

**Palmetto Wastewater Reclamation LLC    Revised Exhibit HKM - 5**  
**d/b/a Alpine Utilities**  
**2012-94-S**  
**Current and Proposed Sewer Rate Schedule**

to have the necessary cleaning performed within that time frame, the Utility may initiate disconnection of the satellite system in accordance with the Commission's regulations, and disconnection to endure until such time as said requirements are met and all charges, costs and expenses to which Utility is entitled are repaid

**8. CONSTRUCTION STANDARDS**

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed in constructing parts of the system.

**9. EXTENSION OF UTILITY SERVICE LINES AND MAINS**

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into its sewer system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an appropriate connection point on the Utility's sewer system may receive service, subject to paying the appropriate fees and charges set forth in this rate schedule, complying with the guidelines and standards hereof, and, where appropriate, agreeing to pay an acceptable amount for multi-tap capacity.

**10. CONTRACTS FOR MULTI-TAP CAPACITY**

The Utility shall have no obligation to modify or expand its plant, other facilities or mains to treat the sewerage of any person or entity requesting multi-taps (a commitment for five or more taps) unless such person or entity first agrees to pay an acceptable amount to the Utility to defray all or a portion of the Utility's costs to make modifications or expansions thereto.

**11. SINGLE FAMILY EQUIVALENT**

A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loading for Domestic Wastewater Treatment Facilities 25 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2011), as may be amended from time to time. Where the Utility has reason to suspect that a person or entity is exceeding the design loadings established by the Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities, the Utility shall have the right to request and receive water usage records from that person or entity and/or the provider of water to such person or entity. Also, the Utility shall have the

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right to conduct an "on premises" inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Utility shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.

**Valmetto Wastewater Reclamation LLC d/b/a Alpine Utilities      Revised Exhibit HKM-6**  
**2012-94-S**  
**Performance Bond Requirement**

Bond Value Components	Alpine - Wastewater		
	Application Per Books	After ORS's Proposed Accounting & Pro forma Adjustments	After Applicant's Proposed Increase Recalculated by ORS
Sewer Operatin and Maintenance Expenses	\$882,240	\$960,923	\$960,923
Administrative and General Expenses	\$730,498	\$884,390	\$894,629
Taxes Other Than Income Tax Expense	\$41,010	\$47,150	\$63,333
Income Tax Expense	(\$6,934)	(\$185,259)	\$450,058
Interest Income and Interest Expense - Net	\$24,719	\$43,104	\$43,104
<b>Bond Value Requirement</b>	<b>\$1,671,533</b>	<b>\$1,750,308</b>	<b>\$2,412,047</b>
<b>Current Performance Bond Structure (1)</b>	<b>Bond Value</b>	<b>Expiration Date</b>	
Irrevocable Standby Letter of Credit	\$350,000	08/11/13	
<b>Total Financial Assurance</b>	<b>\$350,000</b>		

(1) Letter of Credit secures performance bond of \$350,000 for wastewater operations.

**Agreement  
for  
Professional Utility Management Services  
for  
Undine Texas, LLC and Subsidiaries**

This Agreement is made on 17 JAN, 2018 between Undine Texas LLC and subsidiaries as scheduled (the "Owner"), having a place of business located at 10913 Metronome Drive, Houston, TX 77043, and Utility Partners, LLC (the "Operator"), having a place of business located at 1710 23rd Avenue, Gulfport, MS 39501 USA.

**WHEREAS** the Operator provides operation and maintenance services, as well as other professional utility management services, for water and/or wastewater treatment plants and facilities; and

**WHEREAS** the Owner wishes to retain the Operator for the performance of the services described in this Agreement (the "Services").

**NOW, THEREFORE**, in consideration of the premises and of the mutual promises hereinafter contained, and intending to be legally bound hereby, the parties hereto agree as follows:

**1. GENERAL**

- 1.1. Unless defined in the Agreement, all capitalized terms and expressions have the meaning ascribed to them in Appendix A.
- 1.2. All facilities, grounds, and equipment shall remain the property of the Owner.
- 1.3. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Texas.
- 1.4. This Agreement shall be binding upon the successors of each of the parties. Neither party may assign the Agreement, without prior written consent of the other party; provided, however, Owner and Operator may assign the Agreement to any of its respective affiliates or any other entity, that directly or indirectly through one or more intermediaries, controls or is controlled by, or is under the common or shared control, with the Operator.
- 1.5. All notices shall be given in writing and transmitted by certified mail, personal deliver or email, with acknowledgment of receipt, to the addresses listed above.
- 1.6. This Agreement, including Appendices, constitutes the entire agreement between the parties and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written of the parties.

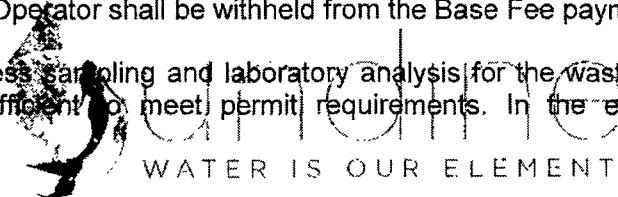


- 1.7. No supplements, modifications, amendments or changes of any nature or kind to this Agreement will be valid or binding unless set forth in writing and duly executed by the parties. Such supplements, modifications, amendments or changes will be expressly added to this Agreement to be valid and in force.
- 1.8. Wherever used, the terms "Owner" and "Operator" shall include the respective officers, directors, elected or appointed officials and employees.

## **2. SCOPE OF SERVICES - OPERATOR**

During the Term of this Agreement, Operator shall:

- 2.1. Hire, train and employ a sufficient number of employees to staff and operate the Project to provide continuing efficient and timely service in the operation and maintenance of the water and/or wastewater treatment systems serving the Owner.
- 2.2. Provide sufficient staff that will meet certification requirements of the State of Texas and provide Labor and Benefits Costs to all employees assigned on a full-time basis to the Project.
- 2.3. Prepare all Federal and State Department of Environmental Services wastewater permit reports and submit these to Owner for transmittal to the appropriate State and Federal agencies; a copy of the current permits held by the Owner are attached to this Agreement in Appendix B.
- 2.4. Provide assistance to the Owner's engineering staff or consultants in review of any proposed Project construction or rehabilitation plans for the utilities.
- 2.5. Document all repair (parts and supplies) expenses incurred on behalf of the Owner. In addition, Operator shall update the Owner monthly on the cost-to-date of repair (parts and supplies) expenses for budgetary purposes.
- 2.6. Provide twenty-four (24) hour per day access to Project for Owner. Visits may be made by any of Owner's employees or representatives when being accompanied by an employee of Operator. Keys for Project shall be provided to the Operator by the Owner. Visitors to the Project must comply with Operator's operating and safety procedures.
- 2.7. Perform other professional management services as directed by the Owner. Such services must be pre-authorized by the Owner and additional compensation to the Operator will be negotiated on a case-by-case basis.
- 2.8. Pay for and/or cover all of Operator Direct Costs as outlined in Appendix C for water and/or wastewater treatment plants and facilities. All other costs related to the Project will be the responsibility of the Owner. Direct Costs paid by the Owner on behalf of the Operator shall be withheld from the Base Fee payment.
- 2.9. Provide process sampling and laboratory analysis for the wastewater facility at a frequency sufficient to meet permit requirements. In the event that analysis



requirements change, it is agreed upon that the Owner will provide for payment of those costs.

- 2.10. Maintain the facilities, keeping the plant sites mowed and free of trash/debris.

**3. PERFORMANCE OF THE SERVICES**

- 3.1. Operator will perform the Services in a professional manner, in accordance with good engineering, safety and industry practice and with that degree of care, skill and diligence normal in performing services of a similar nature. Operator is responsible for and has control over the methods and means of performing the Services. The performance of any third party employed by Operator shall remain under Operator's supervision and responsibility.

**4. HEALTH AND SAFETY**

- 4.1. Operator shall at all times conduct its operations under the Agreement in a manner to avoid the risk of endangerment to health and bodily harm to persons. To the best of its knowledge, Operator undertakes to comply with all applicable health and safety local laws and regulations.

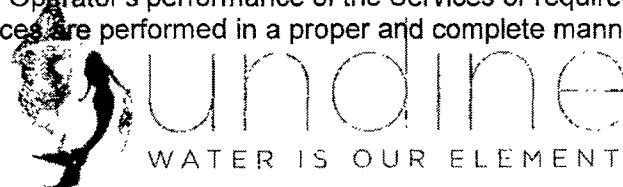
**5. SCOPE OF SERVICES - OWNER**

During the Term of this Agreement, Owner shall:

- 5.1. Maintain all existing Project easements, warranties and licenses that have been granted to Owner.
- 5.2. Pay all Administrative Costs and franchise, property or other normal taxes associated with the Project.
- 5.3. Pay for all Owner Direct Costs as outlined in Appendix C for water and/or wastewater treatment plants and facilities, including Repairs of the water treatment system, wastewater treatment system and associated facilities.
- 5.4. Provide and pay for all required Capital Expenditures. Capital Expenditures shall include, without limitations, any expansions or modifications to the existing utility system as a result of increased demand, normal replacement needs or regulatory requirements imposed by State or Federal agencies as well all Repairs performed on behalf of the Owner by the Operator.

**6. OWNER'S RESPONSIBILITIES**

- 6.1. Owner shall, in a timely manner and at its own expense, provide to Operator, before commencement of the Services and on a continuing basis thereafter, all information necessary for Operator's performance of the Services or required in order to ensure that the Services are performed in a proper and complete manner.





11.2. After the end of the Initial Term, the Owner has the option to extend this Agreement for one additional period of five (5) years, under the same terms and conditions. The Initial Term and any additional periods are collectively referred to as the "Term".

## 12. TERMINATION

12.1. Owner reserves the right to cancel this Agreement, at its sole discretion, by giving the Operator a sixty (60) days written notice of its intent, being understood and agreed that in such case of termination, Operator shall receive payment for the Services already performed upon the date of termination as well as all costs and expenses incurred by the Operator as a result of the termination.

12.2. Either party may terminate this Agreement for a material breach of the Agreement after giving written notice of breach and allowing the other party thirty (30) days to remedy such breach. If the breach has not been remedied or if no plan of action to remedy the default has been submitted to the non-defaulting party within the thirty (30) day period, the non-defaulting may terminate this Agreement without additional notice.

12.3. Upon termination of this Agreement by the Owner in accordance with Section 12.1 or ~~Section Error! Reference source not found.~~, Operator shall cooperate fully to insure a smooth transition of service to the new Operator on behalf of the Owner.

## 13. CHANGE – SCOPE OF SERVICES

13.1. Operator acknowledges and agrees that the scope of services is subject to change by additions, deletions or revisions by the Owner. Operator shall be advised in writing of any of such changes and shall promptly perform and strictly comply with each such change when released in writing; provided however those changes are within the scope of this Agreement.

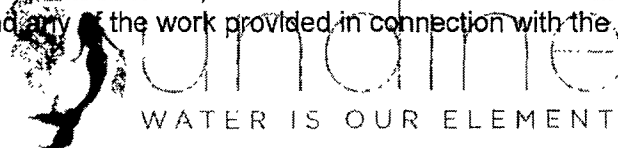
13.2. In the event Operator believes that the performance of any change would justify modification of the Base Fee, Operator shall inform the Owner within seven (7) business days following notice of change. In such case, Owner and Operator will negotiate, in good faith, a commensurate adjustment in the Base Fee.

13.3. For greater clarity, water or wastewater treatment facility modifications and expansions constitute a change in the scope of services.

## 14. ACCOUNTING RECORDS

14.1. Operator shall keep full, detailed and accurate records and books of account showing, among other things, the actual costs reimbursable to the Operator, in accordance with the provisions of this Agreement.

14.2. The Owner shall also be afforded access to Operator's records, books, correspondence, instructions, memoranda and similar data relating to this Agreement and any of the work provided in connection with the Project.





- 14.3. Operator shall preserve financial documents and other records to which Owner has access rights, without additional compensation, for a period of three (3) years or longer as required by law, following termination of this Agreement.

**15. INDEMNIFICATION**

- 15.1. Each party shall indemnify, defend, and hold harmless the other party from and against any liability, damage or claim, arising out of or related to the Services performed under this Agreement, including but not limited to liabilities attributable to personal injury, death, loss of use, or property damage to the extent that such liability, damage or claim results directly from the willful misconduct or gross negligence of the indemnifying party or that of the person for which it is responsible.
- 15.2. Owner shall indemnify, defend, and hold harmless Operator from and against any and all losses, damages, penalties, fines, costs, fees and expenses (including legal fees) (collectively, "Losses") resulting from any breach of, or non-compliance with, the permits' specifications held by the Owner in connection with the Project, or the environmental obligations of the Owner under any applicable environmental laws and regulations, unless Losses were attributable to Operator's willful misconduct or gross negligence.

**16. LIMITATION OF LIABILITY**

- 16.1. In no event shall the Operator be liable for consequential, indirect or special damages arising from the normal operation, maintenance and management of the Project, including, without limitations, loss of profit, revenue or use, unless said damages were attributable to Operator's willful misconduct or gross negligence.

**17. INSURANCE**

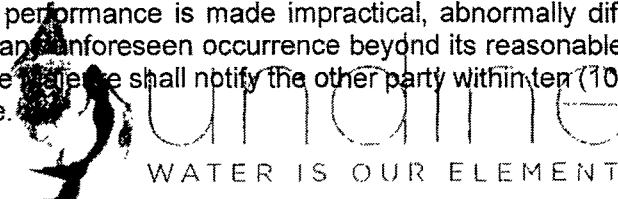
- 17.1. Owner and Operator shall obtain and maintain for the Term of this Agreement sufficient insurance coverage, including, without limitation, insurance coverage of the type and in the amounts described in Appendix E. Upon request, Operator will provide to the Owner written proof of evidence upon request.

**18. LABOR DISPUTES**

- 18.1. In the event activities by employee groups or unions cause a disruption in Operator's ability to perform at the Project, Owner or Operator may seek appropriate injunctive court orders. Operator will continue to operate the Project on a best-efforts basis until any such disruptions cease.

**19. FORCE MAJEURE**

- 19.1. Neither party shall be liable for its failure to perform its obligations under this Agreement if performance is made impractical, abnormally difficult or abnormally costly due to an unforeseen occurrence beyond its reasonable control. The party invoking Force Majeure shall notify the other party within ten (10) working days after its occurrence.



**20. RELATIONSHIP**

20.1. Nothing in this Agreement shall be deemed to constitute Operator or any of Operator's employees to be the agent, representative or employee of the Owner. Operator shall be an independent service provider and shall have responsibility for and control over the details and means for performing the services and shall be subject to the directions of the Owner only with respect to the scope of the services and results required.

**21. CONFIDENTIALITY**

21.1. Each party agrees and commits to maintain all confidential information to which it has access during the performance of the Services as confidential, to not disclose it to others and to use it solely for the intended purpose of the Agreement. These obligations of confidentiality shall continue for the term of the Agreement and shall survive indefinitely thereafter.

**22. FAILURE TO ENFORCE**

22.1. The failure of either party to enforce at any time or for any period of time any provisions of this Agreement in accordance with its terms shall not be construed to be a waiver of such provisions or of the right of such party thereafter to enforce each and every provision.

**23. SEVERABILITY**

23.1. If any part, term or provision of this Agreement shall be held void, illegal, unenforceable, or in conflict with any law of a federal, state or local government having jurisdiction over this Agreement, the validity of the remaining portions of provisions shall not be affected thereby.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date hereinabove indicated.

UNDINE TEXAS, LLC

UTILITY PARTNERS, LLC

By: [Signature]  
Name: Ed Waller  
Title: President  
Date: 11/18/18

By: [Signature]  
Name: WILLIAM DOUGLAS  
Title: MANAGING DIRECTOR  
Date: 11/21/18



## APPENDIX A DEFINITIONS

1. **"Project"** means all equipment, vehicles, grounds and facilities related to the facility or facilities aimed by this Agreement and where appropriate, the management, operations and maintenance of such.
2. **"Capital Expenditures"** means any expenditure for the purchase of new or used equipment, facility items or for any major Repairs which significantly extend facility life and cost more than seven hundred and fifty dollars (\$750); or identified expenditures that are planned, non-routine and budgeted by the Owner.
3. **"Labor and Benefits Costs"** means salaries, group insurance (including medical, life and dental), worker's compensation, retirement and social security for employees.
4. **"Administrative Costs"** means audit and accounting fees, property insurance, interest expense, depreciation, state fees, recycling fees, curbside fees, landfill fees, ad valorem taxes, and fund transfers.
5. **"Direct Costs"** means expenses for personnel expenses, benefits, fuel, oil, repairs of Operator's vehicles or equipment, advertising, postage, travel expenses of employees, and uniform expenses.
6. **"Repairs"** means non-routine/non-repetitive activities required for operational continuity, safety, and performance generally due to failure or to avert a failure of the equipment, vehicles or facilities or a component thereof.
7. **"Biologically Toxic Substances"** means any substance contained in the wastewater stream so as to interfere with biological processes necessary for the removal of the organic and chemical constituents of the wastewater required to meet the discharge requirements of the Owner's NPDES permit. Biologically toxic substances include but are not limited to heavy metals, phenols, cyanides, pesticides and herbicides.
8. **"Adequate Nutrients"** means plant influent nitrogen, phosphorus and iron contents proportional to biological oxygen demand ("**BOD**") in the ratio of five parts nitrogen, one-part phosphorus and one-half part iron for each one hundred parts BOD.
9. **"Project Manager"** means Operator's senior operations staff person charged with day-to-day oversight of the Services.
10. **"Emergency"** means any situation in which Operator staff must respond quickly to protect the health and well-being of the public. Its intent is clearly in an effort to protect the interests of the people in the event of a natural disaster, hurricane, tornado or other unusual occurrence.
11. **"Routine Maintenance"** includes any repair or maintenance performed by employees or equipment that is included within the base fee.



**APPENDIX B  
OWNER'S FEDERAL AND STATE PERMITS AND LICENCE**

The following pages contain the current permits for the Owner's treatment facilities.



## APPENDIX C DIRECT COSTS

1. Operator's Base Fee includes all costs associated with the following items:
  - Labor
  - Overtime (except for Emergency)
  - Corporate Engineering and Operations Support
  - Federal and State Unemployment Taxes
  - Social Security Taxes
  - Medical, Life, and Dental Insurance
  - Insurance coverage, as described in Appendix E.
  - 401K Retirement Plan
  - Training Costs (State certification schools)
  - Uniforms
  - Cellular Phones
  - Personal Protective Equipment (PPE)
  - Tools, Vehicles, and Equipment
  
2. Routine maintenance includes any repair or maintenance performed by employees or equipment that is included within the base fee. All other capital or repair maintenance items performed by third parties using equipment or inventory not readily available at the time of the emergency and /or repair and is not part of the base fee, shall be a capital expenditure (as ascribed in Appendix A) and billed separately.
  
3. Owner will pay for the following items:
  - Facility maintenance cost
  - Repair parts
  - Chemicals
  - Lab analysis
  - Fuel
  - Utilities costs for the facilities and systems (including power expenses)

Operator will effectively manage power expenses so as to limit the Owner's financial exposure. It is understood that the Owner will pay for these costs.



**APPENDIX D  
ANNUAL INCREASES**

Annual increases of the Base Fee will be commensurate with the adjustments in the billable connections.



