utilities Manual to determine a utility's Cash Working Capital, which is then added to rate base in order to determine the necessary revenue requirement.

Audit Staff then conducts a cost of capital study in order to determine an appropriate ROE and ROR on rate base. Then, Audit Staff applies the returns to rate base calculations in order to determine the Company's revenue requirement.

The Company and Audit Staff agreed to utilize the calendar year end of December 31, 2021 as the test year, with 2020 for comparison. Audit Staff has agreed to utilize the Company's audited 2021 data as verification for LAWCO's pro forma requested adjustments. The Company provided financial information for the years ending December 31, 2020 and 2021, including Income Statements and Balance Sheets. LAWCO also provided its 2020 and 2021 General Ledgers, Depreciation Schedules, Bank Statements, Income Tax Returns, Billing Registers, as well as copies of loan agreements, lease agreements, and two sets of data responses.

The request included the use of Construction Work in Progress ("CWIP") to be included for approximately \$5,167,868. Since the Commission usually only authorizes a return on investment that is in use and useful, LAWCO provided Staff with a full understanding of what projects were included in the total amount of CWIP and what the in-service date was or was expected to be.

In addition, LAWCO provided explanations and back-up documentation to justify known pro forma increases to its operating expenses that occurred during 2021, for deductions in Interest on Long Term Debt of approximately \$128,213, and an Amortization of Debt Expense of approximately \$4,785.

### **Projected Increase in Rates and Monthly Bills (Exhibits A & A-1)**

Audit Staff prepared Exhibit A to show the present, proposed, and recommended rates for the Company. Utilizing average monthly water consumption totals provided by the Company,<sup>8</sup> Audit Staff formulated Exhibit A-1 to demonstrate the effect the requested and recommended rates would have on customers' average monthly bill.

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<sup>7</sup> The Audit Division generally uses either Return on Rate Base, Operating Margin Ratio, or Debt Service Coverage Ratio when determining a company's revenue requirement.

<sup>8</sup> Average consumption and customer counts were provided by LAWCO in responses to data requests and this information was used to determine customer counts and average water usage.

If the rate increase is approved as requested, the minimum monthly bill for all *in-town* customers using 2,000 gallons or less will increase from \$16.50 to \$17.85, in the amount of \$1.35 or 8.18%. The minimum monthly bill for all *out-of-town* customers using 2,000 gallons or less will increase from \$19.10 to \$20.60, in the amount of \$1.50 or 7.85%.

For New Iberia, average *in-town* residential customers using an average consumption of 4,191 gallons will see an increase in monthly bills from \$25.57 to \$27.60, in the amount of \$2.03 or 7.94%; average *in-town* commercial customers using an average consumption of 14,144 gallons will see an increase in monthly bills from \$66.77 to \$71.89, in the amount of \$5.11 or 7.66%; and average *in-town* public authority customers using an average consumption of 54,440 gallons will see an increase in monthly bills from \$233.60 to \$251.21, in the amount of \$17.61 or 7.54%. For New Iberia, average *out-of-town* residential customers using an average consumption of 4,826 gallons will see an increase in monthly bills from \$30.80 to \$33.17, in the amount of \$2.38 or 7.71%; average *out-of-town* commercial customers using an average consumption of 13,959 gallons will see an increase in monthly bills from \$68.61 to \$73.82, in the amount of \$5.21 or 7.59%; and average *out-of-town* public authority customers using an average consumption of 62,385 gallons will see an increase in monthly bills from \$269.09 to \$289.31, in the amount of \$20.22 or 7.51%.

For all other LAWCO systems, average *in-town* residential customers using an average consumption of 4,873 gallons will see an increase in monthly bills from \$26.84 to \$29.43, in the amount of \$2.59 or 9.63%; average *in-town* commercial customers using an average consumption of 13,327 gallons will see an increase in monthly bills from \$57.28 to \$63.50, in the amount of \$6.22 or 10.86%; and average *in-town* public authority customers using an average consumption of 55,127 gallons will see an increase in monthly bills from \$207.76 to \$231.95, in the amount of \$24.19 or 11.65%. For all other LAWCO systems, average *out-of-town* residential customers using an average consumption of 5,902 gallons will see an increase in monthly bills from \$33.13 to \$36.32, in the amount of \$3.18 or 9.59%; average *out-of-town* commercial customers using an average consumption of 16,696 gallons will see an increase in monthly bills from \$69.41 to \$79.83, in the amount of \$10.42 or 15.01%; and average *out-of-town* public authority customers using an average consumption of 58,293 gallons will see an increase in monthly bills from \$219.15 to \$247.46, in the amount of \$28.31 or 12.92%.

LAWCO explained to Audit Staff that the reason for New Iberia's rates being slightly higher than the Company's other systems is due to the fact that New Iberia has required significantly more improvements than the other systems. However, the Company has attempted to bring the rates closer together over the last several rate case proceedings and anticipates eventually having one uniform rate for all LAWCO customers.

### **Projected Increase in Revenue (Exhibits A-2 & A-3)**

The Audit Staff also prepared Exhibits A-2 and A-3 which illustrate the projected increase in the Company's monthly and yearly revenues based on average customer usage, as well as the average customer count provided by LAWCO. If the Company's proposed rate increase is approved, its

average monthly water revenue will increase from \$1,145,404 to \$1,245,513, for an increase of \$100,109 or 8.74%. Accordingly, the Company's average yearly water revenue will increase from \$13,744,845 to \$14,946,153, for an increase of \$1,201,308 or 8.74%.

**Comparative Balance Sheet for 12/31/2020 and 12/31/2021 (Exhibit B)**

LAWCO submitted its Balance Sheets for the calendar years ending December 31, 2020 and December 31, 2021. The Balance Sheets contained figures pertaining to the assets, liabilities, and net worth of the Company. The Audit Staff reviewed the Balance Sheets and prepared a Comparative Balance Sheet showing the increase or decrease in dollar amounts and percent changes in the dollar amounts.

The Audit Staff used the data contained in the Comparative Balance Sheet to determine if there were any significant variances in the individual assets and liabilities accounts from the prior calendar year to the test year. Audit Staff noted there was a significant decrease in Current Portion of Long-term Debt, which went from \$170,138 to \$0. Audit Staff also found there was a significant increase in Accounts Payable and Accrued Liabilities, from \$1,237,637 to \$1,455,091. Audit Staff reviewed documentation provided by LAWCO and verified that the expenses associated were prudent. Audit Staff also determined that all assets and liabilities were properly recorded on the Balance Sheet per NARUC guidelines. No adjustments were necessary.

**Pro forma Adjusted Balance Sheet Per Company Requested for 12/31/21 (Exhibit B-1)**

Audit Staff used the balance sheet data submitted by the Company for the calendar year ended December 31, 2021. The Company did not provide any Pro forma adjustments to the balance sheet.

**Pro forma Adjusted Balance Sheet Per Staff Recommended for 12/31/21 (Exhibit B-2)**

Audit Staff used the balance sheet data submitted by the Company for the calendar year ended December 31, 2021. Audit Staff did not provide any Pro forma adjustments to the balance sheet.

**Comparative Income Statement for 12/31/2020 and 12/31/2021 (Exhibit C)**

Audit Staff reviewed the Income Statements of LAWCO for the calendar years ending December 31, 2020 and December 31, 2021. The Income Statement measures the Company's financial performance over a specific period of time by providing a summary of its revenues and expenses with both operating and non-operating activities. Audit Staff prepared a Comparative Income Statement showing the increase or decrease in dollar amounts and percent changes in the dollar amounts for the two periods.

Audit Staff used the data contained in the Comparative Income Statement to determine if there were any significant variances in the individual revenue and expense accounts from the prior

calendar year to the test year. Staff found that Net Operating Income decreased significantly from \$1,959,726 in 2020 to \$1,251,713 in 2021, a difference of (\$708,013) or (36.13%). Operating Expenses increased significantly in three categories while income tax expenses decreased. Delivery to Customers increased from \$4,667,697 to \$5,137,407, an increase of \$469,710 or 10.06%. Customer Service and General Administration increased from \$4,637,715 to \$4,993,482, an increase of \$355,767 or 7.67%. Depreciation and Amortization increased from \$2,277,381 to \$2,505,563, an increase of \$228,182. Income Taxes decreased by \$320,042. Audit Staff reviewed the expenses and found that the expenses were prudent. Income Taxes dropped off as earnings dropped for the test year. Depreciation and Amortization increased as new capital projects were finalized and added to the depreciation tables. Increases in salaries, equipment, power, etc., contributed to the significant increases in both Delivery to Customers and Customer Service and General Administration. The change in these expense categories was not met with a similar change in revenues and therefore a significant drop in net operating income occurred for the test year.

Audit Staff found no additional significant variances between the test year and prior year; however, Staff did determine that the Company included certain expenses that are typically disallowed by the Commission as being recoverable from ratepayers. The expenses included political contributions totaling \$3,000. Audit Staff made adjustments as shown in Exhibit C-2.

#### **Adjusted Income Statement with Company Requested 12/31/2021 Adjustments (Exhibit C-1)**

Audit Staff used the Company's December 31, 2021 Income Statement, as filed, to prepare an Adjusted Income Statement. LAWCO's Net Operating Income, as filed, was \$1,251,713, resulting in an ROR on rate base of 3.51%. The Company made no additional adjustments to the as filed income statement.

The Company Adjusted Income Statement matches the as filed Income Statement which indicated a Net Operating Income of \$1,251,713 and a ROR on rate base of 3.51%.

#### **Adjusted Income Statement with Staff Recommended 12/31/2021 Adjustments (Exhibit C-2)**

Audit Staff used the Company's December 31, 2021 Income Statement, as filed, to prepare an Adjusted Income Statement. LAWCO's Net Operating Income, as filed, was \$1,251,713, resulting in an ROR on rate base of 3.51%. Audit Staff made the following recommended adjustments to the test year revenue and expense accounts:

1. Decrease to Customer Service and General Administration of \$3,000 to remove political contributions.

As a result of these adjustments, as well as the adjustments made to Audit Staff's Adjusted Balance Sheet, Audit Staff was able to determine that the Company's adjusted Net Operating Income was \$1,254,713, resulting in an ROR on rate base of 3.52%.

