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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.

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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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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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.

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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