

LOUISIANA PUBLIC SERVICE COMMISSION

ORDER NUMBER U-35822

MAGNOLIA WATER UTILITY OPERATING COMPANY, LLC,
EX PARTE

Docket No. U-35822, In re: Application for Approval of Rate Design, Increase in Water and Sewerage Rates, Implementation of Service Charges and Any Other Related Relief.

(Decided at the October 20, 2021 Business and Executive Session.)

ORDER

I. OVERVIEW AND PROCEDURAL HISTORY

Magnolia Water Utility Operating Company, LLC (“Magnolia”) is a Louisiana limited liability company located at 10761 Perkins Road, Suite A, in Baton Rouge, Louisiana 70810. Magnolia provides water and wastewater services across the state of Louisiana to approximately 31,500 customers. Magnolia filed its *Application for Rate Design, Increase in Water and Sewerage Rates, Implementation of Service Charges, and Any Other Related Relief* (“Application”) on December 18, 2020 (“Application”). Notice of the Application was published in the Commission’s Official Bulletin #1235 on December 23, 2020 for a 15-day intervention period. No interventions were filed. Magnolia re-urged its Application on January 19, 2021, to ensure timely publication in all official journals. Notice of the Request was re-published in the Commission’s Official Bulletin #1237 for an additional 15 days. No interventions were filed.

Notice of Assignment and Notice of Status Conference, whereby the matter was assigned to Administrative Law Judge Joy Guillot, and a status conference was scheduled for February 3, 2021, was issued on January 20, 2021. On January 25, 2021, ALJ Guillot issued a *Notice of Rescheduling of Status Conference*, whereby the status conference scheduled for February 3, 2021 was rescheduled for February 11, 2021. On February 8, 2021, Magnolia and Staff filed a *Joint Motion to Reschedule Status Conference*, moving to reschedule the status conference scheduled for February 11, 2021 to February 18, 2021. On February 9, 2021, ALJ Guillot issued a *Ruling on Joint Motion to Reschedule Status Conference*, whereby the status conference scheduled for February 11, 2021 was rescheduled for February 18, 2021. ALJ Guillot presided over a status conference on February 18, 2021 setting a procedural schedule set forth in the *Report of Telephonic Status Conference* issued that same date. On March 4, 2021, Magnolia filed an *Unopposed Motion to Substitute a Witness and to Allow the Adoption of Pre-Filed Testimony* seeking to substitute the testimony of Dylan D’Ascendis for that of Jennifer Nelson. Magnolia’s Motion was granted by ALJ Guillot via *Ruling on Unopposed Motion to Substitute a Witness and to Allow the Adoption of Pre-Filed Testimony* on March 5, 2021. On May 4, 2021, Staff filed *Staff’s Notice to Substitute Counsel*. On June 23, 2021, Staff filed an *Unopposed Motion to Modify Procedural Schedule* on behalf of the Louisiana Public Service Commission Staff; Judge Guillot granted the motion by *Ruling on Unopposed Motion to Modify Procedural Schedule* on June 24, 2021.

After review and discovery of Magnolia’s Application, Staff filed the *Testimony of Thomas Broady in Support of the Audit Memorandum* on July 7, 2021. Staff filed a *Notice to Substitute Counsel* on July 16, 2021. Magnolia filed *Rebuttal Testimony of Josiah Cox, Rebuttal Testimony of Brent G. Thies, and Rebuttal Testimony of Mike Duncan* on August 4, 2021 opposing certain Staff recommendations. On September 9, 2021, in light of continuing settlement negotiations, the Company and Staff filed a *Joint and Unopposed Motion to Modify Procedural Schedule*. The motion was granted by ALJ Guillot, who issued a ruling requiring the parties to file a status update or a motion to reset the procedural schedule by September 28, 2021, in the event a stipulation was

not filed into the record on or before that date. The parties then submitted a *Joint Status Update on September 28, 2021*, requesting additional time for negotiations, as well as a deadline of October 28, 2021, for submission of a status update or a motion to reset the procedural schedule in the event a stipulation was not reached by that date. That motion was also granted. Subsequently, Staff and Magnolia's continued and extensive settlement negotiations resulted in an agreed-upon stipulation, which includes the attached *Stipulated Settlement Term Sheet* with Appendices and a Rider FRP with Attachments (collectively "the Settlement"), that resolves all issues in the proceeding. The Settlement provides for an initial increase in revenue, a three-tier rate structure based upon the relative cost of operation, a three-year Formula Rate Plan ("FRP") with a Return on Equity ("ROE") deadband of 9%-10% with no rate change if earned ROE falls within the deadband and rates adjusted to the upper or lower limit if earned ROE is above or below the deadband, imputed capital structure, and other rate provisions. On October 15, 2021, Magnolia and Staff filed a *Joint Motion Pursuant to Rule 57 for Consideration and Acceptance by the Commission of Proposed Uncontested Joint Stipulated Settlement* ("Joint Motion"), with the Settlement and supporting testimony from Magnolia and Staff witnesses seeking consideration of the Settlement at the October 20, 2021 Business and Executive Session ("B&E"). The Joint Motion was placed on the Agenda for the October 20, 2021 B&E. On that date, the Settlement, subject to an amendment proposed by Vice-Chairman Skrmetta, was unanimously adopted.

II. COMMISSION AUTHORITY

The Commission exercises jurisdiction in this proceeding pursuant to Article IV, Section 21 of the Louisiana Constitution.

La. Const. Art. IV, Sec. 21 provides in pertinent part:

The commission shall regulate all common carriers and public utilities and have such other regulatory authority as provided by law. It shall adopt and enforce reasonable rules, regulations, and procedures necessary for the discharge of its duties, and perform other duties as provided by law.

III. MAGNOLIA'S APPLICATION

In support of its Application, Magnolia filed *Pre-Filed Direct Testimony* of the following seven witnesses: Josiah Cox, Dylan W. D'Ascendis, Brent G. Thies, Mike Duncan, Jacob Freeman, Todd Thomas, and Jennifer E. Nelson.

Per its Application, since the Commission granted Magnolia conditional approval to operate as a water and wastewater utility in August 2019, Magnolia has acquired numerous water and sewerage systems throughout Louisiana and is anticipating additional acquisitions. Many of the systems acquired were in various states of disrepair and in violation of health and environmental regulations. Magnolia is now systematically bringing said systems into compliance via capital improvements, investing more than \$47 million as of the date of the Application. At purchase, Magnolia was required to assume the system tariffs then in effect. Magnolia contended that the current system tariffs were insufficient to recover the expenses of operation and improvement while providing a fair and reasonable rate of return.