**Pro forma Income Statement with Company Requested Increase (Exhibit D)**

Audit Staff prepared Exhibit D to illustrate the financial impact of the Company's proposed revenue increase, along with the corresponding adjustment to income taxes. The Audit Staff used the Company's Adjusted Income Statement for the calendar year ended December 31, 2021 and made the following requested pro forma adjustments:

1. Adjustment to Metered Sales for an increase of \$1,201,308 as it relates to the Company proposed rates. It should be noted that Audit Staff used customer counts and consumption averages provided by the Company in the application and in discovery to create a schedule that reflected what the increase in rates would mean for revenues. The Company's application indicated that the proposed rates would increase revenue by \$1,255,834. Audit Staff's calculations indicated that those same rates would only increase revenues by \$1,201,308. For comparative purposes Audit Staff chose to use the numbers supported in the workbook here.
2. Adjustment to Income Taxes to reduce Income Taxes by \$56,154, to reduce the as filed Income Statement to statutory rates, and to increase by \$328,197. This was an overall increase in Income Taxes for \$286,940. The Company's adjusted tax rate of 27.32% was provided with supporting calculations. The Company's Exhibit C, Schedule 4, of the Application originally indicated a slightly larger increase but due to the revenue determination change previously mentioned, Audit Staff made a similar adjustment here.
3. Removed Non-Operating Income from Contract Billing and Collecting, Interest Income, and Miscellaneous Income for a total amount of \$398,987. These are typically non-utility focused income activities and they are removed to prevent additional increases in calculated taxes being recovered through rate payers.
4. Removed \$128,213 from Interest on Long Term Debt as it was recalculated using test year pro forma rate base and cost of debt.
5. Removed the Amortization of Debt Expense as it is included in the test year cost of debt.

As a result of these adjustments, as well as the adjustments made to Audit Staff's Adjusted Balance Sheet, Audit Staff was able to determine that the Company's adjusted Net Operating Income was \$2,180,978, resulting in an ROR on rate base of 6.07%.

**Pro forma Income Statement with Staff Recommended Increase (Exhibit D-1)**

Audit Staff prepared Exhibit D-1 to illustrate the financial impact of Staff's recommended revenue increase, along with the corresponding adjustment to income taxes. The Audit Staff used Staff's

Adjusted Income Statement for the calendar year ended December 31, 2021 and made the following requested and recommended pro forma adjustments:

1. Adjustment to increase Metered Sales in the amount of \$1,201,308 to reflect LPSC Staff's recommended increase in rates.
2. Adjustment to reduce Income Taxes by (\$56,154) to reduce the as filed Income Statement to statutory rates and then to increase by \$328,197 for the additional proposed revenues. This was an overall increase in Income Taxes of \$272,043. The Company's adjusted tax rate was provided with supporting calculations that indicated it to be 27.32%.
3. Removed Non-Operating Income from Contract Billing and Collecting, Interest Income, and Miscellaneous Income for a total amount of (\$398,987). These are typically non-utility focused income activities and they are removed to prevent additional increases in calculated taxes being recovered through rate payers.
4. Removed \$128,213 from Interest on Long Term Debt as it was recalculated using test year pro forma rate base and cost of debt.
5. Removed the Amortization of Debt Expense as it is included in the test year cost of debt.

As a result of these adjustments, as well as the adjustments made to Audit Staff's Adjusted Balance Sheet, Audit Staff was able to determine that the Company's adjusted Net Operating Income was \$2,183,978, resulting in an ROR on rate base of 6.08%.

### **Return on Rate Base Calculations (Exhibits E, F, F-1, G & G-1)**

In conducting rate reviews, the Audit Staff generally utilizes one or more of three common rate-setting methodologies in order to determine the Company's appropriate revenue requirement. Considering that LAWCO has over \$30 million in net utility plant assets, Audit Staff chose to use the return on rate base method. This method is intended to provide for an adequate return on capital invested by the Company over and above its costs of operations. Before preparing the rate base calculations, Audit Staff calculated the Company's Cash Working Capital provisions to be added to rate base and evaluated the Company's Cost of Capital in order to adequately determine the revenue requirement.

### ***Cash Working Capital Provisions (Exhibit E)***

Audit Staff prepared a Cash Working Capital provision schedule in order to determine the amount of investor-supplied funds needed to finance operations. This is the average amount of capital, over and above the investment in plant and other separately identified rate base components, provided by investors to bridge the gap between the time expenditures are made to provide service and the time collections are received for that service. This is measured typically by calculating 45 days of operating expenses less depreciation, taxes, purchased power, and any other identifiable

sources not affecting operating expenses. Using 45 days of LAWCO's operating expenses less Interest on Customer Deposits, Depreciation & Amortization, Taxes Other Than Income Taxes, and Income Taxes, Audit Staff calculated an average Cash Working Capital amount of \$1,214,769 to be added to LAWCO's rate base calculations.

### *Cost of Capital Calculations and Comparison (Exhibits F)*

Cost of Capital is defined as the cost of funds used for financing a business, or from an investor's point of view it is the required rate of return on their investments. The cost of capital is the weighted cost of the different classes of capital, debt and equity. The cost of debt is typically the current interest rate on long term debt or an interest rate to be issued in the near future. Unlike the cost of debt, the cost of equity is an implicit cost. The cost of equity is the return that investors expect to make on an investment. Many companies use a combination of debt and equity to finance their businesses, and for such companies, their overall cost of capital is derived from a weighted average of all capital sources, widely known as the weighted average cost of capital ("WACC").

The Company proposed to use a CAPM model to determine the Cost of Capital for LAWCO. The results of the CAPM they provided indicated that an expected Rate of Return for LAWCO should be 10.342%. The Company then included a Size Premium of 3.390% which yielded a total expected rate of return for LAWCO of 13.732%.

The Company's Application requested a ROE of 10.25% and an approximate ROR on rate base of 6.28%, based on the Company's current capitalization. Audit Staff's and the Company's calculations are approximately the same in regards to adjustments to the income statement and the requested pro forma adjustments. There are some slight changes in what Audit Staff disallowed in regard to political contributions, but the overall picture is relatively unchanged. The rates that LAWCO requested in its application and what Audit Staff is recommending are the same. Both the Company's proposed rates and Audit Staff's recommended rates produce additional income of \$1,201,308 and an ROR on rate base of 6.07% and 6.08%. This indicates that the Company's requested rates produce a ROE of approximately 9.75%.

To determine the overall rate of return or return on rate base, Audit Staff calculated LAWCO's Weighted Average Cost of Capital ("WACC"). Using total debt of \$25,000,000, equity of \$15,980,327, and preferred stock of \$1,090,000, from the 2021 balance sheet, LAWCO's capital structure is calculated at 59.42% debt, 37.98% equity, and 2.59% preferred stock. Using LAWCO's weighted cost of debt of approximately 3.5%, the cost of equity of 9.8%, and the cost of preferred stock of 12.00%, the WACC is determined to be 6.08%.

The WACC is determined by multiplying the capital structure by the appropriate cost of debt or equity. The cost of equity is more complicated, since the rate of return demanded by equity investors is not as clearly defined as it is by lenders.

**Capital Structure and Weighted Average Cost of Capital**

	<b>Structure</b>	<b>Cost Rate</b>	<b>Weighted Return</b>
<b>Equity</b>	37.98%	9.75%	3.70%
<b>Preferred Stock</b>	2.59%	12.00%	0.31%
<b>Long Term Liabilities</b>	59.42%	3.5%	2.06%
<b>Total</b>	100.00%		6.08%

Audit Staff determined that the Company’s requested rates provided for a ROR on rate base of 6.08%, with an expected ROE of 9.75%. Staff also looked to other similarly sized water and wastewater companies in Louisiana that have recently been authorized for new water and wastewater rates are using an FRP mechanism. Staff reviewed Docket No. U-35822 where Magnolia Water Utility Operating Company (“Magnolia”) recently requested an increase in rates and to utilize an FRP, as well as Docket No. U-36003 in which Utilities Inc. of Louisiana (“UIL”) requested an extension of its existing FRP. In Docket No. U-35822, Magnolia was granted an initial ROE of 9.5% and a bandwidth with an upper limit of 10.0% and a lower limit of 9.0%. Magnolia was also required to adjust its Capital Structure to a 50/50 debt/equity position over its initial three-year term.<sup>9</sup> In Docket No. U-36003, UIL was granted a three-year extension of its FRP, with a bandwidth with an upper limit of 10.00% and a lower limit of 9.0%. Looking at the information provided by the Company in its Application, its capital structure, and similarly sized water and wastewater providers using a similar rate structure, Audit Staff has determined that the request to initially set rates that produced a 9.75% ROE falls within the same range that the Commission has granted to other regulated water and wastewater utilities in the last calendar year. See Staff Exhibit F for details.

***Rate of Return on Rate Base Calculations (Exhibits G, G-1, and H)***

When Audit Staff conducts its analysis to determine an appropriate rate for a utility under the ROR on Rate Base, it is attempting to determine a rate that will permit an opportunity for the utility to recover its prudently incurred costs and a fair ROR for investors. Audit Staff uses the following formula in its determination:

$$R=O+B(r), \text{ where:}$$

R- is the total revenue requirement needed by the utility seeking the rate increase.

O- is the prudently incurred legitimate operating expenses. Generally, operating expenses are consumed and/or expended within one year, such as salaries, wages, rents, gasoline for trucks, supplies, etc.

B- is the rate base, which is primarily defined as prudently incurred costs for utility-related operations for investments lasting more than one year. Such costs are generally the

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<sup>9</sup> See Order No. U-35822 dated 11/19/2021.

investor-owned plant facilities and other assets used in supplying utility service to the consumer.

r- is the authorized rate of return set by the regulator. This rate of return is made up of the calculated return on the utility's debt, its preferred stock, and the authorized return on equity. The returns on debt and preferred stock are relatively known, but the return required on the equity is an estimate. This overall return is applied to the unamortized portion of the rate base (B).

This investment base ("B") is the amount to which the rate of return ('r') is applied. The realized ROR is the percentage factor obtained by dividing the net operating income from utility operations by the rate base. An adequate rate of return is the percentage factor that, when multiplied by the rate base, produces earnings that will meet the interest and equity requirements of the capital used to support the rate base. The measure of the adequacy of the rate-of-return factor is usually based on cost-of-capital measurements.

Audit Staff prepared Return on Rate Base calculations in order to determine the revenue requirement, as requested by the Company (Exhibit G) and as recommended by Staff (Exhibit G-1). Audit Staff used the financial data provided in the Company's December 31, 2021 balance sheets, along with the additional Cash Working Capital, to calculate rate base for the Company. Audit Staff then multiplied the ROR by the rate base amount in order to determine the earnings required.

Using LAWCO's requested adjustments, Audit Staff calculated a Net Rate Base amount of \$35,936,762.81. When divided by the December 31, 2021 Adjusted Net Operating Income amount of \$1,251,713.00, the result provided the actual earned ROR on rate base of 3.48%. This is below the level necessary to provide an adequate return on investments. Audit Staff applied the Company's requested rates which provided additional revenues of approximately \$1,201,308. When making additional requested Pro forma adjustments by the company this provided a Net Operating Income of \$2,180,978.23. The increased Net Operating Income produces a ROR on rate base of 6.07% and an approximately ROE of 9.75%.

Using Audit Staff's recommended adjustments, Audit Staff calculated an average Net Rate Base amount of \$35,936,762.81. When divided by the December 31, 2021 Adjusted Net Operating Income amount of \$1,254,713.00, the result provided the actual earned ROR on rate base of 3.49%. This is also below the level necessary to provide an adequate return on investments. Audit Staff applied the Audit Staff recommended rates which provided additional revenues of approximately \$1,201,308. When making additional requested Pro forma adjustments by the company this provided a Net Operating Income of \$2,183,978.23. The increased Net Operating Income produces a ROR on rate base of 6.08% and an approximately ROE of 9.75%. See Exhibit H for more detail.

