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PETITION BY REDBIRD	§	BEFORE THE
DEVELOPMENT, LLC FOR	§	
EXPEDITED RELEASE	§	
FROM WATER CCN NO. 11052	§	PUBLIC UTILITY COMMISSION
HELD BY DOBBIN PLANTERSVILLE	§	
WATER SUPPLY CORPORATION	§	OF TEXAS

REDBIRD DEVELOPMENT, LLC’S APPRAISER’S REPORT

TO THE PUBLIC UTILITY COMMISSION OF TEXAS (Commission):

COMES NOW, Redbird Development, LLC (“Redbird”) and files this, its Appraiser’s Report attached hereto as Exhibit 1 as required by the Commission’s Final Order and Order No. 11. The March 24, 2022 Appraiser’s Report was prepared by Chris Ekrut and Zak Wright with NewGen Strategies & Solutions, a management and economic consulting firm specializing in serving the utility industry, including the valuation of utility property. Using the factors for compensation set out in Texas Water Code § 13.254(g), the Report concludes that Dobbin Plantersville Water Supply Corporation should be compensated \$18,482 for debt service allocable to the decertified area and legal expenses and professional fees.

Respectfully submitted,

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BY: Emily W. Rogers
Emily W. Rogers

CERTIFICATE OF SERVICE

I certify that a copy of this document was served on all parties of record via email on March 25, 2022, in accordance with the requirements of 16 Tex. Admin. Code § 22.74 and PUC Order No. 2 in Docket No. 50664.

Emily W. Rogers
Emily W. Rogers

Exhibit 1

Redbird Development, LLC's Appraiser's Report

NewGen Strategies & Solutions

www.newgenstrategies.net



REPORT

COMPENSATION FOR DECERTIFICATION OF A PORTION OF DOBBIN PLANTERSVILLE WATER SUPPLY CORPORATION'S CERTIFICATE OF CONVENIENCE AND NECESSITY

MARCH 24, 2022

Prepared for:
Bickerstaff Heath Delgado Acosta LLP
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Austin, TX 78746

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March 24, 2022
Ms. Emily Rogers
Managing Partner
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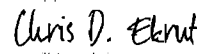
Re: Decertification Compensation

Dear Ms. Rogers:

We are pleased to provide Bickerstaff Heath Delgado Acosta LLP with a summary report for the appraisal to determine appropriate compensation for the expedited decertification of a portion of Dobbin Plantersville Water Supply Corporation's service area covered under water certificate of convenience and necessity number 11052.

If you have any questions concerning this report, please contact us.

Sincerely,

DocuSigned by:

FB62F346CFA8440...
Chris D. Ekrut
Chief Financial Officer

DocuSigned by:

1870379CE9854F5...
Zak Wright, ASA
Manager

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Section 1

PREMISE OF THE APPRAISAL

Bickerstaff Heath Delgado Acosta LLP (Bickerstaff or Client) retained NewGen Strategies and Solutions, LLC (NewGen) to perform an independent appraisal to determine appropriate compensation for the decertification of a portion of Dobbin Plantersville Water Supply Corporation's (DPWSC) service area covered under water certificate of convenience and necessity (CCN) number 11052. The particular area at issue in this analysis (Decertified Area) is composed of one contiguous tract of land in Montgomery County, Texas. The Decertified Area was requested to be decertified via expedited release, as codified in Texas Water Code §13.254 and Texas Water Code §13.2541, by Redbird Development, LLC. (Redbird) in Docket No. 52090 at the Public Utility Commission of Texas (PUCT).

Scope of Services

The purpose of the appraisal is to determine appropriate compensation for the decertification in accordance with applicable laws, statutes and the Uniform Standards of Professional Appraisal Practice (USPAP). In particular, the conduct of this analysis was dictated by Texas Water Code §13.254(g). Thus, NewGen relied upon a jurisdictional exception to conduct the scope of services as described herein. This report was prepared in conformance with the 2020-2021 Edition of USPAP as promulgated by the Appraisal Standards Board of the Appraisal Foundation (extended through December 31, 2022).

