



June 25, 2019

2019 JUN 25 PM 3:53
LA PUBLIC SERVICE COMMISSION

Mr. Brandon Frye
Executive Secretary
Louisiana Public Service Commission
602 North Street
Galvez Building, 12th Floor
Baton Rouge, LA 70802

Re: Magnolia Water Utility Holding Company, LLC
Application for Non-Opposition
Mo-Dad Utilities, LLC

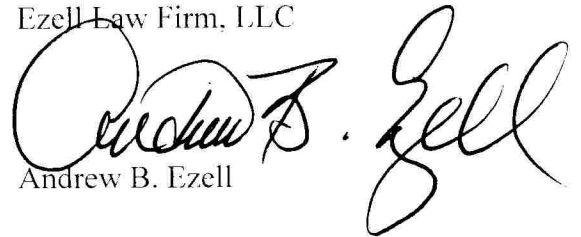
Dear Mr. Frye:

Please find enclosed an original and three copies of Magnolia Water Utility Holding Company, LLC's Application for Non-Opposition to the acquisition of the water and/or wastewater system(s) currently operated by Mo-Dad Utilities, LLC. After review, please see that a docket is opened in connection with this filing and that notice is placed in the Official Bulletin on June 28, 2019. Further, we ask that you exercise the discretion provided in Rule 19 and shorten the period to protest this application from twenty-five (25) to fifteen (15) days. Upon filing, please date stamp and return a copy of the filing by hand to our courier.

If you have any questions concerning this filing, please notify me.

Sincerely,

Ezell Law Firm, LLC


Andrew B. Ezell

CC: Ms. Melissa Watson
Ms. Jaclyn Penzo
Mr. Patrick L. Roque

ROUTE TO	<u>Bull</u>	ROUTE FROM
DEPT. _____	DATE <u>6/26</u>	DEPT. _____
DEPT. _____	DATE _____	DEPT. _____
DEPT. _____	DATE _____	DEPT. _____
DEPT. _____	DATE _____	DEPT. _____

**PETITION FOR APPROVAL OF A SALE OR TRANSFER OF
ALL OR SUBSTANTIALLY ALL THE ASSETS OF A WATER AND WASTEWATER
UTILITY REGULATED BY THE LOUISIANA PUBLIC SERVICE COMMISSION**

2017 APR 11 3:15
LOUISIANA PUBLIC SERVICE COMMISSION

Seller: Mo-Dad Utilities, LLC

Buyer: Magnolia Water Utility Operating Company, LLC

In accordance with the March 18, 1994, *General Order* regarding approval of sales and other changes in ownership or control of public utilities subject to the Louisiana Public Service Commission's ("Commission") jurisdiction, Mo-Dad Utilities, LLC. ("Mo-Dad") seeks an order reflecting the Commission's approval of, or non-opposition to, Mo-Dad's proposal to sell or transfer to Magnolia Water Utility Operating Company, LLC ("Magnolia"), all or substantially all assets and property Mo-Dad owns and uses to provide regulated water and wastewater utility service to customers in the following Louisiana Parishes: Ascension, Livingston, Tangipahoa, East Baton Rouge, and West Baton Rouge Parishes.

Magnolia is a Louisiana limited liability company, in good standing, formed to acquire the assets of water and wastewater utilities in Louisiana and to own and operate those assets as public utilities subject to the Commission's regulatory jurisdiction. Magnolia is part of an affiliate group that includes Central States Water Resources, Inc. ("Central States"), a Missouri corporation in good standing, CSWR, LLC ("CSWR"), a Missouri limited liability company in good standing, and several other companies, some of which currently operate small water or wastewater utilities in Missouri and Arkansas. A chart showing the companies in the affiliate group is attached to the petition as **Exhibit A** and is incorporated by reference. The significance of those affiliate relationships to the transaction that is the subject of the petition are discussed in greater detail below. The principal address of Magnolia, Central States, and CSWR is 500 Northwest Plaza Drive, Suite 500, St. Ann, Missouri, 63704. All notices and other official documents related to the application should be sent to the attention of Josiah Cox, President, Mike Duncan, Director of Business Operations, and Russ Mitten, General Counsel, at the address shown in the preceding sentence or at the following email addresses: jcox@cswrgroup.com; mduncan@cswrgroup.com; rmitten@cswrgroup.com. Copies also should be sent to Andrew B. Ezell, 10761 Perkins Road, Suite A, Baton Rouge, Louisiana, 70810, or at the following email address: aezell@ezellfirm.com.

Mo-Dad currently provides regulated water and wastewater services to approximately 117 wastewater systems and one water system (see **Schedule A**) serving approximately 8,600 wastewater and approximately 55 water customers in Ascension, Livingston, Tangipahoa, East Baton Rouge, West Baton Rouge and St. Helena Parishes. Mo-Dad is a Louisiana limited liability company, in good standing, whose principal office is at 900 Cook Road, Denham Springs, Louisiana, 70726. All notices and other official documents related to the application should be sent to the attention of William Stegall, Jr., the company's Chief Operating Officer, at that address or to the following email address: william@mduonline.com.

Magnolia proposes to buy and Mo-Dad proposes to sell all or substantially all its franchises, works, operations, systems, land and related improvements, easements, rights-of-way, permits, leases, service facilities, equipment, machinery, lines, plant, pipes, manholes and appurtenances, supplies, and other assets currently used to provide regulated water and wastewater services in Louisiana.

Central States and Mo-Dad entered into a formal purchase and sale agreement specifying terms of their transaction (“Sale Agreement”). A fully executed copy of the agreement is attached to the petition as **Exhibit B** and incorporated by reference. In accordance with Rule 12.1 of the Commission’s rules of practice and procedure, that exhibit has been designated “confidential” because it contains information regarding strategies employed in contract negotiations and other competitively sensitive information.

Under terms of the Sale Agreement, Central States would acquire Mo-Dad’s assets. However, in accordance with its rights under that agreement, at closing Central States intends to assign to Magnolia all Central States’ rights, title, and interest to those assets. As a result of that assignment, at closing Magnolia would fully own, and be entitled to operate, all assets necessary to meet its obligations to provide safe, adequate, reliable, and compliant water and wastewater services to customers.

