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LA Public Service Commission

LPSC DOCKET NO. U- 36003

DIRECT TESTIMONY

of

MR. BRIAN FRANICS

on behalf of

UTILITIES, INC. OF LOUISIANA

In re: Request for Extension of Formula Rate Plan With Modifications Thereto

TABLE OF CONTENTS

I.	INTRODUCTION	3
II.	PURPOSE OF DIRECT TESTIMONY	4
III.	UIL’S COMPANY PROFILE	5
IV.	UIL’S CURRENT FRP.....	7
A.	GENERAL OVERVIEW OF INITIAL FRP	7
B.	CURRENT ROE STRUCTURE OF INITIAL FRP.....	10
C.	CURRENT CAPITAL STRUCTURE OF INITIAL FRP	12
V.	UIL’S REQUESTED MODIFICATIONS TO FRP RIDER.....	13
A.	OVERVIEW OF PROPOSED FRP MODIFICATIONS	13
B.	BENEFITS OF UIL’S FRP.....	14

EXHIBITS

<u>Name</u>	<u>Description</u>
BF1	UIL Free Cash Flow Trend
BF2	Redlined Version of Proposed Company FRP Rider

I. INTRODUCTION

- 1
- 2 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION AT UTILITIES,
3 INC. OF LOUISIANA (“UIL” OR “COMPANY”).
- 4 A. My name is Brian Francis. My business address is 1100 N. Causeway Blvd., Mandeville, LA
5 70471. I am currently the Director of Financial Planning and Analysis at UIL.
- 6 Q. HOW LONG HAVE YOU HELD THAT POSITION AT UIL?
- 7 A. I joined UIL in December 2016 and I became the Director of Financial Planning and Analysis
8 at UIL in October 2019.
- 9 Q. PLEASE DESCRIBE YOUR DUTIES AS THE DIRECTOR OF FINANCIAL PLANNING
10 AND ANALYSIS AT UIL.
- 11 A. I am responsible for financial management, planning, monitoring and reporting financial
12 results, as well as providing regulatory support for UIL.
- 13 Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL BACKGROUND.
- 14 A. I graduated from Eureka College in 1996 with a Bachelor of Arts in Business Administration
15 and I earned my Master of Business Administration from Lake Forest Graduate School of
16 Management in 2017. I am a registered Certified Public Accountant in the state of Illinois. As
17 stated above, I joined UIL in December 2016, as a Financial Planning and Analysis Manager.
18 Prior to joining the Company, I was a Finance Manager at a manufacturing firm and prior to
19 that, I held various positions in investment management. I have 20 years of experience in
20 financial planning and analysis and investment management.
- 21 Q. HAVE YOU TESTIFIED BEFORE ANY REGULATORY AUTHORITIES?
- 22 A. Yes. I have provided testimony on behalf of the Company before the Louisiana Public Service
23 Commission (“LPSC” or “Commission”) in LPSC Docket Nos. U-34206 and U-34742.

46

III. UIL'S COMPANY PROFILE

47 Q. PLEASE GENERALLY DESCRIBE UIL AND ITS FOOTPRINT IN LOUISIANA.

48 A. The Company provides water and wastewater service to approximately 10,916 water
49 connections and 14,475 wastewater connections spread across nineteen (19) parishes in
50 Louisiana (Ascension, Assumption, Bienville, Calcasieu, East Baton Rouge, Evangeline,
51 Jackson, Livingston, Madison, Morehouse, Richland, St. Landry, St. Tammany, Tangipahoa,
52 Vermillion, Washington, West Baton Rouge, West Feliciana, and Winn). The Company's
53 Louisiana water and wastewater footprint is comprised of approximately 90.7% percent
54 residential, 9.3% percent commercial, and 0% percent industrial.

55 Q. WHO OWNS UIL?

56 A. UIL is owned and controlled by Corix Regulated Utilities Inc. Corix Regulated Utilities Inc.,
57 an Illinois corporation, is a holding company that owns the stock issued by utilities providing
58 water and wastewater service to customers in seventeen (17) states. Corix Infrastructure Inc.
59 ("CII") is a corporation organized under the law of British Columbia, Canada. CII is the
60 ultimate parent corporation of the Company. CII is a privately held corporation owned by
61 certain affiliates of the British Columbia Investment Management Corporation.

