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REPORT

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DOCKET #53329

COMPENSATION FOR DECERTIFICATION OF A PORTION OF CITY OF JUSTIN'S CERTIFICATE OF CONVENIENCE AND NECESSITY

OCTOBER 2022



Prepared for:
City of Justin
415 N College Avenue
P.O. Box 129
Justin, TX 76247



275 W Campbell Road
Suite 440
Richardson, TX 75080
Phone: (972) 680-2000

October 6, 2022

Mr. Chuck Ewings
City Manager
City of Justin, Texas
415 N College Avenue
P.O. Box 129
Justin, TX 76247

Re: Decertification Compensation - Docket No. 53329 – Report

Dear Mr. Ewings:

We are pleased to provide the City of Justin with a summary report for the appraisal to determine appropriate compensation for the expedited decertification of a portion of the City of Justin's service area covered under sewer certificate of convenience and necessity number 20061.

If you have any questions concerning this report, please do not hesitate to contact us.

Sincerely,

DocuSigned by:

FB62F346CFA8440...
Chris Ekrut, Chief Financial Officer


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Zak Wright, ASA

TABLE OF CONTENTS

Section 1 Premise of the Appraisal1-1

 Scope of Services 1-1

 Date of Valuation..... 1-1

 Date of Report 1-1

 Factors for Compensation 1-1

 NewGen Strategies and Solutions 1-2

Section 2 Assumptions, Considerations and Limiting Conditions2-1

Section 3 Analyses3-1

 Introduction..... 3-1

 Analysis of Factors for Compensation 3-1

 Conclusions..... 3-3

Section 4 Certification1

List of Schedules

- 1 Allocation of Debt Service to the Decertified Area

List of Tables

Table 3-1 Compensation Summary..... 3-3



Section 1

PREMISE OF THE APPRAISAL

The City of Justin (Justin) retained NewGen Strategies and Solutions, LLC (NewGen) to perform an independent appraisal to determine appropriate compensation for the decertification of a portion of Justin's service area covered under sewer certificate of convenience and necessity (CCN) number 20061. The particular area at issue in this analysis (Decertified Area) is composed of a contiguous tract of land of land in Denton County, Texas. The Decertified Area was requested to be decertified via streamlined expedited release, as codified in Texas Water Code §13.2541 and Texas Water Code §13.254, by Denton Oliver Creek, LP (Oliver Creek) in Docket No. 53329 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 13.2541 and the compensation factors specified in 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, 2023).

Date of Valuation

The compensation was determined as of October 6, 2022.

Date of Report

The date of this report is October 6, 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;



SECTION 1

- Any demonstrated impairment of service or increase of cost to consumers of the retail public utility remaining after the decertification;
- 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:

- **Extraordinary Assumptions¹**
 - NewGen assumed it was reasonable to expect the Decertified Area to be built out with lot sizes that are consistent with a “rural standard” of development. NewGen’s analysis is limited to the level of development that the Decertified Utility’s existing facilities may be able to serve based on review of publicly available data. This is described in further detail, below, in the analysis of compensation Factor 2.
- The City of Justin’s outside consulting engineer provided connection counts on the sewer system in terms of Equivalent Residential Units (ERU). An ERU is defined in terms of average single family residential daily flow at 190 gallons per day.²
- NewGen estimated the Decertified Area could support approximately 363 new ERU connections. This was based on approximately 454 acres in the Decertified Area, less 20% for undevelopable purposes (e.g., roadways, creeks, stormwater ditches, etc.), leaving approximately 363 acres for development. NewGen assumed the development would be composed of one single-family dwelling per net acre for development based on the on-site sewage facility (e.g., septic tank) regulations in Denton. This is consistent with a “rural standard” of development.³
- NewGen assumed that the estimated connection count and a five-year timeline for the complete buildout of the Decertified Area beginning in year 2023 is reasonable. This assumption resulted in approximately 73 ERU connections in years two through five of the study and approximately 71 ERU connections in year six. NewGen understands that the Certificate Holder’s existing facilities can accommodate a maximum of 3,157 ERU connection. This is detailed further in the assumptions below and subsequent analysis of the compensation factors.

¹ Extraordinary assumptions, in the context of this analysis, are statements that are believed to be true but, if found to be false, could alter the opinions or conclusions of value (USPAP Definitions).

