

**IMPORTANT: New Rates are effective for usage on & after January 1, 2018.**

**\*\* This information does not pertain to any customer on the Guste Island Water System. \*\***



TO: Our Valued Water and Sewer Customers  
FROM: H2O Systems, Inc. Management  
RE: Notice of Approved Rate Changes

H2O Systems, Inc. ("H2O" or "the Company"), would like to advise our customers of a change in monthly water and sewer rates approved by our rate regulatory agency, Louisiana Public Service Commission ("LPSC"). The Company has been in negotiations with LPSC since 03/2017 to provide an equitable rate to our customers that would provide the necessary capital for operational needs as well as improvements to our systems. The Company has endeavored to hold the line on such increases, but the Company's last rate increase from October 2009 no longer provides the capital necessary for us to continue to provide our customers with safe, reliable drinking water and environmentally compliant wastewater treatment, especially during anticipated storm events. The additional revenue from the pending change in rates will be used to cover increased operating costs and planned improvements, which are attributable in part to unfunded mandates from the Louisiana Department of Health ("LDH") and the Louisiana Department of Environmental Quality ("LDEQ"), to ensure our continued compliance with these mandates. The additional monthly revenue will also cover needed replacements and improvements to the Company's aging water and sewer systems, as well as advancing the "storm hardening" of the entire system in the event of extended power outages.

*Below we have more fully detailed the reasons and circumstances surrounding our request. Please be advised that the approved rate changes have been thoroughly reviewed and considered by the LPSC after a complete audit of the Company's annual financials by LPSC accountants and auditors.*

Since the Company's last rate increase in October of 2009, H2O Systems, Inc. ("H2O" or "the Company"), completed many significant capital improvements. The most notable & significant capital improvements include but are not limited to:

- Rebuilt several major lift stations on our sewer systems, including the Plantation LS (09/2012), Brookwood/Springwater LS (02/2012), Meadowbrook Main LS (10/2012), Lochmere LS (12/2012), Albert Street LS (09/2011), Steeplechase LS (03/2012), Greenleaves Blvd Main LS (05/2013), Hunters Glen LS (03/2013), Frost Lane LS (07/2013), I-59 LS (11/2013), Orchard Row LS (12/2013), Audubon Lakes LS (05/2014), Kingfisher Dr LS (06/2014), and Timbers LS (10/2011).
- Replaced and/or repaired major water components, including new pump for Woodlands Apts Well (03/2010), New Service Lines in Bleu Lake Hills (07/2010), Motor repair on Autumn Haven Well (12/2010), and repairs to the chlorinator on Greenleaves Blvd Well (01/2011).
- Installed new equipment mandated by LDH, including sampling stations for all water systems (03/2011 and 02/2014), flowmeter on Autumn Haven Well (12/2014) water line connection from Monterey Water System to 2<sup>nd</sup> emergency source (10/2013), increased chlorine feed pumps at various sites (01/2014), and weighing scales at Autumn Haven Well (10/2014).
- Repaired and/or improved Major Wastewater Treatment Components, including the Monterey Sewage Treatment Facility (STF) (10/2012), the Money Hill STF (04/2013), the Greenleaves STF (08/2013), I59 STF (11/2014), and remote alarm systems for numerous lift stations and wells to warn of power outages and/or pump failures (06/2012 and 04/2013).

Over the last five (5) years, H2O has invested approximately \$1.99 million dollars on major capital improvements to ensure that we are providing the quality of services expected by our customers and regulatory agencies. This value does not include the monies spent on minor and/or routine repairs and maintenance, chemical costs, regulatory fees and other operational costs necessary to properly manage and maintain our various water and sewer systems throughout St. Tammany Parish, LA.

H2O is a locally owned and operated company that functions solely on the revenues generated from our monthly charges. H2O does not receive additional funding from any taxing entity and/or grants or loans from state and/or federal agencies. Therefore, we must closely monitor and make decisions based on our budget and available funds, and our major capital improvements must be funded through private loans with local banks. These loans are only available because the Company shows a viable, healthy financial oversight and management.

To continue our history of maintaining a healthy company that provides our customers with safe, reliable drinking water and environmentally compliant wastewater treatment, we must have revenues that meet our monthly expenditures and allow us the capacity to make necessary repairs, replacements and/or improvements on our various systems.