The proposed transaction, which is contingent on the Commission’s grant to Magnolia of authority to acquire and operate water and wastewater systems in Louisiana, is scheduled to close (a) within forty-five (45) days of the effective date of a Commission order granting relief sought in the petition or (b) at such other time as the parties mutually agree. During the period between the date of the Commission’s order and the scheduled closing date, Mo-Dad and Magnolia would work together to satisfy all remaining closing conditions specified in the Sale Agreement and take other steps necessary to ensure the proposed sale does not adversely affect customers. This includes adopting and providing service in accordance with tariffs currently in effect for Mo-Dad.

The need to comply with increasingly stringent federal and state health and environmental regulations has imposed cost and compliance burdens small wastewater utilities are finding difficult, if not impossible, to bear. Difficulty in securing capital necessary to make investments or expenditures for improvements required to bring their systems into full regulatory compliance has forced many such utilities to seek buyers for those systems whose technical, managerial, and financial resources make them better able to bear those burdens. This motivation is especially strong for system owners whose primary business is not the operation of regulated water or wastewater utilities.

The affiliated group of which Magnolia and CSWR are members is the type of buyer small system operators like Mo-Dad have sought out. The group’s business plan is to pursue the purchase and recapitalization of small water and wastewater systems, many of which are financially distressed. CSWR and its affiliates already have acquired numerous systems in Missouri and Arkansas. Three pending applications in Missouri seek authority to conclude additional acquisitions in that state, and other acquisition proposals are pending before utility regulators in Tennessee and Kentucky.

All the systems CSWR and its affiliates have acquired thus far reflect some degree of operational neglect, with several recording numerous, and oftentimes ongoing, violations of applicable health and environmental regulations. Following their acquisition, Central States has assisted its Missouri and Arkansas affiliates in bringing the systems up to standard (or are continuing the process to do so). Central States also is assisting its affiliates in ensuring their systems are operated in full compliance with environmental, operational, and utility commission regulations. With respect to future operations in Louisiana, representatives of CSWR already have conducted preliminary

discussions with the Louisiana Department of Environmental Quality and the Louisiana Department of Health and Hospitals concerning the timing and methodology required to coordinate Magnolia's efforts to bring troubled systems into compliance post-acquisition.

Through its relationship with Central States (which acts as a service company for the group) and other companies within the affiliate group, Magnolia would have access to highly skilled technical, managerial, and financial experts and resources not usually available to small wastewater companies. Central States' personnel, who would be actively engaged in managing Magnolia's operations, have extensive experience in the technical, managerial, and financial aspects of the utility industry and they have developed innovative operational, marketing, and customer service programs that provide their affiliates' current customers high quality advanced services at fair and reasonable rates.

As previously noted, consummation of the asset sale contemplated by the Sale Agreement is contingent on receipt of a Commission order approving the transaction and granting Magnolia authority to operate water and wastewater systems in Louisiana, as required by state law. To secure approval of the transaction, Magnolia provides the following information required by the March 18, 1994, *General Order*.

1. The proposed transfer of assets to Magnolia is in the public interest. As explained in greater detail elsewhere in the petition, Magnolia and its affiliates have the technical, managerial, and financial expertise and experience necessary to own and operate the utility assets it proposes to acquire and ready access to sufficient financial resources to make necessary capital investments and expenditures required to bring the system into compliance with current and future health and environmental regulations. Moreover, Magnolia is committed to providing current and future customers safe and reliable service at fair and reasonable rates.
2. Magnolia is ready, willing, and able to provide safe, reliable, and adequate service to customers of the system it proposes to acquire and to do so at rates that are fair and reasonable.
3. Because of its ability to readily access capital necessary to bring the subject system into compliance with health and environmental regulations and operate the system in a manner consistent with those regulations, Magnolia's acquisition of the assets at issue in the petition would likely improve, the financial condition of the utility.
4. The system Magnolia proposes to acquire has, in the past, failed to satisfy one or more health or environmental regulations. As detailed elsewhere in the petition, Magnolia has identified capital investments and expenditures necessary to correct past problems and ensure that in the future the system would be operated in full compliance with all applicable regulations. These system improvements and Magnolia's commitment to operate the system in a manner that ensures customers receive safe, reliable, and adequate service at a fair price would combine to maintain or improve the overall quality of service customers of the system currently receive.

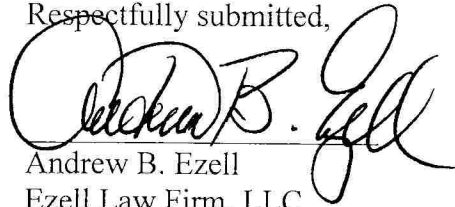
5. Authorizing Magnolia to acquire the subject assets would bring both short- and long-term benefits for customers. Technical, managerial, and financial resources available from its affiliates would enable Magnolia to quickly identify and remedy any deficiencies in the operation or management of the subject system. And, because of economies of scale Central States can achieve by serving several affiliates, Magnolia likely can utilize those resources at less cost than would be the case if it was forced to acquire those same resources as a stand-alone company. As explained in greater detail later in the petition, Magnolia's affiliate group also has access to funds required to make capital investments and expenditures necessary to ensure the system provides reliable and safe service that complies with all applicable health and environmental regulations.
6. The transaction would not adversely affect competition because Mo-Dad is the only water and wastewater utility authorized to serve customers within its service area.
7. As noted elsewhere in the petition, personnel from Central States have far greater technical, managerial, and financial expertise and experience than is available to most small water and wastewater utilities. These personnel would be actively involved in overseeing Magnolia's day-to-day operations and assisting the company as it plans system improvements and additions necessary for the future. As a result of the involvement of these highly skilled and experienced utility professionals, the quality of service Magnolia's management can provide will be greatly improved and enhanced.
8. Magnolia intends to hire a qualified and experienced third-party contractor to manage and operate the subject system day-to-day. It is Magnolia's intent that the third-party contractor would offer employment to most if not all qualified current employees of Mo-Dad.
9. The proposed transfer would be fair and reasonable to the majority of Mo-Dad's shareholders, as evidenced by the fact that without the consent of its shareholders Mo-Dad could not have entered into the Sale Agreement with Central States.
10. The proposed transaction would have an overall positive effect on state and local economies. From a local property tax standpoint, the transfer of assets should have no adverse effect on state or local taxing authorities. If the transaction is approved, only the identity of the taxpayer would change. And overall, the proposed transaction should prove beneficial to the state of Louisiana and the local communities where Mo-Dad's customers reside. All those entities have an interest in ensuring their citizens receive safe, adequate, and reliable water and wastewater services at fair and reasonable rates. Authorizing Magnolia to acquire Mo-Dad's assets would produce that desired result.
11. Magnolia concedes the Commission's authority to regulate its rates and operations in the manner prescribed by Louisiana law. Therefore, the proposed transfer would have no effect on the Commission's jurisdiction over the subject water and wastewater systems.
12. Neither Mo-Dad nor Magnolia anticipates any adverse consequences to customers or other interested stakeholders if the Commission approves the transaction proposed in the petition. Both parties are committed to ensuring the sale of assets is concluded and

operational authority over those assets is transferred in a manner that is as transparent as possible and has no adverse effects to customers.

