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March 12, 2025

VIA ELECTRONIC FILING

Electronically Filed in TPUC Docket
Room on March 12, 2025 at 2:32 p.m.

Hon. David Jones, Chairman
c/o Ectory Lawless, Docket Room Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243
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RE: *Petition of Limestone Water Utility Operating Company, LLC to Increase Charges, Fees and Rates and for Approval of a General Rate Increase and Consolidated Rates, TPUC Docket No. 24-00044*

Dear Chairman Jones:

Attached for filing please find *Limestone Water Utility Operating Company, LLC's Post-Hearing Brief* in the above-captioned matter.

As required, copies will follow. Should you have any questions concerning this filing, or require additional information, please do not hesitate to contact me.

Sincerely,

BUTLER SNOW LLP



Katherine Barnes Cohn

clw

Attachment

cc: Russ Mitten, Limestone Water Utility Operating Company, LLC
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**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE**

PETITION OF LIMESTONE WATER UTILITY OPERATING COMPANY, LLC TO INCREASE CHARGES, FEES AND RATES AND FOR APPROVAL OF A GENERAL RATE INCREASE AND CONSOLIDATED RATES))))))	DOCKET NO. 24-00044
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**LIMESTONE WATER UTILITY OPERATING COMPANY, LLC
POST-HEARING BRIEF**

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MARCH 12, 2025

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I. STATEMENT OF THE CASE

On July 16, 2024, Limestone Water Utility Operating Company, LLC. (“Limestone Water” or “Company”) filed its first rate case before the Tennessee Public Utility Commission (“Commission”). As explained by Limestone Water Witness Mr. Mike Duncan, Limestone Water is the Tennessee utility operating company affiliate of CSWR, LLC (“CSWR”). Limestone Water’s mission is to acquire small, distressed water and wastewater systems that lack technical, managerial, and financial expertise.¹ Typically, when it acquires a distressed system, Limestone Water will adopt the rates of the system.² Recognizing that previous owners often “failed to timely seek rate increases necessary,” the adopted rates had not changed in years, if not decades.³ Thus, the adopted rates “were insufficient to cover the operating costs for operations.”⁴

Against the backdrop of inadequate adopted rates, Limestone Water begins to immediately incur increased operating and capital costs as it rehabilitates the distressed systems. As Mr. Duncan explains, “[t]here is no question that, from either an operating expense or capital investment standpoint, it costs more to professionally operate water and wastewater systems in a manner that

¹ *Pre-Filed Direct Testimony of Limestone Water Witness Mike Duncan*, p. 31, TPUC Docket No. 24-00044 (July 16, 2024) (hereinafter “*Duncan Direct*”). See also *Hearing Transcript, Vol. I*, p. 70:16-25 – p. 71:1-2, *In Re: Petition of Limestone Water Utility Operating Company, LLC*, TPUC Docket No. 24-00044 (Feb. 18, 2025) (hereinafter “*Hearing Tr.*”) (Testimony of Limestone Water Witness Mr. Duncan) (“[W]e specialize in acquiring small distressed water and wastewater systems often that have provided inadequate service and are out of compliance with environmental regulations for public health and safety and used our company’s technical -- technological, managerial, and financial resources to bring these utilities out of their distressed state and back into providing regular service and full compliance with health and safety regulations.”)

² *Id.*, p. 9.

³ *Id.*, p. 9 (“For instance, the Aqua Utilities systems have not had a rate increase in 18 years.”) (“Similarly, the Shiloh Falls system has not had a rate increase since 2007 and the DSH – Lakeside Estates system has not had a rate increase since 2011.”).

⁴ *Id.* See also *Hearing Tr., Vol. I*, p. 73:23-25 – p.74:1-3 (Testimony of Limestone Water Witness Mr. Duncan) (“Limestone has been operating our utilities at the rate of the previous utilities, despite those rates not reflecting a true actual cost of service for operating the utility. We did this in part because we wanted to support our customers’ transition to safe and more reliable service.”); *Hearing Tr., Vol. II*, p. 155:13-17 (Testimony of Limestone Water Witness Mr. Thies) (“The retained net operating loss is also a byproduct of insufficient customer billing rates that had been in place for far too long, exemplified by the rate at Shiloh Falls system, which had not changed since 2007.”).

complies with applicable law and regulatory requirements than it costs to operate failing, non-compliant systems.”⁵ This opinion is logical.

[M]any wastewater systems did not have operational mechanical components. For instance, many systems lacked operational aeration and disinfection equipment or redundant pumping at lift stations. There is a financial impact associated with the capital associated with replacing these failed components. What is often forgotten, however, is that the replacement of these failed components also causes an immediate increase in operations and maintenance costs. That is to say, a failed blower does not use any electricity. Therefore, once a blower is replaced and begins to operate, power costs necessarily increase. Still again, a disinfection system that does not add disinfection to the wastewater discharge is incurring very little chemical cost. When the disinfection system is replaced and operated properly, chemical costs will immediately increase. For this reason, and as I have indicated, it costs more to professionally operate a system, both from a capital investment and operating cost standpoint, than it does to operate a failing, non-compliant system.⁶

Under these circumstances of dated rates and increasing operating costs, it is easy to understand that Limestone Water has incurred large operating losses. In fact, as Limestone Water Witness Mr. Brent Thies testified, “[i]n calculating the company’s revenue requirement, we determined that as of the end of the test period, the company has a retained and net operating loss of \$2,630,461.”⁷ (Mr. Thies also testified that Limestone Water “has lost money on operations since it began acquiring and operating systems in Tennessee in 2021. The amount of that loss is now approaching \$3 million, and it will continue until sufficient rate increases are approved by the Commission and implemented by the company.”)⁸

Despite those losses, Limestone Water has been providing greatly improved service to its acquired customers. As Limestone Water Witness Mr. Jacob Freeman testified, Limestone Water

⁵ *Id.*, p. 12.

⁶ *Id.*

⁷ *Hearing Tr., Vol. II*, p. 115:2-5. *See also Hearing Tr., Vol. I*, p.118:1-14 (Mr. Joe Shirley, Commission Staff, asked Mr. Duncan that “if at the end of the day the Commission were to determine that a substantial rate increase is warranted in this docket, do you know if the Company has a position whether or not it would be appropriate to phase in such an increase over time?” Mr. Duncan responded in the affirmative and gave an example of another jurisdiction where the Company had “phased in rates in the past while still recovering the full cost of service.”)

⁸ *Id.*, p. 158:22-25 – p. 159:1-2.

has made numerous improvements to its acquired systems where previous owners did not, ensuring that customers receive safe and reliable water and wastewater services.⁹ Similarly, Limestone Water seeks to offer exceptional around-the-clock customer service, especially with regard to any customer complaints. As Mr. Duncan testified, “we take all customer complaints about service very seriously and track them down.”¹⁰ “If there are quality complaints, so, for example, if a customer had a complaint about a smell, then I would escalate that to the appropriate party.”¹¹

Recognizing that this is the Company’s first rate increase request, and given the history of operating losses, this is a critical case. This case, however, is not just critical to the Company’s financial future and its ability to continue to acquire and successfully operate distressed systems in Tennessee, it is equally important to the Commission as it presents an opportunity to show a commitment towards resolving the problem with small, distressed water and wastewater systems. As Mr. Duncan explains, the “big picture” problem is that “Tennessee is replete with small, distressed water and wastewater systems that are failing to comply with environmental standards.”¹²

Rather than take positions that seek to solve the big picture problem with Tennessee’s small, distressed water and wastewater systems, the Consumer Advocate Division of the Tennessee Attorney General’s Office (“Consumer Advocate” or “CAD”) instead advances positions that are singularly focused on lowest possible rates, regardless of the quality of utility service received by customers.

CAD appears hyper-focused on the pursuit of the lowest possible rate without regard to whether its positions will discourage the future acquisition and

⁹ See *Pre-Filed Direct Testimony of Limestone Water Witness Jacob Freeman*, TPUC Docket No. 24-00044 (July 16, 2024) (hereinafter “*Freeman Direct*”).

¹⁰ *Hearing Tr., Vol. I*, p. 89:14-15 (Testimony of Limestone Water Witness Mike Duncan).

¹¹ *Hearing Tr., Vol. II*, p. 363:25 – p. 364:1-2 (Testimony of Limestone Water Witness Aaron Silas).

¹² *Pre-Filed Rebuttal Testimony of Limestone Water Witness Mike Duncan*, p. 3, TPUC Docket No. 24-00044 (Jan. 13, 2025) (hereinafter “*Duncan Rebuttal*”).

rehabilitation of distressed systems and, thus, the eventual provision of “safe and adequate service” to Tennessee residents. This big picture, that CAD fails to recognize, is the reality that small water and wastewater infrastructure in Tennessee is in crisis and the singular focus on low rates will not address the problems.¹³

Thus, from its position on acquisition adjustments to transaction costs, to consolidation and return on equity, CAD has taken positions that will inevitably dissuade well-capitalized and technically competent companies from considering investing in Tennessee. Given this, Tennessee customers may benefit from low rates, but they will be saddled with water and wastewater services that are in constant violation of environmental regulations. Thus, this case represents a huge opportunity for the Commission to show that, contrary to the Consumer Advocate’s focus, the lowest possible rate is not the sole or primary concern. Rather, safe, adequate, and affordable utility service, that complies with all environmental rules and regulations, must be of utmost importance.

II. CUSTOMER NOTICE

Limestone Water fully complied with all applicable customer notice requirements by providing comprehensive notifications via multiple channels throughout the pendency of this case. These efforts ensured that customers were adequately informed about the rate case, proposed changes, and opportunities to participate in the regulatory process.

As part of its outreach, the Company posted a public notice on its website that included a link to the Commission docket, an average bill comparison by service area, the proposed tariffs, and details regarding the hearing date.¹⁴ The notice was later updated to include information about a public comment hearing, ensuring that customers remained informed about opportunities to

¹³ *Id.*

¹⁴ *Limestone Water Utility Operating Company. LLC Publication of Legal Notice of Hearing*, p. 1, TPUC Docket No. 24-00044 (Feb. 17, 2025).

provide input.¹⁵ In fact, the large number of customers attending the first public comment hearing would not have been present absent Limestone Water’s newspaper publications, as this notice contained information regarding the first public comment hearing.

Limestone also published newspaper notices, which included the aforementioned information in all affected counties, including Hardeman, Hardin, Campbell, Marshall, and Williamson, on January 16, 2025. An additional newspaper notice was published in Williamson County on January 22, 2025, further reinforcing public awareness of the proceeding.

Following the first public comment hearing, Limestone Water took additional steps to respond to customer concerns and expand outreach efforts. Upon the Hearing Officer’s request, a direct written notice of the rate case proceeding was mailed to all customers on February 5, 2025. This direct notice included a Frequently Asked Questions sections regarding the rate proposal in this case.¹⁶ Furthermore, Limestone took the initiative to schedule and conduct two virtual community meetings conducted via Zoom, notice of which was provided in the February 5 direct mailing, as well. These Zoom meetings provided customers with the opportunity to ask questions, seek clarification, and gain a better understanding of the proposed rate changes.¹⁷

To even further ensure that customers were aware of opportunities to engage in the process, the Company sent an email blast on February 11, 2025. This communication provided details about an additional Zoom meeting, informed customers of the second public comment hearing to be held by the Commission and explained how to access case information in the TPUC docket.

¹⁵ *Id.*, p. 2. *See also Hearing Tr., Vol II*, p. 354: 22-25, p. 375: 22-25 - p. 376:1-4 (Limestone Water Witness Mr. Silas testified that the updated notice included both the rate case hearing date and the date of the first public comment hearing.).

¹⁶ *Id.*

¹⁷ *Hearing Tr., Vol II*, p. 376:14-24 (Testimony of Limestone Water Witness Mr. Silas) (“We set up two virtual community meetings is what I call them, two Zoom meetings, that were — all of our customers were informed about them, that allowed them to come and talk with me directly, ask any questions they had about the case[.] And I had about 60 to 70 customers take advantage of that. The first night was an hour and a half and then the second night was two hours of completely answering customer questions.”).

Limestone Water’s approach to customer notice went well beyond standard requirements by utilizing a combination of website postings, newspaper publications, direct mail, electronic communication, virtual meetings, and in-person meetings. Ultimately, Limestone Water asserts that the number of customer comments¹⁸ that were filed in this docket demonstrates the effectiveness of the Company’s outreach efforts and reinforces the notion that customers were aware of the increase and able to have their voices heard.¹⁹ These additional outreach efforts were a direct response to customer concerns raised in the first public comment hearing, demonstrating Limestone Water’s commitment to transparency and public engagement. Accordingly, any assertion that the Company failed to provide sufficient notice is unfounded.

III. TEST PERIOD AND ATTRITION PERIOD

In its Pre-filed Direct Testimony, the Company utilized a historical test period using the 12-month period ended April 30, 2024.²⁰ The financial data for this historical test period was then adjusted “for various normalizations and annualizations to attempt to make the historic test year more representative of ongoing operations.”²¹

While allowed under Tennessee procedure, the Company did not seek to utilize an attrition period for several reasons. **First**, the Company believes that the historic test period “is reflective

¹⁸ It appears that a number of the customer comments were duplicates. Even so, Limestone takes each of the numerous comments filed in this case seriously. *See id.*, p. 378:2-20 (“There are a number [of comments] that appear to be duplicates, which means...the same name appears. There are some that have made comments 10 times.10-plus times at this point. Or similar last names or similar addresses, which tells us it’s the same household, the same connection. ... We still read every single one. We still track them as independent comments. Some of them have additional information in them, which we take very seriously.”).

¹⁹ Importantly, none of the commenters who had service quality concerns brought any of their concerns to the Company before filing comments in the rate case. *Hearing Tr., Vol. II*, p. 379:20-24 (Testimony of Limestone Water Witness Mr. Silas) (“None of the customers that had a quality complaint had ever contacted us, from the ones that I saw, which I believe is all of them. But none of these customers had ever raised that concern with the company first.”). *See also id.*, p. 377:19-25. (In fact, since beginning operations in Tennessee, only “three formal complaints [have been] filed with the Commission.”)

²⁰ *Pre-Filed Direct Testimony of Limestone Water Witness Brent Thies*, p. 5, TPUC Docket No. 24-00044 (July 16, 2024) (hereinafter “*Thies Direct*”).

²¹ *Id.*

of ongoing operations and will establish rates that are representative of the period in which they will be in effect.”²² **Second**, the Company believes that a historic test year is easier for the Commission and other parties to administer. Specifically, by utilizing a historic test year, without an attrition period, the Commission avoids issues regarding inflation rates and cost escalations, forecasting of expenses, calculation of accumulated depreciation, monthly projections of rate base additions, determination of expected organic customer growth, and changes in expected customer water usage.²³

Third, utilization of an attrition period would be “contrary to the Company’s preference to allow newly acquired systems and customers to realize the benefits of the Company’s ownership prior to receiving any rate increases.”²⁴ For instance, as of the filing of this case, the Company had “four acquisition applications pending before the Commission.”²⁵ Utilization of an attrition period would have inevitably included the financial impact of those acquisitions expected to close during the attrition period. As such, customers at those systems would have immediately seen a rate increase prior to operational and customer service improvements.

Fourth, given the Company’s stated intention to consider and explore implementing an alternative ratemaking mechanism (“ARM”), the importance of an attrition period is minimized. Specifically, “issues concerning inflation rates for expenses and the forecasting of revenues and capital additions [as would be used in an attrition period] are minimized as they will be addressed using actual quantities that can be audited for accuracy and prudence in a subsequent annual rate review mechanism adjustment.”²⁶

²² *Id.*, p. 6.

²³ *Id.*

²⁴ *Id.*, p. 7.

²⁵ *Duncan Direct*, p. 4.

²⁶ *Thies Direct*, p. 7.

In its testimony, the Consumer Advocate agreed with the Company's test year recommendation. "The Company has proposed a twelve-month historic Adjusted Test Period ending April 30, 2024. It is my opinion that this period proposal is acceptable and should be adopted by the Commission."²⁷

Importantly, while the Consumer Advocate agreed to the utilization of a historic test period ending April 30, 2024, CAD went beyond this historic test period to forecast revenues for an attrition period. Noticeably, however, the Consumer Advocate did not also seek to forecast expenses and investment for the attrition period. Therefore, CAD's utilization of a historic test year period, with attrition period revenues, violates the matching principle.²⁸

IV. REVENUE REQUIREMENT AND DEFICIENCY

The revenue requirement is the sum of a utility's operating expenses, depreciation expense, income taxes and taxes other than income, and the authorized fair rate of return on the utility's rate base.²⁹ This revenue requirement is then compared to the utility's normalized revenues at present rates. To the extent that the revenue requirement exceeds the normalized revenues, "a revenue deficiency exists, and a rate increase is needed."³⁰ In this case, the Company has documented a revenue deficiency for water operations of \$153,300 and sewer operations of \$560,936.³¹

²⁷ *Pre-Filed Direct Testimony of Consumer Advocate Division Alex Bradley*, as adopted by Dave Dittmore, p. 3, TPUC Docket No. 24-00044 (Dec. 19, 2024) (hereinafter "*Bradley*").

²⁸ *Pre-Filed Rebuttal Testimony of Limestone Water Witness Brent Thies*, p. 20, TPUC Docket No. 24-00044 (Jan. 13, 2025) (hereinafter "*Thies Rebuttal*").

²⁹ *Thies Direct*, pp. 4-5.

³⁰ *Id.*, p. 5.

³¹ The Company's revenue deficiency is calculated without assuming the Commission awards the full amount of the requested acquisition adjustments. For adjusted revenue deficiency figures that include the requested acquisition adjustments, see Limestone's Updated Resp. to Staff's Jan. 31st Data Request No. 6 and attachment DR – 6 Revenue Requirement Impact – Update.xlsx, filed February 27, 2025.

In previous acquisition dockets, the Commission held that, while Limestone Water could seek recovery of acquisition premiums and transaction costs, the Company was not permitted to book these costs above-the-line.

Limestone is not authorized to book an above-the-line regulatory asset for ratemaking purposes for any portion of the amount by which the purchase price exceeds the value of the acquired assets as reflected in Aqua's books and records at the date of acquisition. In any future rate proceeding, Limestone may present evidence and argument concerning the value of assets used and useful for provisioning public utilities services, and the Consumer Advocate or other interested parties may oppose such values or present their own evidence and argument concerning the value of such assets.

The recoverability or disallowance of any requested regulatory or transaction costs related to the acquisition shall be deferred to a future rate proceeding; however, Limestone is not authorized to defer any such regulatory or transaction costs as an above-the-line regulatory asset for ratemaking purposes.³²

Therefore, in an attempt to honor the Commission's directives, Limestone Water did not include the requested acquisition adjustments and transactions costs in the previously identified revenue deficiency. The Company did, however, specifically identify and support these requests in its Petition. Thus, while the Company is seeking recovery of its acquisition premiums and transaction costs in this case, those costs are not reflected in the previously identified revenue deficiency. Amortization of the acquisition premiums and transaction costs,³³ and inclusion of the unamortized portion in rate base, will serve to increase the revenue deficiency as follows.

	Water	Sewer
Acquisition Premiums	\$76,781	\$300,393
Transaction Costs	\$18,337	\$66,199
TOTAL	\$95,119	\$366,593

³² See *Order Approving Sale of Assets, Property, and Real Estate and Certificate of Public Convenience of Aqua Utilities Company, LLC Subject to Conditions and Requirements of the Tennessee Public Utility Commission*, pp. 17-18, TPUC Docket No. 19-00062 (Dec.7, 2020).

³³ Consistent with TPUC Rule 1220-04-14-.04(3), the Company is seeking to amortize the acquisition premiums over a period of twenty (20) years. See *Thies Direct*, p. 18 (summarizing that the Company is seeking to amortize transaction costs over the useful life of the underlying assets).

V. CAPITAL STRUCTURE

It is well established that the cost of debt and return on equity are weighted in proportion to the Company's capital structure to produce a weighted average cost of capital. In the case at hand, Limestone Water is capitalized with 100% equity.³⁴ The Company's reliance on equity capital is dictated by the acquired systems' outdated and inadequate rates that make it impossible to obtain debt financing.³⁵ Given the increase in operating costs since the date when those rates were initially established, the Company has been incurring net operating losses. In fact, since acquiring its first system in March 2021, the Company has incurred over \$2.6 million of past operating losses.³⁶

Given its inability to generate any net income, the Company would not have been able to service commercial debt. "To date, Limestone Water has not had sufficient cash flow to obtain or service a debt issuance."³⁷ While the Company hopes to be able to issue debt as cash flows are generated as a result of this rate case,³⁸ as of the end of the test period, the capital structure has been entirely dependent on equity.

As Mr. D'Ascendis points out, however, "a common equity ratio of 100.00% is inappropriate for ratemaking purposes because it results in, all else equal, a higher revenue cost of capital which must be paid by customers."³⁹ Instead, the Company proposed a hypothetical capital structure which consists of 57% equity and 43% long-term debt.⁴⁰ As Mr. D'Ascendis notes, a

³⁴ *Pre-Filed Direct Testimony of Limestone Water Witness Dylan D'Ascendis*, p. 19, TPUC Docket No. 24-00044 (July 16, 2024) (hereinafter "*D'Ascendis Direct*").

³⁵ *Duncan Direct*, p. 9.

³⁶ *Id.*, p. 4, footnote 3.

³⁷ *Thies Direct*, p. 38.

³⁸ *Id.*

³⁹ *D'Ascendis Direct*, p. 19.

⁴⁰ *Id.*

57% equity capital structure is consistent with the capital structures of the water utilities included in his proxy groups.

My proposed ratemaking common equity ratio of 57.00% for Limestone Water is generally consistent with the top of the range of common equity ratios maintained by the Proxy Groups on which I base my recommended common equity cost rate. As shown on Petitioner's Exhibit DWD-2, page 2, the range of common equity ratios maintained by the Utility Proxy Group is between 43.91% and 57.59% in 2023. Petitioner's Exhibit DWD 2, page 4 presents the range of common equity ratios maintained by the U.S. Water Universe, which range from 31.60% to 57.59% in 2023. Regarding expected equity ratios, as shown on pages 2 through 7 on Petitioner's Exhibit DWD-4, Value Line projects a range of equity ratios between 45.00% and 63.00% for the years 2027-2029. I chose a higher than-average hypothetical capital structure for Limestone Water due to its extraordinary operating risks as detailed by Company Witness Michael Duncan.⁴¹

The Consumer Advocate's witness Mr. Aaron Rothschild recommends a hypothetical capital structure of 51.82% equity and 48.18% debt, based on the central tendency of his proxy group.⁴² Mr. Rothschild asserts that the Company's recommended capital structure "has a higher common equity ratio than the average common equity ratio used by other water utility companies in the country."⁴³

As Mr. D'Ascendis explains, however, the utilization of the "average common equity ratio", as advocated by Mr. Rothschild is "out of line with industry standards" given the "significant risk facing Limestone Water."

While I agree that it is reasonable to review the capital structures of the proxy companies when the Company's capital structure is out of line with industry standards, the range of common equity ratios for the proxy companies depict the range of typical or proper equity ratios maintained by comparable risk companies. However, as discussed by Messrs. Duncan and Freeman, Limestone Water is not a typical water utility. As noted in the Direct Testimony of Michael Duncan, Limestone Water has invested \$9.6 million to acquire, upgrade and improve the

⁴¹ *Id.*, pp. 19-20. See *Duncan Direct*, pp. 9-14 (discussing the "extraordinary operating risks" inherent in the Company as a result of its business model of acquiring distressed water and wastewater systems and incurring net operating losses until a rate case can be completed for a system).

⁴² *Pre-Filed Direct Testimony of Consumer Advocate Division Aaron Rothschild*, p. 74, TPUC Docket No. 24-00044 (Dec. 19, 2024) (hereinafter "*Rothschild*").

⁴³ *Id.*, p. 73.

systems it currently operates, in addition to \$2.6 million in operating losses. Given the significant risk facing Limestone Water in updating and operating its systems, an equity ratio towards the higher end of the ratios maintained by the proxy companies is appropriate.⁴⁴

It is well established that the riskier the venture, the less leverage that debt issuers will be willing to tolerate. Given the significant risk inherent in the Limestone Water business model, it must necessarily have a higher equity ratio than other water / wastewater utilities that are generating net income. For this reason, the Commission should reject the Consumer Advocate's recommendation and, instead, adopt the recommendation of Mr. D'Ascendis.

VI. RETURN ON EQUITY

It is well established that regulated utilities are entitled, in the ratemaking formula, to a return "commensurate with returns on investments in other enterprises having corresponding risks" and that is "sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital."⁴⁵ There are two methods of setting an authorized return on equity ("ROE") in Tennessee: the operating margin method and the return on equity method.⁴⁶ Here, the proper method, suggested by both Limestone and the Consumer Advocate, is the ROE method. This method is guided by the U.S. Supreme Court precedents of *Hope* and *Bluefield*. Under these cases, data from a group of risk-similar utilities are used as a proxy for estimating an appropriate authorized ROE for the subject utility. After an appropriate proxy group is selected, multiple financial models should be used to evaluate the cost of equity. These financial models include the discounted cash flow (DCF) model, the risk premium model (RPM), and the capital asset pricing model (CAPM). This section explains first how Limestone Water's witness Mr. Dylan

⁴⁴ *Pre-Filed Rebuttal Testimony of Limestone Water Witness Dylan D'Ascendis*, p. 26, TPUC Docket No. 24-00044 (Jan. 13, 2025) (hereinafter "*D'Ascendis Rebuttal*").

⁴⁵ *Hope*, 320 U.S. at 603.

⁴⁶ See generally *Joint Petition of Tennessee Wastewater Systems, Inc., and TPUC Staff (as a Party) to Increase Rates and Charges*, TPUC Docket 20-00009.

W. D'Ascendis' proxy group analysis is superior to that of the CAD's Aaron Rothschild, and then discusses the financial models and explains why Mr. D'Ascendis' recommendation should be adopted in favor of Mr. Rothschild's.

A. Mr. D'Ascendis' proxy group analysis is superior to Mr. Rothschild's.

Mr. D'Ascendis prepared his Utilities Proxy Group by using seven (7) separate screening criteria designed to ensure that the proxy group companies were comparable to Limestone Water in terms of risk.⁴⁷ These criteria included both operational and financial metrics to ensure overall risk-comparability.⁴⁸ To validate his results and comply with the statistical principle of having an appropriate sample size, Mr. D'Ascendis expanded his screening criteria to properly gauge the influence of outlier values on the Utilities Proxy Group, which resulted in his U.S. Water Universe Proxy Group.⁴⁹ The Commission can be confident that Mr. D'Ascendis' proxy group selection is reliable.

Mr. Rothschild, on the other hand, selected five water utilities covered by *Value Line* and used them as his proxy group. He detailed no screening criteria or metrics he used to determine risk-comparability. In fact, Mr. Rothschild only gave one reason for the Commission to consider his analysis: "I chose this proxy group because I believe it contains companies that are comparable in risk to Limestone Water."⁵⁰ While the five companies are included in Mr. D'Ascendis' Utilities Proxy Group, Mr. Rothschild's analysis was not independent, detailed, supported, or robust. Moreover, Mr. Rothschild did not employ the use of an expanded proxy group of risk-comparable companies to serve as a check on the reliability of his results. As such, his analysis should not be relied upon.

⁴⁷ *D'Ascendis Direct*, p. 16:3-23, p. 18:17-19.

⁴⁸ *D'Ascendis Direct*, p. 16:3-20.

⁴⁹ *Id.*, p. 17:11 – p. 19:3.

⁵⁰ *Rothschild*, 47:8-9.

B. The Commission should adopt the results of Mr. D’Ascendis’ well-accepted financial model methodologies as opposed to Mr. Rothschild’s unconventional and inapplicable derivative methodologies.

As noted above, Mr. D’Ascendis used traditional DCF, RPM, and CAPM models to analyze the investor-required return on equity for Limestone Water. Each are discussed in turn.

i. Discounted Cash Flow (DCF) Model

Mr. D’Ascendis used the single-stage, constant growth DCF model first. Generally, the DCF model reflects the present value of expected future cashflows during the applicable investment holding period; *i.e.*, that investors buying a stock have, in making the decision to purchase the stock at a given price, determined that the future dividends and growth of the stock price are worth that amount of money on the day of the transaction.⁵¹ This model is reflected in Equation [1]: $K_e = (D_0 (1+g))/P + g$, where: K_e is the required Return on Equity; D_0 is the annualized Dividend Per Share; P is the current stock price; and g is the growth rate.⁵²

Mr. D’Ascendis modeled the DCF based on his proxy group companies’ dividend yields as of April 30, 2024 (in his direct testimony) and again as of December 2, 2024 (in his rebuttal).⁵³ In doing so, Mr. D’Ascendis made a conservative adjustment to the dividend yields so as not to overstate the figures and to ensure the reliability of his model results.⁵⁴

For the growth rate, Mr. D’Ascendis canvassed widely-available financial information services such as *Value Line*, Zacks, S&P Capital IQ, and Yahoo! Finance.⁵⁵ Because *dividend*-per-share projections are not widely available and *earnings*-per-share growth rates are, and because projected EPS growth rates provide a better match between investors’ growth expectations and the

⁵¹ *D’Ascendis Direct*, p. 22:13-19.

⁵² *Id.*, p. 22:20-23:6.

⁵³ *Id.*, p. 23:7-10; *D’Ascendis Rebuttal*, p. 2:10-13; 3:1-4.

⁵⁴ *D’Ascendis Direct*, p. 23:11-22.

⁵⁵ *Id.*, p. 24:1-5.

growth component of the DCF, Mr. D’Ascendis used projected EPS growth rates for the proxy group companies using these financial information sources.

ii. Risk Premium Model (RPM)

Mr. D’Ascendis also employed the risk premium model, or RPM. This model is based on based on the fundamental financial principle of risk and return: that investors require greater returns for bearing greater risk. The RPM recognizes that equity has greater risk than debt and reflects investors’ expectations of achieving higher returns on stocks than bonds to compensate for that additional risk.⁵⁶ Because investors’ required returns for long-term utility stock investments are not observable, but debt (bond) returns are, the RPM takes the expected cost rate for long-term debt capital and adds a “risk premium” over that debt cost rate to account for the additional risk.⁵⁷ Mr. D’Ascendis utilized the total market approach, which takes the prospective public utility bond yield and adds the average of the equity risk premium for (1) beta-adjusted total market stocks and (2) the S&P Utilities Index.⁵⁸

Mr. D’Ascendis, again taking care to ensure a robust and reliable result, examined consensus forecasts of some 50 economists regarding expected yields on Aaa-rated corporate bonds through the third quarter of 2025 and *Blue Chip*’s long-term projections from 2025 out to 2034, coming to 5.05%.⁵⁹ This non-utility-specific figure was adjusted to 5.65% to reflect an expected bond yield for Mr. D’Ascendis proxy group utility companies (as opposed to just using corporate bonds).⁶⁰ Mr. D’Ascendis then calculated five different equity risk premium figures using both historical data and prospective information from *Value Line*, Bloomberg, S&P Capital

⁵⁶ *Id.*, p. 25:6-13.

⁵⁷ *Id.*, p. 25:14-21.

⁵⁸ *Id.*, p. 26:1-4.

⁵⁹ *Id.*, p. 26:9-14.

⁶⁰ *Id.*, p. 26:15 – p. 27:13.

IQ, and the like.⁶¹ He then did the same for four different equity risk premiums figures for the S&P Utilities Index.⁶² Averaging these two together for both the Utility Proxy Group and the U.S. Water Universe resulted in equity risk premiums of 5.17% and 5.20% respectively.⁶³ Adding the equity risk premium to the bond yields for each proxy group resulted in cost of equity under the RPM of 10.78% and 10.85% respectively.⁶⁴

iii. Capital Asset Pricing Model (CAPM)

Mr. D'Ascendis also employed the well-established capital asset pricing model, or CAPM. This model uses a security's variability, measured by beta (β), as compared to the overall market's variability.⁶⁵ The CAPM assumes that investors require compensation only for risk that cannot be eliminated through diversification, or the systemic risk. The model is applied by adding a risk-free rate of return to a market risk premium, which is adjusted proportionately to reflect the systematic risk of the individual security relative to the total market as measured by the beta.⁶⁶ Numerous tests have confirmed the CAPM's validity.⁶⁷

Mr. D'Ascendis used two methods of calculating the beta for inputting in the CAPM to ensure that his results are reliable: (1) the average of the proxy group companies' betas as reported by Bloomberg, and (2) the average of the proxy group companies' betas as reported by *Value Line*.⁶⁸ For the risk-free rate, Mr. D'Ascendis examined the 30-year US Treasury bonds consensus forecasts through 2034, tying to utility stocks' long-term investment horizons.⁶⁹

⁶¹ *Id.*, p. 33, Table 6 (further discussion at 28:5-33:11).

⁶² *Id.*, p. 34:8 – p. 35:6.

⁶³ *Id.*, p. 35:7-11.

⁶⁴ *Id.*, p. 35:7-15, 36, Table 8.

⁶⁵ *D'Ascendis Direct*, p. 36:2-5.

⁶⁶ *Id.*, p. 36:8-15.

⁶⁷ *Id.*, p. 37:7-9.

⁶⁸ *Id.*, p. 39:25-28.

⁶⁹ *Id.*, p. 40:3-16.

Mr. D’Ascendis derived his market risk premium by averaging five separate calculations using *both* historical, data-based market risk premiums as well as prospective market-based figures – again – using redundancies to ensure the reliability of his results.⁷⁰ The average calculated to 8.58% for inputting in the CAPM.⁷¹ The CAPM and supplemental ECAPM formulae delivered an average equity return of 11.03% for the Utility Proxy Group and 11.05% for the U.S. Water Universe Proxy Group.⁷²

iv. Non-Price-Regulated Proxy Group Modeling for Reliability

As additional check and balance on his models’ results and in keeping with his practice to take measures to ensure the reliability of his results, Mr. D’Ascendis went beyond utility stocks and formulated two separate proxy groups of non-regulated companies of comparable risk (*Hope* and *Bluefield* speak to firms or enterprises of comparable risk, not necessarily *utility* firms or enterprises of comparable risk).⁷³ Mr. D’Ascendis formulated four screening criteria resulting in proxy groups of 39 non-utilities (comparable to the Utilities Proxy Group) and 42 non-utilities (comparable to the U.S. Water Universe).⁷⁴ Mr. D’Ascendis then ran his DCF, RPM, and CAPM models on these proxy groups to confirm his utility proxy group data. The results are summarized at Table 10 of his Pre-filed Direct Testimony.⁷⁵

Based on the results of Mr. D’Ascendis’ application of multiple cost of equity models to multiple proxy groups, he determined an indicated range of common equity cost rates between 9.26% and 11.54%.⁷⁶ These results comport with authorized ROEs for much larger and less risky utilities in Tennessee in the past decade. But Limestone Water’s small size and extraordinary

⁷⁰ *Id.*, p. 40:17-42, Table 9.

⁷¹ *Id.*, p. 41:17-18.

⁷² *Id.*, p. 42:3-11; Petitioner’s Exhibit DWD-6, p. 1.

⁷³ *Id.*, p. 42:12-5.

⁷⁴ *Id.*, p. 43:6 – p. 44:4.

⁷⁵ *Id.*, p. 46:1-5.

⁷⁶ *Id.*, p. 46:7-10.

business and financial risks, evidenced by the Company's \$2.6+ million accrued operating loss, indicate Limestone's eligibility for an upward, company-specific risk adjustment.⁷⁷

v. Limestone Water should be awarded a company-specific upward risk adjustment.

The record here is replete with evidence of the extraordinary risk Limestone Water faces. The systems Limestone Water has acquired are troubled: financial distress, forced capital reserve accounts, environmental challenges, persistent operating losses at present revenue levels, mechanical failures and inadequacies, and the list goes on.⁷⁸ To be sure, the Company has financial and operational risks that other utilities do not face. Sure, the utilities that comprise Mr. D'Ascendis' proxy groups have some exposure to rehabilitating troubled systems. But these challenges are only a small portion of the operations of these companies, whereas Limestone Water's acquired systems' issues are pervasive.⁷⁹

These are in addition to Limestone Water's extremely small size relative to other regulated utilities in Tennessee and to the proxy group companies. Investors generally demand higher equity returns from smaller companies. "[C]ompanies of smaller size are associated with greater risk and, therefore, have greater cost of capital."⁸⁰ In *Fundamentals of Financial Management*, Eugene Brigham discusses this small-firm effect, which he notes is bad for the small firm because "the capital market demands higher returns on stock of small firms than on otherwise similar stocks of the large firms."⁸¹

Mr. D'Ascendis undertook a quantitative analysis to determine whether a size adjustment was appropriate for Limestone Water and, if so, in what amount. To do this, Mr. D'Ascendis

⁷⁷ *Id.*, p. 47:5.

⁷⁸ See Section VII.

⁷⁹ *D'Ascendis Direct*, p. 47:21 – p. 48:2.

⁸⁰ *Id.*, p. 48:20-21 (quoting Kroll: Cost of Capital Navigator: U.S. Cost of Capital Module, "Size as a Predictor of Equity Returns," p. 1).

⁸¹ *Id.*, p. 49:12-22 (quoting Eugene F. Brigham, *Fundamentals of Financial Management*, Fifth Edition (The Dryden Press, 1989), p. 623).

analyzed the proxy group companies' size by market capitalization compared to Limestone's. He found that the median Utility Proxy Group company by size had a market capitalization 657.2 times larger than Limestone's and the median U.S. Water Universe median was 437.4 times larger than Limestone Waters.⁸²

Mr. D'Ascendis then analyzed the size premiums for NYSE, ASE, and NASDAQ listed companies ranked by deciles from 1926-2023, focusing on the size premium spread between where Limestone Water would fall (the smallest, or 10th, decile) and the 6th and 7th deciles representing the Utilities Proxy Group and the U.S. Water Universe respectively.⁸³ This analysis indicates that Limestone Water has a small-size premium spread of 3.49% compared to the Utilities Proxy Group and 3.31% compared to the U.S. Water Universe.⁸⁴ Despite this indicated 3.49% small-size risk premium, Mr. D'Ascendis recommended a conservative 1.50% increase to the results of his financial models.⁸⁵

Mr. D'Ascendis summarized his updated results and recommendations using data as of December 2, 2024, in Table 1 of his Rebuttal Testimony, reproduced below:⁸⁶

⁸² *Id.*, p. 50:1-51:3.

⁸³ *Id.*, p. 51; DWD-9, p. 1.

⁸⁴ DWD-9, p. 1.

⁸⁵ *D'Ascendis Direct*, p. 51:18-21.

⁸⁶ *D'Ascendis Rebuttal*, p. 3:4.

Table 1: Summary of Updated Common Equity Cost Rate

	Utility Proxy Group	U.S. Water Universe
Discounted Cash Flow Model	9.73%	10.26%
Risk Premium Model	10.74%	10.92%
Capital Asset Pricing Model	10.79%	11.07%
Cost of Equity Models Applied to Comparable Risk, Non-Price Regulated Companies	<u>11.23%</u>	<u>11.47%</u>
Indicated Range of Common Equity Cost Rates Before Adjustments for Company-Specific Risk	9.73% - 11.47%	
Business Risk Adjustment	1.50%	
Indicated Range of Common Equity Cost Rates After Adjustment	<u>11.23% - 12.97%</u>	
Recommended Cost of Common Equity	<u>11.90%</u>	

- vi. Mr. Rothschild's unconventional methodologies are unreliable and his results plainly violate the "comparable return" standard.

The Consumer Advocate enlisted Mr. Aaron Rothschild to support its position that only a minimal rate increase should be granted. Mr. Rothschild suggests that a reasonable range of ROEs for Limestone is 6.65% to 8.04%, with a midpoint of 7.34%.⁸⁷ While Mr. Rothschild uses some of the same models as Mr. D'Ascendis, it is his methodologies and improper inputs that lead to significantly depressed equity cost rates. Moreover, Mr. Rothschild's only check and balance on his results is to reference projections of expected returns for the overall market, which he admits "have nothing to do with this proceeding."⁸⁸ We agree that Mr. Rothschild's comparison has nothing to do with this proceeding, but the Commission should ignore these irrelevant points and instead use well-accepted methodologies to determine an authorized ROE. As demonstrated below, the Commission should not adopt Mr. Rothschild's recommendations because they violate the "comparable return" or "corresponding risk" standard of *Hope* and *Bluefield* and because the results were produced from unreliable methodologies.

⁸⁷ *Rothschild*, p. 13:1, Table 2.

⁸⁸ *Rothschild*, p. 7:23-8:3.

Mr. Rothschild's use of the DCF model is poisoned by his introduction of the novel and relatively untested "option-implied" growth rate analysis.⁸⁹ According to Limestone Water's research, Mr. Rothschild is the only person proposing using such "option-implied" growth rate methodologies in cost of capital recommendations before state utility commissions. Furthermore, Limestone Water is not aware of any prior instance of this Commission approving or adopting the use of "option-implied" growth rates. The same is true for Mr. Rothschild's use of "option-implied" beta coefficients in his CAPM model.⁹⁰

The Commission should be aware that Mr. Rothschild's use of "option implied" growth rates and beta values should not be applied to utility cost of capital models. As the Commission knows, the DCF growth rate and CAPM beta inputs are highly influential on the end results. But Mr. Rothschild fails to make clear that these derivative-based figures are only short-term estimates covering up to a six-month period and that these *contracts* do not represent investors' long-term expectations of utility common stock dividends and price growth.⁹¹ What is more, the authors of the article on which Mr. Rothschild relies explicitly stated that the short-term derivatives should not be used for cost of capital determinations: "[f]or other applications, such as cost of capital applications, longer horizon betas may be needed."⁹²

Even if short-term derivative contracts generally supplied reliable data that utility commissions should rely on for cost of capital determinations, Mr. Rothschild's specific uses of these inputs are unreliable. Mr. Rothschild used insufficient data points because more robust information is simply not available.⁹³ And much of the data Mr. Rothschild relies on is not

⁸⁹ *D'Ascendis Rebuttal*, p. 14:6-15:5.

⁹⁰ *Id.*, p. 17:10-17; *Rothschild*, p. 23, footnote 26.

⁹¹ *Id.*

⁹² *Id.*, p. 19:1-6.

⁹³ *Id.*, p. 16:7-17:2.

simultaneously available to investors, further distancing his recommendations from actual investor sentiment.⁹⁴ Additionally, Mr. Rothschild’s workpapers seem to be designed to obscure his analysis, using inconsistent formulas and layered and re-layered internal references that do not reflect clear analysis.⁹⁵

Reasonableness would teach that on top of his unconventional use of derivatives and his unclear worksheets, Mr. Rothschild would support his recommendations with tried-and-true methodologies or sources. But he does not. Rather, Mr. Rothschild resorts to “major financial institutions’ expectations for average returns for the overall market (S&P 500).”⁹⁶ But Mr. Rothschild makes no specific comparisons between the S&P 500 and any proxy group or utility as required by *Hope* and *Bluefield*. Rather, he makes broad generalizations about the riskiness of common stock investments in the S&P 500. The Commission should not give weight to these oversimplified and unsupported comparisons.

Additionally, keeping in mind that under *Hope* and *Bluefield* it is the end result that matters most, the Commission should carefully reflect on the fact that Mr. Rothschild’s unconventional DCF and CAPM analyses produce ROEs for Limestone Water that are 150-300 basis points below ROEs that this Commission has recently awarded and below what other commissions around the country have awarded.⁹⁷ Mr. Rothschild’s recommendations, if adopted by the Commission, would be the lowest non-punitive ROE set for a water utility in at least the last 15 years.⁹⁸ The only lower ROE set in that period was for Blue Granite Water Company in South Carolina. That proceeding is distinguishable and not applicable to Limestone because the South Carolina commission based

⁹⁴ *Id.*, p. 19:7-20:11.

⁹⁵ *Id.*, p. 16:1-7.

⁹⁶ *See Rothschild*, p. 16:3-7.

⁹⁷ *D’Ascendis Rebuttal*, p. 5:5 – p. 6:3 (discussing that Mr. Rothschild’s recommended ROE of 8.04% simply does not compare with other authorized ROEs for water utilities).

⁹⁸ *Id.*, p. 4:17 – p. 5:2; *see also* Limestone’s Feb. 10, 2025 Resp. to Commission’s Jan. 30, 2025 Data Request 1 and attachment “DR 1 – Chart 1 and 2 Expanded Data”.

that ROE on the company’s “persistent, widespread, and pervasive” service problems, the company’s decreased financial and business risk, and the company’s repeated recent rate increases that did not solve any of the service issues.⁹⁹ Moreover, when the South Carolina Supreme Court reviewed that decision, it noted that “the PSC specifically stated it set the ROE at the low end of the proffered ranges *in an effort to incentivize Blue Granite to improve its admittedly-poor business practices . . .*.”¹⁰⁰

From this, it should be evident to the Commission that Mr. Rothschild’s recommendations are violative of the Supreme Court’s “corresponding risk” standard. While there have been numerous public comments regarding customers’ dissatisfaction of the proposed rate increases and whether Limestone should have given additional notice beyond the required notice, there is no evidence whatsoever of “persistent, widespread, and pervasive” service problems under Limestone Water’s watch. In fact, Limestone has demonstrated its extraordinarily *high* financial and business risks, indicating a higher-than-average cost of capital. Following Mr. Rothschild’s recommendations would ignore comparable returns that have been awarded to similarly-situated water utilities and would reflect a determination that Limestone is an extremely *low-risk* company as compared to other water utilities. There is no support in the record for such a determination.

Moreover, while Mr. Rothschild readily disregarded some of his own modeling because the results were “not sufficiently higher than the cost of debt,”¹⁰¹ he ignored that his ultimate ROE recommendation is lower than Limestone Water’s parent’s recent debt issuance cost rate of 8.50%.¹⁰²

⁹⁹ *Hearing Tr., Vol. II*, p. 265:11 – p.270:11.

¹⁰⁰ *D’Ascendis Rebuttal*, p. 6:4-13 (emphasis added).

¹⁰¹ *Rothschild*, p. 12, footnote10.

¹⁰² *D’Ascendis Rebuttal*, p. 8:16-25.

In summary, adopting Mr. Rothschild’s recommendation, which are based on questionable methodologies, would be without substantial basis. What is more, Mr. Rothschild’s recommendations are well below the ROEs this Commission has authorized as well as those of other commissions around the country. Adopting his recommendations would violate the “comparable return” or “corresponding risk” standards of *Hope* and *Bluefield*. The Commission should reject Mr. Rothschild’s recommendations.

VII. ACQUISITION ADJUSTMENT RECOVERY

Through this rate case, Limestone Water seeks to establish rates for systems acquired through six different transactions. Limestone Water has typically found that the previous owners of these distressed systems will only sell if Limestone Water paid a sale price higher than the net book value of the systems. As such, the Company seeks to recover in rate base the acquisition adjustments associated with the following five transactions.¹⁰³ The acquisition adjustments are as follows:¹⁰⁴

Acquisition¹⁰⁵	Wastewater	Water	Total
Aqua Utilities	\$323,487	\$386,816	\$710,303
Candlewood		\$59,322	\$59,322
Cartwright Creek	\$1,240,278		\$1,240,278
Shiloh Falls	\$150,519		\$150,519
DSH	\$31,147		\$31,147
Total	\$1,745,431	\$446,137	\$2,191,569

Commission Rule 1220-04-14-.04 provides that “[t]he Commission may order an acquisition adjustment to be incorporated into the acquired rate base if the Commission determines

¹⁰³ See *Thies Direct*, p. 14, footnote 11 (“Importantly, consistent with previous decisions, Limestone Water has not included the acquisition adjustments in rate base. Rather, the Company is seeking to include such items in rate base.”)