² Average ERU daily flow provided by City of Justin Engineer

³ Denton County Planning Department Subdivision Process - Minimum Lot Size Requirement for OSSF

SECTION 2

- The outside consulting engineer identified the existing facilities available to provide sewer service to the Decertified Area. These facilities have the capacity to serve a maximum of 3,157 ERU connections and currently serve approximately 2,350 ERU connections.
- NewGen's analysis of just and adequate compensation is limited to the level of development that Justin's existing facilities are able to serve based on our review of publicly available data and data provided by the City of Justin.
- The scope of work was dictated by Texas Water Code §13.2541 and 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 to the validity, enforceability, or interpretation of any law, contract, rule, or regulation applicable to the sewer 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 sewer system will operate the utility in accordance with all applicable laws, contracts, rules, and regulations. NewGen assumed that the sewer 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 assumed the growth projections for Justin's area, published in the Texas Water Development Board's 2021 Regional Water Plan, are a reasonable basis to escalate annual connection counts on the nearby facilities available to serve the Decertified Area.
- NewGen's recommendation of compensation for decertification is irrespective of any compensation that may have been paid to the City of Justin for prior decertification of portions of service area within the CCN. NewGen is not aware of any compensation being paid under other decertification dockets that might share wastewater treatment plant with the Decertified Area in Docket No. 53329. NewGen notes further that there is no certainty that any compensation will be awarded in any pending docket to decertify a portion of Justin's service area.⁴
- 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.

⁴ To the extent compensation is paid on other pending dockets our opinion of just compensation could be subject to change.

Section 3 ANALYSES

Introduction

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 are intended to provide just and adequate compensation to the Decertified Utility so that the remaining customers of the Decertified Utility will not have to bear a greater portion of the Decertified Utility's total costs as a result of the decertification. Sewer utilities are fixed cost intensive entities, which make investments in infrastructure in order to provide sewer service to existing and expected future customers. Sewer utilities are tasked with planning for the provision of service to future customers and, further, sewer 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.

The Decertified Area, discussed in this report, is comprised of undeveloped land within Justin's CCN. The PUCT has determined the Decertified Area is not currently receiving sewer service.⁵

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. 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: The City of Justin has issued debt to fund the planning, design, and construction of facilities to provide sewer service to existing and future customers within its CCN. It is noted that the City of Justin did not provide information to detail the specific projects and improvements that were funded through existing debt service. However, NewGen did identify the 2017 General Obligation (GO) Refunding Debt and the 2014 Certificate of Obligation (CO) as being attributable to sewer service. The City of Justin provided an analysis of outstanding debt that summarizes the annual debt service payments on the specific debt issuances mentioned above. This payment schedule is included in the attached Schedule 1.

If the decertification had not occurred, the City of Justin 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 provided capacity data for the existing facilities available to serve the Decertified Area. NewGen estimated that the existing facilities could support approximately 807 additional ERU connections. It is NewGen's opinion that any potential compensation for debt service can only be

⁵ Docket No. 53329, Order, Dated July 28, 2022

SECTION 3

expected to be spread across the maximum number of customers that the sewer system near the Decertified Area is capable of supporting.

Assumed Connections in the Decertified Area

NewGen estimated the Decertified Area could support approximately 363 new ERU connections. This was based on the approximately 454 acres in the Decertified Area, less 20% for undevelopable purposes (e.g., roadways, creeks, stormwater ditches, etc.), leaving approximately 363 net acres for development. NewGen assumed the development would be composed of one single-family dwelling per net acre for development based on the on-site sewage facility (e.g., septic tank) regulations in Denton County for subdivisions not served by a public water supply. This is consistent with a “rural standard” of development.³

Compensation

Schedule 1, Tables 3 and 4, show the forecasted growth in ERU connections for the Remaining System. Since the Decertified Area is projected to reach a buildout of 363 ERU connections, as discussed above, through steady growth over a five-year period beginning at the start of 2023, NewGen assumed that there will be at least 146 new ERU connections in the Decertified Area by the end of forecast year two. The allocation to the Decertified Area is based on the new connections in the Decertified Area less organic growth on the Remaining System on an annual basis. The maximum allocation of debt service to the Decertified Area in any year of the study is limited by the number of connections that the existing facilities can support. This allocation of debt service ceases when the two outstanding debt issuances are fully repaid in 2029 and 2030.

