

LPSC DOCKET NO. U- _____

DIRECT TESTIMONY

of

MR. BRIAN W. FRANCIS

on behalf of

LOUISIANA WATER COMPANY

In re: Application for an Initial Increase and Adjustment in Retail Rates, Approval of Formula Rate Plan, Request for Interim Rates, Request for Establishment of Regulatory Asset, and Request for Establishment of Emergency Reserve Fund

- PUBLIC VERSION -



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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION AT THE LOUISIANA WATER COMPANY (“LAWCO,” “COMPANY,” OR “APPLICANT”).

A. My name is Brian W. Francis. My business address is 8755 Goodwood Blvd., Baton Rouge, Louisiana 70806. I am currently the Director, Regulatory Finance (“Director”) at LAWCO.

Q. HOW LONG HAVE YOU HELD THAT POSITION AT LAWCO?

A. I joined LAWCO as its Director in January 2022.

Q. PLEASE DESCRIBE YOUR DUTIES AS THE DIRECTOR AT LAWCO.

A. I am responsible for providing Louisiana Public Service Commission (“LPSC” or “Commission”) regulatory finance support for LAWCO.

Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL BACKGROUND.

A. I graduated from Eureka College with a Bachelor of Arts in Business Administration in 1996. I spent the first six (6) years of my career at Duff & Phelps Investment Management Company evaluating the financial performance of publicly traded companies and creating financial models for investment selection. I spent the next ten (10) years in various treasury and financial management roles at Littelfuse, Inc., a global electronics manufacturing firm. While there, I completed the Certified Public Accountant (“CPA”) exam in 2011 and earned my Master of Business Administration from Lake Forest Graduate School of Management in 2017. Prior to joining LAWCO in 2022, I spent the last five (5) years in the water and wastewater utility industry at Utilities, Inc. of Louisiana where I was responsible for financial reporting, budgeting, and regulatory support. Additionally, I attended the Institute of Public Utilities Regulatory Studies Program at Michigan State University in 2019.

23 Q. HAVE YOU TESTIFIED BEFORE ANY REGULATORY AUTHORITIES?

24 A. Yes. I have provided testimony before the LPSC in various matters over the last five (5) years.

25 In addition, I have provided testimony before the Alabama Public Service Commission and the
26 Public Utility Commission of Texas.

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

28 A. I am testifying on behalf of LAWCO.

29 **II. PURPOSE OF DIRECT TESTIMONY**

30 Q. PLEASE STATE THE PURPOSE OF YOUR DIRECT TESTIMONY.

31 A. The purpose of my Direct Testimony is to support the Company's instant filing – *Application*
32 *for an Initial Increase and Adjustment in Retail Rates, Approval of Formula Rate Plan, Request*
33 *for Interim Rates, Request for Establishment of Regulatory Asset, and Request for*
34 *Establishment of Emergency Reserve Fund* (the "Application"), specifically to: (i) provide an
35 overview of Confidential Exhibit C (an exhibit that was included in the Application); (ii)
36 discuss the Company's requested rate relief; (iii) discuss the reasonableness of the Company's
37 proposed Return On Equity; (iii) discuss the Company's request for establishment of a
38 Regulatory Asset; and (iv) discuss the establishment of a Formula Rate Plan.

39 **III. RETAIL RATE RELIEF**

40 **A. OVERVIEW OF CONFIDENTIAL EXHIBIT C**

41 Q. WAS CONFIDENTIAL EXHIBIT "C" PREPARED BY YOU OR UNDER YOUR
42 SUPERVISION?

43 A. Yes, I assisted in the preparation of Confidential Exhibit C.

Q. WHAT TEST YEAR WAS UTILITIZED FOR THE APPLICATION?

A. The calendar year ending December 31, 2021 was utilized as the Test Year for the Application.

Q. WHAT WERE THE SOURCES OF YOUR DATA AND INFORMATION RELIED ON BY YOU FOR THE PURPOSES OF THE APPLICATION AND ASSOCIATED EXHIBITS?

A. All data, information, adjustments and existing rate schedules were obtained from the books and records of LAWCO.

Q. PLEASE DESCRIBE CONFIDENTIAL EXHIBIT C, SCHEDULE 1.

A. Exhibit C, Schedule 1 includes the balance sheet per LAWCO's books as of the test year, December 31, 2021 ("2021 Test Year") and the prior year ended December 31, 2020.

Q. PLEASE DESCRIBE CONFIDENTIAL EXHIBIT C, SCHEDULE 2.

A. Exhibit C, Schedule 2 calculates LAWCO's rate base upon which a rate of return will be applied and included in the calculated revenue requirement as of the test year, December 31, 2021. Column 1 calculates the rate base per LAWCO's books equal to [REDACTED] as of December 31, 2021. Column 2 allows for any necessary proforma adjustments to the Test Year rate base. There were no proforma adjustments to the per books rate base for 2021. Therefore, the proforma present rate base (Column 3), which is used in the revenue requirement calculation, equals [REDACTED] the same as the per books rate base (Column 1). Column 4 accounts for any adjustments to rate base resulting from the revenue requirement—there were none in this instance. Column 5 is the Proforma Proposed rate base which totals [REDACTED] as well. This also confirms that the revenue requirement and resulting rates deliver the target allowed return.

Q. WHAT IS INCLUDED IN THE COMPANY'S RATE BASE?

A. The major components of the Company's rate base include:

67 Items that *increase* rate base: Gross Utility Plant In Service, Construction Work In Progress
68 (“CWIP”), Prepaid Tank Painting, Materials & Supplies, Working Capital, Regulatory
69 Assets and Prepaid Expenses.

70 Items that *decrease* rate base: Accumulated Depreciation, Customer Deposits, Interest on
71 Customer Deposits, Customer Advances, Contributions in Aid of Construction (“CIAC”),
72 Deferred Income Taxes and Regulatory Liabilities.

73 Q. PLEASE DESCRIBE THE CWIP THAT LAWCO IS REQUESTING TO BE INCLUDED
74 IN THE COMPANY’S RATE BASE.

75 A. The amount of CWIP per LAWCO’s books as of the 2021 Test Year was [REDACTED]. The
76 Company is requesting that the total CWIP balance be included in rate base because the large
77 majority of these projects are multi-year projects not included in current rates and most projects
78 were either completed shortly after the 2021 Test Year end or will be completed before the
79 proposed rates are in effect. In other words, the majority of projects currently in CWIP will be
80 in service before the proposed rates, if approved, become effective, meaning that the total cost
81 of the projects will be paid for by the customers getting the use and benefits of the projects.
82 Please refer to Exhibit C, Schedule 14 for a detailed breakdown of each project’s total cost and
83 current status.

84 Q. IN THIS INSTANCE, WOULD INCLUDING CWIP IN THE COMPANY’S RATE BASE
85 BE CONSISTENT WITH NATIONAL ASSOCIATION OF REGULATORY UTILITY
86 COMMISSIONERS (“NARUC”) GUIDELINES?

87 A. Yes. By including CWIP in the Company’s rate base, the Company’s customers receiving the
88 benefit of the project constructed for their use are the ones paying for the cost of the project.
89 NARUC refers to this sound ratemaking practice as the “matching principle.”

90 Q. WOULD LAWCO EXPERIENCE FINANCIAL HARDSHIP IF CWIP WAS NOT
91 INCLUDED IN THE COMPANY'S RATE BASE?

92 A. Yes. As Mr. Simmons points out in his testimony, the Commission, in U-35100, authorized
93 the Company to increase its water rates and non-recurring fees in order to earn a Return on
94 Equity ("ROE") of 11.25% and a return on rate base of 8.34%. As calculated in Exhibit C,
95 Schedule 2, LAWCO is earning an ROE of only 2.12% and a return on rate base of just 3.56%
96 as of the Test Year. If CWIP is not included in rate base, the Company will continue to
97 experience declining returns far below the allowed ROE. Such low returns will disincentivize
98 further capital investment by stakeholders.