¹⁰⁴ See *id.*, p. 20. The Company diligently seeks to acquire systems at the lowest possible price. Given this, the Company was able to acquire the Chapel Woods system at a price that was below net book value. As such, there is no acquisition adjustment for Chapel Woods.

¹⁰⁵ *Id.*, p. 13.

such adjustment is warranted under the circumstances and will not result in unjust or unreasonable rates and charges for the acquiring utility or for the customers.”

The rule then sets forth six (6) factors to be considered by the Commission in its determination of whether to allow recovery of an acquisition adjustment. Those factors are: (a) cost savings or increases resulting from consolidation of the selling utility's system into the acquiring utility's operations; (b) improvements in public utilities services resulting from the acquisition; (c) remediation of public health, safety and welfare concerns of the selling utility's system resulting from the acquisition; (d) incentives for acquisition of a financially or operationally troubled system, which may be demonstrated by bankruptcy, receivership, financial distress, notice of violation, order of abatement, or inability to continue as a going concern of the selling utility; (e) amount of any assets contributed or donated to the selling utility included in the proposed acquisition transaction; and (f) any other measurable benefits, costs, or service changes affecting acquired and/or existing customers resulting from the acquisition.

To demonstrate why an acquisition adjustment is appropriate in this case, the Company will first provide the policy findings that have determined that, at least as it applies to small, distressed water and wastewater systems, the recovery of acquisition adjustments represents good utility regulation. Second, the Company will address each of the enumerated factors. Finally, the Company will address the Consumer Advocate's arguments. Importantly, in this regard, the Consumer Advocate fails to address any of the factors set forth by the Commission. Instead, the Consumer Advocate simply ignores the Commission's rule and recommends that establishment of new factors that would ensure that acquisition adjustments are never recovered for the acquisition of distressed water and wastewater systems.

A. POLICY SUPPORT FOR THE RECOVERY OF ACQUISITION ADJUSTMENTS

The issue regarding the recovery of acquisition adjustments has existed for several decades. Given their single-minded focus on rates, without any consideration of the utility service offered to customers, it has been CSWR's experience that consumer advocates routinely argue that acquisition adjustments should be disallowed in favor of original cost ratemaking.¹⁰⁶ Over the course of the last couple decades, however, policymakers have realized that the minimization of rates is pointless if utility service is not safe and adequate. Given this, where an acquisition results in improvements to service and customer benefits, state utility commissions now allow for recovery of acquisition adjustments. As Mr. Duncan points out, and as is discussed in further detail below, "[f]or several decades, various utility regulatory groups have recognized the need to encourage the acquisition of small water systems by larger, better managed and well capitalized water companies. Oftentimes, this has focused on the need to allow recovery of some acquisition price over and above net book value."¹⁰⁷

Mr. Duncan's position is well established. In October 2011, the National Regulatory Research Institute ("NRRI"), the research arm of the National Association of Regulatory Utility Commission ("NARUC") succinctly framed the problem associated with regulating small water systems.

When dealing with small water systems, the traditional regulatory model breaks down, for three main reasons. First, the primary tool employed by regulatory commissions to induce improved performance is the ability to reward or penalize shareholders, thereby focusing the attention of utility management on particular issues of importance to regulators. Because many small water systems have part-time, often absentee management and part-time employees, and because these systems contribute little or no compensation to the owners, that tool is ineffective. Second, most regulatory processes and tools, including filing requirements,

¹⁰⁶ See, e.g., *Pre-Filed Direct Testimony of Consumer Advocate Division Clark Kaml*, pp. 9-11, TPUC Docket No. 24-00044 (Dec. 19, 2024) (hereinafter "*Kaml*") ("Rates should be set based on original cost, not on the acquiring price.")

¹⁰⁷ *Duncan Direct*, p. 32.

templates, and timelines, require substantial utility staff, systems, and expertise that small systems do not have. Third, at the most basic level, many small systems do not have the scale to be viable operationally and financially; therefore, no amount of regulation, incentive or otherwise, will work in the long term.¹⁰⁸

Given this problem with applying the “traditional regulatory model” to small water systems, NRRI concluded that the best means for addressing the problem is the recovery of acquisition adjustments. Additionally, NRRI concluded that while an acquisition adjustment may lead to higher rates in the short term, rates will decline over the long term as costs are spread over a larger customer base.

While some of the incremental costs of bringing the system up to par are in a sense absorbed by the economies of scale of the acquiring system, there may be an acquisition premium involved or the new system may need an infusion of capital. **The commission must recognize those costs and allow them in the cost structure of the acquiring system**, or the process of improving the small, acquired system will be offset by a deterioration, albeit much smaller in scale, of the acquiring company.

* * * * *

The consequences to the acquiring system, when looked at in isolation, are not very appealing. **But over the long term, as consolidation occurs, fixed costs and associated rates of the acquiring system decline on a unit basis as they are spread over a larger customer base.**

* * * * *

If the mandatory option is not available statutorily, commissions have a variety of incentive and penalty mechanisms to encourage acquisitions. **Potential incentives include recognition of an acquisition premium**, as well as incentive rate of return, zone rates, or phase-ins of rate increases.¹⁰⁹

The recovery of acquisition adjustments is not limited solely to the NRRI report; the treatise *Accounting for Public Utilities* also discussed situations that justify recovery of acquisition adjustments.

The reasons most commonly cited for allowing rate base treatment of acquisition adjustments are as follows:

¹⁰⁸ *Id.*, p. 31 (citing *The Small Water Company Dilemma: Processes and Techniques for Effective Regulation*, National Regulatory Research Institute, October 2011, at p. iii.)

¹⁰⁹ *Id.*, p. 33 (citing *The Small Water Company Dilemma: Processes and Techniques for Effective Regulation*, National Regulatory Research Institute, October 2011, at p. 23 (emphasis added))

- (1) when acquisitions represent an essential or desirable part of an integration of facilities program devoted to service the public better;
- (2) when acquisitions are clearly in the public interest, because operating efficiencies purchased offset the excess price over net original cost;. . . and
- (4) when acquisitions are determined to involve arm's-length bargaining,¹¹⁰

While acquisition adjustments may not be desirable to utility commissions that are focused on rates, it is important to remember that owners of small water and wastewater systems typically will refuse to sell for simply net book value. “In the ratemaking equation, rates typically encompass not only a return on capital invested, but also recovery of operating expenses. Operating expenses include salaries of employees that operate the systems, but also those that handle billing, regulatory, bookkeeping and management functions. As with many small water and wastewater systems, this may simply be the owner and possibly one other person.”¹¹¹ Recognizing that the owner of this small distressed water or wastewater system may not have another job or income stream, the “owner will not be willing to give up the operating salary for simply an acquisition price based upon net book value.”¹¹² Given this, the owner of the small distressed system “will demand some recognition of the lost income stream associated with his / her operating salary.”¹¹³ Generally then, the only incentive to get an owner to sell the distressed water system comes in the form of an acquisition adjustment.

The Tennessee Commission, and its willingness to consider the recovery of acquisitions adjustments, is in good company. For example, in 2016, the Arizona Corporation Commission issued a policy statement.

The private water utility industry in Arizona is highly fragmented and problematic. This Commission has seen first-hand the extent to which small water utilities

¹¹⁰ *Id.*, p. 34 (citing *Accounting for Public Utilities*, Hahn & Aliff, 1989, Section 4.04(2)).

¹¹¹ *Id.*, p. 35.

¹¹² *Id.*

¹¹³ *Id.*

sometimes struggle both financially and operationally. The struggles of these companies can have direct impacts on the service they provide to their customers. Consolidating the small systems through purchases by larger systems has long been proposed as a solution to the problems associated with small systems and this Commission has endorsed consolidation through purchase at various times over the past decades. We recognize that consolidation can be an effective method of solving problems associated with small systems and propose several policies here to encourage consolidation directly. . . . **To encourage the consolidation of small water utilities, it is the policy of the Commission that acquisition premiums should be allowed for acquisitions of private water systems.**¹¹⁴

Still again, the Florida Public Service Commission promulgated Rule 25-30.0371, which provides for the possibility of acquisition adjustment recovery. “A utility that acquires another utility may petition the Commission to establish an acquisition adjustment under subsection (3) or subsection (4) of this rule to include some or all of a positive acquisition adjustment in the acquired utility’s rate base.”¹¹⁵ Moreover, the Texas Public Utility Commission promulgated Rule 24.41(d) regarding the recovery of acquisition adjustments. “When a utility acquires plant, property, or equipment for which commission approval is required under §24.239 of this title, relating to Sale, Transfer, Merger, Consolidation, Acquisition, Lease or Rental, a positive acquisition adjustment will be allowed. . . .”¹¹⁶ It is clear that various utility commissions, as well as policymakers, believe that when it comes to small, distressed water and wastewater systems, public policy supports—even necessitates—an acquisition adjustment. As such, allowing an acquisition adjustment in this proceeding is entirely appropriate.

B. COST SAVINGS

It is well established that it costs more to professionally operate a system than it does to operate a failing, non-compliant water / wastewater system. As Mr. Thomas explains, “power, labor and chemical costs for a professionally operated system will necessarily be more than for a

¹¹⁴ *Id.*, p. 36; Exhibit MD-2.

¹¹⁵ *Id.*, p. 37; Exhibit MD-3.

¹¹⁶ *Id.*; Exhibit MD-4.

system in which components have failed and are not using electricity, a disinfection is broken and not using any chemicals, or professional, trained labor is not visiting a system on a regular schedule.”¹¹⁷ Additionally, a system that has been allowed to deteriorate because of a lack of system investment, “will also have a lower cost for ratemaking purpose.”¹¹⁸ Given that Limestone Water is acquiring distressed systems in dire need of professional operations, it should be expected that costs will increase. “Any expectation of a “cost savings” in this scenario is not realistic.”¹¹⁹

Nevertheless, Limestone Water has been successful in acquiring these systems and providing professional operations staff, all while limiting cost increases.

The best example of this is that, through the economies of scale that result from acquiring and consolidating multiple systems, Limestone Water was able to limit O&M costs associated with third-party professional operators. As indicated previously, Limestone Water recently completed an RFP for O&M services in Tennessee. During a period when inflation has typically been 3-4%, the monthly charge as a result of that RFP only increased by 0.95%. Further, while the three-year O&M contract includes automatic annual escalators, those escalators are only 3%, which is also below the current annual rate of inflation.¹²⁰

The Company has been successful in professionally operating these systems at an optimal level while limiting cost increases by utilizing automation. Specifically, the Company has installed remote monitoring equipment at each of its Tennessee systems. “Such equipment effectively allows the Company to monitor the operations of a system on a 24/7 basis even when operators are not at the facility. By monitoring equipment, the Company can detect problems prior to a piece of equipment failing. As such, predictive maintenance activities can avoid the need for expensive capital repairs.”¹²¹

¹¹⁷ *Thomas Direct*, pp. 144-145.

¹¹⁸ *Id.*, p. 145.

¹¹⁹ *Id.*

¹²⁰ *Id.*, p. 145. *See also Thomas Direct*, pp. 10-11.

¹²¹ *Id.*, pp. 145-146.

In fact, Mr. Thomas provides the professional opinion that “none of the systems acquired by Limestone Water would have been able to procure professional operations services at a similar cost to those attained by Limestone Water through its state-wide RFP process.”¹²² Given this, Limestone Water believes that it has minimized costs and that these systems are now being operated professionally at a cost that is less than if the system had not been acquired.

C. IMPROVEMENTS IN PUBLIC UTILITY SERVICES

In its Direct Testimony, Limestone Water documents improvements in utilities services related to: (1) customer service; (2) corporate communications; (3) environmental compliance; (4) engineering; and (5) operations.

1. Customer Service Benefits

In his Direct Testimony, Mr. Silas addresses the customer service benefits realized by customers of the systems acquired through all six acquisitions. Upon acquisition, all customers immediately receive, through CSWR’s third-party customer service provider, “live answering service. . . for all customer emergency service calls twenty-four hours a day”¹²³ In addition to the around-the-clock emergency response services, the third-party customer service provider “has a staff dedicated and trained to answer customer service and billing questions from 7:00 a.m. – 7:00 p.m.”¹²⁴

The metrics for the customer service center demonstrate the effectiveness and efficiency of those operations. “During the test year from May 1, 2023 through April 30, 2024, CSWR’s call center handled a total of 3,318 calls from Limestone Water’s customers. While processing such volumes, the call center maintained a remarkably low abandonment rate of only 0.60%, with just

¹²² *Id.*, p. 146.

¹²³ *Pre-Filed Direct Testimony of Limestone Water Witness Aaron Silas*, p. 11, TPUC Docket No. 24-00044 (July 16, 2024) (hereinafter “*Silas Direct*”).

¹²⁴ *Id.*

20 calls abandoned.”¹²⁵ Moreover, “the average speed of answer was only 15 seconds compared to a standard of less than 20 seconds, demonstrating prompt service.”¹²⁶

As Mr. Silas points out, absent the acquisition by Limestone Water and the integration of the Tennessee systems into a larger national water and wastewater utility, it would be financially impossible for these systems to provide such customer service benefits to its limited number of customers.

[T]he CSWR call center received 3,318 calls from Limestone Water customers during the test year. Recognizing that Limestone Water served approximately 2,400 connections through the test year, this amounts to less than 1 call / connection / day. It would be financially impractical for a system like DSH – Lakeside Estates, on a stand-alone basis, with approximately 50 customers, to employ a call center that is available 24 / 7 to respond to occasional customer contact.¹²⁷

Such customer service functions, impossible for these Tennessee systems on a stand-alone basis, become possible once acquired by Limestone Water and integrated within the footprint of the larger CSWR corporate structure.

[B]y consolidating the customer experience needs for these 50 Lakeside Estates customers with the customer service needs of all the other Tennessee properties, and more importantly with the needs of 165,000 CSWR connections nationwide, economies of scale are created such that all of these customers can receive this superior level of customer service. Clearly then, the customers of these smaller systems are allowed to receive the same level of customer service as customers of larger electric, gas, water and wastewater utilities.¹²⁸

2. Corporate Communications Benefits

In addition to customer service benefits, customers of newly acquired systems also realize immediate benefits associated with corporate communications functions. Upon acquisition, customers receive a Welcome Letter which includes a section describing the state of the serving

¹²⁵ *Id.*, p. 13.

¹²⁶ *Id.*

¹²⁷ *Id.*, pp. 15-16.

¹²⁸ *Id.*, p. 16.

facility. This “includes photographs of the facility, a detailed description of the system type (such as a lagoon or extended aeration plant, a summary of the system’s compliance history, and an outline of [Limestone’s] improvements plans. This is designed to immediately establish the importance of the infrastructure to customers and to set a high standard of transparency from the outset.”¹²⁹ Moreover, upon completing any construction activities, customers receive “email updates detailing the work done and the underlying need for such improvements.”¹³⁰ Finally, for long-term projects, the Company posts “community signage to increase visibility and transparency directly in the community affected by the construction projects.”¹³¹

For many of the same reasons discussed with regard to customer service benefits, it would be virtually impossible for these systems to provide such corporate communications services on a stand-alone basis.

Specifically, it would be impractical for a small system such as DSH–Lakeside Estates to staff its own internal professional corporate communications staff to address the corporate communication needs of this limited number of customers. And, even if not self-staffed by a separate, internal corporate communications staff, these functions would then most likely be outsourced or fulfilled by individuals with additional and varied responsibilities within other areas or involving other functions, such as customer service, billing, regulatory and operations. As such, the responsibilities are not met by individuals with the same level of expertise as those within a larger utility. By acquiring and integrating these systems and small customer bases into a nationwide utility, these customers can receive the same level of service as that provided by a larger utility.¹³²

Clearly then, customers of acquired systems receive benefits associated with their integration into CSWR family of utilities.

3. Environmental Compliance Benefits

¹²⁹ *Id.*, p. 6.

¹³⁰ *Id.*

¹³¹ *Id.*

¹³² *Id.*, pp. 16-17.

It is well established that the environmental regulation of water and wastewater utilities is becoming “increasingly stringent”.¹³³ The increasingly stringent nature of environmental regulations has made it exponentially more difficult for small water and wastewater utilities to digest such regulations, understand the capability of their facilities to meet such regulatory standards, and, in the event the facilities need upgrades, finance the construction projects necessary to meet such standards.¹³⁴

As a result, however, of the integration of the recently acquired systems into Limestone Water, and into an even larger CSWR corporate structure, customers are assured that their water and wastewater systems meet such stringent environmental standards. Benefits are also realized through compliance with more recent environmental regulations. For instance, the Environmental Protection Agency (“EPA”) recently promulgated regulations associated with Per and Polyfluoroalkyl Substances (“PFAS”). The presence of PFAS in water is a concern as they are “bioaccumulative” and are “toxic at relatively low (parts per trillion) levels.”¹³⁵ As a result, the EPA established a maximum contaminant level (“MCL”) for PFAS, a timeline for PFAS testing, and a deadline for achieving compliance with the newly established MCL. As Mr. Duncan describes, Limestone Water is aware of the regulations, has researched the requirements of the rule, and is on schedule to achieve compliance at its Tennessee water systems.¹³⁶

In addition to the PFAS regulation, the EPA also issued its Lead and Copper rule to control lead and copper in drinking water. As a result of the rule, water suppliers are required “to conduct an initial service line inventory of lead service lines” and to “notify persons of known or potential

¹³³ *Duncan Direct*, p. 25. (“As a result of authority granted to various state and federal agencies, small water and wastewater systems are facing an increasingly stringent and, oftentimes, complex system of environmental requirements and regulations.”)

¹³⁴ *Id.*, p. 21 (“[M]ost small water and wastewater systems do not have the technical expertise to ensure compliance with the myriad governmental regulatory requirements.”)

¹³⁵ *Id.*, p. 25.

¹³⁶ *Id.*, p. 26.

lead services lines.”¹³⁷ Again, Limestone Water is on schedule to achieve compliance with this new environmental regulation.¹³⁸ Given the existence of the Limestone Water EHS team, it is not in question that the Company has brought customer benefits in the area of environmental compliance.

4. Engineering Benefits

In his Pre-filed Direct Testimony, Mr. Freeman describes the nature of the engineering benefits received by customers as a result of their integration into Limestone Water and CSWR. For instance, Mr. Freeman discussed the engineering work underway to address the rehabilitation of the Grassland wastewater facility acquired as part of the acquisition of Cartwright Creek. Given the severe deterioration and the undersized nature of that facility, Limestone Water will have to entirely replace the Grassland facility. In this regard, it was important that the new facility be capable of meeting stringent total nitrogen and phosphorus limits. After a thorough assessment, Limestone Water intends to replace that facility with an aerobic granular sludge treatment facility. The total estimated cost of construction, design, and permitting is \$12.4 million.¹³⁹

Given these professional engineering services being dedicated to Limestone Water systems, it is clear that customers are receiving benefits. As Mr. Freeman points out, “it is very clear, given the age and condition of the Grassland wastewater treatment plant, that the previous owners were satisfied simply letting that facility continue to deteriorate and ignoring treatment limits.”¹⁴⁰ Given the financial condition of the previous owner, the Commission established a financial security escrow by which customers would have been required to provide upfront

¹³⁷ *Id.*, pp. 26-27.

¹³⁸ *Id.*, p. 27.

¹³⁹ *Freeman Direct*, pp. 31-36.

¹⁴⁰ *Id.*, p. 43.

financing for the design, permitting, and construction of the Grasslands project.¹⁴¹ Recognizing, however, that Limestone Water possesses the expertise and ability to design, permit, and finance the Grasslands rehabilitation, customers are receiving benefits.

[A]s with most small water / wastewater systems, the upfront financing of a project like Grassland can be a formidable undertaking. Specifically, many owners of small water / wastewater systems lack the financial means to finance such a project. For this reason, owners may look to customers to assist with the financing of the construction project. As part of Limestone Water, however, the financing for this construction project will be financed upfront by the Company and simply recovered in rates.¹⁴²

Professional engineering services are also being dedicated to the Shiloh Falls system where the spray field needs to be expanded.¹⁴³ While discharge has historically been sprayed onto a nearby golf course for irrigation, the golf course has terminated that arrangement. As a result, previous owners discharged on an undersized piece of nearby property. As Mr. Freeman describes, the current spray field is “woefully inadequate”.¹⁴⁴ Given this, the Tennessee Department of Environment and Conservation (“TDEC”) mandated “that the facility develop and implement a plan to create a new spray field.”¹⁴⁵ Given the undersized nature of the spray field as well as the pending TDEC mandate, the Company is coordinating with TDEC to facilitate the design and permitting of a spray field.¹⁴⁶

Given the technical expertise residing at Limestone Water, the Shiloh Falls project “has ready access to professional engineering services at CSWR as well as CSWR’s extensive experience with managing systems like Shiloh Falls.”¹⁴⁷ Moreover, the “solution to the Shiloh Falls drain field will be financed by Limestone Water. For a system the size of Shiloh Falls, with only

¹⁴¹ *Thies Direct*, pp. 37-38.

¹⁴² *Freeman Direct*, p. 45.

¹⁴³ *Id.*, pp. 36-40.

¹⁴⁴ *Id.*, p. 37.

¹⁴⁵ *Id.*, p. 37.

¹⁴⁶ *Id.*, p. 40.

¹⁴⁷ *Id.*

327 connections, financing the cost of such an upgrade can be daunting.”¹⁴⁸ That said, however, as a result of the acquisition, this project will now be financed by Limestone Water and recovered in rates.¹⁴⁹

Additionally, Mr. Freeman discussed the project being managed by CSWR engineering to address a requirement for a redundant well at Candlewood Lakes. Recognizing that TDEC regulations require a duplicate pump for community water systems serving 50 connections, Limestone Water needs to drill a new redundant well.¹⁵⁰ The Company is in the process of bidding the project to drill the redundant well.

Mr. Freeman posits that the prior owner “did not possess the managerial, technical, nor financial means to address” the requirement to design and drill a redundant water well.¹⁵¹ Given that these services are now being provided by Limestone Water engineers, customers have seen benefits associated with engineering services.

5. Operational Benefits

In his Direct Testimony, Mr. Thomas provides the nature of the operational benefits received by Limestone Water customers. In order to allow the Commission to make decisions on the recovery of acquisitions adjustments on an acquisition basis, the Company documents the operational benefits for each of the five acquisitions for which it seeks an acquisition adjustment.

► Aqua Utilities: The Aqua Utilities acquisitions, consisting of both a water and wastewater system, closed on March 18, 2021, and represented the Company’s first acquisition in

¹⁴⁸ *Id.*, p. 46.

¹⁴⁹ *Id.*

¹⁵⁰ *Id.*, p. 41.

¹⁵¹ *Id.*, p. 47.

Tennessee. Since that time, the customers of the Aqua Utilities systems have realized numerous operational benefits.¹⁵²

For instance, most notable for the Aqua wastewater system, Limestone Water: (1) began operating the non-functioning lagoon aeration system which has resulted in cleaner effluent to the spray irrigation system and the breakdown of sludge in the lagoon; (2) replaced the structure housing the blower and disinfection equipment; (3) removed, in lieu of replacement, the unnecessary UV disinfection system; (4) restored the functionality of the effluent discharge lift station by removing accumulated sludge; (5) repaired valving in spray field; (6) upgraded the faulty electrical system; (7) placed the sand filter back into service to aid in meeting suspended solids permit limits; (8) made overall system improvements including removal of trash, repair to damaged fencing, and vegetation management; (9) repaired the 43 lift stations including the removal of accumulated sludge, improvements to power controls, installation of redundant pumps, and assembling surrounding fencing; and installed remote monitoring equipment.¹⁵³

Relative to the Aqua Utilities water system, all improvements were focused on the distribution system. Recognizing that the Aqua Utilities water system purchases water on a wholesale basis from the Savannah Utility Department, the system consists solely of a master meter connection, distribution system, and various isolation valves, flushing hydrants, and sample ports.¹⁵⁴ Nevertheless, various operational repairs were necessary. For instance, Limestone Water has worked diligently to repair water main and line breaks to reduce lost and unaccounted for water from 49.94% to 18.45%.¹⁵⁵ Limestone Water operational personnel have also worked to identify

¹⁵² See *Thomas Direct*, pp. 18-35.

¹⁵³ *Id.*

¹⁵⁴ *Id.*, p. 129.

¹⁵⁵ *Id.*, p. 130; See also *Rebuttal Testimony of Limestone Water Witness Aaron Silas*, p. 11, TPUC Docket No. 24-00044 (Jan. 13, 2025) (hereinafter “*Silas Rebuttal*”).

isolation valves and exercise such valves so that they are operational in the event of a system leak. Finally, the Company replaced the roof on the master meter structure and installed remote monitoring equipment.¹⁵⁶

► Cartwright Creek: The Cartwright Creek acquisition consisted of four separate wastewater facilities (Arrington Retreat, Grassland, Hardeman Springs, and Hideaway). Each of the facilities required significant operational attention that has resulted in benefits to customers. At pages 36-45 and 148 of his Direct Testimony, Mr. Thomas discusses the operational improvements undertaken at Arrington Retreat. This included the following improvements and repairs to the Arrington Retreat system: (1) aeration system - which had not been well maintained and where a flow meter was not functional and the variable frequency drive on the effluent pump had been damaged; (2) lagoon liner – that had been damaged by animals and unsecured from the berm, leading to berm erosion; and (3) land application area which was plagued by damaged valves and leaky lines. As a result of these operational activities, this system is now fully functional.¹⁵⁷

The operational improvements and planned engineering improvements at the Grassland system were much more extensive. The Grassland facility is over 50 years and has reached the end of its useful life. Steel infrastructure had been allowed to deteriorate to the point that tanks (the digester versus the aeration basin) did not properly maintain separation of wastewater at various stages in the treatment process. Deterioration was also prevalent in the aeration piping, air drops, and diffusers. Moreover, the system was plagued by heavy inflows and infiltration which peak flow in excess of six times the design flow. As a result, the Grassland facility struggled to meet permitted limits for BOD, total nitrogen, dissolved oxygen, suspended solids, total residual chlorine and E. coli. While a long-term solution is in the permitting stage, Limestone Water has

¹⁵⁶ *Id.*, pp. 131-133.

¹⁵⁷ *Id.*, pp. 36-45, 148.

taken short-term measures at the system which are already providing “improvements in utilities services.” For instance, since it was acquired, the Company has: (1) made numerous repairs to the aeration system including the replacement of a failed blower and the repair of leaks in air headers, drop pipes, and air lines; (2) pumped significant volumes of sludge from the primary treatment basin, clarifier, chlorine contact chamber, sludge return, and filtration tanks; (3) commenced chemically enhanced secondary treatment efforts to improve the settling of solids and to promote better floc formation; (4) upgraded and improved various components to the electrical system including wiring, connections, controllers, and components; and (5) replaced many portions of broken and deteriorated wastewater piping with PVC as a short-term fix until a replacement plant is completed.¹⁵⁸

The Hardeman Springs system also required several repairs. These repairs primarily focused on the: (1) UV disinfection system where quartz sleeves and UV bulbs required replacement; (2) drain field where a damaged air release valve prevented wastewater flow to the drain field; (3) electrical repairs to the effluent pumping system; and (4) collection system main breaks, damaged service lines, grinder pumps and septic tanks.¹⁵⁹

Because it was constructed much more recently than Grassland, the Hideaway system did not require significant construction improvements. That said, however, when it was originally placed in service, the system was not operated properly. As a result, the operational improvements provided by Limestone Water resulted in immediate benefits. Specifically, as a result of a developer-designed and developer-funded expansion project, much of the Hideaway system is fairly new. That said, however, despite the age of the system, the expansion presented numerous operational problems that would have been very difficult for any owner to address that lacked

¹⁵⁸ *Id.*, pp. 46-70, 148-149.

¹⁵⁹ *Id.*, pp. 70-77, 149.

professional operational, managerial and technical experience. The expansion was overly sophisticated, over-sized, and was victimized by a prior decision to eliminate automation and, instead, relied upon expensive full-time operators. Additionally, reflecting prior operators' inability to properly operate and maintain the expansion, upon acquisition Limestone Water had to: (1) make modifications to prevent nuisance solids from entering the system; (2) repair a broken polymer injection system; (3) upgrade the feed pump for clarifier system; (4) repair the VFD on the system blower; (5) modify the influent lift station; and (6) upgrade power monitoring and control systems. Problems at Hideaway were not limited to the system expansion. The original portion of the Hideaway system required upgrades to the power and control systems for the disinfection system; increased capacity pumping systems and power and control components for the drain field; repairs to leaky drain field distribution lines and damaged valve boxes; and attention to main breaks, damaged service lines and issues with grinder pumps. Clearly, Limestone Water was able to bring a level of professional management and technical attention that was lacking at Hideaway prior to acquisition.¹⁶⁰

► Shiloh Falls: Relevant to the Shiloh Falls acquisition, Limestone Water made a number of improvements to utilities services that now allow this system to operate at its optimum. Specifically, the Company made numerous improvements to the Shiloh Falls collection system including repairs to broken service lines, replacement of missing pumps in lift stations, pumping of impacted sludge in lift stations and installation of backflow devices to prevent reverse flow into customer septic tanks. In addition, the Company replaced faulty bulbs and ballasts in the UV disinfection system. While the spray field will need expansion/replacement, Limestone Water made improvements to utilize the undersized drain field in an optimal manner. This included the

¹⁶⁰ *Id.*, pp. 77-88, 149-150.

repair of broken distribution lines, replacement of faulty pressure relief valves to relieve air lock conditions, repair and replacement of spray heads, and elimination of excess vegetation from the spray field. Finally, the Company returned the sand filter to service, removed sludge from the strainers, and increased the lagoon pump to facilitate flow through the strainers and disinfection system. All of these repairs were presumably known to previous ownership, but given the existence of such problems, it is apparent that they went unaddressed. Limestone Water's acquisition then provided improvements in utilities services to customers.¹⁶¹

► DSH – Lakeside Estates: While only owned by Limestone Water for a short period of time, the Company has already made upgrades to the system that provide improvements in public utilities services for customers. Of utmost importance, Limestone Water has noticed that a number of the STEP systems were installed incorrectly. As a result, these facilities at the customer premises, when malfunctioning, can cause backups into the customer's home or overflows into the yard. In less than a year, Limestone Water has made numerous repairs and reconfigurations to grinder station power, pumping, and control systems. Related to system treatment, the Company has also made a number of improvements. Specifically, the Company has made repairs to the dosing system that pumps wastewater through the media filters and to the drain field. Previous ownership had allowed pumps and pipes to fall into a state of disrepair. As a result, wastewater was not distributed properly through portions of the media filter and to the discharge field. Limestone Water immediately made repairs and improvements to these failed systems. Given these corrections, the Company believes that the system is running at its optimal level and that failings that, left unattended, could turn into significant problems, have been remedied. As a result,

¹⁶¹ *Id.*, pp. 104-122, 151-152.

customers have not only seen improvements in public utilities services but, given that they are now avoiding long-term expensive repairs, they have also realized cost savings.¹⁶²

► Candlewood Lakes: In addition to the work to address the TDEC requirement to have a redundant well,¹⁶³ operational improvements have also been made at Candlewood Lakes. Specifically, repairs have focused on (1) the installation of a new protective housing on the existing well, (2) overhauling of the disinfection pump, chlorine feed line, insertion port, and chlorine residual testing equipment, (3) repairs to the storage tank overflow drain line and storage tank level sensors, (4) identification and repair of distribution system leaks and isolation valves, (5) repairs to site fencing and security and vegetation management, and (6) the installation of remote monitoring equipment.¹⁶⁴

D. REMEDIATION OF PUBLIC HEALTH, SAFETY AND WELFARE CONCERNS

In the previous section, Limestone Water documented the environmental compliance benefits realized by customers associated with the Company's system acquisitions. In short, these benefits include improved compliance with an increasingly stringent system of environmental regulations. Additionally, the Company is on schedule towards timely compliance with recent PFAS and lead / copper regulations.

Moreover, the Company has taken tremendous steps towards remediation of violation notices that had been issued by TDEC at the time of acquisition. For example, as explained in the following section, the following systems were all in violation of TDEC rules and regulations: (1) Candlewood Lakes – despite having more than 50 customers, the Candlewood Lakes system failed to have a redundant drinking water well, (2) Aqua Utilities – the sand filter system had been

¹⁶² *Id.*, pp. 123-133, 152-153.

¹⁶³ *Freeman Direct*, pp. 41-42.

¹⁶⁴ *Thomas Direct*, pp. 133-143.

removed from service from the wastewater system without a TDEC permit modification, and (3) Shiloh Falls –Shiloh Falls was under a TDEC order to develop and implement a plan to create a new spray field that is engineered to adequately support and absorb the water dispersed from the Shiloh Falls facility without ponding or runoff.

E. INCENTIVES FOR ACQUISITION OF OPERATIONALLY TROUBLED SYSTEMS

Reflecting the reasoning inherent in the NRRI report,¹⁶⁵ the Commission’s acquisition adjustment rule considers the ability for acquisition adjustment recovery to incentivize the acquisition of “financially distressed or operationally troubled systems.”¹⁶⁶ Each of the five acquisitions for which Limestone Water seeks an acquisition adjustment was either financially and / or operationally troubled, which can be especially demonstrated by the systems’ financial distress and receipt of Notices of Violations.

For instance, prior to their acquisition by Limestone Water, customers of both the Cartwright Creek and DSH systems were charged a monthly fee for a financial security escrow to ensure that funds were available for extraordinary expenses or necessary capital projects.¹⁶⁷ Indeed, since at least 2009, it appears that previous owners of Cartwright Creek refused to invest for any capital projects and relied instead on the financial security escrow. Specifically, in the 2009 Cartwright Creek rate case, the Consumer Advocate recommended that all depreciation expense be disallowed as all Cartwright Creek plant-in-service is “contributed plant.”¹⁶⁸ This same

¹⁶⁵ *Duncan Direct*, p. 33 (citing *The Small Water Company Dilemma: Processes and Techniques for Effective Regulation*, National Regulatory Research Institute, October 2011, at pp. iii and 33) (“When dealing with small water systems, the traditional regulatory model breaks down.” “If the mandatory option is not available statutorily, commissions have a variety of incentive and penalty mechanisms to encourage acquisitions. **Potential incentives include recognition of an acquisition premium.**”)

¹⁶⁶ 1220-04-14-.04(2)(d).

¹⁶⁷ *Thies Direct*, pp. 31-32.

¹⁶⁸ *Id.*, p. 35 (“Since at least 2009, there appears to have been concerns with Cartwright Creek’s ability or willingness to fund capital improvements. For instance, in 2009, Mr. Dave Peters, on behalf of the Consumer Advocate and

concern was repeated in the 2016 Cartwright Creek rate case. There, the Commission Staff disallowed depreciation expense as all plant is either fully depreciated or contributed.¹⁶⁹ “Thus, between 2009 and 2016, it is apparent that the Cartwright Creek shareholders had not invested any capital into those systems. As such, to the extent that any capital improvements were made, they must have been provided by ratepayers through the financial security mechanism.”¹⁷⁰

Similarly, previous owners of DSH refused to invest in that wastewater system. In the context of the Limestone acquisition application to acquire DSH, the CAD witness pointed out that “all [DSH] UPIS was either contributed to DSH or funded with the use of Escrow funds.”¹⁷¹ The Candlewood Lakes homeowners’ association did not have either the financial ability to invest in the water system, or the technical ability to prevent its water system from becoming an “operationally troubled system.” Mr. David Kennamore, the President of the property owners’ association, stated in an affidavit that Candlewood Lakes did “not have the financial resources to satisfy that applicable state water system compliance requirements and the necessary repairs, maintenance and upgrades.”¹⁷² Furthermore, as Mr. Thomas explains, prior to its acquisition, the Candlewood Lakes system “was issued a Notice of Violation...for failing to provide a secondary water source.”¹⁷³ For this reason, Limestone Water is in the process of designing, permitting, and drilling a secondary well at Candlewood Lakes.¹⁷⁴

Protection Division (“CAPD”) of the Office of the Attorney General, filed testimony which, among other things, eliminated any amount of depreciation expense. As he noted at that time, “CAPD has eliminated this [proposed depreciation expense] due to the fact that all of the plant-in-service of the Company is contributed plant.” (emphasis added).

¹⁶⁹ *Id.*, p. 36.

¹⁷⁰ *Id.*

¹⁷¹ *Id.*, p. 37 (citing Direct Testimony of Alex Bradley, p.4, TPUC Docket No. 23-00016 (Aug. 7, 2023)).

¹⁷² *Petition for Reconsideration of Limestone Water Utility Operating Company, LLC of the Commission’s Order Approving Settlement Agreement and Transfer of Systems, Granting Certificate of Convenience and Necessity, and Disallowing Continuation of Candlewood Lakes POA’s Water Availability Fee, Affidavit of J. David Kennamore*, p. 2, TPUC Docket No. 21-00059 (Jan. 20, 2023). *See also Notice of Official Administrative Notice*, p. 1, TPUC Docket No. 24-00044 (Feb. 19, 2025) (taking official administrative notice of Docket No. 21-00059).

¹⁷³ *Thomas Direct*, p. 134.

¹⁷⁴ *See Freeman Direct*, pp. 41-42.

Moreover, the Aqua Utilities system was “operationally troubled.” As indicated by Mr. Silas, prior to this rate case, the most recent data indicated that the Aqua system reported a “lost and unaccounted for water” percentage of 49.94%.¹⁷⁵ The Tennessee Board of Utility Regulation, the Commission’s predecessor regulatory agency, characterized a water loss above 40% as excessive.¹⁷⁶ As a result of operational improvements conducted by Limestone Water, that water loss percentage has been reduced to 18.45%.¹⁷⁷

Similarly, the Aqua Utilities wastewater facility was in violation of TDEC regulations as a result of the bypass of the sand filter without a permit modification or informing TDEC that the treatment process had been bypassed.¹⁷⁸ Since its acquisition of the Aqua Utilities facility, the Company has worked with TDEC, including submitting a permit modification, to allow it to properly remove the sand filter from service.¹⁷⁹

Finally, in its most recent permit renewal cycle prior to acquisition by Limestone Water, the Shiloh Falls system had been mandated by TDEC “to develop and implement a plan to create a new spray field that is engineered to adequately support and absorb the water dispersed from the Shiloh Falls facility without ponding or runoff.”¹⁸⁰ Given this, the Company is “coordinating with TDEC to facilitate the design and permitting of a spray field.”¹⁸¹

F. AMOUNT OF ASSETS CONTRIBUTED

Commission Rule 1220-04-13.07 provides that, in instances where wastewater utilities are incapable of establishing financial security, for the establishment of a financial security escrow to

¹⁷⁵ *Silas Rebuttal*, p. 11.

¹⁷⁶ *Id.*, p. 12. (citing *Board orders*. Comptroller of the Treasury - Comptroller.TN.gov. (n.d.). <https://comptroller.tn.gov/boards/utilities/utility-reporting/board-orders.html>.)

¹⁷⁷ *Id.* See also *Thomas Direct*, p. 130-131.

¹⁷⁸ *Thomas Direct*, p. 28.

¹⁷⁹ *Id.*

¹⁸⁰ *Freeman Direct*, p. 37. See also *Thomas Direct*, pp. 110-112.

¹⁸¹ *Id.*, p. 40.

be financed by customers. “The Commission may review the financial condition of any public wastewater utility at any time to determine whether a reserve / escrow account balance is adequate or an account should be established.”¹⁸² “The public wastewater utility’s tariff shall set forth the specific amount charged to customers to fund the reserve / escrow account.”¹⁸³ Proceeds maintained in the financial security escrow can then be used for “paying for or reimbursing the utility for extraordinary expenses of the utility or for necessary capital projects.”¹⁸⁴

Given the lack of financial security of the previous owners, the Commission established financial security escrows for both the Cartwright Creek and DSH systems.¹⁸⁵ As a result of the lack of financial expertise on the part of the previous owners and the establishment of a financial security escrow, a significant portion of the rate base associated with these two systems is contributed.

As a result of the acquisition by Limestone Water and its ability to finance capital needs and ongoing operations, the Company has asked to terminate the financial security escrows for both of these systems.¹⁸⁶ That means, customers of these two systems will no longer be required to fund these financial security escrows. Therefore, customers are realizing a definite benefit associated with the acquisition by Limestone Water.

Given this, it is apparent that each of the five acquisitions for which the Company paid an acquisition premium was either “financially or operationally troubled.”

¹⁸² 1220-04-13-.07(6).

¹⁸³ 1220-04-13-.07(7).

¹⁸⁴ *Id.*

¹⁸⁵ *Thies Direct*, p. 33.

¹⁸⁶ *See* Section XI.

G. ACQUISITION ADJUSTMENTS WILL NOT RESULT IN UNJUST RATES

The Commission's acquisition adjustment rule requires that the acquisition adjustments "not result in unjust or unreasonable rates and charges for the acquiring utility or for customers."¹⁸⁷ In his Direct Testimony, Mr. Thies points out that acquisition adjustments impact the revenue requirement in two ways. First, as acquisition adjustments are amortized, the resulting amortization expense would be added to cost of service. Second, since acquisition adjustments are included in rate base, they would earn a return for Company shareholders.¹⁸⁸ Mr. Thies then explains that adding the impact from both return and amortization expense "yields an average monthly increase of \$10.80 per sewer customer and \$10.70 per month for water customers."¹⁸⁹

H. CONSUMER ADVOCATE'S ARGUMENTS

As detailed in the previous sections, Limestone Water has strictly applied the acquisition adjustment factors as set forth in Commission Rule 1220-04-14-.04. Based upon these factors, Limestone Water asserts that, as a result of benefits received by customers, it is entitled to recover its acquisition adjustments.

In contrast to the Company's steadfast application of the rule, the Consumer Advocate "does not address the Commission's enumerated criteria."¹⁹⁰ In lieu of the factors in the Commission's promulgated rule, the Consumer Advocate instead advocates for "criteria that it recommends be used to determine whether a **portion of the gain on the sale should be assigned as a benefit to utility customers**."¹⁹¹ As set forth by Mr. Kaml, the four (4) preferred criteria are:

1. Will the related Acquisition Premium be recoverable from ratepayers?
2. Has the selling utility provided quality service to ratepayers?
3. Has the selling utility invested necessary capital into the system?

¹⁸⁷ 1220-04-14-.04(1).

¹⁸⁸ *Thies Direct*, p. 19.

¹⁸⁹ *Id.*

¹⁹⁰ *Duncan Rebuttal*, p. 11 (citing *Consumer Advocate's Response to Limestone Water's DR 1-12*).

¹⁹¹ *Id.* (citing *Kaml*, p. 9) (emphasis added).

4. Will rates increase as a result of the proposed transaction?¹⁹²

The CAD's decision to forego discussion of the Commission's enumerated criteria in favor of conditions predetermined to lead to the exclusion of the acquisition premium is unsettling.

[T]he reason that the Commission issued a rule regarding the criteria for the recovery of acquisition adjustments is so that parties will know, in advance of an acquisition, the standard by which acquisition adjustments will be assessed. In this case, since the Commission has promulgated a rule on the matter, Limestone Water executed acquisitions believing that it had a clear understanding of the "lay of the land" with regard to this issue. It is certainly disconcerting for CAD to now disregard the Commission's established criteria.¹⁹³

In discovery, the Consumer Advocate readily acknowledged that it is "not aware of any proceedings in which the specific criteria have been adopted as specifically stated."¹⁹⁴ Instead, the Consumer Advocate justifies its disregard for the Commission's acquisition adjustment rule by pointing to Commission decisions involving the gain on the sale of a portion of a utility's assets.¹⁹⁵

As Mr. Duncan points out, the practical effect of the Consumer Advocate's test would be to create a gain on the sale of utility assets that would exactly offset the acquisition adjustment.

Ultimately CAD's proposal to assign the gain on sale realized by the seller to the buyer effectively neuters the entire purpose of the Commission's acquisition adjustment rule. As an example, if a seller realized a \$100 gain on the sale of its utility system, CAD would preclude the Commission from allowing the buyer to recognize that acquisition adjustment by simultaneously creating an accounting entry that would offset the entirety of the acquisition adjustment with a "gain on sale" accounting entry – a gain the acquiring utility never realized.¹⁹⁶

While acknowledging that its desired factors have never been "adopted as specifically stated," the Consumer Advocate attempts to buttress its position by making generalized references to two prior Commission decisions: (1) A+ Communications, Inc. and (2) Kingsport Power

¹⁹² *Kaml*, p. 9.

¹⁹³ *Id.*

¹⁹⁴ *Duncan Rebuttal*, p. 12 (citing *Consumer Advocate's Response to Limestone Water's DR 1-03*).

¹⁹⁵ *Kaml*, p. 11.

¹⁹⁶ *Id.*, p. 13.

Company. However, both of the referenced cases involved the sale of a portion of a utility's assets by a utility that continued to be regulated by the Commission; therefore, they are significantly different than the immediate situation.

For instance, in the A+ Communications, Inc. decision referenced by CAD, the regulated utility (South Central Bell Telephone) sought to sell to A+ Communications its assets related to paging services. In the order, however, the Commission recognized that South Central Bell would continue to provide "general local exchange telephone service." As such, the issue regarding the treatment of the gain on the sale of the paging assets was a viable issue. For this reason, the Commission ordered the seller, which remained a regulated entity, to recognize the gain in its intrastate regulated results. Noticeably, unlike the manner in which CAD wants to treat the issue in this case, the gain on the sale of property was applied against the seller and not the acquiring entity.¹⁹⁷

Similarly, in the referenced Kingsport Power Company case, Kingsport sold a service building. That said, as with South Central Bell, Kingsport remained a regulated entity. For this reason, while the Commission order addressed "the deferred gain related to the sale of the company's service building", it applied that gain against the selling entity and not against the acquiring company.¹⁹⁸

Therefore, in both cases, since the selling entity only sold a portion of its utility assets, the selling entity continued to exist and, most importantly, remained subject to the Commission's regulation - including the jurisdiction to determine how the selling entity would record the gain on the sale of the utility assets. Therefore, neither case stands, as the Consumer Advocate now

¹⁹⁷ *Duncan Rebuttal*, p. 14.

¹⁹⁸ *Id.*, p. 15.

implies, for the proposition that the gain on the sale of utility assets should be used to offset the revenue requirement of the *purchasing entity*, which realized no such gain.¹⁹⁹

Besides the obvious illogical inapplicability of the CAD's proposed test, it is unclear how each of the factors inform the decision at hand. Specifically, while CAD proposes the four criteria, it never actually applies them to this situation. As such, it is unclear whether the existence of any of these factors weigh in favor or against an acquisition adjustment. Rather, while advocating for such factors, the Consumer Advocate is silent on their applicability and, instead, launches into a discussion on the benefits of original cost rate making.²⁰⁰

In any event, two of CAD's criteria – has the selling utility provided quality service to ratepayers and has the selling utility invested necessary capital into the system – inform the matter here. In fact, in its direct testimony, Limestone Water provides indisputable proof that: (1) the selling utilities were not providing quality service, (2) were incapable of providing quality service, and (3) lacked the financial resources to invest necessary capital into the system. Seemingly then, rather than allowing for the recovering of an acquisition adjustment, which allows for the replacement of the previous owner with a competent provider, CAD would use these criteria to saddle customers with the same poor-quality service that threatens their health and the environment.

