



EZELL LAW FIRM, LLC

10761 Perkins Road, Ste. A | Baton Rouge, LA 70810
telephone 225-763-2272 | facsimile 225-763-2273 | www.ezellfirm.com

May 1, 2024

RECEIVED

MAY 01 2024

Mr. Brandon Frey
Executive Secretary
Louisiana Public Service Commission
602 North Street
Galvez Building, 12th Floor
Baton Rouge, LA 70802

LA Public Service Commission

Re: Magnolia Water Utility Operating Company, LLC
Petition for Letter of Non-Opposition to Enter
into Credit Facility with CoBank, ACB.

Dear Mr. Frey:

Please find enclosed an original and three copies of Magnolia Water Utility Operating Company, LLC's Petition for Letter of Non-Opposition, with Exhibit, to enter into a credit facility with CoBank, ACB. After review, please see that a docket is opened in connection with this filing and that notice of this proceeding is placed in the Official Bulletin on May 10, 2024. Further, we ask that you exercise your discretion pursuant to Rule 19 of the Commission's Rules of Practice and Procedure and shorten the period to intervene in this proceeding from twenty-five (25) to fifteen (15) days, and that Legal and Audit Staff expedite review of this filing so that a timely closing on the credit facility can occur on or before November 1, 2024.

Upon filing, we request that the Records Division date stamp and return one copy of the Petition and Exhibits to our courier. If you have any questions concerning this filing, please so notify me.

Sincerely,

Ezell Law Firm, LLC

Andrew B. Ezell

ROUTE TO Bull ^{15 days} ROUTE FROM _____
DEPT. Bull DATE 5/2 DEPT. _____
DEPT. _____ DATE _____ DEPT. _____
DEPT. _____ DATE _____ DEPT. _____
DEPT. _____ DATE _____ DEPT. _____

P24-73077

**BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION**

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

DOCKET NO.

In re: Request for Letter of Non-Opposition to Enter into Credit Facility

**PETITION FOR LETTER OF NON-OPPOSITION
TO ENTER INTO CREDIT FACILITY**

Overview

Magnolia Water Utility Operating Company, LLC (“Magnolia”), pursuant to the Rules and Regulations of the Louisiana Public Service Commission (“LPSC” or the “Commission”) applicable to water and/or wastewater utilities, as amended¹, as well as LPSC General Orders dated March 18, 1994 and November 13, 1996, seeks an order of approval or non-opposition from the Commission to enter into a single advance, senior secured, amortizing term loan (the “Credit Facility”) with CoBank, ACB (“CoBank”) for the purpose of (1) refinancing intercompany debt, payables and capital contributions that support Magnolia’s capital expansion projects and closing costs and (2) balancing Magnolia’s capital structure in compliance with Commission Order No. U-35822, issued and effective November 19, 2021 (the “Order”).

Background

Magnolia is a Louisiana limited liability company, in good standing, formed to acquire the assets of water and wastewater utilities in Louisiana and to own and operate those assets as a public water and wastewater utility subject to the Commission’s regulatory jurisdiction. Magnolia is part of an affiliate group that includes Central States Water Resources, Inc. (“Central States”), a Missouri corporation in good standing, CSWR, LLC (“CSWR”), a Missouri limited liability company in good standing, and several other companies operating small water or wastewater utilities in ten (10) other states. Magnolia currently owns and operates 487 water and wastewater systems serving approximately 49,559 wastewater connections and approximately 20,812 water connections in regulated systems in parishes throughout Louisiana.

Since receiving Commission approval to acquire its first system in December 2019, Magnolia has embarked on an earnest program of acquiring small to medium-sized water and wastewater systems, including newly developed system assets. For the most part, the systems acquired by Magnolia have experienced a significant degree of operational neglect and many of the systems have recorded numerous and consistent violations of health and environmental regulations, some even operating under a federal consent decree in effect for over twenty (20) years at the time of acquisition. Significant capital improvements have been completed in many of the systems

¹ LPSC General Order issued September 12, 2014 in Docket No. R-33198, as amended by General Order issued July 26, 2017 in Docket No. R-34120, corrected.

operated by Magnolia, and many are now operating within the rules and regulations of all regulatory authorities. Those systems not currently in compliance are being systematically improved and brought into compliance. Magnolia's investment to acquire and improve its current water and wastewater systems totals more than \$244 million. It is Magnolia's intention to continue to actively acquire and rehabilitate small to medium-sized systems throughout Louisiana.

At purchase, Magnolia was required to assume the system tariffs then in effect. Obviously, since these adopted rates were often as long as a decade out of date, the rates in effect prior to acquisition were not sufficient to recover the expenses of operation and provide a fair and reasonable rate of return. Accordingly, on December 18, 2020, Magnolia filed an Application for Approval of Rate Design, Increase in Water and Sewerage Rates, Implementation of Service Charges and Any Other Related Relief.

