

Louisiana Public Service Commission

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March 30, 2021

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Via Hand Delivery

Ms. Terri Bordelon
Louisiana Public Service Commission
Records and Recordings
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Baton Rouge, LA 70802

2021 MAR 30 PM 4:20
LA PUBLIC SERVICE
COMMISSION

**Docket No. S-35875, Greater Ouachita Water Company, ex parte. In re:
Request for a Letter of Non-Opposition to the Issuance of Secured Line of
Credit.**

Ms. Bordelon:

Enclosed please find a *Staff Report and Recommendation* for filing on behalf of the Louisiana Public Service Commission Staff in the above-referenced matter. Please do not hesitate to contact me should you have any questions concerning this filing.

Very kindly,



Theron Levi
Staff Attorney

TL/ps
Enclosures
cc: Service List (via email)

**BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION**

DOCKET NO. S-35875

**GREATER OUACHITA WATER COMPANY,
EX PARTE**

**2021 MAR 30 PM 4:20
LA PUBLIC SERVICE
COMMISSION**

In re: Request for Letter of Non-Opposition to Borrow to the Issuance of Secured Line of Credit

STAFF REPORT & RECOMMENDATION

Overview

On February 18, 2021, Greater Ouachita Water Company ("GOWC" or the "Company") filed the above captioned request (the "Request") pursuant to Louisiana Public Service Commission ("LPSC" of the "Commission") General Order Dated March 18, 1994 (the "March 1994 General Order"). The Request sought the Commission's authorization for GOWC to enter into a financial agreement with Regions Bank ("Regions" or the "Lender") in the amount of five-million (\$5,000,000.00) dollars. These loan funds will enable GOWC to finance the unfunded portion of the cost of necessary ground water plant included in GOWC's Capital Improvement Plan ("CIP"). The Request was published in the Commission's Official Bulletin #1239 on February 19, 2021 for a fifteen (15) day intervention period. No interventions were received during or subsequent to, the intervention period.

GOWC is a non-profit jurisdictional public utility, in good standing, incorporated in the City of Monroe, Parish of Ouachita, State of Louisiana, by instrument dated May 30, 1963. GOWC provides water and wastewater services, including potable water production, treatment, storage, and distribution and water collection, transport, and treatment to approximately 20,847 residential customers and 1,097 commercial customers. GOWC's principal place of business is located at 401 Thomas Road Suite 5, West Monroe, Louisiana 71291.

Company's Request

GOWC is seeking to obtain a Letter of Non-Opposition to borrow funds in the amount of amount of five million (\$5,000,000.00) dollars from Regions to finance the unfunded portion of CIP Project 13—the necessary ground water plant included in GOWC's Capital Improvement Plan. CIP Project 13 includes the construction of seven (7) new groundwater production wells in order to provide a reliable source of water to existing and future customers in the northeast quadrant of the Parish and eliminate the need for a long-term agreement with the City of Monroe. To assure compliance with regulated water quality standards, the project includes construction of granular activated carbon ("GAC") adsorption units at four (4) locations throughout the service area for removal of disinfection by-products ("DBPs"). The proposed GAC treatment facilities are to be located near the North Monroe and Lakeshore/Swartz water systems.

This project was added to GOWC's CIP after the conclusion of its last rate proceeding, and was first included in GOWC's semi-annual CIP monitoring reports for December 2019. As reported in the most recent semi-annual report in December 2020, the total cost of CIP Project 13 is estimated to be approximately thirteen-million (\$13,000,000.00) dollars. Funding in the amount of seven million three hundred sixty-eight thousand two hundred sixty-five (\$7,368,265.00) dollars from the 2019 Bond Indenture is available to GOWC to use toward CIP Project 13. In order to complete the project, GOWC is seeking to borrow funds from Regions Bank in the amount of five million (\$5,000,000.00) dollars. The loan will be structured as an eighteen (18) month interest only drawdown loan converting to a one hundred and two (102) month fully amortizing term loan after the initial draw-down period. GOWC is anticipating to initiate the loan drawdowns at closing, September 2021, December 2021, and March 2022. The loan will bear interest at a taxable rate of 3.49% per annum through the maturity date.

GOWC provided responses to a set of formal and informal data requests, an eighteen (18) point analysis pursuant to the March 1994 General Order, and a Construction Work Plan for Project 13. GOWC asserts that the transaction is in the best interest of the public, as it will allow the

Company to have the financial means to move forward with the implementation to improve the quality of service to its members and continue to provide safe and reliable service to its members.

Jurisdiction and Applicable Law

The Commission exercises regulatory jurisdiction over all utility companies, including GOWC, pursuant to Article 4, Section 21, of the Louisiana Constitution and applicable Commission Orders adopted pursuant to that authority.

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 provided by law.

Approval of this transaction is specifically required pursuant to the Commission's **General Order dated November 13, 1996**. In particular, the General Order states, at Item Number 1:

No public utility shall issue any security or assume any obligation or liability as guarantor, endorser, surety, or otherwise in respect of any security of any other public utility, or of any other person, until it has been authorized to do so by Order of this Commission.

Further, under **Item Number 5** of the same Order,

This General Order does not modify in any manner the General Order issued by this Commission dated 3/18/94 related to Commission approval of sales, leases, etc. Any security issuance that requires a utility to "sell, assign, lease, transfer, mortgage, or otherwise dispose of or encumber" the property or assets of the utility must be approved by the Commission under the standards set forth in the 3/18/94 General Order as well.

General Order dated March 18, 1994:

Approval of this transaction is specifically required pursuant to the Commission's General Order dated March 18, 1994 as the loan terms require a pledge of assets of the Company to secure the Federal Financing Bank funds.