## APPENDIX E INSURANCE COVERAGE

1. Operator shall maintain:
  - a. Worker's compensation insurance for all of Operator's employees at the Project.
  - b. Comprehensive general liability insurance in an amount not less than \$1,000,000 per occurrence for bodily injury and/or property damage.
  - c. Automobile insurance for any vehicles owned by the Operator.
  - d. Inland Marine insurance for any contractor's equipment (moving equipment) owned by the Operator
  
2. Owner shall maintain:
  - a. Property damage insurance for all of its property, including moving equipment owned by Owner and operated by Operator under this Agreement. Owner's property not properly or fully insured shall be the financial responsibility of the Owner.
  - b. Proper liability coverage for automobiles, trucks, dump trucks, and others, owned by Owner that could be used at the Project. Owner shall name Operator as an additionally insured party on the Certificate of Insurance.



**APPENDIX F  
FEE SCHEDULE**

Owner will pay Contractor under the following schedule:

- \$17.50 per billable connection based on existing billing records reconciled quarterly.  
As of the date of this contract monthly billing will be as follows:

Undine

Active Customer Counts as of January 2018

System	Water	Sewer	Total	
Orbit	1,781	169	1,950	Houston
Suburban	1,333	-	1,333	Houston
Mayfair	-	175	175	D/FW
Grand Ranch	-	66	66	D/FW
Country Vista	-	113	113	D/FW
Sugartree	-	104	104	D/FW
<b>Total</b>	<b>3,114</b>	<b>627</b>	<b>3,741</b>	
			\$17.50	
			<b>\$65,467.50</b>	

- 10% markup on all materials and third-party labor for previously approved projects; such percentage markup to be reviewed annually.
- \$4,100 per customer service representative (currently three service representatives or \$12,300)
- After the number of billable customers increases to over 10,000 customers through acquisition or internal growth, Contractor will absorb the customer service representatives and will no longer be entitled to the additional compensation of \$4100 per customer rep.



*[Handwritten signature]*



**Renewal of the Agreement  
for  
Professional Utility Management Services  
for  
Undine Texas, LLC and Subsidiaries**

This Agreement is made on March 28, 2019 between Undine Texas, LLC and subsidiaries as scheduled, (the "**Owner**"), having a place of business located at 17681 Telge Road, Cypress, TX 77429, and Utility Partners, LLC (the "**Operator**"), having a place of business located at 1710 23rd Avenue, Gulfport, MS 39501 USA.

**WHEREAS** the Operator and the Owner entered into an Agreement for Professional Utility Management Services on January 17, 2018 (the "**Management Services Agreement**");

**WHEREAS** the Initial Term of the Management Services Agreement ended on December 31, 2018; and

**WHEREAS** the Owner has the option to extend the Management Services Agreement for an additional period of five (5) years, as per section 11.2 of the Management Services Agreement.

**NOW, THEREFORE**, in consideration of the premises and of the mutual promises hereinafter contained, and intending to be legally bound hereby, the parties hereto agree as follows:

**1. PREAMBLE**

The above preamble shall be considered as an integral part of this Agreement.

**2. DEFINITIONS**

Unless defined herein, all capitalized terms and expressions in this Agreement have the meaning ascribed to them in the Management Services Agreement.

**3. OPTION TO EXTEND**

The Owner hereby uses its option to extend the Management Services Agreement for an additional period of five (5) years, from January 1, 2019 to December 31, 2023, as per section 11.2 of the Management Services Agreement.

**4. GENERAL**

4.1 All the other terms and conditions of the Management Services Agreement remain unchanged.

4.2 This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original and all of which taken together will be deemed to constitute one and the same instrument.



WATER IS OUR ELEMENT

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement on the date hereinabove indicated.

**UNDINE TEXAS, LLC**

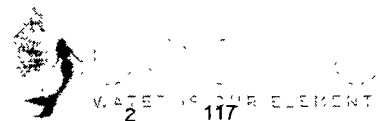
By: Carey Thomas  
Carey Thomas  
Sr. Vice President

**UTILITY PARTNERS, LLC**

By: \_\_\_\_\_  
Bill Douglass  
Managing Director

Date: March 28, 2019

Date: \_\_\_\_\_



APPENDIX F  
FEE SCHEDULE

Owner will pay Contractor under the following schedule:

- \$17.50 per billable connection based on existing billing records reconciled quarterly. As of the date of this contract monthly billing will be as follows:

Undine Active Customer Counts				Feb-19
System	Location	Water	Sewer	Total
Orbit	Houston	1,760	165	1,925
Suburban	Houston	1,339	-	1,339
Consumers	Houston	1,721	-	1,721
Community	Houston	223	-	223
Gulf Coast	Houston	590	538	1,128
Mayfair	D/FW	-	181	181
Grand Ranch	D/FW	-	70	70
Country Vista	D/FW	-	111	111
Sugartree	D/FW	-	133	133
Chuck Bell	D/FW	337	-	337
Greenshores (PK-RE)	Austin	225	159	384
Total Connections:		6,195	1,357	7,552
Charge per Connection:		\$ 17.50	\$ 17.50	\$ 17.50
Total Monthly Charge:		\$ 108,412.50	\$ 23,747.50	\$ 132,160.00

- 10% markup on all materials and third-party labor for previously approved projects; such percentage markup to be reviewed annually.
- \$4,100 per customer service representative (currently three customer service representatives, or \$12,300).
- After the number of billable customers increases to over 10,000 customers through acquisition or internal growth, Contractor will absorb the customer service representatives and no longer be entitled to the additional compensation of \$4100 per customer representative.

**Undine  
Miscellaneous Fees Support**

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**Meter Test Fee  
Estimated Costs**

Cost	Qty	Amount	Total
Time for Ops Personnel to test meter function and record reading	0.75 HR	\$ 18.00	\$ 13.50
Time for Customer Service Personnel to research account and generate entries for Work Order/ Billing System	0.25 HR	\$ 15.87	\$ 3.97
Taxes/Benefits (25%)			\$ 4.37
Vehicles	0.75 HR	\$ 5.00	\$ 3.75
Overhead (15%)			\$ 3.84
<b>Total</b>			<b><u>\$ 29.42</u></b>

**Reconnect Fee  
Estimated Costs**

Cost	Qty	Amount	Total
Time for Ops Personnel to commute & restore service	0.75 HR	\$ 18.00	\$ 13.50
Time for Customer Service Personnel to create work order and generate entries into billing system	0.05 HR	\$ 15.87	\$ 0.79
Taxes/Benefits (25%)			\$ 3.57
Vehicles	0.75 HR	\$ 5.00	\$ 3.75
Overhead (15%)			\$ 3.24
<b>Total</b>			<b><u>\$ 24.86</u></b>

**Reconnect Fee-Customer Request or After Hours  
Estimated Costs**

Cost	Qty	Amount	Total
Time for Ops Personnel to commute & restore service	0.75 HR	\$ 27.00	\$ 20.25
Time for Customer Service Personnel to create work order and generate entries into billing system	0.05 HR	\$ 23.81	\$ 1.19
Taxes/Benefits (25%)			\$ 5.36
Vehicles	0.75 HR	\$ 5.00	\$ 3.75
Overhead (15%)			\$ 4.58
<b>Total</b>			<b><u>\$ 35.13</u></b>

**Transfer Fee  
Estimated Costs**

Cost	Qty	Amount	Total
Time for Ops Personnel to provide final read and shut off meter when previous customer moves out	0.75 HR	\$ 18.00	\$ 13.50
Time for Ops Personnel to provide beginning read and turn on meter	0.75 HR	\$ 18.00	\$ 13.50
Time for Customer Service Personnel to distribute/collect service applications and setup of customer in billing system	0.75 HR	\$ 15.87	\$ 11.90
Taxes/Benefits (25%)			\$ 9.73
Vehicles	1.50 HR	\$ 5.00	\$ 7.50
Overhead (15%)			\$ 8.42
<b>Total</b>			<b><u>\$ 64.55</u></b>

**NSF Check Fee  
Estimated Costs**

Cost	Qty	Amount	Total
Fee Charged by Plains Capital Bank		\$ 10.00	\$ 10.00
Time for Customer Service Personnel to research records, work with bank, generate entries in billing system	1.00 HR	\$ 15.87	\$ 15.87
Taxes/Benefits (25%)			\$ 3.97
Overhead (15%)			\$ 2.98
<b>Total</b>			<b><u>\$ 32.81</u></b>

**Undine Texas  
Water Taps**

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Beaumont Place	\$ 907.50	With Meter included
Bernard Oaks	564.69	With Meter included
San Bernard	1,087.92	With Meter included
Forest Manor	779.21	With Meter included
Beaumont Place	746.49	With Meter included
Heathergate	866.49	With Meter included
Pioneer Trails	746.12	With Meter included
Spring Forest	693.99	With Meter included
Mark V	941.62	With Meter included
Joy Village	1,083.93	With Meter included-Long Tap
Joy Village	1,083.93	With Meter included-Long Tap
Tall Cedars	876.07	With Meter included
Bernard Oaks	864.57	With Meter included

Total Cost	<u>\$ 11,242.53</u>
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Average Cost	\$ 864.81
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Undine is replacing old meters with Automated Meter Reading Meters that cost \$245.00. The average cost of the above meters is approximately \$60.00.

New AMR Meter	\$ 245.00
Old Meter	<u>(60.00)</u>
Incremental Cost	<u>\$ 185.00</u>

Average Cost With AMR Meter	<u>\$ 1,049.81</u>
--------------------------------	--------------------



June 18<sup>th</sup>, 2018

Undine Texas LLC  
10913 Metronome Drive  
Houston, TX 77043

**POSTED**

**INVOICE**

**Invoice Number 0618 – Suburban**

Additional compensation as per  
Professional Services Agreement dated January 17<sup>th</sup>, 2018

Billing in accordance with section 8.2.

June 2018	Amount
Cypress Bend Credit, -1 @ \$ -1141,25	-\$ 1,141.25
Beaumont Place Water Outage Found Main Line Valve Off, 1 @ \$831.88	\$ 831.88
10557181 Beaumont Place 13119 COLUMBINE LN Water Tap (3/4 Inch) Parts: \$330 / Labor \$577.50, 1 @ \$907.50	\$ 907.50 *
10938419 S Cypress Bend - Water Plant - Replace Pressure Switched and Relays Parts: \$0.00 (Suburban Stock - Pressure Switches & Relays) Truck Supplies: \$16.50 / Labor: \$660.00	\$ 676.50
10889526 Castlewood 2711 Connervale Repair Water Main Parts \$405,90 / Labor \$825, 1 @ \$1,230.90	\$ 1,230.90
10835729 Castlewood 2411 Anice Street Water Main Repair Parts \$405,90 Labor \$1,072.50 (3 Regular & 3 Overtime), 1 @ \$1,478.40	\$ 1,478.40
<b>Total of this invoice: \$ 3,983.93</b>	

Please deliver payment as follows:  
Utility Partners LLC  
8900 109<sup>th</sup> Ave N, Suite 1000  
Champlin, MN 55316

**APPROVED**

*an*  
6/19/18

10922508 - Blue Sage Garden Water Plant - Equipment Repair Parts \$ 0.00 / Truck Supplies \$ 16.50 / Labor \$ 0.00, 1 @ \$ 16.50	\$ 16.50
10727724 - Riverside - 18310 Redwood - Water Leak Parts \$ 99.86 / Labor \$ 371.25, 1 @ \$ 471.11	\$ 471.11
11026145 - Beechwood - Materials Request - Fire Hose Parts \$231.04, 1 @ \$231.04	\$ 231.04
10683447 - Bernard Oaks - 1-60 Bernard Oaks - Water Leak Parts \$ 869.03 / Labor \$ 1856.25, 1 @ \$ 2725.28	\$ 2,725.28
10727738 - Riverside - 18311 Peach Street - Water Leak Parts \$ 99.86 / Labor \$ 412.50, 1 @ \$ 512.36	\$ 512.36
10827494 - Bernard Oaks - 6315 County Road 244 - Tap Parts \$ 131.56 / Labor \$ 433.13, 1 @ \$ 564.69	\$ 564.69 *
10933118 - Demi-John Island Water Plant - Special Projects Parts \$ 0.00 / Truck Supplies \$ 16.50 / Labor \$ 0.00, 1 @ \$ 16.50	\$ 16.50
10924060 - Bernard Oaks Distribution Point - Special Projects Parts \$ 695.92 / Labor \$ 783.75, 1 @ \$ 1479.67	\$ 1,479.67
10938116 - Coronado Country - 4525 Treasure Lane - Water Leak Parts \$ 110.03 / Labor \$ 247.5, 1 @ \$ 357.53	\$ 357.53
10948716 - Brandi Estates - Water Leak Parts \$ 0,19 / Labor \$ 206.25, 1 @ \$ 206.44	\$ 206.44
10924206 - Wilco Water Plant - Water Main Repair Parts \$ 35.34 / Labor \$ 804.38, 1 @ \$ 839.72	\$ 839.72
10926479 - Snug Harbor - 313 Snug Harbor Drive - Water Leak Parts \$ 52.78 / Labor \$ 825.00, 1 @ \$ 877.78	\$ 877.78
10955280 - Spanish Bit Water Plant - Equipment Repair Parts \$ 0.00 / Truck Supplies \$ 16.50 / Labor \$ 0.00, 1 @ \$ 16.50	\$ 16.50
10802977 - Demi John Island - 216 Redfish Drive - Valve Repair Parts \$ 561,77 / Labor \$ 2640.00 , 1 @ \$ 3201.77	\$ 3,201.77
10922278 - Ryan Long I Water Plant - Water Leak Parts \$ 202.94 / Labor \$ 371.25 , 1 @ \$ 574.19	\$ 574.19



		Page 4 of 14
11078407 - Rosharon Road Estates - 9006 Rosharon Rd Est Dr - Water Leak Labor: \$1127.50 / Parts: \$326.54	\$	1,454.04
10949120 - Colony Cove - 6202 County Rd 48 - Water Leak Labor: \$82.50 / Parts: \$57.20	\$	139.70
11062510 - San Bernard - 3102 Country Rd 415B - Tap Labor: \$990.00 / Parts: \$97.92	\$	1,087.92
11003483 - River Ranch - Water Plant - Water Leak Labor: \$206.25 / Parts: \$38.50	\$	244.75
10997633 - Mark V - Water Plant - Routine Inspection Truck: \$16.50	\$	16.50
11094674 - Wolf Glen - 201 Wolf Glen - Water Leak Parts: \$21.78	\$	21.78
11076619 - Tejas Lakes - 10826 Lake Thomas Dr - Water Leak Labor: \$495.00 / Parts: \$205.23	\$	700.23
10930336 - Bayou Colony - 4931 Colony Lane - Turn on Labor: \$1608.75 / Parts: \$221.60	\$	1,830.35
11099648 - Mooreland - 514 County Rd 296A - Water Leak Labor: \$1443.75 / Parts: \$170.93	\$	1,614.68
11108953 - Snug Harbor - Water Plant - Routine Inspection Truck: \$16.50	\$	16.50
11049511 - Angle Acres - 407 Joann Drive - Valve Repair Labor: \$556.88 / Parts: \$237.79	\$	794.66
11125378 - Angle Acres - 305 Joann Drive - Water Leak Labor: \$1402.50 / Parts: \$192.48	\$	1,594.98
10964153 - Spanish Bit - 165 Camino Del Blanco - Water Leak Labor: \$1237.50 / Parts: \$355.41	\$	1,592.91
11210576 - Wilco - 13027 Sandpiper - Water Leak Labor: \$330.00 / Parts: \$85.00	\$	415.00
10768319 - Colony Trails - 6706 Trail Trail Loop East - Water Leak Parts: \$21.78	\$	21.78



September 6<sup>th</sup>, 2018

Undine Texas LLC  
10913 Metronome Drive  
Houston, TX 77043

# INVOICE

**POSTED**

**Invoice Number 0918 – Community**

Additional compensation as per  
Professional Services Agreement dated January 17<sup>th</sup>, 2018

Billing in accordance with section 8.2.

September 2018	Amount
11134355 - Forest Manor - 2322 Beckman Drive - Tap Labor: \$660.00 / Parts: \$119.21	\$ 779.21 *
<b>Total of this invoice:</b>	<b>\$ 779.21</b>

A handwritten signature in black ink, appearing to be "CJD", is written over the bottom right corner of the table.

A handwritten date "9/19/18" is written in black ink below the signature.

Please deliver payment as follows:  
Utility Partners LLC  
8900 109<sup>th</sup> Ave N, Suite 1000  
Champlin, MN 55316

HAYS UTILITY SOUTH CORP.  
P.O. BOX 1209  
SPRING, TEXAS 77383  
353-9809

Bill-To: UNLINE TEXAS, LLC  
PO BOX 691288  
HOUSTON, TX 77269

POSTED  
12/2/19  
11/30/19

12/01/19  
INVOICE# 19121830

700 BEAUMONT PLACE *Suburban*

10/18/19	W/O # 432055/9950	746.49*
BEAUMONT PLACE - 13207 IVYDALE DR A - FURNISHED LABOR AND MATERIAL TO INSTALL SHORT WATER TAP AND INSTALL METER.		
11/02/19	W/O # 434261	1,876.29
BEAUMONT PLACE - 13213 COLUMBINE - AFTER HOURS - MAIN LINE BREAK - EXCAVATED AND REPAIRED 3" MAIN LINE. BACKFILLED AND COVERED DRIVEWAY WITH STEEL PLATE. EMAILED SPECIAL BAC-T.		
11/08/19	W/O # 434392	1,972.00
BEAUMONT PLACE - 13213 COLUMBINE - ARRANGED AND SUPERVISED REPLACEMENT OF 30' X 6' ASPHALT DRIVEWAY OVER MAIN LINE REPAIR.		
11/15/19	W/O # 435521/11001	491.55
BEAUMONT PLACE - 12705 FIELDING LN - SERVICE LINE LEAK - FURNISHED LABOR AND MATERIAL TO REPAIR SHORT SERVICE LINE. BACKFILLED AND CLEANED AREA.		
11/15/19	W/O # 435530/11071	426.55
BEAUMONT PLACE - 12902 GLADDEN - SERVICE LINE LEAK - FURNISHED LABOR AND MATERIAL TO REPAIR SHORT SERVICE LINE. BACKFILLED AND CLEANED AREA.		
11/15/19	W/O # 435528/11070	421.35
BEAUMONT PLACE - 12912 EDGEHILL DR - SERVICE LINE LEAK - FURNISHED LABOR AND MATERIAL TO REPAIR SHORT SERVICE LINE. BACKFILLED AND CLEANED AREA.		
11/15/19	W/O # 435524/11069	421.35
BEAUMONT PLACE - 12813 EDGEHILL DR - SERVICE LINE LEAK - FURNISHED LABOR AND MATERIAL TO REPAIR SHORT SERVICE LINE. BACKFILLED AND CLEANED AREA.		
11/20/19	W/O # 434394	315.24
BEAUMONT PLACE - 12934 BEAUMONT PLACE DR - SPREAD FILL DIRT, LEVELED YARD AND REPLACED GSD OVER PREVIOUS MAIN LINE REPAIR.		
11/21/19	W/O # 434668/10768	829.57
BEAUMONT PLACE - 13030 GLADDEN DR - FURNISHED LABOR AND MATERIAL TO INSTALL LONG WATER TAP AND METER.		