As regards CAD's fourth proposed criterion – will rates increase as a result of the proposed transaction – it is inevitable that for many systems rates will increase following the transaction. In most cases, this rate increase is not entirely attributable to the transaction, but rather to the fact that prior owners failed to seek timely rate recovery as costs and investment increased. For instance,

¹⁹⁹ As Mr. Duncan explained, the Consumer Advocate's recommendation to have the buyer record the seller's gain on the sale of property is illogical. "[I]t is unheard of under GAAP to record both the buyer's and seller's positions in an arms-length transaction on the buyer's books." *Duncan Rebuttal*, p. 15, footnote 19.

²⁰⁰ *Kaml*, pp. 11-12.

rates for Shiloh Falls have not changed since its last rate case before the Tennessee Regulatory Authority in April 2007. Thus, it is disingenuous for CAD to attempt to use past owner's failure to timely seek rate increases as a tool to disallow the acquisition of the system and the future recovery of the acquisition adjustment.

I. PREVIOUS CONSUMER ADVOCATE ASSERTIONS

Interestingly, while disregarding the Commission's acquisition adjustment rule in favor of an obviously irrelevant inquiry, the Consumer Advocate has previously acknowledged that acquisition adjustments are appropriate for the acquisition of small systems that lack access to capital. Specifically, in TPUC Docket No. 20-00025, the Commission considered the promulgation of rules related to utility acquisitions. Among other rules considered therein, the Commission addressed the current rule related to acquisition adjustments (1220-04-14-.04). While CAD did not deviate from its preference for original cost ratemaking, CAD did recognize that acquisition adjustments are appropriate for acquisitions such as those considered by the Commission in this docket. "To the extent unique rate base valuation techniques are appropriate, they should only be applied to small systems that often suffer from shortage of capital."²⁰¹ Notwithstanding this expressed recognition of the CAD in TPUC Docket No. 20-00025, coupled with the Commission's actual adoption of its acquisition adjustment rule, CAD Witness Mr. Kaml nonetheless somehow maintains, with respect to Limestone Water's request for acquisition adjustments, that there are no circumstances under which the Commission should even consider an acquisition adjustment.²⁰² In essence, Mr. Kamel is contending that the Commission should not

²⁰¹ *Duncan Direct*, pp. 16-17 (citing *Reply Comments of the Consumer Advocate Concerning Proposed Acquisition Rules*, p. 2, TPUC Docket No. 20 00025 (April 8, 2021)).

²⁰² *Kaml Pre-filed Testimony*, p. 24:24 (As concerning the request for acquisition adjustments, Mr. Kaml testified that "[r]ates should be set based on original cost, not on the acquiring price."); and *id.*, p. 11:19-20 (With regard to Limestone Water's request for acquisition adjustments, CAD Witness Mr. Kaml testified that "[a] fundamental premise of utility rate regulation for a monopoly is the use of original costs for rate setting.").

have the discretion to grant an acquisition adjustment and that the Commission erred in promulgating this rule. While Mr. Kaml noted that there are ways other than an acquisition adjustment to encourage sale, he offered none to the Commission.

As Mr. Duncan points out, it is undisputed that the acquisitions to be considered in this case each meet the Consumer Advocate's requirement that each "suffer from shortage of capital."

As documented throughout Limestone Water's direct testimony, the systems it acquired were all troubled systems. In fact, in their Direct Testimony, Messrs. Thomas and Freeman document the numerous operational problems faced by the systems acquired by Limestone Water. Additionally, as Mr. Thies explains, customers of the Cartwright Creek and Lakeside Estates – DSH systems were paying a separate charge associated with a financial security escrow. The existence of such escrows epitomizes a troubled system as these escrows are only created for those utilities unable to fund capital improvements and extraordinary expenses.²⁰³

Ultimately, given the Company's evidence addressing each of the enumerated criteria from the Commission's acquisition adjustment rule, and the Consumer Advocate's refusal to address any of the factors, the Commission should grant each of the requested acquisition adjustments. Such an action by the Commission will signal the Commission's intent to address the multitude of small, distressed water and wastewater systems in Tennessee.

VIII. TRANSACTION COSTS

A. NATURE OF TRANSACTION COSTS

In his Direct Testimony, Mr. Thies described the costs that the Company included in Uniform System of Accounts ("USOA"). In addition to the original cost of assets and land / land rights as adjusted according to Account 303,²⁰⁴ USOA also included acquisition adjustments,²⁰⁵ cash working capital, prepayments, and transaction costs. USOA is also reduced by accumulated depreciation and Contributions In Aid of Construction. Importantly, given the direction of

²⁰³ *Duncan Direct*, p. 18.

²⁰⁴ *See* Section IX.

²⁰⁵ *See* Section VII.

Commission acquisition decisions, “the Company has not included these transaction costs in rate base. Rather, Limestone Water requests that the Commission allow it to include these transaction costs in rate base.”²⁰⁶

The magnitude of the transaction costs was detailed by Mr. Thies for each of the six (6) acquisitions relevant to this docket.²⁰⁷

Acquisition	Transaction Cost
Aqua Utilities	\$40,523
Cartwright Creek	\$198,892
Chapel Woods	\$40,516
DSH – Lakeside Estates	\$94,278
Shiloh Falls	\$66,556
Candlewood Lakes	\$103,690
Total	\$544,454

At pages 21-23 of his Direct Testimony, Mr. Thies then details the type of transaction costs included in Utility Plant in Service (“UPIS”). “Transaction costs are expenditures that are incurred in the course of executing and consummating the acquisition of a utility systems.”²⁰⁸ These costs include:

Real Estate related legal costs – As part of preparing to acquire a utility system, Limestone Water uses real estate attorneys to perform work related to the property and assets that are to be acquired. This work includes title research to determine the ownership history of the property and assets and confirm that the Company and its customers have no risk of future issues related to property ownership and rights. The legal work also includes research of easements and rights of way to confirm that the Company and its operators have sufficient access to operate plants, wells, lift stations and other equipment.²⁰⁹

Regulatory legal costs – In order to prosecute an acquisition case, Limestone Water incurs costs for legal support and advice. This allows the Company to complete the required documentation and process steps as set forth by the Commission.²¹⁰

²⁰⁶ *Thies Direct*, p. 21, footnote 12.

²⁰⁷ *Id.* While the Company incurred an acquisition adjustment for only five of its six acquisitions (all except Chapel Woods), it has transaction costs for all six acquisitions.

²⁰⁸ *Id.* “Importantly, transaction costs do not include any costs related to business development.”

²⁰⁹ *Id.*, pp. 21-22.

²¹⁰ *Id.*, p. 22.

System Mapping – Prior to acquisition, the Company incurs expenses associated with GIS and system mapping. This mapping process allows the Company to understand its service areas and system components, including the distribution or collection systems. It also provides for efficient and effective operations as it enables Limestone Water to pinpoint system components and associate them with work orders to be completed by system operators.²¹¹

Engineering Analysis – Transaction costs also include costs associated with preliminary engineering analysis of the system and its assets. This analysis provides Limestone Water with an engineering memo that outlines the system condition, age and operational status. The memo also provides a sense of the scale and scope of improvements that will be needed in both the short and long term. These findings allow the Company to communicate well with contract operators prior to the date of the acquisition closing and ready the operators to provide high quality service beginning on the day of closing.²¹²

B. TRANSACTION COSTS ARE REASONABLE AND PRUDENT

Commission Rule 1220-04-14-.06 addresses the recovery of regulatory, transaction and closing costs related to the acquisition of a utility. Subsection (1) of that rule states that the costs shall be reasonable and prudent. As Mr. Thies points out, no party “questions whether the [transaction] costs were necessary to close the transaction or to receive regulatory approval for the acquisition.”²¹³ Moreover, recognizing the highly regulated nature of utility acquisitions in Tennessee, these transaction costs were reasonable and prudent.

The prudence of the costs is underscored and supported by the unquestioned need to undertake initial due diligence (i.e., costs for an engineering analysis and to clear title defects), but also to receive the necessary regulatory approvals mandated by Tennessee statutes (i.e., regulatory legal costs). Moreover, the nature of the costs at issue are very specialized. For instance, recognizing the need to receive regulatory approval of the transaction, Limestone Water interviewed several different attorneys. Ultimately, the specialized nature of the regulatory process in Tennessee dictated that the Company retain an attorney experienced in Commission process.²¹⁴

²¹¹ *Id.*

²¹² *Id.*

²¹³ *Thies Rebuttal*, p. 5.

²¹⁴ *Id.*, p. 6.

C. RELATIVE BENEFITS OF TRANSACTION COSTS

After determining that the transaction costs are “reasonable and prudent,” Subsection (2) of that rule provides that “the Commission may in the exercise of its lawful discretion allocate the regulatory, transaction and closing costs between the acquiring utility’s owners/shareholders and its customers in recognition of the relative benefits of the acquisition to each and in consideration of the affordability of post-acquisition rates.” An analysis of the relative benefits received by customers and Company owners dictates that the Company should be allowed to recover its transaction costs for each of the six (6) acquisitions considered in this case.²¹⁵

1. Customer Benefits

As reflected in Section VII regarding recovery of acquisition premiums, Rule 1220-04-14-.04(2)(b) and (c) require the Company to show “improvements in public utilities services resulting from the acquisition” and “remediation of public health, safety and welfare concerns of the selling utility’s system resulting from the acquisition.” Thus, to a large extent, the description of customer benefits, for purposes of analyzing relative benefits under Commission Rule 1220-04-14-.06(2), will mirror those discussed for purposes of determining recovery of acquisition premiums. Rather than repeat those customer benefits, Limestone Water refers the Commission to the detailed description of customer benefits set forth in Section VII.

2. Utility Owners

As discussed previously, customers have benefitted greatly from the Limestone Water’s acquisitions. While they continued to pay the same adopted rate that was in many cases decades old, customers began to see immediate improvements in utility services in the areas of: (1)

²¹⁵ *Pre-Filed Direct Testimony of Limestone Water Witness Todd Thomas*, p. 18, TPUC Docket No. 24-00044 (July 16, 2024) (hereinafter “*Thomas Direct*”). This rate case considers the final impact of ten (10) distinct systems because some utility acquisitions included multiple systems.

customer service, (2) corporate communications, (3) environmental, health, and safety compliance, (4) engineering, and (5) operations.

In contrast, for purposes of analyzing relevant benefits, utility owners have not realized any benefits. As Mr. Thies explains:

As reflected in Limestone’s acquisition dockets before the Commission, when it acquires a new system, Limestone Water adopts the currently approved rates of that system. Recognizing that in many instances, rates had been in effect for years and possibly decades, the adopted rates did not cover operating costs at the time of the acquisition. Moreover, upon acquisition, and as also reflected in the direct testimony submitted in support of the Petition, Limestone Water immediately replaces inoperable blowers and pumps. As a result, power costs immediately increase. Furthermore, the Company immediately begins to dispense disinfection chemicals in the water and wastewater. As a result, the adopted rates become even more deficient. Finally, the Company begins to invest capital to address operational deficiencies. Given this, it is not surprising that the Company has incurred significant operating losses associated with the acquisition and rehabilitation of these systems. These losses continue during the pendency of this case and are now incurring carrying costs for the Company. Thus, while customers have received the entirety of the benefits to date, the shareholders have received zero benefits.²¹⁶

Given that the customers have received the entirety of the benefits to date, and consistent with the direction provided by 1220-04-14-.06(2), the Company requests that “the Commission authorize the recovery of 100% of transaction costs.”²¹⁷

In his testimony for the Consumer Advocate, Mr. Kaml cites to a North Carolina case, stating that “the Commission held that these [transaction] costs provide a benefit to Red Bird,” CSWR’s North Carolina affiliate.²¹⁸ The CAD and Mr. Kaml rely on this North Carolina case to argue that Limestone Water should not be allowed to recover 100% of its transaction costs, but the CAD fails to point out several key distinctions. The referenced North Carolina case was, first and

²¹⁶ *Thies Rebuttal*, pp. 8-9.

²¹⁷ *Id.*, p. 9.

²¹⁸ *Kaml*, p. 18:7-8 (quoting *Notice to Parties of Recommended Order*, p. 28, NCUC Docket Nos. W-933, Sub 12 & W-1328, Sub 0 (Feb. 7, 2024); *see also* Exhibit CDK-4 and *Hearing Tr., Vol. II*, pp. 166-169.

foremost, an acquisition docket.²¹⁹ Furthermore, the recommendation, not holding, relied on by Mr. Kaml was not final.²²⁰ Finally, the CSWR North Carolina affiliate, Red Bird, withdrew its Application for Transfer in that docket because the purchase agreement between the parties was terminated, not because CSWR felt it could not recover the transaction costs in full.²²¹ Therefore, once examined closer, the Commission should see that the CAD's reliance on the North Carolina acquisition docket is misplaced.

IX. LAND AND LAND RIGHTS

In its direct testimony, Limestone Water described the manner in which it records capitalized costs to the various plant accounts. Importantly, the recording of such costs is done consistent with USOA.²²² As described in the USOA, plant accounts include capitalized costs such as land and land rights, structures and improvements, mains, pumping equipment, and meters.

As described by Mr. Thies, upon acquisition, Limestone Water records the original cost of acquired systems and “post-acquisition improvements necessary to provide safe and reliable sewer and water services.”²²³ Upon acquisition, the Company will deduce the original costs by examining the books and records of the prior owners, including the annual reports filed by the owners with the Commission.²²⁴ These accounts are then adjusted to account for “known and measurable changes that have occurred since the annual report was filed.”²²⁵

²¹⁹ See *Application for Transfer of Public Utility Franchise and for Approval of Rates*, NCUC Docket Nos. W-933, Sub 12 & W-1328, Sub 0 (Oct. 8, 2020). The entire North Carolina docket can be found at: <https://starw1.ncuc.gov/NCUC/page/docket-docs/PSC/DocketDetails.aspx?DocketId=2257a2df-9424-4397-8c98-2db4c3571cf8>.

²²⁰ Exhibit CDK-1, *Notice to Parties of Recommended Order*, p. 1 (“The report and Recommended Order attached shall be construed **as tentative only** until the same becomes final in the manner hereinabove set out.”) (emphasis added).

²²¹ See *Notice of Dismissal and Withdrawal of Application for Transfer of Public Utility Franchise and Approval of Rates*, NCUC Docket Nos. W-933, Sub 12 & W-1328, Sub 0 (March 1, 2024).

²²² See *Thies Direct*, p. 11; *Thies Rebuttal*, pp. 2-4, 16-17. The USOA has been adopted by the Commission at TPUC Rule 1220-04-01.-11(1)(g) and (h).

²²³ *Thies Direct*, p. 10.

²²⁴ *Id.*, p. 11.

²²⁵ *Id.*

In his testimony, however, Mr. Kaml asserts that Limestone Water inappropriately “increased the land and land rights from the selling companies’ books.”²²⁶ Mr. Kaml then asserts that the adjustment to these land and land rights accounts (Account 303) is comparable to a request for an acquisition premium.²²⁷ For this reason, Mr. Kaml recommends that “[t]he portion of the land value and land rights exceeding the booked cost at the time of purchase is excessive and should be removed from rate base.”²²⁸

Mr. Kaml’s assertion reflects a misunderstanding of the Uniform System of Accounts. As Mr. Thies explains, “Mr. Kaml’s assertion seems to be based upon the notion that the land and land rights accounts should be a static figure.”²²⁹ Contrary to Mr. Kaml’s suggestion, the USOA provides for the continual recording of additional costs to these accounts. For instance, costs incurred after the original acquisition of the land and land rights involving surveys, title costs, easements, and other land rights will be recorded to Account 303. Specifically, Account 303 of the USOA provides:

This account shall include the cost of land and land rights used in connection with source of supply, pumping, water treatment plant, transmission and distribution, and general plant accounts (See Accounting Instruction 24). A sample of items to be included in this account are listed below:

11. Surveys in connection with the acquisition, but not amounts paid for topographical surveys and maps where such costs are attributable to structures or plant equipment erected or to be erected or installed on such land.

13. Title, examining, clearing, insuring and registering in connection with the acquisition and defending against claims related to the period prior to the acquisition.²³⁰

²²⁶ *Kaml*, p. 13.

²²⁷ *Id.*, p. 15.

²²⁸ *Id.*

²²⁹ *Thies Rebuttal*, p. 2.

²³⁰ *Id.*, p. 3. *See also Hearing Tr., Vol. II*, p. 159:7-12 (“The rules for land and land rights accounts allow for the capitalization of costs for, quote, ‘surveys in connection with acquisition and title examining, clearing, insuring and registering in connection with acquisition.’ Limestone adhered to these NARUC rules.”).

Additionally, Accounting Instruction 24, referenced in Account 303, expressly provides for the recording of costs to Account 303 associated with easements. “The accounts for land and land rights include the cost of land owned in fee by the utility and rights, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights of way, and other like interests in land.”²³¹ This same instruction is then replicated for sewer plant accounts in Account 353.²³²

Given that Accounts 303 (water) and 353 (sewer), as well as Accounting Instruction 24, provide for the continual recording of costs to these accounts, Mr. Kaml’s suggestion that these accounts should be static and always equate to the original cost at the time of acquisition is erroneous. Therefore, Mr. Kaml’s conclusion that, because these accounts do not equate to the original cost at the time of acquisition, there is an inappropriate acquisition premium being applied is faulty. For this reason, the Commission should reject Mr. Kaml’s recommendation to exclude any costs that are recorded in Accounts 303 and 353.²³³

X. RECORDING OF TAP FEES AND INSPECTION FEES

At various points in their history, the acquired systems collected money from customers for purposes of funding construction. Such construction could be associated with main extensions or fees to tap onto existing water or wastewater mains. While the cost of the construction project is recorded as UPIS and included in rate base, it is exactly offset with equal amount booked as Contribution in Aid of Construction (“CIAC”). As Mr. Thies describes:

CIAC reflects non-refundable money or physical property that is received from third parties, and thus is not considered to be investor supplied capital. An example would be a portion of main that was relocated to accommodate road alignment changes and the relocation was funded by a local municipality. Another example includes tap fees that a customer pays to connect to the system. Where the tap fee

²³¹ *Id.*

²³² *Id.*

²³³ *Id.*, p. 4.

is equivalent to the cost of the assets and labor required to connect a customer to the system, the tap fee should be accounted for as CIAC.²³⁴

Importantly, since the costs that are included in UPIS are offset to an equal degree by the amount recorded as CIAC, there is no change to rate base and no increase in net income to the Company.

In his Testimony, Mr. Novak asserts that the Company erred in treating these customer-received funds as CIAC instead of recording as revenues. “The Commission has a long history of requiring utilities to record these types of receipts as revenues. . . . I recommend that the Commission should continue to treat Inspection Fees and Tap Fees as Revenues.”²³⁵

Mr. Novak’s recommendation has a financial impact in two different ways. First, because Mr. Novak recommends that these amounts be booked as revenues, the recommendation results in an increase in revenues and a decrease in the revenue deficiency. Second, because the amount is removed from CIAC, the Company’s rate base and the authorized return will both increase.²³⁶ Importantly, however, “[t]he two impacts are not equal in magnitude – the impact from increasing revenues greatly exceeds the impact associated from increasing rate base. As a result, the overall impact of Mr. Novak’s recommendation is to reduce the revenue deficiency.”²³⁷

Regardless of the financial impact, it is apparent that Mr. Novak’s assertion that the Commission has “a long history of requiring utilities to record these types of receipts as revenues” is erroneous. For instance, in a 2019 case, Cartwright Creek sought to increase its tap fee for new customers from \$5,000 to \$10,000. In that case, CAD witness Bradley agreed to the request subject to the requirement that future tap fees be treated as a regulatory liability – CIAC.

The Consumer Advocate submitted the testimony of Alex Bradley, Accounting & Tariff Specialist. Mr. Bradley's testimony is a general concurrence with the Company with regard to the need for increased tap fees. . . . Mr. Bradley further

²³⁴ *Thies Direct*, p. 26.

²³⁵ *Pre-Filed Direct Testimony of Consumer Advocate Division William Novak*, pp. 11-13, TPUC Docket No. 24-00044 (Dec. 19, 2024) (hereinafter “*Novak*”).

²³⁶ *Id.*, pp. 15-16.

²³⁷ *Id.*, p. 16.

states that, departing from positions taken in previous cases treating tap fees as revenues, the accounting treatment for future tap fee receipts should: (1) be recorded "into a distinct escrow account to ensure the purpose of the funding is specifically identified and utilized for its intended purpose;" and, (2) **commencing from the date of the order in this docket, be recorded as a regulatory liability in order to reflect ratepayer funding of the needed capital improvements**. Such accounting treatment is necessary to protect ratepayers from double recovery of the revenue requirement under either the operating margin or rate-of-return approach to rate setting. Therefore, Mr. Bradley recommends recognition of the tap fees as a regulatory liability, to be amortized over the expected life of the underlying capital improvements, and used as an offset to the revenue requirement in the Company's next rate case.²³⁸

Ultimately, the Commission adopted CAD's recommendation that tap fees be treated as CIAC and recorded as a regulatory liability offset to rate base.

The accounting method adopted in the 2009 Rate Case Order was reasonable at that time due to the size and more static nature of the Company, making tap fees insignificant to ratemaking calculations at that time. However, since 2009, Company revenues have more than tripled and the number of customers has significantly increased and is projected to continue increasing in future months, making tap fees much more material to ratemaking calculations today. Therefore, the panel found that **Cartwright Creek should alter the accounting method to the more traditional approach with regard to tap fees, specifically classifying and reporting the fees in its books and records as Contributions in Aid of Construction ("CIAC") in accordance with the Uniform System of Accounts ("USOA"), rather than operating revenue**. Utilizing this method will allow ratemaking calculations to offset capital additions funded by customer tap fees and their associated depreciation and return factors, in order to ensure the Company does not receive cost recovery for investments not funded by the Company.²³⁹

Recognizing that the Company's recording of tap fees and inspection fees is consistent with the traditional approach dictated by the USOA as well as the Commission's 2019 decision, the Commission should reject Mr. Novak's recommendation that tap fees and inspection fees be treated as revenues.

²³⁸ *Id.*, pp. 16-17 (citing *Order Approving Increase of Tap Fee*, p. 9, TPUC Docket No. 19-00034 (Aug. 19, 2019) (emphasis in original)).

²³⁹ *Id.*, p. 17(emphasis added).

XI. FINANCIAL SECURITY ESCROW TERMINATION

Commission Rule 1220-04-13.07 provides for the creation of a financial security escrow for wastewater utilities. The escrow is designed to ensure that capital is available to reimburse “the utility for extraordinary expenses of the utility or for necessary capital projects.”²⁴⁰ At the time that they were acquired by Limestone Water, the Commission had established escrows for both Cartwright Creek and DSH – Lakeside Estates.²⁴¹ For Cartwright Creek, the escrow funds were collected through a \$10,000 tap fees as well as a Capital Improvement Surcharge.²⁴² On the other hand, escrow funds are collected for DSH – Lakeside Estates through a \$10.24 monthly escrow charge.²⁴³

In the Commission order approving those two acquisitions, the Commission ordered Limestone Water to continue to collect the escrow funds, maintain a Commission-approved escrow and submit quarterly reports on escrow balances. The current balances in the Cartwright Creek and DSH escrow funds are significant.

Acquisition	Escrow Balances Ending 5/31/2024
Cartwright Creek	\$603,003.97
DSH – Lakeside Estates	\$50,853.08
Total	\$653,857.05²⁴⁴

The same Commission rule provides the Commission with the authority to terminate the escrow requirement. “The requirement for a public wastewater utility to **maintain** a reserve / escrow account shall be determined by the Commission on a **case-by-case basis**.”²⁴⁵ Additionally, the rule provides that “the TPUC **may waive or modify requirements** of this rule for good cause

²⁴⁰ 1220-04-13.07(7).

²⁴¹ *Thies Direct*, pp. 31-32.

²⁴² *Id.*

²⁴³ *Id.*

²⁴⁴ *Id.*, p. 33.

²⁴⁵ 1220-04-13.07(6) (emphasis added).

shown, including but not limited to affordability of rates, minimization of rate shock or other operating characteristics of the utility.”²⁴⁶ Given this authority, as well as the financial security of Limestone Water and its parent company CSWR,²⁴⁷ the Company asks that the Commission terminate the financial security escrow requirement and allow customers to save this money.

In the event that the Commission allowed the Company to terminate these financial security escrows, Limestone Water proposes that the balance as of the date of termination would be retained by Limestone and “the funds treated as CIAC and used as an offset to rate base. Thus, the ratepayers are given the ratemaking benefits for this contributed capital.”²⁴⁸

In its testimony, the Consumer Advocate appears to agree to the request to discontinue collection of the financial security escrow charge. Specifically, after noting that the termination of the charge would provide an immediate economic benefit to the impacted customers,²⁴⁹ Mr. Kaml points out that “[t]here may be a reason to terminate the escrow payments.”²⁵⁰ That said, however, CAD disagrees with how to handle the current balances in the financial security escrow accounts. Specifically, while the Company proposes that the funds would immediately be treated as CIAC and available to be used for any Tennessee project, Mr. Kaml proposes that the use of the funds be limited.

With regard to existing funds, they should be used for projects in the service areas where the funds were collected. This proposal is based on fundamental fairness, using the funds to provide improvements in the area from which they were obtained. The funds will not be returned to all the customers who made the contributions. However, it would be returned to the service areas and purposes for which it was collected. Having been used for capital projects, the funds would appropriately be reflected as CIAC and in the appropriate service area.²⁵¹

²⁴⁶ 1220-04-13.07(8) (emphasis added).

²⁴⁷ *Thies Direct*, p. 37. At the time of filing, Limestone Water had invested approximately \$11,000,000 into its Tennessee operations.

²⁴⁸ *Id.*, p. 39.

²⁴⁹ *Kaml*, p. 26 (“DSH customers would have a reduction in their monthly bills of \$10.24 per month. Cartwright Creek customers would see a reduction equal to the tap fees and the Capital Improvement Surcharge.”)

²⁵⁰ *Id.*, p. 28.

²⁵¹ *Kaml*, p. 27.

In his rebuttal testimony, Mr. Thies notes that while he is not “greatly offended” by CAD’s proposal, he has two concerns. First, if the balances are maintained in the escrow account until they are used for projects in the affected service area, Mr. Thies asked that the Company be alleviated from the requirement to seek Commission approval before using those funds in the affected service area.

[I]f the Commission does require Limestone Water to retain the escrow balance, I would request that the Company be alleviated from the regulatory hardship of seeking Commission approval before being allowed to spend those funds on projects. 1220-04-13-.07(7) provides that “[t]he utility must first receive authorization from the Commission via approved petition or, in emergency situations, authorization in writing from the Chairman of the Commission upon written request by a representative of the utility to use such funds.” The Company does not object to continuing to submit quarterly reporting of the remaining escrow balance and the nature of any disbursements made during the reporting quarter, it simply seeks to avoid the time and cost of preparing, filing, and processing of seeking advance regulatory approval.²⁵²

Second, Mr. Thies points out that, if the Company’s consolidation approach is approved by the Commission, then Mr. Kaml’s recommendation is rendered meaningless.

The CAD recommendation to utilize the existing escrow balances within the applicable service area would be rendered meaningless by a Commission decision approving the Company’s request to consolidate rates on a state-wide basis. Specifically, if rates are consolidated, it is irrelevant whether escrow balances are spent on projects within X system or Y system. The Company continues to believe that consolidation is in the public interest and is an effective rate mitigation tool. Therefore, while it does not object to CAD’s proposal to utilize funds in specific systems, the Company continues to pursue its consolidation request.²⁵³

²⁵² *Thies Rebuttal*, p. 12.

²⁵³ *Id.*, p. 13.

XII. ATTRITION PERIOD REVENUES

As mentioned in Section III, the Company proposed a historic test year utilizing the 12-month period ended April 30, 2024.²⁵⁴ Importantly, both the Company and the Consumer Advocate agreed to this historic test period without any update for an attrition period.²⁵⁵

Based upon this agreed upon test period, the Company annualized revenues for each of its 8 wastewater and 2 water systems owned as of April 30, 2024.²⁵⁶ As set forth by Ms. Donovan, and described by the *Accounting for Public Utilities* treatise, “historic data will likely require restatement for actual occurrences not expected to recur or for events that are expected to occur but did not exist (in whole or in part) in the test year.”²⁵⁷ Here, given the continual acquisition of systems, including the acquisition of systems during the historic test period, the Company utilized “annualizing adjustments (to extend over the period. . . events that had partial period effects).”²⁵⁸

Specific to systems which charge a simply flat monthly rate, “the Company took the number of bills as of the end of the test period and multiplied them by the flat monthly rate. This expected monthly revenue figure for each system was then multiplied by 12 to provide an annualized expected revenue for each system.”²⁵⁹ Thus, an expected annual revenue amount is created for each of these systems based upon the number of customers as of the end of the test period. That said, however, given the agreement not to utilize an attrition period, the Company did not attempt to forecast any customer growth.

The annualization of revenues for systems that also include a usage rate is largely the same. The Company adjusted revenues, as described above, to annualize the revenues from the flat

²⁵⁴ *Thies Direct*, p. 5.

²⁵⁵ *Bradley*, p. 3.

²⁵⁶ *Pre-Filed Direct Testimony of Limestone Water Witness Clare Donovan*, p. 5, TPUC Docket No. 24-00044 (July 16, 2024) (hereinafter “*Donovan Direct*”).

²⁵⁷ *Id.*

²⁵⁸ *Id.*

²⁵⁹ *Id.*, p. 6.

monthly portion of the bill. “The Company then estimated the average daily flow times number of days in the year, to calculate the usage rate for the test year. This usage rate was then multiplied by the usage charge to produce the expected monthly revenues produced by system associated with usage. The usage component was then added to the revenues produced from the flat monthly charge.”²⁶⁰

While the Consumer Advocate initially agreed to the utilization of a historic test period, without an attrition period, it nonetheless sought to minimize the revenue deficiency by projecting revenues through an attrition period. “The attrition period revenues were forecast by first applying a historic growth rate to the test period bills and water usage for those properties with anticipated growth. Next, [Consumer Advocate Witness Novak] applied the current tariff charges to the attrition period billing determinants to get the attrition period service revenues.”²⁶¹

As Mr. Thies describes, Mr. Novak’s attempt to forecast revenues through an attrition period is disconcerting for three reasons. **First**, Mr. Novak’s attempt to forecast revenues through the utilization of “a historic growth rate” applied to test period bills and water usage, is directly contrary to CAD’s statement that the historic test period proposal “is acceptable and should be adopted by the Commission.”²⁶²

Second, CAD’s proposal to forecast revenues through an attrition period, without also forecasting investment and expenses, is contrary to the fundamental ratemaking concept known as the matching principle. As Mr. Thies points out:

The purpose of a rate case is to take a snapshot of the utility’s financial situation. This financial snapshot is done by matching all aspects of the financial condition (investment, revenues, and expenses) as of a common point in time. Here, CAD’s revenue proposal violates that matching principle by projecting an inflated level of

²⁶⁰ *Id.*

²⁶¹ *Novak*, page 18.

²⁶² *Thies Rebuttal*, p 19 (citing *Bradley*, page 3).

future revenues while simultaneously using investment and expenses from a prior period. The problem is that Mr. Novak projects revenues associated with increased usage and an increased number of customers without including the costs needed to serve the increased usage and customers. For instance, Mr. Novak ignores the increased chemical expense needed to provide the increased usage. Mr. Novak ignores the increased power expense needed to run the pumps and blowers necessary to serve the increased usage. Mr. Novak ignores the increased maintenance expense needed to serve the heightened number of customers. Mr. Novak ignores the increased investment needed to install pipes necessary to serve the new customers. Given this, Mr. Novak's proposal is entirely one-sided.²⁶³

Third, and closely related to the matching principle, CAD's attempt to forecast increased revenues through an attrition period, without also considering the increased expenses and investment necessary to produce those inflated revenues, is a self-serving attempt to "deflate the revenue deficiency."²⁶⁴

As Mr. Thies points out, the revenue requirement that is calculated (which includes consideration of capital and operating costs), is compared to normalized revenues to calculate a revenue deficiency.²⁶⁵ By forecasting customer growth and increased usage, Mr. Novak inflates the normalized revenues to which the revenue requirement is compared. Simultaneously, by failing to reflect increased operating and capital costs, CAD deflates the revenue requirement. The effect of both efforts is to significantly deflate the revenue deficiency.

Specifically, by projecting revenues, CAD sought to capture all attrition period changes that could result in a reduction to the revenue requirement and revenue deficiency. Noticeably, CAD failed to project other financial impacts that would cause the revenue requirement and revenue deficiency to increase – specifically investment and operating expenses.²⁶⁶

²⁶³ *Id.*, p. 20.

²⁶⁴ *Id.*

²⁶⁵ *Thies Direct*, p. 5.

²⁶⁶ *Thies Rebuttal*, p. 19.

For these reasons, Limestone Water requests that the Commission reject CAD's one-sided adjustment to forecast customer growth and usage and to annualize revenues through an attrition period, and instead, utilize the Company's calculation of annualized test period revenues.

XIII. RETENTION OF BILLING DETERMINANT DATA

As described above, the Company annualized revenues by utilizing bill counts and usage as of the end of the test period. Given the distressed nature of the utilities that were recovered, however, the Company did not have prior period billing data.

In his testimony, Mr. Novak criticized the Company on this issue. "[T]he Company has failed to obtain the historical billing records for any of the utility properties that it now holds."²⁶⁷ Mr. Novak bases his criticism on the terms of the Stipulation and Agreements approving the various acquisitions. Specifically, by equating billing determinant data to "accounting records," Mr. Novak asserts that the Company has violated the commitment made by prior owners to "transfer to Limestone complete copies of [Cartwright Creek's accounting records for the two calendar years immediately preceding the date of acquisition]."²⁶⁸ Based upon this perceived violation, Mr. Novak offers the unique and punitive recommendation that the Commission summarily dismiss the Company's rate case and that "any change in rates be deferred until at least four years of billing data can be obtained."²⁶⁹ Importantly, Limestone Water Witness Ms. Donovan testified that for systems without four years of accounting data, if the Commission delayed a rate case for four more years, the operating losses at current rates (the Limestone Water adopted pre-acquisition rates) would simply continue to grow and accumulate during such delay.²⁷⁰

²⁶⁷ *Novak*, page 8.

²⁶⁸ *Id.*

²⁶⁹ *Id.*, page 10.

²⁷⁰ *Hearing Tr., Vol. II*, p. 150:16-25 – p. 151:1-5.

In his rebuttal testimony, Mr. Thies rejects Mr. Novak's criticism. As an initial matter, Mr. Thies points out that the Company has attempted to acquire such information from the prior sellers. Given the nature of the distressed systems that Limestone Water targets, however, this is not always possible and, where received, the data is usually of little value.

"[I]n numerous instances, Limestone Water has attempted, without success, to obtain from the sellers various records post-closing and in many of those instances such records are either not produced, are not available or simply never really existed in any substantively usable manner going forward. It is not that Limestone Water is somehow affirmatively withholding billing determinants. As is often the case when acquiring small and challenged water and wastewater systems, the Company just does not have the information."²⁷¹

Moreover, Mr. Thies disputes Mr. Novak's effort to equate billing determinant data to "accounting records." "Billing determinants are not considered to be part of a utility's 'accounting records,' which means it is doubtful the stipulation obligated the seller to provide such information to Limestone Water at closing."²⁷²

Finally, Mr. Thies notes that the commitment to transfer accounting records, whether it extended to billing determinants or not, was imposed on the prior seller. "[T]he obligation to produce complete records was imposed on the seller – not on Limestone Water. In each transaction the seller was a party to the stipulation and therefore agreed to be bound by its terms."²⁷³

Given this, the Company recommends that the Commission reject Mr. Novak's criticism and his punitive recommendation. The Company believes that the actual data provided through

²⁷¹ *Thies Rebuttal*, p. 14.

²⁷² *Id.*

²⁷³ *Id.*

the historical test period is sufficient to allow the parties to calculate an accurate revenue deficiency and to establish rates that are just and reasonable for the period in which they are in effect.

XIV. CARTWRIGHT CREEK COMMERCIAL REVENUES

In her Direct Testimony, Ms. Donovan explained that, for systems with a usage charge, she sought to annualize revenues by taking estimating “the average daily flow times number of days in the year, to calculate the usage rate for the test year. This usage was then multiplied by the usage charge to produce the expected monthly revenues produced by system associated with usage.”²⁷⁴ The usage component was then added to the revenues produced from the flat monthly charge.²⁷⁵

In its testimony, the Consumer Advocate pointed out perceived deficiencies in the Company’s calculation of revenues for Cartwright Creek commercial customers. Specifically, Mr. Novak pointed out that, while the Cartwright Creek commercial wastewater tariff includes a usage component of \$8.75 per 1,000 gallons (in addition to the flat monthly charge of \$37.00), the Company failed to charge the usage component. “Limestone has not levied any usage charges to Cartwright Creek’s commercial customers since the acquisition in January 2022. Instead, Limestone has only applied the monthly minimum bill to these commercial customers.”²⁷⁶ Given this, Mr. Novak recommends that the Commission impute the same commercial usage revenues (\$91,230) as in Cartwright Creek’s last rate case.²⁷⁷ “I would expect the test period commercial usage charges in the Cartwright Creek service area to be similar to this amount.”²⁷⁸ Despite this remedy, Mr. Novak then recommends that the Commission refrain from granting any rate increase

²⁷⁴ *Donovan Direct*, p. 6.

²⁷⁵ *Id.*

²⁷⁶ *Novak*, p. 5.

²⁷⁷ While Mr. Novak inputs an amount of \$91,320, he then inflates this amount to \$97,446 as an “attrition period forecast.” See Section III for a discussion regarding how Mr. Novak’s attempts to forecast attrition period revenues is contrary to the Consumer Advocate’s agreement to utilize an historical test period.

²⁷⁸ *Id.*, p. 6.

until this failure has been resolved. “Therefore, I recommend that the Commission require Limestone to correct this deficiency before any change in rates is considered.”²⁷⁹

In her rebuttal testimony, Ms. Donovan explains the reason for the Company’s failure to bill the usage component for Cartwright Creek commercial customers. Specifically, Mr. Novak “refuses to recognize the reasonableness of the Company’s problem.”²⁸⁰

Recognizing that Limestone Water is not the water provider in the area, it is dependent on a third-party for necessary water usage by which Limestone Water would bill these commercial customers. While the Company attempted to obtain this usage data, **it was denied such information**. Given the lack of necessary usage data, the Company billed these commercial customers at the monthly minimum of \$37.00.²⁸¹

Given its inability to obtain commercial customer water usage that would enable it to properly bill the Cartwright Creek commercial customers, the Company disagrees with Mr. Novak’s imputation of commercial revenues.

While Cartwright Creek has four (4) service areas, three (3) of those service areas utilize the Nolensville College Grove Utility District (“Nolensville”) as a water provider. Upon acquisition of the Cartwright Creek systems, Limestone Water immediately contacted Nolensville in an effort to enter into an agreement by which Nolensville would provide monthly water usage data for Limestone Water commercial customers. Repeatedly, Limestone Water was informed that Nolensville did not want to get involved in the Company’s billing issues and would not provide water usage data.²⁸²

In any event, the Company is willing to accept Mr. Novak’s imputation of commercial revenues “so long as the Cartwright Creek commercial rate design is modified.”²⁸³

Limestone Water cannot be dependent on third parties to obtain the data necessary to bill and recover its revenue requirement. Given Nolensville’s continued refusal to provide this information, Mr. Novak is assuring, by proposing to continue this

²⁷⁹ *Id.*

²⁸⁰ *Id.*, p. 2.

²⁸¹ *Id.* (emphasis added).

²⁸² *Id.*, p. 3.

²⁸³ *Id.*

flawed rate design, that the Company will under-collect its revenue requirement by \$100,000, which is not acceptable or reasonable.²⁸⁴

While Limestone Water has offered a resolution to this issue, Mr. Novak appears determined to ensure that the Company will remain unable to collect its revenue requirement. Indeed, Mr. Novak recommends the current rate design for each Limestone system.

XV. ALLOCATED CORPORATE DEPRECIATION EXPENSE

As described in its testimony, Limestone Water is the Tennessee subsidiary of CSWR, LLC (“CSWR”).²⁸⁵ Besides Tennessee, CSWR has utility operating companies in 10 other states.²⁸⁶ Each of these state utility operating companies relies on CSWR for managerial and operational services.²⁸⁷ While each state utility operating company will have costs that are directly incurred on their own behalf (e.g., contract operations, fuel & power, chemicals, maintenance, bad debt, depreciation and amortization, and property taxes), they are also allocated cost overhead charges by CSWR.²⁸⁸

The methodologies used to allocate these corporate costs are described in the Company’s Cost Allocation Manual.²⁸⁹ Such costs include general and administrative costs including executive management, legal, accounting, human resources, customer experience, regulatory, finance, billing, IT, and other business services.²⁹⁰

Over the past two years, the CSWR Cost Allocation Manual has been reviewed by state utility commissions in Louisiana, Mississippi, Texas, Kentucky, and Missouri.²⁹¹ In each instance,

²⁸⁴ *Id.*, p. 4.

²⁸⁵ *Duncan Direct*, p. 1.

²⁸⁶ *Id.*, footnote 3. *See also* Exhibit MD-1.

²⁸⁷ *Id.*

²⁸⁸ *Donovan Direct*, p. 7, TPUC Docket No. 24-00044 (July 16, 2024).

²⁸⁹ *Id.*

²⁹⁰ *Id.*, p. 12.

²⁹¹ *Id.*, p. 15.

no party recommended changes to the allocation approach, nor did the responsive commission orders modifications.²⁹²

Even though this approach was accepted in all the aforementioned states, the CAD questioned Ms. Donovan during the hearing whether she was “aware that in Mississippi on February 5, they denied CSWR’s entire rate case for failure to provide sufficient information, etc.”²⁹³ But the Commission should note that the CAD’s counsel did not ask any details about that case. Importantly, the case that the CAD referenced was *not the initial rate case* filed by CSWR’s Mississippi affiliate, Great River. In Great River’s initial rate case, the Mississippi Public Utility Commission approved and adopted Great River’s rates, as stipulated, representing a *significant increase* in previous rates.²⁹⁴ Instead, the docket referenced by the CAD with Ms. Donovan is Great River’s first adjustment filing under the “Formula Rate Plan,” which was a mechanism approved during the initial rate case “to create a level of predictability that will help ensure continued access to the capital necessary to complete capital improvement on currently owned systems as well as fund the continued acquisition of more distressed sewer and water systems throughout Mississippi.”²⁹⁵ The FRP is filed annually—hence the proceeding the CAD mentioned. Therefore, the CAD’s reference to this as a “rate case” is, at best, a misnomer. To be sure, though, the CAD’s reliance on Great River’s FRP docket is not persuasive (and, upon closer examination, shows that Mississippi has approved a significant rate increase for a CSWR affiliate.

²⁹² *Id.*, pp. 15-16.

²⁹³ *Hearing Tr.*, p. 150:6-8.

²⁹⁴ *See Recommended Order of the Hearing Examiner*, Stipulation-Exhibit A, p. 7: Great River Rate Case-Summary of Stipulation, MPSC Docket No. 2022-UN-087 (April 14, 2023) (attached).

²⁹⁵ *Id.*, Stipulation, p. 5.

The Cost Allocation Manual is inherently reasonable for at least three different reasons. **First**, by incurring certain costs at the CSWR level, economies of scale are created that would not otherwise be available by individual state utility operating companies.

These shared administrative expenses allow Limestone Water and its component systems to benefit from the cost efficiencies and shared expertise of a larger organization that otherwise would not be available to a company like Limestone Water. Further, if CSWR did not provide these types of services to the operating subsidiaries, then each operating utility, including Limestone Water, would need to employ personnel or seek external expertise to provide those services because they are necessary for the provision of utility operations.²⁹⁶

Second, to the maximum extent possible, CSWR directly assigns costs. “To the extent that a cost is directly incurred on behalf of a particular state utility operating company, it is billed to that state. In this way, CSWR avoids the possibility that a cost that is beneficial to one state impacts another.”²⁹⁷ That said, however, there are necessarily costs (e.g., administrative and general corporate costs) that are incurred by CSWR that cannot be directly assigned and must be allocated. When costs must be allocated to the state utility operating companies, they are only assigned down from CSWR and are never assigned from one state operating entity to other states. This helps to appropriately maintain costs at the state that receives the benefits.”²⁹⁸

Third, it is important to understand that CSWR does not have any non-regulated operations. As such, many of the financial motivations that some utilities may have to engage in affiliated transactions are absent from the CSWR corporate structure. “With no non-regulated operations, CSWR has no reason to shift these costs or allocations among its subsidiaries in an unreasonable way. Ultimately, other than equity and working capital contributions provided by

²⁹⁶ *Id.* See also *id.*, p. 13. “Importantly, any expenses related to advertising, lobbying, charitable donations, and business development activities are excluded from the allocated corporate costs.”

²⁹⁷ *Id.*, p. 15.

²⁹⁸ *Id.*

CSWR or the allocation of indirect costs from CSWR, the state operating entities do not engage in any affiliate transactions.”²⁹⁹

In its testimony, the Consumer Advocate reviewed the Corporate Allocation Manual and analyzed the costs allocated to Limestone Water by CSWR. In his testimony, Mr. Bradley suggests several O&M adjustments.³⁰⁰ As Ms. Donovan points out, however, many of Mr. Bradley’s adjustments simply “mirror” adjustments already advanced by Limestone Water. “As such, the Company agrees to the vast majority of Mr. Bradley’s adjustments.”³⁰¹

That said, Mr. Bradley does suggest one adjustment related to costs allocated by CSWR to Limestone Water. Specifically, Adjustment AB-3 “removes allocated charges from the Services Company to Limestone Water in Account 6340 – Admin Expenses Transferred, that were not related to the provision of utility services.”³⁰² Mr. Bradley then replicated this adjustment for wastewater operations.³⁰³ Mr. Bradley disallows these costs with the blanket assertion that “[t]hese costs have not been demonstrated to be necessary in the provision of water and wastewater service in the state of Tennessee.”³⁰⁴

In her rebuttal testimony, Ms. Donovan provides the explanation that Mr. Bradley seeks. Specifically, these costs relate to depreciation expense associated with capital items at the parent company level.

A portion of these charges are associated with depreciation expense for office furniture, computers, and other office items, at the parent company level. It is important to recognize that Mr. Bradley did not dispute the value offered by the employees to Limestone Water operations. Similarly, Mr. Bradley did not dispute the need for office furniture, computers, and other office items to allow these employees to perform such activities. Here, however, Mr. Bradley inexplicably

²⁹⁹ *Id.*

³⁰⁰ *Bradley*, pp. 4-5.