It should be noted that the actual rates requested by LAWCO and recommended by Audit Staff for the adjustment in metered water rates are the same. Audit Staff believes the request to increase rates is justified given the additional infusion of capital into the assets as well as increased

operational expenses. Audit Staff believes that the calculated ROE and ROR based on LAWCO's requested and Audit Staff's recommended rates are sufficient for the Company to generate an adequate return on investments. Therefore, Audit Staff recommends that the Company be authorized to increase its rates as requested to generate additional annual revenues of approximately \$1,201,308.00. Audit Staff also recommends that LAWCO be authorized to earn an ROE of 9.75% and an ROR up to 6.08%.

### **FORMULA RATE PLAN**

In the Application, LAWCO also requested to implement an FRP, once an increase in metered rates was approved. LAWCO's requested FRP is very similar to those used by other water and wastewater companies regulated by the Commission. The requested FRP is for an initial term of three (3) years with test years ending December 31 of 2022, 2023, and 2024, with filing dates on or before March 1 of 2023, 2024, and 2025. Audit Staff would have until May 1<sup>st</sup> of the filing year to review the FRP Annual Report and the Company would have until June 1<sup>st</sup> of the filing year to review any proposed corrections or adjustments. Any rate changes would be made effective August 1 for bills rendered on and after the first billing cycle of the month.

The proposed FRP utilized an earnings bandwidth based on a calculated ROE lower limit of a 9.75%, an upper limit of 10.75%, and a midpoint reset of 10.25%. If earnings were to fall within the calculated ROE bandwidth, then no rate change would be necessary. If earnings were to fall above or below the upper and lower limits of the bandwidth, then a rate change would occur to bring the Company to the midpoint 10.25%.

Audit Staff reviewed the proposed rates, the ROE it projected, and the authorized ROE for other water and wastewater providers recently approved by the Commission. With that review in mind, Audit Staff argues that the bandwidth requested by the Company is slightly higher than should be expected. Audit Staff proposes that the bandwidth provided to LAWCO in its FRP would have a lower limit of a 9.0%, an upper limit of a 10.0% and a midpoint reset of a 9.5%.

LAWCO also included language in the requested FRP to include a System Acquisition Regulatory Asset. This is not an addition that every other water and wastewater provider has in its FRP mechanisms. It was designed by Staff to offset the immediate earnings loss of acquiring water or wastewater assets that were in significant disrepair and required immediate remedy, with significant capital needed to bring them into compliance. Instead of a Company having to wait to move those systems into a formula rate plan in the following FRP plan year, the Company would be able to offset some of the losses of those systems and recover them over a longer period of time. LAWCO has not made a significant number of acquisitions of water or wastewater assets in the last three calendar years and has no open dockets for such an acquisition to take place. Therefore, Audit Staff does not agree to this request.

Additionally, LAWCO indicated in the proposed FRP that any calculated ROE would be determined after the cost of its preferred stock was removed. LAWCO has a preferred stock percentage of approximately 2.59% of its total capitalization. Audit Staff disagrees that LAWCO should be allowed to remove the cost of the preferred stock prior to any calculated ROE

determinations that would increase or decrease rates. Further, Audit Staff is unaware of any provision that has allowed this sort of treatment of preferred stock in any FRP approved by the Commission.

### **REQUEST FOR REGULATORY ASSET**

LAWCO requested in the Application to establish a regulatory asset for the filing costs associated with the instant filing, including but not limited to legal and outside consulting fees. Audit Staff typically allows the recovery of prudent expenses for utilities and considers the cost of legal and consulting fees associated with ratemaking decisions and filings to be a prudent expense of any utility. Audit Staff would typically allow these expenses to be recovered over a period of three years or more, and since the FRP has a term of three years believes the request to include a recovery component for these expenses is appropriate. Audit Staff would ask that LAWCO submit, in its 2022 test year filing, proof that the expenses related to the Application were removed and have its recovery be within the mechanics of the FRP.

### **EMERGENCY RESERVE FUND**

LAWCO also requested in the Application to establish an emergency reserve fund. The Company explained that in the last few years, a record-breaking number of hurricanes, winter storms, and a pandemic have resulted in a significant capital cost to LAWCO in order to provide safe and reliable water service to its customers. LAWCO wants to ensure that it has the financial ability to respond to these emergencies without disrupting its ability to provide quality service to its members. To do so, the Company is proposing to collect a total of \$428,117 from its customers and to retain those funds for the sole use of emergency repairs and restoration efforts. Audit Staff agrees with this request to but wants to ensure that particular costs are not double recovered through the mechanics of the FRP. Audit Staff would require that any expenses drawn from the emergency reserve fund be reported in each of the test year filings and removed from recoverable expenses in the calculated ROE.

### **REGULATORY COMPLIANCE**

#### ***Louisiana Department of Health (“LDH”) Compliance Review***

Audit Staff contacted LDH to discern if are currently any problems associated with the individual water systems operated by LAWCO. LDH informed the LPSC that LAWCO has no complaints, open violations, or unresolved significant deficiencies for any of the water systems provided to them for review.

#### ***Louisiana Department of Environmental Quality (“LDEQ”) Compliance Review***

Audit Staff reached out to the LDEQ in regards to any problems associated with the individual water systems operated by LAWCO. LDEQ responded and indicated that they have three permits through LDEQ issued for the Eunice Water Plant, the Crowley Water Plant, and the New Iberia

Water Plant, and that all three plants are in compliance with the issued permits and that no financial security requirements exist for those types of facilities.

### ***LPSC Compliance Review***

Audit Staff verified that LAWCO has filed all quarterly inspection and supervision forms and has remitted all payments to the Louisiana Department of Revenue, as required by Louisiana Revised Statute 45:1177. Audit Staff further verified that LAWCO has properly filed its annual report of its financial and operating conditions, as required by General Order No. 2, dated July 1, 1921 and pursuant to General Order dated November 22, 2011.<sup>10</sup>

Audit Staff also determined that there are no outstanding customer complaints in the LPSC Consumer Complaint Tracking System for LAWCO. Therefore, Audit Staff finds that LAWCO is in compliance with LPSC's rules and regulations.

### **CONCLUSION**

In reviewing LAWCO's request for an increase in its metered water rates, Audit Staff was able to verify the Company's 2021 expense accounts to be legitimate and adequately recorded. However, Staff made adjustments to remove \$3,000 in expenses for political contributions. These types of expenses are typically disallowed from regulated operating expenses by the Commission. Audit Staff reviewed and verified LAWCO's requested adjustments for known pro forma income and expenses. Audit Staff reviewed the Company's capital expenditures and determined that they were prudent. For LAWCO to experience a fair and adequate return on its capital investments and attract investors, Audit Staff recommends that the Commission authorize an ROE up to 9.75% and an ROR on rate base up to 6.08%. To achieve the desired ROR, Audit Staff recommends the Commission approve the rates as recommended in Exhibit A, which will generate additional annual revenues in the amount of \$1,201,308. Further Staff is recommending the implementation of an FRP with a calculated ROE bandwidth with an upper limit of 10.0%, a lower limit of a 9.0%, and a midpoint reset of a 9.5%, with additional changes as discussed previously in the report. Audit Staff is also recommending that LAWCO to implement a regulatory asset to appropriately recover its expenses related to the filing and to allow LAWCO to establish an emergency reserve fund subject to the changes discussed previously in the report.

### **AUDIT STAFF'S RECOMMENDATION**

Based on Audit Staff's review of documentation provided by the Company in support of its request and the analysis discussed above, including the Cost of Capital study, Audit Staff makes the following recommendations:

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<sup>10</sup> LPSC General Order dated November 22, 2011 states that *"All Annual Reports filed with the Commission by regulated companies shall form the basis for the assessment of I & S Fees as provided for in La. R.S. 45:1179 and shall be sworn to before a notary public by the owner or officer/officers having personal knowledge of the facts set forth therein."*

1. LAWCO be authorized to earn an increase in annual revenues in the amount of \$1,201,308.00 in order to earn a Return on Rate Base of 9.75%, following completion of the following: (1) the issuance of an Order in this matter, (2) LAWCO's filing into the record of this proceeding a final revised tariff and Rider Schedule FRP consistent with the Order, and (3) Staff's review and acceptance of the revised tariff and Rider FRP.
2. In order to achieve the authorized revenue increase, LAWCO be authorized to increase its metered water rates as follows:

	Present Rates	Recommended Rates	Recommended (\$) Increase
<b>Crowley, DeQuincy, Eunice, Lecompte, Mansura</b>			
<i>In-Town</i>			
First 2,000 gallons, or less	\$16.50	\$17.85	\$1.35
All Excess per 1,000	\$3.60	\$4.03	\$0.43
<i>Out of Town</i>			
First 2,000 gallons, or less	\$19.10	\$20.60	\$1.50
All Excess per 1,000	\$3.60	\$4.03	\$0.43
<b>New Iberia:</b>			
<i>In-Town</i>			
First 2,000 gallons, or less	\$16.50	\$17.85	\$1.35
All Excess per 1,000	\$4.14	\$4.45	\$0.31
<i>Out of Town</i>			
First 2,000 gallons, or less	\$19.10	\$20.60	\$1.50
All Excess per 1,000	\$4.14	\$4.45	\$0.31

3. LAWCO be ordered to continue its compliance with all Louisiana Department of Health and Environmental Protection Agency compliance standards.
4. LAWCO is authorized to recover prudently incurred costs through a Formula Rate Plan, subject to the terms and conditions recommended herein. The FRP shall be subject to a three-year term, to include test-years ending December 31 of 2022, 2023, and 2024. Attached hereto as **Exhibit 1-FRP** is the proposed Rider FRP, which defines the procedure by which the rates in Magnolia's rate schedule may be periodically adjusted during the term of the FRP.
5. LAWCO shall submit its annual FRP filing based on the test year ending December 31<sup>st</sup> no later than March 1<sup>st</sup> of the Filing Year, with the initial filing due by March 1, 2023 for the 2022 test year.