Our plans for future capital improvements include, but are not limited to:

- Storm-Hardening of Major Components of All Water and Sewer Systems. At present, H2O has installed generators at most of our well sites to provide water to our customers during extended power outages. Our plans are to expand our generator system to include all well sites and major components of each sewer system. The "hardening" of the sewer systems will minimize overflows of untreated wastewater during major storm events. Simply put, following this completion most customers will enjoy uninterrupted water and sewer service despite the loss

of electrical service to our facilities. H2O will strategically revise its plan to provide the greatest number of customers with storm hardened systems with the funds available. We hope that any remaining components of the system would be funded in future requests to the LPSC.

- **LDH Compliance Issues.** Due to recent actions of the Louisiana Department of Health (LDH), many existing water companies have been given Sanitary Surveys noting major and minor deficiencies, even though the equipment and/or improvements were not required during the initial approval by LDH and may not be necessary to provide safe, reliable drinking water to our customers. Unfortunately, H2O must comply with the regulatory agency to avoid possible fines and/or penalties. Accordingly, H2O must expend its capital resources to install flowmeters, weighing scales and other equipment at various well sites and water systems.
- **Alamosa STF Refurbishment Project.** This facility is over twenty (20) years old and requires the major overhaul of all facility components to maintain regulatory compliance.
- **Lift Station Replacement Program.** The most vulnerable component of each sewer system is the lift station installed to pump the untreated wastewater from the sewer collection systems to the wastewater treatment facilities. Each lift station requires routine maintenance and cleaning, which is performed monthly by our field personnel. However, even with regular maintenance and attention, the electrical and mechanical components of these stations begin to experience normal wear, tear and breakage. Our Lift Station Replacement Program identifies stations with the most aged and worn equipment and ranks the stations in order of importance for replacement of major components, such as control panels, pumps and/or major rebuilds depending on the condition of each station. It is important that H2O continues to identify and repair our sewer system lift stations to prevent overflows of untreated wastewater.
- **Electric Meter Conversion Program.** At present, all new meters installed by H2O are electronic meters that are capable of being read remotely with a hand-held device. Over the last ten (10) years, as capital was available, we have undertaken our Electric Meter Conversion Program, replacing the older manually read meter with the electronic meters in several areas. The electronic meters increase efficiency and eliminate the possibility of reading errors and/or entry errors on the customer's account. It is vital that we convert all areas to electronic meters to improve our efficiency as well as our accuracy for servicing our customers. H2O will strive to replace as many meters within certain areas as possible with the funds available. We hope that any remaining costs of the program will be funded in future requests to the LPSC.

**The most notable change in monthly rates will be the stipulation required to LPSC to reduce our minimum bill from 4,000 gallons to 2,000 gallons for residential customers. Below is a chart comparing our existing rates with our pending rates:**

	Current Rates	New Rates
<b>Metered Water Rates:</b>		
Residential & Multi-Family	\$16.20 for first 4,000 gallons	\$17.75 for first <b>2,000</b> gallons
Each Additional 1,000 gallons	\$2.40	\$2.75
Commercial	\$39.00 for first 4,000 gallons	\$45.25 for first 4,000 gallons
Each Additional 1,000 gallons	\$3.10	\$3.75
<b>Wastewater Rates</b>		
Residential & Multi-Family	\$18.63 Minimum; \$65.00 Maximum	\$20.77 Minimum; \$65.00 Maximum
Multiplier based on Water Rates	115%	117%
Commercial	\$46.80 Minimum, No Max	\$56.56 Minimum, No Max
Multiplier based on Water Rates	115%	125%

**Below is a chart indicating the potential monthly increases our customers could expect from approved rates:**

Existing Monthly Water & Sewer Bill (excluding fees & taxes)	New Monthly Water & Sewer Bill (Effective Date: 01/01/2018)	Monthly Increase from Permanent Rate Relief Based on Usage
<b>Residential &amp; Multi-Family Customers:</b>		
\$34.83 (Minimum Bill*)	\$38.52	\$3.69
\$54.64 (Average usage**)	\$73.37	\$18.73
<b>Commercial Customers:</b>		
\$85.80 (Minimum bill*)	\$101.81	\$16.01
\$131.77 (Average Usage**)	\$157.11	\$25.34

\*Minimum bill – Our minimum rate is charged to all customers consuming up to 4,000 gallons/month. **The new monthly minimum bill for residential customers will be based on 2,000 gallons as per recommendations from LPSC.**

\*\*Average Usage – The average usage for a residential customer is 7,840 gallons/month. The average usage for a commercial customer is 11,240 gallons/month. Average usage is based on historical usage values from all service areas.

**If you have a question concerning this information or would like to make a comment and/or suggestion for future capital improvements or needed repairs, please send your question, comment and/or suggestion via email to [info@h2osystemsinc.com](mailto:info@h2osystemsinc.com).**