

Missouri Public Service Commission

Respond Data Request

Data Request No.	0023
Company Name	MO PSC Staff-(All)
Case/Tracking No.	WA-2019-0185
Date Requested	7/15/2019
Issue	General Information & Miscellaneous - Other General Info & Misc.
Requested From	Whitney Payne
Requested By	Keri Roth
Brief Description	Staff position
Description	Is it Staff's position that the acquisitions requested by Osage Utility Operating Company, Inc. would be unlikely to occur without the probability of obtaining acquisition incentives?
Response	Staff does not take a position on whether the acquisitions would be unlikely to occur without the probability of obtaining acquisition incentives. Commission Rule 4 CSR 240-10.085 states that, "When submitting an application for an acquisition incentive to acquire a nonviable utility, the acquiring utility has the burden of proof and shall demonstrate the following: ... The acquisition would be unlikely to occur without the probability of obtaining an acquisition incentive." Staff based its recommendation on an evaluation of each of the criteria of 4 CSR 240-10.085 and considered the history of each of the systems OUOC seeks to acquire in this matter. Data Request Response provided by Natelle Dietrich (natelle.dietrich@psc.mo.gov) and Jim Busch (jim.busch@psc.mo.gov).
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **WA-2019-0185** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **MO PSC Staff-(All)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **MO PSC Staff-(All)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Public
Rationale :	NA

CASE NO. WA-2019-0185 – CONFIDENTIAL (** __ **)

OPC DATA REQUESTS 1103-1109

RESPONSES OF OSAGE UTILITY OPERATING COMPANY, INC.

JULY 29, 2019

		[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
1108	Does Central States Water Resources subsidiaries have a history of acquiring failing or troubled systems?	Yes. To date CSWR affiliated companies have acquired several failing or troubled systems in Missouri and Arkansas. In both states the affiliates worked with state regulators to restore the distressed systems to enable them to provide safe, reliable, and adequate service to customers served by those systems.

FARRIS BOBANGO, PLC

ATTORNEYS AT LAW

Nashville · Memphis

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Tyler A. Cosby
tcosby@farris-law.com

(615) 687-4225 (direct)

July 29, 2019

VIA HAND DELIVERY

19-00062

RECEIVED

JUL 29 2019

**TN PUBLIC UTILITY COMMISSION
DOCKET OFFICE**

Ectory Lawless, J.D.
Dockets and Records Manager
Tennessee Public Utility Commission
502 Deaderick Street
4th Floor
Nashville, TN 37243

Re: In the Matter of the Joint Application of Aqua Utilities Company Inc., and Limestone Water Utility Operating Company, LLC, for Authority to Sell or Transfer Title to the Assets, Property, and Real Estate of a Public Utility and for a Certificate of Public Convenience and Necessity

Dear. Ms. Lawless:

I inadvertently filed the wrong Pre-filed Testimony of Josiah Cox that appeared in Exhibit 11 to the Joint Application. Please replace the Pre-filed Testimony of Josiah Cox that was filed with the Joint Application on July 25, 2019 with the enclosed original. We apologize for the error and any inconvenience it may have caused.

Sincerely,



Tyler A. Cosby

cc: Vance Broemel
Karen H. Stachowski
Terra Allen

**DIRECT TESTIMONY
OF JOSIAH COX
LIMESTONE WATER UTILITY OPERATING COMPANY, LLC**

WITNESS INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Josiah Cox. My business address is 500 Northwest Plaza Drive Suite 500. St. Ann Missouri, 63074.