³⁰¹ *Pre-Filed Rebuttal Testimony of Limestone Water Witness Clare Donovan*, p. 4, footnote 3, TPUC Docket No. 24-00044 (Jan. 13, 2025) (hereinafter “*Donovan Rebuttal*”)

³⁰² *Bradley*, p. 8.

³⁰³ *Id.*, p. 10.

³⁰⁴ *Id.*, p. 8.

asserts that the depreciation expense on the office furniture and other capital items was “not related to the provision of utility services.” Recognizing that these capital items have a limited life and are required to be depreciated, the parent company has allocated a proportional share, according to the provisions of the Cost Allocation Manual, to Limestone Water.³⁰⁵

In light of the fact that Limestone Water benefits from the services and economies of scale provided through its existence as part of CSWR, and recognizing that office furniture and other capital items are necessary for the provision of these corporate services, it is illogical to disallow such allocated costs. For this reason, “[t]he Company believes that this cost is related to the provision of utility services and should be included in the revenue requirement for both water and wastewater operations.”³⁰⁶

XVI. RATE CASE EXPENSE

In its direct testimony, the Company included an estimate of rate case expenses (\$250,000) associated with “legal and contractor services, including the preparation of a cost of capital study, as well as supporting testimony.”³⁰⁷ Limestone Water then proposes to amortize this actual amount of rate case expense over two years and collected via a surcharge. “I propose that this amount be amortized over two years and included as a surcharge to rates once final rate case expenses are approved.”³⁰⁸ In this way, all rate case expense should be recovered prior to the Company’s next rate case. The Company proposed to replace this estimate of rate case expense with actual costs “as invoices are received throughout this case.”³⁰⁹

In his testimony, Consumer Advocate witness Bradley raises several concerns with the Company’s rate case expense proposal. **First**, Mr. Bradley asserts that the projected amount of

³⁰⁵ *Donovan Rebuttal*, p. 5.

³⁰⁶ *Id.*

³⁰⁷ *Donovan Direct*, p. 17.

³⁰⁸ *Id.*

³⁰⁹ *Id.*, p. 17.

legal costs (\$225,000) is “excessive”. Mr. Bradley based this assertion on his past “experience” and the fact that the limited number of Limestone Water customers will lead to a high annual cost. **Second**, Mr. Bradley claims that the two-year amortization period proposed by the Company is “unusually short” and will result in “excessive cost recovery by the Company.” Mr. Bradley bases this assertion on the claim that, before the ARM legislation was in place, most utilities in Tennessee “did not file rate cases every two years.” **Third**, in order to address his concerns, Mr. Bradley suggests that the Commission avoid this issue by “consider the appropriate costs to be recovered in a separate proceeding when actual amounts are known.” At this separate proceeding, the Commission will determine the appropriate amount of rate case expenses as well as an appropriate amortization period. Mr. Bradley then recommends that, as a result of this “separate proceeding”, a “separate surcharge” will be established.³¹⁰

In testimony the Company addresses each point raised by Mr. Bradley. **First**, relevant to Mr. Bradley’s concern that the estimate of rate case expense is “excessive”, the Company points out that it has intentionally sought to simplify this case in an effort to minimize rate case expense. Specifically, the Company voluntarily relinquished its right to utilize an attrition period.³¹¹ Moreover, the Company sought to minimize rate case expense by not conducting a depreciation study.³¹²

Next, Ms. Donovan criticizes Mr. Bradley’s reliance on the number of customers as a method for determining the reasonableness of rate case legal expenses. Specifically, “[m]any of

³¹⁰ *Bradley*, pp. 15-16.

³¹¹ *Thies Direct*, p. 6 (“The Company also believes that the utilization of historic data can be easier on the Commission and other parties as it avoids issues and debate regarding: (1) inflation rates and cost escalations, (2) forecasting of expenses, (3) calculation of accumulated depreciation, (4) monthly projections of rate base additions; (5) determination of expected organic customer growth; as well as (6) any changes in expected customer water usage.”)

³¹² *Id.*, pp. 26-27. (“A depreciation study can be an expensive undertaking for a company the size of Limestone Water. For instance, in the context of Limestone Water’s Kentucky affiliate’s recent rate case, which involved systems serving more wastewater customers than Limestone Water, the cost of a depreciation study was \$40,935. Given the limited number of customers in Tennessee, a depreciation study was deemed cost prohibitive.”)

the issues considered in a rate case and the costs associated with presenting those issues are the same regardless of whether a utility has 5,000 customers or 500,000 customers. The Company does not receive a discount from the providers of these services simply because it is a smaller company.”³¹³ Thus, while “the Company is attempting to acquire more systems and customers in an effort to achieve economies of scale, it must necessarily file and process rate cases in the interim.”³¹⁴ Recognizing that the Company has already incurred \$2.6 million of operating losses while it rehabilitating these distressed systems,³¹⁵ it is inequitable to expect the Company to incur additional losses simply because it does not yet have a customer base sufficient to satisfy CAD’s concerns.

Finally, Limestone Water points out that, given its efforts to simplify this case and minimize the issues to be addressed, its estimate of rate case expense is significantly less than that incurred in the recent Tennessee American Water rate case. As the Commission pointed out in its decision in that case, Tennessee American “requested to recover an estimated \$1,554,000 in rate case expenses.”³¹⁶

Second, Ms. Donovan points out that Mr. Bradley’s basis for claiming that a two-year amortization is “unusually short” is misplaced. As mentioned, to support his assertion, Mr. Bradley claims that “[m]ost utilities in Tennessee, before the ARM legislation was in place, did not file rate cases every two years.”³¹⁷ Mr. Bradley’s comparison to “most utilities” is misdirected.

Unlike “most utilities in Tennessee” which have mature operations, steady revenues and predictable net income, Limestone Water is acquiring distressed systems with outdated rates. Upon acquisition, the Company must immediately

³¹³ *Donovan Rebuttal*, pp. 6-7. *See also Hearing Tr. Vol. I*, p.126:5-12 (Testimony of Limestone Water Witness Ms. Duncan explaining that “most rate case costs will be incurred whether a utility has 5,000 customers or 500,000 customers.”).

³¹⁴ *Id.*, p. 7 (citing to *Duncan Direct*, p. 4, regarding pending acquisition applications).

³¹⁵ *Duncan Direct*, p. 4, footnote 3.

³¹⁶ *Chairman David F. Jones’s Pre-Filed Motion on the Merits of the Tennessee-American Water Rate Case*, p. 4, Docket No. 24-00032 (Jan. 17, 2025).

³¹⁷ *Bradley*, p. 16.

incur operating losses associated with power and chemical expenses as it replaces non-operable blowers and pumps and begins dispensing disinfecting chemicals in water and wastewater. Furthermore, the Company begins to immediately invest capital into these distressed systems. As Limestone Water Witness Mr. Duncan testifies, simply for the systems reflected in this rate case, the Company has incurred \$2.6 million of past operating losses. **Given that it is incurring net operating losses on the systems it acquires, the Company is radically different from “most utilities in Tennessee” which are generating income.** As such, the Company must file rate cases on a more frequent basis. For this reason, a two-year amortization period is appropriate.³¹⁸

Third, Ms. Donovan points out the illogical nature of Mr. Bradley’s recommendation that the Commission create a “separate proceeding” to determine the appropriate amount of rate case expense. This separate proceeding would inevitably result in the Company incurring “even more legal fees and expenses.”³¹⁹ As such, it would be “administratively inefficient” and costly to conduct a separate proceeding.³²⁰

In any event, the Company is willing to accept Mr. Bradley’s proposal that a “separate surcharge” be created to recover rate case expense. As described by Mr. Bradley, “[t]he advantage of a separate surcharge is that once the actual appropriated level of regulatory costs is recovered, the surcharge will cease.”³²¹ This proposal mirrors that initially recommended by the Company and already implemented “by the Company for its Texas affiliate.”³²² As noted during the hearing by Limestone Water Witness Ms. Donovan, the methodology that the Company uses in Texas, and

³¹⁸ *Donovan Rebuttal*, pp. 7-8 (emphasis added). See also *Hearing Tr. Vol. I*, p. 126:16-25 – p. 127:1-4 (Limestone Water Witness Ms. Duncan supporting the Company’s proposed amortization period.).

³¹⁹ *Id.* See also *Hearing Tr. Vol. I*, p. 127:17-25 – p. 128:1-2 (Limestone Water Witness Ms. Duncan testifying against the CAD’s proposal for a separate proceeding).

³²⁰ *Id.*

³²¹ *Bradley*, pp. 16-17.

³²² *Donovan Rebuttal*, p. 9. See also *Hearing Tr. Vol. I*, p. 127:25 – p. 128:1-8 (Limestone Water Witness Ms. Duncan noting the Company’s recommendation that Commission adopt the methodology that the Company uses in Texas) (*referencing Order*, Application of CSWR-Texas Utility Operating Company, LLC for Authority to Change Rates, Texas Public Utility Commission Docket No. SOAH Docket No. 473-23-18885.WS (June 13, 2024) (hereinafter “*Texas Commission Order*”) (attached)) (The *Texas Commission Order* further provides that “For any additional rate-case expenses, CSWR-Texas is authorized to book those expenses in a regulatory asset and seek recovery in a future proceeding.” *Texas Commission Order*, p.7.)

proposes that the Commission accepts here, would permit the Company to collect its reasonable rate case expense through a separate surcharge. As the Company does in Texas, and proposes here, the allowed surcharge would terminate automatically upon the collection of the Commission allowed rate case expense.³²³

It is noteworthy here that the CAD's primary and foremost rationale for a separate proceeding is to avoid Limestone Water from continuing to recovery for rate case expense beyond the period necessary to recover its reasonable rate case expenses, which could result in increased net income for the Company.³²⁴ The Company's proposal, however, avoids this very possibility by including and imposing a termination date upon the surcharge. Under the Company's proposal, Limestone Water is prohibited from any over-collection and customers are protected from the Company recovering more than its Commission-authorized rate case expense. As noted by Limestone Water Witness Ms. Donovan, the potential harm identified by the CAD is absent from the Company's proposal. Even CAD Witness Mr. Dittmore acknowledges this when he testified that "[t]he advantage of a separate charge is that once the actual approved level of regulatory costs is recovered, the surcharge will cease."³²⁵ Hence, Limestone Water's surcharge proposal, which imposes a self-termination, meets the objective articulated by the CAD. There is no need for a separate rate case expense proceeding that will certainly lead to further administrative, regulatory, and legal costs, including, but not limited to, an extensive discovery phase.³²⁶

³²³ *Hearing Tr. Vol. I*, p. 128:3-8 (Limestone Water Witness Ms. Duncan testifying that the proposed surcharge for rate case expense would terminate upon the collection of the Commission-authorized rate case expense.).

³²⁴ *Pre-filed Testimony of Consumer Advocate Witness David Dittmore*, p. 16:8-11, TPUC Docket No. 24-00044 (July 16, 2024) (hereinafter "*Dittmore*") (CAD Witness Mr. Dittmore testifying that "Most utilities in Tennessee, before the ARM legislation was in place, did not file rate cases every two years. For any period in which rates are in effect beyond the two-year period the Company would receive revenue for an expense that terminated at the end of the two-year period, resulting in increased net income for Limestone.").

³²⁵ *Id.*, p. 16:22-23 – p. 17:1.

³²⁶ *See Consumer Advocate's Response to Limestone Water's DR 1-32*, TPUC Docket No. 24-00044 (Jan. 6, 2025). The CAD's response provides little to no assurance to the Commission that such a separate proceeding would not be met with a lengthy procedural schedule, coupled with multiple discovery phases.

The Company recommends that the Commission reject Mr. Bradley's recommendation that a separate proceeding be created to analyze rate case expense. Such a recommendation is costly and administratively inefficient. Instead, the Commission should replace the estimated amount of rate case expense with actual costs incurred through a date after the hearing and filing of briefs. Given the Company's need to file regular rate cases, this amount should be amortized over two years. Finally, the Commission should allow the Company to recover this amortized amount through a separate surcharge that will cease immediately upon recovery of the designated amount of rate case expense.

XVII. INCOME TAX EXPENSE

Since commencing operations in Tennessee in March of 2021,³²⁷ Limestone Water has incurred operating losses of over \$2.6 million.³²⁸ The reason for these large operating losses is twofold. ***First***, upon acquiring a system, Limestone Water adopts the tariffs and rates in place for the acquired system. In many cases, despite increasing operating costs, the prior utility had not sought rate relief for years, if not decades. For instance, the Aqua Utilities systems had not had a rate increase since 2006. Moreover, the Shiloh Falls system had not had a rate increase since 2007,

³²⁷ *Freeman Direct*, pp. 5-6.

³²⁸ *Duncan Direct*, p. 4, footnote 3.

and the DSH-Lakeside Estates system had not had a rate increase since 2011.³²⁹ As a result, rates for these systems “were insufficient to cover the operating costs for operations.”³³⁰

Second, upon acquisition and providing professional operations to a system, operating expenses necessarily increase. As Mr. Duncan explained:

[M]any wastewater systems did not have operational mechanical components. For instance, many systems lacked operational aeration and disinfection equipment or redundant pumping at lift stations. There is a financial impact associated with the capital associated with replacing these failed components. What is often forgotten, however, is that the replacement of these failed components also causes an immediate increase in operations and maintenance costs. That is to say, a failed blower does not use any electricity. Therefore, once a blower is replaced and begins to operate, power costs necessarily increase. Still again, a disinfection system that does not add disinfection to the wastewater discharge is incurring very little chemical cost. When the disinfection system is replaced and operated properly, chemical costs will immediately increase. For this reason, and as I have indicated, it costs more to professionally operate a system, both from a capital investment and operating cost standpoint, than it does to operate a failing, non-compliance system.³³¹

These factors, when combined with Limestone Water’s desire to provide operational and customer service benefits prior to seeking rate relief, result in large operating losses.³³²

³²⁹ *Id.*, p. 9. Interestingly, the National Regulatory Research Institute and the Arizona Corporation Commission have pointed out that the failure to seek timely rate relief is symptomatic of distressed, small water and wastewater systems. (See, “[O]ften times the smaller companies fail to ask the Commission for sufficient rate increases or do not ask at all because of the time and complexity, either real or perceived, involved in a rate case filing; the small plants may be older, less efficient, and insufficiently maintained; management may not be skilled in properly running a water and sewer utility; and the smaller customer base means economies of scale are not at the same level as the larger companies. Also, it cannot be overlooked that the accuracy of the bookkeeping of smaller companies is often in question due to poor recordkeeping, uncertain cost allocation between personal and business expenses, and improper accounting procedures.” (*Duncan Direct*, p. 13, footnote 8 (citing *Viability Policies and Assessment Methods for Small Water Utilities*, National Regulatory Research Institute, June 1992, at pp. 3-4)). (See also characteristics of a non-viable utility: “A failure to file for regular rate increases and/or the inability to hire experts that may be needed to assist with processing rate cases, that contributes to rates that fail to cover expenses and liabilities, such as required repairs and maintenance, or to cover debt service requirements. (*Duncan Direct*, Exhibit MD-2: Arizona Policy on Acquisition Adjustment Recovery, at p. 16).

³³⁰ *Duncan Direct*, p. 9.

³³¹ *Duncan Direct*, pp. 12-13.

³³² In his testimony, Mr. D’Ascendis points out that Limestone Water’s willingness to acquire systems and incur operational losses prior to seeking rate relief results in a much higher business risk than other water and wastewater systems. *D’Ascendis Direct*, p. 49, (“These acquired systems often have significant challenges in all phases of service to their existing customers, and Limestone Water must invest significant capital to ensure safe and reliable service.

For practical purposes, the lack of operating income during the test period results in Limestone Water not having to pay income taxes during the test period. While the Consumer Advocate's workpapers reflect the lack of operating income during the test period, CAD failed to understand that while operating losses can reduce income taxes, they cannot result in a negative tax. As explained, "CAD assumed that this operating loss generated a negative state (-\$27,974) and federal (-\$84,504) income tax paid."³³³ As Mr. Thies pointed out, this is nonsensical. "It is well understood that the taxing entities do not share in the losses of a business. Rather, if a business loses money, regardless of the amount of the loss, the tax paid will simply be \$0."³³⁴

The practical effect of CAD's income tax mistake is to simultaneously increase the test period net operating income by the combined amount of \$112,478. "Recognizing that the revenue deficiency and resulting revenue requirement are dependent on the test year operating income, this has the effect of artificially decreasing the revenue requirement by \$112,478."³³⁵

Given CAD's failure to understand income tax calculations, and the resulting effect on Limestone Water's revenue requirement calculation, Mr. Thies recommends that "the Commission increase CAD's recommended revenue requirement by \$112,478 to reflect the erroneous calculation of a negative test year state and federal income tax."³³⁶

This is compounded by the fact that, as Mr. Duncan explains, many of the systems acquired by Limestone Water have historically failed to seek rate relief sufficient to cover operating costs. Consequently, the failure of existing rates to cover operating costs resulted in the Company incurring \$2.6 million of operating losses since commencing operations in the State in 2021. While rehabilitating troubled systems is generally a small portion of the operations of the companies that comprise my Proxy Groups, it is the majority of the operations of Limestone Water. As such, the Company's increased business risk as compared to the Proxy Groups should be reflected in its authorized ROE.").

³³³ *Thies Rebuttal*, p. 21 (citing to *Bradley Direct*, Schedule AB-1.1 and 1.2, column O, lines 41 and 42). *See also Hearing Tr., Vol. II*, p. 159:13-16 (Testimony of Limestone Water Witness Mr. Thies). ("The company is not seeking recovery of any of its historic losses, but argues that CAD's approach to income tax exacerbates the historic losses and is punitive to the company.")

³³⁴ *Id.*, p. 22.

³³⁵ *Id.*, p. 21.

³³⁶ *Id.*

XVIII. USE OF THIRD-PARTY O&M CONTRACTORS

Given its water and wastewater systems, there is a need for licensed, experienced operators to operate and maintain the Limestone Water systems in a manner that complies with Tennessee regulations. Two approaches have been developed for providing field operations services: (1) internalized field operations provided by utility employees and (2) utilization of third-party contractors.

Where water and wastewater utilities serve connections are concentrated in a relatively small area, the utility will typically hire, train, and retain operator employees. For instance, because it provides water service to approximately 87,000 connections through four separate systems concentrated within approximately 30 miles of each other in Southeast Tennessee,³³⁷ Tennessee American Water Company has internalized field operations for these service areas.³³⁸

In contrast, Limestone Water's systems serve approximately 573 water and 1,914 wastewater customers through 10 systems.³³⁹ The systems providing these services are geographically dispersed across the state.³⁴⁰ Recognizing the geographical dispersion and the limited number of customers, Limestone Water has decided to rely on third-party operations and maintenance ("O&M") contractors. As Mr. Thomas explains:

Given this geographical dispersion and the limited number of connections served in Tennessee, it would be almost impossible for Limestone Water to cost-effectively employ an in-house workforce of sufficient size to perform all required O&M functions necessary to fulfill the objective of providing customers safe, reliable, and timely utility service at reasonable rates. . . [G]iven the internal cost of hiring, training, and retaining qualified employees, it is more economical to retain third-party contractors who already have experienced operators and required state licenses.³⁴¹

³³⁷ *Thomas Direct*, pp. 5-6.

³³⁸ *Id.*

³³⁹ *Id.*, p. 6.

³⁴⁰ *See Thomas Direct*, Exhibit TT-1.

³⁴¹ *Id.*, pp. 6-7.

In its testimony, however, CAD questioned Limestone Water’s approach to providing O&M services through the utilization of third-party contractors. Specifically, Mr. Novak criticizes the Company’s utilization of third-party contractors without providing “any type of quantitative analysis” to verify that the “use of third-party contractors economically outweighs that of direct employees.”³⁴² Based simply upon a comparison to Tennessee Wastewater Systems, Inc. (“TWSI”), which is of similar size and relies upon direct employees, Mr. Novak challenged Limestone Water’s utilization of third-party contractors.³⁴³ Mr. Novak also asserted that the “use of direct employees is likely to provide better customer service to Tennessee communities.”³⁴⁴ For these reasons, Mr. Novak asserts that “the Commission should encourage the Company to balance its use of outside contractors with direct employees.”³⁴⁵

In its rebuttal testimony, Limestone Water addressed Mr. Novak’s misplaced assertions and lack of analytical support. First, Mr. Duncan questioned Mr. Novak’s singular acceptance of TWSI’s use of internalized operations as the best and most economical approach for procuring an operations staff for a geographically dispersed water/wastewater utility. Specifically, Mr. Duncan pointed out that while Mr. Novak criticized Limestone Water’s failure to present any type of quantitative analysis to support its approach, he also admitted “that there was not a competing analysis to justify the TWSI paradigm.”³⁴⁶ Given this, “one must necessarily wonder whether it is the TWSI approach, and not the Limestone Water approach, which is faulty.”³⁴⁷

In any event, Limestone Water sought to assuage Mr. Novak’s concerns. Specifically, Mr. Duncan pointed out that he had personally conducted quantitative analyses to determine the

³⁴² *Novak*, p. 15.

³⁴³ *Id.*

³⁴⁴ *Id.*, p. 16.

³⁴⁵ *Id.*

³⁴⁶ *Duncan Rebuttal*, p. 7.

³⁴⁷ *Id.*

feasibility of utilizing internalized operations for other CSWR affiliates. As Mr. Duncan described, these analyses were “comprehensive.”

In each instance, my analysis considered the location of each of the relevant systems and the drive time required to reach each location. The evaluation also considered the state mandated number of weekly visits, the current preventative work order schedule and the average number of personnel and man hours required to complete each work order. Additionally, the study considered factors such as the skill level, certification, and working experience of personnel needed to complete the work orders, the amount of management and administrative personnel needed to support the operations team, Limestone Water’s commitment to have personnel onsite within two hours of an emergency service call, the number of vehicles, equipment, tools, and facility requirements for the operations team, and the ability to scale an internalized team for future acquisitions and system growth.³⁴⁸

Mr. Duncan’s previous analyses to consider the feasibility of utilizing an internalized operations staff was focused on CSWR’s Missouri and Louisiana operations. Interestingly, reflecting CSWR’s open-mindedness and willingness to deploy an internalized operations staff where the analysis determines that it can be done in a cost-effective manner, the two analyses produced two different results.

First, Mr. Duncan’s comprehensive analyses showed that, in Missouri, a state which like Tennessee exhibits limited connections and geographic dispersion, “the cost of an internalized operations team would be approximately 40% higher than the cost of third-party operations.”³⁴⁹ In contrast, the analysis for CSWR’s Louisiana operations produced a different result.

Similarly, I recently conducted an analysis for CSWR’s Louisiana affiliate – Magnolia Water. Unlike Missouri, however, that analysis showed that for an area on the north shore of Lake Pontchartrain, Magnolia Water had reached a level of concentration that economically justifies the use of an internalized operations team. Given this, Magnolia Water has recently migrated these north shore systems from third-party operations to an internalized operations team.³⁵⁰

³⁴⁸ *Id.*, p. 8.

³⁴⁹ *Id.*, p. 7.

³⁵⁰ *Id.*, pp. 7-8.

Thus, where the economics dictate that an internalized operations team can be cost-effectively deployed, CSWR and its affiliates are willing to utilize an alternative operations paradigm.

Recognizing that “the resources and time necessary to conduct such an analysis are daunting,”³⁵¹ Mr. Duncan readily acknowledges that he has not conducted such an analysis for Tennessee. That said, given his previous work in this area, Mr. Duncan suggests that certain conclusions can be drawn from the Missouri and Louisiana studies. Specifically, Mr. Duncan advances the expert opinion that, like Missouri, “Limestone Water’s operations have not reached a level of concentration, either state-wide or on a regional basis, that would justify the transition to an internalized operations team.”³⁵² Given this, Mr. Duncan concludes that, “given the costs, not only wages and benefits, but also capital costs associated with vehicles, tools, and warehouses, a Tennessee-specific internalized operations team would be significantly more expensive than the current internalized operations model.”³⁵³

Mr. Novak’s suggestion that the “use of direct employees is likely to provide better customer service to Tennessee communities”³⁵⁴ is also undermined by the praise directed at CSWR and its use of third-party operators in other states. For instance, in a recent Missouri rate case, the Missouri Department of Natural Resources provided a letter indicating its appreciation for the actions taken by CSWR in acquiring and rehabilitating distressed water and wastewater systems.

When systems are unable to resolve their technical, managerial, or financial problems, one reliable solution is selling the system to a higher-performing utility operating company. In Missouri, Confluence Rivers Utility Operating Company, Inc. (CRUOC) is one of the few utility operating companies who is willing to acquire some of the most difficult failing systems. CRUOC has consistently taken swift actions after taking control of these systems to bring them into compliance by

³⁵¹ *Id.*, p. 8.

³⁵² *Id.*

³⁵³ *Id.*, pp. 8-9. *See also Hearing Tr., Vol. I*, pp. 109 - 113 (Limestone Water Witness Mr. Duncan testifying that the results of the Missouri and Louisiana studies analyzing the cost of internalized operations versus third parties underscore and support the Company’s conclusion that, at this stage, the use of third parties is the better and more economic course in Tennessee.)

³⁵⁴ *Novak Direct*, p. 16.

employing qualified operators, effectively administering and managing the systems, and investing in repairs and upgrades. CRUOC's willingness to acquire systems with long-standing compliance issues has proven to be beneficial to human health and the environment by bringing many of these systems into compliance with environmental laws. The Department looks forward to continuing to work with CRUOC as it continues to acquire wastewater and public water systems in Missouri.³⁵⁵

Similarly, in a recent Mississippi rate case, the Mississippi Department of Environmental Quality applauded the results produced by the CSWR business model.

As you may be aware, Great River Utility Company has recently acquired several drinking water systems across the state. Great River Utility has worked closely with the Bureau's compliance and field staff to maintain compliance with the various rules and regulations of the Safe Drinking Water Act. A viable entity such as Great River Utility desiring to help problematic drinking water systems by investing in them for improved services to citizens is very appreciated and supported by the Bureau. We believe the Bureau's coordination with the PSC to identify problematic drinking water systems and to identify long-term solutions, such as those offered by entities like Great River, is very beneficial to our shared goals and objectives.³⁵⁶

Limestone Water suggests that, given: (1) its previous experience conducting comprehensive studies designed to determine the cost-effectiveness of deploying an internalized operations team, (2) that results produced by the Company's utilization of third-party contractors, and (3) Mr. Novak's lack of analytical support for his misplaced assertions, the Commission should "disregard Mr. Novak's unsupported concerns regarding this issue."³⁵⁷

XIX. VEGETATION MANAGEMENT

As mentioned in the previous section, Limestone Water engages a third-party contractor to cost-effectively provide operations and maintenance services, in a manner that complies with state

³⁵⁵ *Thomas Direct*, p. 16, Exhibit TT-4.

³⁵⁶ *Id.*, pp. 16-17.

³⁵⁷ *Id.*, p. 9. *See also Hearing Tr., Vol. I*, p. 113:11-25 – p. 114:1-18 (Limestone Water Witness Mr. Duncan testifying that even with pre-acquisition due diligence, there is still a lot to learn about a system and its operations post-acquisition. "But simply being in the 24/7 water, wastewater service is really the only – truly the way to understand exactly what the assets are capable of doing and what service they are or are not providing.").

regulations, to its ten water and wastewater systems in the state. In his testimony, Mr. Thomas provides a detailed description of the process that Limestone Water utilizes to identify a qualified third-party O&M contractor.³⁵⁸ Based upon the process, Limestone Water executed a three-year O&M contract with Clearwater Solutions, LLC on April 1, 2024.³⁵⁹ The cost-effectiveness of this approach is unquestioned. “During a period when inflation has typically been 3-4%, the monthly charge as a result of that RFP only increased by 0.95%. Further, while the three-year O&M contract includes automatic annual escalators, those escalators are only 3%, which is also below the current annual rate of inflation.”³⁶⁰

The utilization of third-party O&M provider is memorialized in a contract that provides a comprehensive list of duties that are required to be undertaken on a regular basis in exchange for the monthly fee. “That contract provides an extensive list of “basic” services that are conducted by Clearwater in exchange for a flat monthly fee. Beyond these basic services, however, Clearwater is compensated on an hourly basis for “additional” services. Included in these “additional” services is vegetation management.”³⁶¹ As Mr. Thomas testified during the hearing, vegetation management is categorized as “additional” because it is primarily done on an as-needed basis: “you can imagine on particular days like today or months like January, there’s not much in the way of vegetation management going on.”³⁶²

In its testimony, the Consumer Advocate does not question the process utilized by Limestone Water to identify and select a third-party O&M provider. However, the Consumer Advocate suggests that Limestone Water is not taking vegetation management seriously because

³⁵⁸ *Thomas Direct*, pp. 8-10.

³⁵⁹ *Id.*, p. 11.

³⁶⁰ *Id.*, pp. 10-11.

³⁶¹ *Pre-Filed Rebuttal Testimony of Limestone Water Witness Todd Thomas*, pp. 3-4, TPUC Docket No. 24-00044 (Jan. 13, 2025) (hereinafter “*Thomas Rebuttal*”).

³⁶² *Hearing Tr., Vol. II*, p. 203:3-5.

vegetation management is not included in the basic services included in the O&M contract.³⁶³ Instead, vegetation management is conducted on an as-needed basis and compensated as an additional service.

In its rebuttal testimony, Mr. Thomas addressed Mr. Kaml's erroneous assertions. Specifically, Mr. Thomas pointed out that vegetation management is treated as an additional service because "the timing and need for such services are somewhat unpredictable."³⁶⁴

In months and years in which precipitation is plentiful, mowing and other vegetation management activities may be more frequent. On the other hand, in months and years in which drought conditions exist, mowing and other vegetation management activities may occur infrequently. It is difficult, at the beginning of a three-year contract, to attempt to predict accurately the exact number of times each month in which vegetation management activities will be necessary. Therefore, much like residential lawncare, the Company decided that it was more equitable to the ratepayers and the O&M provider to simply schedule vegetation management as needed and pay for those services as an "additional" service.³⁶⁵

Interestingly, when asked whether he had visited any of the Limestone Water systems in an attempt to justify his concern that Limestone Water does not take the issue of vegetation management seriously, Mr. Kaml acknowledged that he had not.³⁶⁶ Had he availed himself of such an opportunity, Mr. Kaml would have recognized that his concerns were misplaced. The following pictures, taken during the summer of 2024 and prior to Mr. Kaml's written testimony, demonstrate that Limestone Water regularly undertakes vegetation management in order to ensure access to all system components and to support maintainability, operability, and inspections by necessary state officials.

³⁶³ *Kaml*, pp. 46-47.

³⁶⁴ *Thomas Rebuttal*, p. 4.

³⁶⁵ *Id.*

³⁶⁶ *Id.*, p. 3, footnote 6 (referencing CAD response to DR 1-20).



Vegetation Management at Grasslands³⁶⁷



Vegetation Management at Candlewood Lakes³⁶⁸



Vegetation Management at DSH

³⁶⁷ *Thomas Rebuttal*, page 5.

³⁶⁸ *Id.*



*Vegetation Management at Chapel Woods*³⁶⁹

Given that vegetation management is treated as an additional service due to its unpredictability and given that Limestone Water has clearly demonstrated its commitment to vegetation management and system accessibility, Limestone Water recommends that the Commission reject Mr. Kaml's unsupported assertion that Limestone Water does not view the issue of vegetation management as important.

XX. RATE CONSOLIDATION

As of the end of the April 30, 2024 test period, Limestone Water owned and operated two (2) drinking water and eight (8) wastewater systems.³⁷⁰ As part of its effort to mitigate rate impacts, streamline the administration of rates and tariffs, and to achieve economies of scale, the Company proposed to consolidate rates across its water and wastewater systems. "Under that consolidation proposal, all Limestone Waters would be charged the same statewide rate for water or wastewater service."³⁷¹

The benefits of rate consolidation are well established in the industry and have been realized in most of the CSWR eleven (11) state footprint. **First**, as has been well-established in

³⁶⁹ *Id.*, p. 5.

³⁷⁰ *Freeman Direct*, p. 6.

³⁷¹ *Duncan Direct*, p. 15.

the industry, single tariff pricing helps to encourage the acquisition of small, troubled water and wastewater systems by spreading costs to a larger customer base. As the Missouri Commission Staff has noted with regards to consolidation requests involving Missouri American Water:

The systems that MAWC [Missouri American Water Company] has been purchasing are small systems with mostly small, primarily residential customer bases. In order to keep these small systems in proper working order so that they can continue to provide safe, adequate, and reliable service to their customers, investment is needed or will need to be made in the future. When improvements need to be made, the higher cost of upgrades must be spread over the smaller customer base, which may cause rates to increase dramatically. The dramatic increases may result in rate shock to consumers. . . In Staff's opinion, moving away from a strict DSP [District Specific Pricing] rate design philosophy will encourage not only MAWC, but other water and sewer utilities, to invest in Missouri.³⁷²

Indeed, the National Regulatory Research Institute has echoed this same benefit of consolidation.

Single tariff pricing is another way to encourage mergers. Enabling a uniform rate structure or consolidated rates for systems owned by the same entity may encourage a corporate utility to grow its business by acquiring – whether contiguous or interconnected or not – other systems. With consolidated pricing, customers pay the same price even though their individual system may have unique operating characteristics and needs. Single tariff pricing makes it easier to share costs among larger numbers of customers.³⁷³

Second, the consolidation of systems into a single rate tariff mitigates rate impacts and promotes affordability.

Staff agrees that spreading out costs over a larger customer base will tend to lower rates. Mr. Jenkins makes a good point that complying with regulations is expensive and spreading those costs over a larger customer base allows for the benefit of economies of scale to lower costs to the customers.³⁷⁴

* * *

The primary benefit of STP [Single Tariff Pricing] is that it spreads out costs to a larger customer base.³⁷⁵

³⁷² *Id.* (citing *Missouri Public Service Commission Case No. WR-2015-0301*, Busch Direct, pp. 8-9 (Jan. 20, 2016) (hereinafter “*Missouri PSC Case No. WR-2015-0301*”).

³⁷³ *Id.*, pp. 16-17 (citing *Small Water Systems: Challenges and Recommendations*, National Regulatory Research Institute (“NRRRI”), Feb. 7, 2008 (citing Joint Report of the US EPA and NARUC, *Consolidated Water Rates: Issues and Practices in Single Tariff Pricing*, September 1999).

³⁷⁴ *Id.* (citing *Missouri Public Service Commission Case No. WR-2017-0285*, Busch Rebuttal, pp. 15-16 (Jan. 24, 2018).

³⁷⁵ *Id.* (citing *Missouri PSC Case No. WR-2015-0301*, Busch Direct, p. 6).

Indeed, the ability for consolidation to mitigate against rate impacts is realized in this case. While the Company proposes to consolidate customers to a single water or wastewater rate, it still calculated rates on a stand-alone basis. “[I]f wastewater rates were established on a system basis for Aqua Utilities, the monthly rates would be \$149.82 as opposed to \$83.84.”³⁷⁶

Third, while there may be different technologies utilized at different systems, all Limestone Water systems share many of the same costs of service, generally use the same third-party operations firm, and are managed to the same service quality standards. As the Missouri Commission Staff pointed out:

The consistency in costs to serve customers between districts is attributable to the fact that most of the costs of providing service to Missouri-American’s customers are very similar, if not the same, from district to district because a portion of Missouri-American’s statewide costs are allocated to the various districts. So, for example, Missouri American’s costs of capital will be the same for each of the districts. When Missouri-American buys pipe, meters, and other supplies, the cost of those supplies will be the same in all districts. Similarly, management salaries for Missouri-American’s executives will be allocated equally to customers in each of the districts.³⁷⁷

Fourth, the development of a single set of tariffs provides for a heightened level of regulatory, administrative, and billing efficiency. Specifically, Limestone Water, as well as the Commission, won’t have to maintain familiarity with a multitude of rules and rates which should lower customer costs.

The reason for the difficulty in developing rates on a district-specific basis is the need to allocate corporate costs to each separate service territory. Corporate costs are a substantial portion of the cost of service for MAWC. Trying to determine the most equitable manner to allocate those costs to each service territory (especially the very small service territories) is difficult when attempting to determine the true

³⁷⁶ *Duncan Direct*, p 14. See also footnote 9 in re: CSWR-Texas’ experience with consolidation mitigating rate increases. “In a recent CSWR-Texas rate case, the Laguna Vista / Tres wastewater system would have had a \$537.55/month rate absent statewide consolidation. With consolidation, the rate for that system was mitigated to \$63.28/month.”

³⁷⁷ *Id.*, pp. 15-16 (citing *Missouri PSC Case No. WR-2015-0301*, p. 12, Report and Order (May 26, 2016)).

cost of service to those service territories. Combining these service territories in the manner as Staff has in this proceeding alleviates some of the need for precision.³⁷⁸

* * *

Consolidation “may benefit the customers through reduced rate case expense, as is it is likely that the Company will not have to allocate as many resources to future rate cases.”³⁷⁹

Fifth, since all systems will eventually require large capital investments over the next number of years, any perceived inequities associated with system subsidization will be short-lived and will eventually balance out. “All water systems will eventually require large capital investments. If the cost of making those investments is spread among consolidated districts, in the long term any perceived short-term unfairness will be balanced out.”³⁸⁰

Sixth, since consolidated tariffs provide a more simplified approach to rates and rules, consolidated rate tariffs are more consumer friendly than dozens of different rate sheets.³⁸¹

Given the multitude of benefits associated with rate consolidation, it is not surprising that consolidation has been adopted by most state utility commissions, including the Tennessee Commission. Specifically, while the Cartwright Creek system consists of four wastewater systems, “[t]he rates for three of those systems (Arrington Retreat, Hideaway, and Hardeman Springs) were previously consolidated at a flat monthly rate of \$55.25.”³⁸² Additionally, rates for CSWR affiliates operating in Louisiana, Mississippi, Texas, Missouri, and Kentucky have all seen the rates for its water and wastewater systems consolidated.³⁸³ Indeed, the following holding from the neighboring state of Kentucky is indicative of the logic utilized by state commissions in approving rate consolidation.

³⁷⁸ *Id.*, p. 16 (citing *Missouri PSC Case No. WR-2015-0301*, p. 7, Busch Direct).

³⁷⁹ *Id.*

³⁸⁰ *Id.* (citing to *Missouri PSC Case No. WR-2015-0301*, p.16, Report and Order (May 26, 2016)).

³⁸¹ *Id.*

³⁸² *Id.*, page 18.

³⁸³ *Id.*

The Commission supports the principle that utility rates should be cost based, and that in most circumstances each class of utility ratepayers should pay the costs which the utility incurs to provide that class with utility service. The majority of Bluegrass Water's customers are in the residential class. ***A separate rate for each geographically distinct merged system of Bluegrass Water would create unreasonable and undue hardship to individuals in some areas served by Bluegrass Water.***³⁸⁴

Finally, the following statement from the Arizona Corporation Commission in its policy statement on water policy is indicative of the thinking of most state utility commissions on the issue of rate consolidation.

The private water utility industry in Arizona is highly fragmented and problematic. This Commission has seen first-hand the extent to which small water utilities sometimes struggle both financially and operationally. The struggles of these companies can have direct impacts on the service they provide to their customers. Consolidating the small systems through purchases by larger systems has long been proposed as a solution to the problems associated with small systems and this Commission has endorsed consolidation through purchase at various times over the past decades. We recognize that consolidation can be an effective method of solving problems associated with small systems and propose several policies here to encourage consolidation directly.

* * * * *

Policy Regarding Rate Consolidation for Small Jointly Owned Water Utilities: Small Utilities in rural areas have largely been treated as stand alone entities by the Commission for ratemaking purposes. Traditionally, a strict interpretation of the "cost user pays" principle has inhibited small water systems that do not share common facilities from consolidating rate designs. As a general policy, the Commission believes that the practical benefits from allowing rate consolidation involving small water and wastewater utilities far outweigh the benefits of a strict adherence to this theoretical principle.³⁸⁵

Despite the multitude of unquestioned benefits associated with rate consolidation, the Consumer Advocate rejects rate consolidation in favor of the "cost user pays" principle rejected by the Arizona Commission. Specifically, Mr. Kaml asserts that, since consolidation "is likely to

³⁸⁴ *In re: Bluegrass Water Utility Operating Company*, Case No. 2022-00432, p. 96, (Feb. 14, 2024) (emphasis added).

³⁸⁵ *Duncan Direct*, p. 19 (citing Docket No. W-00000C-16-0151, Decision No. 75626, pp. 1, 18 (June 25, 2016) (emphasis added)).

cause concerns of fairness by customers,” the Consumer Advocate recommends that the Commission maintain distinct rates and tariffs for each separate water and wastewater system.³⁸⁶ Moreover, Mr. Kaml spends an inordinate amount of testimony attempting to distinguish the water / wastewater industry from the electric and gas industries in which the utilization of rate consolidation is unquestioned.³⁸⁷

As mentioned, the “concerns of fairness” excuse espoused by the Consumer Advocate has been routinely rejected as it applies to small, distressed water and wastewater systems. As Mr. Duncan points out, the concern that rate consolidation will result in subsidization and concerns of fairness is only applicable in the very short term. Over the long-term, however, fairness is maintained.

Mr. Kaml’s assertion is based upon short-term thinking. That is to say, in the short-term, one system (System A) may subsidize another (System B) because System B requires capital improvements that will be paid for by all customers, including System A. Again, such an assertion is only true in the short term. In the long term, however, consolidation leads to benefits for all customers. Specifically, all systems will eventually require improvements. So, while System B may be helping to pay for improvements at System A today, System A will help pay for improvements at System B tomorrow. That said, however, consolidation is not a zero-sum gain. As the Arizona Commission has recognized, consolidation will ultimately lead to benefits for both systems through a lower cost of capital. “Consolidating systems can allow for greater and less expensive access to capital. . . . As a general policy, the Commission believes that the practical benefits from allowing rate consolidation involving small water and wastewater utilities far outweigh the benefits of a strict adherence to this [cost user pays] theoretical principle.”³⁸⁸

Interestingly, while Mr. Kaml relies on the potential for subsidization and concerns of fairness as an excuse to reject rate consolidation, his position in this case actually results in subsidies.

³⁸⁶ See, *Kaml*, pp. 32-47.

³⁸⁷ *Kaml*, pp. 34-36.

³⁸⁸ *Duncan Direct*, p. 20 (citing *Docket No. W-00000C-16-0151*, Decision No. 75626, p. 18 (June 25, 2016); Exhibit MD-2.

It is interesting that Mr. Kaml rejects the notion of consolidation due to a strict adherence to the notion of cost-based rates and elimination of subsidies between systems. Despite this steadfast belief, CAD's recommendations in this case actually result in subsidies. Specifically, CAD did not attempt to calculate rates on a system by system basis. Instead, CAD simply allocated its proposed rate increase "evenly across-the-board to all customer service areas." This inherent assumption, that all systems deserve the same "across-the-board increase" was shown to be false in my Direct Testimony. There, I pointed out that, if "wastewater rates were established on a system basis for Aqua Utilities, the monthly rates would be \$149.82." Instead, as Mr. Novak points out, his proposal that the rate increase be allocated evenly across-the-board and equally to all rate elements, leads to a monthly wastewater rate for Aqua Utilities of \$48.47. It seems disingenuous for CAD to reject all of the benefits associated with rate consolidation in favor of cost-based rates that eliminate all subsidies, but then perpetuate subsidies.³⁸⁹

As shown, through its recommendation, the Consumer Advocate has prevented the multitude of benefits associated with the utilization of rate consolidation. The Consumer Advocate's sole justification for rejecting rate consolidation is concerns of "fairness" associated with the potential for system subsidies. Recognizing that, its own revenue allocation position in this case actually creates such subsidies, the Consumer Advocate's entire justification for rejecting rate consolidation is mooted. If the Consumer Advocate is content with the establishment of system subsidies, it would seem most logical that it would come with the multitude of benefits attendant to rate consolidation. Given the illogical nature of its position, and the multitude of benefits associated with rate consolidation, including encouraging the acquisition of distressed water and wastewater systems, the Commission should adopt the Company's proposal to consolidate rates.

XXI. RATE DESIGN

As indicated in the previous section, Limestone Water proposes to establish consolidated statewide rates across its entire Tennessee footprint. This would lead to the creation of a single wastewater revenue requirement and a separate drinking water revenue requirement. The

³⁸⁹ *Id.*, p. 21 (citing *Duncan Direct*, p. 14 and *Novak*, Attachment WHN-2).

wastewater revenue requirement would “be collected through a single flat charge multiplied by the appropriate equivalent residential unit (“ERU”) multiplier.”³⁹⁰

The utilization of a flat monthly charge is admittedly different than some of the Company’s current wastewater rate designs. For instance, the current Cartwright Creek wastewater tariff attempts to collect an increased amount of the revenue requirement from residential customers based upon the number of bedrooms.³⁹¹ On the commercial side, the Cartwright Creek wastewater tariff is based upon water usage despite the fact that Limestone Water does not have access to customer water usage.³⁹²

The current Cartwright Creek is needlessly complicated. As Mr. Silas explains, flat monthly charges are typical in the wastewater industry because wastewater customers do not typically have a meter on their wastewater output.

The reliance on a flat residential or commercial charge is typical in the wastewater industry and reflects the fact that wastewater customers do not normally have a meter on their wastewater output or that the wastewater provider does not have access to water usage information. In fact, several of the wastewater systems acquired or to be acquired by Limestone Water (i.e., Cartwright Creek residential customers, Chapel Woods, Sunset Cove, Cumberland Basin, Riverstone, and Lakeside residential customers) have flat monthly wastewater rates. More broadly, the use of flat monthly rates for wastewater usage is common for wastewater providers nationwide. For instance, state utility commissions have recently approved flat monthly wastewater charges for Limestone Water affiliates in Missouri, Kentucky, Louisiana, Mississippi, and Texas.³⁹³

More importantly, Mr. Silas asserts that given the economics of wastewater treatment, the utilization of flat monthly rates is still consistent with cost-of-service ratemaking.

Limestone Water is proposing a flat sewer service charge for customers as demand for sewer service is inelastic and there is little to no variance in the cost of service

³⁹⁰ *Silas Direct*, p. 18.

³⁹¹ *Novak*, p. 22.

³⁹² *Id.* See also Section XIV regarding Cartwright Creek commercial revenue imputation.

³⁹³ *Silas Direct*, p. 18. See also *Hearing Tr., Vol. II*, p. 370:4-25 – p. 371:1-16 (Limestone Water Witness Mr. Silas testifying regarding actual experiences in which relying on the number of bedrooms in a home to inform rates can cause confusion for rate design, using the Grassland facility as an example, and pointing out its complexity, where rate consolidation would simplify it.).

on the residential level due to higher demands placed on the system by varying water usage. The vast majority of costs in the wastewater cost of service are fixed and do not vary with fluctuating residential usage. As such, since very little of the cost of service varies with usage, it makes sense to collect the cost of service through a flat monthly charge rather than through a variable usage charge. Importantly, such a rate design also provides a level of revenue certainty as the utility is not exposed to revenue fluctuations as usage may vary depending on the weather or even due to seasonal fluctuations.