62 Q. PLEASE DESCRIBE THE RELATIONSHIP BETWEEN UIL, CII, CORIX REGULATED
63 UTILITIES, INC. AND WATER SERVICE CORPORATION.

64 A. Water Service Corporation ("WSC"), a Delaware corporation, also owned and controlled by
65 Corix Regulated Utilities Inc., is a support services company; it provides administrative and
66 general services to companies owned by Corix Regulated Utilities Inc. and CII, including UIL.
67 As a support service company specific to Corix Regulated Utilities Inc., WSC does not provide

68 services to any unaffiliated businesses. Mr. Elicegui's Direct Testimony describes in greater
69 detail the services provided by CII and WSC to UIL specifically.

70 Q. DO THE CORIX ADMINISTRATIVE AND GENERAL SERVICES PROVIDED TO UIL
71 BENEFIT CUSTOMERS IN LOUISIANA?

72 A. Yes. Mr. Elicegui's testimony highlights several benefits to Louisiana customers. One example
73 of how the administrative and general services provided by the Corix support service team
74 benefits Louisiana customers is access to capital. I have analyzed the annual cash flows of UIL,
75 Exhibit No. BF1, on a stand-alone basis and determined that the cash flows generated from
76 UIL operations would not be sufficient to fund capital improvements. The advantage to
77 Louisiana customers is that access to debt and equity markets provided by the Corix support
78 services team allows UIL to continue to make improvements to maintain safe and reliable
79 service.

80 Q. ARE ANY DIRECT COSTS OF CII AND WSC ALLOCATED TO UIL?

81 A. Yes. Mr. Elicegui's Direct Testimony describes in greater detail how CII's and WSC's costs
82 are allocated to UIL.

83 Q. HOW HAVE THE COSTS FOR CORPORATE SERVICES THAT ARE ALLOCATED TO
84 UIL BEEN TREATED IN THE PAST UIL FRP ANNUAL REPORT FILINGS WITH THE
85 COMMISSION?

86 A. UIL has requested recovery of these costs in each of the FRP Annual Reports for the test years
87 ending December 31, 2018, 2019 and 2020. However, recovery of these costs has not been
88 allowed.

89 Q. HOW ARE UIL'S WATER AND WASTEWATER RATES CURRENTLY SET?

90 A. Currently, UIL's water and wastewater rates are set pursuant to an FRP rider that was approved
91 by the Commission in LPSC Order No. U-34742. UIL's current FRP expires with the 2020
92 test year.

93 **IV. UIL'S CURRENT FRP**

94 **A. GENERAL OVERVIEW OF INITIAL FRP**

95 Q. DID YOU DEVELOP THE INITIAL FRP?

96 A. Yes, with assistance from the management and staff of UIL.

97 Q. HOW IS UIL'S INITIAL FRP USED TO ANNUALLY REDETERMINE RATES?

98 A. Under the current FRP, in May of each year, UIL files for Commission review an Annual
99 Report for results of operations for the twelve months ending December 31 of the
100 immediately preceding calendar year ("Test Year"). The Annual Report summarizes the
101 revenues received and costs incurred by UIL for the Test Year. Within the Annual Report,
102 the financial information for the Test Year is used to calculate Return on Equity ("ROE").
103 The level of ROE relative to the ROE Bandwidth established in the FRP Rider determines
104 whether a prospective adjustment to rates is required. If any adjustment is necessary (either
105 an increase or decrease), rates are adjusted to reset the ROE to the mid-point of the
106 bandwidth or 10.25% currently. Any adjustment to rates required by the FRP becomes
107 effective with the first billing cycle of November of the filing year.