Q. WHAT IS YOUR POSITION WITH LIMESTONE WATER UTILITY OPERATING COMPANY, LLC (LIMESTONE OR COMPANY)?

A. I hold the office of President of Limestone. I also am President of Central States Water Resources, Inc. ("CSWR"), a Limestone affiliate. Later in my testimony I will describe CSWR's relationship to Limestone and discuss the role CSWR would play in Limestone's future operations if the Commission approves the Joint Application in this case.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Science with a major in Environmental Science from the University of Kansas. Professionally I have worked at the Kansas state biological survey, where I performed a wildlife habitat study. I then worked at a civil engineering firm where I was involved in various facets of the land development process including permitting, entitlement, civil design, project management, and construction management. I focused mainly on the water and wastewater side of the civil engineering business and participated in every part of that business from waste-load allocation studies (now known as the anti-degradation processes), design, permitting, project management, and construction management. I also ran the firm's environmental consulting division and was the second private consultant to submit a water quality impact study in the state of Missouri in 2003. I joined the engineering firm's executive leadership team and helped run all the firm's operations.

Beginning in 2005, I raised money from a group of investors and formed a full-service civil engineering, environmental consulting, general contracting, and construction management firm. I served as the Chief Operating Officer, and finally Chief Executive Officer, I obtained extensive experience with rural communities in every facet of the water and wastewater compliance process, including environmental assessment, permitting, design, construction, operation and community administration of the actual water and wastewater (sewerage) systems. The firm performed stream sampling and built waste-load allocation models to determine receiving water-body protective permit-able effluent pollutant loads. We have done full engineering design of multiple whole community wastewater and water infrastructure systems including wells, water distribution, water

treatment, water storage, wastewater conveyance, and wastewater treatment plants and taken these designs through federal and state administered permitting processes in Missouri. The engineering firm also administered the construction of these water and wastewater systems from green field site selection all the way through system startup and final engineering sign off.

During this time, I began the Master of Business Administration (MBA) program at Washington University in St. Louis, from which I graduated in 2007.

In addition, starting in 2008, I took over the operations of an existing rural sewer district, and I still operate a system managing the functioning, testing, and maintenance of the system. I also act as the administrator for this municipal system performing all the billing, emergency response, accounts payable/accounts receivable, collections, budgeting, customer service, and public town meetings required to service the community.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CASE?

A. The purpose of my testimony is to describe Limestone 's proposal to acquire all assets currently used by Aqua Utilities Company, Inc., ("Aqua") to provide water and wastewater utility service to customers in Hardin County, Tennessee, and explain why both Limestone and Aqua believe their proposed transaction is in the public interest. I also will describe Limestone's relationship to CSWR, the role CSWR would play in Limestone's operation of the sewer systems at issue in this case, and the benefits Limestone' relationship with CSWR would bring to customers served by those systems. Finally, to the extent applicable, I will provide the Commission information required by TPUC Rule 122 0-04-13- .17(2)(f).

**BACKGROUND INFORMATION REGARDING
LIMESTONE AND ITS AFFILIATES**

Q. PLEASE PROVIDE SOME BACKGROUND INFORMATION ABOUT LIMESTONE AND CSWR.

A. Limestone is a limited liability company formed to acquire Aqua's assets. If the Commission grant's the requests the Joint Applicants have made in this case, Limestone would operate the three wastewater systems being acquired from Aqua.

Limestone is an affiliate of CSWR. A corporate organization chart illustrating that relationship was filed in this case as Exhibit 4 to the Joint Application.

In late 2010, after working on several small, failing water and wastewater systems, I created a business plan to acquire and recapitalize failing systems as investor-owned regulated water and wastewater utility companies. In early 2011, I went to the capital markets to raise money to implement my plan. Over a period of approximately three years, I met with over fifty-two infrastructure investment groups trying to raise necessary financing. In February 2014, I achieved my goal, and I used the debt and equity capital I was able to raise to start CSWR. Since its formation, CSWR has acquired, and currently is operating, through various affiliates, 9 small water and 16 wastewater systems in Missouri and Arkansas. In Missouri, those systems are regulated by

the Missouri Public Service Commission. In Arkansas, the systems are outside the Arkansas Public Service Commission's jurisdiction due to annual revenue thresholds. CSWR also has acquisition applications pending in Missouri, Kentucky, and Louisiana.