33A

334

Bill-To: **UNDINE TEXAS, LLC**  
**PO BOX 691288**  
**HOUSTON, TX 77269**

12/01/19  
INVOICE# 19121830  
continued Pg 5

715 FOREST MANOR

*Community*

11/23/19 W/O # 436065/11170 1,483.20  
FOREST MANOR - 28611 RAIN FOREST - AFTER HOURS \* MAIN LINE  
BREAK - EXCAVATED AND REPAIRED 4" MAIN LINE, BACKFILLED,  
CLEANED AREA AND RETURNED TO SERVICE. EMAILED SPECIAL BAC-T.

715 FOREST MANOR

1,483.20 \*

720 GREENGATE ACRES

*Consumers*

11/08/19 W/O # 434384 950.00  
GREENGATE - 2902 CROSSFELL - ARRANGED AND SUPERVISED  
REPLACEMENT OF A 4' X 5' SECTION OF DRIVE WAY OVER PREVIOUS  
MAIN LINE REPAIR.

11/14/19 W/O # 435323/10957 568.43  
GREENGATE - 24802 GREENGATE DR - SERVICE LINE LEAK -  
FURNISHED LABOR AND MATERIAL TO REPAIR SHORT SERVICE LINE,  
BACKFILLED AND CLEANED AREA.

11/20/19 W/O # 434382 450.90  
GREENGATE - 21326 GREENGATE DR - SPREAD FILL DIRT, LEVELED  
YARD AND REPLACED SOG OVER PREVIOUS MAIN LINE REPAIR.

11/20/19 W/O # 434385 374.16  
GREENGATE - 21410 GREENGATE DR - SPREAD FILL DIRT, LEVELED  
YARD AND REPLACED SOG OVER PREVIOUS MAIN LINE REPAIR.

11/27/19 W/O # 435633 262.23  
GREENGATE - 21802 GREENGATE DR - SPREAD FILL DIRT, LEVELED  
YARD AND REPLACED SOG OVER PREVIOUS SHORT SERVICE LINE  
REPAIR.

720 GREENGATE ACRES

2,615.72 \*

725 HEATHERGATE ESTATES

*Community*

10/17/19 W/O # 432470/10057 866.49  
HEATHERGATE - 20607 BERRY WHICKET - FURNISHED LABOR AND  
MATERIAL TO INSTALL SHORT WATER TAP AND INSTALL METER.

\* 334

725 HEATHERGATE ESTATES

866.49 \*

Bill-To: UNDINE TEXAS, LLC  
PO BOX 691288  
HOUSTON, TX 77269

12/01/19  
INVOICE# 19121830  
continued Pg 9

12/04/19 W/O # 436777/11270 1,846.92  
MEADOWLAKE - 19018 SUNTURE LN - 3" VALVE INSTALLATION -  
EXCAVATED AND INSTALLED 3" VALVE, BACKFILLED, PAINTED "A"  
BOX BOX AND CLEANED AREA,

755 MEADOWLAKE ESTATES

10,532.68 \*

760 PEACH CREEK OAKS Consumers

10/28/19 W/O # 433916/10168 85.30  
PEACH CREEK OAKS - 25837 PINE DR - FURNISHED LABOR TO  
REPLACE METER BOX AND LID.

334

11/05/19 W/O # 434432/10742 435.43  
PEACH CREEK OAKS - 25862 ALMARIE - FURNISHED LABOR AND  
MATERIAL TO EXCAVATE, CUT AND CAP 2" MAIN LINE FOR  
CONSTRUCTION ON HIGHWAY 99. AFTER CUT AND CAP INSTALLED  
CONCRETE THRUST BLOCK THEN PUSHED LINE AND BACKFILLED.  
EMALLED SPECIAL BACT.

11/06/19 W/O # 432965 364.33  
PEACH CREEK OAK - 20936 ADA LN - SPREAD FILL DIRT, LEVELED  
YARD AND REPLACED SOG OVER PREVIOUS LONG SERVICE LINE  
REPAIR.

11/06/19 W/O # 431935 224.87  
PEACH CREEK - 25897 PINE DR - SPREAD FILL DIRT, LEVELED YARD  
AND REPLACED SOG OVER PREVIOUS METER CHANGE OUT.

760 PEACH CREEK OAKS

1,109.93 \*

765 PIONEER TRAILS Consumers

11/06/19 W/O # 431827 295.53  
PIONEER TRAILS - 16850 BEEWOOD TRAILS - SPREAD FILL DIRT,  
LEVELED YARD AND REPLACED SOG OVER PREVIOUS MAIN LINE  
REPAIR.

11/06/19 W/O # 433022/10293 746.12 \*  
PIONEER TRAILS - 16875 SPRINGFIELD DR - FURNISHED LABOR AND  
MATERIAL TO INSTALL SHORT WATER TAP. INSTALLED (2) NEW SMART  
METERS, REPLACED U-BRANCH AND INSTALLED NEW METER BOXES.

334

11/19/19 W/O # 435748/11145 307.35  
PIONEER TRAILS - 15355 OLD HOUSTON RD - AFTER HOURS -  
SERVICE LINE LEAK - FURNISHED LABOR AND MATERIAL TO  
REPLACE (1) LEAKING 3/4" CURB STOP. BACKFILLED AND  
CLEANED AREA.

Bill-To: UNCLINE TEXAS, LLC  
PO BOX 691288  
HOUSTON, TX 77269

12/01/19  
INVOICE# 19121830  
continued Pg 10

765 PIONEER TRAILS

1,349.00 \*

775 RESERVOIR ACRES

*Suburban*

11/05/19 W/O # 429960

1,055.59

RESERVOIR ACRES - 13906 S PACIFIC ST - SPREAD FILL DIRT,  
LEVELLED YARD AND REPLACED BOB OVER PREVIOUS MAIN LINE  
REPAIR.

11/12/19 W/O # 435010/9958

964.85

RESERVOIR ACRES - 14236 EDGEHORO - FURNISHED LAHOR AND  
MATERIALS TO REPAIR SHORT SERVICE LINE AND 2" BLOW OFF.  
BACKFILLED, CLEANED AREA AND RETURNED TO SERVICE. EMAILED  
SPECIAL BAC-T.

775 RESERVOIR ACRES

2,020.44 \*

780 SPRING FOREST

*Consumers*

11/25/19 W/O # 435866/11096

589.15

SPRING FOREST - 29519 W HAWTHORNE DR - FURNISHED LABOR AND  
MATERIAL RELOCATE METER, INSTALLED NEW 3/4" CURB STOP AND  
METER BOX.

11/25/19 W/O # 435170/11191

510.38

SPRING MONT - 20626 SUNSHINE LN - SERVICE LINE LEAK -  
FURNISHED LABOR AND MATERIAL TO REPAIR SHORT SERVICE LINE.  
BACKFILLED AND CLEANED AREA.

11/27/19 W/O # 433909/10580

693.99

SPRING FOREST - 2018 PINWOODS WAY - FURNISHED LABOR AND  
MATERIAL TO INSTALL SHORT WATER TAP AND INSTALL METER.

*\*334*

11/27/19 W/O # 435867/11230

749.77

SPRING FOREST - 2019 PINWOODS WAY - SERVICE LINE LEAK -  
FURNISHED LABOR AND MATERIAL TO REPAIR LONG SERVICE LINE  
LEAK.

780 SPRING FOREST

2,543.29 \*

790 SWEETGUM FOREST

*Community*

11/25/19 W/O # 435169/11192

883.52

SWEETGUM - 33206 SWEETGUM - AFTER HOURS - MAIN LINE BREAK -  
EXCAVATED AND REPAIRED 2" MAIN LINE. BACKFILLED, CLEANED  
AREA AND RETURNED TO SERVICE. EMAILED SPECIAL BAC-T.

790 SWEETGUM FOREST

883.52 \*

Bill-To: UNDIS TEXAS, LLC  
PO BOX 691288  
HOUSTON, TX 77269

12/01/19  
INVOICE# 19121830  
continued Pg 13

890 MARK V *Orbit*

11/11/19 W/O # 431031/9775  
MARK V - 16608 RAY CIRCLE - FURNISHED LABOR AND MATERIAL TO  
INSTALL SHORT WATER TAP AND METER.

941.62 \* *334*

11/22/19 W/O # 435967/11174  
MARK V - 16709 CR 191 - SERVICE LINE LEAK - FURNISHED LABOR  
AND MATERIAL TO REPAIR SHORT SERVICE LINE, BACKFILLED AND  
CLEANED AREA.

1,001.44

890 MARK V

1,943.06 \*

892 MOORELAND *Orbit*

11/18/19 W/O # 435657/11101  
MOORELAND - 356 CR 291 E - SERVICE LINE LEAK - FURNISHED  
LABOR AND MATERIAL TO REPAIR SHORT SERVICE LINE, BACKFILLED  
AND CLEANED AREA.

4,878.07

892 MOORELAND

4,878.07 \*

898 RIVERSIDE *Orbit*

11/08/19 W/O # 434717/10849  
RIVERSIDE ESTATE - 7610 BRAZOS AVENUE - SERVICE LINE LEAK -  
FURNISHED LABOR AND MATERIALS TO REPAIR SHORT SERVICE LINE,  
BACKFILLED, CLEANED AREA AND RETURNED TO SERVICE.

801.58

898 RIVERSIDE

801.58 \*

912 TEXAS LAKES *Orbit*

11/19/19 W/O # 435658/11102  
TEXAS LAKES - 7519 LAKE IVY - SERVICE LINE LEAK - FURNISHED  
LABOR AND MATERIAL TO REPAIR SHORT SERVICE LINE, BACKFILLED  
AND CLEANED AREA.

658.28

912 TEXAS LAKES

658.28 \*

Bill-To: UNDINE TEXAS, LLC  
PO BOX 691288  
HOUSTON, TX 77269

01/01/20  
INVOICE# 20011830  
continued Pg 6

735 HIGHLAND RIDGE

-----  
3,213.04 \*

745 JOY VILLAGE  
-----

12/30/19 W/O # 434361/10615  
JOY VILLAGE - 26479 JOY VILLAGE DR A & B - TAP INSTALLATION  
- FURNISHED LABOR AND MATERIAL TO INSTALL LONG WATER TAP.  
BACKFILLED AND CLEANED AREA.

1,083.93\*

METER

12/30/19 W/O # 434359/10612  
JOY VILLAGE - 26471 JOY VILLAGE DR A & B - FURNISHED LABOR  
AND MATERIAL TO INSTALL LONG TAP AND METER.

1,083.93\*

METER

745 JOY VILLAGE

-----  
2,167.86 \*

750 LAKEWOOD COLONY  
-----

12/26/19 W/O # 438047/11409  
LAKEWOOD COLONY - 17856 SOUTH RIDGE DR - TAP LINE LEAK -  
FURNISHED LABOR AND MATERIAL TO EXCAVATE AND REPLACE SECTION  
OF 2" MAIN LINE AND REPLACED (1) 3/4" CURB STOP AND METER  
BOX AND LID. BACKFILLED AND CLEANED AREA.

1,119.88

750 LAKEWOOD COLONY

-----  
1,119.88 \*

755 MEADOWLAKE ESTATES  
-----

12/12/19 W/O # 437480/11385  
MEADOWLAKE ESTATES - 9313 SUNTURF LN - TAP LINE LEAK -  
FURNISHED LABOR AND MATERIAL TO REPAIR SHORT TAP LINE,  
BACKFILLED AND CLEANED AREA.

359.28

12/12/19 W/O # 435868/11143  
MEADOWLAKE ESTATES - 9310 SUNTURF LN - FURNISHED LABOR AND  
MATERIAL TO CHANGE OUT TAP LINE. REPLACED (1) 1" CURB STOP  
AND METER BOX AND LID. BACKFILLED AND CLEANED AREA.

622.33

12/12/19 W/O # 435870/11142  
MEADOWLAKE ESTATES - 9318 SUNTURF LN - FURNISHED LABOR  
AND MATERIAL TO CHANGE OUT TAP LINE. REPLACED (1) 1"  
U-BRANCH AND METER BOX AND LID.

593.63

12/13/19 W/O # 436480  
MEADOWLAKE ESTATES - 9610 MEADOWVINE DR - SPREAD FILL DIRT,  
LEVELED YARD AND REPLACED SOD OVER PREVIOUS MAIN LINE  
REPAIR.

433.41



Bill-To: UNDINE TEXAS, LLC  
PO BOX 691288  
HOUSTON, TX 77269

02/01/20  
INVOICE# 20021830  
continued Pg 10

795 TALL CEDARS Consumers

01/16/20 W/O # 437508/11376  
TALL CEDARS - 206 ROSE ELF LN - WATER TAP INSTALLATION -  
FURNISHED LABOR, EQUIPMENT AND MATERIAL TO INSTALL (1)  
3/4" WATER TAP AND SMART METER.

876.07 \*  
333

795 TALL CEDARS

876.07 \*

800 URBAN ACRES Consumers

01/09/20 W/O # 439308/11653  
URBAN ACRES - 11722 NANETTE - TAP LINE LEAK - FURNISHED  
LABOR AND EQUIPMENT TO INVESTIGATE TAP LINE LEAK. EXCAVATED  
FOUND LEAK ON CUSTOMERS PRIVATE LINE. BACKFILLED AND  
NOTIFIED CUSTOMER.

212.50  
333

01/14/20 W/O # 439626/11729  
URBAN ACRES - 8022 ARROW ROCK - MAIN LINE BREAK - FURNISHED  
LABOR, EQUIPMENT AND MATERIAL TO EXCAVATE AND REPAIR 2" MAIN  
LINE BREAK. FOUND ILLEGAL 2" CONNECTION GOING TO MAIN.  
REMOVED AND REPLACED SECTION OF PIPE. COLLECTED SPECIAL  
BACT. BACKFILLED AND CLEANED AREA.

986.81  
333

01/20/20 W/O # 439856  
URBAN ACRES - 8022 ARROW ROCK - SPREAD FILL DIRT, LEVELED  
YARD AND REPLACED SOD OVER PREVIOUS MAIN LINE REPAIR.

251.30  
333

02/03/20 W/O # 441448/11975  
URBAN ACRES - 11715 LONE SHADOW TRL - MAIN LINE BREAK -  
FURNISHED LABOR, EQUIPMENT AND MATERIAL TO EXCAVATE AND  
REPAIR 1-1/4" MAIN LINE BREAK. REPLACED (1) STUCK SMART  
METER. FLUSHED AND COLLECTED SPECIAL BACT. BACKFILLED  
AND CLEANED AREA.

1,486.19  
333

800 URBAN ACRES

2,936.80 \*

854 BEECHWOOD WP & WWTP Orbit

01/23/20 W/O # 438450  
BEECHWOOD - 6115 BENDING BOUGH - SPREAD FILL DIRT, LEVELED  
YARD AND REPLACED SOD OVER PREVIOUS WATER TAP INSTALLATION.

238.77  
333

854 BEECHWOOD WP & WWTP

238.77 \*

Bill-To: UNLINE TEXAS, LLC  
PO BOX 691288  
HOUSTON, TX 77269

02/01/20  
INVOICE# 20021830  
continued Pg 11

856 BERNARD OAKS *orbit*

01/27/20 W/O # 440268/11786  
BERNARD OAKS - 1714 CR 244C - FURNISHED LABOR AND MATERIAL TO  
INSTALL SHORT WATER TAP AND INSTALLED SMART METER.  
BACKFILLED AND CLEANED AREA.

864.57 \*  
333

01/27/20 W/O # 440877/11892  
BERNARD OAKS - 1713 CR 244C - REMOVE ILLEGAL TAP - FURNISHED  
LABOR, EQUIPMENT AND MATERIAL TO REMOVE TAP AND INSTALLED  
CLAMP. INSTALLED NEW TAP AT CORRECT METER. BACKFILLED AND  
CLEANED AREA.

1,123.01  
333

856 BERNARD OAKS

1,987.58 \*

858 BLUE SAGE GARDENS *orbit*

01/23/20 W/O # 436201  
BLUE SAGE - 4922 BLUE SAGE TERRACE - SPREAD FILL DIRT,  
LEVELED YARD AND REPLACED SOD OVER PREVIOUS SHORT TAP LINE  
REPAIR.

248.77  
333

858 BLUE SAGE GARDENS

248.77 \*

882 DEMI-JOHN ISLAND *orbit*

01/23/20 W/O # 440547/11830  
DEMI JOHN - 315 RED FISH DR - MAIN LINE BREAK - FURNISHED  
LABOR, EQUIPMENT AND MATERIAL TO EXCAVATE AND REPLACE 3"  
SADDLE AND SHORT TAP LINE. REPLACED 1" CURB STOP AND METER  
BOX AND LID. COLLECTED SPECIAL BACT. BACKFILLED AND CLEANED  
AREA.

1,396.20  
333

882 DEMI-JOHN ISLAND

1,396.20 \*

890 MARK V *orbit*

01/23/20 W/O # 436199  
MARK V - 16709 CR 191 - SPREAD FILL DIRT, LEVELED YARD AND  
REPLACED SOD OVER PREVIOUS SHORT TAP LINE REPAIR.

300.04  
333

01/27/20 W/O # 440876/11891  
MARK V - 16603 RAY CIRCLE - TAP LINE LEAK - FURNISHED LABOR,  
EQUIPMENT AND MATERIAL TO REPAIR SHORT TAP LINE AND REPLACE  
3/4" U-BRANCH. BACKFILLED AND CLEANED AREA.

1,080.94  
333

890 MARK V

1,380.98 \*

**Accurate**  
UTILITY SUPPLY, LLC  
5445 Stockdick School Rd.  
Katy, Texas 77449

**Invoice**

Date	Invoice #
4/17/2019	149317

Bill To
Undine Texas, LLC 17681 Telge Rd Cypress, TX 77429

Ship To
Ricky

P.O. Number	Terms	Due Date	Rep	Ship	Via	S.O. #	Our Order #
	Net 30	5/17/2019	MB	4/17/2019	Our Truck	21151	

Qty	U/M	Item Code	Description	Price Each	Amount
105	ea	Beacon M25	BEACON-AMA 5/8"X3/4" M25 Meter	<del>245.00</del>	<del>25,725.00</del>

**POSTED**  
 6/15/19  
 QB 4/17/19

151. Plant Materials  
 (In Texas) Supply

**RECEIVED**  
 APR 24 2019

**APPROVED**  
 SYSTEM: \_\_\_\_\_  
 PROJECT: \_\_\_\_\_  
 WORK ORDER #: \_\_\_\_\_  
 CAPITAL EXPENSE

*Starlin*

PLEASE NOTE OUR NEW ADDRESS AT THE TOP OF THIS INVOICE.				Sales Tax (0.0%)		\$0.00
				<b>Total</b>		\$25,725.00
www accuratemeteter.com				Payments/Credits		\$0.00
				<b>Balance Due</b>		\$25,725.00
Phone #	(281) 391-8100	Fax #	(281) 391-8110			

Undine  
2020 Operating Budget Assumptions-Gulf Coast, Chuck Bell, and Bolivar

## **REVENUE**

### Operating Revenue

Water revenue is composed of a monthly base charge and a usage charge. Budgeted monthly base fee revenue is calculated using the number of customers (by meter size) as of Sept. 2019 (plus est. growth) multiplied by the appropriate tariff rate. Budgeted monthly usage revenue is calculated using average historical monthly usage times the appropriate tariff rate for each utility.

Sewer revenue is usage based for Gulf Coast and Bolivar. Sewer Revenue for Gulf Coast and Bolivar is calculated the same as water revenue (see above).

Organic growth is estimated using historic averages as well as expectations from service area developers. Growth of 80 is included for Bolivar for 2020.

### Late and Other Fees

Late and Other Fees (reconnect fees, transfer fees, etc.) are budgeted as a percentage of Operating Revenue using TTM September actual results.