99 Q. HOW IS WORKING CAPITAL CALCULATED FOR THE COMPANY?

100 A. LAWCO provides service to its customers first and then bills customers in arrears for the prior
101 month's service. Consequently, there is a need for working capital to cover the lag between
102 when LAWCO pays for expenses necessary to provide safe and reliable service and when
103 payment is received from customers for that service. According to NARUC, the two most
104 common methods of calculating working capital are a lead-lag study and the "1/8 method."
105 NARUC recommends smaller utilities use the 1/8 method since the cost of a lead-lag study is
106 usually greater than the benefits of the study. The basis of the 1/8 method is that, according to
107 NARUC, there is typically a 45-day lag between when service is provided and when payment
108 is received; 45 days divided by 365 days in a year equals 1/8. Therefore, LAWCO selected to
109 use the 1/8 method for working capital which multiplies operating expenses (Delivery to
110 Customers and Customer Service and General Administration expenses (Exhibit C, Schedule
111 3)) by 1/8. The result of the 1/8 method calculation is [REDACTED] cash working capital amount
112 for the Test Year.

Q. PLEASE DESCRIBE CONFIDENTIAL EXHIBIT C, SCHEDULE 3.

A. The purpose of Confidential Exhibit C, Schedule 3 is to calculate the Net Operating Income used for the revenue requirement calculation and identify the proforma adjustments the Company has made to the Income Statement. Column 1 is LAWCO's per book Income Statement as of the test year ended December 31, 2021. For the Test Year, Net Income was [REDACTED] and Net Operating Income was [REDACTED]. Column 2 includes the Proforma Adjustments the Company has made for ratemaking purposes, which will be discussed in more detail below. Column 3 is the Proforma Present Income Statement which is the result of the Proforma Adjustments applied to the Per Books Income Statement. Column 3 includes the Net Operating Income in the amount of [REDACTED], which is used for the revenue requirement calculation. Column 4 includes adjustments as a result of the revenue requirement calculation, which will also be discussed in more detail below. Column 5 is the Proforma Proposed Income Statement, which is used to confirm that the revenue requirement and resulting rates deliver the target allowed return.

Q. PLEASE DESCRIBE THE PROFORMA ADJUSTMENT TO CONFIDENTIAL EXHIBIT C, SCHEDULE 3, COLUMN 2, LINE 8 INCOME TAXES.

A. A commensurate adjustment reducing Income Taxes by the amount of [REDACTED] was made as a result of the other Proforma Adjustments described below. Please refer to Exhibit C, Schedule 4 for the detailed calculation of the adjustment.

Q. PLEASE DESCRIBE THE PROFORMA ADJUSTMENT TO CONFIDENTIAL EXHIBIT C, SCHEDULE 3, COLUMN 2, LINE 15 TOTAL NON-OPERATING INCOME.

A. Non-operating Income includes revenues resulting from contract billing agreements between LAWCO and various wastewater service providers for the communities LAWCO serves.

LAWCO performs billing services for the wastewater utilities and receives Interest Income resulting from interest bearing short-term investments. Contract billing revenues and Interest Income are not related to providing safe and reliable drinking water to customers and are therefore removed from the ratemaking calculation, resulting in a proforma adjustment reducing non-operating income by [REDACTED] and [REDACTED], respectively. Additionally, Miscellaneous Income is primarily derived from Allowed Funds Used During Construction (“AFUDC”). AFUDC is a non-cash reporting item that is accrued until such time as CWIP projects are closed and transferred to the corresponding Plant in Service account. Therefore, Miscellaneous Income is removed for ratemaking purposes, resulting in a [REDACTED] reduction to non-operating income.

Q. PLEASE DESCRIBE THE PROFORMA ADJUSTMENT TO CONFIDENTIAL EXHIBIT C, SCHEDULE 3, COLUMN 2, LINE 16 INTEREST ON LONG-TERM DEBT.

A. Interest Expense is recalculated by applying the Company’s capital structure and cost of debt to its rate base. This results in a [REDACTED] reduction to interest expense for the Test Year. Please refer to Exhibit C, Schedule 6 for the detailed calculation of the adjustment.

Q. PLEASE DESCRIBE THE PROFORMA ADJUSTMENT TO EXHIBIT C, SCHEDULE 3, COLUMN 2, LINE 17 AMORTIZATION OF DEBT EXPENSE.

A. Amortization of Debt Expense is removed from the Income Statement and treated as a Cost of Debt on Schedule 6. This results in a [REDACTED] reduction to Test Year expenses. Please refer to Exhibit C, Schedule 6 for details.

Q. WHAT IS THE DIFFERENCE BETWEEN NET OPERATING INCOME AND NET INCOME?

A. Net Operating Income is revenue less all operating expenses such as labor, electricity, chemicals, customer service, depreciation and other costs required to provide safe and reliable water service to customers. Net Income is revenue less all costs and includes non-operating costs such as contract billings and interest income which are not used for ratemaking.

Q. PLEASE DESCRIBE THE CALCULATIONS ON CONFIDENTIAL EXHIBIT C, SCHEDULE 3, LINES 21-25.

A. The calculations in lines 21-25 break out the portion of Net Operating Income attributable to Common Equity stakeholders. Line 22 removes the Cost of Debt and Line 24 removes the Cost of Preferred Stock.

Q. IS THIS CONSISTENT WITH NARUC?

A. Yes. LAWCO's investor supplied capital includes Common Equity, Preferred Stock and Long-term Debt. The debt and preferred stock accounts are recorded based on issuance amount on the liability side of the balance sheet. Common Equity on the balance sheet represents total assets less total liabilities, including the debt and preferred stock. According to NARUC, for ratemaking purposes the costs of long-term debt and preferred stock are treated as embedded costs. Therefore, the Net Operating Income for Common Equity must be considered after subtracting the fixed costs of debt and preferred stock from net operating income.

Q. PLEASE DESCRIBE THE PROPOSED INCREASE IN THE AMOUNT OF [REDACTED] ON CONFIDENTIAL EXHIBIT C, SCHEDULE 3, COLUMN 4, LINE 1.

A. The Proposed Increase in the amount of [REDACTED] on Exhibit C, Schedule 3, Column 4, Line 1 is the result of the Gross Revenue Deficiency calculation on Line 13 of Exhibit C, Schedule 7 which is discussed later in my testimony (see ln. [206-227] below).

Q. PLEASE DESCRIBE THE PROPOSED INCREASE IN THE AMOUNT OF [REDACTED] ON
CONFIDENTIAL EXHIBIT C, SCHEDULE 3, COLUMN 4, LINE 8.

A. The Proposed Increase in the amount of [REDACTED] on Exhibit C, Schedule 3, Column 4, Line
8 is the Tax Gross Up on the difference between requested return on common equity and the
net operating income for common equity. The calculations are on Lines 9-13 of Exhibit C,
Schedule 7 which are discussed later in my testimony (see ln. 206-227below).

Q. PLEASE DESCRIBE CONFIDENTIAL EXHIBIT C, SCHEDULE 4.

A. Exhibit C, Schedule 4 computes the Federal and State of Louisiana income taxes for both the
Proforma Present and Proforma Proposed revenue and expenses. The Federal statutory rate of
21.00% and the State of Louisiana statutory rate of 8.00% on revenues in excess of \$200,000
are used to calculate income taxes as these would also be the effective tax rates on the next
dollar of income earned by the Company.

Q. PLEASE DESCRIBE CONFIDENTIAL EXHIBIT C, SCHEDULE 5.

A. Exhibit C, Schedule 5 calculates LAWCO's capital structure as of the Test Year ended
December 31, 2021. Additionally, Schedule 5 calculates the cost of Common Equity, Preferred
Stock and Long-Term Debt. I will discuss the target Return on Common Equity later in my
testimony (see ln. 263-368).