Audit Staff Review

Staff conducted a thorough review of GOWC's application and all supporting documentation as referenced above. The terms and conditions of the proposed financing

agreement with Regions requires GOWC, as the borrower, to maintain several financial conditions. One such condition being that GOWC must maintain a specific range of certain leverage ratio. Leverage ratios are generally used to assess a company's ability to meet financial obligations. Regions has existing debt obligations with GOWC and GOWC has indicated the financial requirement that will have to be met in order for GOWC to acquire the additional debt required to complete CIP Project 13.

In order to incur additional debt, GOWC is required to support a 1.30 debt service coverage ("DSC") ratio¹ during the fiscal year preceding the insurance of the additional loan. Regions is the only lender used for long term debt by GOWC. Utilizing data contained within GOWC's responses to formal and informal data requests and financial statements for 2019 and 2020, Staff computed GOWC's ratio coverage for the stated method used to test the Company's financial performance related to existing debt obligations. The following table summarized Audit Staff's DSC ratio calculations from 2019 through 2020:²

Staff's Summary of Debt Service Coverage Ratio for GOWC (Audited Financials)		
	2019	2020
Operating Revenues	\$ 15,786,798.00	\$ 17,750,935.00
Direct Operating Expenses	\$ 12,241,619.00	\$ 13,002,940.00
Administrative Expenses	\$ 1,107,707.00	\$ 1,065,105.00
Net Operating Income	\$ 2,437,472.00	\$ 3,682,890.00
Depreciation	\$ 2,856,958.00	\$ 2,931,610.00
Amortization	\$ 9,185.00	\$ 107,051.00
Sum of Depreciation & Amortization	\$ 2,866,143.00	\$ 3,038,661.00
Interest Payments	\$ 1,371,181.00	\$ 2,399,777.00
Principal Payments	\$ 1,235,000.00	\$ 500,000.00
Sum of Principal & Interest	\$ 2,606,181.00	\$ 2,899,777.00
DSCR (Net Operating Income/Total Debt Service)	2.035	2.318

¹ DSCR = (Net Operating Income + Depreciation & Amortization)/ (Principal + Interest on Long-Term Debt).

² Table generated using Audited Financial Statements for GOWC from 2019 to 2020 and responses to formal and informal data requests.

The loan guarantee will be secured by a previously executed Restated Mortgage and Security Agreement ("Mortgage") entered into by Company and Regions. Therefore, this transaction is subject to the March 18, 1994 General Order. Staff reviewed GOWC's responses to the 18-point analysis. The Company has stated there will not be a transfer of assets. Beauregard further asserts that the transaction is in the best interest of ratepayers based on the following:

- GOWC ratepayers will experience both short-term and long-term benefits from the five million (\$5,000,000.00) dollar loan and to complete the Construction Work Plan.
- GOWC will be able to continue to provide ratepayers with safe, reliable, and adequate service and the transaction will have no adverse impact whatsoever on quality of service.

In summary, GOWC provided Audit Staff with an in-depth look at their financial statements in support of this application. GOWC was able to meet the necessary financial metrics required for the loan process by the lender.

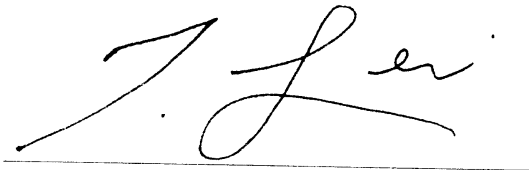
Staff Recommendation

Based on the foregoing, Staff concurs that the transaction is in the public interest and will have no adverse effect on the Company's ability to provide safe and reliable water and wastewater service. Staff recommends that the Commission expresses its non-opposition to the Request subject to the following conditions:

1. The Company shall file into the record of this proceeding a copy of the signed loan agreement, outlining the final terms and conditions, within thirty (30) days of the loan closing date.
2. Should the loan agreement be modified in any way, prior to issuance of funds, the newly revised agreement shall be filed into the record of this proceeding no later than fifteen (15) days after such modification.
3. If the signed loan documents have not been filed within ninety (90) days of an Order in this proceeding, the Company, must file a status update into the record on or before ninety (90) days from the date of an Order. The Commission reserves the right to rescind its non-opposition if the loan documents are not filed within ninety (90) days of the date of an Order in this proceeding.

4. The Company shall file a report twice a year, on or before January 31st and July 31st, to update the status of the CWP implementation and include the total amount budgeted from the report, the total amount spent, the remaining totals for work to be done, and a timeline for completion of that work.
5. This non-opposition is granted without prejudice to the authority of the Commission to make investigations and require any reasonably necessary change that the Commission may legally find to be in the public interest.

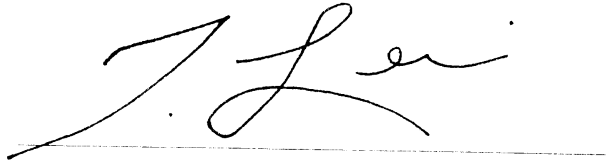
Respectfully Submitted,

A handwritten signature in black ink, appearing to read "T. Levi", written over a horizontal line.

Theron Levi (No. 37772)
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Louisiana Public Service Commission
Galvez Bldg., 602 N. Fifth Street, 12th Floor
Baton Rouge, La. 70821

CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing document has been served upon all parties of record by electronic mail, facsimile, or U.S. Mail, postage properly prepaid, this 30th day of March, 2021.

A handwritten signature in black ink, appearing to read 'T. Levi', is written over a horizontal dashed line.

THERON T. LEVI

**Service List for Docket No. S-35875
as of 3/30/2021**

Commissioner(s)

Foster L. Campbell

LPSC Staff Counsel

Theron Levi, LPSC Staff Attorney

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Peggy Schwander, LPSC Auditing Division

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