108 Q. HOW DOES IS AN ADJUSTMENT TO WATER AND WASTEWATER RATES
109 DETERMINED UNDER THE INITIAL FRP?

110 A. The Initial FRP regulates water and wastewater rates by establishing an approved ROE and
111 requires prospective rate changes if UIL's Test Year ROE falls lower or higher than the then

112 existing approved ROE. The Calculated ROE for each Test Year is determined as Net
113 Income for the Test Year divided by the equity portion of rate base for the Test Year. The
114 ROE determination reflects the actual results for the test year as recorded on the Company's
115 books in accordance with the NARUC Uniform System of Accounts. As stated earlier, the
116 ROE Ratio Midpoint ("Midpoint") is equal to 10.25%. The ROE Ratio Bandwidth
117 ("Bandwidth") is comprised of the range of values with a lower limit ("Lower Band") equal
118 to 9.75% and an upper limit ("Upper Band") equal to 10.75%. For each Test Year, if the
119 calculated ROE falls within the ROE Bandwidth, meaning the ROE is greater than or equal
120 to the Lower Band and less than or equal to the Upper Band, there is no change in the Rider
121 FRP Revenue level. If the ROE is less than the Lower Band, the Rider FRP Revenue level in
122 effect for the test year is to be increased by 100% of the difference between the ROE and the
123 Midpoint. If the ROE exceeds the Upper Band, the Rider FRP Revenue level in effect for the
124 test year is to be reduced by 100% of the difference between the ROE and the Midpoint.

125 Q. PLEASE DISCUSS "PROVISION 2 – APPLICATION AND ANNUAL
126 REDETERMINATION PROCEDURE" OF THE INITIAL FRP, SPECIFICALLY
127 PROVISION 2B

128 A. Provision 2B of the Initial FRP outlines the process for the Company's annual report filing
129 and the review of the same. The process for annual review commences with the filing of an
130 Annual Report on or before May 30. This filing is to contain a calculation of UIL's revenue
131 requirement based on the twelve months ending December 31 of the previous year. The
132 process includes a period for the parties to review the Annual Report which runs from the
133 date of filing through August 30th of the filing year, the date by which Commission Staff, its
134 outside advisors, if any, and all Intervenors ("Parties") must identify alleged error(s) or

135 compliance issues. UIL then has until September 30 of the filing year to review any proposed
136 corrections, to resolve any differences, and to file a revised Rate schedule containing any
137 such changes. If any issues or alleged errors are raised, Section “2.B.3” sets for the process
138 whereby disputed issues are to be resolved.

139 Q. PLEASE BRIEFLY DISCUSS PROVISION 2.C OF THE INITIAL FRP RIDER.

140 A. Provision 2C, which is entitled “Annual Redetermination of Rate Adjustments” defines
141 certain terms relative to the FRP and prescribes the overall means by which applicable
142 revenues are to be adjusted under the FRPAs noted throughout my testimony, and in the
143 instant filing, Section “2.C.1” defines the ROE Midpoint and Bandwidth. Sections “2.C.3”
144 and “2.C.4” prescribe that any adjustment to FRP revenues be based on an equal percentage
145 change to each rate schedule and that any rate adjustments will result in average bills being
146 equal for customers in each rate class by service type.

147 Q. PLEASE GENERALLY DESCRIBE PROVISION 3 OF THE INITIAL FRP RIDER.

148 A. Provision 3, entitled “Provisions for Other Rate Changes” deals with a myriad of
149 miscellaneous rate recovery issues and other rate related matters. For example, Provision 3B
150 (“Extraordinary Cost Changes”), acknowledges that there are items which cause an
151 extraordinary change to the cost of service for which the FRP mechanism is insufficient to
152 provide UIL with a reasonable opportunity to earn a fair return. These types of events are
153 limited to events of force majeure beyond the reasonable and direct control of UIL and
154 having a net annual revenue requirement impact exceeding \$1 million. UIL has yet to utilize
155 such a mechanism; however, realizes the importance of such a provision in an FRP.
156 As was needed when UIL initially implemented the Initial FRP, Section 3C deals with a
157 Storm Recovery line item. This provision is no longer necessary given that this particular

158 line-item has lapsed and is no required. It is important to note that this line item/surcharge
159 did not impact the FRP Revenue Requirement.

