

LOUISIANA PUBLIC SERVICE COMMISSION

ORDER NUMBER U-37191

MAGNOLIA WATER UTILITY OPERATING COMPANY, LLC, EX PARTE.

Docket No. U-37191, In re: Formula Rate Plan 2023 Test Year Annual Report filing.

(Decided at the August 14, 2024 Business and Executive Session.)

ORDER

OVERVIEW

The Louisiana Public Service Commission (“Commission”), having reviewed and considered the *Joint Report of Proceedings and Draft Order* (“Joint Report”) submitted by Louisiana Public Service Commission Staff (“Staff”) and Magnolia Water Utility Operating Company, LLC (“Magnolia”) on August 8, 2024, finds said Joint Report to be acceptable and in accordance with the provisions of Commission Order No. U-35822 dated November 19, 2021, which established a Formula Rate Plan (“FRP”) for Magnolia.

COMMISSION AUTHORITY

The Commission exercises jurisdiction over public utilities in Louisiana pursuant to Article IV, Section 21 (B) of the Louisiana Constitution, which provides the following:

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 shall have other powers and perform other duties as provided by law.

Pursuant to its constitutional authority, the Commission issued Order No. U-35822, which established Magnolia's FRP and provides for an earnings bandwidth based on a calculated return on equity (“ROE”) lower limit of 9.00% (“Lower Band”), an upper limit of 10.00% (“Upper Band”), and a midpoint of 9.50%. If earnings were to fall within the calculated ROE bandwidth, then no rate change would be necessary. 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. 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.

SUMMARY OF JOINT REPORT

On May 1, 2024, Magnolia filed its annual Formula Rate Plan Report for the Test Year ending December 31, 2023 (“2023 FRP Filing”), in compliance with Commission Order No. U-

35822, dated November 19, 2021. Notice of Magnolia's 2023 FRP Filing was published in the Commission's Official Bulletin #1323 on May 10, 2024 for a 25-day intervention period. There were no interventions. On August 6, 2024, Staff filed its Report and Recommendation into the record, and Magnolia filed its formal response, advising Staff of Magnolia's agreement with Staff's Recommendations. As such, Staff and Magnolia filed a Joint Report into the record on August 8, 2024.

The Joint Report detailed Magnolia's Formula Rate Plan Annual Report for the Test Year ending December 31, 2023 ("2023 FRP Filing") wherein the Company reported a consolidated ROE of 3.45%, which is 6.05% below the allowed return of 9.50%, taking into consideration the fifty basis points dead band. This deficiency in earnings would require an increase in Magnolia's revenue requirement of \$7,120,161, with \$4,011,364 allocated to water and \$3,108,797 allocated to sewer. Magnolia's estimated revenue increase would increase the average customer's water and sewer bills by approximately 42% and 9%, respectively.

The Joint Report also explained the additional adjustments made by Staff in its Report and Recommendation filed into the record on August 6, 2024, which adjusted Magnolia's consolidated ROE of 3.45% to 3.93%, which was still below the allowed return of 9.50%, taking into consideration the fifty basis points dead band. Staff found that this deficiency in earnings would require an increase in revenue requirement of \$6,537,520, with \$3,309,462 allocated to water and \$3,228,059 allocated to sewer. The estimated revenue increase would increase the average customer's water and sewer bills by approximately 35% and 9%, respectively. Therefore, Staff Recommended that Magnolia be allowed to adjust its water and sewer rates to generate an increase in revenue to provide for the deficient earnings for the test year ended December 31, 2023, subject to certain conditions.

COMMISSION CONSIDERATION

This matter was considered at the Commission's August 14, 2024 Business and Executive Session. On motion of Commissioner Skrmetta, seconded by Chairman Francis, with Vice Chairman Lewis and Commissioner Campbell concurring, and Commissioner Greene opposing, the Commission voted to accept the Joint Report and issue the Draft Order filed into the record on August 8, 2024. The motion passed with a vote 4:1.

IT IS THEREFORE ORDERED THAT:

The Commission accepts and approves the Joint Report filed into the record on August 8, 2024 by Staff and Magnolia, and further orders that:

1. Magnolia is allowed to adjust its water rates to generate an increase in water revenue of \$3,309,462 to provide for the deficient earnings of water ROE for the test year ended December 31, 2023.
2. Magnolia is allowed to adjust its sewer rates to generate an increase in sewer revenue of \$3,228,059 to provide for the deficient earnings of sewer ROE for the test year ended December 31, 2023.
3. Magnolia is allowed a total revenue increase of \$6,537,520 to provide for the total deficient earnings of ROE for the test year ended December 31, 2023.
4. Magnolia is allowed to implement a change in rates effective September 1st per the terms of the FRP and subject to refund in the event that the Commission denies or alters Staff’s recommendation.
5. Within fifteen (15) days of the issuance of an order in this proceeding, Magnolia shall submit an updated and revised Tariff consistent with the order to the Commission’s Utilities Division and Legal Division for their review and approval.

This Order is effective immediately.

**BY ORDER OF THE COMMISSION
BATON ROUGE, LOUISIANA
August 29, 2024**



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

**BRANDON M. FREY
SECRETARY**

/S/ MIKE FRANCIS
**DISTRICT IV
CHAIRMAN MIKE FRANCIS**

/S/ DAVANTE LEWIS
**DISTRICT III
VICE CHAIRMAN DAVANTE LEWIS**

/S/ FOSTER L. CAMPBELL
**DISTRICT V
COMMISSIONER FOSTER L. CAMPBELL**

/S/ ERIC F. SKRMETTA
**DISTRICT I
COMMISSIONER ERIC F. SKRMETTA**

OPPOSED
**DISTRICT II
COMMISSIONER CRAIG GREENE**