



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

H2O Systems, Inc. ("H2O" or "the Company"), would like to advise our customers of a pending request to the Louisiana Public Service Commission ("LPSC"), to increase our monthly water and sewer rates. The Company has endeavored to hold the line on such increases, but circumstances dictate our taking this action. The Company's last rate increase was in October of 2009. The Company needs additional monthly revenue so that we may continue to provide our customers with safe, reliable drinking water and environmentally compliant wastewater treatment, especially during anticipated storm events. This additional monthly revenue will 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 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 finalizing the "storm hardening" of the entire system in the event of extended power outages.

*We respectfully request the support and consideration of our customers for the pending request to the Louisiana Public Service Commission ("LPSC") for an increase in our monthly water and sewer rates. Below we have more fully detailed the reasons and circumstances surrounding our request. Please be advised that our proposal to the LPSC will be reviewed and considered by the Commissioners after a thorough audit of the Company's annual financials by Commission 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, including but 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 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 invested approximately \$1.9 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.
- Sewer Force Main Routing From Marigny Trace to Albert Street Lift Station. Many customers in the area may know that H2O actually completed this project last month. The project was undertaken prior to the rate relief due to the necessity of eliminating the overflows from the collection system during heavy rainfall events. H2O made the executive decision to expend the balance of the Company’s reserve funds to install this project at the earliest possible date.
- 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; therefore, 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.
- Vehicle Replacement Program (VRP). At present, H2O does not have available capital funds to employ a VRP. As a result, the overall quality of vehicles used by our employees is poor. The pumps trucks and crane trucks required to maintain our lift stations and treatment facilities are over twenty (20)+ years old with over 110,000+ miles on each vehicle. These vehicles are mandatory for the proper operation of the company and must be replaced within the next five (5) years. Although we have been able to recently purchase two (2) new “used” field trucks, these trucks were necessary to replace vehicles that had broken down and were unrepairable. Our plans include the implementation of an approved VRP to improve the overall condition of our fleet. Our VRP only employs “used” replacement vehicles with 30,000 to 60,000 miles. We do not expect to purchase any new vehicles for our fleet inventory.
- 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.

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

Existing Monthly Water & Sewer Bill (excluding fees & taxes)	Emergency Rate Relief (Proposed Effective Date: 01/01/2017)	Monthly Increase from Emergency Rate per Household Based on Usage	Permanent Rate Relief (Proposed Effective Date: 07/01/2017)	Monthly Increase from Permanent Rate Relief per Household Based on Usage
<b>Residential &amp; Multi-Family Customers:</b>				
\$34.83 (Minimum Bill*)	\$38.70	\$3.87	\$42.79	\$4.10
\$54.64 (Average usage**)	\$63.39	\$8.75	\$69.65	\$6.26
\$95.09 (2x Average usage)	\$113.82	\$18.73	\$124.50	\$10.68
<b>Commercial Customers:</b>				
\$85.80 (Minimum bill*)	\$117.30	\$31.50	\$131.10	\$13.80
\$131.77 (Average Usage**)	\$175.28	\$43.51	\$192.33	\$17.05

\*Minimum bill – Our minimum rate is charged to all customers consuming up to 4,000 gallons/month.

\*\*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.

H2O is requesting emergency and permanent rate relief to reduce the initial impact and financial stress of increased rates on our customers. Two of the reasons for this emergency relief are to begin the next set of capital improvements and to begin to replenish our capital reserve. Although H2O has immediate needs for the proposed permanent rate, we understand our customers' need for budgeting and forecasting expenditures in this financial climate. Therefore, as we have done in past years, we will carefully plan projects and make necessary decisions based on the available revenues generated during the emergency rate to provide maximum impact for our customers.

H2O is also requesting an increase of our nonrecurring charges, such as the Tap In Fee and Capacity Reservation Fee. We anticipate that the vast majority of these increases will be borne by customers in potential new developments which will become part of the company.

**Below are the Comparisons of the Existing / Emergency / Permanent Rates by Service:**

	Existing Rate	Proposed Emergency Rate	Proposed Permanent Rate
<b>Residential Water :</b>	\$16.20 for first 4,000 gallons	\$17.75 for first 4,000 gallons	\$19.45 for first 4,000 gallons
	\$2.40 per 1,000 thereafter	\$2.95 per 1,000 thereafter	\$3.18 per 1,000 thereafter
<b>Residential Sewer:</b>	115% of Water Charges up to \$72.00 maximum	118% of Water Charges up to \$72.00 maximum	120% of Water Charges up to \$72.00 maximum
<b>Commercial Water:</b>	\$39.00 for first 4,000 gallons	\$51.00 for first 4,000 gallons	\$57.00 for first 4,000 gallons
	\$3.10 per 1,000 thereafter	\$3.74 per 1,000 thereafter	\$3.95 per 1,000 thereafter
<b>Commercial Sewer:</b>	120% of Water Charges; no maximum	130% of Water Charges; no maximum	130% of Water Charges; no maximum

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, we invite you to comment on our Facebook page. If you do not have access to Facebook, we request that you send your question, comment and/or suggestion via email to [info@h2osystemsinc.com](mailto:info@h2osystemsinc.com).