In 2018, I was able to attract an additional large institutional private equity investor, which allowed me to expand the scope of my business plan beyond Missouri and Arkansas. This new investor is allowing CSWR to form companies for the purpose of acquiring distressed water and wastewater systems in additional states including Tennessee.

Q. WHAT IS CSWR'S BUSINESS PLAN WITH REGARD TO THE ACQUISITION AND OPERATION OF DISTRESSED WATER AND WASTEWATER SYSTEMS?

A. CSWR's business plan is to pursue the purchase and recapitalization of failing water and wastewater systems and to operate those systems as investor-owned regulated utilities. Many of those systems are not currently regulated, and of those that are regulated by state utility commissions many, if not most, are out of compliance with commission rules and with federal or state pollution laws and regulations. Many of those companies do not even have the federal or state permits required to lawfully operate those systems. We also have found that many of the regulated companies have not increased their rates for a decade or more and, as a result, they don't have the financial resources necessary to build, maintain, and replace assets used to provide service or to bring their operations into compliance with rapidly-changing environmental and water quality regulations. Some of these companies are in receivership and, therefore, lack access to capital necessary to improve their systems. Because it has made the effort to find investment capital and investors who are willing to make investments and take risks necessary to bring small water and wastewater systems into compliance with current statutes, rules, and regulations, CSWR, through its affiliates, has been able to acquire distressed systems, invest capital necessary to construct or repair physical facilities, and operate those systems in a way that satisfies customers, regulators, and investors alike. CSWR's business plan and the expertise its personnel provide to affiliates have proven successful in multiple states, and there is every reason to believe that record of success would continue if Limestone is authorized to acquire Aqua's assets and is given the authority to operate those assets in the areas where Aqua currently provides service.

Q. IF THE AUTHORIZATIONS REQUESTED IN THE JOINT APPLICATION ARE GRANTED, WOULD LIMESTONE HIRE EMPLOYEES TO PROVIDE SERVICE IN THE AREAS CURRENTLY SERVED BY AQUA?

A. No, Limestone would not hire Aqua's current employees to operate those systems.

Q. THEN HOW DOES LIMESTONE PROPOSE TO PROVIDE SERVICE TO CUSTOMERS OF THOSE SYSTEMS?

A. If the Joint Application is approved, Limestone would hire a local third-party Operations

and Maintenance (O&M) firm that has knowledgeable and experienced personnel, carries the necessary state licenses, and has insurance coverage necessary to manage the daily wastewater operations of the systems at issue in this case. In addition to its service obligations during normal business hours, the O&M firm would be required to have a 24-hour emergency service line for service disruption. In addition, notice of all service disruption calls would be forwarded to me, as Limestone's president. CSWR has developed a centralized computerized maintenance management system (CCMS) that monitors the performance of our drinking water and wastewater systems and allows CSWR to track the ongoing maintenance and testing of O&M contractors at all our facilities. CSWR uses GIS survey information to accurately map all infrastructure assets which leads to proactive on-going targeted ongoing infrastructure re-investment as part of overall CSWR ownership.

Limestone also will hire a billing and customer service firm to send out bills and handle service-related billing questions. Historically, CSWR has always ensured the billing firm we hire has in place or quickly can establish an online billing system to receive credit card and e-checks from customers and a Limestone-specific customer service email account to field ongoing customer interactions. The customer service representatives are available during normal business hours, can take messages twenty-four hours a day, and all customer correspondence is recorded and logged to consumers' accounts to ensure the highest level of service.

While day-to-day operational, billing, and customer service functions would be provided by non-employee contractors, all management, financial reporting, underground utility safety and location services, Commission regulatory reporting, environmental regulatory reporting and management, operations oversight, utility asset planning, engineering planning, ongoing utility maintenance, utility record keeping, and final customer dispute management would be performed by personnel at CSWR's corporate office, with proportional costs for those services passed down to Limestone. CSWR personnel also would monitor the activities of the non-employee contractors to make sure the systems are being operated and maintained properly and customers' needs are being met. The resumes of CSWR personnel who, in addition to me, will be responsible for providing services or oversight to Limestone's operation were attached to the Joint Application as Exhibit 8.