Date of Valuation

The compensation was determined as of March 24, 2022.

Date of Report

The date of this report is March 24, 2022.

Factors for Compensation

The factors ensuring just and adequate compensation in Texas Water Code §13.254(g) include:

- ▣ The value of real property owned and utilized by the retail public utility for its facilities (as determined according to the standards set forth in Chapter 21, Property Code, governing actions in eminent domain);
- ▣ The amount of the retail public utility's debt allocable for service to the area in question;
- ▣ The value of the service facilities of the retail public utility located within the area in question;
- ▣ The amount of any expenditures for planning, design, or construction of service facilities that are allocable to service to the area in question;
- ▣ The amount of the retail public utility's contractual obligations allocable to the area in question;
- ▣ Any demonstrated impairment of service or increase of cost to consumers of the retail public utility remaining after the decertification;



Section 1

- The impact on future revenues lost from existing customers;
- Necessary and reasonable legal expenses and professional fees; and
- Other relevant factors.

NewGen Strategies and Solutions

NewGen Strategies and Solutions, LLC is a management and economic consulting firm specializing in serving the utility industry and market. We provide financial, valuation, strategy, expert witness, stakeholder and sustainability consulting services to water, wastewater, solid waste, and energy clients across the country. Our expertise includes litigation support in state and federal regulatory proceedings, valuation of utility property, business and financial planning, and strategic planning for electric, water, wastewater, solid waste, and natural gas utilities.

Section 2

ASSUMPTIONS, CONSIDERATIONS AND LIMITING CONDITIONS

In the preparation of this report, NewGen has made certain assumptions and used certain considerations with respect to conditions which may exist or events which may occur in the future. While we believe these considerations and assumptions to be reasonable based upon conditions known to us as of the date of this report, they are dependent upon future events and actual conditions may differ from those assumed.

While we believe the use of such information and assumptions to be reasonable for the purposes of this report, we offer no other assurances with respect thereto, and some assumptions may vary significantly due to unanticipated events and circumstances. To the extent actual future conditions differ from those assumed herein, or from the assumptions provided by others, the actual results may vary from those estimated.

The conclusion and opinions found in this report are made expressly subject to the following conditions and stipulations:

- The scope of work was dictated by Texas Water Code §13.254(g) and, thus, NewGen relied on a jurisdictional exception to conduct the scope of services as described herein.
- No personal inspection of the property that is the subject of this report was made.
- No responsibility is assumed by NewGen for matters that are legal in nature, nor does NewGen render any opinion as to the title, land and/or land rights, which are assumed to be good and marketable. No opinion is intended to be expressed for matters that would require specialized investigation or knowledge beyond that normally used by an appraiser engaged in valuing the type of system described in this report.
- NewGen made no determination as to the validity, enforceability, or interpretation of any law, contract, rule, or regulation applicable to the water system or its operation. However, for the purposes of this report, NewGen assumed that all such laws, contracts, rules, and regulations will be fully enforceable in accordance with their terms as NewGen understands them and that the operators of the water system will operate the utility in accordance with all applicable laws, contracts, rules, and regulations. NewGen assumed that the water system conforms to all applicable zoning and use regulations and restrictions.
- We assume there are no hidden conditions that would make the Decertified Area more or less valuable.
- Certain data and assumptions have been provided by third parties, including, but not limited to, historical costs, active connection counts, and plant capacities. NewGen reserves the right to adjust the results in this report as may be required by changes to these third-party assumptions.
- NewGen assumes the growth projections for DPWSC's Montgomery System area, published in the Texas Water Development Board's 2021 Regional Water Plan, are a reasonable basis to escalate annual connection counts on DPWSC's Montgomery System.
- Individuals affiliated with NewGen and contributing to this report are Mr. Chris Ekrut, Chief Financial Officer, Mr. Zak Wright, ASA, Manager, and Mr. Nick Coomer, Consultant.