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 additional connections that are projected to be built out in the Decertified Area, less the projected annual new connections in the Facilities Nearby Decertified Area, on a cumulative basis. Allocations are made at the beginning of each projection year based on the cumulative new connections present in the Facilities at the end of the prior year. Once the outstanding debt issuances are repaid, the payment stream allocated to the Decertified Area ceases. Finally, the debt service allocated to the Decertified Area by year is discounted to represent the present value today based on a 2.19% discount rate.⁶ This discount rate was selected to represent the approximate cost of debt for the City of Justin, based on the financial statements made available. Justin does not have equity shareholders and does not operate to deliver a monetary return from capital investments in the System. Justin’s cost of capital, or opportunity cost, to invest in projects, is equal to its effective cost of debt to finance projects in the System. The present value of the debt service allocated to the Decertified Area equals **\$101,762**.

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

Analysis: The City of Justin does not own or operate service facilities located with the Decertified Area. Additionally, NewGen has not 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.

⁶ City of Justin – Analysis of Outstanding Debt, Dated February 1, 2018

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: NewGen is not aware of any expense incurred due to the development of any master plan or engineering design specific to Docket 53329. Professional 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: NewGen is not aware of any contractual obligations allocable to the area in question.

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. NewGen has not been made aware of circumstances that would cause the infrastructure to be impaired or permanently underutilized as a result of the Decertification. There was no demonstrated impairment of service and the only potential source of increased cost to remaining Justin 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 Justin in this decertification, NewGen did not identify any relevant compensation for this factor.

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

Analysis: Justin is entitled to recovery of any necessary and reasonable legal expenses and professional fees related to this decertification. NewGen was provided estimated legal expenses and professional fees related to this decertification. At the time these costs were provided, legal expenses were approximately \$0. The total compensation for this factor is **\$0**. However, compensation on this factor may need to be updated at a later date if additional legal or professional expenses related to this decertification are identified or incurred.

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

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

Conclusions

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

Table 3-1
Compensation Summary

Factor Allocable to Decertified Area	Compensation
Debt Service	\$ 101,762
Legal Expenses and Professional Fees *	\$ 0
	\$ 101,762

* 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, 2023)*.
- No personal inspection of the property that is the subject of this report was made.
- Chris Ekrut (Chief Financial Officer and Partner at NewGen Strategies and Solutions, LLC) and Nick Coomer (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
October 6, 2022



NewGen
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SCHEDULE 1: ALLOCATION OF DEBT SERVICE TO THE DECERTIFIED AREA

DOCKET #53329

**DECERTIFICATION
COMPENSATION**

Table 1
Assumptions
General Assumptions for Fixed Cost Allocation

All Counties

City of Justin - Growth Projections [1]	2020	2030
Population Projections	4,766	8,532
Potential Annual Connection Growth	6.00%	

Current Equivalent Residential Unit (ERU) Connections [2]	
Facilities Nearby Decertified Area	381
City of Justin Total System	2,350

Additional ERU Connections to be Built in Decertified Area [3]	
Acreage of Decertified Area [4]	454 Acres
80% of Total Parcel Acreage [5]	363 Acres
Minimum Lot Size Requirement for OSSF	1 Acre
Additional ERU Connections to be built in Decertified Area	363 ERU Connections
Assumed ERU Connections per Year	73 ERU Connections

Maximum Additional ERU Connections [6]	807
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Maximum ERU Connection Assumptions [7]	
ERU Average Flow	190.00 Gallons per Day

Cost of Debt [8]	2.19%
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Footnotes:

[1] Data from 2021 Regional Plan - Population Projections for 2020-2070 for Water user Groups by Region and county. Data shown for City of Justin.

[2] 381 active connections on the Timberbrook Lift Station near the area of interest per professional engineer for the City of Justin. The total City of Justin Wastewater System ERU connection count per professional engineer for the City of Justin is 2,350 ERU connections.

[3] Denton County Planning Department Subdivision Process - Minimum Lot Size Requirement for OSSF

[4] Docket 53329 Order, dated July 28, 2022

[5] Assumes 20% of total parcel is not used for residential development. Creeks and streams, roadways, etc.

[6] See Table 3.

[7] Average ERU daily flow provided by City of Justin engineer. Considers TCEQ Texas Administrative Code (TAC)

[8] Based on review of existing debt.