Additionally, sewer infrastructure is commonly designed to handle fluctuations efficiently, ensuring that increases in residential water usage do not proportionally increase the costs of sewage treatment. Furthermore, necessary regulatory standards and permit limits are consistent regardless of the flow volume, indicating that additional flow does not result in higher treatment costs. From the customer perspective, adopting a flat rate structure simplifies billing, making billing predictable for customers and reducing complexities associated with usage based billing.³⁹⁴

That said, the utilization of the ERU multiplier, which is well-established in the wastewater industry, does seek to reflect some difference in cost of service associated with larger commercial customers. Thus, while residential customers would be assigned an ERU of 1, certain commercial customers would be assigned a higher multiplier.

For commercial customers, Limestone Water is proposing to utilize a methodology in which each commercial connection is reviewed and assigned a commercial “type” in accordance with TDEC’s Design Criteria for Review of Sewage Works Construction Plans and Documents. . . This documentation provides typical wastewater flows from commercial and industrial sources, which Limestone has referenced to assign an equivalent residential unit (“ERU”) to each individual commercial customer. While many commercial customers such as office suites or small business will receive 1 ERU comparable to a residential customer, assigning higher ERUs based on higher flows will fairly distribute the recovery of the cost of service to the appropriate connections. For example, each residential customer is assigned 1 ERU whereas a country club may be assigned 40 ERU’s due to the large number of guests it serves on a daily basis. At a high level, this methodology assigns more cost to users with higher flows and ends up lowering the average residential bill as a result. One important variance to Limestone’s methodology is that middle schools and elementary schools were given a 0.5 factor to the total number of ERUs in an attempt to mitigate extremely high rates.³⁹⁵

³⁹⁴ *Id.*, p. 19.

³⁹⁵ *Id.*, p. 20.

While wastewater rates would be based upon a flat monthly charge, water rates would be comprised of two charges: (1) a base water rate which includes an assumed minimum level of monthly usage and (2) a volumetric charge for usage beyond the amount included in the monthly fixed charge. As Mr. Silas explains, the base water rate would be dependent on the meter / line size and is intended to recover the higher fixed cost of a larger meter / line. “Larger service lines and meters require additional capacity to be built into the water system to provide regular services and thus have a higher base charge.”³⁹⁶ The volumetric charge, on the other hand, is designed “to recover the costs that vary due to larger consumption of water by a customer, such as chemicals needed for treatment and power expense for pumping water from the source.”³⁹⁷

In its testimony, the Consumer Advocate sets out “several basic principles of rate design that are generally accepted in utility regulation” including:

- Practical attributes of simplicity, understandability, public acceptance, and feasibility of application;
- Freedom from controversies as to proper interpretation;
- Effectiveness of yielding total revenue requirements under the fair return standard;
- Fairness of the specific rates in the apportionment of total costs of service among different consumers.³⁹⁸

After acknowledging such “basic principles”, the Consumer Advocate then rejected the Company’s proposal and, instead, advocated for continued adherence to the current rate design for each system. Specifically, CAD proposes to apply the same increase to “each of the Company’s existing service rates.”³⁹⁹ In this regard, the Consumer Advocate makes zero effort to determine whether one rate design represents a best-in-class approach. Instead, Mr. Novak simply replicates the current rate design for each system.

³⁹⁶ *Id.*, p. 21.

³⁹⁷ *Id.*

³⁹⁸ *Kaml*, pp. 28-29.

³⁹⁹ *Novak*, p. 19.

As Mr. Silas notices, “the Grassland wastewater tariff is unworkable with various charges that vary depending on the number of bedrooms in the residence.”⁴⁰⁰ Given this, Mr. Novak’s proposes continuation of current system rate designs is not only “unwieldy and unworkable.”⁴⁰¹ It also violates each of the “basic principles of rate design” that the Consumer Advocate espouses.

Simplicity, Understandability, Public Acceptance, and Feasibility of Application: As Mr. Silas explains, the fact that the Consumer Advocate’s rate design proposal is not simple, understandable, acceptable, and feasible is reflected in the fact that residential wastewater charges are entirely dependent on the number of bedrooms.

Among other things, Mr. Novak’s rate design invites the dispute with customers regarding the functionality of a room. While the Company may assert for supportable traditional reasons that a room is a bedroom, the customer may contend that the room is an office, den, or theater room. Still further, the Company may be placed in a position of monitoring the local building permits to determine if a residence has added a bedroom to the home. Certainly this rate design is the antithesis of simple, understandable, acceptable and feasible. Undoubtedly this is the reason that each of the other service area rate designs maintains a single customer charge. Even the other Cartwright Creek service areas (Arrington Retreat, Hardeman Springs, Hideaway) utilize a flat monthly charge rate design identical to that now proposed by the Company. Yet, Mr. Novak desires to continue the convoluted rate design for Grasslands.⁴⁰²

Free from Controversies as to Proper Interpretation: “The Cartwright Creek – Grasslands wastewater rate design invites sure-to-come disputes with customers regarding the functionality of a room simply to reduce their monthly sewer bill.”⁴⁰³

Effectiveness of Yielding Total Revenue Requirements: The radically different rate design proposals perpetuated by Mr. Novak lead to “heightened risk of not achieving” the total authorized revenue requirement. For instance, the Company risks not achieving its revenue requirement for

⁴⁰⁰ *Id.*

⁴⁰¹ *Silas Direct*, p. 3.

⁴⁰² *Id.*, pp. 5-6.

⁴⁰³ *Id.*, p. 6.

the Grasslands service area due to disputes regarding functionality of rooms. Moreover, since the perpetuated rate designs for Cartwright Creek – commercial, Aqua Utilities, DSH – Lake Estates, and Shiloh Falls would bill wastewater based upon water usage, the Company’s revenues “would be directly tied to water usage” and “susceptible to weather variations.”⁴⁰⁴

Thus, in periods of heavy rain, when residences are not watering the yard and washing their cars, water usage would decline, and wastewater revenues would decrease with no corresponding decrease to the level of wastewater services used. As a result, Limestone Water would be at risk of not achieving its revenue requirement. Recognizing that operating costs for a wastewater utility do not vary significantly with flow, it is not reasonable nor regulatorily sound or supportable to keep a usage component and subject the utility to not achieving its authorized return.⁴⁰⁵

Fairness in the Apportionment of Total Costs of Service among Different Consumers:

Recognizing that Mr. Novak’s perpetuated rate design would collect significantly more revenues from customers based entirely on an additional bedroom(s), it is not fair in the apportionment of total costs among different consumers. As Mr. Silas represents, “sewer infrastructure is commonly designed to handle fluctuations efficiently, ensuring that increases in residential water usage do not proportionally increase the costs of sewage treatment.”⁴⁰⁶ Therefore, “given that increased water usage and wastewater flow does not cause an increase in wastewater operating costs, it is inherently unfair to charge residential wastewater customers in Cartwright Creek – Grassland service dramatically different amounts simply because they have another bedroom.”⁴⁰⁷

Given the multitude of problems inherent in the Consumer Advocate’s proposal to simply replicate the current system-specific rate design, and recognizing that these system-specific rate design proposals violate the Consumer Advocate’s own “basic principles of rate design”, the

⁴⁰⁴ *Id.*, p. 6.

⁴⁰⁵ *Id.*, pp. 6-7.

⁴⁰⁶ *Id.*, p. 7.

⁴⁰⁷ *Id.*

Company recommends that the Commission reject Mr. Novak’s “short-sighted” recommendation and implement the Company’s straightforward, fair, acceptable, and easy to apply rate design approach.

XXII. PRODUCTION COST CAP

In this case, Limestone Water is seeking to establish new rates for its two drinking water systems. While the Candlewood Lakes system utilizes its own production facilities to produce water, the Aqua Utilities system purchases water from the nearby Savannah Utility Department drinking water system.⁴⁰⁸ Given that Limestone Water relies upon Savannah Utility Department for drinking water, it is also “susceptible to rate changes as they are approved by the Savannah Utility Department.”⁴⁰⁹ For this reason, Limestone Water proposes a mechanism by which changes in wholesale cost of water “are passed through to the affected customers.”⁴¹⁰ The formula proposed by Limestone Water is:

$R = G/(1-L)$ where:

- R equals the proposed pass-through rate that Limestone is seeking to charge
- G equals the current rate charged by Savannah Utility Department per 1,000 gallons of usage
- L equals water loss as calculated by comparing the usage billed by Savannah Utility Department to Limestone Water and the usage billed by Limestone Water to individual customers.

In his Direct Testimony, Mr. Silas proposed that the water loss (“L”) be set at 18.45% - the actual water loss percentage for the Aqua Utilities system.⁴¹¹

⁴⁰⁸ *Silas Direct*, p. 22.

⁴⁰⁹ *Id.*, p. 22:11-12.

⁴¹⁰ *Id.*, p. 22:12-14.

⁴¹¹ *Id.*, p. 23:11.

In its testimony, CAD took exception to Limestone Water's proposed 18.45% water loss. Instead, Mr. Bradley suggests that the Commission has established a "15% baseline amount. . . in prior decisions."⁴¹² In support of this claim, Mr. Bradley directs the Commission to its prior decision in 08-00039 as well as CAD's brief in 24-00032.⁴¹³ In that brief, CAD asserts that the Commission established the 15% limit on unaccounted for water loss to recognize the "importance of conserving water, which is one of the state's most valuable natural resources." Further, CAD asserts that the percentage limiter is "designed to serve as an incentive for it to act as a good steward of the State's natural resources."⁴¹⁴

While claiming that the 15% limit is necessary to incent Limestone Water to "act as a good steward of the State's natural resources," CAD fails to recognize the tremendous efforts Limestone Water has already taken to conserve water at the Aqua Utilities system. Specifically, in Docket No. 06-00187, Aqua Utilities reported a lost and unaccounted for water percentage of 49.94%.⁴¹⁵ As a result of efforts undertaken by the Company, Limestone Water has been able to significantly reduce this percentage to just 18.45%. Specifically, as detailed by Mr. Thomas, upon acquiring the system, Limestone Water "identified many areas in which line repairs were necessary. These not only consisted of full main breaks, but line breaks as well. . . [T]he water exiting from main breaks can also cause massive water loss, as well as erosion and damage to property."⁴¹⁶ Recognizing the severity of the problem, "Limestone Water has worked quickly to address breaks and leaks."⁴¹⁷

⁴¹² *Bradley*, p. 8:14-16. Interestingly, while CAD claims that the 15% water loss percentage has been established in prior decisions, other Tennessee agencies would establish a much higher percentage. Specifically, as set forth by Mr. Silas, the Tennessee Board of Utility Regulation utilized a percentage of 40% as "excessive". *Silas Rebuttal*, p. 12.

⁴¹³ *Bradley*, p. 8, footnote 17.

⁴¹⁴ *Consumer Advocate Division Post-Hearing Brief*, Docket No. 24-00032, pp. 53-54 (Dec. 10, 2024).

⁴¹⁵ *Silas Rebuttal*, p. 11.

⁴¹⁶ *Thomas Direct*, p. 130.

⁴¹⁷ *Id.*, p. 131.

The Company's response, however, was not limited solely to repairing water leaks. As Mr. Thomas further described, the Company has also installed numerous isolation valves in the Aqua Utilities distribution system. "Isolation valves allow operations staff to isolate sections of pipe to minimize the number of customers affected by line breaks, line leaks, and maintenance work."⁴¹⁸ As Mr. Thomas relates, "[i]t is not uncommon for such valves to become lost over time due to vegetation overgrowth or after being covered by pavement. Therefore, shortly after acquisition, work was performed to identify and locate each of the isolation valves in the system"⁴¹⁹

As can be seen then, contrary to the implication of CAD's testimony, Limestone Water has worked diligently to conserve water and "to act as a good steward of the State's natural resources." Through these efforts, the Company has reduced the lost and unaccounted for water percentage at the Aqua Utilities system from 49.94% to 18.45%. Rather than recognize the tremendous efforts of the Company in acting as a "good steward," CAD instead seeks to punish the Company by recommending that the Commission disallow a portion of the costs of the water that it purchased from Savannah Utility Department. Limestone Water asks that the Commission utilize the actual lost and unaccounted for water percentage of 18.45% instead of the punitive recommendation advanced by CAD.

XXIII. ALTERNATIVE RATEMAKING MECHANISM

Limestone Testimony:

Duncan Direct, pages 39-40

Thies Direct, pages 39-40

Tennessee Code Annotated §65-5-103(d)(6) provides the option for TPUC regulated public utilities to opt-into an annual rate review mechanism ("ARM"). This opt in notice comes through a petition filed outside of a rate case. That said, however, the ARM petition must be based upon

⁴¹⁸ *Id.*

⁴¹⁹ *Id.*

necessary rate case findings and methodologies that allow for the subsequent implementation of such a mechanism.

While a definitive decision has not been made, Limestone Water is exploring the possibility of utilizing the ARM mechanism. “Generally, the affiliates of Limestone Water have filed general rate case or used other rate reset mechanisms to adjust rates every 1-3 years.”⁴²⁰ Given the need to regularly reset rates, “the Company intends to explore and evaluate requesting authorization to utilize the Commission’s Alternative Rate Mechanism to implement an annual rate review and adjustment of rates. This would, if pursued, provide a pathway to adjust rates for newly acquired customers and for the moderation of rate change impacts to existing customers.”⁴²¹

In light of the Company’s ongoing evaluation of the ARM mechanism, the Company asks that the Commission make the necessary findings in this case such that the Commission would be in a position to implement the ARM mechanism if sought.

XXIV. CONCLUSION

Standing alone, apart from the distressed or troubled nature of the systems, apart from the many operational, maintenance, and compliance issues, and apart from the fact that the previous owners did not seek to appropriately and periodically adjust the current rates, the proposed rates may appear abnormal. But the proposed rate increase cannot be fairly reviewed standing alone. When properly viewed in the overall context of the record in this proceeding, the proposed rate adjustments are not abnormal. For instance, if the previous owners had not failed to periodically adjust rates to meet the operational, maintenance, and compliance requirements, the proposed increase in this case would be much less and the perception of this case would no doubt be far different. Limestone has not sought to “cherry pick” only the best performing utilities in Tennessee.

⁴²⁰ *Thies Direct*, pp. 39-40.

⁴²¹ *Id.*, p. 40.

As noted by Limestone Water Witness Mr. Duncan, CSWR's mission is to solve the ever-increasing problems that exist in Tennessee, and indeed across the country.⁴²² This is in part why when the Commission approved these acquisitions – to address the problems associated with distressed and troubled systems.⁴²³ Post-acquisition, Limestone's immediate action in Tennessee was to invest in improvements to operate its systems in a professional and compliant manner. Limestone's initial action in Tennessee was not to file a rate case. Limestone knew these systems and communities needed help, and Limestone stepped up to serve its mission and these communities. As much as they, and the customers, would like to do so, neither Limestone Water, the CAD nor the Commission can reverse time and go back and change the actions or inactions of the previous owners. When viewed in the overall context of how these systems were operated prior

⁴²² *Hearing Tr., Vol. I*, p. 70:13-25 – p. 71:1-10 (Testimony of Limestone Water Witness Mr. Duncan); *Duncan Direct* at 3:12-22.

⁴²³ *See, e.g. Order Approving Settlement Agreement and Transfer of Systems, and Granting Certificate of Convenience and Necessity*, TPUC Docket No. 21-00053, p. 9 (Jan. 24, 2022) (Among the Commission's findings were the following: "In addition, as Cartwright avers that it does not have the financial resources to continue operating the systems, the Settlement Agreement permits the transfer of the ownership and operation of the wastewater systems to an operator of public utilities that is well equipped with the financial, technical, and managerial capabilities to successfully operate and enhance the systems as they require maintenance, repairs, upgrades, and replacements.) (emphasis added); and *Order Approving Petition for Reconsideration of Commission Order Approving Settlement Agreement and Transfer of Systems, Granting Certificate of Convenience and Necessity, and Disallowing Continuation of Candlewood Lakes POA's Water Availability Fee*, TPUC Docket No.21-00059, p. 16 (May 1, 2023) (Among the Commission's findings were the following: "Because the water system is currently in a state of non-compliance with water quality and environmental requirements, CLPOA and CLPWW lack the resources to address these issues of non-compliance, and Limestone has proposed to invest the capital necessary to obtain and maintain the water system's compliance, the public interest weighs heavily in favor of the transaction as proposed.") (emphasis added).

to being acquired by Limestone Water against how these systems are being operated by Limestone Water, coupled with the resulting benefits to customers, the proposed rates are just and reasonable.

RESPECTFULLY SUBMITTED,



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**APPLICATION OF CSWR-TEXAS
UTILITY OPERATING COMPANY,
LLC FOR AUTHORITY TO CHANGE
RATES**

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§
§
§

**PUBLIC UTILITY COMMISSION
OF TEXAS**

ORDER

This Order addresses the application of CSWR-Texas Utility Operating Company, LLC for authority to change rates and consolidate water and sewer systems. CSWR-Texas sought a water revenue requirement of \$7,365,181 and a sewer revenue requirement of \$2,263,293, for a total revenue requirement of \$9,628,474 based on a requested 9.62% overall rate of return. The requested water revenue requirement represents an increase of approximately \$3.6 million, and the requested sewer revenue requirement represents an increase of approximately \$1.2 million, over CSWR-Texas's adjusted water and sewer test-year revenues, respectively.

A hearing on the merits convened on September 7, 2023 through videoconference hosted by the State Office of Administrative Hearings (SOAH). On November 28, 2023, the SOAH administrative law judges (ALJs) filed a proposal for decision. The ALJs recommended that CSWR-Texas's request to consolidate its water and sewer systems be approved. They also recommended that the Commission set CSWR-Texas's retail water revenue requirement at \$7,022,645 and its retail sewer revenue requirement at \$2,143,473. On February 1, 2024, the ALJs filed a letter that made changes to the proposal for decision in response to the parties' filed exceptions and replies to exceptions to the proposal for decision.

The Commission adopts in part and rejects in part the proposal for decision, including findings of fact and conclusions of law, and authorizes CSWR-Texas to change its rates to the extent provided in this Order.

I. Discussion

The Commission may change findings of fact or conclusions of law in a proposal for decision if the Commission (1) "determines that the administrative law judge did not properly apply or interpret applicable law, commission rules or policies, or prior administrative decisions

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or issued a finding of fact that is not supported by the preponderance of the evidence; or (2) determines that a commission policy or a prior administrative decision on which the administrative law judge relied is incorrect or should be changed.”¹ The Commission’s changes to the proposal for decision, and the reasons and legal bases for the changes, are provided below.

The Commission’s determinations result in a total base-rate revenue requirement of \$8,962,178 for CSWR-Texas, or \$6,871,557 and \$2,090,621 for its water and sewer operations, respectively.² The Commission also authorizes an overall rate of return of 7.37% for CSWR-Texas.³

A. Section 13.145 Applicability

In this proceeding, CSWR-Texas requested to consolidate the rates and tariffs for 62 water systems and 12 sewer systems, respectively. Repealed Texas Water Code (TWC) § 13.145 previously contained the standard for Commission review of consolidation requests for water and sewer systems, otherwise known as the substantial-similarity standard. However, during this proceeding, the Texas Legislature passed H.B. 2373, which repealed TWC § 13.145, effective June 2, 2023.⁴ A significant issue between the parties in this proceeding was whether repealed TWC § 13.145 applied in this proceeding.⁵

The ALJs recommended that TWC § 13.145 does not apply to this proceeding. Among other recommendations, the ALJs recommended that Texas’s general savings clause in Texas Government Code § 311.031 does not require application of the substantial-similarity standard to CSWR-Texas’s requested consolidation because no prior action is taken in a contested case by the Commission until the Commission issues a final, non-appealable order.⁶

The Commission adopts the ALJs’ conclusion that repealed TWC § 13.145 does not apply to this proceeding but also clarifies the reasoning supporting its determination. Instead of making

¹ Tex. Gov’t Code § 2003.049(g)(1)–(2).

² Second Revised Commission Number Run at 2 and 9 (May 9, 2024).

³ *Id.* at 4 and 11.

⁴ Act of May 17, 2023, 88th Leg., R.S., Ch. 327 (H.B. 2373), eff. June 2, 2023.

⁵ Tex. Gov’t Code § 311.031.

⁶ Proposal for Decision at 16–17 (Nov. 28, 2023).

a more general conclusion regarding Texas's general savings clause, the Commission clarifies that it had not taken prior action under TWC § 13.145 in this proceeding within the meaning of Texas Government Code § 311.031(a)(1) when the repeal of the substantial-similarity standard became effective on June 2, 2023. Therefore, the Commission adds finding of fact 36A and conclusion of law 7A.

B. Annualized Test-Year Data

In its application, CSWR-Texas provided annualized data for 36 systems for which it did not have a full 12 months of historical, operational data. To account for this lack of data, CSWR-Texas annualized the months of data available for the acquired systems' fixed and variable costs at the time the application was filed.⁷

The ALJs recommended that CSWR-Texas's use of annualized data in this proceeding is appropriate. The ALJs stated that CSWR-Texas provided robust support for its annualization by providing actual operational data, which was then spread over 12 months. Furthermore, CSWR-Texas benchmarked its annualized test-year data with six months of operational data that demonstrated CSWR-Texas's annualized test-year data was accurate within 1% of actual costs.⁸

The Commission agrees with the ALJs' recommendations but clarifies that the use of annualized test-year data is not always appropriate and must be evaluated on a case-by-case basis. In this proceeding, CSWR-Texas provided sufficient analysis to establish that its use of annualized data was reasonable. The Commission adds new finding of fact 51A and modifies finding of fact 52 to reflect the Commission's policy clarification.

C. Rate Base

1. Acquisition Adjustments for Systems Approved Under the FMV Process

The ALJs recommended that, consistent with TWC § 13.305, all positive acquisition adjustments for the systems CSWR-Texas acquired under the fair market value (FMV) process subject to this proceeding should be included in rate base.⁹

⁷ CSWR-Texas Ex. 8, Direct Testimony of Chris Ekrut at 8–9, 13–14, 16–18, 29–30.

⁸ CSWR-Texas Ex. 8, Direct Testimony of Chris Ekrut at 6, 13–14; CSWR-Texas Ex. 12, Rebuttal Testimony of Brent Thies at 4–5, Exh. BT-R-1; CSWR-Texas Ex. 13, Rebuttal Testimony of Christ Ekrut at 4–5.

⁹ Proposal for Decision at 38.

The Commission rejects the ALJs' recommendation because the Commission clearly stated its position on this issue in its supplemental preliminary order issued on May 25, 2023.¹⁰ Acquisition adjustments for systems approved under the FMV process are expressly disallowed by Commission rules.¹¹ The Commission clarifies that for each system acquired using the FMV process, the ratemaking rate base is the one approved by the Commission in the underlying sale, transfer, or merger proceeding. The Commission's determination is reflected in the second revised number run filed on May 9, 2024. The Commission adds new conclusion of law 13A to reflect its determination.

D. Rate of Return

1. Return on Equity

The ALJs recommended that a 0.5% upward risk premium adjustment to CSWR-Texas's return on equity was warranted due to CSWR-Texas's exceptional business risk. CSWR-Texas based its request for such an adjustment on its relatively small size and its acquisition of mainly troubled water and sewer systems that, it asserted, have unique operational challenges requiring significant up-front investment without guaranteed recovery.¹²

The Commission rejects the ALJs' recommendation and determines that no upward risk premium adjustment to CSWR-Texas's return on equity is warranted based on the evidentiary record. The business risks on which CSWR-Texas based its request are greatly diminished by the rates approved by this Order. Therefore, the Commission determines that an appropriate return on equity for CSWR-Texas is 9.53%. To reflect its determination, the Commission deletes finding of fact 74, adds new finding of fact 74A, and modifies finding of fact 75.

2. Cost of Debt

Because CSWR-Texas has no debt, its cost of debt must be estimated in this proceeding. The ALJs recommended that an appropriate cost of debt for CSWR-Texas is 6.06%. The ALJs made this recommendation by selecting the mid-point between the first six months of 2023 average bond yield data for utilities with a Baa rating (5.60%) and the actual weighted effective cost of

¹⁰ Supplemental Preliminary Order (May 25, 2023).

¹¹ 16 TAC § 24.41(d)–(f).

¹² CSWR-Texas Ex. 10, Direct Testimony of Daniel D'Ascendis at 8, 55; CSWR-Texas Ex. 11, Rebuttal Testimony of Jeremiah Cox at 14–16.

debt for CSWR-Texas's affiliates in Louisiana, Missouri, and Kentucky (6.52%). However, the ALJs noted that a 6.52% cost of debt is out of line with historically approved costs of debt and there is insufficient data to prove a 6.52% cost of debt is reasonable.¹³

The Commission rejects the ALJs' recommended 6.06% cost of debt. The Commission determines that the range recommended by the proposal for decision is unreasonable and that using the range to select a midpoint would be arbitrary and capricious. Using average bond yield data from the first six months of 2023 for utilities with a Baa rating is inappropriate because this proceeding relies on 2022 test-year data for CSWR-Texas's allowable expenses, cost of service, and rate base. It would be inconsistent to mismatch CSWR-Texas's test-year data with debt issued or approximated from a different time period.¹⁴ Further, CSWR-Texas failed to provide comparable information on the regulatory business environments in the states of its affiliates that would permit analysis of appropriate long-term debt costs.¹⁵ Therefore, the Commission determines that a 5.03% cost of debt based on the average bond yields for utilities with a Baa bond rating in 2022 is the most reasonable evidence on cost of debt for CSWR-Texas in the evidentiary record.

To reflect its determination, the Commission adds finding of fact 76A and modifies finding of fact 77 for accuracy and completeness. Further, the Commission adds finding of fact 78A, deletes finding of fact 79, and modifies findings of fact 81 and 82 to reflect its determination and for accuracy. Additionally, the Commission modifies finding of fact 86 and conclusion of law 16 to reflect the follow-through impacts of its determinations as to CSWR-Texas's return on equity and cost of debt.

E. Pass-Through Provisions

The ALJs recommended approval of CSWR-Texas's requested pass-through provision, which used averaged line loss from three distinct systems for groundwater production fees assessed by the Upper Trinity Groundwater Conservation District.¹⁶

¹³ Proposal for Decision at 76–77.

¹⁴ Commission Staff Ex. 1A, Direct Testimony of Emily Sears at 21–22.

¹⁵ Proposal for Decision at 74; Tr. at 143:9–16 (Sears Redirect) (Sept. 7, 2023).

¹⁶ CSWR-Texas Ex. 8, Direct Testimony of Chris Ekrut at 46–47.

The Commission rejects the ALJs' recommendation and concludes that a separate pass-through provision should be charged for each of the three distinct systems. By averaging the line loss of the distinct systems into a single provision, CSWR-Texas's proposal results in customers of systems with lower line loss subsidizing customers of systems with higher line loss, which does not appropriately incent CSWR-Texas to improve line loss. Because the actual line loss for each system is known, it is reasonable to approve separate pass-through provisions for each of the three distinct systems.¹⁷

To reflect its determination, the Commission modifies finding of fact 94 and adds new finding of fact 94A. The Commission also corrects the internal reference in finding of fact 97 for accuracy.

F. Rate-Case Expenses

The ALJs recommended that CSWR-Texas should recover \$459,367 in rate-case expenses, including a \$25,000 disallowance for a fixed-fee billing arrangement, to be surcharged over a 24-month period. The ALJs based their recommendation on information provided by CSWR-Texas and updated in its reply brief.¹⁸

The Commission rejects the ALJs' recommendation and instead authorizes CSWR-Texas to recover \$419,459 in rate-case expenses. The most recent affidavit from a licensed attorney capable of providing testimony on the reasonableness of rate-case expenses, which is dated August 24, 2023, supports reasonable rate-case expenses totaling \$444,459.¹⁹ Subtracting the \$25,000 fixed-fee billing arrangement appropriately disallowed by the ALJs in the proposal for decision from \$444,459 yields a rate-case expense total of \$419,459. The Commission authorizes CSWR-Texas to establish a surcharge to recover \$419,459 in rate-case expenses. As calculated by Commission Staff in its second revised number run, CSWR-Texas is authorized to collect a \$1.60 monthly charge per meter equivalent for 24 months, or until the total \$419,459 amount is

¹⁷ Commission Staff Ex. 3, Direct Testimony of Kathryn Eiland, Exh. KE-11.

¹⁸ CSWR-Texas Ex. 12, Rebuttal Testimony of Brent Thies, Exh. BT-R-3; CSWR-Texas Reply Brief, Exhibit A.

¹⁹ CSWR-Texas Ex. 12, Rebuttal Testimony of Brent Thies, Exh. BT-R-3 at 1-4.

collected.²⁰ For any additional rate-case expenses, CSWR-Texas is authorized to book those expenses in a regulatory asset and seek recovery in a future proceeding.

To reflect its determination, the Commission adds finding of fact 98A, modifies findings of fact 100 and 101 and conclusion of law 21, and adds conclusion of law 21A.

G. Additional Changes

The Commission makes the following additional changes to the proposal for decision.

Consistent with prior Commission orders, the Commission adds new findings of fact 32A through 32Q to address the testimony filed in this proceeding and adds new finding of fact 32R to address the evidentiary record. The Commission also adds new findings of fact 32S through 32EE to reflect the additional procedural history after the close of the evidentiary record at SOAH.

The Commission adds finding of fact 34A to address that the rates approved by this Order differ from the interim rates that were effective as of November 30, 2023. The Commission deletes the second sentence of finding of fact 40 because it makes a statement of general applicability that is unnecessary for the Commission to make in this proceeding. The Commission modifies findings of fact 56 and 57 to reflect that CSWR-Texas's total rate base is identified in Commission Staff's second revised number run. The Commission modifies finding of fact 70 to recite the facts of the clarification filed by CSWR-Texas on January 11, 2024. In addition, the Commission modifies finding of fact 90 to reflect the determinations made by the Commission in this proceeding. Further, the Commission deletes finding of fact 102 because the Commission disagrees that the phased-in rate proposal made by the Office of Public Utility Counsel (OPUC) was unreasonable. Commission rules provide for phased-in rates as a reasonable alternative ratemaking methodology. Further, finding of fact 103 provides a sufficient basis for why phased-in rates are not necessary in this proceeding.

The Commission modifies conclusion of law 2 to accurately reflect the Commission's statutory authority and conclusion of law 6 to correct a rule citation. In addition, the Commission modifies conclusion of law 11 because there are no findings of fact regarding class A rate filing instructions and the reference to the Commission's class A rate filing instructions is ultimately

²⁰ Second Revised Number Run at 20, Rate Case Expense Surcharge Calculation.

irrelevant to the Commission's consideration of a class B rate application. The Commission arrives at the same decision as recommended by the ALJs in conclusion of law 11 without relying on the class A rate filing instructions. The Commission also modifies conclusion of law 17 to reflect that the rates approved by this Order are just and reasonable, as required by TWC § 13.182. Lastly, the Commission adds conclusion of law 21B to reflect that CSWR-Texas is required to calculate whether a surcharge or refund is owed to customers for the difference between the rates approved by this Order and the interim rates that went into effect on November 30, 2024.

H. Minor and Non-Substantive Changes

The Commission makes other minor modifications or corrections to the proposed findings of fact and conclusions of law for such matters as capitalization, spelling, punctuation, style, grammar, readability, and conformity with the Commission's order-writing format.

II. Findings of Fact

The Commission adopts the following findings of fact.

Applicant and Background

1. CSWR-Texas Utility Operating Company, LLC is a Texas limited liability company registered with the Texas Secretary of State under filing number 803367893.
2. CSWR-Texas holds certificate of convenience and necessity (CCN) number 13290, which obligates it to provide retail water service in its certificated service areas in Angelina, Aransas, Austin, Burleson, Burnet, Calhoun, Camp, Denton, Ellis, Erath, Gillespie, Guadalupe, Harris, Hays, Hidalgo, Hood, Jackson, Kerr, Limestone, Llano, Lubbock, McCulloch, Montague, Montgomery, Navarro, Orange, Parker, Polk, Robertson, Sabine, San Augustine, Victoria, Wilson, and Wood counties.
3. CSWR-Texas holds CCN number 21120, which obligates it to provide retail sewer service in its certificated service areas in Aransas, Bexar, Calhoun, Hidalgo, Hood, Jackson, Lubbock, Navarro, Orange, Parker, and Polk counties.
4. CSWR-Texas operates several public water systems registered with the Texas Commission on Environmental Quality (TCEQ) and several sewer systems permitted with the TCEQ.

5. As of December 31, 2022, CSWR-Texas provided for compensation potable water service to approximately 7,106 connections under CCN number 13290 and sewer service to approximately 2,753 connections under CCN number 21120.
6. Since entering the Texas market in December 2020, CSWR-Texas has acquired numerous water and wastewater systems, some at the behest of the Commission or other state agencies.

Application

7. On February 3, 2023, CSWR-Texas filed a class B water and sewer rate filing package (the application) with the Commission seeking authority to change rates.
8. The application represents CSWR-Texas's first ever comprehensive rate filing before the Commission.
9. The application used the 12-month period ending December 31, 2022, as the historical test year, adjusted for known and measurable changes.
10. As part of the application, CSWR-Texas seeks to consolidate 62 water systems under a single water rate tariff and 12 wastewater systems under a single wastewater tariff.
11. CSWR-Texas seeks an annual revenue requirement of \$7.4 million in water revenue and \$2.3 million in wastewater revenue, totaling an overall \$9.7 million.
12. CSWR-Texas's requested water revenue requirement represents an increase of \$3.6 million over adjusted test-year revenues.
13. CSWR-Texas's requested wastewater revenue requirement represents an increase of \$1.2 million over adjusted test-year revenues.
14. CSWR-Texas requested an overall rate of return of 9.62%.
15. CSWR-Texas also requested approval of varying pass-through charges for some of its water and wastewater systems.
16. In Order No. 3 issued on March 30, 2023, the Commission ALJ found the application administratively complete and suspended CSWR-Texas's requested effective date to the earlier of 265 days or until interim rates were approved.

17. CSWR-Texas's suspended effective date is November 30, 2023.

Notice of the Application

18. On February 3 and March 10, 2023, CSWR-Texas provided notice by first-class mail to each customer or other affected party.
19. No party challenged the adequacy of the notice provide by CSWR-Texas, and Commission Staff recommended that CSWR-Texas's notice of the application be deemed sufficient.
20. In Order No. 3, the Commission ALJ found CSWR-Texas's notice of the application sufficient.

Interventions and Protests

21. More than 10% of the ratepayers affected by the proposed rate increases filed protests in this docket.
22. The 316 intervenors granted party status in this proceeding are listed in Order Nos. 2, 4, 5, and 6, issued on February 24, and April 11, 12, and 13, 2023, respectively, and SOAH Order Nos. 1, 3, and 4 issued on May 17, June 27, and July 12, 2023, respectively.
23. SOAH Order No. 3 aligned the intervenors by water or wastewater system, and SOAH Order No. 4 assigned a designated representative to each aligned group.
24. SOAH Order No. 5, issued on August 1, 2023, dismissed all but 16 intervenors for failure to participate in the proceeding because neither they nor their designated representative filed testimony or a statement of position by the deadline established in SOAH Order No. 3.
25. The remaining intervenors are Robert Hill and Bob Ellenberger, designated representatives for Quiet Village II; Jennifer Washburn, designated representative for Emerald Forest; Heather Thompson, designated representative for Treetop; Melissa Allred, designated representative for Spanish Grant; Barry Wolf, designated representative for Settlers Estates; LaDonna Turner, designated representative for Grande Casa; Jim Rieber; Alison Rieber; Curtis Quarles; Andrew Clogg; Thuy Howeth; Kim Hilmer; Heather Baughman; Dominion Homeowners Association; and OPUC.

Referral to SOAH

26. On May 9, 2023, the Commission referred the application to SOAH, and two days later the Commission issued its preliminary order identifying 62 issues to be addressed in this proceeding.
27. On May 25, 2023, the Commission issued its supplemental preliminary order regarding a threshold issue and adding additional issues on fair market value acquisition adjustments.
28. The hearing on the merits convened by videoconference on September 7, 2023, and concluded the same day.
29. The SOAH ALJs admitted exhibits offered by CSWR-Texas, Commission Staff, OPUC, and Mr. Hill on behalf of Quiet Village II. Dominion Homeowners appeared at the hearing but did not offer any exhibits.
30. No other party appeared at the hearing and offered exhibits.
31. On September 22, 2023, CSWR-Texas, Commission Staff, and OPUC filed initial post-hearing briefs.
32. The record closed on September 29, 2023, with the filing of reply briefs by CSWR-Texas, Commission Staff, and OPUC.

Testimony

- 32A. On February 10, 2023, CSWR-Texas filed the direct testimonies and workpapers of Josiah Cox, Todd Thomas, Jacob Freeman, Mike Duncan, Dane Watson, and Dylan D'Ascendis.
- 32B. On February 13, 2023, CSWR-Texas filed the direct testimonies and workpapers of Brent Thies and Chris Ekrut.
- 32C. From June 22, 2023, to July 13, 2023, TX Treetop filed the testimonies of Jim Rieber, Alison Rieber, Curtis Quarles, Kim Hilmer, Heather Baughman, Andrew Clogg, and Heather Thompson.
- 32D. On July 14, 2023, OPUC filed the direct testimony and exhibits of Mark Garrett, Quiet Village II filed the testimony of Robert Hill and Robert Eilenberger, Emerald Forest filed the testimony of Jennifer Washburn, Spanish Grant filed the testimony of Melissa Allred,

TX Treetop filed the testimony of Thuy Howeth, and Settlers Estates Sec II filed the testimony of Barry Wolf.

- 32E. On July 18, 2023, Grande Casa filed the testimony of LaDonna Turner.
- 32F. On August 4, 2023, Commission Staff filed the direct testimonies and workpapers of Emily Sears, Ethan Blanchard, James Euton, and Kathryn Eiland.
- 32G. On August 4, 2023, CSWR-Texas filed an objection and motion to strike portions of testimony of intervenors Robert Hill and Robert Eilenberger, Andrew Clogg, Heather Baughman, Curtis Quarles, and LaDonna Turner.
- 32H. On August 15, 2023, Commission Staff filed errata to the direct testimonies of Kathryn Eiland and Ethan Blanchard.
- 32I. In SOAH Order No. 6 filed on August 17, 2023, the SOAH ALJs granted in part and denied in part CSWR-Texas's motion to strike portions of intervenor testimony.
- 32J. On August 25, 2023, CSWR-Texas filed the rebuttal testimonies of Josiah Cox, Brent Thies, Chris Ekrut, and Dylan D'Ascendis.
- 32K. On August 28, 2023, Commission Staff filed errata to the direct testimonies of James Euton, Kathryn Eiland, and Ethan Blanchard.
- 32L. On August 28 and 29, 2023, CSWR-Texas filed supplements to the rebuttal testimony and workpapers of Brent Thies.
- 32M. On September 1, 2023, OPUC filed errata to the direct testimony of Mark Garrett.
- 32N. On September 5, 2023, CSWR-Texas filed errata to the rebuttal testimony of Josiah Cox.
- 32O. On September 8, 2023, Commission Staff filed errata to the direct testimony of Ethan Blanchard and Kathryn Eiland.
- 32P. On September 19, 2023, the parties jointly filed a motion to correct substantive errors in the hearing on the merits transcript.
- 32Q. In SOAH Order No. 9 filed on October 3, 2023, the SOAH ALJs granted the parties' motion to correct the transcript.

Evidentiary Record

- 32R. At the hearing on the merits on September 7, 2023, the SOAH ALJs admitted the following items into the evidentiary record:
- a. CSWR-Texas Exhibit Nos. 1, 1A, 1B, 2-6, 6A, 7, 8, 8A, 9-14, and 16;
 - b. OPUC Exhibit Nos. 1-5; and
 - c. Commission Staff Exhibit Nos. 1A, 1B, 2-15, 17-27, 29-31, 33, and 32.

Proposal for Decision

- 32S. On November 28, 2023, the ALJs filed a proposal for decision.
- 32T. On January 11, 2024, CSWR-Texas, Commission Staff, and OPUC filed exceptions to the proposal for decision.
- 32U. On January 25, 2024, CSWR-Texas, Commission Staff, and OPUC filed replies to exceptions to the proposal for decision.
- 32V. On February 1, 2024, the SOAH ALJs filed their response to the exceptions and replies to exceptions and made certain modifications to the proposal for decision.
- 32W. On March 8, 2024, the Commission Counsel filed a memorandum requesting that Commission Staff file an updated number run to reflect the decisions made by the Commission at the March 7, 2024 open meeting.
- 32X. On March 27, 2024, Commission Staff filed its number run with updated schedules for CSWR-Texas based on the decisions made by the Commission at the March 7, 2024 open meeting.
- 32Y. On April 2, 2024, the Commission Counsel filed a memorandum requesting that Commission Staff clarify its calculated rate of return for CSWR-Texas.
- 32Z. On April 2, 2024, CSWR-Texas filed a response to Commission Staff's number run and requested that Commission Staff be directed to recalculate its number run analysis to include \$1,110,404 in ratemaking rate-base it asserted was erroneously excluded from its ratemaking rate-base.

- 32AA. On April 12, 2024, Commission Staff filed a revised number run and clarified that the correct rate of return for CSWR-Texas is 7.37%. Commission Staff also provided revised schedules that used a 7.37% rate of return.
- 32BB. On April 16, 2024, CSWR-Texas filed a response to Commission Staff's revised number run and reasserted its request that Commission Staff be directed to recalculate its number run analysis.
- 32CC. At its April 25, 2024 open meeting, the Commission clarified that for each system acquired using the FMV process, Commission Staff's number run should include the ratemaking rate base approved by the Commission for systems in the underlying sale, transfer, or merger proceeding. The Commission ordered the Office of Policy and Docket Management to direct Commission Staff to file a revised number run.
- 32DD. On April 26, 2024, the Commission Counsel filed a memorandum requesting that Commission Staff conduct the recalculation requested by the Commission at its April 25, 2024 open meeting.
- 32EE. On May 9, 2024, Commission Staff filed its second revised number run with updated schedules for CSWR-Texas based on the determinations made by the Commission at the March 7, 2024 open meeting and the clarification made by the Commission at its April 25, 2024 open meeting.

Interim Rates

33. On September 8, 2023, CSWR-Texas, Commission Staff, and OPUC (collectively, the movants) filed an uncontested motion to establish interim rates effective November 30, 2023, to be set at the level determined in the proposal for decision.
34. The SOAH ALJs granted the movants' request and therefore the rates recommended in the proposal for decision were effective on an interim basis beginning November 30, 2023.
- 34A. The rates approved by this Order differ from the interim rates that were effective beginning November 30, 2023.

Consolidation of Systems

35. Consolidation of systems can create economies of scale and larger customer bases so that customers can afford the benefits and share the costs of being served by a more capable utility.
36. On June 2, 2023, the Legislature repealed TWC § 13.145, which set forth the substantial-similarity standard for consolidating multiple systems under a single tariff.
- 36A. The repeal of TWC § 13.145 was effective on June 2, 2023.
37. The repealed TWC § 13.145 does not apply to CSWR-Texas's request to consolidate the systems identified in the application.
38. The cost to serve customers via small, standalone, rural, community-based water and wastewater systems is higher on a per-meter basis than for larger systems within CSWR-Texas's service area.
39. The majority of the water and wastewater systems CSWR-Texas seeks to consolidate will have lower rates on a consolidated basis compared to a standalone system basis.
40. The affordability of service under a singular function (e.g., water or wastewater service) can be measured by whether the average customer bill exceeds 2% to 2.5% of the median household income (MHI).
41. If consolidated, all of the water and wastewater systems identified in the application will have an average monthly customer bill for 5,000 gallons of water or wastewater service that does not exceed 2.5% of the MHI. The average monthly bill for all but six systems will be under 2.0% of the MHI.
42. On a standalone basis, if not consolidated, the average customer bill for 5,000 gallons of water or wastewater service would exceed 2.5% of the MHI for 13 of the systems subject to this proceeding.
43. Consolidation of the requested systems is in the public interest because it promotes affordability and mitigates rate impacts to customers over the short term and long term.

44. Consolidation of the requested systems reduces the need for frequent, complicated, and expensive rate cases, further promoting affordability to customers and conserving governmental resources.
45. Consolidation of the requested systems is in the public interest and would produce just and reasonable rates for the customers of each consolidated system.
46. Consolidation of the requested systems aligns with the Commission's objective to expedite the acquisition, consolidation, and improvement of distressed water and sewer utilities and promotes conservation.

Annualization of Test-Year Data

47. CSWR-Texas acquired 36 of the systems identified in the application during the test year and therefore did not have a full 12 months of historical operational data for those systems.
48. To account for the lack of test-year data and to reflect a full year's worth of expenses for each of those systems, CSWR-Texas annualized the data it did have available for those systems' fixed and variable costs at the time it filed the application to determine each system's annual revenue requirement.
49. In rebuttal testimony, CSWR-Texas updated its annualized data for those systems with an additional six months of actual operating expense data and validated the accuracy of its annualized data. The updated data showed CSWR-Texas's actual costs were only 1% higher than the annualized amounts included in the application.
50. Commission Staff previously calculated a water utility's revenue requirement based on annualized test-year data in Docket No. 50200,²¹ and the Commission previously approved a revenue requirement for an electric utility based on annualized data in Docket No. 52828.²²

²¹ *Application of Undine Texas, LLC and Undine Texas Environmental, LLC for Authority to Change Rates*, Docket No. 50200, Order (Nov. 5, 2020).

²² *Application of Golden Spread Electric Cooperative, Inc. to Change Wholesale Transmission Service Rates*, Docket No. 52828, Order (Mar. 9, 2023).

51. No party challenged the accuracy of CSWR-Texas's annualized data or its subsequent analysis showing that the annualization was within 1% accuracy of CSWR-Texas's actual operating costs.
- 51A. The use of annualized data is not always appropriate and should be evaluated on a case-by-case basis.
52. CSWR-Texas provided sufficient data, including benchmarking its annualized test-year data with six months of operational data that demonstrated the annualized data was accurate within 1% of actual cost, for the Commission to determine that CSWR-Texas's annualization adjustments are an appropriate known and measurable change in this proceeding and should be allowed.

Cost of Service

53. CSWR-Texas's requested allowable expenses are reasonable and necessary and should be approved.
54. No party recommended any specific disallowances to CSWR-Texas's requested operations and maintenance expenses.
55. No party challenged CSWR-Texas's requested depreciation rates and expense, tax expense, or affiliate expense except as flow-through adjustments from other recommended changes.

Rate Base

56. CSWR-Texas's total rate base for the water systems identified in the application is \$18,222,843, as set forth in Commission Staff's second revised number run filed on May 9, 2024.
57. CSWR-Texas's total rate base for the wastewater systems identified in the application is \$6,374,502, as set forth in Commission Staff's second revised number run filed on May 9, 2024.
58. CSWR-Texas's requested rate-base components are prudent and should be incorporated into rate base.

59. No party challenged the prudence of any specific item included in CSWR-Texas's requested invested capital.
60. Notwithstanding CSWR-Texas's requested acquisition adjustments, no party challenged the recovery of any specific item included in CSWR-Texas's requested invested capital or transaction closing costs.
61. The rate base and ratemaking rate base approved in prior sale, transfer, or merger proceedings applicable to the application were known in total at the conclusion of the test year.
62. CSWR-Texas's requested rate base is prudent and should be approved.