Q. PLEASE DESCRIBE CONFIDENTIAL EXHIBIT C, SCHEDULE 6.

A. Exhibit C, Schedule 6 lists all outstanding debt of the Company, including the maturity date,
interest rate and outstanding balance. Schedule 6 calculates the Cost of Debt for the Company
as of the Test Year end to be [REDACTED]. Additionally, Schedule 6 calculates the adjustment to
Interest Expense by multiplying the Proforma Present Rate Base of [REDACTED] by the Debt
Capitalization Ratio of [REDACTED] and Cost of Debt of [REDACTED]. Interest Expense on Rate Base

203 equals [REDACTED] which results in a [REDACTED] proforma adjustment to reduce Per Books Interest
204 Expense of [REDACTED] to Proforma Present Interest Expense of [REDACTED].

205 Q. PLEASE DESCRIBE CONFIDENTIALEXHIBIT C, SCHEDULE 7.

206 A. Exhibit C, Schedule 7 is the calculation of the Gross Revenue Deficiency. In other words, this
207 schedule documents the amount of additional revenue the Company needs to earn in order to
208 meet its target allowed return on Test Year rate base.

209 Q. HOW IS THE REQUESTED RETURN ON COMMON EQUITY CALCULATED FOR THE
210 COMPANY?

211 A. The calculation of requested return on common equity starts with the Proforma Present Rate
212 Base of [REDACTED] which is multiplied by the Test Year common equity weight of [REDACTED]
213 and requested common equity return of 10.25%. The result is a requested return on common
214 equity of [REDACTED].

215 Q. HOW IS THE ADJUSTED NET OPERATING INCOME FOR COMMON EQUITY
216 CALCULATED FOR THE COMPANY?

217 A. The adjusted net operating income for common equity is taken from Exhibit C, Schedule 3,
218 Column 3, Lines 21-25. Proforma Present total net operating income is reduced for the cost of
219 debt and cost of preferred stock. The Proforma Present Net Operating Income for Common
220 Equity as of the Test Year is [REDACTED].

221 Q. HOW IS THE REVENUE DEFICIENCY CALCULATED FOR THE COMPANY?

222 A. The Proforma Present Net Operating Income for Common Equity of [REDACTED] is subtracted
223 from the Requested Return on Common Equity of [REDACTED] resulting in a difference of
224 [REDACTED]. This after-tax difference in return must be grossed up for income taxes. Please see
225 Exhibit C, Schedule 4 for a detailed calculation of Proforma Proposed income taxes which

226 result in the income tax gross up amount of [REDACTED]. The difference of [REDACTED] and the
227 income tax gross up of [REDACTED] sum to the total Gross Revenue Deficiency of [REDACTED].

228 Q. PLEASE DESCRIBE CONFIDENTIAL EXHIBIT C, SCHEDULE 8.

229 A. Exhibit C, Schedule 8 is the detailed general ledger for the Income Statement and Balance
230 Sheet accounts for the test year, December 31, 2021, and the prior year ended December 31,
231 2020.

232 Q. PLEASE DESCRIBE CONFIDENTIAL EXHIBIT C, SCHEDULE 9.

233 A. Exhibit C, Schedule 9 includes the average customer consumption in gallons, average customer
234 counts, and average monthly bills for the Test Year 2021 by Rate Class.

235 Q. PLEASE DESCRIBE CONFIDENTIAL EXHIBIT C, SCHEDULE 10.

236 A. Exhibit C, Schedule 10 includes the current effective rates for each rate class, the proposed
237 rates, and the change in rates expressed in dollars and percentage. Additionally, the current and
238 proposed fee structure is also included.

239 Q. IS LAWCO PROPOSING ANY CHANGES TO THE COMPANY'S FEE STRUCTURE?

240 A. LAWCO is only proposing a change to its tariffed water rates to satisfy the calculated revenue
241 requirement. The Company is not proposing any changes to the existing fee structure at this
242 time.

243 Q. PLEASE DESCRIBE CONFIDENTIAL EXHIBIT C, SCHEDULE 11.

244 A. Exhibit C, Schedule 11 calculates the average monthly bill by customer class using current
245 rates and proposed rates along with the change in average bills expressed in dollars and
246 percentage.

247 Q. PLEASE DESCRIBE CONFIDENTIAL EXHIBIT C, SCHEDULE 12.

A. Exhibit C, Schedule 12 calculates the average monthly revenue amount LAWCO expects to receive by customer class using current rates and proposed rates along with the change in monthly amount expressed in dollars and percentage.

Q. PLEASE DESCRIBE CONFIDENTIAL EXHIBIT C, SCHEDULE 13.

A. Exhibit C, Schedule 13 calculates the anticipated annual revenues from all revenue sources using current rates and proposed rates along with the change in average bills expressed in dollars and percentage. Schedule 13 is used to confirm that the Proposed Rates from Schedule 10 generate an increase in total revenue equal to the Gross Revenue Deficiency as calculated on Schedule 7.

Q. PLEASE DESCRIBE CONFIDENTIAL EXHIBIT C, SCHEDULE 14.

A. Exhibit C, Schedule 14 provides a list of projects included in CWIP as of the Test Year end December 31, 2021. Schedule 14 lists the spend by year and total spent per books as of December 31, 2021, along with the actual or estimated in service date and comments, if applicable, for projects with an estimated in-service date.

B. RETURN ON COMMON EQUITY

Q. PLEASE BRIEFLY DESCRIBE YOUR ANALYSIS OF LAWCO'S COST OF CAPITAL.

A. According to NARUC, ratemaking and tariff-setting practices must give utilities an opportunity to provide investors a fair rate of return which must be included in the revenue requirement in order to adequately cover the cost of doing business. It is my appreciation that these principles of fair rate of return are documented in the well-known U.S. Supreme Court decisions in *Fed. Power Comm'n v. Hope Nat. Gas Co.*, 320 U.S. 591, 64 S. Ct. 281, 88 L. Ed. 333 (1944) and *Bluefield Waterworks & Imp. Co. v. Pub. Serv. Comm'n of W. Va.*, 262 U.S.

679, 43 S. Ct. 675, 67 L. Ed. 1176 (1923). My analysis is used to determine the weighted average cost of capital (“WACC”) for a company. The WACC is equal to the return on rate base. The WACC approach is a fundamental financial concept based on an analysis of the capital structure and the cost rates of the individual capital components including Debt, Preferred Stock and Common Equity.

Q. PLEASE DESCRIBE THE METHODOLOGY USED IN YOUR ANALYSIS TO DETERMINE LAWCO’S WACC.

A. First, I calculated the capital structure for LAWCO as of the Test Year for the capital components Debt, Preferred Stock and Common Equity. Next, I calculated the cost of debt and the cost of preferred stock. For estimating the cost of equity, market-based financial models could be applied directly to the utility if it is traded on a stock market. Since LAWCO is a privately held utility with no market data available, a proxy group of market-traded comparable utilities was used. I then selected the Capital Asset Pricing Model (“CAPM”) and performed the calculations to assess LAWCO’s cost of equity.

Q. HAVE YOU SUBMITTED THE DETAILS OF YOUR ANALYSIS WITHIN THIS FILING?

A. Yes. The Schedules are Confidential Exhibit C, Schedules 15-17.

Q. IS CAPM A COMMONLY ACCEPTED METHOD OF DETERMINING ROE?

A. Yes. The CAPM method is a commonly accepted method of determining ROE and the LPSC has used this model frequently to evaluate the returns for utility companies. The CAPM approach is based on the theory that the required rate of return is equal to the risk-free rate of return plus a risk-adjusted market risk premium. The 30-year Treasury Bond is typically used for the risk-free rate and the Market Risk Premium is typically the difference between long-

term rates of return on the S&P 500 stock market index and the 30-Year Treasury Bond. The components of the CAPM model will be described in greater detail below.

Q. PLEASE EXPLAIN HOW YOU CHOSE YOUR UTILITY PROXY GROUP.

A. I examined the most recent prior LAWCO filing, U-35100, along with other rate cases recently filed with the LPSC and adopted a commonly used selection of comparable publicly traded water utilities including: American Water Works, American States Water Co., California Water Service Group, Middlesex Water Co., SJW Group and York Water Company.