13. Because Magnolia was formed for the purpose of acquiring and operating water and wastewater utilities in Louisiana, it has no track record of regulatory compliance or non-compliance in this state. However, Central States, through its work with other companies within Magnolia's affiliated group, has compiled an enviable record of acquiring severely distressed systems, bringing them into compliance, and then successfully operating those systems in full compliance with health and environmental regulations. Affiliated companies within the group operating in Missouri have a good customer service and operating reputation with utility regulators in that state. (Arkansas, the other state where Magnolia's affiliates currently operate, does not regulate rates or operations of small water and wastewater utilities.)
14. Through its affiliated group, Magnolia would have ready access to capital required to make necessary investments and expenditures in the subject system. CSWR would provide equity financing necessary to make the proposed asset acquisition. Ongoing capital needs would be financed through debt from providers approved by the Commission on terms and conditions that accurately reflect the current state of this system. Current plans envision a capital structure for Magnolia consisting of fifty percent (50%) equity and fifty percent (50%) debt. CSWR's consolidated income statement and balance sheet for 2018 is attached to the petition as **Exhibit C** and incorporated by reference. In accordance with Rule 12.1 of the Commission's rules of practice and procedure, that exhibit has been designated "confidential" because it contains competitively sensitive information.
15. Based on its due diligence efforts thus far, Magnolia has identified the following investments in system upgrades, improvements, and replacements it plans to make if the Commission approves the transaction proposed in the petition: The 105 wastewater systems include three lagoons and the remaining 102 are mechanical plants. There is also one water system. Magnolia would make necessary repairs to these facilities and add flow metering and remote monitoring equipment to all wastewater and water facilities and remote monitoring to other system components as needed. The lagoon systems would require vegetation removal from existing berms as well as berm repair and stabilization. The lagoon systems also require fencing repair/replacement for safety and security. In addition, we plan to investigate the wastewater collection systems for inflow/infiltration problems. The total estimated cost of these upgrades is approximately \$18,233,000.
16. Magnolia's affiliates always hire a qualified and experienced third-party contractor to manage and operate the subject wastewater system day-to-day and would ensure the contractor's personnel have or obtain all required health, safety, and other permits.
17. CSWR would invest equity capital to purchase Mo-Dad's assets. Consequently, the asset purchase would not encumber the utility's assets in any way. Ongoing capital needs would be financed through debt from providers approved by the Commission on terms and conditions that accurately reflect the current state of this system.

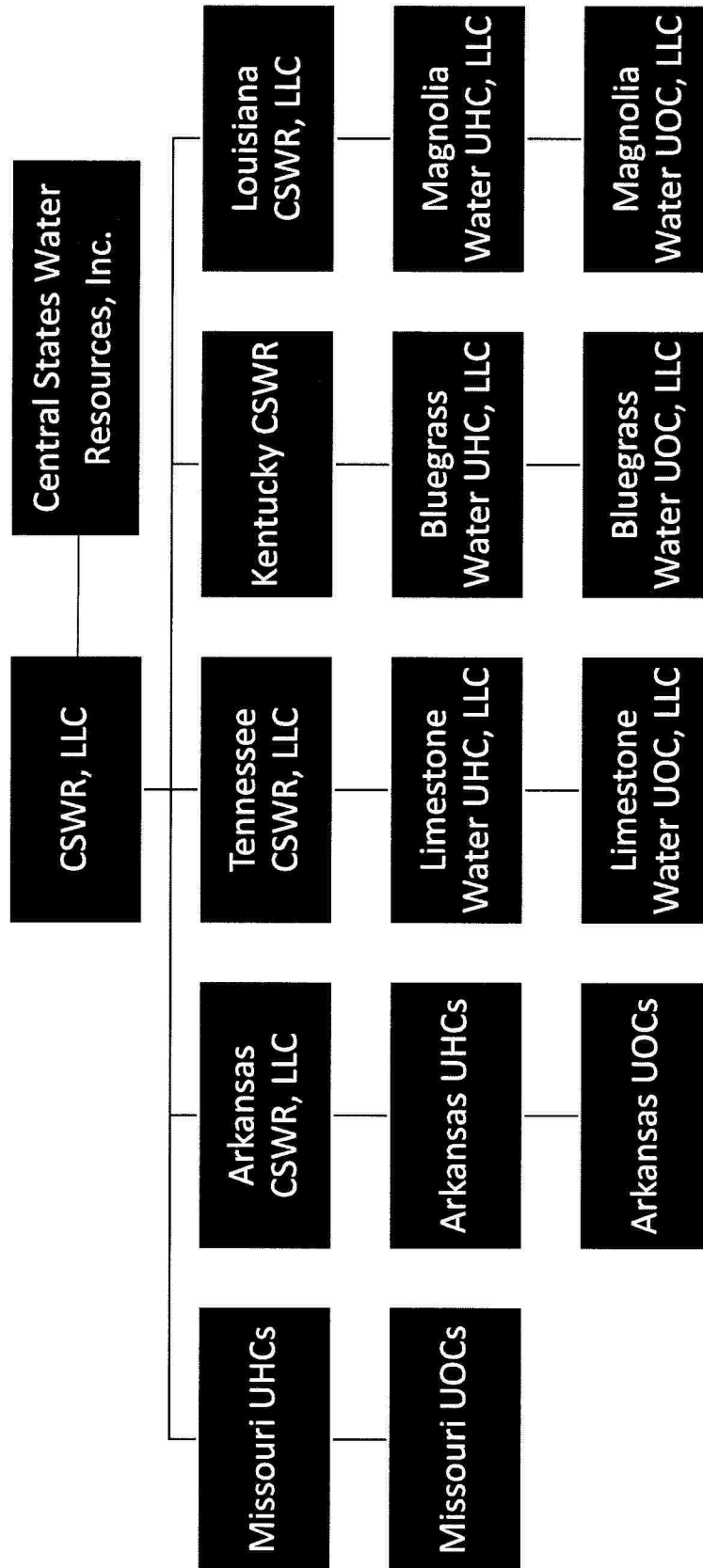
18. The acquisition of assets proposed in the petition is fair and reasonable in all respects. Consequently, the Commission should not impose or attach any conditions to the transaction.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Andrew B. Ezell". The signature is written in a cursive style with a large initial "A" and "E".