Section 2

- ▣ The studies and analyses undertaken in the preparation of the opinions contained herein have been performed in accordance with USPAP.

Section 3 ANALYSES

Introduction

The purpose of the compensation factors contained in Texas Water Code §13.254(g) are designed to ensure the utility losing a portion of its service territory, or CCN, (the Decertified Utility) is not financially harmed by the decertification. These factors require that the compensation to the Decertified Utility is just and adequate in order to confirm that the remaining customers will not have to bear a greater portion of the Decertified Utility's total costs to costs as a result of the decertification. Water utilities are fixed cost intensive entities which make investments in infrastructure in order to provide water service to existing and expected future customers. Water utilities are tasked with planning for the provision of service to future customers and, further, water utilities have an obligation to provide continuous and adequate service to the area within their CCN, as required under Chapter 13 of the Texas Water Code.

In this particular circumstance, the Decertified Area is composed of undeveloped land within DPWSC's CCN. The PUCT has determined the Decertified Area is not currently receiving water service.¹ However, DPWSC contends it has been planning to serve the water needs of the Decertified Area and has excess water plant capacity that could support approximately 70 additional connections in the Decertified Area.²

Analysis of Factors for Compensation

1. **Factor:** The value of real property owned and utilized by the retail public utility for its facilities (as determined according to the standards set forth in Chapter 21, Property Code, governing actions in eminent domain)

Analysis: There is no real property being transferred as a result of the decertification nor any real property rendered useless or permanently under-utilized as a result of the decertification.³ Therefore, there is no compensation due related to this factor.

2. **Factor:** The amount of the retail public utility's debt allocable for service to the area in question

Analysis: DPWSC has issued debt to fund the planning, design, and construction of facilities to provide water service to existing and future customers within its CCN. It is noted, however, that DPWSC did not provide information to detail of the specific projects and improvements that were funded through existing debt. NewGen reviewed the United States Department of Agriculture (USDA) loan documents⁴ that DPWSC made available. DPWSC provided annual financial statements in an RFI response⁵ that summarizes the annual debt service payments on all outstanding debt. This payment schedule is included in the attached Schedule 1.

¹ Docket No. 52090, Commission Order on Rehearing dated January 14, 2022, Conclusion of Law Number 12

² Docket No. 52090, Dobbin Plantersville WSC Response to Commission Staff RFIs dated July 7, 2021, Response to Staff 1-8

³ Docket No. 52090, Dobbin Plantersville Response to Redbird's RFIs dated August 12, 2021, Response to RFI 12 (as amended July 29)

⁴ Docket No. 52090, Dobbin Plantersville Water Supply Corporation Response to Petition and Motion to Dismiss dated June 28, 2021, Exhibit B, Attachments 2 & 3

⁵ Docket 52090, Dobbin Plantersville Response to Redbird's RFIs dated August 10, 2021



Section 3

If the decertification had not occurred, DPWSC would have been able to recover a portion of the fixed debt service costs from future connections within the Decertified Area. However, the number of connections that would be expected to be able to share in the debt service cost is limited by the existing capacity to serve the Decertified Area. The Decertified Utility's engineering professional asserts that the existing production capacity available to serve the Decertified Area is limited to a maximum of additional 70 connections.⁶ It is NewGen's opinion that any potential compensation for debt service can only be expected to be spread across the maximum number of customers that the water system near the Decertified Area is currently capable of supporting.