Acquisition Adjustments

63. The application includes the acquisitions of certain systems that were completed pursuant to the FMV statute—TWC § 13.305—and implemented by the Commission under 16 Texas Administrative Code (TAC) section 24.238.
64. The ratemaking rate base for the FMV-acquired systems has already been determined by the Commission in prior dockets and is not subject to review as part of this proceeding.
65. The ratemaking rate base of the FMV-acquired systems is reasonable and should be included in CSWR-Texas's rate base.
66. CSWR-Texas proposed additional acquisition adjustments for systems it acquired outside the FMV process.
67. CSWR-Texas's acquisitions outside the FMV process were purchased for reasonable prices, the facilities are used and useful, and CSWR-Texas has made reasonable, prudent, and timely investments to bring the systems into compliance.
68. For the systems that CSWR-Texas has acquired outside the FMV process, CSWR-Texas has planned improvements for those systems that, once completed, will provide the customers with either higher quality or more reliable service, and the acquisition of those systems, notwithstanding any future consolidation, has already resulted in positive regionalization.

69. The net positive acquisition adjustments for the systems CSWR-Texas acquired outside of the FMV process are reasonable and should be included in rate base.
70. On January 11, 2024, CSWR-Texas filed an update of its requested acquisition adjustments to clarify which systems were acquired through the FMV process and outside of that process and provide a corrected total acquisition adjustment amount that should be included in rate base, if applicable.

Transaction Closing Costs

71. No party challenged the recovery through rate base of CSWR-Texas's transaction costs incurred during the acquisition of the 62 water and 12 wastewater systems.
72. CSWR-Texas's acquisition transaction costs are reasonable and should be approved.

Rate of Return

Return on Equity

73. A reasonable range for CSWR-Texas's return on equity is 9.16%–9.90% and would allow CSWR-Texas to earn a reasonable return on its invested capital.
74. DELETED.
- 74A. A risk premium adjustment for CSWR-Texas is not warranted in this proceeding because the business risk on which CSWR-Texas based its request for such an adjustment are greatly diminished by the rates approved by this Order.
75. A return on equity of 9.53% is reasonable and should be approved.

Cost of Debt

76. CSWR-Texas has been unable to acquire debt financing for its Texas operations.
- 76A. The cost of debt for Baa-rated utilities for 2022 was 5.03%.
77. The cost of debt for Baa-rated utilities for the first six months of 2023 was 5.60%.
78. CSWR-Texas's affiliates in Louisiana, Missouri, and Kentucky have acquired an actual weighted effective cost of debt of 6.52%.

- 78A. CSWR-Texas did not provide comparable information on the regulatory business environments of its sister companies that would permit analysis of appropriate long-term debt costs.
79. DELETED.
80. CSWR-Texas anticipates that once it is charging fully compensatory rates, it will likely be able to acquire debt financing in the future.
81. Although CSWR-Texas might not qualify for a Baa rating, if it were rated, the 2022 average bond yield data for utilities with a Baa bond rating is the most reasonable evidence on cost of debt in the evidentiary record and best approximates cost of debt in this proceeding.
82. A 5.03% cost of debt, based on the 2022 average bond yield data for utilities with a Baa bond rating, is reasonable for CSWR-Texas and should be approved.

Capital Structure

83. Because CSWR-Texas does not carry any debt, it proposed a hypothetical capital structure of 45% debt and 55% equity.
84. CSWR-Texas does not oppose Commission Staff's proposed hypothetical capital structure of 48% debt and 52% equity.
85. A capital structure for CSWR-Texas of 48% debt and 52% equity is reasonable and should be adopted.

Overall Rate of Return

86. CSWR-Texas's overall rate of return should be as follows:

Component	Cost	Weighting	Weighted Cost
Debt	5.03%	48%	2.41%
Equity	9.53%	52%	4.96%
Overall			7.37%

Rate Design

87. CSWR-Texas proposes to use a two-part water rate consisting of a fixed monthly charge, which increases based on meter size, and a uniform volumetric rate applied per 1,000 gallons of usage.
88. CSWR-Texas proposes a flat, system-wide monthly sewer rate for all customers.
89. CSWR-Texas does not oppose Commission Staff's recommendation to use the Commission's standard meter equivalent ratios.
90. CSWR-Texas's proposed consolidated rates, as modified to incorporate Commission Staff's meter equivalent ratios recommendation and to the extent provided in this Order, are reasonable and should be adopted.

Pass-Through Provisions

91. The pass-through provisions requested by CSWR-Texas are intended to reflect the gallonage charge of the applicable pass-through entity or source supplier and an estimated amount of line losses associated with that gallonage supply.
92. No party challenged CSWR-Texas's requested pass-through provisions for the following systems, and therefore they are reasonable and should be approved:

Pass-Through Entity	Pass-Through Provision	System	Rate
Laguna Ocho / M&I	Emergency Purchased Wholesale Treated Water	Laguna Tres Laguna Vista	\$1.90 per 1,000 gallons
City of Lubbock	Purchased Wholesale Treated Water	Franklin Water Systems 1 Franklin Water Systems 3	\$0.57 per 1,000 gallons

93. CSWR-Texas's requested pass-through provisions for the following systems reflect the actual costs charged by the pass-through entities and should be approved:

Pass-Through Entity	Pass-Through Provision	System	Rate
Prairielands Groundwater	Groundwater Production Fees	Emerald Forest	\$0.24 per 1,000 gallons

Pass-Through Entity	Pass-Through Provision	System	Rate
Conservation District		Grande Casa Ranchitos Lakeview Ranchettes Estates Spanish Grant (Formerly, Carroll Water Company)	
North Harris County Regional Water Authority	Groundwater Production Fees	Tall Pines Utility	\$5.41 per 1,000 gallons

94. CSWR-Texas's request to establish a combined pass-through provision for groundwater production fees assessed by the Upper Trinity Groundwater Conservation District to the following systems is unreasonable: Hilltop Home Addition Hilltop Estates (formerly, Abraxas), Laguna Tres, Laguna Vista, and Treetops Phase I.

- 94A. Separate pass-through provisions for the groundwater production fees and systems identified in finding of fact 94, above, are appropriate as follows:

Pass-Through Entity	Pass-Through Provision	System	Rate
Upper Trinity Groundwater Conservation District	Groundwater Production Fees	Hilltop Home Addition Hilltop Estates	\$0.23 per 1,000 gallons
Upper Trinity Groundwater Conservation District	Groundwater Production Fees	Laguna Tres Laguna Vista	\$0.25 per 1,000 gallons
Upper Trinity Groundwater Conservation District	Groundwater Production Fees	Treetops Phase I	\$0.27 per 1,000 gallons

95. CSWR-Texas did not prove that its requested pass-through provisions for the following systems are reasonable, and therefore the existing provision for these systems should remain in place:

Pass-Through Entity	Pass-Through Provision	System
Buena Vista Bethel Special Utility District	Emergency Purchased Wholesale Treated Water	Emerald Forest Grande Casa Ranchitos Lakeview Ranchettes Estates Spanish Grant (Formerly, Carroll Water Company)
City of Rockport	Purchased Wholesale Treated Water	Copano Heights Unit 1 & 2

96. CSWR-Texas did not prove that its request to establish pass-through provisions for the following systems are reasonable, and therefore CSWR-Texas's proposed pass-through provisions should not be approved:

Pass-Through Entity	Pass-Through Provision	System
Guadalupe County Groundwater Conservation District	Groundwater Production Fees	Oak Hills Ranch Estates Oak Hill Ranchettes
North Alamo Water Supply Corporation	Purchased Wholesale Treated Water	Quiet Village II
North Alamo Water Supply Corporation (City of Donna)	Purchased Wastewater Treatment from City of Donna (billed through North Alamo Water Supply Corporation)	Quiet Village II
Upper Trinity Groundwater Conservation District	Groundwater Production Fees	WaterCo
City of Rockport	Purchased Wholesale Treated Water	Copano Cove Copano Ridge
Bi-County Water Supply Corporation	Emergency Purchased Wholesale Treated Water	Woodland Harbor (Formerly, Alpha Utility)

97. For the systems listed in finding of fact 96, it is reasonable for CSWR-Texas to collect the gallonage charge by the pass-through entity or source supplier.

Rate-Case Expenses

98. CSWR-Texas requests recovery of \$484,367 in rate-case expenses it has incurred in this proceeding.

- 98A. The most recent affidavit from a licensed attorney capable of providing testimony on the reasonableness of rate-case expenses, which is dated August 24, 2023, supports reasonable rate-case expenses totaling \$444,459.
99. The flat-fee charge of \$25,000 for testimony from an outside expert witness on CSWR-Texas's cost of capital was not reasonable because CSWR-Texas did not submit sufficient information detailing and itemizing that expense.
100. It is reasonable for CSWR-Texas to recover \$419,459 in rate-case expenses for this proceeding through a surcharge over 24 months, allocated between the customers of the systems identified in the application and the Leon Springs and Shady Grove sewer facilities.
101. It is reasonable for CSWR-Texas to book a regulatory asset for any additional rate-case expenses not supported by the August 24, 2023 attorney affidavit and to request recovery of those trailing rate-case expenses in its next comprehensive base-rate proceeding.

OPUC's Phased-In Rate Proposal

102. DELETED.
103. Consolidation of the systems identified in the application sufficiently mitigates rate shock while ensuring customers are paying their actual cost of service.

III. Conclusions of Law

The Commission adopts the following conclusions of law.

1. CSWR-Texas is a class B utility, retail public utility, and water and sewer utility as defined in TWC § 13.002(4-b), (19), and (23) and 16 TAC § 24.3(6), (31), and (38).
2. The Commission has authority over the application under TWC §§ 13.041, 13.042, 13.181, and 13.1871.
3. The Commission processed CSWR-Texas's application in accordance with the requirements of the TWC, the Administrative Procedure Act,²³ and Commission rules.

²³ Tex. Gov't Code §§ 2001.001–.903.

4. CSWR-Texas provided sufficient notice of the application in accordance with TWC § 13.1871, 16 TAC § 24.27(d)(1), and the Administrative Procedure Act.
5. SOAH exercised jurisdiction over this proceeding under TWC § 13.041(c-1) and Texas Government Code § 2003.049.
6. Notice of the hearing was given in compliance with 16 TAC § 24.27(d)(2) and Texas Government Code § 2001.051–.052.
7. CSWR-Texas has the burden of proof to show that its proposed rate change is just and reasonable under TWC § 13.184(c) and 16 TAC § 24.12.
- 7A. The Commission had not taken prior action under Texas Government Code § 311.031(a)(1) at the time the repeal of TWC § 13.145 became effective.
8. The repealed TWC § 13.145 does not apply to CSWR-Texas's request to consolidate the water and wastewater systems identified in the application.
9. The standard that governs CSWR-Texas's request for consolidation is whether the requested consolidated rates are just and reasonable; not unreasonably preferential, prejudicial, or discriminatory; and sufficient, equitable, and consistent in application to each class of consumers, in accordance with TWC § 13.182.
10. For the systems for which it had 12 months of historical operational data when it filed its application, CSWR-Texas's annualization adjustments to test-year expenses are reasonable, known and measurable changes and are consistent with 16 TAC § 24.41(b).
11. For systems that were purchased during the test year and for which CSWR-Texas did not have 12 months of historical operational data when it filed its application, CSWR-Texas's annualization adjustments to test-year expenses are reasonable, known and measurable changes and are consistent with 16 TAC § 24.41(b) and Commission precedent.
12. CSWR-Texas's affiliate expenses are reasonable and comply with TWC § 13.185(e).
13. The ratemaking rate base approved by the Commission under TWC § 13.305(g) and 16 TAC § 24.238 for CSWR-Texas's acquisition of systems under the FMV process is required to be incorporated in CSWR-Texas's rate base.

- 13A. Acquisition adjustments for systems acquired through the FMV process are expressly disallowed under 16 TAC § 24.41(f).
14. The net positive acquisition adjustment CSWR-Texas requests to recover for systems it acquired outside of the FMV process is reasonable under 16 TAC § 24.41(d)(1)(C)(i)–(ii).
15. As required by TWC § 13.183 and 16 TAC § 24.41(c)(1), the rates approved by this Order will permit CSWR-Texas a reasonable opportunity to earn a reasonable return on its invested capital used and useful in rendering service to the public over and above its reasonable and necessary operating expenses and will preserve CSWR-Texas’s financial integrity.
16. An overall rate of return of 7.37% will not yield CSWR-Texas more than a fair return on the invested capital used and useful in rendering service to the public in accordance with TWC § 13.184(a).
17. The rates approved by this Order are just and reasonable; not unreasonably preferential, prejudicial, or discriminatory; and sufficient, equitable, and consistent in application to each class of consumers, in accordance with TWC § 13.182.
18. As required by TWC § 13.185(h), the rates approved by this Order do not include legislative advocacy expenses, the costs of processing a refund or credit under TWC Subchapter F, or any expenditure that is unreasonable, unnecessary, or not in the public interest.
19. The rates approved by this Order comply with 16 TAC § 24.43(b)(1) regarding conservation.
20. The requirements to support changes to pass-through provisions as set forth in 16 TAC § 24.25(b)(2), including actual line-loss data for the preceding 12 months, are instructive as to what is necessary for the proper calculation and review to determine the reasonableness of CSWR-Texas’s requested pass-through provisions.
21. It is reasonable for CSWR-Texas to recover rate-case expenses totaling \$419,459 over 24 months through a per-customer bill surcharge for the systems identified in the application and the Leon Springs and Shady Grove sewer facilities.

- 21A. The rate-case expenses approved by this Order are reasonable and necessary as required under 16 TAC § 24.44(a).
- 21B. Any difference between CSWR-Texas's interim rates that became effective November 20, 2023 and the final rates approved by this Order are subject to surcharge or refund under TWC § 13.1871(t) and 16 TAC § 24.37(h).

IV. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders:

1. The Commission adopts the proposal for decision, including findings of fact and conclusions of law, to the extent provided in this Order.
2. CSWR-Texas's request to consolidate the systems identified in the application and for updated consolidated tariffs is approved to the extent consistent with this Order.
3. The Commission authorizes CSWR-Texas to change its rates to the extent provided in this Order.
4. For the systems charged by the Guadalupe County GCD, North Alamo WSC, Upper Trinity GCD to WaterCo, the City of Rockport to Copano Cove and Copano Ridge, and the Bi-County WSC, the Commission authorizes CSWR-Texas to collect the proposed gallonage charge by the pass-through entity or source supplier until it files an application for a minor tariff change to update those provisions when it has sufficient line-loss data.
5. CSWR-Texas must file tariffs consistent with this Order within 20 days of the date of this Order in *Compliance Tariff for Final Order in Docket No. 54565 (Application of CSWR-Texas Utility Operating Company, LLC for Authority to Change Rates)*, Control No. 56352.
6. No later than 10 days after the date of the tariff filings, Commission Staff must file its comments recommending approval, modification, or rejection of the individual sheets of the tariff proposals, unless the presiding officer in Control No. 56352 files an order stating otherwise. Responses to Commission Staff's recommendation must be filed no later than 15 days after the filing of the tariff, unless the presiding officer in Control No. 56352

files an order stating otherwise. The presiding officer in Control No. 56352 must approve, modify, or reject each proposed tariff sheet. If any proposed tariff sheets are modified or rejected, CSWR-Texas must file proposed revisions to those tariff sheets in accordance with any applicable order by the presiding officer in Control No. 56352.

7. Copies of all tariff-related filings must be served on all parties of record.
8. The Commission authorizes CSWR-Texas to recover \$419,459 in rate-case expenses incurred in this proceeding through a surcharge of \$1.60 per connection per month for the customers of the systems identified in the application and the Leon Springs and Shady Grove sewer facilities to be collected for 24 months or until the full amount is collected, whichever occurs first.
9. The approved surcharge for rate-case expenses must be implemented in Docket No. 56351, *Compliance Docket of CSWR-Texas Utility Operating Company, LLC Related to Surcharges and Refunds in Docket No. 54565*.
10. CSWR-Texas must calculate the net surcharge or refund owed to customers for the difference between the rates approved by this Order and the interim rates effective November 30, 2023 under 16 TAC § 24.37(h). In that calculation, CSWR-Texas must include all tariffed rates that would have been charged to customers, including base and pass-through rates. CSWR-Texas must file a report documenting the calculations and issuance of this surcharge or refund in Docket No. 56351, *Compliance Docket of CSWR-Texas Utility Operating Company, LLC Related to Surcharges and Refunds in Docket No. 54565*.
11. The Commission authorizes CSWR-Texas to book a regulatory asset for any additional rate-case expenses not supported by the August 24, 2023 attorney affidavit and to request recovery of those additional rate-case expenses in its next comprehensive base-rate proceeding.
12. The Commission denies all other motions and any other requests for general or specific relief that have not been expressly granted.

Signed at Austin, Texas the 13th day of June 2024.

PUBLIC UTILITY COMMISSION OF TEXAS



LORI COBOS, COMMISSIONER



JIMMY GLOTFELTY, COMMISSIONER



KATHLEEN JACKSON, COMMISSIONER

BEFORE THE MISSISSIPPI PUBLIC SERVICE COMMISSION

GREAT RIVER UTILITY
OPERATING COMPANY, LLC
SC-123-2515-00

DOCKET NO. 2022-UN-087

IN RE: NOTICE OF INTENT OF GREAT RIVER UTILITY OPERATING
COMPANY, LLC TO ESTABLISH STATE-WIDE RATES FOR
WASTEWATER DISPOSAL SERVICE IN ITS CERTIFICATED AREAS IN
MISSISSIPPI

RECOMMENDED ORDER OF THE HEARING EXAMINER

THIS CAUSE came on for consideration by the Mississippi Public Service Commission (“Commission”), upon referral to C. Ross Hammons, on the Notice of Intent to Establish State-Wide Rates for Wastewater Disposal Service in its Certificated Areas in Mississippi (“2022 Rate Filing”), filed by Great River Utility Operating Company, LLC (“Great River” or “Company”) in the above referenced docket, and, being fully apprised in the premises and having considered the documents and record before it, this Commission renders a final decision as follows:

FILING UTILITY

1. Great River is a public utility as defined in Section 77-3-3(d)(iv) of the *Mississippi Code of 1972, as amended*, and is a Mississippi limited liability company engaged in the business of providing water and wastewater utility service to and for the public for compensation in certificated service areas throughout Mississippi, having its principal place of business and mailing address at 1630 Des Peres Road, Suite 140, St. Louis, MO 63131. Great River is part of an affiliate group of state utility operating companies that are owned and controlled by CSWR, LLC, a Missouri limited liability company (“CSWR”). CSWR owns and controls several other state utility operating companies which operate small water or wastewater systems in Missouri, Kentucky, Louisiana, Texas, Tennessee, North Carolina, Arizona, Florida and Arkansas. As of the

Company's filing, CSWR, combined, served approximately 220,000 customers through 88,000 connections.

2. Great River is the holder of a Certificate of Public Convenience and Necessity issued in Docket Nos. 2020-UA-143 and 2020-UA-144, as supplemented from time to time, authorizing its water and wastewater operations in specified areas throughout Mississippi, and is rendering service in accordance with its service rules and regulations and in accordance with a schedule of rates and charges, both of which are a part of its tariffs that have been previously approved by orders of this Commission.

SUMMARY OF REQUEST

3. With each system acquisition, Great River committed to make the necessary investment and improvements to stabilize the systems and bring their operation into compliance with applicable federal and state regulations. Great River continues to conduct these repairs and refurbishments and has provided periodic status reports to the Commission and the Mississippi Public Utilities Staff ("Staff") in Docket Nos. 2021-AD-115 and 2021-AD-116 as required by the various sale and transfer orders previously issued by the Commission.

4. In each acquisition case, Great River indicated its overall intent to operate each newly acquired system through an initial stabilization period after which Great River would file a notice of intent to establish state-wide rates, charges and service rules for all of its systems. This docket was initiated for that purpose. A summary of the approvals sought from the Commission in this filing are as follows:

- (a) Approval of proposed Revenue Requirement;
 - (b) Approval of the Company's proposed state-wide tariff, including proposed consolidated changes to its rate schedules, service rules, service charges and main extension policy;
- and

- (c) Approval of the Company's Proposed Formula Rate Plan ("FRP").

PROCEDURAL HISTORY

5. On or about July 25, 2022, Great River filed its 2022 Rate Filing, pre-filed testimony, and exhibits in this Docket. Pursuant to the Commission's Public Utilities Rules of Practice and Procedure ("Rules"), Great River served notice of the 2022 Rate Filing on all "interested persons" as identified in Exhibit "E" to the Notice of Intent.

6. In compliance with Section 77-3-37(9) of the *Mississippi Code of 1972, as amended* and RP 9.101(1) of the Commission's Rules, on August 9, 2022, Great River filed a Verification of Notice to Customers verifying all of Great River's customers were provided a notice of the 2022 Rate Filing via U.S. Mail on or before August 8, 2022. A copy of the notice sent to customers as well as the customer lists used in this effort are on file with the Commission in this Docket. In addition, Great River filed a Verification of Notice filing confirming that notice by publication has been accomplished in compliance with Section 77-3-37(9) of the *Mississippi Code of 1972, as amended*.

7. Over Seven-Hundred-Forty (740) wastewater customers provided correspondence to the Commission in response to the notice of filing received.

8. Four (4) parties were granted intervention in this Docket: Blythe Dorn; Robert Lane Dossett; Rhea Cassandra Dossett; and Savannah Black.

9. No motion has been filed with the Commission by any party or the Staff as to any deficiency in or lack of access to discovery in this proceeding.

10. A pre-hearing conference as provided by law was noticed to the Staff and all parties of record, and was held in Jackson, Mississippi on January 12, 2023.

11. On February 27, 2023, public comments were taken before the full Commission. On February 28, 2023, prior to the previously noticed¹ Evidentiary Hearing² in Docket Nos. 2022-UN-086 and 2022-UN-087, these matters were referred to Ross Hammons for hearing, report, and recommendation of an appropriate order pursuant to Miss. Code Ann. § 77-3-40(2).³

12. Following conclusion of the Hearing, the Hearing Examiner was notified by a party of record that due to an administrative error, the Notice of Hearing sent via U.S. Mail to the parties was delayed such that at least one party of record had not received the notice prior to the commencement of the Hearing on February 28, 2023.

13. After procedural discussions⁴ with parties of record, the Hearing Examiner noticed a Supplemental Hearing in Docket No. 2022-UN-087 on March 3, 2023, with said Supplemental Hearing commencing on Monday, March 27, 2023, in Jackson, Mississippi.⁵ The Commission provided notice of the Supplemental Hearing via email to any and all customers that previously submitted correspondence to the Commission in this proceeding. Finally, through the office of the Executive Secretary, notice by publication was perfected as required by law.

14. On March 21, 2023, the Hearing Examiner issued an Order, pursuant to Miss. Code Ann. § 77-3-40(5)(a), affording all parties an opportunity to submit proposed findings of facts and conclusions of law for consideration by March 31, 2023; no parties of record submitted any such findings of facts or conclusions of law for consideration.

¹ Notice by publication of the Commission's February 28, 2023, Evidentiary Hearing was perfected as required by law through the office of the Commission's Executive Secretary.

² Order Setting Hearing, Docket Nos: 2022-UN-086 and 2022-UN-087, (Feb. 2, 2023).

³ Order Referring Consolidated Hearing to Hearing Examiner, Docket Nos. 2022-UN-086 and 2022-UN-087, (Feb. 28, 2023).

⁴ Parties in Docket No. 2022-UN-087 were provided a copy of the transcript from the Commission's February 27, 2023, and February 28, 2023, Hearings on March 15, 2023.

⁵ Order Setting Supplemental Hearing, Docket No. 2022-UN-087, (Mar. 3, 2023).

APPLICABLE LAW

15. The Commission has jurisdiction over the parties and subject matter pursuant to Section 77-3-5 of the *Mississippi Code of 1972, as amended*. Great River's 2022 Rate Filing and the requests therein were made pursuant to Sections 77-3-2 and 77-3-37 of the *Mississippi Code of 1972, as amended* and RP 9 of the Commission's Rules. These statutes and rules govern public utility rate cases.

16. In establishing rates for public utilities, the Commission is primarily guided by Section 77-3-33 of the *Mississippi Code of 1972, as amended*, which provides:

No rate made, deposit or service charge demanded or received by any public utility shall exceed that which is just and reasonable. Such public utility, the rates of which are subject to regulation under the provisions of this article, may demand, collect and receive fair, just and reasonable rates for the services rendered or to be rendered by it to any person. Rates prescribed by the commission shall be such as to yield a fair rate of return to the utility furnishing service, upon the reasonable value of the property of the utility used or useful in furnishing service.

17. The Mississippi Supreme Court has specifically held the Commission is not bound by statute to use any specific formula for establishing just and reasonable rates:

Our statute does not bind the Commission to the use of any particular formula in determining the reasonable value of the property of a public utility for rate-making purposes. Our statute merely provides that the rates prescribed shall be such as to yield a fair rate of return upon the reasonable value of the property used and useful in furnishing service, and that, the Commission in arriving at such rate base "shall give due consideration to all elements that are generally considered in determining the rate base for rate making purposes." There are a number of formulas which are useful in the determination of the reasonable value of a utility's property for rate-making purposes. No public utility has a vested right to any particular method of valuation.

18. Because Great River's 2022 Rate Filing constitutes a "major change" as defined by Section 77-3-37 of the *Mississippi Code of 1972, as amended*, both a pre-hearing conference and a hearing are required under Section 77-3-39 of the *Mississippi Code of 1972, as amended*. The

Commission's hearings in this case fully comply with these statutory requirements and the requirements of Section 77-3-47 of the *Mississippi Code of 1972, as amended*.

SUMMARY OF FILING

19. Great River's 2022 Rate filing generally provided the following documentation concerning its proposed rate adjustments:

(a) Pre-filed direct testimonies and exhibits of Mr. Josiah Cox, President; Todd Thomas, Senior Vice President; Jacob Freeman, Director of Engineering; Brent Thies, Vice President and Corporate Controller; Mike Duncan, Vice President; and Dylan W. D'Ascendis, Partner of ScottMadden, Inc;

(b) A schedule of proposed rates, fares, tolls and charges for wastewater service;

(c) Consolidated and audited financial statements of Great River;

(d) Confidential federal and state income tax returns; and

(e) A revenue requirement calculating the proposed revenue adjustment and resulting increase in rates.

20. The Commission finds that the pleadings, testimony, exhibits, data and documentation submitted by Great River in this Docket reasonably comply with all applicable statutes and Commission Rules. Therefore, for good cause shown, the Commission waives any other filing requirements which may be prescribed by its Rules.

STIPULATION

21. As a result of the pre-hearing conference, Great River filed an executed Stipulation with the Commission on February 23, 2023. A true and correct copy of the Stipulation and its referenced exhibits is attached as Exhibit "A" hereto and incorporated herein by reference. The Stipulation presents for the Commission's consideration a rate mitigation plan consisting of four

(4) separate measures that combine to significantly lower the upfront rate impact as compared to Great River's original 2022 Rate Filing:

a. A System Acquisition Regulatory Asset ("SARA") designed to permit Great River to continue its practice of adopting the billing rates of any acquired utility and keeping those rates in place until the next rate adjustment provided for in the annual FRP process.⁶ SARA will avoid the upfront rate shock that might otherwise occur on the date of acquisition, and will also provide Great River the time needed to make initial system repairs and improve customer service before adjusting rates to reflect the current cost of service. From the date of acquisition until approval of Great River's next FRP annual filing, Great River shall defer into a regulatory asset the actual monthly net operating loss incurred for each newly acquired system. This deferral shall exclude any lost profits or return of or on capital. Each SARA deferral will be accounted for separately for ease of audit by the Commission and Staff. The approved SARA will be amortized for ratemaking purposes over a seven (7) year period with: (1) the unamortized portion included in the rate base; and (2) the amortized amount included as Amortization of Regulatory Asset.

b. A Rate Mitigation Regulatory Asset ("RMRA") designed to provide a glide path to customer rate adjustments between the billing rates of the acquired utility and the then applicable Commission-approved state-wide rate for Great River's existing customers. For the first year a newly acquired utility system is charged rates under Great River's approved state-wide tariff (i.e. not rates from previous system owner), a RMRA regulatory asset shall be accrued for the purpose of deferring a percentage of annual general and administrative expense and operation and maintenance expense. For newly acquired water systems the deferral percentage shall be

⁶ Great River will continue to request temporary rates to apply during the SARA rate period for those systems that are acquired without an existing Commission-approved rate. The temporary rates previously approved by the Commission for this purposes is equal to a monthly flat rate for water service of \$15.00 per month and \$27.00 per month for wastewater service.

sixteen and one-half percent (16.5%); for newly acquired wastewater systems the deferral percentage shall be thirty-two percent (32%). The RMRA deferral shall be limited to one (1) year per utility system. Each RMRA deferral will be accounted for separately for ease of audit by the Commission and Staff. The approved RMRA will be amortized for ratemaking purposes over a seven (7) year period with: (1) the unamortized portion included in the Rate Base; and (2) the amortized amount included as Amortization of Regulatory Asset.

c. An FRP designed to create a level of predictability that will help ensure continued access to the capital necessary to complete capital improvement on currently owned systems as well as fund the continued acquisition of more distressed wastewater and water systems throughout Mississippi. On or before February 28th of each year, Great River shall file a report with the Commission and Staff containing a calculation of the Company's revenue requirement and Actual Return on Rate Base based for the twelve (12) months ending December 31 of the previous year. Consistent with other FRPs already in operation in Mississippi, should the FRP Annual Report indicate a revenue and rate adjustment is needed, interim rates, subject to refund, would take effect April 1st and Permanent Rates, plus any necessary surcharge or refund, would take effect following Commission approval. Similar to other approved FRPs, rate adjustments are determined by comparing actual results against a fixed Return on Rate Base "band" derived from the stipulated Return on Rate Base. Great River also stipulated to a review of the cost of capital provisions of the FRP following the third year of operation (i.e. following the conclusion of the FRP Annual Filing for 2026).

d. A fixed, three-year Return on Rate Base equal to 8.95% that will provide a predictable and stable cost of capital while Great River completes its expected acquisition strategy in Mississippi. Great Rivers stipulated to a re-evaluation of the stipulated Return on Rate Base following the conclusion of the FRP Annual Filing for 2026.

22. As detailed in the final section below, the Commission finds the suite of stipulated rate mitigation measures described above combine to provide significant and important rate mitigation to Great River's current and future customers. The entire rate mitigation plan is effectuated through a stipulated tariff. The impact to a typical residential customer of the rate mitigation plan is summarized in the table below.

Great River Rate Case - Summary of Stipulation

Wastewater			
	<u>Filed</u>	<u>Stipulated</u>	<u>Reduction</u>
Rate Base	\$ 12,352,818	\$ 12,352,818	\$ -
Operating Expense	\$ 1,953,248	\$ 1,953,248	\$ -
Rate of Return	10.29%	8.95%	-1.34%
Revenue Requirement	\$ 5,009,591	\$ 4,789,090	\$ (220,501)
RMRA Deferral %	0.00%	32.00%	32.00%
Mitigated Rate (i.e. RMRA)	<u>Filed</u>	<u>Stipulated</u>	<u>Reduction</u>
Tier I	\$ 37.63	\$ 27.86	\$ (9.77)
Tier II	\$ 53.75	\$ 39.80	\$ (13.95)
Tier III (Pass Through)	\$ 28.69	\$ 22.27	\$ (6.42)
General	<u>Filed</u>	<u>Stipulated</u>	<u>Reduction</u>
Tier I	\$ 37.63	\$ 35.90	\$ (1.73)
Tier II	\$ 53.75	\$ 51.29	\$ (2.46)
Tier III (Pass Through)	\$ 28.69	\$ 28.69	\$ -

23. The Stipulation also incorporates various changes to Great River's proposed tariff raised either through discovery or at the pre-hearing conference.

COMMISSION AND STAFF REVIEW

24. Following a public bidding process, the Commission engaged United Professionals Company, LLC (“UPC”) to assist the Commission in its review of the 2022 Rate Filing. In addition, the Staff, acting in its capacity as advisors to the Commission, engaged Larkin & Associates (“Larkin”) to assist the Staff in its investigation of the 2022 Rate Filing and in advising the Commission in this matter. Combined, the Commission and Staff propounded twelve (12) sets of discovery consisting of over 200 individual data requests. Great River submitted timely and complete responses to all data requests in accordance with the Commission’s Rules, and, where appropriate, provided revised or supplemental information and documentation. Further, in compliance with Commission Rules, Great River provided copies of all non-confidential data request responses to any party requesting same in writing; all confidential data request responses were provided to any party that executed a non-disclosure agreement.

25. As required by statute, a consolidated pre-hearing conference was held on January 12, 2023 for Docket Nos. 2022-UN-86 and 2022-UN-87. Notice of the pre-hearing conference was provided to all parties of record in both dockets as well as the Staff. Representatives of the Commission, including UPC, Great River, representatives of the Staff and Larkin as well as certain party interveners attended the pre-hearing conference. A robust discussion was had among the parties present concerning several issues and topics that had been previously inquired about through the discovery process, including requests from the Staff and UPC concerning a rate mitigation plan. The Stipulation filed by Great River was a culmination of the discussions held at the pre-hearing conference.

26. The Commission finds a full opportunity for discovery was provided to all parties and that each party has had a full opportunity to participate in the case. The Commission also finds

that the Staff, Larkin and UPC conducted a thorough and extensive investigation of Great River's 2022 Rate Filing and subsequent Stipulation.

COMMISSION FINDINGS

27. No parties contest—through pleadings or otherwise—any facts presented by Great River. This case is uncontested and facts stipulated to by Great River are undisputed by any other evidence in the record. Great River began acquiring underperforming water and wastewaters systems throughout the entire state in 2020. As of the date of this Order, the Commission has approved three (3) separate rounds of acquisitions, and a fourth round is currently pending.⁷ The Commission has consistently made the following determinations with respect to this ongoing acquisition activity:

a. “With respect to Great River’s fitness, Mr. Cox details the financial capital, experience and expertise possessed by or available to Great River to operate the systems to be acquired in Mississippi, which by all accounts, would be an improvement over the level of each currently made available by the owners and operators of the systems being acquired.”⁸

b. “Great River committed to invest the capital necessary to restore the reliability of the acquired systems: ‘Great River and CSWR have access to adequate capital and are willing and able to invest the capital necessary to bring the water and wastewater systems at issue in this case up to standard and maintain compliance with applicable state and federal regulations.’”⁹

c. “With respect to serving the interests of customers and the public, Mr. Cox testified that Great River’s business model and centralized management structure is specifically

⁷ The Hearing Examiner entered a Recommended Order of the Hearing Examiner in Docket No. 2022-UA-145 on April 13, 2023.

⁸ Final Order, Docket No. 2020-UA-144, p. 13 (June 8, 2021).

⁹ *Id.*

designed to produce economies of scale and lower cost to customers that would otherwise arise under similar levels of reliability and service.”¹⁰

28. In approving these acquisitions, the Commission noted an abundance of evidence demonstrating that “[t]he general health of Mississippi’s water and wastewater infrastructure is poor.”¹¹ Ultimately, this Commission made the following determination when first approving of Great River’s various acquisitions in Mississippi:

The Commission is persuaded that the general circumstances concerning the State’s infrastructure and the specific facts of this case, namely the scalability and centralized operations of various systems under consolidated ownership, justify the adoption of a policy that will incentivize responsible, experienced and well-capitalized companies like Great River to acquire old, out-of-compliance systems so that they can be rehabilitated and operated reliably and in compliance with ever-increasing environmental regulations. The Commission believes that incentivizing consolidations in the private water and sewer sector, when the circumstances justify it, will improve the quality of life for all Mississippians and enhance reliability and satisfaction for utility customers.¹²

29. Great River’s testimony in this case bears this out. Mr. Cox’s revised testimony summarizes the condition of the wastewater treatment facilities at the time of acquisition:

The lagoon treatment plants that Great River acquired were either in a completely failed state or in very poor condition., and one facility was unpermitted, meaning it was illegally discharging sewage. Almost without exception, the lagoons were overgrown by vegetation on their berms (which can post acute structural failure issues) and there was additional vegetation growing on the surface of the lagoons themselves indicative of an almost total lack of maintenance and operations. Some of systems [sic] also had damaged berms, which allowed unlawful discharge of partially treated wastewater into the environment and posed a structural risk of failing, which could lead to a massive environmental spill. The lagoons typically had massive sludge accumulation, which reduced treatment capacity and retention time. Many of these facilities struggle to meet permit limits and will likely require significant process improvements to bring them into compliance

The activated sludge systems that Great River acquired were generally in poor condition or completely failed upon acquisition. Most had missing or broken equipment, exhibited areas requiring structural repair or fortification, and most

¹⁰ *Id.*

¹¹ *Id.* at 17.

¹² *Id.* at 18.

were failing in their treatment process due to deteriorated equipment or inadequate design. Almost all of the facilities also regularly experienced significant exceedances of their permit limits and lacked proper control systems, which resulted from a lack of reinvestment, a neglect in maintenance, and generally negligent operational practices. Nearly all these systems had significant sludge accumulation, which reduced treatment capacity and effectiveness

The non-discharging systems acquired by Great River were all lagoon treatment plants which struggled with all of the same issues as the discharging lagoon treatment plants described above, with the exception of the Sweet Water system (an extended aeration system that was in generally good condition). In addition to the issues already identified in the lagoon section described above, the non-discharging systems acquired by Great River had additional issues related to the drain fields used to dispose of treated wastewater. Many had failing spray equipment, damaged distribution piping, undersized spray area, heavily sloped spray field areas, and erosion issues that have led to consistent runoff discharges from the drainage area. This represents an unauthorized and illegal discharge from the facilities which impacts surface waters, causes environmental damage, and could expose people to dangerous pathogens and pollutants

Regardless of system type, many of the plants Great River acquired had ineffective or damaged disinfection systems that failed to meet fecal coliform, *E.Coli*, or total residual chlorine limits. This means that over many years, residents and downstream neighbors have been exposed to potentially dangerous pathogens.¹³

30. As required by prior Commission order, Great River has been reporting to the Commission and Staff concerning its efforts to remediate and repair these conditions in Docket Nos. 2021-AD-115 and 2021-AD-116. The Commission takes judicial notice of the reports and information filed in these dockets to support the findings made herein.

31. In part, the rate increase requested in this case is a result of Great River's initial acquisition. This was a known and necessary result of the decision to authorize Great River's acquisition program in Mississippi: "Great River estimates the rate impact associated with [the requested acquisition adjustment] could result in a monthly per-customer impact of between

¹³ Josiah Cox Revised Direct Testimony, pp. 6-8 (emphasis in original).

approximately \$7.00 and \$9.50 for wastewater customers, depending upon final ratemaking assumptions adopted by this Commission.”¹⁴

32. Another known issue was that many of the systems being acquired had not experienced a rate increase in many years, implying that rates no longer reflected the current cost to serve customers. Great River explicitly states: “many of the systems acquired had not sought a rate increase for years, if not decades. This results in existing rates that do not accurately reflect the current cost to serve.”¹⁵ Mr. Cox again summarizes this issue:

As the Commission is aware, the systems Great River acquired and those it hopes to acquire in Mississippi are typically poorly managed, and almost all the owners of those systems did not or do not have the technical, managerial, and financial ability to make capital investments necessary to ensure regulatory compliance and provide safe, efficient, and reliable service to customers. Most of those owners also failed to timely seek rate increases necessary to enable them to properly operate and maintain the systems. As a result, the rates that Great River adopted when it acquired the systems – i.e., rates in effect at closing – were insufficient to cover the operating costs for operations – that were woefully unprofessional and inadequate – and also failed to provide a fair rate of return.¹⁶

33. Despite these realities, Great River’s original proposal, if approved, would have resulted in rate increases to some customers as high as 400%.¹⁷ As expected, customer participation through either written correspondence to the Commission or by providing a public witness statement at the commencement of the hearings on this matter were robust and wide ranging. Customer input received overwhelmingly expressed that the rate shock that would be experienced by approval of Great River’s original proposal would be too great for many customers to endure all at once. Great River’s witness Mr. Cox explained at the hearings that the RMRA mechanism was specifically designed to address this issue. Mr. Cox testified that Mississippi had

¹⁴ Final Order, Docket No. 2020-UA-144, pp. 15-16 (June 8, 2021).

¹⁵ Mike Duncan Direct Testimony, p. 10.

¹⁶ Josiah Cox Revised Direct Testimony, p. 11.

¹⁷ Mike Duncan Direct Testimony, Exhibit MD-2.2.

largest gap between current and proposed rates when compared to all other states in which CSWR operations. As such, Mississippi was the first state the RMRA mechanism, which provides customers a glide path to the ultimate rate to be charged, has been proposed by a CSWR entity. The Commission also notes that under Mississippi law public utility rates are required to be just and reasonable and “rate shock” is not sufficient legal grounds upon which to deny a rate increase filing. *Miss. Pub. Serv. Comm’n v. Dixie Land & Water Co., Inc.*, 707 So. 2d 1086, 1093 (Miss. 1998) (reversing a MPSC decision to deny a rate increase based solely on the “rate shock” to Dixie Land’s customers).

34. Another concern raised by some customers concerned the fact that system improvements are being allowed to be included in customer rates, rather than paid for by Great River’s investors. Some customers believe that Great River should have conducted sufficient due diligence to determine the state of disrepair before purchasing the system, and that now customers are being punished for Great River’s alleged failure to conduct reasonable due diligence. These positions reflect an apparent belief that system improvements should have been funded by the previous system owners rather than Great River, and that, if this had been accomplished, much of the requested rate increase would have been avoided. The customers’ concerns in this instance are misplaced for several reasons. As mentioned above, Great River and the Commission were fully aware that most of the systems being acquired were in some state of disrepair. This was not an oversight. The customers’ assumption that requiring the previous owners to fund the improvements would have prevented these costs from being reflected in rates is invalid. Requiring the previous owners—rather than Great River—to fund the improvements would have either increased the purchase price ultimately paid by Great River or could have forced the parties to reconsider a sale and purchase of the system. If the previous owners would have decided not to sell the system after investing the funds to complete the improvements now being undertaken by

Great River, the previous owners would request to recover those costs through rate increases to customers. Prudent capital expenditures incurred to make necessary and appropriate system improvements are recoverable in customer rates, irrespective of which utility company owns the system and invests the funds.

35. The Commission appreciates the public participation in this proceeding. While not formal evidence in the proceeding, this feedback helps all of the parties involved to tailor specific mitigation measures to help address as many concerns as practical, while still maintaining just and reasonable rates and, importantly, safe and reliable public utility service.

36. Based on the totality of the evidence presented, the Commission finds that the Stipulation filed in this matter delivers important and meaningful rate mitigation measures while also providing overall just and reasonable rates for service. These measures include: (i) state-wide rates; (ii) multi-tier rates based on system design; (iii) the SARA regulatory asset mechanism; (iv) the RMRA regulatory asset mechanism; (v) the FRP annual filings; and (vi) a fixed, stable return on rate base. These measures spread the impact of system improvements across a larger customer base, mitigating the rate impact that might result from a per-system rate design, while also allowing a glide path to customer rate adjustments and a mechanism to provide the Commission and Staff annual and detailed oversight over Great River's state-wide operations. All of these measures allow the realization of the improvements in health and service that has been envisioned since the beginning of Great River's activities in Mississippi while alleviating and spreading out the full, upfront rate impact that would otherwise result.

37. With respect to Great River's revenue requirement, neither the Staff nor UPC has recommended an adjustment to Great River's filed rate base and expenses, despite a significant investigation and audit conducted through discovery by all parties. Based on this evidence, the Commission finds that the stipulated rate base, operating expense and rate of return are prudently

incurred and result in just and reasonable and reasonable rates. For the avoidance of doubt, the Commission's actions herein do not impact the accounting requirements and rate treatment of any acquisition adjustments to be booked in the future for future asset acquisitions, which shall all be accounted for in the same manner as proscribed by this Commission in each sale and transfer order. Further, Great River is still directed to consider the net book value of all acquired assets in the aggregate for purposes of determining whether an acquisition adjustment should be booked, all in accordance with applicable GAAP and NARUC accounting guidance.

38. The Commission notes that some systems have wholesale providers of drinking water or wastewater treatment services to which Great River pays a wholesale fee. As is typical in these arrangements across the state, the retail utility, in this case, Great River, seeks to include a "pass through" charge on its monthly bill to customers to receive dollar-for-dollar reimbursement for these wholesale costs incurred. Given the frequency in which these wholesale fees change, Great River is directed to initiate in calendar year 2023 a separate Rule 9 docket related to each system subject to a Tier III "pass through" rate so that the Commission and Staff can adequately audit the pass through charges being applied to customers' bills. Great River is directed to provide individual notice to each affected customer at the initiation of each new docket. It is expected that any base rate change to the Tier III rates will be addressed in Great River's FRP Annual Filing and that any changes to the pass through charge will be addressed in the separate rate dockets to be established pursuant to this paragraph.

39. This Commission, having reviewed and considered the 2022 Rate Filing, all customer comments received, the Stipulation, and having heard all of the evidence presented at the hearings and after studying the entire record, finds that there is substantial evidence in the record to adopt in full and without modification the Stipulation on file in this Docket. The Commission finds that the stipulated rate schedules, service rules, service charges, service extension policy and

FRP contained in Great River's stipulated tariff attached as Exhibit 4 to the Stipulation are just and reasonable and in the public interest. Great River is hereby approved to begin charging the rate approved herein beginning with the first billing period in April 2023 and to continue charging such rates until later revised by subsequent order of this Commission pursuant to Mississippi law and the Rules.

40. In response to comments received from members of the public, the Commission hereby directs Great River, following the issuance of this Order and prior to submittal of monthly bills contemplated herein, to notify any and all existing customers whose bills will be immediately impacted by the issuance of this Order.

41. Upon mailing the aforementioned notification to affected customers, Great River shall certify its adherence to the customer notification requirement in this Order, in the form of a compliance filing to be filed in this Docket.

42. This Recommended Order is issued in accordance with and subject to the minimum statutory time limits established by the provisions of Section 77-3-40 of the *Mississippi Code of 1972, as amended*. This Recommended Order shall become the Final Order of the Commission consistent with applicable provisions of the Mississippi Public Utility Act.

REMAINDER OF PAGE LEFT BLANK INTENTIONALLY

This Final Order shall be deemed issued on the day it is served upon the parties herein by the Executive Secretary of this Commission who shall note the service date in the file of this Docket.

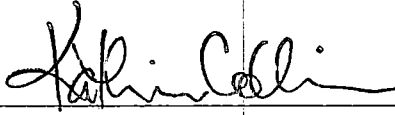
SO ORDERED by this Commission on this the 14th day of April 2023.

MISSISSIPPI PUBLIC SERVICE COMMISSION



C. Ross Hammons, Hearing Examiner

ATTEST: A True Copy



Katherine Collier,
Executive Secretary

Effective this the 14th day of April 2023.