Mr. Cox, President of the Company, testified regarding Magnolia's operations in Louisiana, improvements Magnolia has made to systems currently owned and operated, and why the requested rate increase is necessary. Mr. D'Ascendis, Director at ScottMadden, Inc., testified as to the requested common equity cost rate. Mr. Thies, Controller of the Company, testified in support of the requested revenue requirement. Mr. Duncan, Vice President of CSWR, LLC ("CSWR"), the affiliated company that has operational oversight over the Company, provided an explanation of the process CSWR uses to engage third-party contractors to provide customer service functions for Magnolia, and the benefits of using said contractors. Mr. Freeman, Director of Engineering of CSWR, testified as to the projects Magnolia will undertake to upgrade the water

and wastewater systems already acquired and the systems it intends to acquire. Mr. Thomas, Senior Vice President of CSWR, also testified as to the process CSWR uses to identify and engage third-party contractors to perform operations and maintenance functions for Magnolia, and the advantages of using said contractors. Ms. Nelson, Director at ScottMadden, Inc., made a recommendation regarding the appropriate capital structure and cost of long-term debt to be used for ratemaking purposes for Magnolia. On March 4, 2021, the Company filed the aforementioned *Unopposed Motion of Magnolia Utility Operating Company, LLC to Substitute a Witness and to Allow the Adoption of Pre-Filed Testimony*, whereby it requested that Mr. D'Ascendis be substituted as Applicant's witness in the place of Ms. Nelson, and to allow Mr. D'Ascendis to adopt the Pre-Filed Direct Testimony of Ms. Nelson as his own. ALJ Guillot granted the Motion on March 5, 2021.

In summation, in its Application and through Testimony, Magnolia requested a redesign of its rate structure, an increase of its water and wastewater rates, implementation of service charges, and any other related relief. Magnolia specifically requested authorization to implement a new three-tiered water and wastewater rate structure based on the type of assets serving customers rather than the multiple previously used tariffs used by each group of assets Magnolia purchased. In addition to the request for implementation of a three-tiered rate system, Magnolia also requested increases in fees, an ROE of 11.80%, and a \$14.4 million revenue requirement increase.

IV. STAFF'S TESTIMONY

After review of Magnolia's Application, and extensive discovery, including four sets of formal data requests, Staff filed the *Testimony of Thomas Broady in Support of the Audit Memorandum* including an Audit Memorandum with Exhibits, on July 7, 2021. Mr. Broady's testimony included a cost of capital study and Staff's recommendation of a FRP with a three-year term. Mr. Broady's testimony also found that a revenue requirement increase was warranted, but not at the level requested by Magnolia. Mr. Broady's recommendation included a 9.50% ROE Ratio Band, a 50/50 debt to equity capital structure, a \$9.81 million revenue requirement increase, and approval of the service charges proposed.

V. MAGNOLIA'S REBUTTAL TESTIMONY

Magnolia filed its *Rebuttal Testimony* (the "Rebuttal" or "Magnolia's Rebuttal") on August 4, 2021, opposing certain Staff recommendations. The Rebuttal consisted of the testimony of four witnesses: Josiah Cox, Dylan D'Ascendis, Brent Thies, and Mike Duncan. Mr. Cox testified with regard to Staff's proposed FRP and Magnolia's proposed amendments to the FRP. Mr. D'Ascendis testified as to the necessity of a higher FRP Rider ROE deadband. Mr. Thies testified as to Staff's recommendation on state and local income tax, the exclusion of construction work in progress ("CWIP") from rate base, and the treatment of depreciation expense the cost of service calculation. Mr. Duncan provided clarification as to how the rate design proposed by Magnolia would apply to multi-unit residential structures that are billed under a single account. In summation, Magnolia proposed in its Rebuttal, among other things, changes to the FRP process, a debt ratio of 60% equity and 40% debt, formulaic changes, and an ROE Ratio Band of 11.35% to 12.30%, with an ROE midpoint of 11.83%.

VI. SETTLEMENT

Following completion of discovery and filing of testimony, the parties engaged in extensive settlement discussions that ultimately resulted in the Settlement, which includes the attached Stipulated Settlement Term Sheet with Appendices and a Rider FRP with Attachments. The Settlement resolves all issues in the proceeding pending approval by the Commission.

The Settlement provides for an increase in revenue of approximately \$10.586 million, a three-year FRP, an ROE deadband of 9% to 10% with resets to the upper and lower limits if above or below, flexibility to defer and amortize any reset of more than 200 basis points below the deadband, and a capital structure imputed at 60% capital and 40% debt for the first two FRP test years with an imputed equity cap of 50% for the third test year. The Settlement also authorizes Magnolia to create a regulatory asset for operating losses accrued to acquired systems (“System Acquisition Regulatory Asset” (“SARA”)) upon acquisition of 4,000 or more customers, whether acquired cumulatively or part of a single transaction, during any test year of the three-year term of the FRP (between December 31, 2020 and December 31, 2024). Magnolia is required to submit the SARA for review as part of the FRP Annual Filing. The approved SARA amount is to be amortized for ratemaking purposes over 10 years.

On October 15, 2021, Magnolia and Staff filed a Joint Motion, requesting that the Commission take this matter up pursuant to Rule 57 at the October 20, 2021 B&E and approve the Settlement as being in the public interest.

VII. COMMISSION ACTION

The matter was placed on the Commission’s October 20, 2021 B&E Agenda. On motion of Vice-Chairman Skrmetta, seconded by Commissioner Boissiere and unanimously adopted, the Commission voted to assert its original and primary jurisdiction and take the matter up pursuant to Rule 57.

On motion of Vice Chairman Skrmetta, seconded by Commissioner Francis, and unanimously adopted, the Commission voted to accept Settlement filed into the record on October 15, 2021, with an effective date of December 1, 2021, with the stipulation that one-third of the approved monthly residential customer charge for water and wastewater service be implemented on that date, with another one-third implemented on January 1, 2022, and the final one-third implemented on February 1, 2022. Further, that Magnolia provide monthly notice to all affected customers informing them of the increases.

THEREFORE IT IS ORDERED:

1. Magnolia’s Application for Rate Design, Increase in Water and Sewerage Rates, Implementation of Service Charges and Other Related Relief filed December 18, 2020, is approved subject to the terms and conditions below.
2. Magnolia is authorized to implement an increase in revenue in the amount of \$10,586,805.23 following completion of the following: (1) the issuance of an Order in this matter; (2) Magnolia’s filing into the record of this proceeding a final revised tariff and Formula Rate Plan Rider FRP (“Rider FRP”) consistent with this Order within 30 days of its issuance with a copy to the Utilities Division; and (3) Staff’s review and acceptance of the revised tariff and Rider FRP. A list of the systems served by Magnolia is shown in Appendix A of the Stipulated Settlement Term Sheet (“Term Sheet”).¹ The authorized rate increase will be applied to Magnolia’s rate classes as shown in Appendix B of the Term Sheet. Magnolia is authorized to use a year-end plant in service balance to determine annualized depreciation expenses in the revenue requirement calculation.
3. Although Magnolia currently serves no customers that would qualify for the proposed residential Tier 3 wastewater rate schedule, the Company is authorized to establish a residential Tier 3 wastewater rate schedule with the same rates as its residential Tier 2 wastewater rate schedule and apply the residential Tier 3 schedule to any future qualifying customers.

¹ Systems acquired prior to December 2020 will be subject to the rate change to be implemented pursuant to this paragraph.