Assumed Connections in the Decertified Area

NewGen assumed that the 2021 water connection count of 2,049, provided by DPWSC⁷, was an accurate representation of the active connections on the existing DPWSC system. NewGen assumed that the existing water system near the Decertified Area could support approximately 70 additional retail connections, based on DPWSC's engineering consultant's response, as discussed above. According to the 2021 Regional Water Plan⁸, the population in DPWSC's Montgomery County service area is projected to grow at approximately 3.05%, annually, from 2020 to 2030. This growth rate is approximately 2.51%, annually, over the same period when adjusted to exclude the 575 planned connections in the Decertified Area. The planned buildout of the Decertified Area is projected to occur over the course of three years.⁹ This implies that the remaining growth in Montgomery County will occur in the portions of DPWSC's CCN that are not being decertified (the Remaining System).

Compensation

Schedule 1, Tables 3 and 4, show the forecasted growth in retail connections for the Remaining System. Since the Decertified Area is projected to reach buildout of 575 connections through steady growth over a three-year period, NewGen assumes that there will be 70 new connections in the Decertified Area by the end of forecast year one. The allocation to the Decertified Area is based on the 70 total connections in the Decertified Area, less growth on the Remaining System, on an annual basis. This allocation ceases when the cumulative growth in connections on the Remaining System reaches 70, which is the maximum number of additional connections that the existing system identified to serve the Decertified Area can currently support.

Schedule 1, Table 2, shows the debt service allocated to the Decertified Area by multiplying the annual allocation of debt service to each retail connection. This dollar amount is multiplied by the 70 additional connections that could be supported in the Decertified Area, less the projected annual new connections in the Remaining System, on a cumulative basis. Allocations are made at the beginning of each projection year based on the cumulative new connections present in the Remaining System at the end of the prior year. Once organic connection growth on the Remaining system reaches 70 new connections¹⁰, after approximately three years, the payment stream allocated to the Decertified Area ceases. Finally, the debt service allocated to the Decertified Area by year is discounted to

⁶ Docket 52090, Dobbin Plantersville WSC Response to Staff RFIs dated July 7, 2021, Response to Staff 1-8

⁷ Docket 52090, Dobbin Plantersville Response to Redbird's RFIs dated August 10, 2021, Response to RFI 10

⁸ Texas Water Development Board, 2021 Regional Water Plan – Population Projections for 2020-2070 for Water Users Groups by Region and County, dated March 28, 2019

⁹ Docket 52090, Redbird Development, LLC's Response to Commission Staff's First Request for Information dated June 29, 2021, Response to Staff 1-2

¹⁰ Docket No. 52090, Dobbin Plantersville WSC Response to Commission Staff RFIs dated July 7, 2021, Response to Staff 1-8

represent the present value today based on a 4.5% discount rate¹¹. This discount rate was selected to represent the approximate cost of debt for DPWSC, based on the information made available during the discovery process. The present value of the debt service allocated to the Decertified Area equals **\$9,719**.

3. **Factor:** The value of the service facilities of the retail public utility located within the area in question

Analysis: NewGen understands there are no facilities owned by DPWSC currently located within the Decertified Area nor have we been made aware of any facilities rendered permanently useless or under-utilized as a result of the decertification. Thus, there is no compensation due related to this factor.

4. **Factor:** The amount of any expenditures for planning, design, or construction of service facilities that are allocable to service to the area in question

Analysis: DPWSC did not indicate that any expense had been incurred due to the development of any master plan or engineering design during the discovery process. Engineering expenses related to the decertification are included in Factor 8, below.

5. **Factor:** The amount of the retail public utility's contractual obligations allocable to the area in question

Analysis: Although DPWSC's Montgomery System is located in the Lone Star Groundwater Conservation District, DPWSC is not currently paying for any water allocable to the area in question. Further, the PUCT has determined the Decertified Area is not currently receiving water service, as discussed above. Thus, there is no compensation due related to this factor.

6. **Factor:** Any demonstrated impairment of service or increase of cost to consumers of the retail public utility remaining after the decertification

Analysis: NewGen did not identify the need for any incremental compensation related to this factor. There was no demonstrated impairment of service and the only potential source of increased cost to remaining DPWSC customers were addressed in compensation factors 2 and 8.