6. Annual FRP Filings shall be developed from independently audited financial statements maintained in accordance with the NARUC Chart of Accounts for Class A Water and Wastewater Companies.
7. Staff and any intervenors will have until June 1 of the Filing Year to review and propose any deficiencies or corrections. The Company shall then have until July 1 of the Filing year to review any proposed deficiencies or corrections and to file a revision to the proposed FRP Rate changes, if necessary.
8. Any FRP Rate Changes shall become effective on August 1, for bills rendered on and after the first billing cycle for the month.
9. Rate increases or reductions will be uniformly implemented through adjustments to the base charge for all residential and commercial water and wastewater customers.
10. To the extent that a rate increase authorized by the final order during the Filing Year results in lower rates than an August 1<sup>st</sup> rate adjustment do customers, refunds must be issued to said customers, plus interest, applied at the Company's WACC.
11. CWIP is disallowed from inclusion in rate base.
12. Net Income will be based on actual test year results, and adjusted for any known and measurable changes, subject to Staff's review.
13. Rate case expenses incurred in Docket U-36318 will be amortized over the three-year term of the FRP. LAWCO shall provide calculations showing the amortization of these expenses and the reduction of the associated regulatory asset in each of the Test Year Filings.
14. If LAWCO's capitalization increases its equity above 50% in any of the test year filings, then a hypothetical 50/50 capital structure will be used when determining return on rate base.
15. For the purposes of determining the necessity of a rate adjustment, a dead band equal to 50 basis points above and below the allowed midpoint ROE of 9.5% will be established.
16. To the extent that the earned ROE falls within the dead band, no rate changes shall be made.
17. To the extent that the earned ROE falls more than 50 basis points above or below the allowed midpoint ROE of 9.5%, a rate change shall be made to apply a midpoint ROE reset.
18. The earnings bandwidth for the FRP shall be a range of values with a lower limit equal to 9.00% ROE, a midpoint of 9.5% ROE, and an upper limit of 10.00% ROE.
19. LAWCO be authorized to establish an emergency reserve fund. For this purpose, they will be authorized and to collect a surcharge of approximately \$1.05 per customer for a period not to exceed twelve (12) months. These funds must be solely used for emergency repairs and/or restoration of service efforts after an emergency. LAWCO must submit, in its annual Test Year Filings, the balance of these funds. Any expenses covered by these funds must be removed from test year expenses. If these funds are expended, and the Company intends to replenish these funds, LAWCO must seek approval from the Commission.

**LOUISIANA WATER COMPANY**

**FORMULA RATE PLAN**

**RIDER FRP**

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1. GENERAL

Formula Rate Plan Rider FRP ("Rider FRP") defines the procedure by which the rates contained in the Louisiana Water Company ("LAWCO" or "Company") rate schedules may be periodically adjusted. Rider FRP shall apply in accordance with the provisions of Sections 2.A below to all water service billed under the Rate Schedule, subject to the jurisdiction of the Louisiana Public Service Commission ("LPSC" or "Commission").

2. APPLICATION AND ANNUAL REDETERMINATION PROCEDURE

2.B.1. FILING DATE

On or before March 1 of each of the years 2023, 2024 and 2025, LAWCO shall file a report with the Commission containing a calculation of the Company's revenue requirement based on the twelve months ending December 31 of the previous year ("Test Year") prepared in accordance with the provisions of Section 2.0 below. The annual filing shall be referred to as the "FRP Annual Report". A revised rate schedule shall be included in each filing containing revised FRP Rate Changes by Rate Class determined in accordance with the provisions of Section 2.0 below. Each FRP Annual Report will be separately docketed and published in the Commission's Official Bulletin for intervention for a 15-day intervention period. LAWCO shall follow all Constitutional and LPSC publication requirements for each FRP Annual Report.

2.B.2. REVIEW PERIOD

The Commission Staff ("Staff"), its outside advisors, if any, and all intervenors of record as of the filing date, hereinafter collectively referred to as the "Parties", shall each be provided a copy of each FRP Annual Report filing at the time it is filed with the Commission, along with all pleadings in the FRP-related proceedings (subject to confidentiality agreements, where applicable). At the time each FRP Annual Report is filed, LAWCO shall provide the Parties with a narrative summary of the request along with all workpapers supporting the data and calculations reflected in the FRP Annual Report, including electronic spreadsheet with formulas intact. The Parties may request clarification and additional supporting data. The response to any request for clarification or additional supporting data shall be provided within 15 calendar days of the request.

The Parties shall have until May 1 of the filing year to review the FRP Annual Report to ensure that it complies with the Rider FRP and any applicable Commission Orders. If the Parties should detect any error(s) in the application of the principles and procedures or should otherwise disagree with any of the computations, revenues, or costs included in such computations, such error(s) and /or disagreements shall be formally communicated in writing to LAWCO by the May 1 deadline. Each such indicated error or disagreement shall include documentation of the proposed correction. The Company shall then have until June 1 to review any proposed correction and/or adjustments, to work with the Parties to resolve any differences and to file a revised Rate Schedule containing FRP Rate Changes by Rate Class reflecting all corrections and adjustments upon which the Parties agree. The Company shall provide the Parties with all workpapers supporting any revisions made to the FRP Annual Report initially filed for the Test Year.

Except where there is an unresolved dispute, which shall be addressed in accordance with the provisions of Section 2.8.3 below, the FRP Rate Changes by Rate Class initially filed under the provisions of Section 2.B.1 above, or such revised FRP Rate Changes by Rate Class as may be determined pursuant to the terms of this Section 2.B.2, shall become effective August 1 for bills rendered on and after the first billing cycle for the month. Those FRP Rate Changes by Rate Class shall then remain in effect until changed pursuant to the provisions of this Rider.

To the extent that there are no issues raised during the annual review period of the FRP or any issues raised are amicably resolved, i.e., there are no unresolved issues to be addressed pursuant to Section 2.B.3, the parties shall submit a summary of the proceedings to the Commission for consideration as timely as practicable, including the terms under which any issues have been resolved and the resulting effect on rates.

### 2.8.3. RESOLUTION OF DISPUTED ISSUES

In the event there are disputes regarding any FRP Annual Report, the Parties and the Company shall work together in good faith to resolve such disputes. If the Parties and the Company are unable to resolve all disputes by August 1, revised FRP rate Changes by Rate Class reflecting all revisions to the FRP Rate Changes by Rate Class initially filed on which the Company and Parties agree shall become effective as provided for in Section 2.B.2 above. Any disputed issues shall be submitted to the Commission for resolution.

If the Commission's final ruling on any disputed issues requires changes in the FRP Rate Changes by Rate Class initially implemented pursuant to the above provisions,

the Company shall file a revised FRP Annual Report containing such further modified FRP Rate Changes by Rate Class within 15 days after receiving the Commission's Order resolving the dispute. The Company shall provide a copy of the revised filing to the Parties together with supporting documentation and workpapers, including electronic spreadsheets with formulas intact. Such modified FRP Rate Changes by Rate Class shall then be implemented with the next applicable monthly billing cycle after this filing and shall remain in effect until superseded by any subsequent FRP Rate Changes by Rate Class established in accordance with the provisions of this Rider FRP.

Within 60 days after receipt of the Commission's final ruling on disputed issues, the Company shall determine the amount to be refunded or surcharged to customers due to the disputed issues, if any, together with interest applied at the Legal Rate of interest from August 1 of the filing year and the adjustment to the FRP Rate Changes by Rate Class to be applied prospectively. Any refund/surcharge amount shall be applied on a percentage basis pursuant to Section 2.C.3 of this Rider FRP and shall be based on the customer's applicable base revenue from the first billing cycle of August of the filing year through the last date the prior FRP Rate Changes by Rate Class were billed. Such refund surcharge amount shall be applied to customers' bills in the manner prescribed by the Commission.

## 2.C. ANNUAL REDETERMINATION OF RATE ADJUSTMENTS

### 2.C.1. DEFINITION OF TERMS

#### a. TEST YEAR

The Test Year shall be the twelve-month period ending December 31 immediately preceding the year in which the FRP Annual Report is filed.

#### b. CALCULATED RETURN ON EQUITY

The calculated Return on Equity ("ROE") for each Test Year shall be determined using the formula below and shall reflect the actual results for the Test Year, as recorded on the Company's books in accordance with NARUC Uniform System of Accounts. LAWCO will submit the FRP Annual Report calculated using the amounts on the Company's books as of the Test Year and supplement during the Review Period with independently audited financial statements.

Net Operating Income is calculated as the actual net operating income per books for the Test Year (Revenue - Operations & Maintenance - General & Administrative Expense — Taxes Other Than Income Taxes - Depreciation & Amortization) less Interest Expense.

Net Operating income / (Rate Base x Imputed or Actual Equity%) =  
ROE

c. INTEREST EXPENSE

Annualized interest expense, which will be based on LAWCO's Actual Debt%, will be deducted from Net Operating Income before determining ROE. Interest Expense shall be calculated using the following formula:

Rate Base x (Actual Debt % x Cost of Debt) = Interest Expense

d. BANDWIDTH FOR ROE RATIO

The ROE Ratio Bandwidth ("Bandwidth") shall be the range of values with a lower limit ("Lower Band") equal to 9.00% and an upper limit ("Upper Band") equal to 10.00%.

e. MIDPOINT FOR ROE RATIO

The ROE Ratio Midpoint ("Midpoint") shall be equal to 9.50%.

2.C.2. RIDER FRP REVENUE LEVEL

For each Test Year, the Total Rider FRP Revenue level shall be determined using the following rules:

a. NO RIDER FRP CHANGE

There shall be no change in the Rider FRP Revenue level in effect for the Test Year if the ROE is greater than or equal to the Lower Band and less than or equal to the Upper Band.

b. RIDER FRP INCREASE ROE

If the ROE is less than the Lower Band, the Rider FRP Revenue level in effect for the Test Year shall be increased by 100% of the difference between the ROE and the Midpoint.

c. RIDER FRP DECREASE ROE

If the ROE exceeds the Upper Band, the Rider FRP Revenue level in effect for the Test Year shall be reduced by 100% of the difference between the ROE and the Midpoint.

2.C.3. RIDER FRP REVENUE ALLOCATION

### 3. PROVISIONS FOR OTHER RATE CHANGES

#### 3.A. NO BASE RATE CHANGE

During the term of this FRP, LAWCO shall not file a base rate increase and the Commission shall not initiate a base rate reduction, except as otherwise specifically provided for herein.

#### 3.B. EXTRAORDINARY COST OR REVENUE CHANGES

If LAWCO experiences a single extraordinary increase or decrease or multiple extraordinary increases or decreases in expenses or revenue, or a single extraordinary increase or decrease or multiple extraordinary increases or decreases in base revenues, net of any related offsetting increases or reductions in expenses, in a Test Year having a net annual revenue requirement impact exceeding two percent on a Louisiana retail jurisdictional basis, then either the Company or the Commission may address the ratemaking effects of such cost or revenue increase(s) or decrease(s) or increase or decrease in base revenues in either the annual FRP proceedings or in a separate proceeding outside the provisions of the FRP and established for that purpose. Should LAWCO propose to address the extraordinary expense or revenue change in an annual FRP proceeding, it shall provide Staff with at least 60 days' notice, i.e., on or before January 1 of the filing year, detailing the extraordinary expenses or revenue in advance of the FRP filing date. Such notice shall be in writing addressed to the Executive Secretary and to the Staff Attorney assigned to the previous year's FRP proceeding, at a minimum. Upon receiving and reviewing such notice, Staff may require LAWCO to file its request in a separate proceeding. Staff shall notify LAWCO within 30 calendar days of receipt of LAWCO's notice whether it desires for LAWCO to address the extraordinary expenses or revenue in a separate proceeding. If Staff does not notify LAWCO within 30 calendar days that it desires LAWCO to address the extraordinary expenses or revenue in the FRP proceeding, LAWCO shall address the extraordinary expenses or revenue in a separate proceeding. In no event shall any such ratemaking provide for multiple recoveries of the same expense or revenues, whether in the same or subsequent years. Such extraordinary increases or decreases in expenses or revenue or, increase or decrease in base revenues shall be limited to an event or events of force majeure beyond the reasonable and direct control of LAWCO, including natural disaster, Pandemic/epidemic, damage or unforeseeable loss of distribution assets, changes in regulation ordered by a regulatory body or other entity with appropriate jurisdiction, and orders or acts of civil or military authority.