160 As with Provision 3C, Provision 3D (“Interim Rate Refund”) and Provision 3E (“Tax Cut
161 and Jobs Act (TCJA) Refund”), have also run their respective courses as these refunds has
162 been fully reimbursed and thus, these sections are no longer applicable.

163 Provision 3F entitled “Special Rate Filings” allows UIL to propose revisions to existing rate
164 schedules or new rate schedules to address changes in the business, if any, during the FRP
165 term. While UIL has not utilized this section, UIL recognizes that this is an important rate
166 mechanism given the everchanging nature of the water and wastewater business.

167 Q. PLEASE GENERALLY DESCRIBE SECTION 4 “EFFECTIVE DATE AND TERM” OF
168 THE INITIAL FRP RIDER.

169 A. Provision 4 defines the term of the Initial FRP to three (3) years, which includes the Test
170 Years ending December 31, 2018, 2019, and 2020.. Additionally, Provision 4 states that if
171 UIL’s Rider FRP is terminated by a future order of the Commission, the then-existing Total
172 FRP Revenue will continue to be in effect until new base rates reflecting the then-existing
173 Total FRP Revenue are duly approved and implemented.

174 B. CURRENT ROE STRUCTURE OF INITIAL FRP

175 Q. IF UIL CONTINUES UNDER AN FRP, DO YOU BELIEVE THAT THE ROE
176 BANDWIDTH AND MIDPOINT RESET IN THE INITIAL FRP SHOULD REMAIN THE
177 SAME?

178 A. No, as Mr. D’Ascendis will describe in greater detail, commonly accepted equity models
179 and readily available public financial data prescribe an ROE midpoint of 11.00% with a
180 lower bandwidth of 10.50% and an upper bandwidth of 11.50%.

181 Q. GENERALLY SPEAKING, WHY IS ROE IMPORTANT TO THE COMPANY?

182 A. The ROE serves to compensate investors for the use of their capital to finance the plant and
183 equipment necessary to provide utility service to customers. Investors only commit money in
184 anticipation of earning a return on their investment commensurate with that from other
185 investment alternatives having comparable risks. As I have analyzed in Exhibit No. BF1, UIL
186 does not generate enough cash flow on a stand-alone basis to fund capital investments;
187 therefore, UIL must seek financing from debt and equity sources through its parent company
188 CRU. Mr. D'Ascendis explains in his testimony that the level of free cash flow represents a
189 utility's ability to meet the needs of its debt and equity holders. Consistent with both sound
190 regulatory economics and the commonly held business standards, rates should provide the
191 utility a reasonable opportunity to earn a rate of return sufficient to: 1) fairly compensate
192 capital presently invested in the utility, 2) enable the utility to offer a return adequate to
193 attract new capital on reasonable terms, and 3) maintain the utility's financial integrity.

194 Q. WILL THE COMPANY BE AT A DISADVANTAGE IF THE PROPOSED ROE
195 STRUCTURE IS NOT APPROVED AS FILED?

196 A. Yes. UIL, like the rest of the utility industry, face a variety of operating and capital-related
197 risks. Operating risks relate to the ongoing operations of water and wastewater systems and
198 include but are not limited to (i) fluctuations in customer demand for water due to
199 seasonality, (ii) environmental standards increase costs related to the collection, treatment
200 and disposal of wastewater, and (iii) inflation adversely impacting the utility's ability to
201 control expenses are a few examples. Much of the water and wastewater infrastructure in the
202 U.S. is in constant need of modernization and replacement. Based on the operating and

203 capital-related risks UIL is facing, the proposed ROE structure will give UIL the opportunity
204 to earn a fair and reasonable return.

205 C. CURRENT CAPITAL STRUCTURE OF INITIAL FRP

206 Q. WHAT IS THE CURRENT PRESCRIBED CAPITAL STRUCTURE FOR THE INITIAL
207 FRP?

208 A. UIL's initial capital structure is set at 50% equity/50% debt for the initial adjustment in
209 rates, and capped at 50% equity in the Initial FRP. UIL does not have its own capital
210 structure and instead relies on the capital structure of Corix Regulated Utilities, Inc., which
211 has historically been approximately 50% Equity and 50% Debt.