Q. WHAT IS BETA?

A. Beta is widely recognized by the financial community as a company-specific risk metric that measures the risk of a specific stock in relation to the risk of a market index. In other words, beta identifies how a specific company's stock price is likely to change in relation to changes in the broader market. A company with a beta of 1 would see changes in its stock price equal to that of the broader market. A beta greater than 1 would have an above average risk level meaning price changes would be greater in magnitude than the broader market. Utilities typically have a beta less than 1, which means their risk level is less than the broader market.

Q. WHAT IS THE DIFFERENCE BETWEEN LEVERED AND UNLEVERED BETAS?

A. Each company has a unique capital structure and the levered beta measures each utility's risk, including both the debt and equity in its capital structure, to the volatility of the market. Unlevering the beta removes the debt component and provides clarity on the equity risk of the company.

Q. HOW WAS LAWCO'S BETA DETERMINED?

A. LAWCO's Beta was calculated by taking an average of its peer group's unlevered betas and then leveraging it back up using the capital structure of LAWCO. This is a common practice in

CAPM analysis because the peer group average unlevered beta identifies the equity risk of the peer group to which the unique capital structure of the Company can be applied to yield an appropriate beta for LAWCO. The levered betas of the peer group were provided by Value Line reports dated January 7, 2022.

Q. HOW DOES BETA IMPACT THE CAPM ANALYSIS?

A. LAWCO's beta is multiplied by the Market Risk Premium ("MRP"). The MRP is the return expected from the market above the risk-free rate. A higher beta increases the result of the CAPM analysis.

Q. HOW WAS THE MARKET RISK PREMIUM DETERMINED?

A. The MRP is calculated as the difference in average return for the S&P 500 stock market index over the period 1928 – 2021 and the Test Year average yield on the 30-Year Treasury Bond. The S&P 500 returns were provided by a widely renowned source, the website: <https://pages.stern.nyu.edu/~adamodar/> operated by Dr. Aswath Damodaran, Professor of Finance at the Stern School of Business at New York University. The 30-Year Treasury Bond yields were provided by the Federal Reserve Economic Data website: <https://fred.stlouisfed.org>.

Q. WHAT WERE THE RESULTS OF YOUR CAPM CALCULATIONS?

A. The CAPM provided a cost of equity equal to 10.342% for LAWCO.

Q. ARE THERE ANY RISKS THAT MAY EFFECT LAWCO'S COST OF EQUITY?

A. Yes. LAWCO has a greater relative risk than the average company in the peer group because of its relative smaller size. As such, the beta used in the calculation of the CAPM cost of equity underestimates the risks of LAWCO. Typically, the size premium for a company like LAWCO

ranges from 3.25% to 3.75%. For example, the 2019 Duff & Phelps Cost of Capital Navigator listed the average return in excess of CAPM for a micro-capitalization company as 3.39%.

Q. WHAT WOULD THE COST OF EQUITY BE IF LAWCO APPLIED THE SIZE PREMIUM TO THE CAPM RESULT?

A. Applying the size premium of 3.390% to the CAPM cost of equity of 10.342% would result in a risk adjusted cost of equity of 13.732%.

Q. ARE THERE ANY QUALITATIVE FACTORS OR INDUSTRY ANALYSIS THAT SHOULD BE CONSIDERED IN DETERMINING LAWCO'S RETURN ON EQUITY?

A. Yes. According to S&P Global Market Intelligence for water utility rate cases disclosing cost of capital metrics, the average allowed ROE was 9.63% in 2019, and 9.36% in 2020, after adjusting 2020 for a punitive exception. There was a total of 11 cases disclosing cost of capital metrics. The average rate base of those 11 companies was \$726,000,000, which is [REDACTED] times the size of LAWCO's [REDACTED]. Therefore, the average allowed ROE awarded in 2019 and 2020 would need to be adjusted upwards to adjust for the risk factors associated with the size of LAWCO.

Q. WHAT IS THE CAPITAL STRUCTURE OF LAWCO AS OF THE TEST YEAR?

A. LAWCO's capital structure as of the Test Year was [REDACTED] Common Equity, [REDACTED] Preferred Stock, and [REDACTED] Long-term Debt.

Q. HOW DID YOU CALCULATE THE COMPANY'S COST OF DEBT?

A. The cost of debt was calculated using the weighted interest rates of two (2) separate loans with interest rates of [REDACTED] and [REDACTED]. The total amount for all long-term debt was [REDACTED] as of the Test Year. The percentage of each loan was multiplied by its rate to calculate a

weighted cost of each loan. The weighted cost of each loan was added together along with amortization of debt costs in the amount of [REDACTED] to calculate the total cost of debt of [REDACTED]

Q. HOW DID YOU CALCULATE THE COMPANY'S COST OF PREFERRED STOCK?

A. The cost rate of preferred stock is equal to the stated dividend rate which is 12%.

Q. WHAT IS YOUR CONCLUSION AFTER CONDUCTING YOUR ANALYSIS?

A. Based on the quantitative analyses indicated in Confidential Exhibit "C" attached to the Application and the qualitative factors discussed above, LAWCO proposes that an ROE of 10.25% percent is reasonable and appropriate (i) given the current market conditions and (ii) based on the results of the CAPM analysis. Exhibit C, Schedule 5 calculates a return on rate base or WACC of 6.280% for LAWCO based on the proposed 10.25% cost of equity.

C. REQUEST FOR ESTABLISHMENT OF REGULATORY ASSET

Q. WHY HAS THE COMPANY REQUESTED TO ESTABLISH A REGULATORY ASSET?

A. LAWCO respectfully requests a regulatory asset be established for the filing costs related to the instant filing, including but not limited to legal and outside consulting costs (if applicable).

Q. HOW IS THE COMPANY PROPOSING THE COSTS INCLUDED IN THE REGULATORY ASSET BE RECOVERED?

A. LAWCO requests that the costs are allowed to amortize over three (3) years and be recovered within the mechanics of the FRP proposed within this filing or via a surcharge.

Q. WHAT WOULD BE THE CONSEQUENCE FOR THE CUSTOMER IF THE COMMISSION DOES NOT AUTHORIZE THE CONSULTING AND LEGAL FEES AS A REGULATORY ASSET AS REQUESTED IN THE APPLICATION?

383 A. It is my understanding that the Commission has traditionally allowed the recovery of all
384 prudent and necessary costs incurred by a utility directly related to a regulatory proceeding in
385 which the utility's rate levels are being examined. If the Company is not allowed recovery of
386 expenses related to this rate increase request then LAWCO would continue to earn returns far
387 below its allowed return which means rate case expenses could be competing for dollars
388 needed for necessary investments to provide safe and reliable service. The Company is
389 proposing to amortize the costs over three years to help minimize the financial impact to
390 customers.

391 **IV. FORMULA RATE PLAN**

392
393 Q. WHY IS LAWCO REQUESTING TO ESTABLISH AN FRP?

394 A. An FRP offers many benefits to both LAWCO and its customers. Implementing an FRP is in
395 the public interest because it will allow greater regulatory oversight and rate stability along
396 with less administrative costs. The annual review frequency gives the LPSC greater visibility
397 into the operations of the Company. Further, annual ROE testing and possible rate adjustments
398 will mean that the Company's customers will benefit from cost efficiencies otherwise not
399 appreciated with a traditional rate case. Additionally, the formulaic nature of the annual review
400 process means less legal and consulting costs versus traditional rate cases. LAWCO would
401 also benefit from an FRP because the predictability of revenues and reduced investment
402 recovery lag would benefit the Company's cash flow and ability to continue to invest in the
403 business in order to provide safe and reliable water service to customers. I believe the FRP as
404 proposed by LAWCO provides a sound and consistent financial approach for determining the
405 Company's revenue requirements that benefits both LAWCO and its customers.