BEFORE THE MISSISSIPPI PUBLIC SERVICE COMMISSION

GREAT RIVER UTILITY
OPERATING COMPANY, LLC
SC-123-2515-00

DOCKET NO. 2022-UN-87

**IN RE: NOTICE OF INTENT TO ESTABLISH STATE-WIDE RATES FOR
WASTEWATER DISPOSAL SERVICE IN ITS CERTIFICATED AREAS
IN MISSISSIPPI**

STIPULATION

This Stipulation is being submitted by Great River Utility Operating Company, LLC ("Great River") pursuant to Section 77-3-39 of the *Mississippi Code of 1972, as amended* and RP 13 of the Mississippi Public Service Commission's ("Commission") Public Utilities Rules of Practice and Procedure ("Rules") for the express purpose of limiting the issues for hearing to those not disposed of by admissions or stipulations of the parties. This Stipulation is the result of the filings and supporting documentation submitted by Great River in this Docket as well the discussions and information exchanged between the parties through data requests and at the pre-hearing conference. Any party to the docket wishing to join this Stipulation and fully agree with all of the terms and conditions herein is invited to file a Joinder Agreement, the form of which is attached as Exhibit "1" hereto, with the Executive Secretary of the Commission in Docket No. 2022-UN-87.

It is hereby stipulated by Great River as follows:

BACKGROUND

1. On or about July 25, 2022, Great River submitted its Notice of Intent to Change Rates ("2022 Rate Filing") in this docket seeking, *inter alia*, approval from the Commission of a state-wide rate for sewer service for wastewater systems located throughout the State of

Mississippi that were acquired by Great River in accordance with the authority granted in Docket Nos. 2020-UA-144 and 2021-UA-158. A table listing the systems authorized for acquisition in Docket Nos. 2020-UA-144 and 2021-UA-158 is attached as Exhibit “2” hereto and incorporated herein by reference. Since the Company’s 2022 Rate Filing, the Commission has authorized Great River to acquire additional systems; customers of those systems acquired after July 25, 2022 (i.e. not listed in Exhibit “2”) will not be immediately impacted by this rate proceeding. Instead, newly acquired systems would be subject to future annual filings to be made under the Company’s stipulated Formula Rate Plan beginning in 2024.

2. With each system acquisition, Great River committed to make the necessary investment and improvements to stabilize the systems and bring their operation into compliance with applicable federal and state regulations. Great River continues to conduct these crucial early repairs and refurbishments and has provided periodic status reports to the Commission and Mississippi Public Utilities Staff (“Staff”) in Docket Nos. 2021-AD-115 and 2021-AD-116 as required by the various sale and transfer orders issued by the Commission.

3. In each acquisition case, Great River indicated its overall intent to operate each newly acquired system through an initial stabilization period after which Great River would file a notice of intent to establish state-wide rates, charges and service rules for all of its systems. This docket was initiated for that purpose. A summary of the approvals sought from the Commission in this docket are as follows:

- a. Approval of the proposed state-wide revenue requirement;
- b. Approval of the Company’s proposed state-wide tariff, including proposed changes to its rate schedules, service rules, service charges and main extension policy; and
- c. Approval of the proposed Formula Rate Plan.

RATE MITIGATION PLAN

4. A comparison between the current rates for each system as well as the rate proposed to apply to each was presented in Exhibit MD-2.2, a copy of which is attached as Exhibit “3” hereto and incorporated herein by reference. As Mike Duncan explained in his pre-filed direct testimony “[t]he change in rates between existing rates and Great River’s proposed rates for the vast majority of the systems acquired by Great River is a result of a combination of the inadequacy of the existing rates and the necessity of new capital investment.”¹ Great River specifically acknowledged that this dynamic results in large percent increases when comparing the proposed rates with current Commission-approved rates for some of the systems acquired. On behalf of Great River, Mr. Duncan expressed a willingness to address this issue by developing a rate mitigation for the Commission and Staff’s consideration:

Q. DO YOU HAVE THOUGHTS ON HOW TO ADDRESS RATE SHOCK IN THE EVENT THAT THE COMMISSION HAS SUCH CONCERNS?

A. Yes. Concerns about rate shock may be reasonable as the increase in rates to customers in some areas may be significant depending on the revenue requirement and rate design ordered by the Commission. Deferring portions of the cost of service into a regulatory asset for recovery in later periods would allow an extended period of time for certain customers to adjust to increased rates while still allowing Great River to recover its total cost of service. Deferring costs to future periods would require Great River to assume additional risk. Therefore, final deferred rates for customers would be marginally greater due to required recovery of the regulatory assets that would be created by the deferral. However, a deferral mechanism would allow for rate increases to be implemented in a more gradual manner that would mitigate some of the rate shock that occurs when rate adjustments are implemented for customers whose rate were not regularly increased over time to reflect increased costs of service.²

5. Throughout the discovery process, Great River was asked to propose a specific rate mitigation plan and the detailed financial data and information in support.³ All public data request

¹ Mike Duncan Direct Testimony, p. 10

² Mike Duncan Direct Testimony, p. 11.

³ See Great River’s initial and supplemental responses to MPSC 1-39.

responses were made available to all parties of records as well as the consultants hired by both the Commission and Staff. Form nondisclosure agreements were presented to all parties to gain access to any confidential responses, to which one party executed. Finally, Great River presented a summary and explanation of the rate mitigation plan at the consolidated pre-hearing conference held on January 12, 2023, during which a robust discussion ensued concerning several issues and topics of this case.

6. Great River's stipulated rate mitigation plan reflecting the discussion from the pre-hearing conference consists of four separate measures:

a. A System Acquisition Regulatory Asset ("SARA") designed to permit Great River to continue its practice of adopting the billing rates of the acquired utility and keeping those rates in place until the next rate adjustment provided for in the annual FRP process.⁴ SARA will avoid the upfront rate shock that might otherwise occur on the date of acquisition, and will also provide Great River the initial time needed to make initial system repairs and improve customer service before adjusting rates to reflect the current cost of service. From the date of acquisition until approval of Great River's next FRP annual filing, Great River shall defer into a regulatory asset the actual monthly net operating loss incurred for each newly acquired system. This deferral shall exclude any lost profits or return of or on capital. Each SARA deferral will be accounted for separately for ease of audit by the Commission and Staff. The approved SARA will be amortized for ratemaking purposes over a seven (7) year period with: (1) the unamortized portion included in the rate base; and (2) the amortized amount included as amortization of regulatory asset.

⁴ Great River will continue to request temporary rates to apply during the SARA rate period for those systems that are acquired without an existing Commission-approved rate. The temporary rates previously approved by the Commission for this purposes is equal to a monthly flat rate for water service of \$15.00 per month and \$27.00 per month for sewer service.

b. A Rate Mitigation Regulatory Asset (“RMRA”) designed to provide a glide path to customer rate adjustments between the billing rates of the acquired utility and the then applicable Commission-approved state-wide rate for Great River’s existing customers. For the first year a newly acquired utility system is charged rates under Great River’s approved Tariff (i.e. not rates from previous system owner), a RMRA regulatory asset shall be accrued for the purpose of deferring a percentage of annual general and administrative expense and operation and maintenance expense. For newly acquired water systems the deferral percentage shall be fifteen percent (16.5%); for newly acquired sewer systems the deferral percentage shall be thirty-one percent (32%). The RMRA deferral shall be limited to one (1) year per utility system. Each RMRA deferral will be accounted for separately for ease of audit by the Commission and Staff. The approved RMRA will be amortized for ratemaking purposes over a seven (7) year period with: (1) the unamortized portion included in the Rate Base; and (2) the amortized amount included as Amortization of Regulatory Asset.

c. A Formula Rate Plan (“FRP”) designed to create a level of predictability that will help ensure continued access to the capital necessary to complete capital improvement on currently owned systems as well as fund the continued acquisition of more distressed sewer and water systems throughout Mississippi. On or before February 28th of each year, Great River shall file a report with the Commission containing a calculation of the Company's revenue requirement and Actual Return on Rate Base based for the twelve (12) months ending December 31 of the previous year. Consistent with other FRPs already in operation in Mississippi, should the FRP Annual Report indicate a revenue and rate adjustment is needed, interim rates, subject to refund, would take effect April 1st and Permanent Rates, plus any necessary surcharge or refund, would take effect following Commission approval. Similar to other approved FRPs, rate adjustments are

determined by comparing actual results against a fixed Return on Rate Base “band” derived from the stipulated Return on Rate Base. Great River stipulates to a review of the cost of capital provisions of the FRP following the third year of operation (i.e. following the conclusion of the FRP Annual Filing for 2026).

d. A fixed, three-year Return on Rate Base equal to 8.95% that will provide a predictable and stable cost of capital while Great River completes its acquisition strategy in Mississippi. Great Rivers stipulates to a re-evaluation of the stipulated Return on Rate Base following the conclusion of the FRP Annual Filing for 2026.

7. The suite of rate mitigation measures described above combine to provide significant and important rate mitigation to Great River’s current and future customers. The entire rate mitigation plan is effectuated through a Stipulated Sewer Tariff attached as Exhibit “4” hereto and incorporated herein by reference.⁵ The impact to a typical residential customer of the rate mitigation plan is summarized in the table below.

⁵ The stipulated sewer tariff was provided to all parties as a supplemental response to MPUS 3-5 on February 8, 2023.

Great River Rate Case - Summary of Stipulation

	Sewer		
	<u>Filed</u>	<u>Stipulated</u>	<u>Reduction</u>
Rate Base	\$ 12,352,818	\$ 12,352,818	\$ -
Operating Expense	\$ 1,953,248	\$ 1,953,248	\$ -
Rate of Return	10.29%	8.95%	-1.34%
Revenue Requirement	\$ 5,009,591	\$4,789,090	\$ (220,501)

RMRA Deferral %	0.00%	32.00%	32.00%
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Mitigated Rate (i.e. RMRA)	<u>Filed</u>	<u>Stipulated</u>	<u>Reduction</u>
Tier I	\$ 37.63	\$ 27.86	\$ (9.77)
Tier II	\$ 53.75	\$ 39.80	\$ (13.95)
Tier III (Pass Thru)	\$ 28.69	\$ 22.27	\$ (6.42)

General	<u>Filed</u>	<u>Stipulated</u>	<u>Reduction</u>
Tier I	\$ 37.63	\$ 35.90	\$ (1.73)
Tier II	\$ 53.75	\$ 51.29	\$ (2.46)
Tier III (Pass Thru)	\$ 28.69	\$ 28.69	\$ -

STIPULATED ITEMS

8. In addition to the rate mitigation plan, the following issues were discussed and stipulated to at the pre-hearing conference:

- a. The Staff reported that its consultant, after completing its through review of Great River's filing, no adjustments to rate base or expense is warranted;
- b. Great River stipulated to revise the FRP to provide the Staff a total of eighty (80) days to review the Company's FRP Annual Filing;
- c. Great River stipulated to revise the FRP to provide for interim rates, subject to refund, and permanent rates following Commission approval incorporating any necessary calendar-year surcharge or refund;
- d. Great River stipulated to supplement the list of filing requirements in the FRP;
- e. Great River stipulated to amendments to Great River's Schedule of Service

Charges and Fees to remove certain bank and credit card fees and including such costs in Great River's annual cost of service; and

f. Great River stipulated to various amendments to Great River's Service Rules and Regulations to improve the customer's ability to understand and comply therewith.

9. All of the above stipulations are incorporated into the Stipulated Sewer Tariff attached as Exhibit "4" hereto and incorporated herein by reference.

MISCELLANEOUS PROVISIONS

10. Great River agrees that the Commission has jurisdiction over the subject matter in this proceeding.

11. Great River submits that there is substantial evidence to support each and every stipulation made herein and to approve Great River's filing in this docket, as modified by this Stipulation.

12. Except as previously stated, the stipulations made herein are for the purpose of this proceeding only and shall not apply to or be used as precedent in any other proceeding of Great River or any other utility.

13. This Stipulation is expressly conditioned upon acceptance by the Commission of all of its provisions, without modification, and incorporation of this Stipulation into the final order rendered in this proceeding; this Stipulation is interdependent, non-separable and that if the Commission does not accept this Stipulation in its entirety, Great River is not bound by any of its provisions. For the avoidance of doubt, Great River specifically reserves its right to withdraw and nullify this Stipulation and revert to its original 2022 Rate Filing in the event the Stipulation is not adopted by the Commission in full and without modification. In such an event, this Stipulation or the provisions herein shall not act as a waiver of or grounds of estoppel against any remedies

available to Great River under the law.

14. Great River submits that the changes proposed in this Stipulation are just and reasonable and in the best interest of customers, Great River and the general public.

15. This Stipulation may be executed in one or more counterparts, including by the execution of a Joinder Agreement in substantially similar form as attached as Exhibit "1" hereto. Facsimile or electronic signatures shall be effective as original signatures of this Stipulation.

SO STIPULATED, this the 23rd day of February, 2023.

GREAT RIVER UTILITY OPERATING
COMPANY, LLC

BY: BALCH & BINGHAM LLP

BY: 
LEO E. MANUEL

BEFORE THE MISSISSIPPI PUBLIC SERVICE COMMISSION

GREAT RIVER UTILITY
OPERATING COMPANY, LLC
SC-123-2515-00

DOCKET NO. 2022-UN-87

**IN RE: NOTICE OF INTENT TO ESTABLISH STATE-WIDE RATES FOR
WASTEWATER DISPOSAL SERVICE IN ITS CERTIFICATED AREAS
IN MISSISSIPPI**

JOINDER

COMES NOW _____,

a party intervener in this proceeding, and files this Joinder to the Stipulation filed by Great River Utility Operating Company, LLC on February 23, 20223 ("Stipulation"), in the above referenced docket.

We have reviewed the Stipulation, we agree with the terms and conditions set forth in the Stipulation, and hereby adopt the Stipulation without modification and join as a stipulating party for all purposes described therein.

Please accept this pleading as a formal joinder to the filed Stipulation in this case. We respectfully request that the Commission approve the Stipulation as filed herein.

RESPECTFULLY SUBMITTED, this the _____ day of _____,
2023.

BY: _____

CERTIFICATE OF SERVICE

I, _____, or my legal counsel on my behalf, have with respect to the above and foregoing filing with the Mississippi Public Service Commission on even date herewith, in compliance with Rule 6.112 of the Mississippi Public Service Commission's Public Utilities Rules of Practice and Procedure, served:

- (1) An electronic copy of the filing has filed with the Commission via e-mail to the following address:

efile.psc@psc.state.ms.us

- (2) An electronic copy of the filing has been mailed via e-mail to all parties of record to the following addresses:

emily.kruger@mpus.ms.gov

Savannah.a.m.black@gmail.com

lanedosset@gmail.com

blythe_dorn@yahoo.com

This the _____ day of _____, 2023.

BY: _____

LIST OF SYSTEMS SEWER SYSTEMS SUBJECT TO SSM-1

Facility Name	PSC District	County	Tier
1st Addition	#1	Lamar	2
Avalon Subdivision	#3	Lowndes	2
Beersheba Hills Subdivision	#3	Lowndes	2
Belmor Lakes & Browning Preserve Subdivision	#3	DeSoto	2
Black Creek	#2	Forrest	2
Blue Lake Springs Subdivision	#3	DeSoto	2
Brookwood Place Subdivision	#1	Warren	2
Business Park	#2	Lamar	3
Camden Place Subdivision	#1	Warren	1
Carter's Plantation Subdivision	#3	DeSoto	2
Cedar Creek Development	#2	Adams	2
Cedarview Subdivision	#3	Lowndes	2
Centerhill Downs Subdivision	#3	DeSoto	2
College Hills Subdivision	#3	DeSoto	2
Cypress Creek Subdivision	#3	DeSoto	2
Doyle Subdivision	#3	Lowndes	2
Edgewood & Logan Lee Loop Subdivision	#3	Lafayette	2
Evening Shade Subdivision	#3	DeSoto	2
Fairways Subdivision	#1	Warren	2
First Colony Subdivision	#3	Lowndes	2
Forest Cove Subdivision	#1	Warren	2
Forrest Hills Subdivision	#1	Lamar	2
Grand Oaks Subdivision	#3	Oktibbeha	2
The Grove Subdivision	#1	Warren	1
High Forest Subdivision	#3	Lee	1
The Highlands Subdivision	#3	Tate	2
Hillcrest Subdivision	#3	Lowndes	2
Hughes Estates Subdivision	#3	Lowndes	2
Kerry Estates - New Hope Garden Apartments	#3	Lowndes	2
King Farms Subdivision	#1	Lauderdale	1
LaBelle Estates Subdivision	#3	Lowndes	2

Facility Name	PSC District	County	Tier
Lakeover Subdivision	#3	Lowndes	2
Lakes of Oxford	#3	Lafayette	2
Lealand Pointe Subdivision	#1	Warren	1
Montgomery Quarter	#3	Oktibbeha	2
New Hope Park System	#3	Lowndes	2
Oakdale Park Subdivision	#3	Lowndes	2
Oakland Water Works	#2	Adams	3
Openwood Plantation	#1	Warren	2
Pecan Village Subdivision	#1	Warren	1
Pine Woods MHP	#1	Warren	2
Reese Creek Lagoon	#2	Forrest	2
Ridge Park, Wakeland Hills and Wildwood Subdivisions	#1	Hinds	2
Ridgeland Subdivision	#3	Ridgeland	2
Ring Road Subdivision	#1	Warren	1
Roanoke Estates Subdivision	#3	Lowndes	2
Shelby Place of Oxford	#3	Lafayette	2
Sherwood Forest Subdivision	#3	Lowndes	2
Silver Leaf Development	#1	Warren	1
Sweet Water	#3	Lee	2
TangleRidge Village	#3	Lafayette	2
Taylor Greene Subdivision	#3	Lafayette	2
Thornton Estates Subdivision	#3	Lowndes	2
The Trace Subdivision	#1	Warren	1
Trace Subdivision Number 4	#1	Lamar	2
Turkey Creek	#3	DeSoto	2
Twelve Oaks Estates Subdivision	#3	Lafayette	2
Wellsgate	#3	Lafayette	2
Westover West Subdivision	#2	Lamar	2
Windridge Subdivision	#2	Lamar	2
Woodall Mountain Estates	#3	Tishomingo	1

Great River Utility Operating Company, LLC
2022-UN-____
Comparison of Present, Proposed and Recommended Rates/Bills
Wastewater Systems

Subdivision	Tier	Present Rate/Bill	Proposed Rate/Bill	Proposed \$ Increase	Proposed % Increase
King Farms	Tier I	\$20.00	\$37.63	\$17.63	88%
Culkin - The Grove	Tier I	\$18.00	\$37.63	\$19.63	109%
Ring Road & Silver Leaf	Tier I	\$15.00	\$37.63	\$22.63	151%
Enviroserve - The Trace	Tier I	\$27.00	\$37.63	\$10.63	39%
Affordable Homes - Lealand Point	Tier I	\$27.00	\$37.63	\$10.63	39%
Pecan Village	Tier I	\$27.00	\$37.63	\$10.63	39%
Ironwood - Camden Place	Tier I	\$27.00	\$37.63	\$10.63	39%
Woodall Mountain	Tier I	\$12.50	\$37.63	\$25.13	201%
Bea-Dor - High Forest	Tier I	\$12.00	\$37.63	\$25.63	214%
Pecan Lakes - Reece Creek - Commercial*	Tier II	\$45.00	\$53.75	\$8.75	19%
Pecan Lakes - Reece Creek - Residential	Tier II	\$15.00	\$53.75	\$38.75	258%
Delta Rain - Highlands	Tier II	\$15.00	\$53.75	\$38.75	258%
Delta Rain Wellsgate	Tier II	\$12.00	\$53.75	\$41.75	348%
Culkin - Brookwood - Residential	Tier II	\$18.00	\$53.75	\$35.75	199%
Culkin - Brookwood - Commercial*	Tier II	\$20.00	\$53.75	\$33.75	169%
Belmore Lakes	Tier II	\$25.00	\$53.75	\$28.75	115%
Westover West - Commercial*	Tier II	\$62.50	\$53.75	(\$8.75)	-14%
Westover West - Residential	Tier II	\$20.10	\$53.75	\$33.65	167%
Wallace & Center Hill Downs	Tier II	\$27.00	\$53.75	\$26.75	99%
Red River - Ridge Park, Wakeland Hills, & Wildwood	Tier II	\$16.00	\$53.75	\$37.75	236%
Forrest Hill	Tier II	\$15.00	\$53.75	\$38.75	258%
H&B - Fairways - Residential	Tier II	\$15.00	\$53.75	\$38.75	258%
H&B - Fairways - Commercial*	Tier II	\$15.00	\$53.75	\$38.75	258%
Cedar Creek - Residential	Tier II	\$27.00	\$53.75	\$26.75	99%
Cedar Creek - Commercial*	Tier II	\$27.00	\$53.75	\$26.75	99%
Pine Woods	Tier II	\$27.00	\$53.75	\$26.75	99%
Robertson - Edgewood	Tier II	\$27.25	\$53.75	\$26.50	97%
Robertson - Lakes of Oxford	Tier II	\$31.00	\$53.75	\$22.75	73%
Robertson - Shelby	Tier II	\$29.25	\$53.75	\$24.50	84%
Robertson - Taylor Greene	Tier II	\$16.25	\$53.75	\$37.50	231%
S2 - Trace	Tier II	\$15.00	\$53.75	\$38.75	258%
Twelve Oaks	Tier II	\$14.00	\$53.75	\$39.75	284%
Utility One - Black Creek	Tier II	\$37.65	\$53.75	\$16.10	43%
Utility One - T&J	Tier II	\$16.24	\$53.75	\$37.51	231%
Utility One - Quality	Tier II	\$27.00	\$53.75	\$26.75	99%
DeSoto - Blue Lake Springs	Tier II	\$27.00	\$53.75	\$26.75	99%
Western - Windridge	Tier II	\$16.00	\$53.75	\$37.75	236%
Starling - Sweet Water	Tier II	\$15.00	\$53.75	\$38.75	258%
Wilco - All but Avalon	Tier II	\$24.10	\$53.75	\$29.65	123%
Wilco - Avalon	Tier II	\$27.00	\$53.75	\$26.75	99%
Montgomery Quarters	Tier II	\$15.00	\$53.75	\$38.75	258%
Oakland	Tier III	\$29.25	\$43.34	\$14.09	48%
Oakland - Commercial*	Tier III	\$29.25	\$43.34	\$14.09	48%
S2 Business Park	Tier III	\$27.00	\$28.69	\$1.69	6%
S2 Business Park - Commercial*	Tier III	\$27.00	\$28.69	\$1.69	6%

*Proposed Commercial Rates are based on Equivalent Residential Unit (ERU) and are subject to facility type

TARIFF
OF
Great River Utility Operating Company, LLC

CONSISTING OF
SCHEDULE OF MONTHLY RATES, SERVICE CHARGES, SERVICE
RULES AND REGULATIONS, SERVICE EXTENSION POLICY,
AND FORMULA RATE PLAN

FOR SEWER SERVICE

APPLYING TO
CERTIFICATED SERVICE AREA OF GREAT RIVER UTILITY OPERATING COMPANY, LLC

NO MODIFICATION OF THESE SCHEDULES SHALL BE
MADE EXCEPT FOR THE PURPOSE OF CANCELING OR
SUPERSEDING PREVIOUSLY ISSUED SCHEDULES

Issued By:	Josiah Cox	President	
	(Name)	(Title)	
1630 Des Peres Rd., Suite 140	St. Louis,	Missouri	63131
(Street or Box Number)	(City)	(State)	

STATE OF MISSISSIPPI
PUBLIC SERVICE COMMISSION



Mississippi Public Service Commission	
Utility Service - Sewer	
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PREFACE

The following Tariff governing sewer service is published as a convenient source of answers to basic questions asked by Customers or Applicant of Great River Utility Operating Company, LLC ("Great River"). This Tariff is established to provide uniform standards and policies for the rendering of sewer service and to the extent applicable by their provisions, to prescribe terms and conditions for all sewer service rendered or to be rendered by Great River. To the extent there is a conflict between the terms of this Tariff (or any contract with a Customer entered pursuant to this Tariff) and the Commission's Service Rules, Procedural Rules or Orders, the terms of the Commission's Service Rules, Procedural Rules and Orders shall control. This Tariff is on file with the Mississippi Public Service Commission. Failure of Great River to insist on any one or more occasions upon the strict compliance with this Tariff governing sewer utility service shall not constitute a permanent waiver or modification of the Tariff, but Great River at any time may insist upon strict compliance herewith regardless of any previous waivers or Customer's reliance thereon.

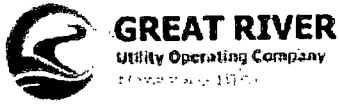
Copies of this Tariff are available at the Mississippi Public Service Commission in Jackson, Mississippi and at the following website:

<https://www.centralstateswaterresources.com/great-river/great-river-community-tariff-information/>

as well as at the offices of Great River:

Main Administrative Office:
1630 Des Peres Rd., Suite 140
St. Louis, MO 63131

Customers may contact Great River 24 hours per day, 7 days a week for any issues regarding billing, new service, reconnection of existing service, disconnection of existing service, maintenance issues and emergency issues at 855-801-8440 or by sending an email to support@greatriveruoc.com. Customers may also contact Great River via U.S. Mail at Great River Utility Operating Company, 1630 Des Peres Rd., Suite 140, St. Louis, MO 63131.



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INDEX OF SCHEDULES

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3	SSM-1	Sewer Service – Mitigated	All	Sewer
4	SSCF-1	Sewer Service Charges and Fees	All	Sewer
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Mississippi Public Service Commission Rate Schedule No. 1

Sewer Service – List of Systems		LOS-1
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LIST OF SYSTEMS

Facility Name	PSC District	County	Tier
1st Addition	#1	Lamar	2
Avalon Subdivision	#3	Lowndes	2
Beersheba Hills Subdivision	#3	Lowndes	2
Belmor Lakes & Browning Preserve Subdivision	#3	DeSoto	2
Black Creek	#2	Forrest	2
Blue Lake Springs Subdivision	#3	DeSoto	2
Brookwood Place Subdivision	#1	Warren	2
Business Park	#2	Lamar	3
Camden Place Subdivision	#1	Warren	1
Carter's Plantation Subdivision	#3	DeSoto	2
Cedar Creek Development	#2	Adams	2
Cedarview Subdivision	#3	Lowndes	2
Centerhill Downs Subdivision	#3	DeSoto	2
College Hills Subdivision	#3	DeSoto	2
Cypress Creek Subdivision	#3	DeSoto	2
Doyle Subdivision	#3	Lowndes	2
Edgewood & Logan Lee Loop Subdivision	#3	Lafayette	2
Evening Shade Subdivision	#3	DeSoto	2
Fairways Subdivision	#1	Warren	2
First Colony Subdivision	#3	Lowndes	2
Forest Cove Subdivision	#1	Warren	2
Forrest Hills Subdivision	#1	Lamar	2
Grand Oaks Subdivision	#3	Oktibbeha	2
The Grove Subdivision	#1	Warren	1
High Forest Subdivision	#3	Lee	1
The Highlands Subdivision	#3	Tate	2
Hillcrest Subdivision	#3	Lowndes	2
Hughes Estates Subdivision	#3	Lowndes	2
Kerry Estates - New Hope Garden Apartments	#3	Lowndes	2
King Farms Subdivision	#1	Lauderdale	1
LaBelle Estates Subdivision	#3	Lowndes	2

Facility Name	PSC District	County	Tier
Lakeover Subdivision	#3	Lowndes	2
Lakes of Oxford	#3	Lafayette	2
Lealand Pointe Subdivision	#1	Warren	1
Montgomery Quarter	#3	Oktibbeha	2
New Hope Park System	#3	Lowndes	2
Oakdale Park Subdivision	#3	Lowndes	2
Oakland Water Works	#2	Adams	3
Openwood Plantation	#1	Warren	2
Pecan Village Subdivision	#1	Warren	1
Pine Woods MHP	#1	Warren	2
Reese Creek Lagoon	#2	Forrest	2
Ridge Park, Wakeland Hills and Wildwood Subdivisions	#1	Hinds	2
Ridgeland Subdivision	#3	Ridgeland	2
Ring Road Subdivision	#1	Warren	1
Roanoke Estates Subdivision	#3	Lowndes	2
Shelby Place of Oxford	#3	Lafayette	2
Sherwood Forest Subdivision	#3	Lowndes	2
Silver Leaf Development	#1	Warren	1
Sweet Water	#3	Lee	2
TangleRidge Village	#3	Lafayette	2
Taylor Greene Subdivision	#3	Lafayette	2
Thornton Estates Subdivision	#3	Lowndes	2
The Trace Subdivision	#1	Warren	1
Trace Subdivision Number 4	#1	Lamar	2
Turkey Creek	#3	DeSoto	2
Twelve Oaks Estates Subdivision	#3	Lafayette	2
Wellsgate	#3	Lafayette	2
Westover West Subdivision	#2	Lamar	2
Windridge Subdivision	#2	Lamar	2
Woodall Mountain Estates	#3	Tishomingo	1



Mississippi Public Service Commission Rate Schedule No. 2		
Sewer Service – General		SSG-1
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APPLICABILITY

This rate schedule applies to all customer systems identified in the Table of Systems contained in Great River's Sewer Tariff that have received sewer service from Great River under Rate Schedule SSM-1 for a period of at least twelve (12) months.

AVAILABILITY

Sewer Service is available under this rate schedule on a uniform basis within Great River's certificated service area subject to the Service Charges, Service Rules and Regulations and the Service Extension Policy. Service is for the exclusive use of the Customer and shall not be resold or shared with others.

MONTHLY RATE FOR SERVICE

Monthly rates for service have been designed into three separate customer tiers to reflect differences in the type of service provided by the Company across Mississippi. The monthly rate tiers below reflect differences in costs inherent in providing service to customers in each tier.¹

MONTHLY RATES – TIER I

Tier I rates apply to communities served by single-cell or multi-cell lagoons without mechanical aeration.

Flat Monthly Sewer Charge per Equivalent Residential Unit (ERU): **\$35.90**

MONTHLY RATES – TIER II

Tier II rates apply to communities where the Company uses mechanical components to treat wastewater at Company-owned facilities.

Flat Monthly Sewer Charge per Equivalent Residential Unit (ERU): **\$51.29**

¹ For Commercial sewer customers, each Customer places different demands on the system depending on the size and use of the facility connected to the system. Great River has assigned an Equivalent Residential Unit (ERU) to each Commercial sewer Customer based on the demand commonly placed on sewer facilities by each Customer when compared to the average Residential Customer.



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Sewer Service – General		SSG-1
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MONTHLY RATES – TIER III

Tier III rates apply to communities where the Company relies on a third-party for the treatment of wastewater.

Flat Monthly Sewer Charge per Equivalent Residential Unit (ERU): **\$28.69**

Pass Through Monthly Charge:²

Oakland Sewer Service: **\$14.65**

S2 – Business Park **\$0.00**

ADDITIONAL RATE ADJUSTMENTS

The monthly rates for sewer service are subject to adjustment annually through Great River's Commission-approved Formula Rate Plan, Rider FRP. Great River reserves the right to apply to this rate any applicable proportionate part of any tax or assessment imposed or levied by any governmental authority in addition to the base monthly charges set forth above.

² The Pass Through Monthly Charge is subject to an annual true up by the Commission.


Mississippi Public Service Commission Rate Schedule No. 3

Sewer Service - Mitigated		SSM-1
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APPLICABILITY

Rate Schedule SSM is a temporary rate designed to mitigate the rate impact to customers that may otherwise be experienced following system acquisition by Great River. This rate schedule applies to all customer systems identified in the Table of Systems contained in Great River's Sewer Tariff that were receiving sewer service from Great River pursuant to rates that were adopted by Great River following Great River's initial acquisition of the system or temporary rates established for Great River following initial acquisition at any time in the calendar year preceding the year the Company makes an Annual FRP Filing under Rider FRP. Rate Schedule SSM shall apply for the regulatory year following approval of the first Annual FRP filing made after the system's acquisition. Following approval of the second FRP filing made after the system's acquisition, such system's customers shall be served under Great River's Rate Schedule SSG.

AVAILABILITY

Sewer Service is available under this Rate Schedule on a uniform basis within Great River's certificated service area subject to the Service Rules and Regulations and the Service Extension Policy. Service is for the exclusive use of the Customer and shall not be resold or shared with others.

MONTHLY RATE FOR SERVICE

Monthly rates for service have been designed into three separate customer tiers to reflect differences in the type of service provided by the Company across Mississippi. The monthly rate tiers below reflect differences in costs inherent in providing service to customers in each tier.³

MONTHLY RATES – TIER I

Tier I rates apply to communities served by single-cell or multi-cell lagoons without mechanical aeration.

Flat Monthly Sewer Charge per Equivalent Residential Unit (ERU): **\$27.86**

MONTHLY RATES – TIER II

Tier II rates apply to communities where the Company uses mechanical components to treat wastewater at Company-owned facilities.

Flat Monthly Sewer Charge per Equivalent Residential Unit (ERU): **\$39.80**

³ For Commercial sewer customers, each Customer places different demands on the system depending on the size and use of the facility connected to the system. Great River has assigned an Equivalent Residential Unit (ERU) to each Commercial sewer Customer based on the demand commonly placed on sewer facilities by each Customer when compared to the average Residential Customer.



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Sewer Service - Mitigated		SSM-1
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MONTHLY RATES – TIER III

Tier III rates apply to communities where the Company relies on a third-party for the treatment of wastewater.⁴

Flat Monthly Sewer Charge per Equivalent Residential Unit (ERU): **\$22.27**

Pass Through Monthly Charge:⁵

Oakland Sewer Service **\$14.65**

S2 – Business Park **\$0.00**

ADDITIONAL RATE ADJUSTMENTS

The monthly rates for sewer service are subject to adjustment annually through Great River's Commission-approved Formula Rate Plan Rider FRP. Great River reserves the right to apply to this rate any applicable proportionate part of any tax or assessment imposed or levied by any governmental authority in addition to the base monthly charges set forth above.

⁴ For Commercial sewer customers, each Customer places different demands on the system depending on the size and use of the facility connected to the system. Great River has assigned an Equivalent Residential Unit (ERU) to each Commercial sewer Customer based on the demand commonly placed on sewer facilities by each Customer when compared to the average Residential Customer.

⁵ The Pass Through Monthly Charge is subject to an annual true up by the Commission.



Mississippi Public Service Commission Rate Schedule No. 4		
Sewer Service Charges and Fees		SSCF-1
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SCHEDULE OF SERVICE CHARGES AND FEES

1. **Connection (tap) Fee:** In those situations in which a Customer elects, at Customer's option, to have the Company connect the Customer Service Sewer to the Collecting Sewer then a service Connection Fee of \$650.00 will be required of each Customer. Payment of this fee shall be in advance of any installation or construction work by the utility and will include the cost of making actual connection of the Service Sewer to the Collecting Sewer. This fee will be collected only once for a given service location. Notwithstanding the foregoing, a separate Connection Fee shall be required if a Customer requires an additional connection for the purposes of adding a secondary Service Sewer, such as for an outbuilding. Company will book all or a portion of each Connection Fee received as a contribution in aid of construction when consistent with applicable accounting guidance.
2. **Inspection Fee:** In the event that the Customer elects, at Customer's option, to hire a plumber to connect the Service Sewer to the Collecting Sewer, then the Customer shall not pay a Connection Fee, but instead shall pay an initial \$250.00 Inspection Fee to the Company to determine that the connection has been made consistent with these rules. A \$50.00 follow-up Inspection Fee will be billed and paid in advance by Customer for each visit until installation is approved by Company. Notwithstanding the foregoing, a separate Inspection Fee shall be required if a Customer requires an additional connection for the purposes of adding a secondary Service Sewer, such as for an outbuilding and hires a plumber for that connection.
3. **Disconnection Fee:** If Customer's Service Sewer is: (i) indirectly disconnected, pursuant to an arrangement with the Customer's water utility whereby water service is turned off, then the Customer shall be charged a disconnection fee consistent with the actual cost contained in the Company's arrangement with the water utility in question; or (ii) physically disconnected through the excavation and disconnection of the Customer's Service Sewer, then the Customer shall be charged based upon the actual cost of excavating and physically disconnecting the Service Sewer.
4. **Reconnection Fee:** If Customer's Service Sewer: (i) has been indirectly disconnected, pursuant to an arrangement with the Customer's water utility whereby water service is turned off, then the Customer shall be charged a reconnection fee consistent with the actual cost contained in the Company's arrangement with the water utility in question; or (ii) has been physically disconnected through the excavation and disconnection of the Customer's Service Sewer, then the Customer shall be charged based upon the actual cost of excavating and physically reconnecting the Service Sewer; or (iii) in the event that a Physical Disconnect on the Service Sewer has been installed and disconnection has been effectuated by turning that Physical Disconnect, then the Customer shall be charged \$35.00 in order to be reconnected. In any of the foregoing scenarios, reconnection requires the payment of all past due bills, Late Payment Charges, the Disconnection Fee as well as any applicable Reconnection Fee.



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5. When ownership or tenancy changes at the Unit the new Applicant for service will be required to pay a \$35.00 administrative Reconnection Fee, which is a non-refundable charge.
6. Returned Check Charge: Any check received in payment of a bill which is returned by the bank will be subject to a \$40.00 additional collection fee.
7. Late Payment Charge: All bills are due and payable 21 days from the billing date following the service. If the bill is not paid by such due date, an \$8.00 charge will be added to the amount due.
8. Itemized Utility Bill: Customers that request the Company to generate a 12-month, itemized bill history will be charged \$10.00.
9. Tampering with Company Property Charge: Customers that tamper with Company property shall be charged \$100.00 for the first offense; subsequent offenses shall be charged \$300.00.
10. Unauthorized Connection Charge: In the event the Company finds that a Customer has an unauthorized Service Sewer connection (meaning a connection has been made to the Collecting Sewer without the Company's knowledge or permission and/or for which a Connection Fee or Inspection Fee, as applicable, has not been paid to the Company), the Customer will be required to pay the original Connection Fee or Inspection Fee, as applicable, and an additional \$100.00 for the unauthorized connection.



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SERVICE RULES AND REGULATIONS

1. DEFINITIONS:

An "Applicant" is a person, firm, corporation, association, governmental body, or other entity which has applied for service; two or more Applicants may jointly make one application under the Service Extension Policy.

"B.O.D." denotes Biochemical Oxygen Demand. It is the quantity of oxygen utilized in the biochemical oxidation of waste matter under standard laboratory conditions expressed in milligrams per liter.

"C.O.D." denotes Chemical Oxygen Demand. It is the quantity of oxygen utilized in the chemical oxidation of waste matter under standard laboratory conditions, expressed in milligrams per liter.

A "Collecting Sewer" is a pipeline, including force pipelines, gravity sewers, interceptors, laterals, trunk sewers, manholes, lampholes, and necessary appurtenances, including service Wyes, Saddles and Physical Disconnects, which are owned and maintained by the Company, located on public property or on private easements, and used to transport sewage waste from the Customer's Service Connection to the point of disposal.

"Commercial Service" is non-Residential, non-industrial business enterprise including, without limitation, restaurants, hospitals, schools, day care centers, office buildings, nursing homes, clubs, churches, shopping centers, and public facilities.

The "Commission" means the Mississippi Public Service Commission.

The "Company" means Great River Utility Operating Company, LLC.

A "Customer" means a person, firm, corporation, association, municipality, the State of Mississippi, the United States, any federal or state department, subdivision or agency, and any institution or establishment whatsoever taking service from the Company.

"Discontinuance of Service" is the intentional cessation of the use of sewer service by the Company not requested by the Customer. Such Discontinuance of Service may be accomplished by methods including, but not limited to: (1) physical disconnection of the Service Sewer; (2) turn-off of water service by the water utility at the request of the Company; or (3) through a Physical Disconnect device.

"Domestic Sewage" is sewage, excluding storm and surface water, resulting from normal household activities; and, "Non-Domestic Sewage" is all sewage other than Domestic Sewage including, but not limited to, commercial or industrial wastes. See the provision on Improper or Excess Use.



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“Foundation Drain” is a pipe installed inside or outside the foundation of a structure for the purpose of draining ground or subsurface water away from the foundation.

A “Grinder Pump” is a wastewater conveyance device, owned, maintained, repaired and replaced by the Company, in which waste from water-using household appliances flows into the Customer’s holding Tank, then through the Grinder Pump, where it is ground into a fine slurry, then pumped into the central sewer system.

A “Month” means an interval of approximately thirty (30) calendar days between successive billing dates, except when the calendar month is specified.

“pH” is the relative degree of acidity or alkalinity of water as indicated by the hydrogen ion concentration. pH is indicated on a scale reading from 1-14, with 7.0 being neutral, below 7.0 being acidic, and above 7.0 being alkaline; more technically defined as the logarithm of the reciprocal of the hydrogen ion concentration.

“Physical Disconnect” is a valve, such as an Elder Valve® used to disconnect the Customer’s Service Sewer from the Company’s Connecting Sewer.

“Repairable Parts” are, in the context of a Pressure Collecting Sewers, any pump motor and effluent pump, whether assembled as a unit or as separate components; also a heater, alarm system and check valve components, if installed. This does not include the Tank and gravity Service Sewer piping from the dwelling structure; or pressure Service Sewer piping to the Company’s Collecting Sewer. These “Repairable Parts” are furnished by the Company to the Customer at actual cost, and owned by the Customer, but the Company is responsible for the labor for repair or replacement as needed for normal operations.

“Residential Service” is service provided to residences consisting of one or more rooms, with space for eating, living, sleeping and permanent provision for cooking and sanitation.

A “Returned Check” is a check that is returned to the Company from any bank unpaid for any reason.

A “Saddle” is a fitting that connects the Customer’s Service Sewer to the Collecting Sewer. The Saddle clamps around the Collecting Sewer pipeline into which pipeline is cut, and the Service Sewer is connected to the Saddle thereby connecting to the Collecting Sewer. The installation of a Saddle shall be in conjunction with a Physical Disconnect.

A “Service Connection” is the connection of a Service Sewer to the Company’s Collecting Sewer either at the bell of a Wye branch or the bell of a Saddle place on the barrel of the Collecting Sewer. The installation of a Service Connection shall include the installation of a Physical Disconnect.



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A "Service Sewer" or "Customer's Service Sewer" is a pipe with appurtenances installed, owned and maintained by the Customer, used to conduct sewage from the Customer's premises to the Collecting Sewer, excluding service Wyes or Saddles. The Service Sewer is constructed, maintained, and, except for any Grinder Pump, owned by the Customer. The Service Sewer shall include the installation of a Physical Disconnect.

A "Subdivision" is any land in the State of Mississippi which is divided or proposed to be divided into two or more lots or other divisions of land, whether contiguous or not, or uniform in size or not, for the purpose of sale or lease, and includes resubdivision thereof.

A "Tank" is a watertight vessel, owned and maintained by the Customer, which holds wastewater from the Customer's premises, and in which is installed the Grinder Pump, and includes associated electrical connections. Customer shall be responsible for the construction, replacement and maintenance of the Tank, including any cost associated with pumping sludge out of the Tank.

A "Tee" is a three-way, one-piece, pipe fitting in the shape of the letter "T" that is part of the "Collecting Sewer" pipeline and to which the Customer's Service Sewer is connected. The installation of a Tee shall include the installation of a Physical Disconnect.

A "Termination of Service" is, contrary to Discontinuance of Service, cessation of service requested by the Customer. Such Termination of Service shall be accomplished by a method verified and recognized by the Company, and may include physical disconnection of the Service Sewer, termination or disconnection of water service by the water utility, or the Company's observation of non-occupation of the Unit served.

The word "Unit" shall be used herein to define the premises or property of a single wastewater consumer, whether or not that consumer is the Customer. It shall pertain to any building whether multi-tenant or single occupancy, Residential or Commercial, or owned or leased. Each mobile home in a mobile home park and each rental Unit of a multi-tenant rental property shall be considered as separate units for each single family or firm occupying same as a residence or place of business.

A "Wye" or "Wye Branch" or "Y" or "Y Branch" is a three-way, one-piece, pipe fitting in the shape of the letter "Y" that is a part of the Collecting Sewer pipeline, and to which the Customer's Service Sewer is connected. The installation of a Wye shall include the installation of a Physical Disconnect.

2. GENERAL RULES & REGULATIONS

- A. The Company's Rules and Regulations governing public utility service are set forth in these numbered sheets. The rates applicable to appropriate sewer service or service in particular service areas are set forth in rate schedules and constitute a part of these Rules and Regulations. Following written notice to the customer, the Company may change a



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customer's applicable rate tier in the event there is change in service that disqualifies the customer from its current rate tier and makes the customer eligible for a different rate tier.

- B. The Company reserves the right, subject to approval of the Commission, to prescribe additional Rates, Rules, or Regulations or to alter existing Rates, Rules or Regulations as it may from time to time deem necessary and proper.
- C. After the effective date of these Rules and Regulations, all new facilities, construction contracts, and written agreements shall conform to these Rules and Regulations, as well as the statutes of the State of Mississippi and the Rules and Regulations of the Commission. Pre-existing facilities that do not comply with applicable rules and regulations may remain, provided that their existence does not constitute a service problem or improper use, and reconstruction is not practical.

3. COMPANY EMPLOYEES AND CUSTOMER REGULATIONS

- A. Employees or agents of the Company are expressly forbidden to demand or accept in person any compensation for any services rendered to its Customers, except as provided in the Company's Service Rules and Regulations.
- B. No employees or agents of the Company shall have the right or authority to bind the Company by any promise, agreement or representation except as permitted in the terms, conditions and rates of these Service Rules and Regulations.

4. APPLICATION FOR SERVICE

- A. Service rendered by Company shall be subject to the provisions of this Tariff and the lawfully applicable rate schedules on file with the Commission, and the supply and taking of such service shall, for the purposes of this Tariff, constitute an Application for Service if no written agreement for service or application for service has been executed. Applicants for sewer service may be required to make such application in writing via the Company's website www.centralstateswaterresources.com/great-river/ (or through other means acceptable to the Company in its sole discretion) on forms supplied by the Company and shall state fully and truthfully the uses to which the sewer service is to be supplied. When such form is signed by the Customer and accepted in writing by Company, it becomes binding and is termed an agreement for service. Should such agreement be lost or destroyed, the form shall be presumed conclusively to be standard. If an application for service is not signed by Customer, the rendering of service by Company and the accepting of such service by Customer shall impose the same obligation on each as if it had been executed.