#### 3.C. SPECIAL RATE FILINGS

The FRP shall not preclude LAWCO from proposing revisions to existing rate schedules or new rate schedules, such as experimental, developmental, and alternative rate schedules, to address competitive and other business needs.

LAWCO shall file any such proposed rate schedules or changes with the Commission and the Commission shall evaluate LAWCO's proposals in accordance with the rules and procedures then in effect.

**4. EFFECTIVE DATE AND TERM**

Rider FRP shall continue in effect for three years with FRP Annual Report filings to be made on or before March 1 of each of the years 2023, 2024 and 2025 for the Test Years ending December 31, 2022, 2023 and 2024, respectively. Unless Rider FRP is extended by the Commission, the FRP Rate Changes by Rate Class resulting from the 2025 FRP Annual Report filing based on the 2024 Test Year shall continue in effect until such time as they are superseded pursuant to a final Commission order. If this Rider FRP is terminated by a future order of the Commission, the then-existing Total FRP Revenue shall continue to be in effect until new base rates reflecting the then-existing Total FRP revenue are duly approved and implemented. Nothing contained in the Rider FRP shall limit the right of any party to file an appeal as provided by law.

Louisiana Water Company  
 Docket No. U-36318  
**Comparison of Present, Proposed and Recommended Rates  
 For Residential, Commercial, and Public Authority Water Services For 2021**

	Present Rates	Recommended Rates	Recommended (\$ Increase)	Recommended (%) Increase
<b>Crowley, DeQuincy, Eunice, Lecompte, Mansura</b>				
<i>In-Town</i>				
First 2,000 gallons, or less	\$16.50	\$17.85	\$1.35	8.18%
All Excess per 1,000	\$3.60	\$4.03	\$0.43	11.94%
<i>Out of Town</i>				
First 2,000 gallons, or less	\$19.10	\$20.60	\$1.50	7.85%
All Excess per 1,000	\$3.60	\$4.03	\$0.43	11.94%
<b>New Iberia:</b>				
<i>In-Town</i>				
First 2,000 gallons, or less	\$16.50	\$17.85	\$1.35	8.18%
All Excess per 1,000	\$4.14	\$4.45	\$0.31	7.49%
<i>Out of Town</i>				
First 2,000 gallons, or less	\$19.10	\$20.60	\$1.50	7.85%
All Excess per 1,000	\$4.14	\$4.45	\$0.31	7.49%

Louisiana Water Company  
Docket No. U-36318

Comparison of Present, Proposed, and Recommended Average Bills  
For Residential, Commercial, and Public Authority Water Services For 2021

	*Average Consumption In Gallons	Present Monthly Bills	Proposed Monthly Bills	Proposed Monthly (\$) Increase	Proposed Monthly (%) Increase	Recommended Monthly Bills	Recommended Monthly (\$) Increase	Recommended Monthly (%) Increase
<b>Lecompte, Crowley, Eunice, DeQuincy, Mansura:</b>								
<i>In-Town</i>								
Residential	4,873	\$26.84	\$29.43	\$2.59	9.63%	\$29.43	\$2.59	9.63%
Commercial	13,327	\$57.28	\$63.50	\$6.22	10.86%	\$63.50	\$6.22	10.86%
Public Authority	55,127	\$207.76	\$231.95	\$24.19	11.65%	\$231.95	\$24.19	11.65%
<i>Out of Town</i>								
Residential	5,902	\$33.15	\$36.32	\$3.18	9.59%	\$36.32	\$3.18	9.59%
Commercial	16,696	\$69.41	\$79.83	\$10.42	15.01%	\$79.83	\$10.42	15.01%
Public Authority	58,293	\$219.15	\$247.46	\$28.31	12.92%	\$247.46	\$28.31	12.92%
<b>New Iberia:</b>								
<i>In-Town</i>								
Residential	4,191	\$25.57	\$27.60	\$2.03	7.94%	\$27.60	\$2.03	7.94%
Commercial	14,144	\$66.77	\$71.89	\$5.11	7.66%	\$71.89	\$5.11	7.66%
Public Authority	54,440	\$233.60	\$251.21	\$17.61	7.54%	\$251.21	\$17.61	7.54%
<i>Out of Town</i>								
Residential	4,826	\$30.80	\$33.17	\$2.38	7.71%	\$33.17	\$2.38	7.71%
Commercial	13,959	\$68.61	\$73.82	\$5.21	7.59%	\$73.82	\$5.21	7.59%
Public Authority	62,385	\$269.09	\$289.31	\$20.22	7.51%	\$289.31	\$20.22	7.51%

Louisiana Water Company  
Docket No. U-38318

Comparison of Present, Proposed, and Recommended Average Monthly Revenues  
For Residential, Commercial, and Public Authority Water Services For 2021

	*Number of Customers	Present Monthly Revenues	Proposed Monthly Revenues	Proposed Monthly (\$) Increase	Proposed Monthly (%) Increase	Recommended Monthly Revenues	Recommended Monthly (\$) Increase	Recommended Monthly (%) Increase
<b>Lecompte, Crowley, Eunice, DeQuincy, Mansura:</b>								
<i>In-Town</i>								
Residential	10,353	\$277,893	\$304,659	\$26,766	9.63%	\$304,659	\$26,766	9.63%
Commercial	1,459	\$83,573	\$92,649	\$9,076	10.86%	\$92,649	\$9,076	10.86%
Public Authority	131	\$27,216	\$30,386	\$3,169	11.65%	\$30,386	\$3,169	11.65%
<i>Out of Town</i>								
Residential	1,928	\$63,915	\$70,043	\$6,128	9.59%	\$70,043	\$6,128	9.59%
Commercial	187	\$12,968	\$14,914	\$1,947	15.01%	\$14,914	\$1,947	15.01%
Public Authority	14	\$3,086	\$3,485	\$399	12.92%	\$3,485	\$399	12.92%
<b>Total Lecompte, Crowley, Eunice, DeQuincy, Mansura:</b>	<b>14,072</b>	<b>\$468,651</b>	<b>\$516,136</b>	<b>\$47,484</b>	<b>10.13%</b>	<b>\$516,136</b>	<b>\$47,484</b>	<b>10.13%</b>
<b>New Iberia:</b>								
<i>In-Town</i>								
Residential	11,030	\$282,053	\$304,436	\$22,383	7.94%	\$304,436	\$22,383	7.94%
Excess of 2,000 gallons								
Commercial	1,377	\$91,938	\$98,980	\$7,042	7.66%	\$98,980	\$7,042	7.66%
Excess of 2,000 gallons								
Public Authority	119	\$27,799	\$29,894	\$2,095	7.54%	\$29,894	\$2,095	7.54%
Excess of 2,000 gallons								
<i>Out of Town</i>								
Residential	6,666	\$205,294	\$221,131	\$15,838	7.71%	\$221,131	\$15,838	7.71%
Excess of 2,000 gallons								
Commercial	622	\$42,670	\$45,909	\$3,239	7.59%	\$45,909	\$3,239	7.59%
Excess of 2,000 gallons								
Public Authority	100	\$26,999	\$29,028	\$2,029	7.51%	\$29,028	\$2,029	7.51%
Excess of 2,000 gallons								
<b>Total New Iberia</b>	<b>19,914</b>	<b>\$676,752</b>	<b>\$729,377</b>	<b>\$52,625</b>	<b>7.78%</b>	<b>\$729,377</b>	<b>\$52,625</b>	<b>7.78%</b>
<b>TOTAL MONTHLY METERED REVENUES</b>								
	<b>33,986</b>	<b>\$1,145,404</b>	<b>\$1,245,513</b>	<b>\$100,109</b>	<b>8.74%</b>	<b>\$1,245,513</b>	<b>\$100,109</b>	<b>8.74%</b>

Louisiana Water Company  
Docket No. U-36318

Comparison of Present, Proposed, and Recommended Average Yearly Revenues  
For Residential, Commercial, and Public Authority Water Services For 2021

	Present Yearly Revenues	Proposed Yearly Revenues	Proposed Yearly (\$) Increase	Proposed Yearly (%) Increase	Recommended Yearly Revenues	Recommended Yearly (\$) Increase	Recommended Yearly (%) Increase
<b>Lecompte, Crowley, Eunice, DeQuincy, Mansura:</b>							
<i>In-Town</i>							
Residential	\$3,334,718	\$3,655,906	\$321,187	9.63%	\$3,655,906	\$321,187	9.63%
Commercial	\$1,002,872	\$1,111,789	\$108,917	10.86%	\$1,111,789	\$108,917	10.86%
Public Authority	\$326,594	\$364,628	\$38,034	11.65%	\$364,628	\$38,034	11.65%
<i>Out of Town</i>							
Residential	\$766,985	\$840,515	\$73,531	9.59%	\$840,515	\$73,531	9.59%
Commercial	\$155,611	\$178,971	\$23,360	15.01%	\$178,971	\$23,360	15.01%
Public Authority	\$37,037	\$41,821	\$4,784	12.92%	\$41,821	\$4,784	12.92%
<b>Total Lecompte, Crowley, Eunice, DeQuincy, Mansura:</b>	<b>\$5,623,817</b>	<b>\$6,193,630</b>	<b>\$569,814</b>	<b>10.13%</b>	<b>\$6,193,630</b>	<b>\$569,814</b>	<b>10.13%</b>
<b>New Iberia:</b>							
<i>In-Town</i>							
Residential	\$3,384,640	\$3,653,234	\$268,594	7.94%	\$3,653,234	\$268,594	7.94%
Commercial	\$1,103,253	\$1,187,755	\$84,502	7.66%	\$1,187,755	\$84,502	7.66%
Public Authority	\$333,583	\$358,725	\$25,142	7.54%	\$358,725	\$25,142	7.54%
<i>Out of Town</i>							
Residential	\$2,463,522	\$2,653,572	\$190,050	7.71%	\$2,653,572	\$190,050	7.71%
Commercial	\$512,041	\$550,903	\$38,862	7.59%	\$550,903	\$38,862	7.59%
Public Authority							