After a unanimous vote of the Commission at its Business and Executive Session held on October 20, 2021, the Commission issued Order No. U-35822 on November 19, 2021, approving a Stipulated Settlement (the "Settlement") between Commission Staff and Magnolia resolving all issues in the proceeding. Among other things, the Settlement provides a three-year Formula Rate Plan ("FRP") and requires a capital structure imputed at 60% equity and 40% debt for the first two FRP test years with an imputed equity cap of 50% for the third test year. This application to incur additional indebtedness through the proposed Credit Facility represents Magnolia's good faith effort to pursue and ultimately achieve the equity-to-debt balance required by the Order.

Contact Information for Service

All notices and other official documents for Magnolia related to the application should be sent to the attention of:

Andrew B. Ezell,
Andrew Nicolas
c/o Ezell Law Firm, LLC,
10761 Perkins Road, Suite A,
Baton Rouge, Louisiana 70810
(225) 763-2272
aezell@ezellfirm.com
anicolas@ezellfirm.com

Russ Mitten, General Counsel
1630 Des Peres Road, Suite 140,
St. Louis, MO 63131
rmitten@cswrgroup.com

Aaron Silas
1630 Des Peres Road, Suite 140,
St. Louis, MO 63131
asilas@cswrgroup.com

Proposed Transaction

The Credit Facility proposed by Magnolia is a \$30 million single advance, senior secured, amortizing term loan to be made to Magnolia by CoBank. CoBank is one of the largest private providers of credit to the U.S. rural economy in the business of issuing loans and providing other financial services to agribusiness, rural infrastructure and term credit customers in all 50 states. In the fiscal year ending December 31, 2023, CoBank generated loan volume of approximately \$143 billion across all three segments of its lending operations.

As previously stated, the proceeds from the Credit Facility will be utilized to fund current and future capital projects, refinance certain intercompany advances and loan costs, as well as achieve a more balanced capital structure required by the Settlement and FRP approved by the Commission.

At closing, approximately \$30 million will be fully advanced and may not be prepaid and reborrowed. Magnolia will pay interest on the outstanding principal balance of the Credit Facility in accordance with one or more interest rate options to be selected by the Company. The Company's obligations under the Credit Facility will be secured by a statutory first lien on all equity that the Company may now own or hereafter acquire or be allocated in favor of CoBank. The Company's obligations under the Credit Facility will be further secured by a perfected priority lien on and security interest in all real and personal, tangible and intangible, present and future assets of the Company, including the stock of Company, subject only to those exceptions approved by CoBank. Assuming Commission approval, the Credit Facility is scheduled to close on or before November 1, 2024 (the "Closing Date"), and the Credit Facility will terminate and all amounts owing thereunder shall be due up to 20 years from the Closing Date.

The Non-Binding Summary of Terms and Conditions attached hereto as Exhibit A sets forth a summary of the primary terms and conditions of the proposed Credit Facility. In accordance with Rule 12.1 of the Commission's Rules of Practice and Procedure, Exhibit A has been designated "**Confidential**" because it contains competitively sensitive information.

Application of General Order Dated March 18, 1994 (the "General Order")

The proposed transaction does not involve the sale or transfer of operational control of the Company. Thus, most of the 18 factors deemed material by the Commission in the General Order dated March 18, 1994, in determining the reasonableness of a proposed transfer or change of control are inapplicable to the proposed transaction. However, certain of the "public interest" considerations deemed material in the General Order are applicable to the proposed transaction.

The proposed transaction is in the public interest because it will provide the Company a long-term source of capital to continue to acquire and rehabilitate troubled water and wastewater systems, maintain the regulatory compliance of existing systems and provide safe, efficient and reliable water and wastewater service to customers in the short and long-term. The proposed transaction will also benefit ratepayers by balancing the Company's capital structure, thus reducing the cost of capital. Further, the proposed transaction will not result in any loss or impairment of service to

customers, but will enable Magnolia to maintain and upgrade systems to remain in compliance with increasingly stringent regulatory requirements.

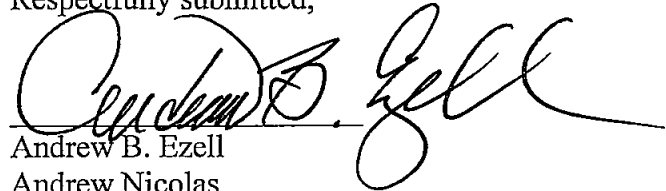
The proposed transaction will in no way adversely affect the Commission's jurisdictional authority or its ability to regulate and audit the Company's operations in the state.

Finally, though all or substantially all of the Company's assets will be pledged or otherwise encumbered as a result of the Credit Facility, there will be no adverse effect on the management and operations of Magnolia. Thus, upon closing of the Credit Facility, the technical, managerial and financial resources currently available to the Company's systems and customers will remain unchanged.

Conclusion

Therefore, based upon the information provided herein, Magnolia prays that the Commission find that the proposed Credit Facility is in the public interest and issue an order unconditionally approving or not opposing the transaction.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Andrew B. Ezell", is written over a horizontal line.

Andrew B. Ezell

Andrew Nicolas

Ezell Law Firm, LLC

10761 Perkins Road, Suite A

Baton Rouge, LA 70810

Telephone: (225) 763-2272

Facsimile: (225) 763-2273

aezell@ezellfirm.com

anicolas@ezellfirm.com

***Counsel for Magnolia Water Utility
Operating Company, LLC***