Andrew B. Ezell
Ezell Law Firm, LLC
10761 Perkins Road, Suite A
Baton Rouge, LA 70810
Telephone: (225) 763-2272
Facsimile: (225) 763-2273
aezell@ezellfirm.com

Central States Water Resources Corporate Organizational Chart



SCHEDULE A

**MO-DAD UTILITIES, L.L.C.
WASTEWATER SYSTEMS**

Mo-Dad Utilities	Amber Lakes	East Baton Rouge
Mo-Dad Utilities	Arbor Walk	Livingston Parish
Mo-Dad Utilities	Arrington Place	Tangipahoa Parish
Mo-Dad Utilities	Audubon Square	East Baton Rouge Parish
Mo-Dad Utilities	Autumn Brook	Tangipahoa Parish
Mo-Dad Utilities	Autumn Run	Livingston Parish
Mo-Dad Utilities	Autumn Trace	Tangipahoa Parish
Mo-Dad Utilities	Azalea Woods	Tangipahoa Parish
Mo-Dad Utilities	Bayou View Estates	Ascension Parish
Mo-Dad Utilities	Belle Foret	Tangipahoa Parish
Mo-Dad Utilities	Black Subdivision	Tangipahoa Parish
Mo-Dad Utilities	Brady Place	Tangipahoa Parish
Mo-Dad Utilities	Bridalwood/Stone Ridge	Livingston Parish
Mo-Dad Utilities	Brighton Cove	Tangipahoa Parish
Mo-Dad Utilities	Brightwood	Livingston Parish
Mo-Dad Utilities	Burlington Lakes	East Baton Rouge
Mo-Dad Utilities	Canary Island	Livingston Parish
Mo-Dad Utilities	Carlton Oaks	Livingston Parish
Mo-Dad Utilities	Carriage House Apartments	Tangipahoa Parish
Mo-Dad Utilities	Carter Hills	Livingston Parish
Mo-Dad Utilities	Utility Plant-Chinquapin 2	Livingston Parish
Mo-Dad Utilities	Utility Plant-Chinquapin Camps	Livingston Parish
Mo-Dad Utilities	Clear Lake	Livingston Parish
Mo-Dad Utilities	Coles Creek East	Tangipahoa Parish
Mo-Dad Utilities	Coles Creek Extension	Tangipahoa Parish
Mo-Dad Utilities	Collins Place	Livingston Parish
Mo-Dad Utilities	Country Rivers	Tangipahoa Parish
Mo-Dad Utilities	Cross Creek	Livingston Parish
Mo-Dad Utilities	Cypress Hollow	Tangipahoa Parish
Mo-Dad Utilities	Cypress Lakes	Ascension Parish
Mo-Dad Utilities	Davey Estates	Tangipahoa Parish
Mo-Dad Utilities	Deer Crossing	Livingston Parish
Mo-Dad Utilities	Driftwood Estates	Livingston Parish

SCHEDULE A

**MO-DAD UTILITIES, L.L.C.
WASTEWATER SYSTEMS**

Mo-Dad Utilities	Dunson Park	Tangipahoa Parish
Mo-Dad Utilities	Elmwood Park 2	Tangipahoa Parish
Mo-Dad Utilities	Emerald Estates	Tangipahoa Parish
Mo-Dad Utilities	Emerald Gardens	Tangipahoa Parish
Mo-Dad Utilities	Equestrian Estates	Livingston Parish
Mo-Dad Utilities	Forest Ridge	Livingston Parish
Mo-Dad Utilities	Galvez Cove	Ascension Parish
Mo-Dad Utilities	Galvez Oaks	Ascension Parish
Mo-Dad Utilities	Gates at Burlington	East Baton Rouge
Mo-Dad Utilities	Greenleaf	Tangipahoa Parish
Mo-Dad Utilities	Hillside Village	Ascension Parish
Mo-Dad Utilities	Gunboat Island Estates	Ascension Parish
Mo-Dad Utilities	Isle of Orleans	Tangipahoa Parish
Mo-Dad Utilities	Justin Heights	Livingston Parish
Mo-Dad Utilities	Lake at Manchac	Ascension Parish
Mo-Dad Utilities	Lake Park	Ascension Parish
Mo-Dad Utilities	Lakeland Park	East Baton Rouge
Mo-Dad Utilities	Lakeside Cove	Livingston Parish
Mo-Dad Utilities	Lakes at Fennwood	Livingston Parish
Mo-Dad Utilities	Lakin Ridge	Tangipahoa Parish
Mo-Dad Utilities	Live Oak Landing	Livingston Parish
Mo-Dad Utilities	Livingston Trace	Livingston Parish
Mo-Dad Utilities	Logan Creek/Berry Ridge	Tangipahoa Parish
Mo-Dad Utilities	Loranger Trace	Tangipahoa Parish
Mo-Dad Utilities	Madeline Court	Tangipahoa Parish
Mo-Dad Utilities	Manchac Highlands	Ascension Parish
Mo-Dad Utilities	Maplewood	Tangipahoa Parish
Mo-Dad Utilities	Martinville Estates	Tangipahoa Parish
Mo-Dad Utilities	Meadow Lake	Livingston Parish
Mo-Dad Utilities	Montrose 2	Livingston Parish
Mo-Dad Utilities	Oak Meadow	Ascension Parish
Mo-Dad Utilities	Oak Cluster	East Baton Rouge
Mo-Dad Utilities	Olde Mill	Tangipahoa Parish