	Present		Proposed		Proposed		Recommended		Recommended	
	Yearly	Revenues	Yearly	Revenues	Yearly	(%) Increase	Yearly	Revenues	Yearly	(%) Increase
	\$323,989	\$348,333	\$24,344	\$24,344	7.51%		\$348,333	\$24,344	7.51%	
<b>Total New Iberia</b>	<b>\$8,121,028</b>	<b>\$8,752,523</b>	<b>\$631,495</b>	<b>\$631,495</b>	<b>7.78%</b>		<b>\$8,752,523</b>	<b>\$631,495</b>	<b>7.78%</b>	
<b>TOTAL YEARLY METERED REVENUES</b>	<b>\$13,744,845</b>	<b>\$14,946,153</b>	<b>\$1,201,308</b>	<b>\$1,201,308</b>	<b>8.74%</b>		<b>\$14,946,153</b>	<b>\$1,201,308</b>	<b>8.74%</b>	

**YEARLY REVENUE SUMMARY**

	Present		Proposed		Proposed		Recommended		Recommended	
	Yearly	Revenues	Yearly	Revenues	Yearly	(%) Increase	Yearly	Revenues	Yearly	(%) Increase
Residential	\$9,949,865	\$10,803,227	\$853,362	\$853,362	8.58%		\$10,803,227	\$853,362	8.58%	
Commercial	\$2,773,776	\$3,029,419	\$255,642	\$255,642	9.22%		\$3,029,419	\$255,642	9.22%	
Public Authority	\$1,021,204	\$1,113,507	\$92,304	\$92,304	9.04%		\$1,113,507	\$92,304	9.04%	
<b>TOTAL YEARLY METERED REVENUES</b>	<b>\$13,744,845</b>	<b>\$14,946,153</b>	<b>\$1,201,308</b>	<b>\$1,201,308</b>	<b>8.74%</b>		<b>\$14,946,153</b>	<b>\$1,201,308</b>	<b>8.74%</b>	

**Louisiana Water Company**  
**Docket No. U-36318**  
**Comparative Balance Sheet**  
**As Of December 31, 2021 and 2020**

<b>ASSETS</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>	<b>\$ Difference</b>	<b>% Difference</b>
<b>Utility Plant</b>				
Utility Plant	\$ 93,858,936	\$ 92,542,915	\$ 1,316,021	1.42%
Construction Work in Progress	5,167,868	1,261,351	3,906,517	309.71%
	99,026,804	93,804,266	5,222,538	5.57%
Accumulated Depreciation	(50,514,956)	(48,376,348)	(2,138,608)	4.42%
	48,511,848	45,427,918	3,083,930	6.79%
<b>Restricted Funds</b>	-	2,518,397	(2,518,397)	-100.00%
<b>Current Assets</b>				
Cash and Cash Equivalents	8,127,882	13,213,080	(5,085,198)	-38.49%
Marketable Securities	5,027,827	79,241	4,948,586	6244.98%
Accounts and Other Receivables	1,961,310	1,830,102	131,208	7.17%
Income Taxes Receivable	221,384	409,554	(188,170)	-45.95%
Materials and Supplies, at average cost	525,456	515,369	10,087	1.96%
Prepaid Expenses	20,680	8,518	12,162	142.78%
	15,884,539	16,055,864	(171,325)	-1.07%
<b>Other Non-Current Assets and Deferred Charges</b>				
Marketable Securities	301,447	51,020	250,427	490.84%
Regulatory Assets	5,698,204	6,443,166	(744,962)	-11.56%
	5,999,651	6,494,186	(494,535)	-7.62%
<b>TOTAL ASSETS</b>	<b>\$ 70,396,038</b>	<b>\$ 70,496,365</b>	<b>\$ (100,327)</b>	<b>-0.14%</b>
<b>CAPITALIZATION AND LIABILITIES</b>				
<b>Capitalization</b>				
Common Stockholders' Equity	\$ 15,961,244	\$ 15,914,629	\$ 46,615	0.29%
Preferred Stock	1,090,000	1,090,000	-	0.00%
Long-term Debt	24,900,514	25,549,646	(649,132)	-2.54%
	41,951,758	42,554,275	(602,517)	-1.42%
<b>Current Liabilities</b>				
Current Portion of Long-term Debt	-	170,138	(170,138)	-100.00%
Accounts Payable and Accrued Liabilities	1,455,091	1,237,637	217,454	17.57%
Customer Deposits	3,017,482	2,959,790	57,692	1.95%
Due to Affiliates	135,194	137,969	(2,775)	-2.01%
Accrued Interest	365,401	363,634	1,767	0.49%
Dividend Declared	-	500,000	(500,000)	-100.00%
	4,973,168	5,369,168	(396,000)	-7.38%
<b>Other Liabilities and Deferred Credits</b>				
Advances for Construction	443,107	88,279	354,828	401.94%
Contribution in Aid of Construction	12,994,353	12,752,435	241,918	1.90%
Deferred Income Taxes	980,054	1,305,233	(325,179)	-33.00%
Pension Benefits Liability	5,709,839	6,192,817	(482,978)	-7.80%
Accrued Personnel Benefits	529,414	204,917	324,497	100.00%
Regulatory Liabilities	2,450,778	1,687,977	762,801	45.19%
Accumulated Postretirement Obligation	363,567	341,264	22,303	6.54%
	23,471,112	22,572,922	898,190	3.98%
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 70,396,038</b>	<b>\$ 70,496,365</b>	<b>\$ (100,327)</b>	<b>-0.14%</b>

**Louisiana Water Company**  
**Docket No. U-36318**  
**Pro forma adjusted Balance Sheet Per LAWCO**  
**As of December 31, 2021**

	December 31, 2021 Test Year As Reported	LAWCO Adjustments	December 31, 2021 Test Year As Adjusted	Notes
<b>ASSETS</b>				
<b>Utility Plant</b>				
Utility Plant	\$ 93,858,936		\$ 93,858,936	
Construction Work in Progress	5,167,868		5,167,868	
	99,026,804		99,026,804	
Accumulated Depreciation	(50,514,956)		(50,514,956)	
	48,511,848	-	48,511,848	
<b>Restricted Funds</b>				
	-		-	
<b>Current Assets</b>				
Cash and Cash Equivalents	8,127,882		8,127,882	
Marketable Securities	5,027,827		5,027,827	
Accounts and Other Receivables	1,961,310		1,961,310	
Income Taxes Receivable	221,384		221,384	
Materials and Supplies, at average cost	525,456		525,456	
Prepaid Expenses	20,680		20,680	
	15,884,539	-	15,884,539	
<b>Other Non-Current Assets and Deferred Charges</b>				
Marketable Securities	301,447		301,447	
Regulatory Assets	5,698,204		5,698,204	
	5,999,651	-	5,999,651	
<b>TOTAL ASSETS</b>	<b>\$ 70,396,038</b>	<b>\$ -</b>	<b>\$ 70,396,038</b>	
<b>CAPITALIZATION AND LIABILITIES</b>				
<b>Capitalization</b>				
Common Stockholders' Equity	\$ 15,961,244		15,961,244	
Preferred Stock	1,090,000		1,090,000	
Long-term Debt	24,900,514		24,900,514	
	41,951,758	-	41,951,758	
<b>Current Liabilities</b>				
Current Portion of Long-term Debt	-		-	
Accounts Payable and Accrued Liabilities	1,455,091		1,455,091	
Customer Deposits	3,017,482		3,017,482	
Due to Affiliates	135,194		135,194	
Accrued Interest	365,401		365,401	
Dividend Declared	-		-	
	4,973,168	-	4,973,168	
<b>Other Liabilities and Deferred Credits</b>				
Advances for Construction	443,107		443,107	
Contribution in Aid of Construction	12,994,353		12,994,353	
Deferred Income Taxes	980,054		980,054	
Pension Benefits Liability	5,709,839		5,709,839	
Accrued Personnel Benefits	529,414		529,414	
Regulatory Liabilities	2,450,778		2,450,778	
Accumulated Postretirement Obligation	363,567		363,567	
	23,471,112	-	23,471,112	
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 70,396,038</b>	<b>\$ -</b>	<b>\$ 70,396,038</b>	

**Louisiana Water Company**  
**Docket No. U-36318**  
**Pro forma adjusted Balance Sheet Per LPSC Staff**  
**As of December 31, 2021**

	December 31, 2021 Test Year As Reported	LAWCO Adjustments	December 31, 2021 Test Year As Adjusted	Notes
<b>ASSETS</b>				
<b>Utility Plant</b>				
Utility Plant	\$ 93,858,936		\$ 93,858,936	
Construction Work in Progress	5,167,868		5,167,868	
	99,026,804		99,026,804	
Accumulated Depreciation	(50,514,956)		(50,514,956)	
	48,511,848	-	48,511,848	
<b>Restricted Funds</b>				
	-		-	
<b>Current Assets</b>				
Cash and Cash Equivalents	8,127,882		8,127,882	
Marketable Securities	5,027,827		5,027,827	
Accounts and Other Receivables	1,961,310		1,961,310	
Income Taxes Receivable	221,384		221,384	
Materials and Supplies, at average cost	525,456		525,456	
Prepaid Expenses	20,680		20,680	
	15,884,539	-	15,884,539	
<b>Other Non-Current Assets and Deferred Charges</b>				
Marketable Securities	301,447		301,447	
Regulatory Assets	5,698,204		5,698,204	
	5,999,651	-	5,999,651	
<b>TOTAL ASSETS</b>	<b>\$ 70,396,038</b>	<b>\$ -</b>	<b>\$ 70,396,038</b>	
<b>CAPITALIZATION AND LIABILITIES</b>				
<b>Capitalization</b>				
Common Stockholders' Equity	\$ 15,961,244		15,961,244	
Preferred Stock	1,090,000		1,090,000	
Long-term Debt	24,900,514		24,900,514	
	41,951,758	-	41,951,758	
<b>Current Liabilities</b>				
Current Portion of Long-term Debt	-		-	
Accounts Payable and Accrued Liabilities	1,455,091		1,455,091	
Customer Deposits	3,017,482		3,017,482	
Due to Affiliates	135,194		135,194	
Accrued Interest	365,401		365,401	
Dividend Declared	-		-	
	4,973,168	-	4,973,168	
<b>Other Liabilities and Deferred Credits</b>				
Advances for Construction	443,107		443,107	
Contribution in Aid of Construction	12,994,353		12,994,353	
Deferred Income Taxes	980,054		980,054	
Pension Benefits Liability	5,709,839		5,709,839	
Accrued Personnel Benefits	529,414		529,414	
Regulatory Liabilities	2,450,778		2,450,778	
Accumulated Postretirement Obligation	363,567		363,567	
	23,471,112	-	23,471,112	
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 70,396,038</b>	<b>\$ -</b>	<b>\$ 70,396,038</b>	

**Louisiana Water Company**  
**Docket No. U-36318**  
**Comparative Income Statement**  
**For The Years Ended December 31, 2021 and 2020**