4. The Purchased Water Rate for the cost of water purchased from water suppliers is to be included on applicable customer bills as a separate line item, with the customer's total purchased water charge based on each applicable customer's metered consumption in accordance with the tariff. The Purchased Water Rate is specified in Attachment 3 to Rider FRP.
5. Adjustments to the Purchased Water Rate require prior Commission approval pursuant to applicable Commission rules and regulations.
6. Magnolia is authorized to unify its Non-Recurring Fees under a single tariff. It is permitted to increase its 1-1/2" meter Tap-In Fee from \$600 to \$750 to put it in line with Magnolia's remaining Tap-In Fees. The Non-Recurring fees authorized are prescribed in Appendix C of the Term Sheet.
7. Magnolia is ordered to continue its compliance with all LDH and LDEQ compliance standards, as well as LPSC rules and regulations.
8. Magnolia shall submit with its Annual FRP Filing the IRS Form 8832 C-Corp Election for Magnolia Water Utility Holding Company, LLC and Magnolia Water Utility Operating Company, LLC as evidence that non-jurisdictional affiliated companies cannot and will not claim Magnolia Water losses for tax purposes. Magnolia shall include a note to its Audited Financial Statements outlining this tax treatment. These forms for the current tax year election for each FRP Annual Report will be submitted as Attachment 4 to Rider FRP.
9. Magnolia is authorized to recover prudently incurred costs through an FRP, as set forth in Rider FRP. The FRP shall be subject to a three-year term to include test years ending December 31, 2022, 2023, and 2024, which will coincide with calendar years 2022, 2023, and 2024.
10. The Return on Equity ("ROE") Deadband for the FRP shall be a range of values with a Lower Band equal to 9.00%, and an Upper Band of 10.00%. To the extent that the earned ROE falls within the Deadband, no rate change shall be made. To the extent that the earned ROE falls above or below the Deadband, a prospective rate change shall be made to reset rates to the Upper Band or Lower Band, whichever is applicable.
11. Should the Company report an ROE of more than 200 basis points below the Lower Band, the Company or the Staff may propose that costs resulting in said ROE, or a portion thereof, be deferred and amortized over a reasonable number of years.
12. Should the Company seek Commission approval to renew or extend its FRP beyond the initial three-year term, Magnolia shall make a separate application apart from its Annual FRP Filing. Said application must comply with all Commission rules and regulations applicable to rate cases and be filed on or before March 1, 2025.
13. Magnolia shall submit its Annual FRP Filing based on a test year ending December 31st no later than May 1st of the Filing Year, with the initial filing due by May 1, 2023, for the 2022 Test Year. The Annual FRP Filing shall have attached thereto all exhibits and supporting documentation. The procedure for the Annual FRP Filing and resulting rate changes are detailed in Rider Schedule FRP.
14. 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.
15. Rate increases or reductions will be uniformly implemented through adjustments to the base charge of all residential and commercial water and wastewater customers.

16. Water and wastewater systems acquired by Magnolia that are subject to a LPSC-jurisdictional rate structure at the time of LPSC approval/non-opposition of the acquisition will continue on the transferor system's LPSC-filed tariff until the next FRP rate change date, at which time those customers will be placed on Magnolia's LPSC-approved tariff. In connection with LPSC approval/non-opposition of any such systems, Magnolia shall provide actual notice to customers of the FRP rate structure and the FRP rate change date, including notice that customers may intervene and participate in any Annual FRP Filing review proceeding. Magnolia must submit a draft of such notice with the request for approval/non-opposition and reviewed as part of that proceeding.
17. Construction Work in Progress ("CWIP") is disallowed from inclusion in rate base.
18. Net Income will be based on actual test year results, and adjusted for any known and measurable changes, subject to Staff's review.
19. Prudently-incurred rate case expenses for Docket No. U-35822 will be amortized over the three-year term of the FRP. With the filing of its Test Year 2022 Annual FRP Filing, Magnolia shall provide the total amount of Docket No. U-35822 rate case expenses for which it is seeking recovery, a complete accounting of same and supporting documentation. Those expenses will be reviewed for prudence in the Test Year 2022 Annual FRP Filing.
20. As part of the Annual FRP Filing, Magnolia shall include all receipts and invoices related to any and all expense allocations from its parent or other subsidiary and a detailed explanation of each expense.
21. Upon issuance of an Order in this proceeding Staff and Magnolia shall work collaboratively to develop a form of the FRP Annual Filing including the minimum necessary attachments and exhibits thereto and file it into the record of this proceeding. Should such agreed-upon form require administrative changes to the Rider FRP from that attached to this Order, administrative changes do not require a subsequent vote of the Commission.
22. Magnolia's capital structure shall be imputed at 60% capital and 40% debt for test years ending December 31, 2022 and December 31, 2023 of the FRP. There shall be an imputed equity cap of 50% for the FRP test year ending December 31, 2024. If Magnolia's actual debt ratio is less than the imputed debt, imputed interest expense will be calculated on the imputed debt using the weighted average cost of debt and will be included in the calculation of net operating income.
23. Magnolia is authorized to create a regulatory asset for operating losses accrued to acquired systems ("System Acquisition Regulatory Asset" ("SARA")) upon acquisition of 4,000 or more customers, whether acquired cumulatively or part of a single transaction, during any test year of the three-year term of the FRP (between December 31, 2020 and December 31, 2024). The SARA shall be submitted and reviewed as part of the FRP Annual Filing. The approved SARA amount will be amortized for ratemaking purposes over 10 years.
24. If after the three-year FRP term approved in this Order, Magnolia is no longer on a FRP, Magnolia shall file an application for review and approval of its SARA on or before May 1, 2026 with all supporting documentation and shall file on or before May 1 each year thereafter until the SARA is fully amortized or unless otherwise directed by this Commission.
25. The Extraordinary Cost Change provision of Rider Schedule FRP is limited to events of force majeure with a revenue requirement impact exceeding two percent of net annual revenue requirement most recently approved by the Commission.
26. Initial rate increases shall be implemented according to the following schedule: one-third of the increase applied on December 1, 2021, the second one-third applied on January 1, 2022, with the final one-third of the increase being applied on

February 1, 2022. Magnolia shall give monthly notice to all affected customers informing them of the increases.

27. The Stipulation and resulting Order in this proceeding shall have no precedential effect in any future proceeding involving issues similar to those resolved herein, except where necessary in proceedings to approve, implement, administer or enforce this Order, and shall be without prejudice of the right of any party to take any position on any similar issues in future proceedings.

BY ORDER OF THE COMMISSION
BATON ROUGE, LOUISIANA
November 19, 2021



This order is effective immediately.

A handwritten signature in blue ink, appearing to read "Brandon M. Frey".

BRANDON M. FREY
SECRETARY

/S/ CRAIG GREENE

DISTRICT II
CHAIRMAN CRAIG GREENE

/S/ ERIC F. SKRMETTA

DISTRICT I
VICE CHAIRMAN ERIC F. SKRMETTA

/S/ FOSTER L. CAMPBELL

DISTRICT V
COMMISSIONER FOSTER L. CAMPBELL

/S/ LAMBERT C. BOISSIERE, III

DISTRICT III
COMMISSIONER LAMBERT C. BOISSIERE, III

/S/ MIKE FRANCIS

DISTRICT IV
COMMISSIONER MIKE FRANCIS

**BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION**

DOCKET NO. U-35822

**MAGNOLIA WATER UTILITY OPERATING COMPANY, LLC
EX PARTE**

*In re: Application for Approval of Rate Design, Increase in Water and Sewerage Rates,
Implementation of Service Charges and Any Other Related Relief.*

STIPULATED SETTLEMENT TERM SHEET

Magnolia Utility Operating Company, LLC (“Magnolia”) and the Louisiana Public Service Commission Staff (“Staff”) hereby enter into this uncontested Stipulated Settlement Term Sheet (“Term Sheet”). This Term Sheet resolves all issues raised in this docket addressing Magnolia’s Application for Approval of Rate Design, Increase in Water and Sewerage Rates, Implementation of Service Charges and Any Other Related Relief filed December 18, 2020 (“Application”).¹ Therefore, Magnolia and Staff agree to the following terms and request that the Commission issue an Order as follows:

1. Magnolia’s Application for Rate Design, Increase in Water and Sewerage Rates, Implementation of Service Charges and Other Related Relief filed December 18, 2020, is approved subject to the terms and conditions described herein.
2. Magnolia is authorized to implement an increase in revenue in the amount of \$10,586,805.23 following completion of the following: (1) the issuance of an Order in this matter; (2) Magnolia’s filing into the record of this proceeding a final revised tariff and Formula Rate Plan Rider FRP (“Rider FRP”) consistent with this Order within 30 days of

¹ Magnolia’s Application was filed on December 18 2020; however, due to the fact that publication in the all of the official journals did not run within 20 days of that date, Magnolia re-urged its Application through a filing on January 19, 2021; thereafter, completed publication in the remaining official journals.

its issuance with a copy to the Utilities Division; and (3) Staff's review and acceptance of the revised tariff and Rider FRP. A list of the systems served by Magnolia is attached as Appendix A.² The authorized rate increase will be applied to Magnolia's rate classes as shown in the attached Appendix B. Magnolia is authorized to use a year-end plant in service balance to determine annualized depreciation expenses in the revenue requirement calculation.

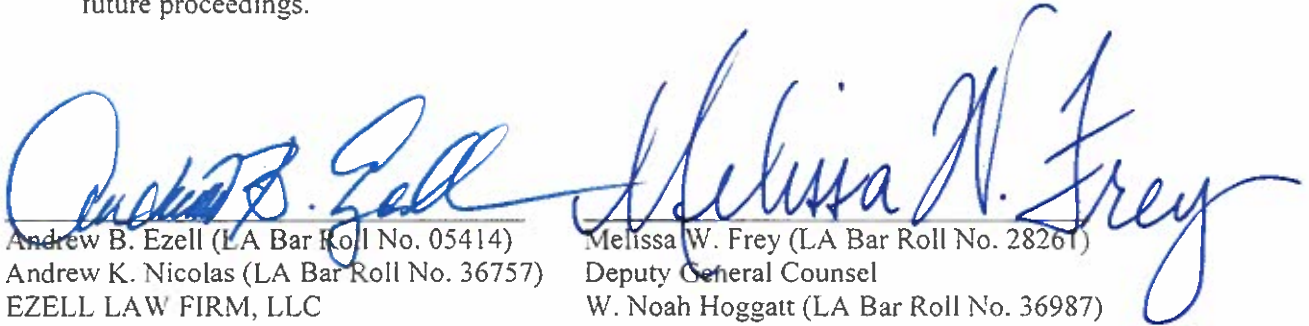
3. Although Magnolia currently serves no customers that would qualify for the proposed residential Tier 3 wastewater rate schedule, the Company is authorized to establish a residential Tier 3 wastewater rate schedule with the same rates as its residential Tier 2 wastewater rate schedule and apply the residential Tier 3 schedule to any future qualifying customers.
4. The Purchased Water Rate for the cost of water purchased from water suppliers is to be included on applicable customer bills as a separate line item, with the customer's total purchased water charge based on each applicable customer's metered consumption in accordance with the tariff. The Purchased Water Rate is specified on Attachment 3 to Rider FRP.
5. Adjustments to the Purchased Water Rate require prior Commission approval pursuant to applicable Commission rules and regulations.
6. Magnolia is authorized to unify its Non-Recurring Fees under a single tariff. It is permitted to increase its 1-1/2" meter Tap-In Fee from \$600 to \$750 to put it in line with Magnolia's remaining Tap-In Fees. The Non-Recurring fees authorized are prescribed in Appendix C attached hereto.
7. Magnolia is ordered to continue its compliance with all LDH and LDEQ compliance standards, as well as LPSC rules and regulations.
8. Magnolia shall submit with its Annual FRP Filing the IRS Form 8832 C-Corp Election for Magnolia Water Utility Holding Company, LLC and Magnolia Water Utility Operating Company, LLC as evidence that non-jurisdictional affiliated companies cannot and will not claim Magnolia Water losses for tax purposes. Magnolia shall include a note to its Audited Financial Statements outlining this tax treatment. These forms for the current tax year election for each FRP Annual Report will be submitted as Attachment 4 to Rider FRP.
9. Magnolia is authorized to recover prudently incurred costs through a Formula Rate Plan ("FRP"), as set forth in Rider FRP attached hereto as Exhibit A. The FRP shall be subject to a three-year term to include test years ending December 31, 2022, 2023, and 2024, which will coincide with calendar years 2022, 2023, and 2024.

² Systems acquired prior to December 2020 will be subject to the rate change to be implemented pursuant to this paragraph.

10. The Return on Equity (“ROE”) Deadband for the FRP shall be a range of values with a Lower Band equal to 9.00%, and an Upper Band of 10.00%. To the extent that the earned ROE falls within the Deadband, no rate change shall be made. To the extent that the earned ROE falls above or below the Deadband, a prospective rate change shall be made to reset rates to the Upper Band or Lower Band, whichever is applicable.
11. Should the Company report an ROE of more than 200 basis points below the Lower Band, the Company or the Staff may propose that costs resulting in said ROE, or a portion thereof, be deferred and amortized over a reasonable number of years.
12. Should the Company seek Commission approval to renew or extend its FRP beyond the initial three-year term, Magnolia shall make a separate application apart from its Annual FRP Filing. Said application must comply with all Commission rules and regulations applicable to rate cases and be filed on or before March 1, 2025.
13. Magnolia shall submit its Annual FRP Filing based on a test year ending December 31st no later than May 1st of the Filing Year, with the initial filing due by May 1, 2023, for the 2022 Test Year. The Annual FRP Filing shall have attached thereto all exhibits and supporting documentation. The procedure for the Annual FRP Filing and resulting rate changes are detailed in Rider Schedule FRP.
14. 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.
15. Rate increases or reductions will be uniformly implemented through adjustments to the base charge of all residential and commercial water and wastewater customers.
16. Water and wastewater systems acquired by Magnolia that are subject to a LPSC-jurisdictional rate structure at the time of LPSC approval/non-opposition of the acquisition will continue on the transferor system’s LPSC-filed tariff until the next FRP rate change date, at which time those customers will be placed on Magnolia’s LPSC-approved tariff. In connection with LPSC approval/non-opposition of any such systems, Magnolia shall provide actual notice to customers of the FRP rate structure and the FRP rate change date, including notice that customers may intervene and participate in any Annual FRP Filing review proceeding. Magnolia must submit a draft of such notice with the request for approval/non-opposition and reviewed as part of that proceeding.
17. Construction Work in Progress (“CWIP”) is disallowed from inclusion in rate base.