Q. MR. FRANCIS, DID YOU ASSIST IN THE DEVELOPMENT OF THE FORMULA RATE PLAN ("FRP") THAT LAWCO IS PROPOSING TO ADOPT?

A. Yes, I assisted in the development of the FRP proposed in the Application.

Q. WAS A COPY OF THE PROPOSED FRP RIDER INCLUDED IN THE APPLICATION?

A. Yes, a copy of the Company's proposed FRP Rider was included in the Application as Exhibit E.

Q. PLEASE COMMENT ON THE GENERAL METHODOLOGY OF THE PROPOSED FRP.

A. I believe the methodology of the proposed FRP is straight forward and will be effective in LAWCO maintaining a healthy financial structure on a consistent basis. The Rider FRP defines the procedure by which the base rates of LAWCO may be periodically adjusted to achieve revenue levels that will satisfy the stated ROE bandwidth. The plan calls for annual Commission reviews of submitted financial information for an adjusted Test Year, with resulting appropriate revenue adjustments in the form of a rider applied to all water rate classes. The need for a revenue adjustment would be based upon whether LAWCO's ROE for the adjusted Test Year fell within a designated range, or bandwidth, with a minimum level of 9.75%, a maximum level of 10.75% and a midpoint of 10.25%. The ROE figures are based on the ROE analysis I discussed earlier in my testimony. If the actual earned ROE falls outside the ROE bandwidth, either below the minimum (9.75%) or above the maximum (10.75%), then base rates will be adjusted so that the ROE is reset to the midpoint of the ROE bandwidth (10.25%). No revenue adjustment would be made if the adjusted Test Year ROE fell within the bandwidth.

Q. WHY IS A MIDPOINT RESET BENEFICIAL TO BOTH LAWCO AND ITS CUSTOMERS?

A. A midpoint reset is beneficial to both LAWCO and its customers versus a reset to the extreme Upper/Lower Bandwidth because a midpoint reset provides a better mechanism for customers to receive safe and reliable service and relatively smaller rate changes while providing the Company a more realistic opportunity to earn a fair and reasonable return. Regulatory lag is the difference between the time when a utility's costs increase and when the utility is allowed to raise its rates in response. Regulatory lag can have detrimental effects on the Company's ability to invest in necessary system improvements. By resetting ROE to the extreme low end of the bandwidth, the Company is almost guaranteed to require another rate increase due to regulatory lag. If ROE is reset to the midpoint of the bandwidth then the Company has a fighting chance to operate efficiently within the bandwidth which is the whole point of the bandwidth in the first place.

Q. MR. FRANCIS, DO YOU BELIEVE THE FRP WOULD ADEQUATELY ADDRESS LAWCO'S REQUIREMENTS FOR CONSISTENT SATISFACTORY FINANCIAL RESULTS, MAINLY ADEQUATE ROE LEVELS, IN THE FUTURE?

A. Yes, I do. I believe the FRP as proposed would allow LAWCO to adjust revenues in relatively small amounts on an annual basis to consistently achieve satisfactory ROE levels.

Q. WHAT EFFECTIVE DATE AND TERM IS THE COMPANY REQUESTING FOR THE FRP?

A. LAWCO is requesting a three (3) year FRP term beginning with the 2022 Test Year. The FRP Annual Report filings for the Test Years ending December 31, 2022, 2023 and 2024 will be made on or before March 1 of each of the years 2023, 2024 and 2025.

Q. PLEASE DESCRIBE THE ANNUAL FILING AND REVIEW PERIOD OF THE PROPOSED FRP.

A. The FRP Annual Report will be filed with the Commission on or before March 1 of each of the years 2023, 2024 and 2025. The report will contain a calculation of the Company's revenue requirement based on the twelve (12) months ending December 31 of the previous year. The Commission Staff, its outside advisors and any interested parties shall have until May 1 of the filing year to review the report. If the parties object to the report, then they will submit those objections to the Company on or before May 1. The Company shall have until June 1 to respond. If all issues are resolved, then rates shall become effective as of August 1 of the filing year.

Q. WHAT HAPPENS IF THERE ARE STILL DISPUTED ISSUES THAT CANNOT BE RESOLVED BEFORE AUGUST 1?

A. The Parties and the Company will work together in good faith to resolve any issues; however, any unresolved disputed items as of August 1 will be submitted to the Commission for a final ruling. In the meantime, the Company may make effective on August 1, rates based on all revisions to the FRP Rate Changes by Rate Class initially filed on which the Company and Parties agree.

Q. WHAT IS THE PURPOSE OF THE SYSTEM ACQUISITION REGULATORY ASSET ("SARA") PROVISION?

A. After careful evaluation and analysis, LAWCO may acquire water systems when it makes sense financially and operationally to do so. Typically acquisitions require higher expenses and investment in their first year. The SARA would allow the Company to create a regulatory asset for the losses associated with acquired companies in the first year, amortize those losses and recover them over a ten (10) year period. This will allow the Company to make acquisitions and recover any losses while benefiting customers by smoothing out recovery over ten years.

Q. PLEASE COMMENT ON THE METHODOLOGY OF SECTION 3.B ENTITLED, “THE EXTRAORDINARY COST OR REVENUE CHANGES” PROVISION AND EXPLAIN THE COMPANY’S NEED FOR SUCH A PROVISION.

A. If LAWCO experiences a single or multiple extraordinary event(s), such as a flood, hurricane or pandemic/epidemic, that causes a revenue loss of greater than 2% of revenues, then the Company will work with Commission Staff to address the ratemaking effects of such an event in either the FRP filing or a separate proceeding.

Q. MR. FRANCIS, DO YOU BELIEVE THE FRP IS IN THE BEST INTERESTS OF BOTH THE COMPANY AND ITS CUSTOMERS?

A. Yes. Under the FRP, LAWCO will have the ability to consistently maintain a sound financial position. With the streamlined regulatory process of an FRP, needed improvements can be made to the system which will allow for continued quality service and reliability for all customers. Finally, the annual revenue adjustments, if required, will be relatively small in magnitude, which the customers should find easier to budget for and manage.

V. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, at this time. I reserve the right to supplement or amend my testimony as may be needed.

BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION

LOUISIANA WATER COMPANY

DOCKET NO. U-_____

In re: Application for an Initial Increase and Adjustment in Retail Rates, Approval of Formula Rate Plan, Request for Interim Rates, Request for Establishment of Regulatory Asset, and Request for Establishment of Emergency Reserve Fund

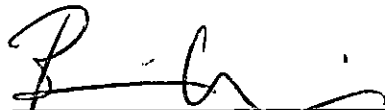
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STATE OF LOUISIANA

PARISH OF EAST BATON ROUGE

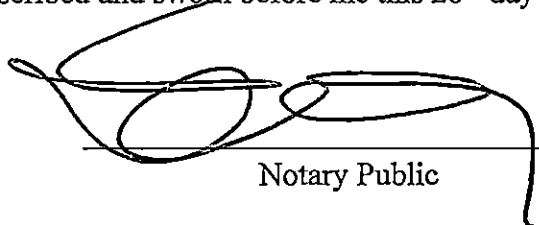
I, Brian Francis, being first duly sworn, depose that the Direct Testimony contained in the above captioned matter on behalf of Louisiana Water Company is true and correct to the best of my knowledge, information, and belief.

LOUISIANA WATER COMPANY



Mr. Brian Francis

Subscribed and sworn before me this 28th day of March, 2022.



Notary Public

Kara B. Kantrow

LA Bar Roll No. 31042

LPSC DOCKET NO. U- _____

DIRECT TESTIMONY

of

MR. PETER R HOLLIS, PE

on behalf of

LOUISIANA WATER COMPANY

In re: Application for an Initial Increase and Adjustment in Retail Rates, Approval of Formula Rate Plan, Request for Interim Rates, Request for Establishment of Regulatory Asset, and Request for Establishment of Emergency Reserve Fund



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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION AT THE LOUISIANA WATER COMPANY ("LAWCO," "COMPANY," OR "APPLICANT").

A. My name is Peter R. Hollis. My business address is 8755 Goodwood Boulevard, Baton Rouge, Louisiana 70806. I am currently a Vice President of the Company and my duties primarily involve engineering support for the Company.