212 Q. IF UIL CONTINUES UNDER AN FRP, DO YOU BELIEVE THAT THE CAPITAL
213 STRUCTURE IN THE INITIAL FRP SHOULD REMAIN THE SAME?

214 A. Yes.

215 Q. GENERALLY SPEAKING, WHY IS CAPITAL STRUCTURE IMPORTANT TO THE
216 COMPANY?

217 A. A utility's capital structure reflects the mix of capital – debt, preferred stock, and common
218 equity – used to finance the utility's assets. The proportions of a utility's total capitalization
219 attributable to each source of capital are typically used to weight the cost of debt, cost of
220 preferred stock and ROE in calculating an overall rate of return. In the Initial FRP,
221 specifically Section "2.C.1.b" Calculated Return on Equity Ratio, Adjusted Net Income is
222 divided by the equity portion of rate base. The equity portion of rate base is the result of
223 multiplying adjusted rate base by the equity percentage of capital structure. Therefore, an
224 increase in Equity percentage of capital structure would increase the amount of adjusted rate
225 base attributed to equity which would result in a lower Calculated ROE, all else being equal.

226 **V. UIL'S REQUESTED MODIFICATIONS TO FRP RIDER**

227 A. OVERVIEW OF PROPOSED FRP MODIFICATIONS

228 Q. DID YOU DEVELOP THE FRP MADE INCIDENT TO UIL'S INSTANT REQUEST
229 WITH THIS COMMISSION (THE "MODIFIED FRP")?

230 A Yes, I developed the Modified FRP in the instant application as well as the Initial FRP, with
231 assistance from the management and staff of UIL.

232 Q. PLEASE EXPLAIN THE MODIFIED FRP.

233 A. For the most part, UIL is requesting a continuation of the current FRP. As evident by Exhibit
234 B of the Company's application made subject to this testimony (which is the same as the
235 attached Exhibit BF2), which shows a redline version of UIL's Initial FRP, UIL is requesting
236 the following changes to the Initial FRP:

- 237 • A proposed ROE Midpoint of 11.00% with an ROE Bandwidth with a lower limit
238 equal to 10.50% and an upper limit equal to 11.50%,
- 239 • Striking Sections "3.C" Storm Recovery, "3.D" Interim Rate Refund, and "3.E" Tax
240 Cut and Jobs Act (TCJA) Refund since those three sections are no longer
241 applicable to UIL,
- 242 • Section "3.B" Extraordinary Cost Changes be modified for a reduced limit of net
243 annual revenue requirement impact exceeding \$250,000 instead of \$1,000,000, and
- 244 • There are also some other administrative issues that have been updated for efficiency
245 and clarity purposes.

246

247 Q. HAVE YOU INCLUDED A COPY OF THE MODIFIED FRP WITH THIS TESTIMONY?

248 A Yes, I have included a copy as BF2, which is a redlined version of the Initial FRP.

249 The redlines are the modifications that UIL is requesting in the instant docket. A copy was
250 also included in the Company's filing with the Commission.

251 Q. PLEASE SUMMARIZE THE REASONS WHY THE COMPANY IS REQUESTING THE
252 MODIFIED FRP.

253 A. Generally speaking, UIL is requesting that the Commission renew UIL's current FRP;
254 however, has requested a few changes to the FRP due to certain provisions not being applicable
255 anymore and/or needing to be revised to be more in line with the Company's business model.

256 Q. PLEASE SUMMARIZE THE MATERIAL CHANGES UIL IS REQUESTING TO MAKE
257 IN THE MODIFIED FRP.

258 A. The major modifications to the FRP include: striking Provisions 3C ("Storm Recovery"), 3D
259 ("Interim Rate Refund" and Provision 3.E ("Tax Cut and Jobs Act (TCJA) Refund") given that
260 those three sections are no longer applicable. Additionally, UIL requests that section "3.B"
261 Extraordinary Cost Changes be modified for a reduced limit of net annual revenue requirement
262 impact exceeding \$250,000 instead of \$1,000,000. Reducing the dollar threshold for
263 extraordinary events to \$250,000 better aligns the financial impacts and business risks of an
264 event to the size of UIL. For example, UIL's 2020 Test Year Net Income was \$1,279,033. An
265 extraordinary event totaling \$250,000 would be approximately 20% of UIL's Net Income, a
266 loss of that size would have a material impact on the business.