18. Net Income will be based on actual test year results, and adjusted for any known and measurable changes, subject to Staff's review.
19. Prudently-incurred rate case expenses for Docket No. U-35822 will be amortized over the three-year term of the FRP. With the filing of its Test Year 2022 Annual FRP Filing, Magnolia shall provide the total amount of Docket No. U-35822 rate case expenses for which it is seeking recovery, a complete accounting of same and supporting documentation. Those expenses will be reviewed for prudence in the Test Year 2022 Annual FRP Filing.
20. As part of the Annual FRP Filing, Magnolia shall include all receipts and invoices related to any and all expense allocations from its parent or other subsidiary and a detailed explanation of each expense.
21. Upon issuance of an Order in this proceeding Staff and Magnolia shall work collaboratively to develop a form of the FRP Annual Filing including the minimum necessary attachments and exhibits thereto and file it into the record of this proceeding. Should such agreed-upon form require administrative changes to the Rider FRP from that attached to this Order, administrative changes do not require a subsequent vote of the Commission.
22. Magnolia's capital structure shall be imputed at 60% capital and 40% debt for test years ending December 31, 2022 and December 31, 2023 of the FRP. There shall be an imputed equity cap of 50% for the FRP test year ending December 31, 2024. If Magnolia's actual debt ratio is less than the imputed debt, imputed interest expense will be calculated on the imputed debt using the weighted average cost of debt and will be included in the calculation of net operating income.
23. Magnolia is authorized to create a regulatory asset for operating losses accrued to acquired systems ("System Acquisition Regulatory Asset" ("SARA")) upon acquisition of 4,000 or more customers, whether acquired cumulatively or part of a single transaction, during any test year of the three-year term of the FRP (between December 31, 2020 and December 31, 2024). The SARA shall be submitted and reviewed as part of the FRP Annual Filing. The approved SARA amount will be amortized for ratemaking purposes over 10 years.
24. If after the three-year FRP term approved in this Order, Magnolia is no longer on a FRP, Magnolia shall file an application for review and approval of its SARA on or before May 1, 2026 with all supporting documentation and shall file on or before May 1 each year thereafter until the SARA is fully amortized or unless otherwise directed by this Commission.
25. The Extraordinary Cost Change provision of Rider Schedule FRP is limited to events of force majeure with a revenue requirement impact exceeding two percent of net annual revenue requirement most recently approved by the Commission.

26. The Stipulation and resulting Order in this proceeding shall have no precedential effect in any future proceeding involving issues similar to those resolved herein, except where necessary in proceedings to approve, implement, administer or enforce this Order, and shall be without prejudice of the right of any party to take any position on any similar issues in future proceedings.



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Counsel for Magnolia Water Utility
Operating Company, LLC

Counsel for Louisiana Public Service
Commission

**APPENDIX A
SYSTEMS SERVED BY MAGNOLIA**

**SYSTEMS CURRENTLY SERVED BY MAGNOLIA ACQUIRED BEFORE
DECEMBER 31, 2020:**

Docket No. S-35282, Magnolia Water Utility Operating Company, LLC and Jones Rolling Ridge Water Company, ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the Water and/or Wastewater System(s) operated by Jones Rolling Ridge Water Company; approved 11/6/2019.

Docket No. S-35284, Magnolia Water Utility Operating Company, LLC and S&S Sewage (Sewer) Treatment, ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the Water and/or Wastewater System(s) operated by S&S Sewage (Sewer); approved 11/6/2019.

Docket No. S-35285, Magnolia Water Utility Operating Company, LLC and Superior Sewerage Corporation, ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the Water and/or Wastewater System(s) operated by Superior Sewerage Corporation. S-35286 Suburban Water Company; approved 11/6/2019.

Docket No. S-35286, Magnolia Water Utility Operating Company, LLC and Suburban Water Company, ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the Water and/or Wastewater System(s) operated by Suburban Water Company, Inc.; approved 11/6/2019.

Docket No. S-35287, Magnolia Water Utility Operating Company, LLC and Cherry Ridge Utilities, Inc., ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the Water and/or Wastewater System(s) operated by Cherry Ridge Utilities, Inc.; approved 11/6/2019.

Docket No. S-35288, Magnolia Water Utility Operating Company, LLC and Major Sanitary & Sewerage Services, ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the Water and/or Wastewater System(s) operated by Major Sanitary and Sewerage Services; approved 11/6/2019.

Docket No. S-35289, Magnolia Water Utility Operating Company, LLC and Colonial Oaks Subdivision Water and Sewerage Utilities, Inc., ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the Water and/or Wastewater System(s) operated by Colonial Oaks Subdivision Water and Sewerage Utilities, Inc.; approved 11/6/2019.

Docket No. S-35290, Magnolia Water Utility Operating Company, LLC and Evangeline Oaks Water System, Inc., ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the Water and/or Wastewater System(s) operated by Evangeline Oaks Water System, Inc.; approved 11/6/2019.

Docket No. S-35291, Magnolia Water Utility Operating Company, LLC and Olde Oaks Sewer System, LLC, ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the

Water and/or Wastewater System(s) operated by Olde Oaks Sewer System, LLC.; approved 11/6/2019.

Docket No. S-35292, Magnolia Water Utility Operating Company, LLC and Coast Waterworks, Inc., ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the Water and/or Wastewater System(s) operated by Coast Waterworks, Inc.; approved 11/6/2019.

Docket No. S-35293, Magnolia Water Utility Operating Company, LLC and Wildwood South Public Service Company, Inc., ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the Water and/or Wastewater System(s) operated by Wildwood South Public Service Company, Inc.; approved 11/6/2019.

Docket No. S-35295, Magnolia Water Utility Operating Company, LLC and Curtis Environmental Services, Inc., ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the Water and/or Wastewater System(s) operated by Curtis Environmental Services, Inc.; approved 11/6/2019.

Docket No. S-35296, Magnolia Water Utility Operating Company, LLC and Mo-Dad Utilities, LLC, ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the Water and/or Wastewater System(s) operated by Mo-Dad Utilities, LLC; approved 11/6/2019.

Docket No. S-35297, Magnolia Water Utility Operating Company, LLC and H2O Systems, Inc., ex parte. In re: Application for a Letter of Non-Opposition the Acquisition of the Water and/or Wastewater System (s) operated by H2O Systems, Inc.; approved 11/6/2019.

Docket No. S-35582, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Petition for Non-Opposition to Water/Wastewater System Transfer, Cours Carson Street Extension.; approved 8/19/2020.

Docket No. S-35732, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Application for Approval/Non-Opposition to Transfer Water/Wastewater Systems currently operated by Acadiana Water & Sewer, Inc. to Magnolia Water Utility Holding Company; approved 10/1/2020.

Docket No. S-35783, Magnolia Water Utility Holding Company, LLC, ex parte. In re: Request for Letter of Non-Opposition to the Acquisition of the Assets of Guste Island Utility Co., Inc., a Regulated Water and Wastewater Utility; approved 12/22/2020.

SYSTEMS CURRENTLY SERVED BY MAGNOLIA ACQUIRED AFTER DECEMBER 31, 2020:

Docket No. S-35757, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for Letter of Non-Opposition to the Acquisition of the Assets of Ismay Harbor, Inc., a Regulated Wastewater Utility; approved 1/12/2021.

Docket No. S-35760, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for Letter of Non-Opposition to the Acquisition of the Assets of Southwood Ridge Utilities, Inc., a Regulated Wastewater Utility; approved 1/12/2021.

Docket No. S-35761, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for Letter of Non-Opposition to the Acquisition of the Assets of Clearwater Oaks, LLC, a Regulated Wastewater Utility; approved 2/3/2021.