Q. HOW LONG HAVE YOU HELD THAT POSITION AT LAWCO?

A. I have been a Vice President at LAWCO since December 1, 2009.

Q. PLEASE DESCRIBE YOUR DUTIES AS THE VICE PRESIDENT/ENGINEERING AT LAWCO.

A. As I stated above, I am chiefly responsible for evaluating engineering solutions for the Company. Such solutions include but are not limited to: drafting specifications for the Company's infrastructure; developing plans for water wells, raw water pipelines; considering the treatment of water to meet primary and secondary limits as established by the Louisiana Department of Health ("LDH") and the Environmental Protection Agency ("EPA"); handling the disinfection of water, the pumping of water into the distribution system, the design of pipelines to carry potable water to customers and to storage tanks, the design of ground storage and elevated tanks, the design of booster pumping stations, and the design of sludge handling facilities to handle residuals produced by the water treatment plants. Additionally, I assist in general Company discussion and decision making on storm preparedness, regulatory compliance, the relocation of services, and troubleshooting various issues as necessary.

Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL BACKGROUND.

A. I have a Bachelor of Science, Engineering, Mississippi State University, 1978 and a Master of Science, Sanitary Engineering, Virginia Polytechnic Institute and State University, 1979. Additionally, I am a Registered Professional Engineer in the following states: Mississippi (since 1983), Louisiana (since 1991), Tennessee (since 1996), and Texas (since 2000).

Q. HAVE YOU TESTIFIED BEFORE ANY REGULATORY AUTHORITIES?

A. Yes, I have testified before the Louisiana Public Service Commission ("LPSC" or "Commission") before on various matter, including a matter involving the Company.

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

A. I am testifying on behalf of LAWCO.

II. PURPOSE OF DIRECT TESTIMONY

Q. PLEASE STATE THE PURPOSE OF YOUR DIRECT TESTIMONY.

A. The purpose of my Direct Testimony is to (i) describe LAWCO's systems and operations; (ii) discuss the reasonableness of the Company's operations and maintenance ("O&M") expenses; (iii) explain the process by which capital projects are evaluated and selected by the Company; (iv) identify recent improvements and capital expenditures made by the Company; and (v) describe certain necessary capital projects which began during the 2021 test year and were completed shortly thereafter, which were included in Capital Work In Progress ("CWIP") for the Company's December 31, 2021 financial statements.

III. DESCRIPTION OF LAWCO'S SYSTEMS AND OPERATIONS

Q. PLEASE DESCRIBE HOW LAWCO'S SYSTEMS ARE ORGANIZED FROM AN OPERATIONAL STANDPOINT.

46 A. LAWCO operates six (6) public water systems in the communities of Crowley, DeQuincy,
47 Eunice, Lecompte, Loreauville, Mansura and New Iberia with a service territory that stretches
48 across six (6) parishes: Acadia, Avoyelles, Calcasieu, Iberia, Rapides and St. Landry. While
49 each water system has its own staff, employees from one system are able to support employees
50 at another system as work volume requires as this is the most cost-effective method to servicing
51 the various water systems. To that end, LAWCO has approximately 73 full-time and 4 part-
52 time employees.

53 As to the water used at these six systems, all systems owned and operated by LAWCO use
54 source water from groundwater. LAWCO's water systems are multi-well systems that are
55 treated as necessary and have pumping systems and elevated tanks to provide storage to meet
56 peak hour events. Company staff perform daily duties as necessary to provide safe and reliable
57 water service to LAWCO's customers.

58 Q. HOW ARE LAWCO'S SYSTEMS MANAGED ON A DAY-TO-DAY BASIS?

59 A. The manager maintains and reviews a list of tasks that need to be accomplished and is
60 responsible for the assignment of these tasks to Company employees.

61 Q. PLEASE DESCRIBE THE TYPES OF ACTIVITIES NECESSARY TO KEEP LAWCO'S
62 WATER SYSTEMS OPERATING PROPERLY.

63 A. Daily tasks include but are not limited to: (i) responding to customer service requests; (ii)
64 observing water levels in each storage tank to ensure that an adequate supply of water is
65 available at all times; (iii) reading of choring residual levels; (iv) taking bacteriological
66 samples; (v) checking water wells and water plants; (vi) performing routine maintenance; (vii)
67 checking pump capacities; (viii) filling chemical inventories; (ix) marking pipelines; (x)

making repairs; (xi) flushing the system when necessary; and (xii) reading/replacing all water meters.

Q. WHAT REGULATIONS DOES THE COMPANY HAVE TO COMPLY WITH IN ORDER TO ENSURE THE PROTECTION OF PUBLIC HEALTH?

A. There are many regulations that water utilities comply with to ensure the protection of public health. LAWCO ensures its compliance with any and all water quality regulations, including but not limited to the rules and regulations of the EPA, LDH, and the Safe Drinking Water Act (“SDWA”).

IV. LAWCO’S O&M EXPENSES

Q. WHAT ARE SOME EXAMPLES OF LAWCO’S O&M EXPENSES?

A. O&M expenses are costs that relate to the normal operating, maintenance and administrative activities of LAWCO. Examples of such expenses include but are not limited to chemicals used to treat water, electric power, salary and wages, fuel and fleet maintenance, water testing fees and plant and distribution system maintenance.

Q. WHAT ARE THE PRIMARY DRIVERS OF O&M EXPENSES?

A. While there are several reasons why O&M expenses are incurred, the key cost driver for O&M expenses is the provision of safe and reliable service with effective and efficient customer service to LAWCO’s customers.

Q. HAS LAWCO EXPERIENCED ANY SIGNIFICANT COST INCREASES TO O&M EXPENSES SINCE THE COMPANY’S LAST RATE FILING?

89 A. Yes, LAWCO has experienced inflationary pressure on its operating costs, primarily to
90 electric power. Additionally, the Company has experienced increased prices in chemical, lime
91 sludge removal and general tank and plant maintenance costs.

92 **V. LAWCO'S CAPITAL INVESTMENT**
93

94 Q. WHAT IS A CAPITAL INVESTMENT?

95 A. Generally, capital investments are expenditures that result in the upgrade, acquisition or
96 addition of fixed assets.

97 Q. WHY ARE CAPITAL INVESTMENTS MADE IN THE SYSTEM?

98 A. Capital investments are made to address regulatory compliance problems, increase or restore
99 operational capacity, connect new customers, address end of life issues with existing treatment
100 systems and outdated technology, and to improve service, safety and reliability.

101 Q. HOW ARE INDIVIDUAL CAPITAL PROJECTS IDENTIFIED AND FUNDED?

102 A. The Company focuses on many factors when deciding to invest in a capital structure. Some of
103 the factors are (i) redundancy, (ii) expected growth of a system, (iii) current and pending
104 regulations, and (iv) the overall need for improved infrastructure.

105 As for the funding of these projects, once an improvement is deemed appropriate and cost-
106 effective, the project is placed into the annual proposed capital budget, which is considered
107 and constantly reviewed by the Company.

108 Q. WHAT IS THE AVERAGE AMOUNT OF CAPITAL SPENDING LAWCO INVESTS IN
109 ITS WATER SYSTEMS IN A TYPICAL YEAR?

110 A. On average since 2017, LAWCO invests approximately \$3.9M annually. As the Commission
111 is aware, the Company filed its last rate case with a test year of 2017 (LPSC Docket U-35100¹).
112 Since that time, LAWCO has invested approximately \$20.7M on upgrades and improvements
113 since the filing of U-35100 which was based on a 2017 test year.

114 Q. HAVE ALL PROJECTS INCLUDED IN THE TOTAL INVESTMENT SINCE THE FILING
115 OF LPSC DOCKET U-35100 BEEN PLACED IN SERVICE?

116 A. No, approximately \$5.2M of the total remained in CWIP as of December 31, 2021.

117 Q. WHERE YOU INVOLVED IN THE COMPANY'S LAST RATE CASE, IE LPSC DOCKET
118 U-35100?

119 A. Yes.

120 Q. GIVEN YOUR INVOLVEMENT IN U-35100, ARE YOU FAMILIAR WITH THE
121 COMPLAINTS MADE BY THE TOWN OF MANSURA?

122 A. Yes.

123 Q. ARE YOU FAMILIAR WITH THE TOWN OF MANSURA AND ITS WATER SERVICE
124 BY THE COMPANY?

125 A. Yes.

126 Q. COULD YOU PLEASE PROVIDE A BRIEF DESCRIPTION OF THE HISTORY OF THAT
127 SERVICE AND WHAT THE COMPANY HAS DONE RECENTLY TO ADDRESS ANY
128 ISSUES THAT THE TOWN HAS EXPERIENCED IN THE PAST?