	December 31, 2021	December 31, 2020	\$ Difference	% Difference
<b>OPERATING REVENUES</b>				
Metered Sales - Regulat. Liab.	\$ 14,466,125	\$ 14,464,652	\$ 1,473	0.01%
Fire Protection	100,227	99,786	441	0.44%
Fees and Services	694,835	629,351	65,484	10.41%
Other Regulatory Income	60,365	60,365	-	0.00%
<b>TOTAL OPERATING REVENUES</b>	<b>15,321,552</b>	<b>15,254,154</b>	<b>67,398</b>	<b>0.44%</b>
<b>OPERATING EXPENSES</b>				
Delivery to Customers	5,137,407	4,667,697	469,710	10.06%
<i>Customer Service and General Administration</i>	4,993,482	4,637,715	355,767	7.67%
Depreciaton and Amortization	2,505,563	2,277,381	228,182	10.02%
Taxes Other Than Income Taxes	1,164,626	1,122,832	41,794	3.72%
Income Taxes	268,761	588,803	(320,042)	-54.35%
<b>TOTAL OPERATING EXPENSES</b>	<b>14,069,839</b>	<b>13,294,428</b>	<b>775,411</b>	<b>5.83%</b>
<b>TOTAL NET OPERATING INCOME</b>	<b>\$ 1,251,713</b>	<b>\$ 1,959,726</b>	<b>\$ (708,013)</b>	<b>-36.13%</b>
<b>NON-OPERATING INCOME</b>				
Contract Billing and Collecting-Net	253,573	247,190	6,383	2.58%
Interest Income	40,121	40,887	(766)	-1.87%
Miscellaneous Income	105,293	194,622	(89,329)	-45.90%
<b>TOTAL NON-OPERATING INCOME</b>	<b>398,987</b>	<b>482,699</b>	<b>(83,712)</b>	<b>-17.34%</b>
<b>INCOME DEDUCTIONS</b>				
Interest on Long Term Debt	868,500	643,294	225,206	35.01%
Amortization of Debt Expenses	3,896	11,979	(8,083)	-67.48%
Other Interest and Fees	889	100,075	(99,186)	-99.11%
<b>Total Income Deductions</b>	<b>873,285</b>	<b>755,348</b>	<b>117,937</b>	<b>15.61%</b>
<b>NET INCOME</b>	<b>\$ 777,415</b>	<b>\$ 1,687,077</b>	<b>\$ (909,662)</b>	<b>-53.92%</b>

**Louisiana Water Company**  
**Docket # U-36318**  
**Adjusted Income Statement Per LAWCO**  
**For Year Ended December 31, 2021**

	31-Dec-21 Test Year As Reported	LAWCO Adjustments	12/31/2021 Test Year LAWCO As Adjusted
<b>OPERATING REVENUES</b>			
Metered Sales - Regulat. Liab.	\$ 14,466,125		\$ 14,466,125
Fire Protection	\$ 100,227		\$ 100,227
Fees and Services	\$ 694,835		\$ 694,835
Other Regulatory Income	\$ 60,365		\$ 60,365
<b>TOTAL OPERATING REVENUES</b>	<b>15,321,552</b>	-	<b>15,321,552</b>
<b>OPERATING EXPENSES</b>			
Delivery to Customers	5,137,407		5,137,407
<i>Customer Service and General Administration</i>	4,993,482		4,993,482
Depreciation and Amortization	2,505,563		2,505,563
Taxes Other Than Income Taxes	1,164,626		1,164,626
Income Taxes	268,761		268,761
<b>TOTAL OPERATING EXPENSES</b>	<b>14,069,839</b>	-	<b>14,069,839</b>
<b>TOTAL NET OPERATING INCOME</b>	<b>\$ 1,251,713</b>	<b>\$ -</b>	<b>\$ 1,251,713</b>
<b>NON-OPERATING INCOME</b>			
Contract Billing and Collecting-Net	253,573		253,573
Interest Income	40,121		40,121
Miscellaneous Income	105,293		105,293
<b>TOTAL NON-OPERATING INCOME</b>	<b>398,987</b>	-	<b>398,987</b>
<b>INCOME DEDUCTIONS</b>			
Interest on Long Term Debt	868,500		868,500
Amortization of Debt Expenses	3,896		3,896
Other Interest and Fees	889		889
<b>Total Income Deductions</b>	<b>873,285</b>	-	<b>873,285</b>
<b>NET INCOME</b>	<b>\$ 777,415</b>	<b>\$ -</b>	<b>\$ 777,415</b>

**Louisiana Water Company**  
**Docket # U-36318**  
**Adjusted Income Statement Per LPSC Staff**  
**For Year Ended December 31, 2021**

	31-Dec-21 Test Year As Reported	LPSC Staff Adjustments	12/31/2021 Test Year STAFF As Adjusted
<b>OPERATING REVENUES</b>			
Metered Sales - Regulat. Liab.	\$ 14,466,125		\$ 14,466,125
Fire Protection	\$ 100,227		\$ 100,227
Fees and Services	\$ 694,835		\$ 694,835
Other Regulatory Income	\$ 60,365		\$ 60,365
<b>TOTAL OPERATING REVENUES</b>	<b>15,321,552</b>	-	<b>15,321,552</b>
<b>OPERATING EXPENSES</b>			
Delivery to Customers	5,137,407		5,137,407
Customer Service and General Administration	4,993,482	(3,000)	4,990,482
Depreciaton and Amortization	2,505,563		2,505,563
Taxes Other Than Income Taxes	1,164,626		1,164,626
Income Taxes	268,761		268,761
<b>TOTAL OPERATING EXPENSES</b>	<b>14,069,839</b>	<b>(3,000)</b>	<b>14,066,839</b>
<b>TOTAL NET OPERATING INCOME</b>	<b>\$ 1,251,713</b>	<b>\$ 3,000</b>	<b>\$ 1,254,713</b>
<b>NON-OPERATING INCOME</b>			
Contract Billing and Collecting-Net	253,573		253,573
Interest Income	40,121		40,121
Miscellaneous Income	105,293		105,293
<b>TOTAL NON-OPERATING INCOME</b>	<b>398,987</b>	-	<b>398,987</b>
<b>INCOME DEDUCTIONS</b>			
Interest on Long Term Debt	868,500		868,500
Amortization of Debt Expenses	3,896		3,896
Other Interest and Fees	889		889
<b>Total Income Deductions</b>	<b>873,285</b>	-	<b>873,285</b>
<b>NET INCOME</b>	<b>\$ 777,415</b>	<b>\$ 3,000</b>	<b>\$ 780,415</b>

NOTES

1 Removed political contributions in total of \$3,000.

**Louisiana Water Company**  
**Docket # U-36318**  
**Pro forma Income Statement with Company Requested Increase**  
**For Year Ended December 31, 2021**

	31-Dec-21 Test Year As Adjusted	LAWCO Pro forma Adjustments	12/31/2021 Test Year Pro Forma LAWCO As Adjusted	
<b>OPERATING REVENUES</b>				
Metered Sales - Regulat. Liab.	\$ 14,466,125	\$1,201,308	\$ 15,667,433	1
Fire Protection	\$ 100,227		\$ 100,227	
Fees and Services	\$ 694,835		\$ 694,835	
Other Regulatory Income	\$ 60,365		\$ 60,365	
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 15,321,552</b>	<b>\$ 1,201,308</b>	<b>\$ 16,522,860</b>	
<b>OPERATING EXPENSES</b>				
Delivery to Customers	\$ 5,137,407		\$ 5,137,407	
Customer Service and General Administration	\$ 4,993,482		\$ 4,993,482	
Depreciation and Amortization	\$ 2,505,563		\$ 2,505,563	
Taxes Other Than Income Taxes	\$ 1,164,626		\$ 1,164,626	
Income Taxes	\$ 268,761	\$ 272,043	\$ 540,804	2
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 14,069,839</b>	<b>\$ 272,043</b>	<b>\$ 14,341,882</b>	
<b>TOTAL NET OPERATING INCOME</b>	<b>\$ 1,251,713</b>	<b>\$ 929,265</b>	<b>\$ 2,180,978</b>	
<b>NON-OPERATING INCOME</b>				
Contract Billing and Collecting-Net	\$ 253,573	\$ (253,573)	\$ -	3
Interest Income	\$ 40,121	\$ (40,121)	\$ -	3
Miscellaneous Income	\$ 105,293	\$ (105,293)	\$ -	3
<b>TOTAL NON-OPERATING INCOME</b>	<b>\$ 398,987</b>	<b>\$ (398,987)</b>	<b>\$ -</b>	
<b>INCOME DEDUCTIONS</b>				
Interest on Long Term Debt	\$ 868,500	\$ (128,213)	\$ 740,287	4
Amortization of Debt Expenses	\$ 3,896	\$ (3,896)	\$ -	5
Other Interest and Fees	\$ 889		\$ 889	
<b>Total Income Deductions</b>	<b>\$ 873,285</b>	<b>\$ (132,109)</b>	<b>\$ 741,176</b>	
<b>NET INCOME</b>	<b>\$ 777,415</b>	<b>\$ 662,387</b>	<b>\$ 1,439,802</b>	

**Notes**

- 1 Revenue increased with Company proposed tariff showing an increase in revenues of \$1,201,308
- 2 Company requested which includes a reduction in present pro forma costs of \$56,154 and an increase of \$343,094 per the revenue increase. See Exhibit C Schedule 3 of the Application.
- 3 Removed for rate making purposes. We do not include non-operating income.
- 4 Recalculated by Company on pro forma rate base and test year cost of debt. See Exhibit C Schedule 3 of the Application.
- 5 Removed as the amortization of debt expense is included in the test year cost of debt.

**Louisiana Water Company**  
**Docket # U-36318**  
**Pro forma Income Statement with Staff Recommended Increase**  
**For Year Ended December 31, 2021**

	31-Dec-21 Test Year As Adjusted	LPSC Staff Pro forma Adjustments	12/31/2021 Test Year Pro Forma Staff As Adjusted	
<b>OPERATING REVENUES</b>				
Metered Sales - Regulat. Liab.	\$ 14,466,125	\$1,201,308	\$ 15,667,433	1
Fire Protection	\$ 100,227		\$ 100,227	
Fees and Services	\$ 694,835		\$ 694,835	
Other Regulatory Income	\$ 60,365		\$ 60,365	
<b>TOTAL OPERATING REVENUES</b>	<b>15,321,552</b>	<b>1,201,308</b>	<b>16,522,860</b>	
<b>OPERATING EXPENSES</b>				
Delivery to Customers	5,137,407		5,137,407	
Customer Service and General Administration	4,990,482		4,990,482	
Depreciaiton and Amortization	2,505,563		2,505,563	
Taxes Other Than Income Taxes	1,164,626		1,164,626	
Income Taxes	268,761	272,043	540,804	2
<b>TOTAL OPERATING EXPENSES</b>	<b>14,066,839</b>	<b>272,043</b>	<b>14,338,882</b>	
<b>TOTAL NET OPERATING INCOME</b>	<b>\$ 1,254,713</b>	<b>\$ 929,265</b>	<b>\$ 2,183,978</b>	
<b>NON-OPERATING INCOME</b>				
Contract Billing and Collecting-Net	253,573	(253,573)	-	3
Interest Income	40,121	(10,121)	30,000	3
Miscellaneous Income	105,293	(105,293)	-	3
<b>TOTAL NON-OPERATING INCOME</b>	<b>398,987</b>	<b>(368,987)</b>	<b>30,000</b>	
<b>INCOME DEDUCTIONS</b>				
Interest on Long Term Debt	868,500	(128,213)	740,287	4
Amortization of Debt Expenses	3,896	(3,896)	-	5
Other Interest and Fees	889		889	
<b>Total Income Deductions</b>	<b>873,285</b>	<b>(132,109)</b>	<b>741,176</b>	
<b>NET INCOME</b>	<b>\$ 780,415</b>	<b>\$ 692,387</b>	<b>\$ 1,472,802</b>	

**Notes**

- 1 Revenue increased with Company proposed tariff showing an increase in revenues of \$1,201,308.
- 2 Company requested which includes a reduction in present pro forma costs of \$56,154 and an increase of \$343,094 per the revenue increase. See Exhibit C Schedule 3 of the Application.
- 3 Removed for rate making purposes. We do not include non-operating income.
- 4 Recalculated by Company on pro forma rate base and test year cost of debt. See Exhibit C Schedule 3 of the Application.
- 5 Removed as the amortization of debt expense is included in the test year cost of debt.