SCHEDULE A

**MO-DAD UTILITIES, L.L.C.
WASTEWATER SYSTEMS**

Mo-Dad Utilities	Paradise Point	Livingston Parish
Mo-Dad Utilities	Parisienne Villas	Ascension Parish
Mo-Dad Utilities	Parkview	Ascension Parish
Mo-Dad Utilities	Prairie Oaks	Ascension Parish
Mo-Dad Utilities	Parkview Oaks	Ascension Parish
Mo-Dad Utilities	Park Ridge	Livingston Parish
Mo-Dad Utilities	Pelican Gardens	Tangipahoa Parish
Mo-Dad Utilities	Reserve at Willow Lake	Ascension Parish
Mo-Dad Utilities	Riverside Ridge	Livingston Parish
Mo-Dad Utilities	Riverwoods	Tangipahoa Parish
Mo-Dad Utilities	Robertson Apartments	Tangipahoa Parish
Mo-Dad Utilities	Rolling Meadow	Livingston Parish
Mo-Dad Utilities	Seigle Landing	Livingston Parish
Mo-Dad Utilities	Shadow Pines	Livingston Parish
Mo-Dad Utilities	South Haven	Livingston Parish
Mo-Dad Utilities	Southern Pines	Tangipahoa Parish
Mo-Dad Utilities	Southwood Townhomes/Village	Ascension Parish
Mo-Dad Utilities	Spring Lake	Livingston Parish
Mo-Dad Utilities	Spring Lake 4	Livingston Parish
Mo-Dad Utilities	Stone Hill	Livingston Parish
Mo-Dad Utilities	Stone Ridge	Ascension Parish
Mo-Dad Utilities	Terry Harbor/Kingspoint	Livingston Parish
Mo-Dad Utilities	The Landings	Tangipahoa Parish
Mo-Dad Utilities	The Rivers	Tangipahoa Parish
Mo-Dad Utilities	The Village	Tangipahoa Parish
Mo-Dad Utilities	Timber Ridge	Tangipahoa Parish
Mo-Dad Utilities	Tranquility Lakes	St. Helena
Mo-Dad Utilities	Villas at Bedico Creek	Tangipahoa Parish
Mo-Dad Utilities	West Lake Estates	West Baton Rouge
Mo-Dad Utilities	West Ridge	Ascension Parish
Mo-Dad Utilities	Westminister Estates	Livingston Parish
Mo-Dad Utilities	Weston Court	Ascension Parish
Mo-Dad Utilities	Whisper Hollow	Livingston Parish

SCHEDULE A

**MO-DAD UTILITIES, L.L.C.
WASTEWATER SYSTEMS**

Mo-Dad Utilities	Whispering Oaks	Ascension Parish
Mo-Dad Utilities	Whispering Winds	Tangipahoa Parish
Mo-Dad Utilities	Willow Lake	Ascension Parish
Mo-Dad Utilities	Wolfe Lakes	Tangipahoa Parish
Mo-Dad Utilities	Woodland Crossing 1	Livingston Parish
Mo-Dad Utilities	Woodland Crossing 2	Livingston Parish
Mo-Dad Utilities	Woodland Crossing 3	Livingston Parish
Mo-Dad Utilities	Woodland Crossing 4	Livingston Parish
Mo-Dad Utilities	Woodland Crossing 5	Livingston Parish
Mo-Dad Utilities	Woodland Crossing 6	Livingston Parish
Mo-Dad Utilities	Woodland Crossing 7	Livingston Parish
Mo-Dad Utilities	Woodland Crossing 8	Livingston Parish
Mo-Dad Utilities	Woodland Crossing 9	Livingston Parish
Mo-Dad Utilities	Woodland Ridge	Livingston Parish
Mo-Dad Utilities	Woodrun	Ascension Parish
Mo-Dad Utilities	Oak Wood Estates	Ascension Parish
Mo-Dad Utilities	Bourdon Orleans	Tangipahoa Parish
Mo-Dad Utilities	Woodstock	East Baton Rouge

WATER SYSTEM

Mo-Dad Utilities	Riverscape	Livingston Parish
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EXHIBIT C - PUBLIC

In accordance with Rule 12.1 of the Louisiana Public Service Commission's Rules of Practice and Procedure, this exhibit has been designated "confidential" and submitted under seal as it contains competitively sensitive information.



June 25, 2019

Mr. Brandon Frye
Executive Secretary
Louisiana Public Service Commission
602 North Street
Galvez Building, 12th Floor
Baton Rouge, LA 70802

LA PUBLIC SERVICE COMMISSION
2019 JUN 25 PM 0:56

Re: Magnolia Water Utility Holding Company, LLC
Application for Non-Opposition
H2O Systems, Inc.

Dear Mr. Frye:

Please find enclosed an original and three copies of Magnolia Water Utility Holding Company, LLC's Application for Non-Opposition to the acquisition of the water and/or wastewater system(s) currently operated by H2O Systems, Inc. After review, please see that a docket is opened in connection with this filing and that notice is placed in the Official Bulletin on June 28, 2019. Further, we ask that you exercise the discretion provided in Rule 19 and shorten the period to protest this application from twenty-five (25) to fifteen (15) days. Upon filing, please date stamp and return a copy of the filing by hand to our courier.

If you have any questions concerning this filing, please notify me.

Sincerely,

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Andrew B. Ezell

CC: Ms. Melissa Watson
Ms. Jaelyn Penzo
Mr. Patrick L. Roque

ROUTE TO Bull-15204 ROUTE FROM _____
DEPT. Bull DATE 6/26 DEPT. _____
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ALL OR SUBSTANTIALLY ALL THE ASSETS OF A WATER AND WASTEWATER
UTILITY REGULATED BY THE LOUISIANA PUBLIC SERVICE COMMISSION**

Seller: H2O Water Systems, Inc.

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In accordance with the March 18, 1994, *General Order* regarding approval of sales and other changes in ownership or control of public utilities subject to the Louisiana Public Service Commission's ("Commission") jurisdiction, H2O Water Systems, Inc. ("H2O") seeks an order reflecting the Commission's approval of, or non-opposition to, H2O's proposal to sell or transfer to Magnolia Water Utility Operating Company, LLC ("Magnolia"), all or substantially all assets and property H2O owns and uses to provide regulated water and wastewater utility service to customers in St. Tammany Parish, Louisiana.