Docket No. S-35808, Magnolia Water Utility Operating Company, LLC. In re: Request for a Letter of Non-Opposition to the Acquisition of the Water and Wastewater System Assets to Serve the Square 175 Subdivision; approved 2/11/2021.

Docket No. S-35746, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Application for Non-Opposition to the Acquisition of the Assets of Ruth Eternal, LLC, a Regulated Utility; approved 2/23/2021.

Docket No. S-35784, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for a Letter of Non-Opposition to the Acquisition of the Assets of C'est Si Bon Owners Association, Inc. and DEROUEN, LLC; approved 2/23/2021.

SYSTEM ACQUISITIONS APPROVED BUT NOT YET CLOSED:

Docket No. S-35294, Magnolia Water Utility Operating Company, LLC and DR Waterworks, LLC, ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the Water and/or Wastewater System(s) operated by DR Waterworks, LLC.; approved 11/6/2019.

Docket No. S-35711, Petition for Approval/Non-Opposition to the Acquisition of All or Substantially All of the Wastewater System Assets Serving Les Maisons De Bayou Lafourche Development to Magnolia Water Utility Operating Company, LLC.; approved 10/8/2020.

Docket No. S-35731, Magnolia Water Utility Holding Company, LLC, ex parte. In re: Application for approval/non-opposition to the acquisition of the water and wastewater system(s) currently operated by Utilities Services of Lake Charles, Inc.; approved 1/13/2021.

Docket No. S-35809, Magnolia Water Utility Operating Company, LLC. In re: Request for Letter of Non-Opposition to the Acquisition of the Wastewater System Assets to Serve the Maison Trace Subdivision; approved 2/11/2021.

Docket No. S-35930, Magnolia Water Utility Operating Company, LLC., ex parte. In re: Request for a Letter of Non-Opposition to the Acquisition of all the Water and Wastewater System Assets Serving the Kingswood Subdivision in St. Tammany Parish; approved 6/3/2021.

Docket No. S-35931, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for a Letter of Non-Opposition to the Acquisition of all of the Wastewater System Assets Serving the Nine Oaks Subdivision in Calcasieu Parish; approved 6/3/2021.

Docket No. S-35940, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for a Letter of Non-Opposition to the Acquisition of all the Wastewater System Assets Serving Elmwood Estates, Addendum 4 in Lafourche Parish; approved 6/10/2021.

Docket No. S-35941, Magnolia Water Utility Operating Company, LLC. In re: Request for a Letter of Non-Opposition to the Transfer of all the Water and Wastewater System Assets Serving River Park Estates, Phase 2 in St. Tammany Parish; approved 6/10/2021.

Docket No. S-35896, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for a Letter of Non-Opposition to the Acquisition of all the Assets of the Wastewater Utility System Serving Phase C of Imperial Landing Subdivision; approved 6/18/2021.

Docket No. S-36016, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Application for a Letter of Non-Opposition to the Acquisition of the Wastewater System Providing Service to Chemekette Subdivision in Tangipahoa Parish.; approved 7/28/2021

Docket No. S-36099, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for a Letter of Non-Opposition to the Transfer of the Wastewater System Assets Owned by Brown Rd Sewer Service Inc, a Regulated Wastewater System, to Magnolia Water Utility Operating Company, LLC; approved 10/1/2021

Docket No. S-36097, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for a Letter of Non-Opposition to the Transfer of Wastewater System Assets by Raiders Ridge Homeowners Assoc Inc. to Magnolia Water Utility Operating Company, LLC; approved 10/1/2021

SYSTEM ACQUISITIONS PENDING COMMISSION REVIEW:

Docket No. S-35756, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for Letter of Non-Opposition to the Acquisition of the Assets of Artesian Utility Company, LLC, a Regulated Wastewater Utility.

Docket No. S-35995, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for Letter of Non-Opposition to the Transfer of All or Substantially All of the Assets of Certain Water and Wastewater Systems Owned by Total Environmental Solutions, Inc. to Magnolia Water Utility Operating Company, LLC. (Notice of this proceeding is being republished to update the in re to incorporate and provide notice of the filing on August 16, 2021 for the transfer of all or substantially all of the TESI assets to Magnolia. This matter was previously noticed as "In re: Request for a Letter of Non-Opposition to the Acquisition of the Assets of Six Wastewater Utility Systems Owned by Total Environmental Solutions, Inc. located in Natchitoches and Rapides Parishes".

Docket No. S-36098, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for a Letter of Non-Opposition to the Transfer of the Wastewater System Assets Owned by Clear Stream Utilities, L.L.C., a Regulated Wastewater Utility, to Magnolia Water Utility Operating Company, LLC.

Docket No. S-36100, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for a Letter of Non-Opposition to the Transfer of the Water and Wastewater Systems Serving Simpson Farms Phase 2 Owned by Pruden Creek Partners, LLC to Magnolia Water Utility Operating Company, LLC. (Notice of intervention or protest shall be filed within 15 days of the date of this bulletin.)

Docket No. S-36101, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for a Letter of Non-Opposition to the Transfer of the Water and Wastewater System Assets Owned by Copper Ridge Development, LLC to Magnolia Water Utility Operating Company, LLC.

Docket No. S-36102, Magnolia Water Utility Operating Company, LLC, ex parte. In re: Request for a Letter of Non-Opposition to the Transfer of the Water and Wastewater Assets Owned by Resolve Systems, Inc., a Regulated Water and Wastewater Utility, to Magnolia Water Utility Operating Company, LLC.

APPENDIX B

WATER SYSTEMS:

	<u>METER SIZE</u>	<u>RATES</u>	
TIER 1:	5/8"	\$ 15.84	for the first 2,000 gallons
		\$ 2.50	for each additional 1,000 gallons
	3/4"	\$ 15.84	for the first 2,000 gallons
		\$ 2.50	for each additional 1,000 gallons
	1"	\$ 19.80	for the first 2,000 gallons
		\$ 2.50	for each additional 1,000 gallons
1.5"	\$ 79.20	for the first 2,000 gallons	
	\$ 2.50	for each additional 1,000 gallons	
2"	\$ 126.72	for the first 2,000 gallons	
	\$ 2.50	for each additional 1,000 gallons	
	No Meter	\$ 23.68	flat rate

	<u>METER SIZE</u>	<u>RATES</u>	
TIER2:	5/8"	\$ 31.69	for the first 2,000 gallons
		\$ 4.00	for each additional 1,000 gallons
	3/4"	\$ 31.69	for the first 2,000 gallons
		\$ 4.00	for each additional 1,000 gallons
	1"	\$ 39.62	for the first 2,000 gallons
		\$ 4.00	for each additional 1,000 gallons
1.5"	\$ 158.45	for the first 2,000 gallons	
	\$ 4.00	for each additional 1,000 gallons	
2"	\$ 253.52	for the first 2,000 gallons	
	\$ 4.00	for each additional 1,000 gallons	
	No Meter	\$ 47.38	flat rate

	<u>METER SIZE</u>	<u>RATES</u>	
TIER 3:	5/8"	\$ 8.50	base charge
		\$ 2.50	for each 1,000 gallons
	3/4"	\$ 8.50	base charge
		\$ 2.50	for each 1,000 gallons
	1"	\$ 10.62	base charge
		\$ 2.50	for each 1,000 gallons
	1.5"	\$ 42.50	base charge
		\$ 2.50	for each 1,000 gallons
	2"	\$ 68.00	base charge
		\$ 2.50	for each 1,000 gallons
Flow-through		\$ 6.36	per 1,000 gallons purchased from City of Shreveport

WASTEWATER SYSTEMS:

	<u>CLASS</u>	<u>RATES</u>
TIER 1:	Residential	\$ 27.83
	Commercial	\$ 111.32
TIER 2:	Residential	\$ 55.66
	Commercial	\$ 222.64
TIER 3:	Residential	\$ 55.66
	Commercial	N/A

APPENDIX C

NON-RECURRING FEES: WATER AND WASTEWATER - ALL TIERS

	METER SIZE	FEE
TAP-IN FEE*	5/8"	\$ 600.00
	3/4"	\$ 600.00
	1"	\$ 700.00
	1.5"	\$ 750.00
	2"	\$ 800.00
	Above 2"	\$ 1,200.00

*This charge will include all labor and materials for the installation of the service line and meter and any other cost associated with the initial installation, plus the difference of any meter larger than the standard 5/8" or 3/4" meter.