## **UTILITY OPERATING EXPENSES**

Expenses for the 2020 Operating Budget were estimated using actual results from TTM Ended September 2019 (TTM) and adjusted for Inflation of 2%. Further adjustments were made to reflect known deviations from the historic amount and one-time events, this section details the assumptions behind these adjustments.

Bolivar expenses stem primarily from the approved acquisition model.

### Sludge Hauling

Gulf Coast Sewer – Assumed sludge hauling occurs once a quarter at \$2,000 per occurrence for a total budget of \$8,000. This is normal operating procedure for WWTP of this size and excludes costs incurred in the TTM related to emergency repairs and spills.

Bolivar – Sludge hauling was included in Repairs & Maintenance in the acquisition model to match the Seller's financial statements. Assumed sludge hauling occurs bi-monthly at \$3,000 per occurrence based on the size of both the WWTP and collection system.

Undine  
2020 Operating Budget Assumptions-Gulf Coast, Chuck Bell, and Bolivar

Purchased Power

Gulf Coast Water – Assumed TTM plus 10% for an estimated electric rate increase based on higher than normal costs in August and September.

Chemicals

Historic TTM plus Inflation for most utilities. Gulf Coast and Chuck Bell have been owned less than twelve months, so the historic monthly average was annualized.

Materials & Supplies

Historic TTM plus Inflation for most utilities. Chuck Bell has been owned less than twelve months, so the historic monthly average was annualized. The majority of the costs included this line item is printing and postage for monthly bills for those utility customers billed by UP.

Contract Management Fees

All Utilities – Assumed a monthly charge of \$18.50 per connection (not ERC) from Utility Partners. Additionally, Undine will pay \$12,300 per month for three Customer Service Representatives until the total connection count reaches 10,000 (estimated August 2020). This amount is allocated to each utility based on number of connections.

EMCAD, Sugartree, and Chuck Bell – Undine will pay \$9,500 per month to subsidize the D/FW area operations until the total Undine connection count reaches 10,000 (estimated August 2020). This amount is allocated to each D/FW area utility based on number of connections.

Bolivar – Customers are billed by Bolivar Peninsula SUD; we pay \$7.15 per bill per month for contract billing services.

Repairs & Maintenance

Gulf Coast Water – Assumed higher R&M to make non-capital repairs to water system. Includes mowing.

Gulf Coast Sewer – Assumed lower R&M than TTM to remove one-time emergency costs which should improve with the completion of the clarifier project.

Chuck Bell – Estimated R&M based on trailing five months of data due to lack of a full twelve months.

Bolivar – Assumed amount used for the acquisition model less amount allocated to sludge removal.

All Sewer Utilities – Assumed annual spill clean-up costs of \$100,000 allocated to each sewer utility based on number of connections.

Undine  
2020 Operating Budget Assumptions-Gulf Coast, Chuck Bell, and Bolivar

Testing

Chuck Bell – removed three-year testing from historic average (to be amortized).

Rental of Building/Equipment

Gulf Coast Water & Sewer – Includes lease for plant site, per contract.

Houston Area Utilities – Includes estimated standby rental fees for generators during hurricane season (July – October).

Insurance

Assumed scheduled amortization over the life of the term (August 31 2020), assumed monthly average plus inflation for the remainder of the year. Includes general liability and pollution. Group policies allocated by ERC to each utility.

Bolivar – Assumed Pollution Insurance of \$21,000 based on quote.

Permitting and Other Regulatory

The Permitting is for annual permit costs (which are fixed) and amortization of three/five-year permits.

Bad Debt Expense

Assumed 1% of Operating Revenue for all utilities.

Bank Fees

Gulf Coast and Chuck Bell have been owned less than twelve months, so the historic monthly average was annualized. Includes primarily credit card and ACH processing fees for billing and collections.

Telephone/Mission Unit Monitoring

All Utilities – Assumed Mission Unit Monitoring costs is either (1) actual amortization for mission units already installed; or (2) estimated costs of \$40 per month times the number of units to be installed.

Gulf Coast – Assumed historic AVG for cost of phone lines plus Inflation.

All Utilities – Includes cost of IRIS customer notification system (new as of Sept. 2019).

Property & Franchise Taxes

All Utilities – Property Taxes assumed for 2020 Budget is the 2019 estimated accrual plus Inflation. Assumed Franchise Taxes to be 0.35% of Total Revenue.

Undine  
2020 Operating Budget Assumptions-Gulf Coast, Chuck Bell, and Bolivar

Other Utility Operating Expenses

Includes subscription and maintenance costs for eMaint work order system. The estimated costs were allocated to each utility based on number of customers.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

DOCKET NO. 20180006-WS  
ORDER NO. PSC-2018-0327-PAA-WS  
ISSUED: June 26, 2018

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman  
JULIE I. BROWN  
DONALD J. POLMANN  
GARY F. CLARK  
ANDREW GILES FAY

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING THE LEVERAGE FORMULA FOR WATER AND WASTEWATER UTILITIES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

I. Case Background

Section 367.081(4)(f), Florida Statutes (F.S.), authorizes us to establish, not less than once each year, a leverage formula to calculate a reasonable range of returns on equity (ROE) for water and wastewater (WAW) utilities. In 2001, the leverage formula methodology was established in Order No. PSC-2001-2514-FOF-WS.<sup>1</sup>

On October 23, 2008, we held a formal hearing in Docket No. 20080006-WS to allow interested parties to provide testimony regarding the validity of the leverage formula that was

<sup>1</sup>Order No. PSC-2001-2514-FOF-WS, issued December 24, 2001, in Docket No. 20010006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity of water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*



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established in 2001.<sup>2</sup> Based on the record in that proceeding, we approved the 2008 leverage formula.<sup>3</sup> In that order, we reaffirmed the methodology that was previously approved in 2001.

In 2011, we approved the current leverage formula by Order No. PSC-2011-0287-PAA-WS.<sup>4</sup> From 2012 through 2017, we voted to continue to use the 2011 leverage formula for establishing the authorized ROE for WAW utilities.<sup>5</sup> From 2012 through 2017, we found that the range of returns on equity derived from the annual leverage formulas were not optimal for determining the appropriate authorized ROE for WAW utilities due to Federal Reserve monetary policies that resulted in historically low interest rates. Consequently, we decided it was reasonable to continue using the range of returns on equity of 8.74 percent to 11.16 percent from the 2011 leverage formula docket.

On November 8, 2017, our staff held a workshop to solicit input from interested persons regarding potential changes to the current leverage formula methodology. As part of the workshop, interested parties were requested to file comments by October 30, 2017. The only stakeholders that filed comments in the docket were the Office of Public Counsel (OPC) and Utilities, Inc. of Florida (UIF). OPC also filed post-workshop comments on January 31, 2018. OPC's post-workshop comments all resulted in lowering the ROE. UIF's suggestions mostly resulted in increasing the ROE.

#### A. OPC Post-Workshop Comments

OPC submitted that we adopt a rule setting forth the leverage formula. OPC contended that continued application of the leverage formula constitutes an unadopted rule. In addition, OPC questioned the applicability of a Bond Yield Differential if an all WAW utility proxy group is used. OPC specifically questioned whether the assumed bond rating of Baa3 for the average WAW utility in Florida is still a valid assumption.

OPC's post-workshop comments also stated that the leverage formula should differentiate between Class A WAW utilities and Class B and C WAW utilities. OPC opined that Class A WAW utilities would not need a small-utility risk premium.

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<sup>2</sup>At the May 20, 2008, Commission Conference, upon request of the Office of Public Counsel, we voted to set the establishment of the appropriate leverage formula directly for hearing.

<sup>3</sup>Order No. PSC-2008-0846-FOF-WS, issued December 31, 2008, in Docket No. 20080006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

<sup>4</sup>Order No. PSC-2011-0287-PAA-WS, issued July 5, 2011, in Docket No. 20110006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

<sup>5</sup>Order No. PSC-2017-0249-PAA-WS, issued June 26, 2018, in Docket No. 20170006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

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OPC further commented that the small-utility risk premium adjustment is duplicative of the bond yield risk premium and ignores the fact that several Florida WAW utilities could be comparable to water utilities included in the new index and therefore the small-utility risk premium should be removed from the formula.

OPC also submitted that the private placement premium of 50 basis points should be removed from the leverage formula for Class A WAW utilities. OPC stated it does not believe that investors require a premium for the lack of liquidity of privately placed debt for large Florida WAW utilities that are owned by substantially larger corporations. OPC further questioned why the private placement premium of 50 basis points is fixed and if it is reasonable.

Finally, OPC submitted that flotation costs should not be included in the DCF and CAPM models since none of Florida's WAW utilities are publicly traded and do not incur costs related to issuing new shares of stock.

#### B. UIF's Post-workshop Comments

UIF retained Ms. Pauline M. Ahern, who provided 47 pages of technically detailed suggestions and comments to change the DCF and CAPM methodologies used to derive the ROE of the proxy group. UIF suggested that we include a WAW utility index along with or replacing the natural gas utility index in the leverage formula. UIF further suggested we consider changing the DCF model to utilize the single-stage DCF model and use expected growth rate projections of EPS (earnings per share) as published in Value Line in place of using projected dividends.

In addition, UIF stated we should eliminate foreign companies in the CAPM Market Equity Risk Premium (MERP) because the WAW utilities are based in the US. UIF suggested that the CAPM MERP should be based on a market-value weighted average instead of a simple average. According to UIF, we should add two additional MERP estimates to the CAPM and average the results. The first one using a linear Ordinary Least Squares regression, and the second using an Empirical CAPM.

Also, UIF suggested that the private placement premium should remain at 50 basis points. UIF added that the small-utility risk premium should be increased from 50 basis points to 100 basis points. Additionally, UIF suggested that flotation costs of 20 basis points, or 4%, should be included, and that we should use a projected yield on Baa3/BBB- rated public utilities in the derivation to adjust the cost of equity at a 40% equity ratio.

This order addresses the appropriate leverage formula for 2018. We have jurisdiction pursuant to Section 367.081, F.S.

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## II. Modification of the Leverage Formula

### A. Analysis of OPC's Post-Workshop Comments

OPC asks us to adopt a leverage formula rule. Section 367.081(4)(f), F.S., states:

The Commission may regularly, not less often than once each year, *establish by order* a leverage formula or formulae that reasonably reflect the range of returns on common equity for an average water or wastewater utility and which, for purposes of this section, shall be used to calculate the last authorized rate of return on equity for any utility which otherwise would have no established rate of return on equity. In any other proceeding in which an authorized rate of return on equity is to be established, a utility, in lieu of presenting evidence on its rate of return on common equity, may move the commission to adopt the range of rates of return on common equity that has been established under this paragraph. (Emphasis added)

We believe that the statute, on its face, makes it clear that we may establish a leverage formula by order. We review the leverage formula yearly. Thus, if it was codified in a rule, we would have to initiate rulemaking every year to review the leverage formula. Based on the statutory language allowing the leverage formula to be established by order, it appears that the legislature did not intend for us to be in a constant rulemaking posture for this matter. Establishing a rule for the leverage formula may limit our discretion in an area where maximum discretion is advised. Maximum discretion is advised because determination of the required return on equity is subjective and a matter of opinion arrived at by informed judgement. Consequently, we decline OPC's suggestion to establish a rule for the leverage formula.

Regarding OPC's comments on the bond yield differential, we believe it is a necessary adjustment that recognizes the spread between the median bond rating of the utility proxy group (usually an A rating) to the assumed average Florida WAW utility's bond rating which is the lowest investment grade bond rating (Baa3). If the Florida WAW utilities under our jurisdiction were to be rated, we believe that, on average, they would be well below investment grade.

Regarding OPC's contention that the leverage formula should differentiate between large Class A WAW utilities and smaller Class B and C WAW utilities, we disagree. The leverage formula is derived to appropriately compensate the average WAW utility in Florida. The largest WAW utility in Florida is substantially smaller and more risky from a financial perspective than the utilities in the proxy group. UIF is by far the largest WAW utility in Florida and has total common equity of \$47 million. The average market capitalization of the utilities in the proxy group is \$3.9 billion and the smallest company has a market capitalization of \$400 million. Small-company risk premiums are a widely accepted adjustment that have been used by financial analysts for decades to account for the differences in the expected returns between small-cap and large-cap companies. If any adjustment should be made to account for the difference between the Class A and Class B and C WAW utilities, an upward adjustment should be made for Class B and C WAW utilities.

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Reasons why smaller WAW utilities are more risky than other utilities include: (1) WAW utilities are more capital intensive than electric or natural gas utilities; (2) WAW utilities experience lower relative depreciation rates than other utilities, thereby providing less cash flow; (3) WAW utilities experience consistently negative free cash flow, thereby increasing their financing requirements; (4) WAW utilities' credit metrics are inferior to those of electric and natural gas utilities; (5) Florida WAW utilities are substantially smaller than electric and natural gas utilities by virtually any measure including total revenues, total assets, and market capitalization; (6) WAW utilities' earnings are much more volatile (uncertain) than electric and natural gas utilities' earnings; and (7) WAW utilities experience many more business failures than electric and natural gas utilities.

Regarding OPC's claim that the risk premium adjustment is duplicative, we disagree. The small-utility risk premium adjustment and the bond yield risk premium adjustment are not the same and compensate an investor for different risks. The small-utility risk premium is an adjustment for the smaller sized companies based on market capitalization and the bond yield risk premium is an adjustment based on the assumed credit rating of the average Florida WAW utility (Baa3) as compared to the median credit rating of the proxy group (A).

Regarding OPC's comment about the private placement premium, we have previously included this adjustment to reflect the difference in yields on publicly traded debt and privately placed debt, which is illiquid. We understand that a private placement premium may change over time based on financial market conditions. However, information regarding actual private placement premiums is not readily available to derive an actual amount. Nevertheless, we believe recognition of the private placement risk should be included in the leverage formula. The private placement premium of 50 basis points was approved in Order No. PSC-2008-0846-FOF-WS.<sup>6</sup> In this order, we stated:

In addition, we find that the average WAW utility in Florida does not have access to public financing. The fact that an average WAW utility in Florida cannot access public financing justifies the inclusion of a private placement premium adjustment to compensate for the lack of liquidity and the higher cost of financing of privately placed debt. For these reasons, we find that that it is appropriate to continue to make a private placement premium adjustment of 50 basis points as reflected in Attachment 1 to this Order.

We believe that the average WAW utility in Florida continues to not have access to public financing and will have to pay a higher interest rate for privately placed debt and a private placement premium is still appropriate.

Regarding flotation costs, we disagree with OPC and believe that accounting for flotation costs in the application of the models is appropriate and in accordance with financial theory and application of the financial models. Although none of Florida's WAW utilities are publically

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<sup>6</sup>Order No. PSC-2008-0846-FOF-WS, issued December 31, 2008, in Docket No. 20080006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

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traded, application of the DCF and CAPM models to a proxy group is used to approximate the required return on equity and appropriate estimation of the required ROE includes an adjustment for flotation costs.

B. Analysis of UIF's Post-Workshop Comments

Several of UIF's suggestions are already included in the current leverage formula methodology as a result of the outcome of the 2008 hearing and subsequent order. In this docket, we included WAW utilities along with the natural gas utilities in its proxy group as suggested by UIF to increase the sample group of companies available. The private placement premium and small-utility risk premium are also included in the current methodology. We do not believe that the small-utility risk premium should be increased without further study to determine if that would be appropriate. We agree that flotation costs should be recognized in the application of the ROE models and they have been since 2001.

UIF suggests that an estimated projected yield on Baa3 rated public utility bonds be used to calculate the assumed bond yield for the average Florida WAW utility. The required return on equity is a forward-looking concept and is based on projections. Also, the costs included in the test year should reflect the costs expected during the period rates are going to be in effect. Consequently, we believe it is reasonable to use a projected Baa3 rated utility bond yield and that it is consistent with our practice of relying on the projected risk-free rate used in the CAPM.

Regarding UIF's suggestion to use a single-stage DCF model using expected earnings growth in the model, we disagree. All DCF models are derived from the equation that represents all expected cash flows into perpetuity. The multi-stage model allows us to avail ourselves of the explicit expected dividends provided by Value Line. Using a less robust form of the DCF model provides no benefit. We also disagree with the use of expected earnings growth in lieu of expected dividend growth. DCF theory is unambiguous when explaining that the expected cash flows associated with a share of stock are dividends. This is important because the time value of money underscores DCF theory and all earnings are not paid out to investors when they are earned. Expected earnings are crucial to determining expected dividends, but expected dividends are the expected cash flows that determine the value of a stock.

Regarding UIF's recommendation that foreign stocks be removed from the determination of the expected market return in the CAPM model, we disagree. Under CAPM theory, the expected market return is the return on all asset classes worldwide. Most analysts use the expected return on the US stock market as a proxy for the return on all asset classes out of convenience. Consequently, there is no reason to exclude foreign companies trading on the US market.

Regarding UIF's recommendations to consider adding more versions of the CAPM to the leverage formula analysis, we believe the additional methodologies require a much greater level of subjectivity than the traditional CAPM but will continue to consider their inclusion in the leverage formula analysis.

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C. Modification of the Leverage Formula is Necessary

Section 367.081(4)(f), F.S., authorizes us to establish a leverage formula to calculate a reasonable range of returns on common equity for WAW utilities. We must establish this leverage formula not less than once a year. For administrative efficiency, the leverage formula is used to determine the appropriate return for an average Florida WAW utility. However, use of the leverage formula by utilities is discretionary, and a utility can file cost of equity testimony in lieu of using the leverage formula. As is the case with other regulated companies under our jurisdiction, we have discretion in the determination of the appropriate ROE based on the evidentiary record in any proceeding. If one or more parties in a rate case or limited proceeding file testimony in lieu of the use of the leverage formula, we will determine the appropriate ROE based on the evidentiary record in that proceeding.

The leverage formula depends on four basic assumptions:

- 1) Business risk is similar for all WAW utilities;
- 2) The cost of equity is an exponential function of the equity ratio but a linear function of the debt to equity ratio over the relevant range;
- 3) The marginal weighted average cost of investor capital is constant over the equity ratio range of 40 percent to 100 percent; and
- 4) The debt cost rate at an assumed Moody's Baa3 bond rating, plus a 50 basis point private placement premium and a 50 basis point small-utility risk premium, represents the average marginal cost of debt to an average Florida WAW utility over an equity ratio range of 40 percent to 100 percent.

Since 2001, we have used the leverage formula methodology established in Order No. PSC-2001-2514-FOF-WS and reaffirmed in Order No. PSC-2008-0846-FOF-WS. This methodology used ROEs derived from financial models applied to an index of natural gas utilities. We determined in 2001 and 2008 that there were an insufficient number of publicly traded WAW utilities that met the requisite criteria to assemble an appropriate proxy group, and, therefore, natural gas utilities were used instead. However, due to mergers and acquisitions of natural gas utilities over the past two years, the number of acceptable natural gas utilities has been reduced from eight to five. Concurrently, the number of publicly-traded water companies followed by Value Line has risen from four to nine.

Based on comments made at the workshop and the analysis conducted by our staff, which is presented in more detail in Attachment 1, we believe modification of the leverage formula methodology is warranted. We find that it is necessary to refine the leverage formula methodology to reflect newly available information and to reflect best practices. The leverage formula methodology shall be modified to include a combined proxy group of natural gas and WAW utilities with updated financial data based on market-capitalization based weighted averages. Also, the cost of debt used in determining the leverage formula shall be based on the projected cost of debt.