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- B. A prospective Customer shall, upon request of the Company, present in writing to the Company a list of devices that will discharge to the Collecting Sewers, the amount and specifications of any discharge, and the location of any buildings.
- C. If service is requested at a point not already served by a Collecting Sewer of adequate capacity, or existing treatment does not exist to provide service, a Collecting Sewer of adequate size shall be extended, or additional treatment capacity added, as may be necessary in accordance with the Company's Service Extension Policy. When, in order to provide the service requested a Collecting Sewer extension or other construction or equipment expense is required, the Company may require a written contract. Said contract may include, but not be limited to, the obligations upon the Company and the Applicant, and shall specify a reasonable period of time necessary to provide such service.
- D. A new application shall be made and approved by the Company, upon any changes in use or occupancy of property or in the service as described in the application, and the Company shall be at liberty, upon five-day written notice, to discontinue sewer service until such application has been made and approved. When Customer changes addresses, Customer shall give reasonable notice to Company prior to the date of change. Customer is responsible for all service supplied to the vacated premises until such notice has been received and Company has had a reasonable time, but not less than three (3) days, to discontinue service.
- E. When sewer charges are based on water usage, the Company reserves the right to refuse sewer service to any Applicant unless said Applicant agrees to install a water meter accessible to the Company or allows the Company to access the water meter for meter reading purposes, so that there will be a basis for sewer charges.
- F. The Company will determine or approve the location of the Service Connection. Service Sewers will not be extended along public streets or roadways or through property of others in connecting with Collecting Sewers. If a Service Connection is requested at a point not already served by a Collecting Sewer of adequate capacity, the Collecting Sewer shall be extended in accordance with the Service Extension Policy, unless in the Company's judgment, such a Collecting Sewer would serve no other purpose and a Service Sewer may be constructed to serve the Customer's premises in a reasonable manner.
- G. A new Service Connection shall be authorized when all conditions regarding application, construction and inspection have been met and any associated charges paid by the Customer.
- H. Deposit: The Company may require from any Customer or prospective Customer a cash deposit to guarantee the payment of any bills due or which may become due from such Customer and safe return of all property belonging to the Company installed at the Customer's premises or elsewhere. Such required deposit shall not exceed an amount



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equivalent to a single estimated average bill in the case of Residential Customers and two (2) estimated maximum bills for any other Customers. Residential Customers may negotiate monthly installments for initial service deposits in excess of One Hundred Dollars (\$100.00) provided that the entire amount of the deposit is paid within sixty (60) days.

- I. Upon request, the Company shall refund the cash deposit collected from a Residential Customer or waive any requirement of cash deposit from a Residential Customer or waive any requirement of cash deposit from a Residential Customer when such person meets the following specific criteria: (i) presents satisfactory proof that his or her age is sixty (60) years or more. A birth certificate or a current government-issued identification card shall be considered satisfactory proof of age; (ii) indicates that he or she is a primary user of the utility service and subscribed for such service in his or her own name; (iii) affirms responsibility for the payment of bills for the utility; and (iv) has demonstrated a reasonable payment pattern by having had no balance carried forward from one month's bill to the next during the prior twelve-month period. In the event that such deposit has been refunded or waived and the Customer's payment pattern changes from the foregoing to one of greater frequency of past due bills or bills with prior balances, Customers will be required to restore the deposit so refunded or waived plus any additional amount required to guaranteed payment up to the limits set forth herein.
- J. Interest on Deposits: Cash deposits made by customers which are held by the Company for one (1) year or more, shall earn simple interest that is no less than the twelve-month average of the 10-year Treasury Note Yield as published by the Federal Reserve System, but not to exceed the general interest rate established by Mississippi Code Ann. §75-17-1(1). The applicable interest rate will be determined and posted on the Commission's website on or before December 15 of each calendar year and will be effective for the prospective year. All accrued interest held by the Company shall be paid in cash or credited to the Customer's account on or before July 1st of each successive third year during which service is connected. The principal sum of the cash deposit and any unpaid interest shall be applied to the Customer's final bill, and any excess amount shall be paid to the Customer in cash. Cash deposits held for less than one full year shall earn no interest
- K. Refusal to Serve: Company may decline to provide service to a Customer for any of the following reasons: (i) failure to comply with any of the rules and regulations of the Company; (ii) lack of adequate facilities to render the service requested or the requested service is likely to unfavorably affect the service to other Customers; (iii) the Applicant is indebted to the Company for the same kind of service, provided, however, that in the event that the indebtedness is in dispute, the Applicant shall comply with the deposit requirement, and, in addition thereto, make a special deposit in the amount equal to the lesser amount of the net balance in dispute or \$500 (if a Residential Customer) or 50% of the net balance (if a non-Residential Customer). Upon settlement of the disputed account, the balance, if any,



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of such special deposit due the Applicant shall be promptly repaid including interest as provided by Commission Rule.

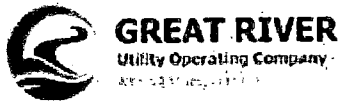
- L. In any case of a dispute concerning refusal of service, Customer may submit a complaint with the Commission pursuant to the Commission's Rules.
 - M. The following shall not constitute sufficient cause for refusal of service to a present or prospective Customer: (i) delinquency in payment for service by a previous occupant (not of the same household as the present Applicant) of the premises to be served; or (ii) failure to pay for merchandise purchased from the Company.
 - N. Residential Customers may request a written explanation of the Company's decision to refuse service. The explanation shall include the reason service is being declined and what actions the Customer must take in order to receive service. The Applicant shall provide the Company with a valid mailing or email address where the response can be mailed or delivered via email. The Company shall provide and make available to their Applicants at all offices and on the Company's website appropriate forms for use by the Customer to request an explanation of the Company's decision to decline service. The Company shall mail or deliver via email the written explanation within seven (7) calendar days after receipt of the written request by mailing U.S. Mail, postage prepaid, or via email, to the known address of the potential ratepayers.
5. IMPROPER OR EXCESS USE
- A. The following requirements for the use of sewer service provided by the Company shall be observed. Violation of the requirements may result in the Discontinuance of Service to the Customer, and the Customer may be required to comply with Paragraph B, below.
 - B. In the event that the Customer to be served proposes to discharge an abnormally high volume or strength of waste, the Company may require:
 - 1. The Customer to install a pretreatment facility, grease trap or other device on the premises to prevent the exceeding of discharge limits or other adverse impacts upon the Company's system. The installation of any such device as well as its operation and maintenance shall be the responsibility of the Customer, and subject to approval and inspection by the Company; or
 - 2. The Customer to enter into a special contract with the Company for treatment of the Customer's discharge that could require an enlargement of the Company's existing sewage treatment plant, and/or the construction or reconstruction of sewer lines or pump facilities. This special contract shall be approved by the Commission with a rate applicable to the Customer to be included that is fair and reasonable to both parties and



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so as not to constitute a burden upon the Company or the existing Customers of the Company.

- C. No Customer shall discharge or cause to be discharged any storm water, surface water, ground water, swimming pool water, roof runoff, sub-surface drainage or cooling water into the Collecting Sewers.
- D. Except as may be provided in Paragraph B.2., above, the Customer shall, at their own expense, be required to take any action necessary to meet the following described wastewater limits before the wastewater is discharged into the Collecting Sewer:
1. Maximum temperature of 150 degrees Fahrenheit; and
 2. Maximum strength of four hundred (400) parts per million Biological Oxygen Demand (B.O.D.); and
 3. A maximum of one hundred (100) parts per million, by weight, any fat, oil or grease; and
 4. A maximum of twenty-five (25) parts per million, by weight, any soluble oils; and
 5. No gasoline, benzene, naphtha, fuel oil, or other flammable or explosive liquid, solid or gas; and
 6. No garbage that has not been properly shredded; and
 7. No ashes, cinders, sand, mud, straw, shavings, metal, glass, rags, feathers, tar, plastics, wood or any other solid or viscous substance capable of causing obstruction to the flow in sewers or other interference with the proper operation of the sewer system; and
 8. No wastewater having a pH less than 5.0 or greater than 9.0, or having any other corrosive property, capable of causing damage or hazard to structures, equipment or personnel of the Company; and
 9. No wastewater containing heavy metals, toxic material, or Chemical Oxygen Demand (C.O.D.) in sufficient quantity to disrupt the operation of treatment facilities or exceeding any limits which may be specified in a service contract for any such substance.
- E. Customers will not be permitted to supply sewer in any way to premises other than the service address.



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- F. No substantial addition to the water using equipment or appliances connected to the sewer system shall be made by Customers discharging non-Domestic Sewage except upon written notice to and with the written consent of the Company.

6. INSIDE PIPING AND SERVICE CONNECTION

- A. The Customer is obligated, except for any Grinder Pump, to construct, repair and maintain the Service Sewer to the building and make the connection to the Collecting Sewer. The Customer shall notify the Company prior to cleaning or repairing the Service Sewer.
- B. The connection of the Customer's Service Sewer to the Company's Collecting Sewer may be done, at the Customer's option, by either a licensed plumber or by the Company. In the event that the connection is made by a licensed plumber, then the Customer shall pay the Company an Inspection Fee as provided herein. In the event that the connection is made by the Company, then the Customer shall pay the Company a Connection (tap) Fee.
- C. When a Service Sewer is to be connected to the Collecting Sewer by a licensed plumber, then the plumber shall advise the Company three (3) business days in advance of when the connection is expected to be made so a representative of the Company can inspect the installation and connection. No backfill shall be placed until the work has been inspected by the Company. In the event the Customer or the Customer's agent shall damage a Wye branch or Saddle, or cause damage to the Collecting Sewer, then the Customer shall be responsible for the cost to repair any such damage, including replacement or pipe or appurtenances as necessary.
- D. Plumbing specifications of all governmental agencies having jurisdiction, and the Company's Rules, in effect at the time of connection, must be met. The Company may deny service or may discontinue service where Foundation Drains, downspouts, or other sources or surface or storm water are permitted to enter the sewer system through either the inside piping or through the building sewer. The Company reserves the right to discontinue serving any Customer, or not to commence serving any Customer whose plumbing does not conform to all regulations of any proper authority governing same.
- E. A separate and independent Service Sewer shall be required for every Unit.
- F. The Service Sewer shall be of suitable material approved by the Company. Only those jointing materials and methods that are approved by the Company may be used. Joints shall be tight and waterproof. Any part of the Service Sewer that is located within ten feet (10') of a water main or a water service pipe shall be encased in ductile iron or PVC pressure pipe. The pipe shall be bedded according to the manufacturer's specifications and on undisturbed earth or fill compacted to at least ninety-five percent (95%) proctor density. Fill may be non-organic soil or aggregate.



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- G. The size and slope of the Service Sewer shall be subject to the approval of the Company, but in no event shall the diameter be less than four inches (4"). The slope of such four-inch (4") pipe shall not be less than one-eighth inch (1/8") per foot.
- H. Whenever possible, the Service Sewer shall be brought to the building at an elevation below the basement floor. No building sewer shall be laid parallel to or within three feet (3') of any bearing wall. The depth shall be sufficient to afford protection from frost. The Service Sewer shall be laid at a uniform grade and in straight alignment insofar as possible. Changes in direction shall be made only with properly curved pipes and fittings.
- I. Existing Service Sewers may be used in connection with new buildings only when they are found on examination and tested and certified by a plumber at the Customer's expense to meet all requirements of the Company.
- J. In any building in which a building drain is too low to permit the required slope of the Service Sewer, sanitary sewage carried by such drain shall be, at the Customer's expense, lifted by approved artificial means and discharged to the Service Sewer. No water operated sewage ejector shall be permitted.
- K. All excavations required for the installation of a Service Sewer and connection to the Collecting Sewer shall be open trench work unless otherwise approved by the Company. Pipe laying and backfill shall be performed in accordance with the latest published engineering specifications of the manufacturer of the materials used, and all applicable local plumbing codes.
- L. The connection of the Service Sewer to the Collecting Sewer shall be made at the Wye branch, if such branch is available at a suitable location, and shall include a Physical Disconnect. If the Collecting Sewer is vitrified clay pipe of twelve-inch (12") diameter or less and there is no properly located Wye branch at a suitable location, a Wye branch shall be installed at a location specified by the Company. If the Collecting Sewer is greater than twelve inches (12") in diameter, or is PVC or any size, a neat hole may be cut at a location specified by the Company, and a Saddle installed to which the Service Sewer will be connected. The invert of the Service Sewer at the point of connection shall be at the centerline or higher elevation of the Collecting Sewer. The connection shall be secure and watertight.
- M. Any change in the location of an existing Service Connection and/or Service Sewer requested by the Customer shall be made at the Customer's expense.
- N. Company personnel may not work on piping or facilities not owned by the Company unless authorized in writing by the Customer.



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- O. The Company shall in no event be responsible for maintaining the lines and fixtures on Customer's property or for damage done by wastewater escaping therefrom.
- P. The Customer shall not use the service furnished in any manner that interferes with the rendering of proper service to other Customers of the Company.
- Q. The Company will notify Customers of any interruption in service whenever possible. Customer, however, shall be responsible for protecting against damage of any kind to any of their plumbing, equipment, facilities, machinery, boilers, etc., that might arise out of the sudden interruption of service for any reason. Except as provided in Section 9 herein, the Company will not be liable for damage because of discontinuance or failure to give notice thereof.

7. PRESSURE COLLECTING SEWERS

- A. This rule applies to Customers on a pressurized collection system and is not applicable to Customers on a gravity collection system. Other Rules elsewhere herein not applicable specifically to gravity Collecting Sewers or gravity Service Sewers also apply, in addition to this Rule.
- B. Any Customer proposed to be discharging less than 1,200 gallons per day Domestic Sewage, to be connected to a pressure Collecting Sewer, shall install at his own expense within the lot, one pump unit of suitable capacity. All components utilized in a pump unit must be either purchased from the Company or meet its specifications which shall be on file at the Company's office and approved by the Company prior to installation. Installation costs of the pump unit, electrical wiring and components and Service Sewers between the dwelling and the pump unit and Company's Collecting Sewers shall be the responsibility of the Customer. Electricity costs for pump operation shall be the responsibility of the Customer. Customers discharging greater than 1,200 gallons per day, upon applying for service with the Company, must enter into an agreement with the Company with regard to operation of a pump unit that is of suitable capacity for the Customer and that will be compatible with the Company's operation of its pressure Collecting Sewer system.
- C. Any pump unit of aerator in existence and serving more than one premises prior to June 15, 1985, shall be permitted to remain in service as a multiple Customer Service Sewer until such time as the existing unit fails or one homeowner sells a home at which time a new unit will be installed and each home will require its own unit. The Customers served by any such pump unit or aerator converted to a pump unit, shall be jointly responsible for the Customer obligations as provided for in these Rules and Regulations.



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- D. Installation costs associated with a pump not provided by the Company will be the responsibility of the Customer for all labor, maintenance, and parts. Installation and repair of the Customer-owned pump will be subject to Company's inspection and approval.
- E. The Company will locate the point to which the Service Connection to the pressure Collecting Sewer will be made, and the Customer shall furnish materials for the connection. All taps to the pressure Collecting Sewer shall be done by the Customer. One connection shall not service more than one property. The Customer shall also install a check valve near the Service Connection.
- F. A stop cock shall be placed on the Service Sewer near the Service Connection. Said stop cock shall include a provision for locking. The stop cock will be furnished, owned and maintained by the Company.
- G. In addition to other methods outlined within these Rules for Discontinuance of Service, sewer service may be disconnected by the Company by locking the stop cock in the closed position. Service shall not be resumed again except upon payment of all delinquent charges, plus any applicable approved service charge to cover the costs of resuming service, in accordance with these Rules.
- H. The gravity Service Sewer from the building to the pump unit as well as the pressure Service Sewer to the Collecting Sewer shall be owned and maintained by the Customer.
- I. While responsibility for ownership, maintenance and replacement of the Grinder Pump shall be borne by the Company, the cost of ownership, maintenance and replacement of the Tank and the Service Sewer shall be the sole responsibility of the Customer. That said, however, if it is determined that a Grinder Pump has failed as a result of the Customer's failure to properly maintain the Tank, including the need to regularly pump sludge from the Tank, then the Company shall be alleviated from its responsibility to replace the Grinder Pump. In that situation, the Customer shall bear the cost of replacing the Grinder Pump. The owner of the premises wherein pump units are in operation shall be responsible for the care and safekeeping of the pump unit including electrical service to the pump unit to prevent freezing and overflow as well as flooding due to damage caused by the pump unit.
- J. The Company shall perform one preventive maintenance call per year on each pump unit in service provided by the Company at no cost to the Customer. Normally, this service call will be made in the fall season. Preventive maintenance shall consist of the following work:
1. Run controls, including alarm system, through one complete cycle, and
 2. Inspect the check valves for proper operation, Clear or replace as necessary, and



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3. Check heater for operation, and
 4. Check, and if necessary, remove solid waste from Tank.
- K. The Company shall be responsible for maintenance and replacement of the Repairable Parts and shall perform emergency repairs on said parts. The Company will furnish the Repairable Parts and shall bill the Customer the actual cost of the Repairable Parts. At the Company's option, an emergency service call may constitute a preventive maintenance call, if a reasonable amount of time has elapsed since the last preventive maintenance call, and if all other maintenance checks are performed.
- L. Repairable Parts shall be provided at no extra charge to the Customer for replacement of defective parts under warranty. The Company, however, shall not be liable for parts or labor necessary due to damage caused by misuse of the pump unit.
- M. Miscellaneous supplies, such as riser sections, sealants, and screens, shall be provided by the Company at no cost to the Customer.
- N. The Company shall not be liable for parts or labor necessary due to damage caused by misuse of the pump unit.
- O. The Company shall keep parts, repair kits, and a supply of check valves on hand for each brand or type of pump unit supplied by the Company.
- P. The Company shall present to the Customer, at the time of Application for service, information regarding what services are available from the Company, and what will be provided free of charge.
8. DISCONTINUANCE OF SERVICE
- A. Discontinuance of Service may be accomplished, but not limited to, physical disconnection of the Customer's Service Sewer from the Company's Collecting Sewer. Discontinuance of Service for non-payment of a sewer bill may be accomplished: (1) by physical disconnection of the Service Sewer from the Collecting Sewer; (2) by utilization of Physical Disconnect; or (3) where an arrangement is in effect between the Company and the Customer's water utility, through discontinuance of water service by the Customer's water utility at the request of the Company.
- B. Reasons: Service under any application may be discontinued for any of the following reasons:
1. Non-payment of a delinquent account not in dispute;
 2. Unauthorized resale of sewer service or by allowing others to utilize sewer service;



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3. Failure to post a security deposit or guarantee acceptable to the Company;
4. Unauthorized interference, diversion, connection to or use of the utility service situated or delivered on or about the Customer's premises;
5. Misrepresentation of identity in obtaining utility service;
6. Failure to comply with the terms and conditions of a settlement agreement;
7. Refusal after reasonable notice to grant access at reasonable times to equipment installed upon the premises of the Customer for the purpose of inspection, maintenance or replacement; or
8. Violation of any of these Rules and Regulations on file with and approved by the Public Service Commission, or for any condition which adversely affects the safety of the Customer or other persons, or the integrity of the utility's delivery system.

C. None of the following shall constitute sufficient cause for Discontinuance of Service:

1. Life Threatening Situation: Company shall not discontinue service to any Residential Customer for a period of sixty (60) days for nonpayment when the utility receives written notice from a medical doctor licensed to practice in the State of Mississippi, or any adjoining state, certifying that Discontinuance of Service would create a life-threatening situation for the Customer or other permanent resident of the Customer's household. Company shall provide and make available to their Customers at all offices and on the Company's website appropriate forms for use by the Customer in certifying the life-threatening situation. The utility shall issue a receipt to the Customer acknowledging receipt of the written notice pursuant to this rule;
2. The failure of the Customer to pay for merchandise, appliances, or service not subject to Commission jurisdiction as an integral part of the utility service provided by the Company;
3. The failure to pay a bill correcting a previous underbilling, whenever the Customer claims an inability to pay the corrected amount, unless a utility has offered the Customer a payment arrangement equal to the period of underbilling;
4. Delinquency in payment for service by a previous occupant (not of the same household as the present applicant) of the premises to be served; or
5. Violation of the Company's rules pertaining to operation of nonstandard equipment which interferes with service to others, or other services such as communication services, unless the Customer has first been notified and been afforded reasonable opportunity to comply with said rules; provided, however, that where a dangerous



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condition exists on a customer's premises, service may be refused or discontinued without notice.

D. Procedure

1. Company shall not discontinue service to any Customer for violation of its rules and regulations nor for nonpayment of bills without first having used due diligence to give the Customer notice of such violation or delinquency and reasonable opportunity to comply with its rules and regulations or to pay his bills. In no case shall service be actually discontinued until after at least (5) five days written notice shall have been given to the Customer by the utility; provided, however, for fraudulent, careless, negligent, or unlawful use of the commodity or service, or where a dangerous condition is found to exist on the Customer's premises, service may be discontinued without advance notice. This notice shall include a date on or after discontinuance may occur. Such notice may be given by the utility by mailing by U.S. Mail, postage prepaid, to the known address of the Customer. Notice of delinquencies shall be considered to be given to the Customer when a copy of such notice is left with such Customer, left at the premises where service is provided, or posted in the U.S. Mail, addressed to the Customer at his last known address. A Customer shall have the privilege of paying any delinquent account at any time prior to the actual disconnection or turning off of service.
2. A discontinuance notice provided to a Customer shall include: a) the name and address of the Customer, the service address if different than the Customer's address; b) a statement of the reason for the proposed Discontinuance of Service and the cost for reconnection; c) how the Customer may avoid the discontinuance; d) the possibility of a payment agreement if the claim is for a charge not in dispute and the Customer is unable to pay the charge in full at one time; and e) a telephone number the Customer may call from the service location without incurring toll charges and the address and any available electronic contact information of the utility prominently displayed where the Customer may make an inquiry.
3. Company shall not discontinue service for nonpayment of bills to a Residential Customer on any Saturday or Sunday or any holiday observed by the Company unless Company is open to accept payment (including, but not limited to, a money order) and restore service on those days.
4. Company shall reconnect service in a prompt and efficient manner on the first business day after the balance due has been received by the utility, except under extreme circumstances where ongoing restoration efforts prevent reconnection from occurring within that time period.

E. Change in Location of Service or Premises Served


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1. When at a Customer's request, the utility changes the location or premises at which service is rendered, the service at the new and old locations or premises and the account therefore shall, for the purposes of these rules, be deemed one service and one account and the change of the location or premises to which service is rendered shall not be deemed to affect the rights of the utility with regard to the application of deposit or Discontinuance of Service for non-payment of the account.

F. Other

1. Discontinuance of Service to a Unit for any reason shall not prevent the Company from pursuing any or all lawful remedies by action at law or otherwise for the collection of monies due from the Customer, which remedies shall be cumulative.
2. In case the Company discontinues its service for any violation of these Rules and Regulations, then any monies due the Company shall become immediately due and payable.
3. The Company has the right to refuse or to discontinue service to any Unit to protect itself against fraud or abuse.
4. The Company shall deal with Customers, handle Customer accounts, and manage Discontinuance of Service procedures in accordance with the Commission's Rules and Regulations.
5. Applicable Reconnection and Disconnection Service charges are specified in the Schedule of Service Charges.
6. Where service has been discontinued for violation of any rule contained herein, the Company shall not be required to restore service until all unpaid accounts due from the Customer to the Company have been paid in full plus a re-connection charge as shown in the Company's current Tariffs.
7. When a service is discontinued for any other cause, it will not be restored until the cause of the suspension has been removed or remedied.
8. The Company shall not be liable for damage occasioned by suspension of service when such suspension is affected in accordance with these provisions.
9. As reflected previously, the Company may request that the Customer's water utility disconnect water service for non-payment of a sewer bill if such request is made pursuant to a Commission-approved disconnection agreement between the Company and the water service provider.



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9. INTERRUPTION OF SERVICE

- A. The Company reserves the right to shut off service at any time, without notice, for making repairs, extensions, or alternations but will make commercially reasonable efforts under the circumstances then existing to notify the Customers of the intention to shut off. It is expressly stipulated by the Company that no claims shall be made against it and that no person shall be entitled to any damages nor to have any portion of payment refunded by reason of such shut off or the breaking of any pipe or service pipe or by reason of any other interruption of the supply of sewer service caused by the breaking of machinery or for causes beyond its control. Company shall strive to provide Customer steady and reliable service but does not warrant or guarantee the service against irregularities or interruptions. Company shall not be liable to Customer, whether under contract or otherwise, for any damages or loss, direct or consequential, by reason of the failure of the Company to supply, or the Customer to receive service, or for any interruption or abnormalities in service to Customer where such failure, interruption, reduction, abnormalities, or other irregularity, directly or indirectly, (i) is due to the negligence of Company, or its employees or contractors, and does not constitute gross negligence of or a willful default by Company or (ii) is the result, in whole or in part, of injunction, fire, strike, lockouts and other industrial or labor disturbances, riot, explosion, storm, hurricane, wind, lightning, flood, accident, breakdown, material shortage, delay in delivery, power interruption, governmental or regulatory action or inaction (including but not limited to action sought or supported by Company), acts of God, acts of any public enemy, civil disturbance, epidemics and pandemics, sabotage, delay or failure of performance by a third party, war, national emergency, voluntary cooperation by the Company in any method of operation with, or in any program recommended or requested by civil or military authorities, or as a result of other acts or conditions, whether of the same or different type, which are beyond the reasonable control of the Company.
- B. In event the Company is unable to secure and/or maintain adequate right-of-way (including franchise, licenses and certificates) upon terms satisfactory to Company, Company's obligation to render service shall cease. Without reimbursement Customer shall furnish right of way on premises owned or controlled by Customer for Company's facilities necessary or incidental to service the Customer and shall maintain the Company in the use and occupancy thereof.

10. BILLINGS AND PAYMENTS

- A. Upon the authority of the Mississippi Public Service Commission, the Company shall render regular bills on a monthly, bi-monthly, or quarterly basis. Bills shall show date at the end of the period covered by the bill, the quantity consumed, the gross and / or net amount of the bill, the dates of the bill or of delinquency, and if practicable, the designation of the applicable rate schedule and other essential facts upon which the bill is based.



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- B. The charges for sewer service shall be at the rates specified in the Schedule of Rates in these Rules and Regulations. Other applicable service charges are set forth in the Schedule of Service Charges in these Rules and Regulations.
- C. Each Customer is responsible for furnishing the Company a correct mailing and/or email address for billing purposes. Failure to receive bills will not be considered an excuse for non-payment nor reason to permit an extension of the date when the account would be considered delinquent. Bills and notices relating to the Company or its business will be mailed or delivered to the mailing address entered in the Customer's application unless the Company is notified in writing by the Customer of a change of address. To the extent that the Company did not require an application for service, then all bills and notices shall be mailed or delivered to the service address.
- D. Neither the Company nor the Customer will be bound by bills rendered under mistake of fact as to the quantity of service rendered or as a result of clerical error. Customers will be held responsible for charges based on service provided.
- E. **Payment by check or money order may be remitted to Great River Utility Operating Company, P.O. Box 676422, Dallas, Texas 75627-6422.** Additional payment options may be available on the Company's website at www.centralstateswaterresources.com/great-river/.
- F. Disputed Bills
1. Residential Customers: In the event of a dispute between the Customer and the Company respecting any bill, the Company shall forthwith make such investigation as shall be required by the particular case, and report the results thereof to the Customer. When the amount to be paid is in question, the Customer may make a deposit with the utility in an amount equal to the lesser of the amount of the disputed bill or five-hundred dollars (\$500.00), whereupon service shall not be discontinued pending settlement of the dispute. Upon settlement of the dispute by any means permitted or provided by law, the balance, if any, due the Customer shall be promptly repaid.
 2. Non-Residential Customers: In the event of a dispute between the Customer and the Company respecting any bill, the Company shall forthwith make such investigation as shall be required by the particular case, and report the results thereof to the Customer. When the amount to be paid is in question, the Customer may make a deposit with the Company covering no less than fifty percent (50%) of the amount of the disputed bill, whereupon service shall not be discontinued pending settlement of the dispute. Upon settlement of the dispute by any means permitted or provided by law, the balance, if any, due the Customer shall be promptly repaid.



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- G. If a Customer's bill has not been paid after twenty-one (21) days from the billing date, on or after the twenty-second (22nd) day the Company will send a written notice of its intent to disconnect service in five (5) or more days unless payment is received. Sewer service may then be disconnected on or after the twenty-eighth (28th) day. A Late Payment Charge may be added to the Customer's bill. To restore service a Customer may be required to pay a reconnection fee, any amount still owed for a previous billing, and a Late Payment Charge. If a Customer fails to pay the Late Payment Charge, even if the Customer has paid the previous billing, the Company will send a written notice that service will be disconnected in ninety (90) days for non-payment.

11. LATE PAYMENT CHARGE

- A. All Customer payments received twenty-two (22) days after the date of billing may be assessed an \$8.00 Late Payment Charge. The Company shall not levy a Late Payment Charge on any portion of a bill which represents a previous Late Payment Charge. For purposes of this section, a payment received by a utility shall be credited first to any outstanding Late Payment Charge, if any.
- B. If the last day of any period calculated hereunder is a Saturday, Sunday, or Legal Holiday, then the period in question shall extend to the next full business day.



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SERVICE EXTENSION POLICY

1. This rule shall govern the extension of Collecting Sewers or the expansion or installation of additional treatment capacity by the Company within its certified area where the existing treatment or collection infrastructure is inadequate for the service requested by the Applicant(s).
2. Upon receipt of a written application for a service extension, the Company will provide the Applicant(s) an itemized estimate of the cost of the proposed extension. Said estimate shall include the cost of all labor and materials required, including treatment facilities, valves, reconstruction of existing Collecting Sewers (if necessary), and the direct costs associated with supervision, engineering, permits, and bookkeeping. The estimate will not include unanticipated costs such as rock excavation.
3. Applicant(s) shall enter a contract with the Company for the installation of said extension and shall tender to the Company the amount determined in paragraph 2 above. The costs quantified in paragraph 2 are independent of any Connection (tap) Fees. The contract may allow the Customer to contract with an independent contractor for the installation and supply of material, except that any new treatment facilities, modifications to existing treatment facilities, Collecting Sewers of twelve inches (12") or greater diameter, and the reconstruction of existing facilities must be installed by the Company.
4. The cost to an Applicant(s) connecting to a Collecting Sewer extension contributed by other Applicant(s), shall be as follows:
 - A. For single-family Residential Applicant(s) applying for service in a platted Subdivision, the Company shall divide the actual cost of the extension paid by other Applicant(s) by the number of lots abutting said extension to determine the per-lot extension cost. When counting lots, corner lots which abut existing Collecting Sewers shall be excluded.
 - B. For single-family Residential Applicant(s) applying for service in areas that are unplatted in Subdivision lots, an Applicant(s) cost shall be equal to the total cost of the extension divided by the total length of the Collecting Sewer extension in feet times one hundred (100 feet).
 - C. For industrial, Commercial, or multifamily Residential Applicants, the cost will be equal to the amount calculated for a single-family residence in paragraphs 4(a) and 4(b) above.
5. Refunds of funds paid by Applicant(s) for any estimated costs or actual costs of a Collecting Sewer extension shall be made to such Applicant(s) as follows:
 - A. Should the actual cost of the extension be less than the estimated cost as determined in paragraph 2, above, the Company shall refund the difference to the Applicant(s) as soon as the actual cost has been ascertained.



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- B. During the first ten (10) years after the extension is completed, the Company will refund to the Applicant(s) who paid for the extension the money collected from Applicant(s) based upon the allocations for each Customer in accordance with paragraph 4, above. The refund shall be paid within a reasonable time after the money is collected. The requirement to make a refund shall attach to the property. Thus, if the original Applicant(s) has moved, then the refund shall be made to the new property owner.
- C. The sum of all refunds to any Applicant shall not exceed the total amount which the Applicant(s) has paid net of the allocated cost to such Applicant pursuant to paragraph 4.
6. Extensions made under this rule shall be and remain the property of the Company.
 7. The Company reserves the right to further extend the Collecting Sewer and to connect Collecting Sewers on intersecting streets and easements. Connecting new Customers to such further extensions shall not entitle the Applicant(s) paying for the original extension to a refund for the connection of such Customers.
 8. Extensions made under this rule shall be of Company-approved pipe sized to meet sewer service requirements. If the Company chooses to size the extension larger in order to meet the Company's overall system requirements, the additional cost caused by the larger size of pipe shall be borne by the Company.
 9. No interest will be paid by the Company on payments for an extension made by the Applicant(s).
 10. If extensions are required on private roads, streets, through private property, or on private property adjacent to public right-of-way, a proper deed of easement must be furnished to the Company without cost to the Company, before the extension will be made.



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I. GENERAL

Formula Rate Plan Rider FRP ("Rider FRP") is authorized under Section 77-3-2(3) of the Mississippi Code of 1972, as amended, as a formula type rate of return evaluation rate. Rider FRP defines the procedure by which the rates contained in the Great River Utility Operating Company, LLC ("Great River" or "Company") rate schedules may be periodically adjusted. Rider FRP shall apply, in accordance with the provisions of Section II below, to all water and wastewater service billed under the Company's Rate Schedules, whether metered or unmetered, subject to the jurisdiction of the Mississippi Public Service Commission ("MPSC" or "Commission"). The computation of time prescribed in this Rider FRP shall be in accordance with the Commission's Rules, as such rules may be amended from time to time.

II. APPLICATION AND ANNUAL REDETERMINATION PROCEDURE

A. RATE ADJUSTMENTS

The Rate Adjustments shall be determined in accordance with the provisions of Sections II.B and II.C below.

B. ANNUAL FILING AND REVIEW

i. FILING DATE AND FILING REQUIREMENTS

On or before February 28th of each year, Great River shall file a report with the Commission containing a calculation of the Company's revenue requirement and Actual Return on Rate Base based for the twelve months ending December 31 of the previous year (the "Test Year") prepared in accordance with the provisions of Section II.C below. This annual filing shall be referred to as the "FRP Annual Report". Any revised rate schedules shall be filed with the FRP Annual Report incorporating any revenue adjustment determined in accordance with the provisions of Section II.C below. Consistent with Commission Rules, separate FRP Annual Reports shall be filed for each service provided, one for water and one for wastewater. Each FRP Annual Report will be separately docketed each year. For purposes of rate adjustments under this Rider FRP, the information listed in Attachment 4 shall be deemed to meet the filing requirements required by Commission Rule.

ii. INTERIM RATES AND PERMANENT RATES

If the FRP Annual Report indicates a revenue and rate adjustment is needed, Great River shall implement the following:

- a. **Interim Rate:** This rate shall be implemented beginning with the first billing cycle of April and shall be designed to collect the entire revenue requirement, including any revenue adjustments indicated by the FRP Annual Report, over the remaining nine (9) months of the calendar year (April through December). The Interim Rate



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shall become effective upon Great River providing a bond or other surety traditionally used by Mississippi public utilities to secure such obligations. The Interim Rate is subject to a two percent (2%) cap of the Test Year aggregate retail revenues and will remain in effect through the date of implementation of the rates approved by a Commission order, or by operation of the terms of this Rider FRP.

- b. **Permanent Rate:** Upon approval of the FRP Annual Report by Commission order or by operation of the terms of this Rider FRP, Permanent Rates calculated consistent with the methodology below shall become immediately effective:
1. The Permanent Rate shall be designed to collect the authorized annual revenue requirement over a twelve-month (12) period. Permanent Rates shall remain effective until superseded by subsequent rates implemented pursuant to the procedures of this Rider FRP or otherwise by Commission order.
 2. A surcharge or refund will be designed and implemented with the Permanent Rate and will cease with the last billing cycle of the calendar year. This rate is designed to collect or return any necessary adjustment to ensure the full annual revenue requirement is collected for the current calendar year.
- c. The Interim Rate, Permanent Rate and surcharge or refund shall be designed to collect the Commission approved calendar year's revenue requirement within the same calendar year.

iii. REVIEW PERIOD

The Mississippi Public Utilities Staff ("Staff"), its outside advisors, if any, and all interveners of record (each a "Party" and collectively the "Reviewing Parties") shall have a total of eighty (80) calendar days from the date of filing to review the FRP Annual Report and document and report any errors, issues or disputes. The Reviewing Parties may request clarification and additional supporting data in accordance with the Commission's Rules governing data requests. The response to any request for clarification or additional supporting data shall be provided within twenty (20) calendar days of the request. If the Reviewing Parties should detect any error(s) in the application of the provisions of Rider FRP 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 the Commission and Great River within eighty (80) calendar days of filing. Each such indicated error or disagreement shall include documentation of the proposed correction. The Company shall then have ten (10) calendar days to review any proposed corrections and/or adjustments, to work with the Reviewing Parties to resolve any differences and to file a revised rate schedules reflecting all corrections and adjustments upon which the Reviewing Parties agree. The Company shall provide the Reviewing Parties with all



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work papers supporting any revisions made to the FRP Annual Report initially filed for the Test Year.

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 II.B.iv, the Company and Reviewing 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 revenue requirement and rates.

iv. RESOLUTION OF DISPUTED ISSUES

In the event there is an unresolved dispute between Great River and one or more of the Reviewing Parties, before the conclusion of the ninety (90) day review period, the parties shall jointly submit to the Commission a statement of the issues to be resolved. Any Party may separately submit memoranda supporting their respective positions. The Commission shall render a ruling on such disputed issues on or before the first billing cycle of July of the filing year. Notwithstanding the provisions above, in the event the Test Year revenue requirement remains unauthorized or unapproved, Great River may implement, subject to refund by subsequent order of the Commission, a Rate Under Bond comprised of the Permanent Rates and surcharge/refund described above beginning with the first billing cycle of July upon Great River providing bond or other surety traditionally used by Mississippi public utilities to secure such obligations. The Permanent Rate portion of the Rate Under Bond to be placed into effect shall be calculated based in accordance with Section II.B.ii.b.1 above.

If a dispute or error is resolved such that there are changes in the revenue requirement and initially implemented schedule of rates pursuant to the above provisions, a revised revenue requirement and revised schedule of rates containing such further modified revenue requirement shall be submitted to the Commission within five (5) days of the Commission's order resolving the dispute. In addition to reflecting the Commission's ruling on the disputed issue, the final revenue requirement and revised schedules of rates shall also reflect the adjustments necessary to recover or credit the estimated revenue increase or decrease, respectively, that would have resulted had the final revenue requirement been implemented initially. Such revised rates reflecting the modified revenue requirement shall then become effective at the end of five (5) days, unless approved earlier by order of the Commission, and shall remain in effect until superseded by new rates established under this Rider FRP.

C. ANNUAL REDETERMINATION OF RATE ADJUSTMENTS

i. DEFINITION OF TERMS

a. TEST YEAR



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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 to reflect any operating losses incurred and booked during the Test Year associated with any newly acquired utility system not yet being charged a rate under Great River's approved Tariff. The SARA will accrue for such systems from the date of acquisition until the rates are next adjusted within the FRP, at which point the system will be subject to consolidated rates, adjusted for any RMRA (discussed below) and will no longer incur the SARA operating losses. The SARA operating loss for an acquired system will be calculated using the following formula for each acquired service area:

Revenue - General & Administrative Expense - Operations & Maintenance = SARA Operating Loss.

For each system to which this provision is applicable during the Test Year, Great River must submit the operating loss calculations for the SARA consistent with Attachment 2 of the FRP. The SARA will be submitted and reviewed annually as part of the FRP Annual Filing review and is subject to adjustment as part of those proceedings. The approved SARA will be amortized for ratemaking purposes over a seven (7) year period with: (1) the unamortized portion included in Rate Base; and (2) the amortized amount included as Amortization of Regulatory Asset.

c. RATE MITIGATION REGULATORY ASSET

For the first year a newly acquired utility system is charged rates under Great River's approved Tariff (i.e. not rates from previous system owner), a regulatory asset (referred to herein as the Rate Mitigation Regulatory Asset ("RMRA")) will be accrued for the purpose of deferring a percentage of annual general and administrative expense and operation and maintenance expense during the Test Year, for any utility system subject to the rates calculated pursuant to this FRP for the first time. For newly acquired water systems the deferral percentage shall be fifteen percent (16.5%); for newly acquired sewer systems the deferral percentage shall be thirty-one percent (32%). The RMRA deferral shall be limited to one (1) year per utility system. For each system to which this provision is applicable during the Test Year, Great River shall submit the deferral calculations for the RMRA consistent with Attachment 2 of the FRP. The RMRA will be submitted and reviewed annually as part of the FRP Annual Filing review and is subject to adjustment as part of those proceedings. The approved RMRA will be amortized



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for ratemaking purposes over a seven (7) year period with: (1) the unamortized portion included in the Rate Base; and (2) the amortized amount included as Amortization of Regulatory Asset.

d. ACTUAL RETURN ON RATE BASE

The Actual Return on Rate Base ("AROR") to be included in the FRP Annual Report shall be determined using the schedule included in Attachment 3 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 as adjusted per the terms of Attachment 1.

e. BENCHMARK RETURN ON RATE BASE

The Benchmark Return on Rate Base ("BROR") for filing years 2024, 2025 and 2026 shall equal to 8.95%. The Commission shall initiate a review of provisions of Rider FRP following the conclusion of the FRP Annual Filing for 2026 to re-evaluate the methodology for determining the BROR to apply prospectively beginning with filing year 2027.

f. RANGE OF NO CHANGE

The Range of No Change shall be the range of values with a lower limit ("Lower Point") equal to .50% below the BROR and an upper limit ("Upper Point") equal to .50% above the BROR.

g. ADJUSTMENT POINT

The Return on Rate Base Adjustment Point ("Adjustment Point") shall be equal to the midpoint of the Range of No Change.

ii. REVENUE ADJUSTMENTS

A determination shall be made pursuant to this section as to whether Great River's revenues should be increased, decreased or remain the same. If it is determined that revenues should be increased or decreased, revised rate schedules shall be adjusted and filed with the FRP Annual Filing. The determination of any change to current revenue shall be made in accordance with the following rules:

a. NO RIDER FRP CHANGE

There shall be no change in Great River's revenue requirement and rates for FRP if the AROR is within the Range of No Change (i.e., greater than or equal to the Lower Point and less than or equal to the Upper Point).



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b. RIDER FRP INCREASE - ROE

If the AROR is less than the Lower Point, Great River's revenue requirement for FRP shall be increased by 100% of the amount necessary to bring the AROR to the Adjustment Point.

c. RIDER FRP DECREASE - ROE

If the AROR exceeds the Upper Point, Great River's revenue requirement for FRP shall be reduced by one hundred percent (100%) of the amount necessary to bring the AROR to the Midpoint.

iii. RIDER FRP REVENUE ALLOCATION

The Rider FRP Revenue, as determined under the provisions of Section II.C.ii above, shall be allocated to each applicable rate schedule based on each rate schedule's relative percent of total revenues. This percentage shall be developed by dividing the Rider FRP Revenue increase/decrease by the total applicable base revenue.

III. PROVISIONS FOR OTHER RATE CHANGES

A. EXTRAORDINARY COST OR REVENUE CHANGES

If Great River 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 ten percent (10%) on a Mississippi retail jurisdictional basis, Great River may file for rate or other relief outside the provisions of this Rider FRP, but in accordance with the law of the State of Mississippi governing such filings, and the request will be handled by the Commission in accordance with its regulations and applicable law governing such filings. In no event, shall any such ratemaking provide for multiple recoveries of the same expenses or revenues, whether in the same or subsequent years.

B. SPECIAL RATE FILINGS

The FRP shall not preclude Great River 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. Great River shall file any such proposed rate schedules or changes with the Commission and the Commission shall evaluate Great River's proposals in accordance with the rules and procedures then in effect.



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C. FORCE MAJEURE

If any cause beyond the reasonable control of the Company, such as natural disaster, damage or loss of major capital equipment, orders or acts of civil or military authority, terrorist attacks, government mandates, the happening of any event or events which cause increased costs to the Company, or other causes, whether similar or not, results in a deficiency in revenues which is not readily capable of being redressed in a timely manner under Rider FRP, Great River may file for rate or other relief outside the provisions of this Rider FRP, but in strict accord with the law of the State of Mississippi governing such filing and said request will be handled by the Commission in accordance with its regulations and applicable law governing such filings.

IV. EFFECTIVE DATE AND TERM

Rider FRP shall continue in effect until modified or terminated by the Commission in accordance with the law of the State of Mississippi. 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. Further, any unamortized portion of the SARA or RMRA deferrals shall be included in future rates until fully amortized. 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

ADJUSTMENTS TO TEST YEAR BOOK AMOUNTS

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 twelve (12).
2. Rate base shall be as of December 31 per the books of the Company.
3. Depreciation expenses shall be annualized by multiplying the per books depreciation expense incurred in December of the Test Year times twelve (12).
4. Property tax expense shall be annualized by multiplying the current effective millage rate times the December 31 plant in service.
5. Interest income shall be annualized by multiplying the per books interest income incurred in December of the Test Year times twelve (12).
6. All fines and penalties shall be excluded from expenses.
7. All charitable contributions shall be excluded from expenses.
8. All political contributions and lobbying activities shall be excluded from expenses.
9. The SARA authorized by Rider FRP shall not be included in any of these prescribed adjustments to ensure there is no double recovery of those expenses. An amortized portion of the SARA shall, however, be included as an expense in the Test Year and the unamortized portion included in rate base.
10. The RMRA authorized by Rider FRP shall not be included in any of these prescribed adjustments to ensure there is no double recovery of those expenses. An amortized portion of the RMRA shall, however, be included as an expense in the Test Year and the unamortized portion included in rate base.
11. The Company or the Staff may propose that unusual or nonrecurring revenues or 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.
12. The tax consequences of any adjustment shall be calculated in arriving at Net Income.
13. Except as otherwise provided in the Rider FRP, the Company shall not include post-Test Year adjustments.



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ATTACHMENT 2

SYSTEM ACQUISITION REGULATORY ASSET

For as long as a SARA remains on Great River's books, each Annual FRP Report shall contain the following information and documentation:

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.
5. Any amortization expense associated with any and all SARA on Great River's books.

Without exception, any losses included in the regulatory asset should not be double counted as an expense in any current or future test year of the FRP.

RATE MITIGATION REGULATORY ASSET

For as long as a RMRA remains on Great River's books, each Annual FRP Report shall contain the following information and documentation:

1. All calculations in their native format detailing the operating costs of each system included in the regulatory asset.
2. Any amortization expense associated with any and all RMRA on Great River's books.

Without exception, any costs deferred in the regulatory asset should not be double counted as an expense in any current or future test year of the FRP.



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ATTACHMENT 3

CALCULATION OF ACTUAL RETURN ON RATE BASE

Line #	Description (B)	Test Year Actual (C)	Adjustments (D)	Test Year Total (E)	Note (F)
1					
2	Operating Revenue				
3					
4	Operating Expenses				
5	General & Administrative Expense				
6	Operations & Maintenance Expense				
7	Depreciation				
8	Capitalization of Regulatory Asset				
9	Amortization, Miscellaneous				
10	Amortization of Regulatory Asset				
11	Total Operating Expenses				Sum of Lines 5-10
12					
13	Gross Operating Income				Line 2 less Line 11
14					
15	Interest Expense				
16					
17	Funds Available for Income Tax and Equity				Line 13 less Line 15
18					
19	Less Income Taxes				Statutory tax rate times Line 17
20					
21	Net Income				Line 17 less Line 19
22					
23	Rate Base				
24					
25	Actual Return on Rate Base				Line 21 divided by Line 23
26					



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ATTACHMENT 4

FILING REQUIREMENTS

Each FRP Annual Report shall contain the following documentation, data and information:

1. Input Schedule of Financial Assumptions;
2. Balance Sheet for the Test Year;
3. Income Statement for the Test Year;
4. Rate Comparison Sheet of Existing and Adjusted Rates;
5. Rate Base Detail;
6. RMRA and SARA calculations in accordance with Attachment 2 above;
7. Calculated AROR for the Test Year in accordance with Attachment 3 above; and
8. Revenue Adjustment Calculation.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

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This the 12th day of March 2025.



Katherine Barnes Cohn