**Louisiana Water Company**  
**Docket # U-36318**  
**For Year Ending December 31, 2021**  
**Working Capital Provision**

	<u>As Filed December 31, 2020</u>	<u>As Filed December 31, 2021</u>	<u>Two Year Average</u>
Total Operating Expenses (not including Depreciation, Other Taxes, and Income Taxes)	9,305,412	10,130,889	9,718,151
	x	x	x
	12.50%	12.50%	12.50%
Working Capital To Be Added To Rate Base	<u>1,163,177</u>	<u>1,266,361</u>	<u>1,214,769</u>

Louisiana Water Company  
Docket # U-36318

For Year Ending December 31, 2021

Capital Structure and Weighted Average Cost of Capital With 9.75% ROE

Company Requested:

Capital Structure and Weighted Average Cost of Capital			
	Structure	Cost Rate	Weighted Return
Equity	37.98%	9.75%	3.70%
Preferred Stock	2.59%	12.0%	0.31%
Long Term Liabilities	59.42%	3.47%	2.06%
<b>Total</b>	<b>100.00%</b>		<b>6.08%</b>

LAWCO Capitalization	
Owners Equity - Common	\$ 15,980,327.00
Owners Equity - Preferred	\$ 1,090,000.00
Total Debt	\$ 25,000,000.00
<b>Total Capitalization</b>	<b>\$ 42,070,327.00</b>

Audit Staff Recommended:

Capital Structure and Weighted Average Cost of Capital			
	Structure	Cost Rate	Weighted Return
Equity	37.98%	9.75%	3.70%
Preferred Stock	2.59%	12.0%	0.31%
Long Term Liabilities	59.42%	3.47%	2.06%
<b>Total</b>	<b>100.00%</b>		<b>6.08%</b>

LAWCO Long Term Debt Expense			
	Rate		
Series A Due 9/30/45	3.41%	\$ 15,000,000.00	60%
Series B due 9/30/50	3.57%	\$ 10,000,000.00	40%
<b>Net Long Term Debt</b>		<b>\$ 25,000,000.00</b>	<b>3.47%</b>

Comparison of Water/Wastewater Companies utilizing an FRP

	Initial ROE	FRP Lower	FRP Upper
Utilities Inc. of Louisiana		9%	10%
Magnolia Water Utility Operating Company	9.50%	9%	10%
LAWCO	9.75%	9%	10%

**Louisiana Water Company**  
**Docket # U-36318**  
**Rate Base Calculations**  
**For The Period Ended December 31, 2021**

Rate Base Accounts	December 31, 2021 As Filed	31-Dec-21 Company Pro Forma Adjusted Without Rate Increase	31-Dec-21 Company Pro Forma Adjusted With Rate Increase
Utility Plant in Service	\$ 93,858,936.00	\$ 93,858,936.00	\$ 93,858,936.00
Construction Work In Process	\$ 5,167,868.00	\$ 5,167,868.00	\$ 5,167,868.00
Prepaid Tank Painting	\$ 1,630,369.00	\$ 1,630,369.00	\$ 1,630,369.00
<b>Total Utility Plant in Service</b>	<b>\$ 100,657,173.00</b>	<b>\$ 100,657,173.00</b>	<b>\$ 100,657,173.00</b>
<b>Additions:</b>			
Regulatory Assets	\$ 4,067,691.00	\$ 4,067,691.00	\$ 4,067,691.00
Materials & Supplies	\$ 525,456.00	\$ 525,456.00	\$ 525,456.00
Working Capital	\$ 1,266,361.13	\$ 1,214,768.81	\$ 1,214,768.81
Prepayments	\$ 20,680.00	\$ 20,680.00	\$ 20,680.00
<b>Total Additions</b>	<b>\$ 5,880,188.13</b>	<b>\$ 5,828,595.81</b>	<b>\$ 5,828,595.81</b>
<b>Deductions:</b>			
Accumulated Depreciation	\$ 50,514,956.00	\$ 50,514,956.00	\$ 50,514,956.00
Customer Deposits	\$ 3,017,482.00	\$ 3,017,482.00	\$ 3,017,482.00
Accrued Interest Customer Deposits	\$ 148,276.00	\$ 148,276.00	\$ 148,276.00
Customer Advances	\$ 443,107.00	\$ 443,107.00	\$ 443,107.00
Contributions in Aid of Construction	\$ 12,994,353.00	\$ 12,994,353.00	\$ 12,994,353.00
Deferred Income Tax Federal	\$ 980,054.00	\$ 980,054.00	\$ 980,054.00
Regulatory Liabilities	\$ 2,450,778.00	\$ 2,450,778.00	\$ 2,450,778.00
<b>Total Deductions</b>	<b>\$ 70,549,006.00</b>	<b>\$ 70,549,006.00</b>	<b>\$ 70,549,006.00</b>
<b>Rate Base</b>	<b>\$ 35,988,355.13</b>	<b>\$ 35,936,762.81</b>	<b>\$ 35,936,762.81</b>
Net Operating Income	\$ 1,251,713.00	\$ 1,251,713.00	\$ 2,180,978.23
Return on rate Base	3.48%	3.48%	6.07%

**Louisiana Water Company**  
**Docket # U-36318**  
**Rate Base Calculations**  
**For The Period Ended December 31, 2021**

Rate Base Accounts	Decmeber 31, 2021 As Filed	31-Dec-21 LPSC Staff Pro Forma Adjusted Without Rate Increase	31-Dec-21 Company Pro Forma Adjusted With Rate Increase
Utility Plant in Service	\$ 93,858,936.00	\$ 93,858,936.00	\$ 93,858,936.00
Construction Work In Process	\$ 5,167,868.00	\$ 5,167,868.00	\$ 5,167,868.00
Prepaid Tank Painting	\$ 1,630,369.00	\$ 1,630,369.00	\$ 1,630,369.00
<b>Total Utility Plant in Service</b>	<b>\$ 100,657,173.00</b>	<b>\$ 100,657,173.00</b>	<b>\$ 100,657,173.00</b>
<b>Additions:</b>			
Regulatory Assets	\$ 4,067,691.00	\$ 4,067,691.00	\$ 4,067,691.00
Materials & Supplies	\$ 525,456.00	\$ 525,456.00	\$ 525,456.00
Working Capital	\$ 1,266,361.13	\$ 1,214,768.81	\$ 1,214,768.81
Prepayments	\$ 20,680.00	\$ 20,680.00	\$ 20,680.00
<b>Total Additions</b>	<b>\$ 5,880,188.13</b>	<b>\$ 5,828,595.81</b>	<b>\$ 5,828,595.81</b>
<b>Deductions:</b>			
Accumulated Depreciation	\$ 50,514,956.00	\$ 50,514,956.00	\$ 50,514,956.00
Customer Deposits	\$ 3,017,482.00	\$ 3,017,482.00	\$ 3,017,482.00
Accrued Interest Customer Deposits	\$ 148,276.00	\$ 148,276.00	\$ 148,276.00
Customer Advances	\$ 443,107.00	\$ 443,107.00	\$ 443,107.00
Contributions in Aid of Construction	\$ 12,994,353.00	\$ 12,994,353.00	\$ 12,994,353.00
Deferred Income Tax Federal	\$ 980,054.00	\$ 980,054.00	\$ 980,054.00
Regulatory Liabilities	\$ 2,450,778.00	\$ 2,450,778.00	\$ 2,450,778.00
<b>Total Deductions</b>	<b>\$ 70,549,006.00</b>	<b>\$ 70,549,006.00</b>	<b>\$ 70,549,006.00</b>
<b>Rate Base</b>	<b>\$ 35,988,355.13</b>	<b>\$ 35,936,762.81</b>	<b>\$ 35,936,762.81</b>
Net Operating Income	\$ 1,251,713.00	\$ 1,254,713.00	\$ 2,183,978.23
Return on Rate Base	3.48%	3.49%	6.08%

**Louisiana Water Company**  
**Docket No. U-36318**  
**Rate of Return Calculations**  
**For The Period Ended December 31, 2021**

	<b>As Filed 2021</b>	<b>With Requested Increase 2021</b>	<b>With Recomm. Increase 2021</b>
Utility Plant in Service	93,858,936	93,858,936	93,858,936
Less:			
Accumulated Depreciation	50,514,956	50,514,956	50,514,956
Net Utility Plant	43,343,980	43,343,980	43,343,980
Construction Work In Progress	5,167,868	5,167,868	5,167,868
Prepaid Tank Painting	1,630,369	1,630,369	1,630,369
Total Utility Plant in Service	50,142,217	50,142,217	50,142,217
Additions:			
Materials & Supplies	525,456	525,456	525,456
Prepayments	20,680	20,680	20,680
Working Capital	1,266,361	1,214,769	1,214,769
Regulatory Assets	4,067,691	4,067,691	4,067,691
Total Additions	5,880,188	5,828,596	5,828,596
Deductions:			
Customer Deposits	3,017,482	3,017,482	3,017,482
Accrued Interest Customer Deposits	148,276	148,276	148,276
Customer Advances	443,107	443,107	443,107
Contributions in Aid of Construction	12,994,353	12,994,353	12,994,353
Deferred Income Tax Federal	980,054	980,054	980,054
Regulatory Liabilities	2,450,778	2,450,778	2,450,778
Total Deductions	20,034,050	20,034,050	20,034,050
<b>Net Rate Base</b>	<b>35,988,355</b>	<b>35,936,763</b>	<b>35,936,763</b>
Net Operating Income	1,251,713	2,180,978	2,183,978
<b>Return on Rate Base</b>	<b>3.48%</b>	<b>6.07%</b>	<b>6.08%</b>

**Service List for U-36318  
as of 9/9/2022**

**Commissioner(s)**

Craig Greene

Mike Francis

**LPSC Staff Counsel**

W. Noah Hoggatt, LPSC Staff Attorney

**LPSC Staff**

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Robin Pendergrass, LPSC Auditing Division

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