Magnolia is a Louisiana limited liability company, in good standing, formed to acquire the assets of water and wastewater utilities in Louisiana and to own and operate those assets as public utilities subject to the Commission's regulatory jurisdiction. Magnolia is part of an affiliate group that includes Central States Water Resources, Inc. ("Central States"), a Missouri corporation in good standing, CSWR, LLC ("CSWR"), a Missouri limited liability company in good standing, and several other companies, some of which currently operate small water or wastewater utilities in Missouri and Arkansas. A chart showing the companies in the affiliate group is attached to the petition as **Exhibit A** and is incorporated by reference. The significance of those affiliate relationships to the transaction that is the subject of the petition are discussed in greater detail below. The principal address of Magnolia, Central States, and CSWR is 500 Northwest Plaza Drive, Suite 500, St. Ann, Missouri, 63704. All notices and other official documents related to the application should be sent to the attention of Josiah Cox, President, Mike Duncan, Director of Business Operations, and Russ Mitten, General Counsel, at the address shown in the preceding sentence or at the following email addresses: jcox@cswrgroup.com; mduncan@cswrgroup.com; rmitten@cswrgroup.com. Copies also should be sent to Andrew B. Ezell, 10761 Perkins Road, Suite A, Baton Rouge, Louisiana, 70810, or at the following email address: aezell@ezellfirm.com.

H2O currently provides regulated water and wastewater services to approximately 4,921 water and approximately 4,586 wastewater customers in forty-two subdivisions (see attached **Schedule A**) in St. Tammany Parish. H2O is a Louisiana corporation, in good standing, whose principal office is at 845 Galvez Street, Mandeville, Louisiana, 70488. All notices and other official documents related to the application should be sent to the attention of Kelly J. McHugh, the company's President, at that address or to the following email address: kim@kellymchugh.com.

Magnolia proposes to buy and H2O proposes to sell all or substantially all its franchises, works, operations, systems, land and related improvements, easements, rights-of-way, permits, leases, service facilities, equipment, machinery, lines, plant, pipes, manholes and appurtenances, supplies, and other assets currently used to provide regulated water and wastewater service in Louisiana. Central States and H2O entered into a formal purchase and sale agreement specifying terms of their transaction ("Sale Agreement"). A fully executed copy of the agreement is attached to the petition as **Exhibit B** and incorporated by reference. In accordance with Rule 12.1 of the

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The affiliated group of which Magnolia and CSWR are members is the type of buyer small system operators like H2O have sought out. The group's business plan is to pursue the purchase and recapitalization of small water and wastewater systems, many of which are financially distressed. CSWR and its affiliates already have acquired numerous systems in Missouri and Arkansas. Three pending applications in Missouri seek authority to conclude additional acquisitions in that state, and other acquisition proposals are pending before utility regulators in Tennessee and Kentucky.

All the systems CSWR and its affiliates have acquired thus far reflect some degree of operational neglect, with several recording numerous, and oftentimes ongoing, violations of applicable health and environmental regulations. Following their acquisition, Central States has assisted its Missouri and Arkansas affiliates in bringing the systems up to standard (or are continuing the process to do so). Central States also is assisting its affiliates in ensuring their systems are operated in full compliance with environmental, operational, and utility commission regulations. With respect to future operations in Louisiana, representatives of CSWR already have conducted preliminary discussions with the Louisiana Department of Environmental Quality and the Louisiana Department of Health and Hospitals concerning the timing and methodology required to coordinate Magnolia's efforts to bring troubled systems into compliance post-acquisition.

Through its relationship with Central States (which acts as a service company for the group) and other companies within the affiliate group, Magnolia would have access to highly skilled technical, managerial, and financial experts and resources not usually available to small wastewater companies. Central States' personnel, who would be actively engaged in managing Magnolia's operations, have extensive experience in the technical, managerial, and financial aspects of the utility industry and they have developed innovative operational, marketing, and customer service programs that provide their affiliates' current customers high quality advanced services at fair and reasonable rates.

As previously noted, consummation of the asset sale contemplated by the Sale Agreement is contingent on receipt of a Commission order approving the transaction and granting Magnolia authority to operate water and wastewater systems in Louisiana, as required by state law. To secure approval of the transaction, Magnolia provides the following information required by the March 18, 1994, *General Order*.

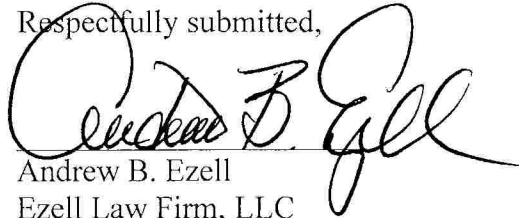
1. The proposed transfer of assets to Magnolia is in the public interest. As explained in greater detail elsewhere in the petition, Magnolia and its affiliates have the technical, managerial, and financial expertise and experience necessary to own and operate the utility assets it proposes to acquire and ready access to sufficient financial resources to make necessary capital investments and expenditures required to bring the system into compliance with current and future health and environmental regulations. Moreover, Magnolia is committed to providing current and future customers safe and reliable service at fair and reasonable rates.
2. Magnolia is ready, willing, and able to provide safe, reliable, and adequate service to customers of the system it proposes to acquire and to do so at rates that are fair and reasonable.
3. Because of its ability to readily access capital necessary to bring the subject system into compliance with health and environmental regulations and operate the system in a manner consistent with those regulations, Magnolia's acquisition of the assets at issue in the petition would likely improve, the financial condition of the utility.
4. The system Magnolia proposes to acquire has, in the past, failed to satisfy one or more health or environmental regulations. As detailed elsewhere in the petition, Magnolia has identified capital investments and expenditures necessary to correct past problems and ensure that in the future the system would be operated in full compliance with all applicable regulations. These system improvements and Magnolia's commitment to operate the system in a manner that ensures customers receive safe, reliable, and adequate service at a fair price would combine to maintain or improve the overall quality of service customers of the system currently receive.
5. Authorizing Magnolia to acquire the subject assets would bring both short- and long-term benefits for customers. Technical, managerial, and financial resources available from its affiliates would enable Magnolia to quickly identify and remedy any deficiencies in the operation or management of the subject system. And, because of economies of scale

Central States can achieve by serving several affiliates, Magnolia likely can utilize those resources at less cost than would be the case if it was forced to acquire those same resources as a stand-alone company. As explained in greater detail later in the petition, Magnolia's affiliate group also has access to funds required to make capital investments and expenditures necessary to ensure the system provides reliable and safe service that complies with all applicable health and environmental regulations.