7. **Factor:** The impact on future revenues lost from existing customers

Analysis: Given there are no existing customers being taken from DPWSC in this decertification, NewGen did not identify any relevant compensation for this factor.

8. **Factor:** Necessary and reasonable legal expenses and professional fees

Analysis: NewGen was provided estimated legal expenses and professional fees related to this decertification. At the time these costs were estimated, legal expenses were approximately \$5,632 and professional fees from DPWSC's engineer were approximately \$3,131. The total compensation for this factor is **\$8,763**. However, compensation for this factor may need to be updated at a later date if additional professional expenses related to this decertification are incurred. It should be noted that NewGen is recommending compensation for the certification process within the scope of docket 52090. Any professional expenses incurred related to DPWSC's filing in Federal District Court are assumed to be separate from the amounts above provided during the discovery process. NewGen is not making any recommendation with regard to DPWSC's active case in the Federal District Court.

9. **Factor:** Other relevant factors.

Analysis: NewGen did not identify any other relevant factors requiring compensation.

¹¹ Docket 52090, Dobbin Plantersville Response to Redbird's RFIs dated August 10, 2021

Section 3

Conclusions

The resulting compensation for decertification under Texas Water Code §13.254(g) is summarized in Table 3-1 below.

Table 3-1
Compensation Summary

Factor Allocable to Decertified Area	Compensation
Debt Service	\$ 9,719
Legal Expenses and Professional Fees *	8,763
	<u>\$ 18,482</u>

* May need to be updated if additional expenses related to this decertification are incurred

Section 4 CERTIFICATION

I, the undersigned, certify that, to the best of my knowledge and belief:

- ☒ The statements of fact contained in this report are true and correct.
- ☒ The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- ☒ I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- ☒ I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding the agreement to perform this assignment.
- ☒ I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- ☒ My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- ☒ My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the Client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- ☒ My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice (2020-2021 Edition) (extended through December 31, 2022)*.
- ☒ No personal inspection of the property that is the subject of this report was made.
- ☒ Chris Ekrut (Chief Financial Officer and Director at NewGen Strategies and Solutions, LLC) and Nick Coomer (Staff Consultant at NewGen Strategies and Solutions, LLC) provided significant personal property appraisal assistance to the person signing this certification.

Respectfully submitted,

NewGen Strategies & Solutions, LLC

DocuSigned by:
1870379CE9854F5...

Zak Wright, ASA

March 24, 2022



NewGen
Strategies & Solutions



SCHEDULE 1

TABLE 1. ASSUMPTIONS

TABLE 2. EXISTING DEBT SERVICE

TABLE 3. PERCENTAGE ALLOCATION APPROACH

TABLE 4. CONNECTION COUNT APPROACH

MARCH 24, 2022

**ALLOCATION OF DEBT SERVICE TO THE
DECERTIFIED AREA**

Table 1
Assumptions
General Assumptions for Fixed Cost Allocation

Montgomery County

Dobbin Plantersville WSC - Growth Projections [1]	2020	2030
Population Projections	8,335	11,255
Potential Annual Connection Growth	3.05%	

2020 - 2030 Normalized Growth Rate [2]	
Potential Connections - Decertified Area	575
Dobbin Plantersville WSC - Montgomery County [3]	2.51%

Cost of Debt [4]	4.50%
-------------------------	--------------

Current Connection Count	
Montgomery County System	1281
Grimes County System	768
Combined Connection Count	2049

Maximum Additional Connections [5]	70
---	-----------

Debt Service Fixed Cost Per Connection [6]	
Debt Service 2021-2023	\$ 92.03
Debt Service 2024	\$ 85.01

Footnotes:

[1] Data from 2021 Regional Plan - Population Projections for 2020-2070 for Water User Groups by Region and County. Data shown for Montgomery County System.