267 B. BENEFITS OF UIL'S FRP

268 Q. HAVE UIL AND ITS CUSTOMERS BENEFITTED FROM RATES BEING SET UNDER
269 AN FRP?

270 A. Yes. When designed correctly, as the Initial FRP currently is, Commission annual formula rate
271 plan reviews provide a timely and efficient mechanism for the Commission to review rates and
272 determine whether adjustments are necessary to the Company's rates. The Initial FRP has
273 provided significant administrative efficiencies and has ensured that rate adjustments have
274 been made in a timely fashion (albeit there is some regulatory lag still present). The Initial
275 FRP has proven to be an effective mechanism, benefitting both customers and the Company.
276 For example, the Initial FRP has enabled the Commission to timely review both the benefits
277 and costs of significant infrastructure improvements while synchronizing the consideration and
278 implementation of the cost recovery of those expenses.

279 Q. IS AN FRP CONSIDERED A RATEMAKING BEST PRACTICE?

280 A. Yes.

281 Q. MR. FRANCIS, DO YOU BELIEVE THE MODIFIED FRP IS IN THE BEST INTERESTS
282 OF UIL CUSTOMERS?

283 A. Yes. The Modified FRP will give UIL the ability to consistently maintain a sound financial
284 position. As has been seen with the Initial FRP, such a mechanism has allowed UIL and its
285 customers to benefit from a streamlined regulatory process, the needed improvements and
286 expansions can continue to be made to the system with annual rate consideration, all of
287 which in turn will allow for continued quality service and reliability for all customers.

288 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

289 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

UTILITIES, INC. OF LOUISIANA

DOCKET NO. U-_____

In re: Request for Extension of Formula Rate Plan with Modifications Thereto

AFFIDAVIT

STATE OF LOUISIANA

PARISH OF EAST BATON ROUGE

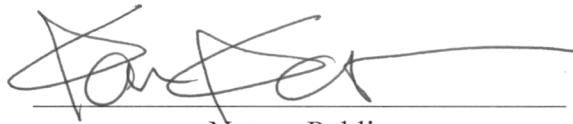
I, Brian Francis, being first duly sworn, depose that the Direct Testimony contained in the above captioned matter on behalf of Utilities, Inc. of Louisiana is true and correct to the best of my knowledge, information, and belief.

UTILITIES, INC. OF LOUISIANA



Mr. Brian Francis

Subscribed and sworn before me this 25th day of May, 2021.



Notary Public

Kara Kantrow

La Bar: 31042



Utilities, Inc. of Louisiana
Free Cash Flow Three Year Trend
Exhibit No. BF-1

	2018	2019	2020
Cash Flows From Operating Activities:			
Net Income	\$ 1,656,422	2,215,983	1,279,033
Net non-cash charges to net income:			
Depreciation and amortization	1,287,939	1,401,990	1,582,512
Deferred income taxes	667,032	(234,087)	65,839
Allowance for Interest During Construction	(124,252)	(105,866)	(258,011)
Loss (Gain) on sale of assets	(9,194)	(14,845)	12,401
Change in certain assets and liabilities:			
Receivables	(325,988)	112,365	(77,450)
Accounts payable and accrued liabilities	856,862	(282,361)	(169,788)
Accrued taxes and interest	(297,859)	(150,918)	(125,797)
Customer Deposits	76,017	34,413	(66,870)
Other current assets and liabilities	92,787	7,818	(22,485)
Net Cash Provided by Operating Activities	\$ 3,879,767	2,984,492	2,219,384
Cash Flows Used in Investing Activities:			
Construction expenditures	\$ (6,117,812)	(5,625,196)	(8,460,153)
Contributions In Aid of Construction	499,551	97,248	(2,470)
Free Cash Flow	\$ (1,738,494)	(2,543,456)	(6,243,239)