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D. The Modifications to the Leverage Formula

Proxy Group: The leverage formula methodology shall be modified to include a combined proxy group of natural gas and WAW utilities as proxy companies in calculating the leverage formula. We find that the selected natural gas utilities and WAW utilities that derive at least 50 percent of their revenue from regulated rates. These utilities have market power and are influenced significantly by economic regulation. In Attachment 1, the returns calculated using the proxy group are adjusted to reflect the risks faced by Florida WAW utilities. The updated index consists of five natural gas companies and seven WAW companies that derive at least 50 percent of their total revenue from regulated operations. These companies have a median Standard and Poor's bond rating of "A".

Weighted Average: In addition, the leverage formula shall be modified to use a weighted average, where appropriate, as opposed to using a simple average as was done in the previous leverage formula calculations. The weighted average was calculated using the market capitalization of the proxy companies. We find that it is reasonable to use the market-capitalization based weighted average because of the size disparity among the companies comprising the new proxy group. There is a much greater size difference between companies in both assets and revenues when using both WAW and natural gas companies as opposed to using only natural gas companies. As pointed out in UIF's comments, "a market value weighted average is consistent with the manner in which returns for the Standard & Poor's 500 composite Index (S&P) are estimated."<sup>7</sup> We used a market capitalization weighted average of: (1) Discounted Cash Flow (DCF) model results, (2) the Beta values in the Capital Asset Pricing Model (CAPM), and (3) the equity ratio of the proxy group.

Projected Yield: The leverage formula shall be modified to use a projected yield on Baa3 rated public utility bonds to estimate the bond yield of an average Florida WAW utility in the calculation of the weighted average cost of capital of the proxy group is reasonable and appropriate. We find that using a projected yield is appropriate because required returns are forward looking and based on projections. The previously approved methodology used the most current monthly average bond yield for a Baa2 rated utility and added the 120-month average spread between a Baa3 rated utility bond yield and the Baa2 rated bond yield as published by Value Line Investment Survey (Value Line). We believe the methodology should be updated to use the projected Baa2 rated utility bond yield for the upcoming four quarters as published by the most recent Blue Chip Financial Forecasts (Blue Chip). We find that modifying the formula to add the 120-month average spread to the projected Baa2 rated utility bond yield to estimate a projected Baa3 rated utility bond yield is also necessary.

ROE Models: The result of the ROE models shall be adjusted so that the leverage formula reflects the differences in risk and debt cost between the proxy group and the average

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<sup>7</sup>Comments on Florida leverage formula to establish the annual authorized range of returns for water & wastewater utilities of Pauline M. Ahern, CRRA, on behalf of Utilities, Inc. of Florida, P. 20.

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Florida WAW utility. The ROE models shall also include a four percent adjustment for flotation costs. The ROE models are as follows:

- A multistage Discounted Cash Flow (DCF) model applied to an index of natural gas and WAW utilities that have publicly traded stock and are followed by the Value Line. This DCF model is an annually compounded model and uses prospective dividend growth rates.
- A Capital Asset Pricing Model (CAPM) that relies on a market return for companies followed by Value Line, the average projected yield on the U.S. Treasury's 30-year bonds published by Blue Chip Financial Forecasts, and the weighted average beta for the index of natural gas and WAW utilities. The market return for the 2018 leverage formula was calculated using a quarterly DCF model with stock prices as of April 16, 2018.

The updated leverage formula will average the results of the DCF and CAPM models and the result will be as follows:

- A bond yield differential of 64 basis points was added to reflect the difference in yields between an A/A2 rated bond, which is the median bond rating for the combined utility index, and a BBB-/Baa3 rated bond. Florida WAW utilities are assumed to be comparable to companies with the lowest investment grade bond rating, which is Baa3. This adjustment compensates for the difference between the credit quality of 'A' rated debt and the credit quality of the minimum investment grade rating.
- A private placement premium of 50 basis points is added to reflect the difference in yields on publicly traded debt and privately placed debt, which is illiquid. Investors require a premium for the lack of liquidity of privately placed debt.
- A small-utility risk premium of 50 basis points is added because the average Florida WAW utility is too small to qualify for privately placed debt and smaller companies are considered by investors to be more risky than larger companies.

After the above adjustments, the resulting cost of equity estimate will be included in the weighted average capital structure of the proxy group of utilities to derive the leverage formula.

Using the updated financial data in the revised leverage formula decreases the lower end of the current allowed ROE range by 63 basis points and decreases the upper end of the range by 23 basis points. Overall, the spread between the range of returns on equity based on the updated leverage formula is 282 basis points (8.11 percent to 10.93 percent). In comparison, the range of



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returns on equity for the existing leverage formula from 2011 is 242 basis points (8.74 percent to 11.16 percent).

The projected assumed Baa3 bond rate of 6.24 percent used in the updated leverage formula calculation includes a 50 basis point adjustment for small-company risk and a 50 basis point adjustment for a private placement premium and remains low relative to historic levels. In comparison, the assumed Baa3 bond rate used in the existing leverage formula is 7.13 percent. The lower Baa3 bond rate of 6.24 percent is the cause of the decrease at the lower end of the range and the increased spread.

Based on the aforementioned, we find that the revised leverage formula methodology applied to a proxy group of natural gas and WAW utilities with updated financial data based on market-capitalization weighted averages produces a reasonable range of ROEs for WAW utilities and reflects current financial markets. We find that the following leverage formula shall be used until a new leverage formula is determined in 2019:

$$\text{ROE} = 6.24\% + (1.88 \div \text{Equity Ratio})$$

Where the Equity Ratio = Common Equity  $\div$  (Common Equity + Preferred Equity + Long-Term and Short-Term Debt).

Range: 8.11% at 100% equity to 10.93% at 40% equity

Additionally, we will cap returns on common equity at 10.93 percent for all WAW utilities with equity ratios less than 40 percent. This is in an effort to discourage imprudent financial risk. This cap is consistent with the methodology in Order No. PSC-2008-0846-FOF-WS.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the leverage formula is set forth in the body of this Order and in Attachment 1 of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that this docket should remain open to allow staff to monitor changes in capital market conditions and to readdress the reasonableness of the leverage formula as conditions warrant.

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By ORDER of the Florida Public Service Commission this 26th day of June, 2018.

  
CARLOTTA S. STAUFFER  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399  
(850) 413-6770  
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

AEH

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 17, 2018.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

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SUMMARY OF RESULTS  
2018 Water and Wastewater Leverage Formula

	<u>Updated Results</u>	<u>Currently In Effect</u>
(A) DCF ROE	7.63%	8.25%
(B) CAPM ROE	<u>9.46%</u>	<u>9.40%</u>
AVERAGE	8.55%	8.83%
Bond Yield Differential	0.64%	0.57%
Private Placement Premium	0.50%	0.50%
Small-Utility Risk Premium	0.50%	0.50%
Adjustment to Reflect Required Equity Return at a 40% Equity Ratio	<u>0.74%</u>	<u>0.76%</u>
Cost of Equity for Average Florida WAW Utility at 40% Equity Ratio	<u>10.93%</u>	<u>11.16%</u>

2017 Leverage Formula (Currently in Effect)  
Return on Common Equity = 7.13% + (1.61 ÷ Equity Ratio)  
Range of Returns on Equity = 8.74% to 11.16%

2018 Leverage Formula  
Return on Common Equity = 6.24% + (1.88 ÷ Equity Ratio)  
Range of Returns on Equity = 8.11% to 10.93%

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Marginal Cost of Investor Capital  
 Average Water and Wastewater Utility

Capital Component	<u>Ratio</u>	<u>Marginal Cost Rate</u>	<u>Weighted Marginal Cost Rate</u>
Common Equity	47.48%	10.19%	4.84%
Total Debt	<u>52.52%</u>	6.24%*	<u>3.27%</u>
	<u>100.00%</u>		<u>8.11%</u>

A 40% equity ratio is the floor for calculating the required return on common equity.  
 The return on equity at a 40% equity ratio:  $6.24\% + (1.88 \div 0.40) = 10.93\%$

Marginal Cost of Investor Capital  
 Average Water and Wastewater Utility at 40% Equity Ratio

Capital Component	<u>Ratio</u>	<u>Marginal Cost Rate</u>	<u>Weighted Marginal Cost Rate</u>
Common Equity	40.00%	10.93%	4.37%
Total Debt	<u>60.00%</u>	6.24%*	<u>3.74%</u>
	<u>100.00%</u>		<u>8.11%</u>

Where: Equity Ratio =  $CE / (CE + Pref. Equity + LTD + STD)$

\*Assumed Baa3 rate for April 2018 plus a 50 basis point private placement premium and  
 A 50 basis point small utility risk premium.

Sources:  
 Value Line Selection and Opinion  
 Companies' 10-K Filings

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Discounted Cash Flows Results

Company	<u>Weight</u> <sup>[1]</sup>	<u>Div</u> <sub>0</sub>	<u>Div</u> <sub>1</sub>	<u>Div</u> <sub>2</sub>	<u>Div</u> <sub>3</sub>	<u>Div</u> <sub>4</sub>	<u>EPS</u> <sub>4</sub>	<u>ROE</u> <sub>4</sub>	<u>GR</u> <sub>1-4</sub>	<u>GR</u> <sub>4+</sub>	<u>AVG-PR</u> <sup>[2]</sup>	Weighted DCF Results <sup>[3]</sup>
Atmos Energy	19.40%	1.94	2.08	2.21	2.35	2.50	5.15	0.11	1.06	1.06	81.78	1.58%
Northwest Natural Gas Company	3.41%	1.89	2.00	2.06	2.13	2.20	3.50	0.11	1.03	1.04	57.17	0.25%
ONE Gas, Inc.	7.46%	1.84	2.00	2.15	2.32	2.50	4.00	0.09	1.08	1.03	65.22	0.50%
Southwest Gas Holdings	6.82%	2.08	2.18	2.31	2.45	2.60	5.10	0.09	1.06	1.04	68.10	0.51%
Spire Inc.	6.82%	2.25	2.40	2.43	2.47	2.50	5.50	0.10	1.01	1.05	69.14	0.56%
American States Water	4.05%	1.07	1.15	1.24	1.34	1.45	2.45	0.14	1.08	1.06	52.42	0.32%
American Water Works	30.92%	1.78	1.95	2.15	2.36	2.60	4.50	0.11	1.10	1.04	80.35	2.22%
Aqua America	12.79%	0.85	0.91	1.01	1.12	1.25	1.95	0.13	1.11	1.04	32.91	0.98%
California Water Service Group	3.84%	0.75	0.78	0.85	0.93	1.02	1.90	0.12	1.09	1.05	36.43	0.29%
Middlesex Water	1.28%	0.91	0.96	1.01	1.06	1.11	2.10	0.13	1.05	1.06	38.37	0.11%
SJW Group	2.35%	1.12	1.20	1.28	1.36	1.45	3.45	0.14	1.07	1.08	56.04	0.24%
York Water	0.85%	0.70	0.75	0.83	0.91	1.00	1.60	0.14	1.10	1.05	30.24	0.07%
<b>Annual Weighted DCF Results:</b>												<b><u>7.63%</u></b>

The ROE of 7.63 percent represents the expected cost of equity required to match the average stock price with present value of expected cash flows.

Sources:

Stock prices obtained from Yahoo Finance for the 30-day period April 1, 2018 through April 30, 2018

Natural Gas company dividends, earnings, and ROE obtained from Value Line Reports issued March 2, 2018

Water and Wastewater company dividends, earnings and ROE obtained from Value Line Reports issued April 13, 2018

Notes:

<sup>[1]</sup> Company's weight is based off of the Company's Market-Capitalization

<sup>[2]</sup> Average Stock Prices include four percent flotation cost

<sup>[3]</sup> Company's DCF results are weighed against their Market Capitalization Weight

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Capital Asset Pricing Model Cost of Equity for  
Water and Wastewater Industry

CAPM analysis formula

K =  $RF + \text{Beta} (MR - RF) + \text{Flotation Cost}$

K = Investor's required rate of return

Beta = Measure of industry-specific risk (average for natural gas and water utilities followed by Value Line)

MR = Market Return (Value Line Investment Analyzer Web Browser)

RF = Risk-free rate (Blue Chip forecast for Long-Term Treasury Bond)

9.46% =  $3.58\% + 0.69 (11.83\% - 3.58\%) + 0.20\%$

Note:

We calculated the market return using a quarterly DCF model for a large number of dividend paying stocks followed by Value Line. As of April 16, 2018, the result was 11.83 percent. We added 20 basis points to the CAPM result to account for a flotation cost of four percent.

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Public Utility Long-Term Bond Yield Averages

Month, Year	A2	Spread	A3	Spread	Baa1	Spread	Baa2	Spread	Baa3
April, 2018	4.15	0.11	4.26	0.11	4.37	0.11	4.48	0.11	4.59
<b>120 – Month Average Spread</b>							<b>4.480</b>	<b>0.161</b>	<b>0.0464</b>

Consensus Forecasts – Corporate Baa Bond Rate

2Q 2018	3Q 2018	4Q 2018	1Q 2019
4.8	5.0	5.2	5.3
<b>Average Forecasted Corporate Baa Bond Rate:</b>			<b>5.075</b>

**Assumed Bond Yield for Baa3 Utilities: 0.161 + 5.075 = 5.236**

	Updated Results	Currently In Effect
Private Placement Premium	0.50%	0.50%
Small-Utility Risk Premium	0.50%	0.50%
Assumed Bond Yield for Baa3 Utilities	5.24%	6.13%
<b>Assumed Bond Yield for Florida WAW Utilities:</b>	<b><u>6.24%</u></b>	<b><u>7.13%</u></b>

Sources:  
Value Line Selection and Opinion  
Blue Chip Financial Forecast – May 2018

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## 2018 Leverage Formula Proxy Group

Company	S&P Bond Rating	Percent Regulated Revenue	V/L Market Capital (Millions)	Equity Ratio	Weighted Equity Ratio	Value Line Beta	Weighted Value Line Beta
Atmos Energy	A	95.99%	\$9,100	52.59%	10.20%	0.70	0.14
NW Natural Gas	A+	96.16%	\$1,600	47.10%	1.61%	0.65	0.02
One Gas, Inc.	A	100.00%	\$3,500	55.71%	4.16%	0.70	0.05
SW Gas	BBB+	51.09%	\$3,200	47.07%	3.21%	0.75	0.05
Spire, Inc.	A-	95.36%	\$3,200	43.63%	2.98%	0.65	0.04
American States Water	A+	77.24%	\$1,900	58.22%	2.36%	0.75	0.03
American Water Works	A	88.11%	\$14,500	41.08%	12.70%	0.65	0.20
Aqua America	A+	99.43%	\$6,000	47.70%	6.10%	0.70	0.09
Cal. Water Service	A+	93.93%	\$1,800	46.22%	1.77%	0.75	0.03
Middlesex Water	A	88.28%	\$600	56.86%	0.73%	0.80	0.01
SJW Group	A	96.63%	\$1,100	50.39%	1.18%	0.70	0.02
York Water	A-	100.00%	\$400	56.71%	0.48%	0.80	0.01
<b>AVERAGE</b>	<b>A</b>	<b>90.19%</b>	<b>\$3,908</b>	<b>50.27%</b>	<b>47.48%</b>	<b>0.72</b>	<b>0.69</b>

## Sources:

Value Line Ratings and Reports  
S.E.C. Form 10K for Companies  
Standard and Poor's



BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2018-82-S - ORDER NO. 2019-314

MAY 14, 2019

IN RE: Application of Palmetto Wastewater Reclamation, LLC for Adjustment of Rates and Charges	)	ORDER APPROVING
	)	INCREASE IN RATES
	)	AND CHARGES, RATE
	)	SCHEDULE
	)	MODIFICATIONS, AND
	)	SETTLEMENT
	)	AGREEMENT

**I. INTRODUCTION**

This matter comes before the Public Service Commission of South Carolina (the “Commission”) on the Application of Palmetto Wastewater Reclamation, LLC (“PWR” or “the Company”) for an increase in rates and charges for the provision of sewer service and the modification of certain terms and conditions related to the provision of such service. The Application was filed on November 6, 2018, pursuant to S.C. Code Ann. § 58-5-240 (2015) and S.C. Code Ann. Regs. 103-512.4.A and 103-503 (2012) and utilized a test year ending August 31, 2018.

By letter dated November 19, 2018, the Commission Clerk’s Office transmitted to PWR a prepared Notice of Filing and Hearing. The Notice of Filing and Hearing described the nature of the Application, included a comparison of current and proposed rates for residential, mobile home, and commercial customers, and advised all interested persons desiring to participate in the proceedings and hearing of the manner and time in which to

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file appropriate pleadings for inclusion in the proceedings as a party of record. The Clerk's Office instructed PWR to publish the Notice of Filing and Hearing in newspapers of general circulation in the areas affected by the Application and to notify directly by U.S. Mail, or electronic mail for those customers who have agreed to receive notices via electronic mail, each customer affected by the Application by mailing each customer a copy of the Notice of Filing and Hearing. On December 17, 2018, the Company filed an Affidavit of Publication demonstrating that the Notice of Filing and Hearing had been duly published and a Certificate demonstrating that a copy of the Notice of Filing and Hearing had been mailed to each affected customer.

As reflected in the Notice of Filing and Hearing, the Company proposed new monthly sewer service rates of \$41.18 for residential customers, \$30.74 for mobile homes, and \$41.18 per single family equivalent ("SFE") as a minimum for commercial customers. By its Application, the rates sought by the Company would permit it the opportunity to earn \$615,797 in additional annual revenues. The Application also sought a modification of its rate schedule to include a provision authorizing the Company to impose a charge not to exceed \$250.00 upon customers found to have tampered with or damaged its facilities or equipment and to limit liability to customers for damages arising out of an interruption of service or a failure to provide service to remedies provided for under 10 S.C. Code Regs. 103-517 (2012).

No petition to intervene was filed in this case in response to the Notice of Filing and Hearing. Pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2018), the South Carolina Office of Regulatory Staff ("ORS") is a party of record in this proceeding.

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On April 2, 2019, PWR and ORS (the “Settling Parties”) filed a Settlement Agreement with the Commission. The Settling Parties represented to the Commission that they had negotiated a resolution to the issues presented in this case. ORS stated in the Settlement Agreement and at the scheduled hearing in this matter that the settlement serves the public interest. The Settlement Agreement states that the Settling Parties view the terms thereof to be just and reasonable. Among others, these terms provide for a monthly residential service rate of \$37.92, a monthly mobile home service rate of \$28.30, and a monthly commercial service rate of \$37.92 per SFE, with commercial customers having a minimum rating of one SFE, additional annual revenues of \$327,548, a return on rate base of 7.81% based upon a return on equity (“ROE” or “cost of equity”) of 9.93% and a capital structure of 55% equity and 45% debt, all of which result in an operating margin of 14.56%. Most prominent among the disputed issues between the parties that is resolved by the Settlement Agreement in this case is a resolution with respect to the effect the Federal Tax Cuts and Jobs Act of 2017 should have on the Company and its customers, which resolution provides for a reduction in the agreed monthly service rates described above for a period of three (3) years.<sup>1</sup> In addition, the Settlement Agreement allows the Company to recover not more than \$160,000 in rate case expenses amortized over two years, recognizes a post-test year reduction in the number of the Company’s equivalent residential customers, and adopts the modifications to the terms and conditions of service proposed by PWR.