CAPACITY RESERVATION FEE

Not to exceed \$6.00 per gallon

Both the capacity reservation fee and the tap-in fees set forth herein represents the maximum fees that the Company may charge the new customer.

CONNECTION FEE \$ 40.00

This charge is to cover the administrative cost of re-establishing service and with reading the meter upon a change of customer where service has previously been established.

RE-CONNECTION FEE \$ 35.00

This charge is for re-establishing service after disconnection for non-payment, failure to make deposit, fraudulent or seasonal use.

SERVICE CHARGE \$ 45.00

This charge shall cover the cost of sending a company repairman to a consumer's premises at the customer's request when the trouble is found to be in the consumer's house piping.

NSF CHECK FEE \$ 20.00

DELINQUENT FEE

Maximum of 5% of monthly billing after 20 days from billing date.

DEPOSIT

Maximum charge of 2-1/2 times monthly bill.

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**FORMULA RATE PLAN
RIDER FRP**

1. GENERAL

Formula Rate Plan Rider FRP ("Rider FRP") defines the procedure by which the rates contained in the Magnolia Water Utility Operating Company, LLC ("Magnolia" 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 and wastewater service billed under the Rate Schedules, whether metered or unmetered, subject to the jurisdiction of the Louisiana Public Service Commission ("LPSC" or "Commission").

2. APPLICATION AND ANNUAL REDETERMINATION PROCEDURE

2.A. RATE ADJUSTMENTS

The Rate Adjustments shall be determined in accordance with the provisions of Sections 2.B and 2.C below.

2.B. ANNUAL FILING AND REVIEW

2.B.1. FILING DATE

On or before May 1 of each of the years 2023, 2024 and 2025, Magnolia 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.C 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.C 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. Magnolia 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

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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, Magnolia shall provide the Parties with a narrative summary of the request along all workpapers supporting the data and calculations reflected in the FRP Annual Report, including allocations of parent company expenses, with electronic spreadsheets 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 July 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 Magnolia by the July 1 deadline. Each such indicated error or disagreement shall include documentation of the proposed correction. The Company shall then have until August 1 to review any proposed corrections 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.B.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 September 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

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been resolved and the resulting effect on rates.

2.B.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 September 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 Company's Weighted Average Cost of Capital from September 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 September 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

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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. Attachment 1 to Rider FRP is a list of authorized ratemaking adjustments allowable to the per books amounts during the test year.

b. SYSTEM ACQUISITION REGULATORY ASSET

A regulatory asset referred to herein as the System Acquisition Regulatory Asset ("SARA") will be accrued for any operating losses during the test year, upon acquisition of 4,000 or more customers, whether acquired cumulatively or part of a single transaction, acquired after the initial rate filing test year, December 31, 2020. The SARA will accrue for such systems until the rates are next adjusted within the FRP. The operating loss for an acquired system will be calculated using the following formula for each acquired service area:

Revenue - General & Administrative Expense - Operations & Maintenance - Depreciation & Amortization = Operating Loss. For each system to which this provision is applicable during the test year, Magnolia must submit the calculations for the SARA in Attachment 2 of the FRP providing the operating loss calculations. The SARA will be submitted and reviewed annually as part of the FRP Annual Filing reviews and are subject to adjustment as part of those proceedings. The approved SARA will be amortized for ratemaking purposes over a 10-year period with an effective date of September 1, 2023.

If after the three-year FRP term approved in Order No. U-35822, Magnolia is no longer on a FRP, Magnolia shall file an application for review if its SARA on or before May 1, 2026 with all supporting documentation and shall file on or before May 1 each year thereafter until the SARA is fully amortized or unless otherwise directed by this Commission.

c. CALCULATED RETURN ON EQUITY

For years 2023 and 2024, the calculated Return on Equity ("ROE") for those test years shall be based on an imputed capital structure of 40% debt and 60% equity for FRP purposes, or higher amount if the actual debt level is higher than 40% as of the end of the test year.

For year 2025, the calculated Return on Equity ("ROE") for that test year shall be based on an imputed capital structure of 50% debt and 50% equity for FRP purposes, or higher amount if the actual debt level is higher than 50% as of the end of the test year.

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The ROE determination 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 and independently audited.

$$\text{Net Operating Income} / (\text{Rate Base} \times \text{Imputed or Actual Equity } \%) = \text{ROE}$$

d. INTEREST EXPENSE

Annualized interest expense, which will be based on Magnolia's actual or imputed debt ratio, will be deducted from Net Operating Income before determining ROE. If actual debt is below the debt level in imputed capital structure, Interest Expense on imputed debt shall be calculated using the following formula:

$$(\text{Rate Base} \times \text{Imputed Debt } \%) \times \text{Weighted Average Cost of Debt} = \text{Interest Expense}$$

If Magnolia Water has no debt in place, the Weighted Average Cost of Debt will be the Prime Interest Rate for the United States as published in the December 31 edition of the Wall Street Journal for the Filing Year (or if December 31 is a weekend or holiday on the next business day thereafter).

e. 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%.

f. 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 Lower Band.

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 Upper Band.

2.C.3. RIDER FRP REVENUE ALLOCATION

The Total Rider FRP Revenue, as determined under the provisions of Section 2.C.2 above, shall be allocated to each applicable rate schedule based on an equal percentage of applicable base revenue. This percentage shall be developed by dividing the Total Rider FRP Revenue increase/decrease by the total applicable base revenue.

2.C.4. RIDER FRP CHANGES BY RATE CLASS

All applicable retail rates and riders on file with the Louisiana Public Service Commission will be adjusted so that average bills will be equal for customers in each rate class by service type.

3. PROVISIONS FOR OTHER RATE CHANGES

3.A. NO BASE RATE CHANGE

During the term of this FRP, Magnolia 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 Magnolia 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 Magnolia propose to address the extraordinary

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expense or revenue change in an annual FRP proceeding, it shall provide Staff with at least 60 days' notice, i.e., on or before March 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 Magnolia to file its request in a separate proceeding. Staff shall notify Magnolia within 30 calendar days of receipt of Magnolia's notice whether it desires for Magnolia to address the extraordinary expenses or revenue in a separate proceeding. If Staff does not notify Magnolia within 30 calendar days that it desires Magnolia to address the extraordinary expenses or revenue in the FRP proceeding, Magnolia 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 expenses 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 Magnolia, including natural disaster, 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 Magnolia 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. Magnolia shall file any such proposed rate schedules or changes with the Commission and the Commission shall evaluate Magnolia'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 May 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.