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

General Obligation Refunding Bonds, Series 2017 [1]				Certificates of Obligation, Series 2014 [1]			
Coupon Rate		2.19%		Interest Rate		2.92%	
Year	Principal	Interest	Debt Service	Year	Principal	Interest	Total
2022	\$ 530,000	\$ 90,776	\$ 620,776	2022	\$ 65,000	\$ 35,916	\$ 100,916
2023	\$ 535,000	\$ 79,169	\$ 614,169	2023	\$ 70,000	\$ 34,018	\$ 104,018
2024	\$ 545,000	\$ 67,452	\$ 612,452	2024	\$ 115,000	\$ 31,974	\$ 146,974
2025	\$ 570,000	\$ 55,516	\$ 625,516	2025	\$ 120,000	\$ 28,616	\$ 148,616
2026	\$ 575,000	\$ 43,034	\$ 618,034	2026	\$ 170,000	\$ 25,112	\$ 195,112
2027	\$ 580,000	\$ 30,441	\$ 610,441	2027	\$ 175,000	\$ 20,148	\$ 195,148
2028	\$ 390,000	\$ 17,739	\$ 407,739	2028	\$ 255,000	\$ 15,038	\$ 270,038
2029	\$ 315,000	\$ 9,198	\$ 324,198	2029	\$ 260,000	\$ 7,592	\$ 267,592
2030	\$ 105,000	\$ 2,300	\$ 107,300	2030			
2031				2031			

Fixed Cost per Connection					
Fiscal year	Total System Beginning of Year Connection Count	Growth Within Decertified Area [2]	Remaining System Organic Growth	Total System End of Year Connection Count	Fixed Cost per Connection
2022	2,350	0	141	2,491	\$ 289.72
2023	2,491	73	149	2,713	\$ 264.72
2024	2,713	73	158	2,944	\$ 257.96
2025	2,944	41	172	3,157	\$ 245.21
2026	3,157		187	3,344	\$ 243.17
2027	3,344		201	3,545	\$ 227.25
2028	3,545		213	3,758	\$ 180.36
2029	3,758		225	3,983	\$ 148.58
2030	3,983		239	4,222	\$ 25.41

Footnotes:

[1] City of Justin - Analysis of Outstanding Debt, Dated February 1, 2018

[2] Maximum capacity of Wastewater Treatment Plant met in FY 2025

Table 3
Connection Capacity
Additional Connections Possible to Serve Area of Interest

Wastewater Treatment Plant [1]		
Total Possible ERU Connections [2]	3,157	ERU Connections
Estimated Unused Capacity	807	ERU Connections
Timberbrook Lift Station [1]		
Total Possible ERU Connections [2]	2,092	ERU Connections
Estimated Unused Capacity	1,711	ERU Connections

Additional ERU Connections Possible via Wastewater Treatment Plant	807
Additional ERU Connections Possible to Serve Area of Interest [3]	807

Footnotes:

[1] Facility data as provided by City of Justin engineer email, dated September 30, 2022.

[2] Table 1, Footnote 5

[3] Maximum possible additional ERU connections that the existing Wastewater Treatment Plant can support.

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

Connection Count	Facilities Nearby Decertified Area								
	2022	2023	2024	2025	2026	2027	2028	2029	2030
System Service Area - Potential Connections	2,350	2,491	2,713	2,944	3,185	3,436	3,696	3,896	4,108
Marilee SUD Growth Rate [1]	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
New Connections on Remaining System [2]	141	149	158	168	178	189	200	212	225
New Connections from Decertified Area	-	73	73	73	73	71			
Nearby System Service Area - EOY Potential Connections	2,491	2,713	2,944	3,185	3,436	3,696	3,896	4,108	4,333
Nearby System Service Area - Maximum Connections	3,157	3,157	3,157	3,157	3,157	3,157	3,157	3,157	3,157

Decertified Area Annual Allocation of DS Payments [3]	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Annual Allocable Connections in Decertified Area [4]	-	73	146	191	13	-	-	-	-
Total Payment Allocable to Decertified Area Connections	\$ -	\$ 19,325	\$ 37,662	\$ 46,835	\$ 3,161	\$ -	\$ -	\$ -	\$ -
Total Payment from Decertified Area	\$ -	\$ 19,325	\$ 37,662	\$ 46,835	\$ 3,161	\$ -	\$ -	\$ -	\$ -

Total payment	\$ 106,983
2022 NPV of Total Payment Amount	\$ 101,762

Footnotes:

[1] Data from 2021 Regional Plan - Population Projections for 2020-2070 for Water user Groups by Region and county. Data shown for City of Justin.

[2] Organic growth on the Facilities Nearby Decertified Area.

[3] Decertified Area Annual Allocation of DS Payments offset by natural system growth and limited by Facilities Nearby Decertified Area maximum capacity.

[4] Annual Connections in Decertified Area allocable to debt service payments are calculated by the Decertified Area additional connections while taking into account the Facilities Nearby Decertified Area Maximum Capacity and the organic growth on the Facilities Nearby Decertified Area. See report for discussion of assumed buildout period.

NewGen
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THANK YOU!



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