EXHIBIT E
FORMULA RATE PLAN RIDER SCHEDULE OF
UTILITIES, INC. OF LOUISIANA

1. GENERAL

Formula Rate Plan Rider Schedule FRP ("Rider FRP") defines the procedure by which the contained in the Utilities, Inc. of Louisiana ("UIL" or "Company") rate schedules designated in Attachment A to this Rider FRP ("Rate Schedules") may be periodically adjusted. Rider FRP shall apply in accordance with the provisions of Section 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 Services 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 30 of each of the years ~~2019~~2022, ~~2023~~0, and ~~2024~~1, UIL 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 such filing containing revised FRP Rate Changes by Tariff determined in accordance with the provisions of Section 2.C below.

2.B.2 REVIEW PERIOD

The Commission Staff ("Staff"), its outside advisors, if any, and all Intervenor of record as of the filing date, hereinafter collectively referred to as the "Parties", shall each be provided a copy of each FRP Annual Report filing at the time it is filed with the Commission along with all pleadings in the FRP-related proceedings (subject to confidentiality agreements where applicable). At the time each such FRP Annual Report is filed, UIL shall provide the Parties with all workpapers supporting the data and calculations reflected in the FRP Annual Report, including electronic spreadsheets with formulas

intact. The Parties may request clarification and additional supporting data.

The Parties shall have until August 30 of the filing year to review the FRP Annual Report to ensure that it complies with the requirements of Section 2.C below. If the Parties should detect an error(s) in the application of the principles and procedures contained in Section 2.C below 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 UIL by the August 30 deadline. Each such indicated error or disagreement shall include documentation of the proposed correction. The Company shall then have until September 30 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 Tariff 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 Tariff initially filed under the provisions of Section 2.B.1 above, or such revised FRP Rate Changes by Tariff as may be determined pursuant to the terms of this Section 2.B.2, shall become effective for bills rendered on and after the first billing cycle for the month of November of the filing year. Those FRP Rate Changes by Tariff shall then remain in effect until changed pursuant to the provisions of this Rider.

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

2.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 the end of September 30 provided for in Section 2.B.2 above, ~~a Tariff revised FRP Rate Changes by Tariff~~ reflecting all revisions to the FRP Rate Changes by Tariff 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's Administrative Hearing Division for a

hearing on the disputed issues, with an ultimate Commission approval (if necessary) for resolution.

If the Commission's final ruling on any disputed issues requires changes in the FRP Rate Changes by Tariff initially implemented pursuant to the above provisions, the Company shall file a revised FRP Annual Report containing such further modified FRP Rate Changes by Tariff 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 Tariff 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 Tariff 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 at the published legal rate of interest from ~~November 1~~the effective date of the rate at issue -of the filing year and the adjustment to the FRP Rate Changes by Tariff 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 ~~November~~the effective date of the rate at issue of the filing year through the last date the prior FRP Rate Changes by Tariff were billed. Such refund/surcharge amount shall be applied to customers' bills in the manner prescribed by the Commission.

2.C. ANNUAL REDETERMINATION OF RATE ADJUSTMENTS

2.C.1. DEFINITION OF TERMS

a. TEST YEAR

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

b. CALCULATED RETURN ON EQUITY RATIO

The Calculated Return on Equity Ratio ("ROE") for each test year shall be determined as Net Income for the test year divided by the equity portion of rate base for the test year. The ROE determination shall reflect the actual results for the test year as recorded on the Company's books in accordance with the NARUC Uniform System of Accounts.

Adjusted Net Income / (Adjusted Rate Base * Equity % of Capital Structure) = ROE

c. **BANDWIDTH FOR ROE RATIO**

The ROE Ratio Bandwidth ("Bandwidth") shall be the range of values with a lower limit ("Lower Band") equal to ~~9.75~~10.50% and an upper limit ("Upper Band") equal to ~~10.75~~11.50%.

d. **MIDPOINT FOR ROE RATIO**

The ROE Ratio Midpoint ("Midpoint") shall be equal to ~~10.25~~11.00%.