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<sup>1</sup> For a period of thirty-six (36) months from and after the effective date of an order approving the parties’ settlement agreement, these monthly service rates (or any other rate approved by the Commission in the interim) will be reduced by \$0.34 per residential, mobile home, and commercial (per SFE) customer as a term of the Settlement Agreement. This reduction terminates with the Company’s first billing for the thirty-seventh (37<sup>th</sup>) month following the effective date of an order approving this settlement.

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**II. TESTIMONY RECEIVED FROM THE COMPANY,  
THE OFFICE OF REGULATORY STAFF, AND PUBLIC WITNESSES**

A public hearing was held in the offices of the Commission on April 8, 2019, beginning at 10:00 a.m., to receive testimony from the Settling Parties and any public witnesses. The Honorable Comer H. “Randy” Randall, Chairman of the Commission, presided. PWR was represented by John M.S. Hoefer, Esquire, and Benjamin P. Mustian, Esquire. ORS was represented by Andrew M. Bateman, Esquire, and Jenny R. Pittman, Esquire.

No public witness appeared to testify at any time during the hearing. At the beginning of the hearing, the Commission received and accepted into the record the Settlement Agreement<sup>2</sup> as Hearing Exhibit 1. Under the terms of the Settlement Agreement, the pre-filed direct testimonies (and, where applicable, exhibits) of PWR witnesses Bryan D. Stone, Chief Operating Officer of PWR, Mark S. Daday, President and Chief Financial Officer of PWR,<sup>3</sup> Andrena Powell-Baker, Senior Manager of Community Relations and Development for PWR, Donald J. Clayton, Principal in charge of Management Consulting at Tangibl Group, Inc., and Harold Walker, III, Manager for Financial Studies of Gannett Fleming Valuation and Rate Consultants, LLC, and the pre-filed rebuttal testimonies (and where applicable, exhibits) of Mr. Stone, Mr. Daday and Mr. Walker were stipulated into the record. Similarly, under the terms of the Settlement Agreement, the pre-filed direct and surrebuttal testimonies and exhibits of ORS witnesses

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<sup>2</sup> By consent, a typographical error in paragraph 2 on page 3 of the Settlement Agreement, as filed on April 2, 2019, was corrected and a corrected Settlement Agreement was submitted into evidence.

<sup>3</sup> By agreement of the parties, and with the approval of the Commission, Mr. Daday’s pre-filed direct and rebuttal testimonies and exhibits were adopted by Mr. Stone.

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Christina L. Seale, a Senior Auditor employed by ORS, Matthew P. Schellinger, II, a Regulatory Analyst employed by ORS, Anthony Sandonato, a Regulatory Analyst employed by ORS, and David C. Parcell, Principal and Senior Economist of Technical Associates, Inc. were also stipulated into the record.

Counsel for ORS, Mr. Bateman, made a statement at the beginning of the hearing in which he apprised the Commission that ORS sought approval of the Settlement Agreement, as amended, as being a fair resolution of the disputed issues in the case and that the terms and conditions thereof were in the public interest. Mr. Bateman informed the Commission that, as a result of its examination and inspections, ORS had determined that PWR was in compliance with all rules and regulations of the Commission, was not the subject of any environmental regulatory enforcement actions, was receptive of and responsive to customer concerns and needs, provided excellent customer and utility service, and, ORS believes it has been transparent in its dealings with both customers and ORS.

By agreement of the parties, and with the Commission's approval, Mr. Clayton, Mr. Walker, and Mr. Parcell were excused from attending the hearing and their verified testimonies were admitted into the record of evidence. Also, by agreement of the parties, and again with the approval of the Commission, the Company and ORS presented their witnesses in panels.

Company witnesses Stone and Powell-Baker were sworn in and gave their direct and rebuttal testimonies and their proposed exhibits were accepted into the record of evidence. Thereafter, these witnesses were examined by the Commission. ORS witnesses

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Seale, Sandonato, and Schellinger were then sworn in and gave their direct and surrebuttal testimonies and their exhibits were accepted into the record of evidence. Under examination by the Commission, the ORS witnesses supported the Settlement Agreement, which resolves the following disputed issues between the Settling Parties:

1. The parties disagreed on the effect of the Federal Tax Cuts and Jobs Act of 2017. Under the terms of the Settlement Agreement, the reduction in the Federal corporate income tax effective January 1, 2018, is recognized taking into account the Company's increases in expenses since that date and amortizing the amount of that effect over a three-year period (as described in n.1, above).
2. The parties disagreed regarding the Company's capital structure. Under the terms of the Settlement Agreement, the parties adopted a hypothetical capital structure of 55% equity and 45% debt instead of the Company's actual capital structure as of August 31, 2018 of approximately 59.72% equity and 40.28% debt.
3. The parties disagreed regarding the Company's weighted average cost of debt. Under the terms of the Settlement Agreement, the weighted average cost of debt of 5.23% is adopted.
4. The parties disagreed regarding an appropriate ROE for PWR. The Company proposed a 10.75% ROE while ORS proposed a ROE of 9.6% based upon a

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range of between 9.2% and 10.00%. The Settlement Agreement adopts a ROE of 9.93%.

5. The parties disagreed regarding allowable rate case expenses. The Company sought to include approximately \$14,580 in rate case expense associated with work performed by its outside rate consultant that involved a test year ending May 30, 2018. ORS proposed to exclude that amount because the test year proposed in the Application ends August 31, 2018. The Settlement Agreement adopts total rate case expenses of \$160,000, amortized over two years.
6. The parties disagreed regarding the Company's applicable number of equivalent residential connections ("ERCs"). The Company sought to reflect for ratemaking purposes a post test-year reduction of 54 ERCs. The Settlement Agreement adopts the Company's proposal.<sup>4</sup>

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<sup>4</sup> At the hearing, the Parties were unable to accurately explain a discrepancy between the number of customer accounts in the Company's Application and the number in ORS witness Anthony Sandonato's testimony. ORS filed a letter with this Commission on April 19, 2019 updating ORS's position to the number included in PWR's Application of 1,699 customer accounts.

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### III. FINDINGS OF FACT

Based upon the Application, the Settlement Agreement, the testimony and exhibits received into evidence at the hearing, and the entire record of these proceedings, the Commission makes the following findings of fact:

1. By statute, the Commission is vested with jurisdiction to supervise and regulate the rates and service of every public utility in this State, together with the duty, after hearing, to ascertain and fix such just and reasonable standards, classifications, regulations, practices and measurements of service to be furnished, imposed, observed and followed by every public utility in this State. S.C. Code Ann. § 58-5-210 (2015). The Company is engaged in the business of providing wastewater collection and treatment services to the public for compensation in portions of Lexington and Richland counties and is therefore a public utility subject to the Commission's jurisdiction.

2. The Company is lawfully before the Commission on an application for rate relief and modifications to certain terms and conditions of service pursuant to S.C. Code Ann. § 58-5-240 (A) (2015) and S.C. Code Ann. Regs. 103-503 and 103-512.4.A (2012).

3. The test year for use in this proceeding is September 1, 2017 to August 31, 2018.

4. The Commission will use rate of return on rate base as a guide in determining the lawfulness of the Company's rates and in the fixing of just and reasonable rates.



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5. The determination of return on rate base requires three components. These are the Company's capital structure, cost of equity, and the cost of debt.

6. In the return on rate base determination, it is appropriate to use a capital structure of 55% equity and 45% debt for PWR.

7. A fair return on equity for PWR is 9.93%.

8. Using the capital structure of 55% equity and 45% debt, the cost of debt of PWR of 5.23%, and a return on equity of 9.93% produces a rate of return on rate base of 7.81%.

9. The Company, by its Application originally sought an increase in its annual sewer service revenues of \$615,797 based upon a proposed monthly sewer service charge of \$41.18 for residential customers, \$41.18 per single family equivalent (as a minimum) for commercial customers, and \$30.74 for mobile homes.

10. The Company submitted evidence in this case with respect to PWR's revenues, expenses and rate base using a test year consisting of the twelve (12) months ended August 31, 2018. ORS proposed adjustments to the test year revenues, expenses, and rate base submitted by PWR. The Company accepted most of the ORS adjustments, with the disputed adjustments being those described above. The Settlement Agreement is based upon the same test year and reflects the compromises of the only parties of record with respect to these disputed adjustments.

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11. The Settlement Agreement reached by the Settling Parties, which resolves the issues in this proceeding, was filed by ORS on April 2, 2019.<sup>5</sup>

12. Under the terms of the Settlement Agreement, all Parties stipulated and agreed to a rate of \$37.92 per month for residential customers, a minimum commercial rate of \$37.92 per month for each SFE, and a mobile home rate of \$28.30 for mobile homes. These monthly rates, and any different rate which may hereafter be approved by the Commission following a successful rate relief application should one be sought by the Company, will be subject to a reduction \$0.34 cents for a period of thirty-six months following the effective date of this Order. Thus, based on the rates approved hereby, residential customers will pay \$37.58 per month, commercial customers will pay \$37.58 per month per SFE, and mobile home customers will pay \$27.96 during this three-year period, assuming the Company's rates are not approved to be increased by the Commission during this three-year period. Thereafter, no reduction in the Company's rates shall apply.

13. The Settlement Agreement provides for an increase in revenue, after accounting and pro forma adjustments, of \$327,548, based upon a proposed monthly sewer service charge of \$37.92 for residential customers, \$28.30 for mobile home customers, and \$37.92 per single family equivalent (as a minimum) for commercial customers. The return on rate base provided for is 7.81% based upon a return on equity of 9.93% and a capital

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<sup>5</sup> Appended to the Settlement Agreement are "Settlement Attachment A", which details the accounting adjustments, operating experience, revenues, return on rate base, and resulting operating margin and "Settlement Attachment B" setting forth the proposed rate schedule.

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structure of 55% equity and 45% debt. This results in an operating margin of 14.56%. See S.C. Code Ann. § 58-5-240(H) (2015).

14. After careful review and consideration by this Commission of the Settlement Agreement, the evidence contained in the record of this case, including the testimonies of the witnesses and hearing exhibits, the Commission finds and concludes that the Settlement Agreement results in just and reasonable rates and charges for the provision of sewer services. The Commission finds that PWR has invested approximately \$6.8 Million in plant, equipment and facilities, since the Company's last rate relief proceeding. The rate schedule agreed to by the Parties in the Settlement Agreement is hereby adopted and attached to this Order as part of Order Exhibit 1. The rates and charges in the rate schedule are just and reasonable, fairly distribute the costs of providing service as reflected in the Company's revenue requirement, and allow PWR to continue to provide its customers with adequate sewer service. Further, the agreed upon rates allow the Company an opportunity to earn a reasonable return on its investment. We find that the rate schedule agreed to by the Settling Parties provides terms and conditions for sewer service that are also just and reasonable. The Commission finds that the proposed modifications and additions to the terms and conditions of the Company's sewer service, specifically the language imposing a tampering charge and providing for a limitation of liability, are appropriate, just and reasonable and are therefore approved.

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#### IV. EVIDENCE AND CONCLUSIONS

##### **EVIDENCE FOR FINDINGS OF FACT AND CONCLUSIONS OF LAW 1-**

**3**

The Company is a public utility subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §§ 58-3-140(A) (2015) and 58-5-210 (2015). The Commission requires the use of an historic twelve-month test period under S.C. Code Ann. Regs. 103-823.A(3) and 103-512.4(A)(2012). These findings of fact and conclusions of law are informational, procedural and jurisdictional in nature and are not contested by any party of record in this proceeding.

##### **EVIDENCE FOR FINDINGS OF FACT AND CONCLUSIONS OF LAW 4-**

**15**

The Commission last approved an increase in rates for PWR's customers in Order No. 2014-752 issued September 18, 2014, in Docket No. 2014-69-S. On November 6, 2018, PWR filed its application seeking an increase in annual revenues of \$615,797. The Company and ORS submitted evidence in this case with respect to revenues and expenses using a test year for the twelve months ending August 31, 2018. The Settlement Agreement filed by the Settling Parties on April 2, 2019, is based upon the test year ending August 31, 2018, as proposed in the application and provides for an increase in annual service revenues of \$327,548, resulting in an operating margin of 14.56% based upon the Company's revenues and allowable expenses.

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**a) Basis for Rate Relief**

In his pre-filed direct testimony, Company witness Clayton testified that the Company had experienced an increase in operating expenses of \$64,000 since the last rate increase for the Company and noted a significant increase in other expenses, primarily property taxes associated with capital improvements. (Clayton Direct, p. 6, ll. 5-12). Company witness Daday testified that total investments by PWR since its last rate relief proceeding were approximately \$6.8 Million, resulting in an annual increase in property taxes of approximately \$376,000. (Daday Direct, p. 8, ll. 5-10). Although, as a result of the Settlement Agreement the increase in allowable expenses is less than initially asserted by the Company, PWR's expenses have increased significantly and the Company is experiencing an operating margin of 8.33% (which is slightly more than half of the operating margin previously approved for it by this Commission) and a return on rate base of only 5.20% based upon the agreed upon adjustments set forth in Settlement Attachment A without rate relief.

**b) Rate-setting Methodology**

The Company requested rate base and rate of return treatment for its Application App. p. 10 ¶ 13. ORS did not oppose the Company's request in this regard. The ratemaking methodology to be used by the Commission in setting just and reasonable rates is a matter of our discretion and we have "wide latitude to determine an appropriate rate-setting methodology. *Heater of Seabrook v. Public Serv. Comm'n of South Carolina*, 324 S.C. 56, 64, 478 S.E.2d 826, 830 (1996). Although S.C. Code Ann. § 58-5-240(H) (2015) directs the Commission to specify an allowable operating margin in all water and

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wastewater orders, “that directive does not mean that operating margin must be used in determining a fair rate of return.” *Id.* Operating margin “is less appropriate for utilities that have large rate bases and need to earn a rate of return sufficient to obtain the necessary equity and debt capital that a larger utility needs for sound operation.” *Id.* According to the Application, PWR’s per books total rate base was \$9,945,657. *See* Application Exhibit B, Schedule F. Even after the agreed upon adjustments set out in Attachment A to the Settlement Agreement, the Company’s rate base is \$9,780,768. This is a large rate base and the Commission finds that it warrants use of the rate of return on rate base to ensure that PWR’s ability to earn a fair and reasonable return on its investment may be met.

**c) Approved Rates, Return on Equity, and Resulting Operating Margin**

The parties of record have stipulated in the Settlement Agreement that the rates, terms, and conditions of service are just and reasonable. The agreed upon return on equity, although lower than that sought by PWR, is within a range of returns testified to by ORS’s cost of capital witness. The parties of record have accepted all ORS adjustments except those which were disputed by PWR but have been resolved under the terms of the Settlement Agreement as described above. The rates agreed to in the Settlement Agreement generate a return on rate base of 7.81% and result in an operating margin of 14.56% as shown in Attachment A thereto.

**d) Additions to and Changes in the Terms and Conditions of Service**

The Settling Parties proposed in Attachment B to the Settlement Agreement modifications to the language of the current rate schedule to add (1) a new Section 12

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providing for a tampering charge of up to \$250 and (2) a new Section 13 limiting the Company's liability in circumstances where service is interrupted or there is a failure to furnish service to remedies provided for in the Commission's rules and regulations. As noted in the Company's Application, these provisions have been approved by the Commission for other jurisdictional sewer utilities. In the direct testimony of ORS witness Sandonato, ORS accepted and recommended that the Commission approve these proposed modifications and the Settlement Agreement simply recognizes this acceptance. Thus, these modifications are appropriate for incorporation into the Company's rate schedule.

NOW, THEREFORE, IT IS HEREBY ORDERED THAT:

1. The Settlement Agreement with accompanying attachments is attached hereto as Order Exhibit 1 and is incorporated into and made a part of this Order by reference.

2. The Settlement Agreement is adopted by this Commission and is approved as it produces rates that are just and reasonable and in the public interest as well as authorizing a reasonable return on equity for the Company.

3. The rates imposed shall be those rates agreed upon in the Settlement Agreement as shown in Settlement Agreement Attachment B and shall be effective for service rendered by the Company on and after the date of this order.

4. The additional revenues that the Company is entitled an opportunity to earn results in an operating margin of 14.56 %.

5. The Company's books and records shall continue to be maintained according to the NARUC Uniform System of Accounts.

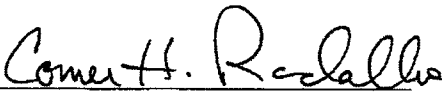
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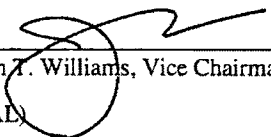
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6. The Company shall maintain a performance bond for sewer operations in the amount of \$350,000 in compliance with S.C. Code Ann. § 58-5-720 (2015).

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Comer H. Randall, Chairman

  
Justin T. Williams, Vice Chairman  
(SEAL)



**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2018-82-S**

IN RE:    Application of Palmetto Wastewater            )  
          Reclamation, LLC for Adjustment of Rates        )    **SETTLEMENT**  
          and Charges for, and the Modification of        )    **AGREEMENT**  
          Certain Terms and Conditions Related to,        )  
          the Provision of Sewer Service                    )

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This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff (“ORS”) and Palmetto Wastewater Reclamation, LLC (“PWR” or the “Company”) (collectively referred to as the “Parties” or sometimes individually as “Party”).

WHEREAS, On November 6, 2018, the Company filed an Application for Adjustment in Rates and Charges (the “Application”) with the Public Service Commission of South Carolina (“Commission”);

WHEREAS, the above-captioned proceeding has been established by the Commission pursuant to the procedure established in S.C. Code Ann. § 58-5-240 (2015) and 10 S.C. Code Regs. 103-512.4.A and 103-503 (2012), and the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (Supp. 2018);

WHEREAS, the Company provides wastewater collection and treatment services to 1,699 residential, mobile home, commercial and multi-family customers totaling approximately 7,934 total equivalent residential connections in Lexington and Richland Counties, South Carolina;

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*[Handwritten signature]*  
4-19-19

WHEREAS, ORS examined the books and records of the Company relative to the issues raised in the Application and conducted financial, business, and site inspections of PWR;

WHEREAS, ORS also examined all accounting and pro forma adjustments proposed by the Company, the Company's cost of service study and rate design, the Company's capital structure and cost of capital, and information related to the Company's operations;

WHEREAS, the Parties have varying positions regarding the issues in this case;

WHEREAS, the Parties engaged in discussions to determine if a settlement of some or all of the issues would be in their best interests and, in the case of ORS, in the public interest; and,

WHEREAS, following those discussions, the Parties determined that their interests, and ORS determined that the public interest, would be best served by entering into the following agreement resolving all issues pending in the above-captioned case under the terms and conditions set forth herein;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order addressing the merits of this proceeding, will result in rates and charges for wastewater service which are adequate, just, reasonable, nondiscriminatory, and which will allow the Company the opportunity to earn a reasonable return.

**A. STIPULATION OF AGREEMENT, TESTIMONY AND WAIVER OF CROSS-EXAMINATION**

1. The Parties agree to stipulate into the record before the Commission the pre-filed testimony and exhibits (collectively, the "Stipulated Testimony") of the following witnesses without objection, change, amendment or cross-examination with the exception of changes comparable to those that would be presented via an errata sheet or through a witness noting a correction consistent with this Settlement Agreement. The Parties also reserve the right to engage

in redirect examination of witnesses as necessary to respond to issues raised by the examination of their witnesses by the Commission or by testimony by non-Parties.

PWR witnesses:

1. Andrena Power-Baker
2. Bryan D. Stone
3. Donald J. Clayton
4. Harold Walker, III
5. Mark S. Daday

ORS witnesses:

1. Christina L. Seale
2. David C. Parcell
3. Anthony Sandonato
4. Matthew P. Schellinger, II

The Parties further agree to present their witnesses to the Commission in support of this Settlement Agreement in panels if acceptable to the Commission.