Q. PLEASE DESCRIBE YOUR AFFILIATES' EXPERIENCE WITH WASTEWATER/SEWER SYSTEMS.

A. On the wastewater side of the business, our group of affiliated companies has purchased 16 wastewater treatment plants with associated sewer pumping stations, gravity force mains, and gravity conveyance lines. In Missouri, the companies have designed, permitted, and completed construction, with Missouri Department of Natural Resources approval, of approximately \$5 million of sanitary sewer systems since March of 2015. These improvements include wastewater line repairs to remove infiltration and inflow, building sewer main extensions, the repair of multiple lift stations, the construction of lift stations, the closure of an existing regulatory impaired wastewater system, building two fully activated sludge plants, constructing moving bed bio-reactor plants (MBBR), converting two failing wastewater systems into sludge storage/flow equalization and treatment basins, converting failed mechanical systems to I-Fast systems, and constructing

various other wastewater supporting improvements. Central States has completed the design and construction permitting for major wastewater improvements for two additional wastewater systems in Missouri, and for new utility acquisitions recently approved in an Elm Hills Utility Operating Company, Inc. acquisition case. These designs include constructing two moving bed bio-reactor plants (MBBR) and constructing various other wastewater supporting improvements. CSWR has also completed or is in the permitting process with the Arkansas Department of Environmental Quality (ADEQ) the design of improvements associated with ten additional wastewater plants in Arkansas.

Q. DOES CSWR HAVE PERSONNEL QUALIFIED TO PERFORM THE SERVICES YOU IDENTIFIED IN YOUR PRECEDING ANSWER?

A. Yes, it does, as evidenced by the fact CSWR already is providing those and other similar services for water and wastewater systems in Missouri and Arkansas. I already described my background and experience in the water and wastewater utility industry and resumes of the key members of CSWR's senior team who would be involved in Limestone's operations were filed as Exhibit 6 to the Joint Application. Each of those senior leaders, and the other CSWR employees who would assist them, is well-qualified to meet the demands of Limestone and its customers and of this commission and other regulators charged with overseeing Limestone's operations. That level of experience and expertise CSWR currently provides affiliated systems in Missouri and Arkansas and that it would bring to Limestone if the Joint Application is approved is not usually available to small systems like those at issue in this case. But CSWR's business model provides these assets to its affiliates and does so, through economies of scale CSWR's centralized management structure can achieve, at a lower cost than would be the case if Limestone or a similarly-sized company had to acquire or provide such expertise and support on its own.

Q. HAS YOUR GROUP OF AFFILIATED COMPANIES TAKEN STEPS TO IMPROVE SERVICES AT THE SYSTEMS IT NOW OPERATES?

A. Yes. In addition to the capital improvements made on all of the systems, the organization has built from scratch customer service systems at each utility that comply with the Missouri Commission's rules and provide benefits to the customers. This includes 24-hour emergency service phone lines for potential service issues, on-call emergency service contractor personnel, implementation of a computerized maintenance management system for wastewater and drinking water utility assets, customer dissemination of Missouri Department of Natural Resources mandated drinking water testing information, on-line bill-pay options, up-to-date website bulletins about current service status, and service initiation or discontinuance procedures.

Q. DO LIMESTONE AND CSWR HAVE THE FINANCIAL CAPACITY TO FINANCE, OWN, AND OPERATE THE SYSTEMS YOU PROPOSE TO ACQUIRE FROM AQUA?

A. Yes, Limestone and CSWR have the financial capacity to finance, own, and operate the three systems we propose to acquire from Aqua.