2.C.2 RIDER FRP REVENUE LEVEL

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

a. **NO RIDER FRP CHANGE**

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

b. **RIDER FRP INCREASE - ROE**

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

c. **RIDER FRP DECREASE – ROE**

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

2.C.3. RIDER FRP REVENUE ALLOCATION

The Total Rider FRP Revenue, as determined under the provisions of Section 2.C.2 above, shall be allocated to each applicable rate schedule included in Attachment A to this Rider FRP ("Rate Schedules") based on an equal percentage of applicable base revenue. This percentage shall be developed by dividing the Total Rider FRP Revenue by the total applicable base revenue.

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

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, UIL 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 CHANGES

If UIL experiences a single extraordinary increase or decrease or multiple increases or decreases in expenses or a single extraordinary decrease or multiple extraordinary decreases in base revenues, net of any related offsetting reductions in expenses, in a test year having a net annual revenue requirement impact exceeding ~~\$1 million~~ 250,000.00 on a Louisiana retail jurisdictional basis, then either the Company or the Commission may address the ratemaking effects of such cost increase(s) or decrease(s) 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. Such extraordinary increases or decreases in expenses or decrease in base revenues shall be limited to an event or events of force majeure beyond the reasonable and direct control of UIL, including a natural disaster, pandemic, 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.

In conjunction with any ~~certification~~ application or other approval request filed by UIL with the LPSC relating to the satisfaction of the current and/or future water and wastewater service needs of its UIL's members, including but not limited to ~~certification of new capacity or~~ approval of an acquisition, as well as a public interest or other determination related to water and wastewater service, then the Company or the Commission may address the ratemaking effects of the related costs outside the FRP.

~~3.C. STORM RECOVERY~~

~~— Docket Nos. S-34607 and S-34608, recommending authorizations of Storm Recovery Riders for the Density and WTSO assets related to the Great Flood of 2016, will be implemented by UIL as relates to CULI-Density and CULI-WTSO customers respectively. CULI-Density customers will be subject to a rate rider being \$0.58 per month per ERC, and the rate rider charge being for a period of 18 months, unless terminated earlier or an extension is requested. CULI-WTSO customers will be subject to a rate rider being \$0.40 per month per ERC, and the rate rider charge being for a period of 18 months, unless terminated earlier or an extension is requested.~~

~~3.D. INTERIM RATE REFUND~~

~~— To the extent that the initial adjustment in rates authorized by Order U-34742 results in lower rates than the interim rates currently being charged to CULI customers, refunds must be issued to said customers. CULI-WTSO water customers will receive a refund being \$17.05 per month for a 10-month~~

period not to exceed a maximum total payout of \$76,384 to all customers. CULI-Density and CULI-WTSO sewer customers will receive a refund being \$17.46 per month for a 10-month period not to exceed a maximum total payout of \$751,132 to all customers. A true-up will occur after the 10-month period has expired.

3.E. TAX CUT AND JOBS ACT (TCJA) REFUND

UIL will pay a refund to all customers of UIL and former CULI as it relates to the TCJA and amounts collected in 2018 at the 35% tax rate. UIL customers will receive a refund being \$1.65 per month for a 10-month period not to exceed a maximum total payout of \$412,946 to all customers. CULI-Density and CULI-WTSO customers will receive a refund being \$1.28 per month for a 10-month period not to exceed a maximum total payout of \$72,855 to all customers. A true-up will occur after the 10-month period has expired.

3.EF. SPECIAL RATE FILINGS

In order to address competitive and other business needs, the FRP shall not preclude UIL 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. Additionally, the FRP shall not preclude UIL from proposing certain rate riders on a customer's bill when such recovery is deemed in the public interest and reasonable. UIL shall file any such proposed rate schedules, riders, or changes with the Commission and the Commission shall evaluate UIL'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 30 of each of the years ~~2019~~2022, 2023, and 2024, for the test years ending December 31, ~~2018~~2021, 2022, and 2023, respectively. Unless Rider FRP is extended by the Commission, the FRP Rate Changes by Tariff resulting from the ~~2021-2024~~ FRP Annual Report filing based on the ~~2020-2023~~ 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 this Rider FRP shall limit the right of any party to file an appeal as provided by law.