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MAGNOLIA WATER UTILITY OPERATING COMPANY, LLC

RIDER FRP

ATTACHMENT 1

RATEMAKING ADJUSTMENTS

The Company's ratemaking adjustments to the per books amounts shall be limited to the following:

1. Long term debt interest expense shall be annualized by summing the per books long-term debt interest in December of the test year and multiplying the result times 12.
2. Depreciation expenses shall be annualized by multiplying the per books depreciation expense incurred in December of the test year times 12.
3. Property tax expense shall be annualized by multiplying the current effective millage rate times the December 31 gross plant.
4. Interest income shall be annualized by multiplying the per books interest income incurred in December of the test year times 12.
5. All fines and penalties shall be excluded from expenses.
6. All charitable contributions shall be excluded from expenses.
7. All political contributions and lobbying activities shall be excluded from expenses.
8. The System Acquisition Regulatory Asset authorized by Rider FRP shall not be included in any of these prescribed adjustments to ensure there is no double recovery of those expenses.
9. The Company or the Staff may propose that unusual or nonrecurring expenses incurred during the test year either may be excluded from expenses altogether or deferred and amortized over a reasonable number of years. The party making such a proposal shall have the burden to demonstrate that it is just and reasonable.
10. Should the Company report an ROE of more than 200 basis points below the Lower Band, the Company or the Staff may propose that costs resulting in said ROE, or a portion thereof, be deferred and amortized over a reasonable number of years.
11. Except as otherwise provided in the Rider FRP, the Company shall not include post-test year adjustments.

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Supersedes: N/A

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MAGNOLIA WATER UTILITY OPERATING COMPANY, LLC

SYSTEM ACQUISITION REGULATORY ASSET

ATTACHMENT 2

Attachment 2 to Rider FRP addresses the System Acquisition Regulatory Asset and the required minimum documentation Magnolia must submit with each Annual FRP Report filing for Commission review:

1. All calculations in their native format detailing the operating costs of each system included in the regulatory asset.
2. All calculations in their native format detailing the revenues included from those customers of each system included in the regulatory asset.
3. All calculations in their native format detailing the losses included from those customers of each system included in the regulatory asset along with a narrative detailing each type of expense.
4. A narrative detailing the difference in operating expenses from the most recent annual report or audited financial report, if available, for each system included in the regulatory asset.

Without exception, any losses included in the regulatory asset should not be double counted as an expense in any current or future year of the FRP.

Issued:

Supersedes: N/A

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RIDER FRP

ATTACHMENT 3

PURCHASED WATER RATE

S-35835 In re: Request for a Letter of Non-Opposition for Authority to increase the Flow-through Rate for Water per 1,000 Gallons from \$6.10 to \$6.36 in 2021, and from \$6.36 to \$6.56 effective January 1, 2022, for the Dixie Garden and Kings Highway Subdivisions.

- Request filed December 28, 2020
- Conditional Staff approval filed March 23, 2021
- \$6.10 to \$6.36, effective date March 23, 2021
- \$6.36 to \$6.56, effective date January 1, 2022

S-35836 In re: Request for a Letter of Non-Opposition for Authority to increase the Flow-through Rate for Water per 1,000 Gallons from \$6.10 to \$6.36 in 2021, and from \$6.36 to \$6.56 effective January 1, 2022, for the Wildwood Forest Subdivision.

- Request filed December 28, 2020
- Conditional Staff approval filed March 23, 2021
- \$6.10 to \$6.36, effective date March 23, 2021
- \$6.36 to \$6.56, effective date January 1, 2022

Order No. U-35822

Attachment Magnolia Water Utility Operating Company, LLC

Attachment 4

Page 24 of 26 Water and Wastewater Tariff

Issued:

Supersedes: *N/A*

Revision: Original

Authority: U-35822

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MAGNOLIA WATER UTILITY OPERATING COMPANY, LLC

RIDER FRP

ATTACHMENT 4

TAX ELECTIONS

Annual FRP Filing the IRS Form 8832 C-Corp Election for Magnolia Water Utility Holding Company, LLC and Magnolia Water Utility Operating Company, LLC FRP Annual Filing Test Year

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Rider FRP

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OGDEN UT 84201-0046

In reply refer to: 0423415963
Apr. 28, 2021 LTR 3576C 0
84-1880925 000000 00
00034829
BODC: SB



MAGNOLIA WATER UTILITY OPERATING
COMPANY LLC
% CSWR LLC SOLE MBR
500 NORTHWEST PLAZA DR STE 500
SAINT ANN MO 63074-2220

039635

Employer Identification Number: 84-1880925
IRS Control Number: 0423415963

Dear Taxpayer:

Thank you for your Form 8832, Entity Classification Election.

We have approved your election to change your entity classification with an effective date of May 24, 2019.

Please keep this notification with your tax records as verification of our approval of your Entity Classification Election.

Please verify the address we used to address this letter. The address on your election is different than the address in our records. If the address on your election is correct, please send us a Form 8822-B, Change of Address or Responsible Party - Business, so we can update our records. Be sure you sign the Form 8822-B and include your employer identification number.

If you have any questions, please call Entity at 801-620-6449 between the hours of 12:01 a.m. and 11:59 p.m. MDT. If the number is outside your local calling area, there may be a long-distance charge to you.

If you prefer, you may write to us at the address shown at the top of the first page of this letter.

If you need forms, schedules, or publications, you can obtain them by visiting the IRS website at www.irs.gov or by calling toll-free at 1-800-TAX-FORM (1-800-829-3676).

Whenever you write, please include this letter and, in the spaces below, give us your telephone number with the hours we can reach you.

Keep a copy of this letter for your records.

Telephone Number () _____ Hours _____

Thank you for your cooperation.

Issued:
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Authority: U-35822
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OGDEN UT 84201-0046

In reply refer to: 0423488685
Oct. 21, 2020 LTR 3576C 0 R
84-1859090 000000 00
00020628
R0DC: SB

MAGNOLIA WATER UTILITY HOLDING
COMPANY LLC
% CSWR LLC SOLE MBR
500 NORTHWEST PLAZA DR STE 500
SAINT ANN MD 63074-2220



035153

Employer Identification Number: 84-1859090
IRS Control Number: 0423488685

Dear Taxpayer:

Thank you for your Form 8832, Entity Classification Election.

We have approved your election to be classified as a corporation with an effective date of May 24, 2019.

The address on your form is different than the address on our records. If you would like our records to reflect the address on your form, please complete and sign the Form 8822-B, Change of Address - Business.

If you have any questions, please call the Entity Dept. at 801-620-6449 between the hours of 12:01 a.m. and 11:59 p.m. MDT. If the number is outside your local calling area, there may be a long-distance charge to you.

If you prefer, you may write to us at the address shown at the top of the first page of this letter.

If you need forms, schedules, or publications, you can obtain them by visiting the IRS website at www.irs.gov or by calling toll-free at 1-800-TAX-FORM (1-800-829-3676).

Whenever you write, please include this letter and, in the spaces below, give us your telephone number with the hours we can reach you.

Keep a copy of this letter for your records.

Telephone Number () Hours

Thank you for your cooperation.