2. The Parties agree to offer no other evidence in the proceeding other than the stipulated testimony and exhibits and this Settlement Agreement unless the additional evidence is to support the Settlement Agreement, consists of changes comparable to that which would be presented via an errata sheet or through a witness noting a correction or clarification, consists of a witness adopting the testimony of another if permitted by the Commission, or is responsive to issues raised by examination of the Parties' witnesses by Commissioners, or by testimony by non-parties. The Parties agree that, provided the Commission approves, Company witness Stone may adopt the testimony of Company witness Daday. The Parties agree that, unless required by the Commission, Company witnesses Clayton and Walker and ORS witness Parcell shall not be required to be present for the hearing in this matter. The Parties agree that nothing herein will preclude each party from advancing its respective positions in the event that the Commission does not approve the Settlement Agreement.

## **B. SETTLEMENT AGREEMENT TERMS**

3. As a compromise to positions advanced by the Parties, the Parties agree to the proposal set out immediately below, and this proposal is hereby adopted, accepted, and acknowledged as the Settlement Agreement by the Parties.

4. Without prejudice to the position of any Party in future proceedings (except as provided in paragraph 14 below), the Parties agree to accept all recommendations and adjustments in the testimony and exhibits of ORS witnesses unless changed by this Settlement Agreement.

### **Return on Common Equity, Revenue, Cost of Debt and Capital Structure**

5. For purposes of this Settlement Agreement and in recognition of the mutual compromises contained herein, the Parties further agree that the Application, Stipulated Testimony, and this Settlement Agreement conclusively demonstrate the following: (i) the proposed accounting and pro forma adjustments appended to the Settlement Agreement as Attachment A are fair and reasonable and should be adopted by the Commission for ratemaking and reporting purposes; (ii) base rates generating a revenue increase of \$327,548 on an adjusted test-year basis are lawful, just, and reasonable when considered as a part of this Settlement Agreement in its entirety; (iii) rates in this proceeding shall be established based on a 9.93% return on common equity ("ROE") and a capital structure that includes 45% debt and 55% equity;<sup>1</sup> (iv) the Company's cost of debt is 5.23% (v) the Company's services are adequate and are being provided in accordance with the requirements set out in the Commission's rules and regulations pertaining to the provision of wastewater service; and, (vi) the Company's rates resulting from the Settlement Agreement are just and reasonable, and should be adopted by the Commission for service rendered by the Company.

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<sup>1</sup> ORS's recommended ROE range was 9.2% to 10.0% with a midpoint of 9.60%. Absent a settlement agreement, ORS would not support an ROE as high as 9.93%.

6. Through the testimony of its cost of capital witness, the Company sought approval of an ROE of 10.75% and its Application requested a revenue increase of \$615,797. This Settlement Agreement provides for an ROE of 9.93% and a revenue increase of \$327,548.

7. The Parties agree to accept, for purposes of this Settlement Agreement, all proposals and recommendations put forth in the Settlement Agreement and Attachments A and B.

8. The Parties agree that the \$327,548 revenue increase, as shown in Attachment A to this Settlement Agreement, is appropriate, just and reasonable. Attachment B sets forth the proposed rate increases by rate schedule.

### **C. OTHER TERMS**

9. The Tax Cuts and Jobs Act was enacted in December 2017 which changed the federal income tax rate from 34% to 21%. ORS has asserted that this act created benefits to customers that began accruing as of January 1, 2018, and as a result the Company has received excess revenues totaling \$97,771. The Company has agreed, solely for purposes of this settlement, to recognize the effect of this change by an adjustment to its pro forma net income for the period from and after January 1, 2018. In calculating the amount of this adjustment, the Parties will use the ORS audited financial information based on the twelve months beginning September 1, 2017 and ending August 31, 2018 ("Test Year"), which is the Test Year proposed by the Company in its Application. This adjustment will be implemented via a temporary reduction in the Company's monthly service charges reflected in Attachment B hereto in the amount of \$0.34 for residential, mobile home and commercial customers (per single family equivalent), same to be reflected on customer bills as a separate line item reduction for a three (3) year period beginning with the first monthly bill issued after approval of this Settlement Agreement. Thereafter, no such reduction is

required and Company shall be entitled to bill all customers at the full rate approved by the Commission.

10. The rate case expenses in this proceeding are agreed to be \$160,000 and shall be amortized over two years.

**D. REMAINING SETTLEMENT AGREEMENT TERMS AND CONDITIONS**

11. ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (Supp. 2018). S.C. Code § 58-4-10(B) reads in part as follows:

For purposes of this chapter, "public interest" means the concerns of the using and consuming public with respect to public utility services, regardless of the class of customer and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

12. The Parties agree that this Settlement Agreement is reasonable, is in the public interest, and is in accordance with law and regulatory policy. This Settlement Agreement in no way constitutes a waiver or acceptance of the position of any Settling Party in any future proceeding. This Settlement Agreement does not establish any precedent with respect to the issues resolved herein and in no way precludes any Party herein from advocating an alternative position in any future or concurrent proceeding.

13. The Parties agree to cooperate in good faith with one another in recommending and advocating to the Commission that this Settlement Agreement be accepted and approved by the Commission in its entirety as a fair and reasonable resolution of certain issues currently pending in the above-captioned proceeding and detailed here-in, and to take no action inconsistent with its adoption by the Commission. The Parties agree to use their best efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

14. The Parties agree that signing this Settlement Agreement (a) will not constrain, inhibit, impair, or prejudice their arguments or positions held in future or collateral proceedings; (b) will not constitute a precedent or evidence of acceptable practice in future proceedings; and (c) will not limit the relief, rates, recovery, or rates of return that any Party may seek or advocate in any future proceeding. Notwithstanding the foregoing, the Parties agree that this Settlement Agreement resolves all issues pending between them in Docket No. 2017-381-A. The Parties agree that this Settlement Agreement is in public interest when considered as a whole. If the Commission declines to approve this Settlement Agreement in its entirety, then any Party may withdraw from the Settlement Agreement without penalty or obligation.

15. This Settlement Agreement shall be interpreted according to South Carolina law.

16. The Parties represent that the terms of this Settlement Agreement are based upon full and accurate information known as of the date this Settlement Agreement is executed. If, after execution, either Party is made aware of information that conflicts, nullifies, or is otherwise materially different than that information upon which this Settlement Agreement is based, either Party may withdraw from the Settlement Agreement with written notice to the other Party.

17. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement, by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

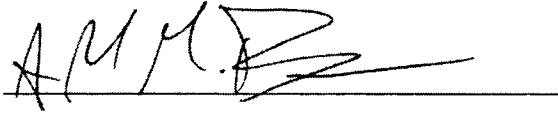


**[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]**





**Representing the South Carolina Office of Regulatory Staff**

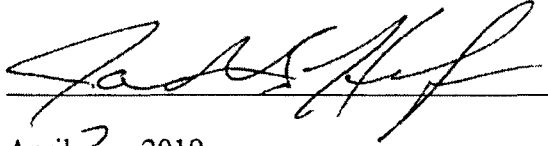


April 2, 2019

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**Representing Palmetto Wastewater Reclamation, LLC**



April 2, 2019

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**Palmetto Wastewater Reclamation, LLC**  
**Docket No. 2018-82-S**  
**Operating Experience, Rate Base and Rate of Return Reflecting ORS's Proposed Increase**  
**For the Test Year Ended August 31, 2018**

<u>Description</u>	(1) <u>Per Application</u> \$	(2) <u>Accounting &amp; Pro Forma Adjustments</u> \$	(3) <u>After Accounting &amp; Pro Forma Adjustments</u> \$	(4) <u>ORS's Proposed Increase</u> \$	(5) <u>After Proposed Increase</u> \$
<b><u>Utility Operating Revenues:</u></b>					
Operating Revenues	3,257,650	81,454 (1)	3,339,104	327,548 (16)	3,666,652
<b>Total Utility Operating Revenues</b>	<b>3,257,650</b>	<b>81,454</b>	<b>3,339,104</b>	<b>327,548</b>	<b>3,666,652</b>
<b><u>Utility Operating Expenses:</u></b>					
Operating Expenses	946,889	569,952 (2)	1,516,841	3,275 (17)	1,520,116
Depreciation and Amortization	521,507	54,669 (3)	576,176	0	576,176
Taxes Other Than Income Taxes	580,530	64,739 (4)	645,269	1,545 (18)	646,814
Income Taxes	53,887	38,584 (5)	92,471	80,521 (19)	172,992
<b>Total Utility Operating Expenses</b>	<b>2,102,813</b>	<b>727,944</b>	<b>2,830,757</b>	<b>85,341</b>	<b>2,916,098</b>
<b><u>Net Utility Operating Income (Loss)</u></b>	<b>1,154,837</b>	<b>(646,490)</b>	<b>508,347</b>	<b>242,207</b>	<b>750,554</b>
Add: Other Income - AFUDC	16,578	(16,578) (6)	0	0	0
Less: Amortization of Debt Expense	35,437	(35,437) (7)	0	0	0
Add: Amortization of EDIT	0	0	0	13,662 (20)	13,662
<b><u>Net Income (Loss) for Return</u></b>	<b>1,135,978</b>	<b>(627,631)</b>	<b>508,347</b>	<b>255,869</b>	<b>764,216</b>
<b><u>Original Cost Rate Base:</u></b>					
Plant in Service	14,464,745	599,616 (8)	15,064,361	0	15,064,361
Accumulated Depreciation	(3,607,582)	(209,644) (9)	(3,817,226)	0	(3,817,226)
Contributions in Aid of Construction (CIAC)	(692,107)	(4,251) (10)	(696,358)	0	(696,358)
Accumulated Amortization of CIAC	403,288	4,421 (11)	407,709	0	407,709
Net Plant	10,568,344	390,142	10,958,486	0	10,958,486
Accumulated Deferred Income Taxes	(974,895)	(1,564) (12)	(976,459)	0	(976,459)
Excess Deferred Income Taxes (EDIT)	0	(456,531) (13)	(456,531)	0	(456,531)
Materials and Supplies	8,138	0	8,138	0	8,138
Prepayments	57,529	0	57,529	0	57,529
Cash Working Capital	286,541	(96,936) (14)	189,605	0	189,605
<b>Total Rate Base</b>	<b>9,945,657</b>	<b>(164,889)</b>	<b>9,780,768</b>	<b>0</b>	<b>9,780,768</b>
<b><u>Return on Rate Base</u></b>	<b>11.42%</b>		<b>5.20%</b>		<b>7.81%</b>
<b><u>Operating Margin</u></b>	<b>6.62%</b>		<b>8.33%</b>		<b>14.56%</b>
<b><u>Interest Expense</u></b>	<b>920,369</b>	<b>(690,179) (15)</b>	<b>230,190</b>	<b>0</b>	<b>230,190</b>

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**Palmetto Wastewater Reclamation, LLC**  
**Docket No. 2018-82-S**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended August 31, 2018**

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
<b><u>Accounting and Pro forma Adjustments</u></b>				
<b>(1) <u>Operating Revenues</u></b>				
(1A)	(1)	To adjust residential revenues to reflect the most recent equivalent residential connections as calculated by the ORS Utility Rates Department.	\$ (26,407)	\$ (1,153)
(1B)	(2)	To adjust residential-mobile home park revenues to reflect the most recent equivalent residential connections as calculated by the ORS Utility Rates Department.	15,759	15,759
(1C)	(1), (2)	To adjust commercial revenues to reflect the most recent equivalent residential connections as calculated by the ORS Utility Rates Department.	(26,511)	(28,175)
(1D)	(1), (2), & (3)	To adjust multiple family dwelling revenues to reflect the most recent equivalent residential connections as calculated by the ORS Utility Rates Department.	113,244	(9,300)
(1E)		To reflect adjustments to other revenues at the end of the test year. This adjustment was provided by the ORS Utility Rates Department.	5,369	0
(1)		<b><u>Total Operating Revenues</u></b>	<b>\$ <u>81,454</u></b>	<b>\$ <u>(22,869)</u></b>
<b>(2) <u>Operating Expenses</u></b>				
(2A)	(4)	To include legal and accounting costs in test year expenses.	\$ 7,275	\$ 7,275
(2B)	(5)	To annualize management fees for the ESG Operations Contract.	11,428	8,814
(2C)	(6)	To include cost related to software and support for camera truck.	725	938
(2D)	(7)	To annualize insurance for the test year.	(7,455)	762
(2E)	(8)	To amortize current rate case expenses over three years.	80,000	66,575
(2F)	(9)	To reflect bad debt expense at 1% of total revenue at present rates.	(48,485)	(49,528)

Palmetto Wastewater Reclamation, LLC  
Docket No. 2018-82-S  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended August 31, 2018

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(2G)	(10)	To allocate allowable Ni America overhead costs to PWR.	544,402	549,703
(2H)		To remove expenses incurred outside of the test year.	(15,871)	0
(2I)		To remove nonallowable expenditures.	(2,067)	0
(2)		<b><u>Total Operating Expenses</u></b>	<b>\$ <u>569,952</u></b>	<b>\$ <u>584,539</u></b>
(3)		<b><u>Depreciation and Amortization</u></b>		
(3A)	(11)	To adjust depreciation expense to reflect new capital expenditures and other adjustments to plant in service.	\$ 58,067	\$ 55,186
(3B)	(12)	To adjust amortization of contributions in aid of construction.	(3,398)	(9,097)
(3)		<b><u>Total Depreciation and Amortization</u></b>	<b>\$ <u>54,669</u></b>	<b>\$ <u>46,089</u></b>
(4)		<b><u>Taxes Other Than Income Taxes</u></b>		
(4A)	(13)	To adjust utility regulatory assessment fees after the accounting and pro forma adjustments using a rate of 0.471772446%.	\$ (17,605)	\$ (18,190)
(4B)	(14)	To adjust property taxes to reflect new capital expenditures and adjusted net plant in service.	82,344	83,572
(4)		<b><u>Total Taxes Other Than Income Taxes</u></b>	<b>\$ <u>64,739</u></b>	<b>\$ <u>65,382</u></b>
(5)		<b><u>Income Taxes</u></b>		
(5A)	-	To adjust state income taxes on pro forma income at 5%.	\$ 12,198	\$ 677
(5B)	-	To adjust federal income taxes on pro forma income at 21%.	26,386	2,702
(5)		<b><u>Total Income Taxes</u></b>	<b>\$ <u>38,584</u></b>	<b>\$ <u>3,379</u></b>
(6)	(15)	<b><u>Other Income - AFUDC</u></b> To remove AFUDC from test year income.	<b>\$ <u>(16,578)</u></b>	<b>\$ <u>(16,578)</u></b>

**Palmetto Wastewater Reclamation, LLC**  
**Docket No. 2018-82-S**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended August 31, 2018**

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(7)	(16)	<b><u>Amortization of Debt Expense</u></b> To remove the amortization of debt expense. Debt expense is included in the calculation of the weighted average cost of debt for the calculation of interest expense.	\$ <u>(35,437)</u>	\$ <u>(35,437)</u>
(8)	-	<b><u>Plant in Service</u></b> To adjust gross plant in service as of 1/31/19. See Audit Exhibit CLS-3.	\$ <u>599,616</u>	\$ <u>594,730</u>
(9)	-	<b><u>Accumulated Depreciation</u></b> To adjust accumulated depreciation as of 1/31/19. See Audit Exhibit CLS-3.	\$ <u>(209,644)</u>	\$ <u>0</u>
(10)	-	<b><u>Contributions in Aid of Construction (CIAC)</u></b> To adjust contributions in aid of construction as of 1/31/19. See Audit Exhibit CLS-3.	\$ <u>(4,251)</u>	\$ <u>0</u>
(11)	-	<b><u>Accumulated Amortization of CIAC</u></b> To adjust the accumulated amortization of contributions in aid of construction as of 1/31/19. See Audit Exhibit CLS-3.	\$ <u>4,421</u>	\$ <u>0</u>
(12)	-	<b><u>Accumulated Deferred Income Taxes</u></b> To adjust accumulated deferred income taxes.	\$ <u>(1,564)</u>	\$ <u>(1,564)</u>
(13)	-	<b><u>Excess Deferred Income Taxes (EDIT)</u></b> To adjust rate base for the creation of an excess tax collection liability resulting from lower federal tax rates as calculated by the ORS Utility Rates Department.	\$ <u>(456,531)</u>	\$ <u>0</u>
(14)	-	<b><u>Cash Working Capital</u></b> To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit CLS-5.	\$ <u>(96,936)</u>	\$ <u>57,887</u>

**Palmetto Wastewater Reclamation, LLC**  
**Docket No. 2018-82-S**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended August 31, 2018**

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(15)	(16)	<b><u>Interest Expense</u></b> To synchronize interest expense with the portion of rate base financed by debt.	\$ <u>(690,179)</u>	\$ <u>(696,982)</u>
 <b><u>ORS's Proposed Increase</u></b>				
(16)		<b><u>Operating Revenues</u></b>		
(16A)	(17)	To adjust residential revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	\$ 52,039	\$ 106,533
(16B)	(17)	To adjust residential-mobile home park revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	1,561	3,054
(16C)	(17)	To adjust commercial revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	80,357	156,633
(16D)	(17)	To adjust multiple family dwelling revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	191,123	349,578
(16E)	-	To adjust other revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	2,468	0
(16)		<b><u>Total Operating Revenues</u></b>	\$ <u>327,548</u>	\$ <u>615,798</u>
 <b><u>Operating Expenses</u></b>				
(17)	(18)	To adjust bad debt expense at 1% of the total proposed increase to revenues at proposed rates.	\$ <u>3,275</u>	\$ <u>6,158</u>
(18)	(19)	<b><u>Taxes Other Than Income Taxes</u></b> To adjust utility regulatory assessment fees after the proposed increase adjustments using a rate of 0.471772446%.	\$ <u>1,545</u>	\$ <u>2,905</u>

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**Palmetto Wastewater Reclamation, LLC**  
**Docket No. 2018-82-S**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended August 31, 2018**

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(19)		<u>Income Taxes</u>		
(19A)	(21)	To adjust state income taxes on the proposed increase income at 5%.	\$ 16,137	\$ 30,337
(19B)	(20)	To adjust federal income taxes on the proposed increase income at 21%.	64,384	121,043
(19)		<u>Total Income Taxes</u>	<u>\$ 80,521</u>	<u>\$ 151,380</u>
(20)		<u>Amortization of EDIT</u>		
		To increase income by the annual amortization of excess deferred income taxes due to the Tax Cuts and Jobs Act. This adjustment was provided by the ORS Utility Rates Department.	\$ 13,662	\$ 0

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Palmetto Wastewater Reclamation, LLC  
Docket No. 2018-82-S  
Weighted Cost of Capital  
For the Test Year Ended August 31, 2018

Description	Application Per Books			After Accounting and Pro forma Adjustments				After ORS's Proposed Increase						
	Capital Structure	Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *
Long-Term Debt	\$ 15,982,546	45.00%	\$ 4,475,546	5.23%	2.35%	\$ 234,071	\$ 4,401,346	5.23%	2.35%	\$ 230,190	\$ 4,401,346	5.23%	2.35%	\$ 230,190
Members' Equity	19,534,223	55.00%	5,470,111	16.49%	9.07%	901,907	5,379,422	5.17%	2.85%	278,157	5,379,422	9.93%	5.46%	534,026
Totals	\$ 35,516,769	100.00%	\$ 9,945,657		11.42%	\$ 1,135,978	\$ 9,780,768		5.20%	\$ 508,347	\$ 9,780,768		7.81%	\$ 764,216

DOCKET NO. 2018-82-S

ATTACHMENT B

PALMETTO WASTEWATER RECLAMATION LLC  
1713 WOODCREEK FARMS ROAD  
ELGIN, SC 29045  
(803) 699-2422

**PROPOSED SETTLEMENT SEWER RATE SCHEDULE**  
**EFFECTIVE     , 2019**

1. **MONTHLY CHARGE**

- a. Residential - Monthly charge per single-family house, condominium, villa or apartment unit \$37.92
- b. Mobile Homes \$28.30
- c. Commercial - Monthly charge per single-family equivalent \$37.92
- d. The charges listed above are minimum charges and shall apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the monthly charges may be calculated by multiplying the equivalency rating by the monthly charge of \$37.92.
- e. Bills issued for monthly sewer service provided during the thirty-six (36) month period beginning from and after the effective date of this rate schedule shall be reduced thirty-four (\$0.34) cents for residential customers and mobile home customers and thirty-four (\$0.34) cents per single family equivalent for commercial customers. Bills issued for service provided from and after that thirty-six (36) month period will be at the full rates shown above unless a different rate is approved by the Public Service Commission after the effective date of this rate schedule.