[2] Adjusted to remove the potential 575 forecast in the Decertified Area

[3] Historical connection counts unavailable - connection count assumed to be direct function of Montgomery County DPWSC projections per source in footnote 1

[4] Based on interest rate on outstanding USDA notes. Schedules on additional outstanding debt were not made available

[5] Docket No. 52090, Dobbin Plantersville WSC Response to Commission Staff RFIs dated July 7, 2021, Response to Staff 1-8

[6] As shown on Table 2

Table 2
Existing Debt Service
Allocation of Debt Service Fixed Costs per Connection

Summary of Debt Service Requirement on Notes Outstanding [1]

Fiscal Year	Principal	Interest	Total
2021	\$ 114,810	\$ 80,209	\$ 195,019
2022	119,978	75,042	195,020
2023	125,317	69,703	195,020
2024	116,029	64,098	180,127
2025	95,579	60,109	155,688
2026-2030	534,523	243,912	778,435
2031-2035	643,573	134,864	778,437
2036-2040	332,644	31,102	363,746
Total	\$ 2,082,453	\$ 759,039	\$ 2,841,492

Fixed Cost per Connection

Fiscal Year	Total System		Fixed Cost per Connection
	Existing Connections	Plant 4 Maximum Additional	
2021	2,049	70	\$ 92.03
2022	2,049	70	\$ 92.03
2023	2,049	70	\$ 92.03
2024	2,049	70	\$ 85.01

Footnotes:

[1] Docket 52090, Dobbin Plantersville Response to Redbird's RFIs dated August 10, 2021

Table 3
Allocation of Debt Service to Decertified Area
Percentage Allocation Approach

Connection Count	Montgomery County System				
	2021	2022	2023	2024	2025
Starting Customer Count	1,281	1,281	1,313	1,346	1,380
Normalized Montgomery County Growth Rate [1]	0.00%	2.51%	2.51%	2.51%	2.51%
New Connections on Remaining System	0	32	33	34	35
Ending Connection Count	1,281	1,313	1,346	1,380	1,415

Decertified Area Annual Allocation of DS Payments [2]	2021	2022	2023	2024	2025
Decertified Area Allocation	0%	100%	54%	7%	0%
Total Payment Allocable to New Connections	\$ -	\$ 6,442	\$ 6,442	\$ 5,950	\$ -
Total Payment from Decertified Area [3]	\$ -	\$ 6,442	\$ 3,483	\$ 416	\$ -

Total Payment Amount	\$ 10,341
2022 NPV of Total Payment Amount [4]	\$ 9,719

Footnotes:

[1] See Table 1

[2] Allocation based on amount of total debt service to be spread across maximum of 70 additional connections

[3] Allocation to Decertified Area decreases as new connections grow on Remaining Montgomery County System

[4] Discount rate assumed to be equal to cost of debt from Table 1

Table 4
Allocation of Debt Service to Decertified Area
Connection Count Approach

Connection Count	Montgomery County System				
	2021	2022	2023	2024	2025
Starting Connection Count	1,281	1,281	1,313	1,346	1,380
Normalized Montgomery County Growth Rate [1]	0.00%	2.51%	2.51%	2.51%	2.51%
New Connections on Remaining System	0	32	33	34	35
Ending Connection Count	1,281	1,313	1,346	1,380	1,415

Decertified Area Annual Allocation of DS Payments [2]	2021	2022	2023	2024	2025
Additional Connections Possible	70	70	38	5	0
Total Payment Allocable to New Connections	\$ -	\$ 6,442	\$ 3,483	\$ 416	\$ -
Total Payment from Decertified Area [3]	\$ -	\$ 6,442	\$ 3,483	\$ 416	\$ -

Total Payment Amount	\$ 10,341
2022 NPV of Total Payment Amount [4]	\$ 9,719

Footnotes:

[1] See Table 1

[2] Allocation based on amount of total debt service to be spread across maximum of 70 additional connections

[3] Allocation to Decertified Area decreases as new connections grow on Remaining Montgomery County System

[4] Discount rate assumed to be equal to cost of debt from Table 1