DESCRIPTION OF THE PROPOSED TRANSACTION

Q. PLEASE DESCRIBE THE WATER AND WASTEWATER SYSTEMS LIMESTONE PROPOSES TO ACQUIRE FROM AQUA.

A. As I mentioned earlier in my testimony, Limestone proposes to acquire water and wastewater systems from Aqua that are located in Hardin County. Maps and aerial photographs showing the areas to be acquired from Aqua were filed as Exhibit 1 to the Joint Application.

Terms of the proposed asset sale are governed by an Agreement for the Sale of Utility System, as amended ("Agreement"), between Aqua and Limestone. A copy of the Agreement, as amended, was filed as Exhibit 9 to the Joint Application, and a copy of the document assigning all assets acquired from Aqua to Limestone was filed as Exhibit 10. As specified in the Agreement, the purchase price for the assets being acquired from Aqua is approximately \$2 million.

No closing date for the transaction has been set, but the Agreement identifies various conditions precedent, including obtaining all required regulatory approvals, that must be satisfied before the transaction can close. Section 17 of the Agreement also authorizes CSWR to assign all its rights to the acquired assets to an affiliated entity. In accordance with that section, at closing CSWR will transfer to Limestone all sewer system assets acquired from Aqua.

Q. IF THE COMMISSION APPROVES THE JOINT APPLICATION, IS LIMESTONE WILLING AND ABLE TO MAKE ANY IMPROVEMENTS NECESSARY TO BRING AQUA'S WATER AND WASTEWATER SYSTEMS UP TO STANDARD AND INTO COMPLIANCE?

A. Yes. If the Commission grants Limestone the authority it seeks in the Joint Application, Limestone and CSWR are willing and able to invest capital necessary to bring the Aqua systems up to standard and into compliance. As I described previously, because of the affiliated structure of which they are part, Limestone and CSWR have access to capital adequate to make current improvements to that system and to continue to operate it in a manner that complies with applicable statutes, rules, and regulations and is in the public interest.

Q. WHAT RATES, RULES, AND REGULATIONS WOULD BE IN EFFECT FOR THE AQUA SYSTEMS AT ISSUE IN THIS CASE?

A. Initially, Limestone proposes to adopt the tariffs, rules, and rates currently in effect for the Aqua systems. However, if the revenue requirement for any or all those systems increase - as likely would be the case given the additional capital investment needed for system upgrades and improvements - or as our own operating experience dictates, in the near-term future Limestone may petition the Commission to increase rates or change certain operating regulations. In the future, Limestone also may also seek authority to consolidate the rates of the three systems it proposes to acquire.

Q. ARE LIMESTONE AND CSWR FAMILIAR WITH THE COMMISSION'S RULES AND REGULATIONS GOVERNING WASTEWATER UTILITIES AND DO YOU PLEDGE TO OPERATE THE THREE SYSTEMS IN A MANNER THAT COMPLIES WITH THOSE RULES AND REGULATIONS?

A Yes, we have familiarized ourselves with the Commission's rules and regulations and pledge to operate the three systems in a manner that complies with all Commission requirements.

Q. DO YOU BELIEVE THE PROPOSED TRANSACTIONS ARE IN THE PUBLIC INTEREST?

A Yes. I believe the proposed acquisition of Aqua's water and wastewater systems would be consistent with and would promote the public interest. Limestone and CSWR are fully qualified, in all respects, to own and operate the systems to be acquired and to otherwise provide safe and adequate service.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

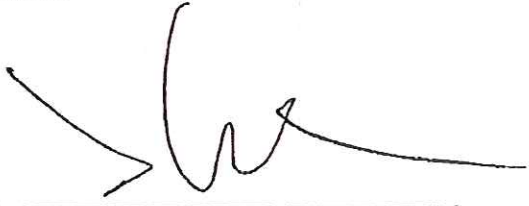
A. Yes, it does.