Commercial customers are those not included in the residential and mobile home categories above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc. Minimum commercial customer equivalency ratings may exceed one (1) in some cases.

The Utility may, for the convenience of the owner, bill a tenant in a multi-unit building consisting of four or more residential units which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before

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service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

2. **NONRECURRING CHARGES**

- a. Sewer service connection charge per single-family equivalent \$250.00
  
- b. The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

3. **NOTIFICATION, ACCOUNT SET-UP AND RECONNECTION CHARGES**

- a. Notification Fee: A fee of \$25.00 shall be charged each customer to whom the Utility mails the notice as required by Commission Regulation 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating that cost.
  
- b. Customer Account Charge: A fee of \$20.00 shall be charged as a one-time fee to defray the costs of initiating service.
  
- c. Reconnection charges: In addition to any other charges that may be due, a reconnection fee of \$250.00 shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Regulation 103-532.4. Where an elder valve has been previously installed, a reconnection charge of thirty-five dollars (\$35.00) shall be due. The amount of the reconnection fee shall be in accordance with Commission Regulation 103-532.4 and shall be changed to conform with said rule as the rule is amended from time to time.

4. **BILLING CYCLE**

Recurring charges will be billed monthly. Nonrecurring charges will be billed and collected in advance of service being provided.

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5. **LATE PAYMENT CHARGES**

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half (1½%) percent.

6. **TOXIC AND PRETREATMENT EFFLUENT GUIDELINES**

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Health and Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR §§ 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR §§ 403.5 and 403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

7. **REQUIREMENTS AND CHARGES PERTAINING TO SATELLITE SYSTEMS**

- a. Where there is connected to the Utility's system a satellite system, as defined in S.C. Code Regs. 61-9.505.8 or other pertinent law, rule or regulation, the owner or operator of such satellite system shall operate and maintain same in accordance with all applicable laws, rules or regulations.
- b. The owner or operator of a satellite system shall construct, maintain, and operate such satellite system in a manner that the prohibited or untreated materials referred to in Section 6 of this rate schedule (including but not limited to Fats, Oils, Sand or Grease), stormwater, and groundwater are not introduced into the Utility's system.
- c. The owner or operator of a satellite system shall provide Utility with access to such satellite system and the property upon which it is situated in accordance with the requirements of Commission Regulation 103-537.
- d. The owner or operator of a satellite system shall not less than annually inspect such satellite system and make such repairs, replacements, modifications, cleanings, or other undertakings necessary to meet the requirements of this Section 7 of the rate schedule. Such inspection shall be documented by written reports and video recordings of television inspections of lines and a copy of the inspection report received by the owner or operator of a satellite

PAGE 4 - ATTACHMENT B

system, including video of the inspection, shall be provided to Utility. Should the owner or operator fail to undertake such inspection, Utility shall have the right to arrange for such inspection and to recover the cost of same, without mark-up, from the owner or operator of the satellite system.

- e. Should Utility determine that the owner or operator of a satellite system has failed to comply with the requirements of this Section 7 of the rate schedule, with the exception of the requirement that a satellite system be cleaned, the Utility may initiate disconnection of the satellite system in accordance with the Commission's regulations, said disconnection to endure until such time as said requirements are met and all charges, costs and expenses to which Utility is entitled are paid. With respect to the cleaning of a satellite system, the owner or operator of a satellite system shall have the option of cleaning same within five (5) business days after receiving written notice from Utility that an inspection reveals that a cleaning is required. Should the owner or operator of such a satellite system fail to have the necessary cleaning performed within that time frame, Utility may arrange for cleaning by a qualified contractor and the cost of same, without mark-up, may be billed to the owner or operator of said system.

8. **CONSTRUCTION STANDARDS**

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed in constructing parts of the system.

9. **EXTENSION OF UTILITY SERVICE LINES AND MAINS**

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into its sewer system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an appropriate connection point on the Utility's sewer system may receive service, subject to paying the appropriate fees and charges set forth in this rate schedule, complying with the guidelines and standards hereof, and, where appropriate, agreeing to pay an acceptable amount for multi-tap capacity.

10. **CONTRACTS FOR MULTI-TAP CAPACITY**

The Utility shall have no obligation to modify or expand its plant, other facilities or mains to treat the sewerage of any person or entity requesting multi-taps (a commitment for five or more taps) unless such person or entity first agrees to pay an

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acceptable amount to the Utility to defray all or a portion of the Utility's costs to make modifications or expansions thereto.

11. **SINGLE FAMILY EQUIVALENT**

A Single Family Equivalent (SFE) shall be determined by using the wastewater design loading guidelines found in 6 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2016). Where the Utility has reason to suspect that a person or entity is exceeding design loadings established by these guidelines, the Utility shall have the right to request and receive water usage records from that person or entity and/or the provider of water to such person or entity. Also, the Utility shall have the right to conduct an "on premises" inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Utility shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.

12. **TAMPERING CHARGE**

In the event the Utility's equipment, mains, service lines, elder valves, or other plant or facilities have been damaged or tampered with by a customer, the Utility may charge the customer responsible for the damage the actual cost of repairing the Utility's equipment, plant or facilities not to exceed \$250.00. The tampering charge shall be paid in full prior to the Utility re-connecting service or continuing the provision of service. This charge shall be in addition to any notification, reconnection, or similar charges that the Utility is entitled to impose under this rate schedule or under Commission orders, rules, and regulations.

13. **LIMITATION OF LIABILITY**

The liability of the Utility, its officers, employees, and agents for damages arising out of the interruption of service or failure to furnish service, whether caused by acts or omissions, shall be limited to those remedies provided in the Commission's rules and regulations governing wastewater utilities.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

DOCKET NO. 20180006-WS  
ORDER NO. PSC-2018-0327-PAA-WS  
ISSUED: June 26, 2018

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman  
JULIE I. BROWN  
DONALD J. POLMANN  
GARY F. CLARK  
ANDREW GILES FAY

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING THE LEVERAGE FORMULA FOR WATER AND WASTEWATER UTILITIES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

I. Case Background

Section 367.081(4)(f), Florida Statutes (F.S.), authorizes us to establish, not less than once each year, a leverage formula to calculate a reasonable range of returns on equity (ROE) for water and wastewater (WAW) utilities. In 2001, the leverage formula methodology was established in Order No. PSC-2001-2514-FOF-WS.<sup>1</sup>

On October 23, 2008, we held a formal hearing in Docket No. 20080006-WS to allow interested parties to provide testimony regarding the validity of the leverage formula that was

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<sup>1</sup>Order No. PSC-2001-2514-FOF-WS, issued December 24, 2001, in Docket No. 20010006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity of water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

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established in 2001.<sup>2</sup> Based on the record in that proceeding, we approved the 2008 leverage formula.<sup>3</sup> In that order, we reaffirmed the methodology that was previously approved in 2001.

In 2011, we approved the current leverage formula by Order No. PSC-2011-0287-PAA-WS.<sup>4</sup> From 2012 through 2017, we voted to continue to use the 2011 leverage formula for establishing the authorized ROE for WAW utilities.<sup>5</sup> From 2012 through 2017, we found that the range of returns on equity derived from the annual leverage formulas were not optimal for determining the appropriate authorized ROE for WAW utilities due to Federal Reserve monetary policies that resulted in historically low interest rates. Consequently, we decided it was reasonable to continue using the range of returns on equity of 8.74 percent to 11.16 percent from the 2011 leverage formula docket.

On November 8, 2017, our staff held a workshop to solicit input from interested persons regarding potential changes to the current leverage formula methodology. As part of the workshop, interested parties were requested to file comments by October 30, 2017. The only stakeholders that filed comments in the docket were the Office of Public Counsel (OPC) and Utilities, Inc. of Florida (UIF). OPC also filed post-workshop comments on January 31, 2018. OPC's post-workshop comments all resulted in lowering the ROE. UIF's suggestions mostly resulted in increasing the ROE.

#### A. OPC Post-Workshop Comments

OPC submitted that we adopt a rule setting forth the leverage formula. OPC contended that continued application of the leverage formula constitutes an unadopted rule. In addition, OPC questioned the applicability of a Bond Yield Differential if an all WAW utility proxy group is used. OPC specifically questioned whether the assumed bond rating of Baa3 for the average WAW utility in Florida is still a valid assumption.

OPC's post-workshop comments also stated that the leverage formula should differentiate between Class A WAW utilities and Class B and C WAW utilities. OPC opined that Class A WAW utilities would not need a small-utility risk premium.

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<sup>2</sup>At the May 20, 2008, Commission Conference, upon request of the Office of Public Counsel, we voted to set the establishment of the appropriate leverage formula directly for hearing.

<sup>3</sup>Order No. PSC-2008-0846-FOF-WS, issued December 31, 2008, in Docket No. 20080006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

<sup>4</sup>Order No. PSC-2011-0287-PAA-WS, issued July 5, 2011, in Docket No. 20110006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

<sup>5</sup>Order No. PSC-2017-0249-PAA-WS, issued June 26, 2018, in Docket No. 20170006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*



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OPC further commented that the small-utility risk premium adjustment is duplicative of the bond yield risk premium and ignores the fact that several Florida WAW utilities could be comparable to water utilities included in the new index and therefore the small-utility risk premium should be removed from the formula.

OPC also submitted that the private placement premium of 50 basis points should be removed from the leverage formula for Class A WAW utilities. OPC stated it does not believe that investors require a premium for the lack of liquidity of privately placed debt for large Florida WAW utilities that are owned by substantially larger corporations. OPC further questioned why the private placement premium of 50 basis points is fixed and if it is reasonable.

Finally, OPC submitted that flotation costs should not be included in the DCF and CAPM models since none of Florida's WAW utilities are publicly traded and do not incur costs related to issuing new shares of stock.

#### B. UIF's Post-workshop Comments

UIF retained Ms. Pauline M. Ahern, who provided 47 pages of technically detailed suggestions and comments to change the DCF and CAPM methodologies used to derive the ROE of the proxy group. UIF suggested that we include a WAW utility index along with or replacing the natural gas utility index in the leverage formula. UIF further suggested we consider changing the DCF model to utilize the single-stage DCF model and use expected growth rate projections of EPS (earnings per share) as published in Value Line in place of using projected dividends.

In addition, UIF stated we should eliminate foreign companies in the CAPM Market Equity Risk Premium (MERP) because the WAW utilities are based in the US. UIF suggested that the CAPM MERP should be based on a market-value weighted average instead of a simple average. According to UIF, we should add two additional MERP estimates to the CAPM and average the results. The first one using a linear Ordinary Least Squares regression, and the second using an Empirical CAPM.

Also, UIF suggested that the private placement premium should remain at 50 basis points. UIF added that the small-utility risk premium should be increased from 50 basis points to 100 basis points. Additionally, UIF suggested that flotation costs of 20 basis points, or 4%, should be included, and that we should use a projected yield on Baa3/BBB- rated public utilities in the derivation to adjust the cost of equity at a 40% equity ratio.

This order addresses the appropriate leverage formula for 2018. We have jurisdiction pursuant to Section 367.081, F.S.

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## II. Modification of the Leverage Formula

### A. Analysis of OPC's Post-Workshop Comments

OPC asks us to adopt a leverage formula rule. Section 367.081(4)(f), F.S., states:

The Commission may regularly, not less often than once each year, ***establish by order*** a leverage formula or formulae that reasonably reflect the range of returns on common equity for an average water or wastewater utility and which, for purposes of this section, shall be used to calculate the last authorized rate of return on equity for any utility which otherwise would have no established rate of return on equity. In any other proceeding in which an authorized rate of return on equity is to be established, a utility, in lieu of presenting evidence on its rate of return on common equity, may move the commission to adopt the range of rates of return on common equity that has been established under this paragraph. (Emphasis added)

We believe that the statute, on its face, makes it clear that we may establish a leverage formula by order. We review the leverage formula yearly. Thus, if it was codified in a rule, we would have to initiate rulemaking every year to review the leverage formula. Based on the statutory language allowing the leverage formula to be established by order, it appears that the legislature did not intend for us to be in a constant rulemaking posture for this matter. Establishing a rule for the leverage formula may limit our discretion in an area where maximum discretion is advised. Maximum discretion is advised because determination of the required return on equity is subjective and a matter of opinion arrived at by informed judgement. Consequently, we decline OPC's suggestion to establish a rule for the leverage formula.

Regarding OPC's comments on the bond yield differential, we believe it is a necessary adjustment that recognizes the spread between the median bond rating of the utility proxy group (usually an A rating) to the assumed average Florida WAW utility's bond rating which is the lowest investment grade bond rating (Baa3). If the Florida WAW utilities under our jurisdiction were to be rated, we believe that, on average, they would be well below investment grade.

Regarding OPC's contention that the leverage formula should differentiate between large Class A WAW utilities and smaller Class B and C WAW utilities, we disagree. The leverage formula is derived to appropriately compensate the average WAW utility in Florida. The largest WAW utility in Florida is substantially smaller and more risky from a financial perspective than the utilities in the proxy group. UIF is by far the largest WAW utility in Florida and has total common equity of \$47 million. The average market capitalization of the utilities in the proxy group is \$3.9 billion and the smallest company has a market capitalization of \$400 million. Small-company risk premiums are a widely accepted adjustment that have been used by financial analysts for decades to account for the differences in the expected returns between small-cap and large-cap companies. If any adjustment should be made to account for the difference between the Class A and Class B and C WAW utilities, an upward adjustment should be made for Class B and C WAW utilities.

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Reasons why smaller WAW utilities are more risky than other utilities include: (1) WAW utilities are more capital intensive than electric or natural gas utilities; (2) WAW utilities experience lower relative depreciation rates than other utilities, thereby providing less cash flow; (3) WAW utilities experience consistently negative free cash flow, thereby increasing their financing requirements; (4) WAW utilities' credit metrics are inferior to those of electric and natural gas utilities; (5) Florida WAW utilities are substantially smaller than electric and natural gas utilities by virtually any measure including total revenues, total assets, and market capitalization; (6) WAW utilities' earnings are much more volatile (uncertain) than electric and natural gas utilities' earnings; and (7) WAW utilities experience many more business failures than electric and natural gas utilities.

Regarding OPC's claim that the risk premium adjustment is duplicative, we disagree. The small-utility risk premium adjustment and the bond yield risk premium adjustment are not the same and compensate an investor for different risks. The small-utility risk premium is an adjustment for the smaller sized companies based on market capitalization and the bond yield risk premium is an adjustment based on the assumed credit rating of the average Florida WAW utility (Baa3) as compared to the median credit rating of the proxy group (A).

Regarding OPC's comment about the private placement premium, we have previously included this adjustment to reflect the difference in yields on publicly traded debt and privately placed debt, which is illiquid. We understand that a private placement premium may change over time based on financial market conditions. However, information regarding actual private placement premiums is not readily available to derive an actual amount. Nevertheless, we believe recognition of the private placement risk should be included in the leverage formula. The private placement premium of 50 basis points was approved in Order No. PSC-2008-0846-FOF-WS.<sup>6</sup> In this order, we stated:

In addition, we find that the average WAW utility in Florida does not have access to public financing. The fact that an average WAW utility in Florida cannot access public financing justifies the inclusion of a private placement premium adjustment to compensate for the lack of liquidity and the higher cost of financing of privately placed debt. For these reasons, we find that that it is appropriate to continue to make a private placement premium adjustment of 50 basis points as reflected in Attachment 1 to this Order.

We believe that the average WAW utility in Florida continues to not have access to public financing and will have to pay a higher interest rate for privately placed debt and a private placement premium is still appropriate.

Regarding flotation costs, we disagree with OPC and believe that accounting for flotation costs in the application of the models is appropriate and in accordance with financial theory and application of the financial models. Although none of Florida's WAW utilities are publically

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<sup>6</sup>Order No. PSC-2008-0846-FOF-WS, issued December 31, 2008, in Docket No. 20080006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

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traded, application of the DCF and CAPM models to a proxy group is used to approximate the required return on equity and appropriate estimation of the required ROE includes an adjustment for flotation costs.

#### B. Analysis of UIF's Post-Workshop Comments

Several of UIF's suggestions are already included in the current leverage formula methodology as a result of the outcome of the 2008 hearing and subsequent order. In this docket, we included WAW utilities along with the natural gas utilities in its proxy group as suggested by UIF to increase the sample group of companies available. The private placement premium and small-utility risk premium are also included in the current methodology. We do not believe that the small-utility risk premium should be increased without further study to determine if that would be appropriate. We agree that flotation costs should be recognized in the application of the ROE models and they have been since 2001.

UIF suggests that an estimated projected yield on Baa3 rated public utility bonds be used to calculate the assumed bond yield for the average Florida WAW utility. The required return on equity is a forward-looking concept and is based on projections. Also, the costs included in the test year should reflect the costs expected during the period rates are going to be in effect. Consequently, we believe it is reasonable to use a projected Baa3 rated utility bond yield and that it is consistent with our practice of relying on the projected risk-free rate used in the CAPM.

Regarding UIF's suggestion to use a single-stage DCF model using expected earnings growth in the model, we disagree. All DCF models are derived from the equation that represents all expected cash flows into perpetuity. The multi-stage model allows us to avail ourselves of the explicit expected dividends provided by Value Line. Using a less robust form of the DCF model provides no benefit. We also disagree with the use of expected earnings growth in lieu of expected dividend growth. DCF theory is unambiguous when explaining that the expected cash flows associated with a share of stock are dividends. This is important because the time value of money underscores DCF theory and all earnings are not paid out to investors when they are earned. Expected earnings are crucial to determining expected dividends, but expected dividends are the expected cash flows that determine the value of a stock.

Regarding UIF's recommendation that foreign stocks be removed from the determination of the expected market return in the CAPM model, we disagree. Under CAPM theory, the expected market return is the return on all asset classes worldwide. Most analysts use the expected return on the US stock market as a proxy for the return on all asset classes out of convenience. Consequently, there is no reason to exclude foreign companies trading on the US market.

Regarding UIF's recommendations to consider adding more versions of the CAPM to the leverage formula analysis, we believe the additional methodologies require a much greater level of subjectivity than the traditional CAPM but will continue to consider their inclusion in the leverage formula analysis.