6. The transaction would not adversely affect competition because H2O is the only water and wastewater utility authorized to serve customers within its service area.
7. As noted elsewhere in the petition, personnel from Central States have far greater technical, managerial, and financial expertise and experience than is available to most small water and wastewater utilities. These personnel would be actively involved in overseeing Magnolia's day-to-day operations and assisting the company as it plans system improvements and additions necessary for the future. As a result of the involvement of these highly skilled and experienced utility professionals, the quality of service Magnolia's management can provide will be greatly improved and enhanced.
8. Magnolia intends to hire a qualified and experienced third-party contractor to manage and operate the subject system day-to-day. It is Magnolia's intent that the third-party contractor would offer employment to most if not all qualified current employees of H2O.
9. The proposed transfer would be fair and reasonable to the majority of H2O's shareholders, as evidenced by the fact that without the consent of its shareholders H2O could not have entered into the Sale Agreement with Central States.
10. The proposed transaction would have an overall positive effect on state and local economies. From a local property tax standpoint, the transfer of assets should have no adverse effect on state or local taxing authorities. If the transaction is approved, only the identity of the taxpayer would change. And overall, the proposed transaction should prove beneficial to the state of Louisiana and the local communities where H2O's customers reside. All those entities have an interest in ensuring their citizens receive safe, adequate, and reliable water and wastewater services at fair and reasonable rates. Authorizing Magnolia to acquire H2O's assets would produce that desired result.
11. Magnolia concedes the Commission's authority to regulate its rates and operations in the manner prescribed by Louisiana law. Therefore, the proposed transfer would have no effect on the Commission's jurisdiction over the subject water and wastewater systems.
12. Neither H2O nor Magnolia anticipates any adverse consequences to customers or other interested stakeholders if the Commission approves the transaction proposed in the petition. Both parties are committed to ensuring the sale of assets is concluded and operational authority over those assets is transferred in a manner that is as transparent as possible and has no adverse effects to customers.

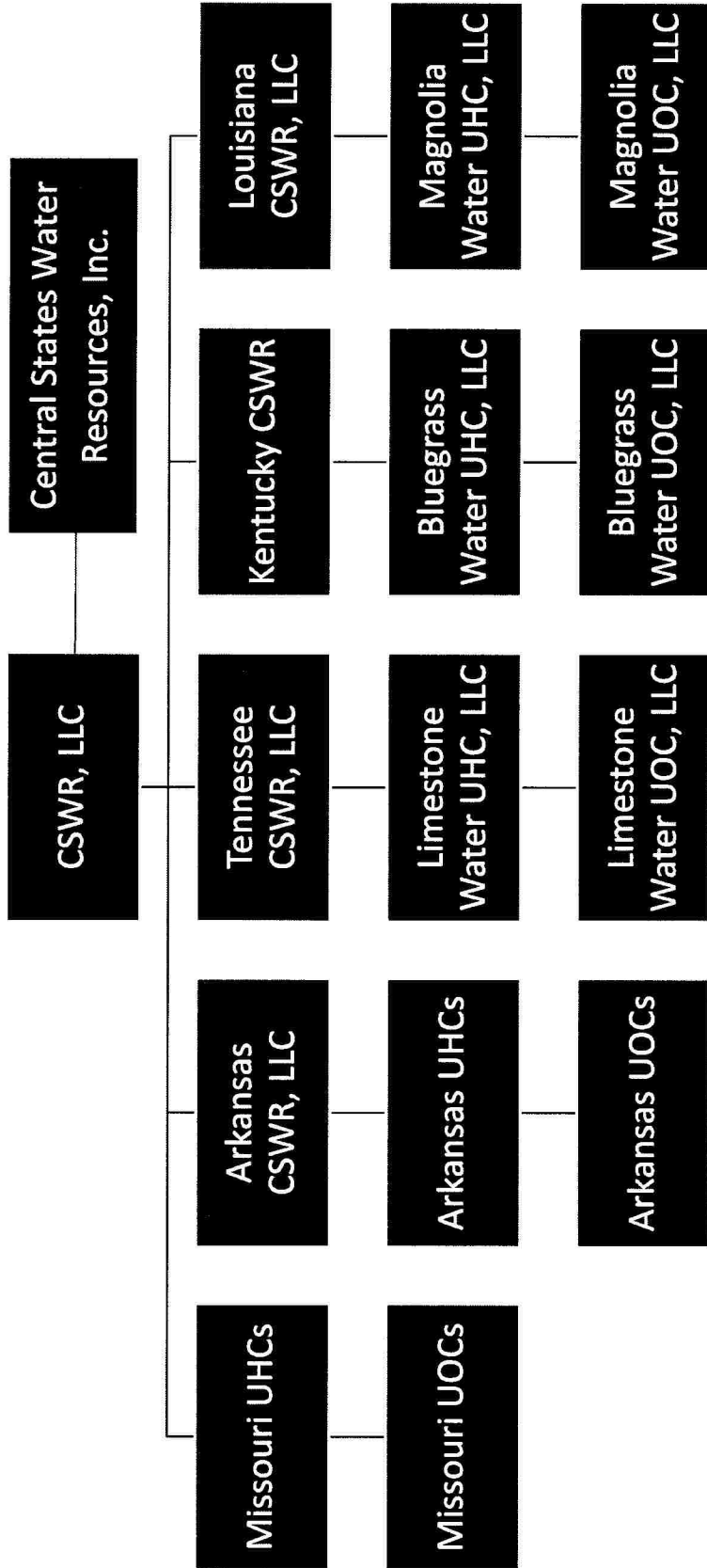
13. Because Magnolia was formed for the purpose of acquiring and operating water and wastewater utilities in Louisiana, it has no track record of regulatory compliance or non-compliance in this state. However, Central States, through its work with other companies within Magnolia's affiliated group, has compiled an enviable record of acquiring severely distressed systems, bringing them into compliance, and then successfully operating those systems in full compliance with health and environmental regulations. Affiliated companies within the group operating in Missouri have a good customer service and operating reputation with utility regulators in that state. (Arkansas, the other state where Magnolia's affiliates currently operate, does not regulate rates or operations of small water and wastewater utilities.)
14. Through its affiliated group, Magnolia would have ready access to capital required to make necessary investments and expenditures in the subject system. CSWR would provide equity financing necessary to make the proposed asset acquisition. Ongoing capital needs would be financed through debt from providers approved by the Commission on terms and conditions that accurately reflect the current state of this system. Current plans envision a capital structure for Magnolia consisting of fifty percent (50%) equity and fifty percent (50%) debt. CSWR's consolidated income statement and balance sheet for 2018 is attached to the petition as **Exhibit C** and incorporated by reference. In accordance with Rule 12.1 of the Commission's rules of practice and procedure, that exhibit has been designated "confidential" because it contains competitively sensitive information.
15. Based on its due diligence efforts thus far, Magnolia has identified the following investments in system upgrades, improvements, and replacements it plans to make if the Commission approves the transaction proposed in the petition: There are 11 wastewater systems, all mechanical plants by design, and 12 water systems, each consisting of a well and storage or pressure tank. Magnolia would make necessary repairs to these facilities, add flow metering and remote monitoring equipment to all wastewater and water facilities, and remote monitoring to other system components as needed. Several of the steel package style mechanical wastewater plants require blasting and coating because the current coating system is failing. Blasting and coating would also be necessary on several storage/pressure tanks in the water systems. The total estimated cost of these upgrades is approximately \$8,085,000.
16. Magnolia's affiliates always hire a qualified and experienced third-party contractor to manage and operate the subject wastewater system day-to-day and would ensure the contractor's personnel have or obtain all required health, safety, and other permits.
17. CSWR would invest equity capital to purchase H2O's assets. Consequently, the asset purchase would not encumber the utility's assets in any way. Ongoing capital needs would be financed through debt from providers approved by the Commission on terms and conditions that accurately reflect the current state of this system.
18. The acquisition of assets proposed in the petition is fair and reasonable in all respects. Consequently, the Commission should not impose or attach any conditions to the transaction.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Andrew B. Ezell". The signature is written in a cursive style with a large initial "A".