129 A. Prior to 2020, LAWCO purchased water for the Town of Mansura from the Town of Cottonport
130 ("Cottonport"). After the testing of Cottonport's wells, bromide was found, which is an

¹ LPSC Docket No. U-35100, Louisiana Water Company, *In re: Request for an increase in rates*.

unregulated chemical that can increase Trihalomethane ("TTHM") levels. Additionally, the water received from Cottonport tended to be overchlorinated and LAWCO's connection point was at the end of Cottonport's six-mile line, both of which were contributing factors to higher TTHM levels. At the request of the Commission, LAWCO evaluated and switched its water source for the Town of Mansura to the Avoyelles Water Commission ("AWC") so as to improve water quality and reduce additional treatment costs for the Town of Mansura.

Q. YOU MENTIONED "TTHM" ABOVE. COULD YOU PLEASE DESCRIBE IN MORE DETAIL "TTHM"?

A. Yes. TTHM's are a result of the treated water reacting with chlorine during the disinfection process. TTHM's are formed during water treatment, and are affected by several water quality factors including: natural organic matter content, quantity of chlorine added, contact time with chlorine, temperature and pH levels. In addition, TTHM levels may increase the longer water remains in the distribution system before being used. Long term health effects of exposure to TTHM include liver, kidney or central nervous system problems and increased risk of cancer. The EPA sets the limit for TTHM at 80 parts per billion. As it relates to the Town of Mansura, since the switch to AWC, TTHM levels in the Mansura system have dropped significantly and are well within regulatory levels.

Q. HOW DOES LAWCO MONITOR TTHM AND PREVENT INCREASED TTHM LEVELS?

A. LDH pulls samples quarterly and tests the water in the Town of Mansura at specific collection points for TTHM. The samples are collected by LDH and are tested by a third-party laboratory. All results are reported by the State of the Louisiana and reported on a state website. As for prevention, TTHM's increase with water age and chlorine concentration levels. Consequently, water is flushed from the water mains routinely to lower the age and chlorine concentration as

much as possible to reduce the extent of formation. For example, in New Iberia, ammonia is fed along with chlorine to form chloramines. The use of chloramines has been a very effective method of controlling the formation of TTHM's in the New Iberia system, but the use of chloramines requires extensive testing and control by the operators.

Q. HAS LAWCO RECEIVED ANY EXCEEDANCES OF THE TTHM LIMIT IN ANY SYSTEM SINCE THE COMPANY'S LAST RATE FILING?

A. No.

Q. HAS LAWCO RECEIVED ANY NOTICES OF VIOLATION AND/OR RECOMMENDATIONS FROM THE LDH SINCE THE LAST RATE FILING?

A. No.

Q. ARE YOU AWARE OF CAPITAL SPENDING REQUIREMENTS FOR THE TOWN OF MANSURA?

A. Yes.

Q. IS LAWCO IN COMPLIANCE WITH THE CAPITAL SPENDING REQUIREMENTS IN THE FRANCHISE AGREEMENT WITH THE TOWN OF MANSURA?

A. Yes, I believe the requirement for capital spending is stated in the Franchise Agreement between the Company and the Town of Mansura. It is further my understanding that LAWCO is to budget an average of not less than \$37,500 annually, or not less than \$562,500 over the term of the franchise agreement, for capital improvements on the system. Since 2013, the Company has spent a total of approximately \$730,000 in improvements to the Town of Mansura's distribution system and water quality, which was done pursuant to the 2013 Franchise Agreement.

Q. PLEASE LIST SOME OF THE OTHER MORE SIGNIFICANT CAPITAL PROJECTS LAWCO STARTED DURING THE TEST YEAR 2021, WHICH WERE INCLUDED IN CWIP FOR THE YEAR END FINANCIAL STATEMENTS.

A. The major projects started in 2021, which were in process as the end of 2021 were (i) Clarifier #6, New Iberia; (ii) Citywide Drainage Project, Crowley; (iii) Progress Point IEDA LEC, New Iberia; (iv) Replacement Filter Actuators, New Iberia; (v) Parkview Drive Pump Station, New Iberia; (vi) Well # 7 - Lecompte; (vii) Well #8 - Eunice.

Q. TO CLARIFY, WILL THE ABOVE CAPITAL IMPROVEMENTS BE MADE AND PUT INTO SERVICE BEFORE REQUESTED RATES BECOME EFFECTIVE?

A. Yes.

Q. CAN YOU PLEASE PROVIDE MORE DETAIL ON THE ABOVE LIST OF CAPITAL IMPROVEMENTS?

A. Yes. I will go through each one separately in detail below.

Q. FOR THE CLARIFIER #6 PROJECT (THE "CLARIFIER PROJECT") IN NEW IBERIA, PLEASE DESCRIBE THE REASON FOR THE PROJECT, BENEFITS TO CUSTOMERS, AND ESTIMATED COMPLETION DATE.

A. The New Iberia plant's existing clarifiers 1, 2, and 3 are well past their expected service life and need to be removed from service from not only an age perspective, but also because the technology utilized by these clarifiers are obsolete. Clarifier 6 will have a capacity equal to all clarifiers 1, 2, and 3 and will match the most recently built clarifier 5. To that end, clarifier 6 will be the redundant clarifier for clarifier 5, which without clarifier 6, the plant does not have a backup to clarifier 5. A back up is needed because the plant would not be able to meet peak day conditions during a freeze or peak event if for any reason clarifier 5 is out of service.

199 Another very critical component of the Clarifier Project is the replacement of the older chlorine
200 scrubber, the installation of a new forced draft aerator, and the installation of a new alum tank.
201 These updates are occurring so to better mediate any issues from a chlorine leak, which is
202 extremely important given chlorine is a very toxic chemical. This upgrade is a vast
203 improvement over the older infrastructure and provides much better protection for LAWCO
204 operators as well as the residents of New Iberia (who live and work in close proximity to the
205 New Iberia water plant). As way of update, the new dry type scrubber is in full operation.
206 Another part of the Clarifier Project is the installation of a new forced draft aerator. Aerating
207 the raw water into the New Iberia plant is critical to remove significant levels of carbon dioxide
208 and to start the oxidation of iron and manganese. Without aeration, the dosage of lime would
209 increase dramatically thereby increasing the cost of treatment significantly. In addition, the
210 oxidation and removal of manganese is very time dependent and therefore, the most time
211 efficient system is needed to properly remove manganese from the water.
212 Also of note is that the existing two aerators that are dedicated to clarifier 5 provide no
213 redundancy when the plant is handling flows over 5 million gallons per day ("MGD"). If a
214 unit were to fail, then the aeration at the front of the plant would be deficient. The installation
215 of a third aerator will allow the plant to treat up to its design flow of 10 MGD while one of the
216 units is down for servicing and cleaning, which can take a significant amount of labor and time
217 and currently, when an aerator is removed from service crews are forced to work around the
218 clock to try and return the unit to service as soon as possible. With a third unit, this work can
219 be scheduled and completed in a very timely but cost effective and efficient manner.
220 As to the installation of a new alum tank, it should be noted that alum is used as a coagulant at
221 the New Iberia plant and is critical to ensure quality water. The older alum tank was not located

222 within a secondary containment area and was significantly aged. The Clarifier Project includes
223 a new alum tank that is located within the older wet chlorine scrubber secondary confinement
224 area. This upgrade allowed the Company to reuse the secondary containment area, which
225 saved considerable monies, while also gaining a new and larger alum tank such that full loads
226 of the alum could be off loaded each time alum is delivered, thereby saving on delivery costs.
227 The estimated completion date for the Clarifier Project is August 2022.