Andrew B. Ezell
Ezell Law Firm, LLC
10761 Perkins Road, Suite A
Baton Rouge, LA 70810
Telephone: (225) 763-2272
Facsimile: (225) 763-2273
aezell@ezellfirm.com

Central States Water Resources Corporate Organizational Chart



SCHEDULE A

H2O SYSTEMS, INC. WATER/WASTEWATER SYSTEMS

H2O Systems, Inc.	Village Shopping Center	St. Tammany Parish
H2O Systems, Inc.	Alamosa Business Park	St. Tammany Parish
H2O Systems, Inc.	Audubon Lakes Subdivision	St. Tammany Parish
H2O Systems, Inc.	Autumn Haven Subdivision	St. Tammany Parish
H2O Systems, Inc.	Belle Maison Subdivision	St. Tammany Parish
H2O Systems, Inc.	Bleu Lake Hills Subdivision	St. Tammany Parish
H2O Systems, Inc.	Castine Oaks Subdivision	St. Tammany Parish
H2O Systems, Inc.	Cherry Creek Subdivision	St. Tammany Parish
H2O Systems, Inc.	Deerfield Subdivision	St. Tammany Parish
H2O Systems, Inc.	Estates of Reserve Subdivision	St. Tammany Parish
H2O Systems, Inc.	Fox Run Subdivision	St. Tammany Parish
H2O Systems, Inc.	Grand Palms Apartments	St. Tammany Parish
H2O Systems, Inc.	Greenleaves Subdivision	St. Tammany Parish
H2O Systems, Inc.	Highlands Subdivision	St. Tammany Parish
H2O Systems, Inc.	Hunters Glen Subdivision	St. Tammany Parish
H2O Systems, Inc.	I59 Business & Mobile Home Park	St. Tammany Parish
H2O Systems, Inc.	Interstate 59 Commercial and Mobile Home Park	St. Tammany Parish
H2O Systems, Inc.	Lake Audubon Estates Subdivision	St. Tammany Parish
H2O Systems, Inc.	Lakes of Greenleaves Subdivision	St. Tammany Parish
H2O Systems, Inc.	Laurelwood Subdivision	St. Tammany Parish
H2O Systems, Inc.	Lochmere Subdivision	St. Tammany Parish
H2O Systems, Inc.	Marigny Trace Subdivision	St. Tammany Parish
H2O Systems, Inc.	Meadowbrook Subdivision	St. Tammany Parish
H2O Systems, Inc.	Money Hill Subdivision	St. Tammany Parish
H2O Systems, Inc.	Monterey Subdivision	St. Tammany Parish
H2O Systems, Inc.	Oak Island Subdivision	St. Tammany Parish
H2O Systems, Inc.	Old Mandeville Woods Subdivision	St. Tammany Parish
H2O Systems, Inc.	Penn Mill Lakes Subdivision	St. Tammany Parish
H2O Systems, Inc.	Penn Mill Place	St. Tammany Parish
H2O Systems, Inc.	Pruden Creek Subdivision	St. Tammany Parish
H2O Systems, Inc.	Reserve Subdivision	St. Tammany Parish
H2O Systems, Inc.	River Park Crossing	St. Tammany Parish
H2O Systems, Inc.	River Park Estates	St. Tammany Parish
H2O Systems, Inc.	Seven Oaks Subdivision	St. Tammany Parish
H2O Systems, Inc.	Seven Pines Subdivision	St. Tammany Parish
H2O Systems, Inc.	Sunshine Plaza Shopping Center	St. Tammany Parish
H2O Systems, Inc.	Tete L'ours Ph3 Subdivision	St. Tammany Parish
H2O Systems, Inc.	Timbercreek Subdivision	St. Tammany Parish
H2O Systems, Inc.	Timbers Subdivision	St. Tammany Parish
H2O Systems, Inc.	Unincorporated Squares of Mandeville	St. Tammany Parish

SCHEDULE A

**H2O SYSTEMS, INC.
WATER/WASTEWATER SYSTEMS**

H2O Systems, Inc.
H2O Systems, Inc.

Whippoorwill Ph7 Subdivision
Winghaven Subdivision

St. Tammany Parish
St. Tammany Parish

In accordance with Rule 12.1 of the Louisiana Public Service Commission's Rules of Practice and Procedure, this exhibit has been designated "confidential" and submitted under seal as it contains information regarding strategies employed in contract negotiations and other competitively sensitive information.

In accordance with Rule 12.1 of the Louisiana Public Service Commission's Rules of Practice and Procedure, this exhibit has been designated "confidential" and submitted under seal as it contains competitively sensitive information.