228 Q. FOR THE CITYWIDE DRAINAGE PROJECT IN CROWLEY, PLEASE DESCRIBE THE
229 REASON FOR THE PROJECT, BENEFITS TO CUSTOMERS, AND ESTIMATED
230 COMPLETION DATE.

231 A. The City of Crowley embarked on a major drainage project that involved the installation of
232 major storm drainage pipes throughout the City of Crowley. In many locations, the proposed
233 storm drainage piping was in direct conflict with many of the LAWCO waterlines that had
234 been in service for many years. Unfortunately storm drainage piping must be installed
235 following specific grades so that all of the stormwater can flow downhill. LAWCO piping that
236 was in conflict with the storm drainage piping had to be relocated and moved to accommodate
237 the new much larger pipes. In many cases, the LAWCO water piping had to be lowered
238 considerably to avoid conflicts. It should be noted that LAWCO piping could not be
239 abandoned as it is critical for potable water service to customers and for fire protection.

240 The final completion date for the Crowley Drainage Project waterline relocation work was
241 February of 2022.

242 Q. FOR THE PROGRESS POINT IEDA LEC IN NEW IBERIA, PLEASE DESCRIBE THE
243 REASON FOR THE PROJECT, BENEFITS TO CUSTOMERS, AND ESTIMATED
244 COMPLETION DATE.

A. The purpose of the Progress Point waterline extension project is to provide potable water service to the new Progress Point business park in New Iberia. A major 12" waterline was extended from the New Iberia system to the business park, a distance of over 10,000 feet. The waterline will provide service to new customers located within the park. The project has just been completed with final completion estimated for April 2022.

Q. FOR THE REPLACEMENT FILTER ACTUATORS PROJECT IN NEW IBERIA, PLEASE DESCRIBE THE REASON FOR THE PROJECT, BENEFITS TO CUSTOMERS, AND ESTIMATED COMPLETION DATE.

A. The New Iberia filters at the New Iberia water plant provide a critical service to the final treatment of water. As way of background, without the filters, water from the clarifiers would enter the distribution system with high levels of particulate matter. These solids could plug piping systems in both the main lines and in customers' homes, which then could result in decreased water quality and eventual system failure. Thus, filters provide a critical service by removing almost all of the solids from the lime softening process before the water is pumped to the distribution system. Additionally, valves are an essential part of the filters in that they allow water to enter the filters, regulate the flow through the filters, close to allow the filters to be cleaned, and open to allow the filters to be rinsed before being returned to service. The ancillary parts for the filters and valves are currently obsolete and do not function efficiently and thus, need replacement in order to supply the highest quality of water to LAWCO's customers. This project is scheduled to be completed by July 2022.

Q. FOR THE PARKVIEW DRIVE PUMP STATION PROJECT IN NEW IBERIA, PLEASE DESCRIBE THE REASON FOR THE PROJECT, BENEFITS TO CUSTOMERS, AND ESTIMATED COMPLETION DATE.

268 A. One of the major elevated tanks in New Iberia is located on Lewis Street in New Iberia.
269 Significant growth has taken place in close proximity to the Lewis Street tank and thus, an
270 upgrade is necessary. As way of background, piping to that tank was installed many years ago
271 and consists of a 12" waterline running from the water plant toward Lewis Street. In addition,
272 an 8" line extension was completed to provide all water to Loreauville. The main source of
273 water for Loreauville comes from the Lewis Street tank. Water line improvements along Lewis
274 Street have improved fire protection from the tank to the community; however, did not improve
275 the transmission of water from the water plant to the Lewis Street tank. Two options were
276 available to improve the transmission of water from the water plant to the Lewis Street elevated
277 tank: (1) the installation of major large diameter waterlines, or (2) the installation of an in-line
278 booster station along the existing 12" transmission main. The Company moved forward with
279 Option 2, which was successful. Operations soon recognized the huge benefit of the in-line
280 booster station such that the use of the booster station became a routine critical operation.
281 Initially, the Company only installed one pump. It became apparent that a second pump was
282 needed. Therefore, piping was installed that would allow a second pump to be installed for
283 redundancy. Since installation, the two pumps are alternated daily. The use of this booster
284 station has become a critical part of the daily operations of the New Iberia system. The final
285 completion date for this project was February 2022.

286 Q. FOR THE WELL #7 PROJECT IN LECOMPTE, PLEASE DESCRIBE THE REASON FOR
287 THE PROJECT, BENEFITS TO CUSTOMERS, AND ESTIMATED COMPLETION DATE.

288 A. In general, the water wells in LeCompte are aged and in poor condition. One of the main wells
289 failed several years ago and was reworked in hopes of extending the life of the well; however,
290 the capacity of the well was reduced during the work. Further, this same well sits very close

291 to a railroad track and is actually located within the railroad right of way. It is unclear if the
292 railroad would grant permission for any more significant reworking of the well and the
293 Company has been informed that it could not drill a new well at this same location should the
294 older well fail completely. Given these issues, LAWCO purchased new land and drilled water
295 well #7 in LeCompte. It is important to note that water wells in this area are small given the
296 limited capacity of the aquifer. Because water levels in this area fluctuate significantly due to
297 irrigation pumping and, in an effort to provide redundancy for the supply of water and to ensure
298 that customers could receive a continuous supply of water, raw water well #7 was drilled and
299 completed. The capacity of the water well matches the well #6 and provides a critical source
300 of water for the town. This project is scheduled to be completed by July 2022.

301 Q. FOR THE WELL #8 PROJECT IN EUNICE, PLEASE DESCRIBE THE REASON FOR THE
302 PROJECT, BENEFITS TO CUSTOMERS, AND ESTIMATED COMPLETION DATE.

303 A. Water well #8 is replacing water well #3, which was a critical major water supply for the Eunice
304 water plant that unfortunately failed after 76 years of service. The decision was made to
305 abandon the failed well and drill a new well in close proximity. Accordingly, property had to
306 be acquired as close as possible to the water plant. Further, the raw water in Eunice must be
307 treated, which was an additional reason to purchase property in close proximity to the water
308 plant. Once the property was purchased, the new water well design was completed and
309 approved by the appropriate agencies. This new water well was sized to meet the average
310 demand of the water system such that it can provide an uninterrupted supply of water to the
311 plant to allow for continuous operations. A raw water pipeline will be installed to connect the
312 well to the raw water header at the plant. Included in this work is the proper abandonment of
313 the old well #3. This project is scheduled to be completed by July 2022.

VI. CONCLUSION

- 314
315
316 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
317 A. Yes, at this time. I reserve the right to supplement or amend my testimony as may be needed.

**BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION**

LOUISIANA WATER COMPANY

DOCKET NO. U-_____

In re: Application for an Initial Increase and Adjustment in Retail Rates, Approval of Formula Rate Plan, Request for Interim Rates, Request for Establishment of Regulatory Asset, and Request for Establishment of Emergency Reserve Fund

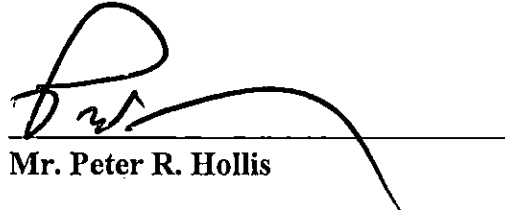
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STATE OF LOUISIANA

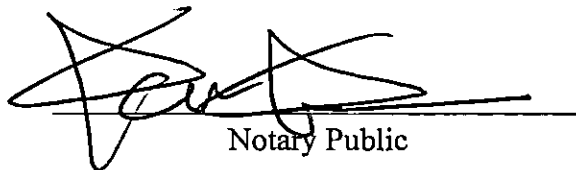
PARISH OF EAST BATON ROUGE

I, Peter R. Hollis, being first duly sworn, depose that the Direct Testimony contained in the above captioned matter on behalf of Louisiana Water Company is true and correct to the best of my knowledge, information, and belief.

LOUISIANA WATER COMPANY


Mr. Peter R. Hollis

Subscribed and sworn before me this 28th day of March, 2022.


Notary Public

Kara B. Kantrow

LA Bar Roll No. 31042