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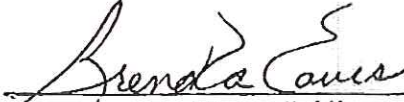
STATE OF MISSOURI)
) ss
COUNTY OF ST. LOUIS)

I, Josiah M. Cox, state that I am the President of Limestone Utility Operating Company, LLC, and that the answers to the questions posed in the attached Direct Testimony are true and correct to the best of my knowledge, information, and belief.



JOSIAH M. COX

Subscribed and sworn to before me this 22nd day of July 2019.



Notary Public

My Commission Expires: 01/31/2021



Exhibit 11

Pre-filed testimony of Josiah Cox

**DIRECT TESTIMONY OF
JOSIAH COX
LIMESTONE WATER UTILITY OPERATING COMPANY, LLC**

WITNESS INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Josiah Cox. My business address is 500 Northwest Plaza Drive Suite 500. St. Ann Missouri, 63074

Q. WHAT IS YOUR POSITION WITH LIMESTONE WATER UTILITY OPERATING COMPANY, LLC (LIMESTONE OR COMPANY)?

A. I hold the office of President of Limestone. I also am President of Central States Water Resources, Inc. ("CSWR"), a Limestone affiliate. Later in my testimony I will describe CSWR's relationship to Limestone and discuss the role CSWR would play in Limestone's future operations if the Commission approves the Joint Application in this case.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Science with a major in Environmental Science from the University of Kansas. Professionally I have worked at the Kansas state biological survey, where I performed a wildlife habitat study. I then worked at a civil engineering firm where I was involved in various facets of the land development process including permitting, entitlement, civil design, project management, and construction management. I focused mainly on the water and wastewater side of the civil engineering business and participated in every part of that business from waste-load allocation studies (now known as the anti-degradation processes), design, permitting, project management, and construction management. I also ran the firm's environmental consulting division and was the second private consultant to submit a water quality impact study in the state

of Missouri in 2003. I joined the engineering firm's executive leadership team and helped run all the firm's operations.

Beginning in 2005, I raised money from a group of investors and formed a full-service civil engineering, environmental consulting, general contracting, and construction management firm. I served as the Chief Operating Officer, and finally Chief Executive Officer, I obtained extensive experience with rural communities in every facet of the water and wastewater compliance process, including environmental assessment, permitting, design, construction, operation and community administration of the actual water and wastewater (sewerage) systems. The firm performed stream sampling and built waste-load allocation models to determine receiving water-body protective permit-able effluent pollutant loads. We have done full engineering design of multiple whole community wastewater and water infrastructure systems including wells, water distribution, water treatment, water storage, wastewater conveyance, and wastewater treatment plants and taken these designs through federal and state administered permitting processes in Missouri. The engineering firm also administered the construction of these water and wastewater systems from green field site selection all the way through system startup and final engineering sign off.

During this time, I began the Master of Business Administration (MBA) program at Washington University in St. Louis, from which I graduated in 2007.

In addition, starting in 2008, I took over the operations of an existing rural sewer district, and I still operate a system managing the functioning, testing, and maintenance of the system. I also act as the administrator for this municipal system performing all the billing, emergency response, accounts payable/accounts receivable, collections, budgeting, customer service, and public town meetings required to service the community.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CASE?

A. The purpose of my testimony is to describe Limestone's proposal to acquire all assets currently used by Cartwright Creek, LLC, ("Cartwright") to provide wastewater utility service to customers in three service areas in Williamson County, Tennessee – Arrington Retreat, The Grasslands, and The Hideaway – and explain why both Limestone and Cartwright believe their proposed transaction is in the public interest. I also will describe Limestone's relationship to CSWR, the role CSWR would play in Limestone's operation of the sewer systems at issue in this case, and the benefits Limestone' relationship with CSWR would bring to customers served by those systems. Finally, to the extent applicable, I will provide the Commission information required by TPUC Rule 1220-04-13-.17(2)(f).

**BACKGROUND INFORMATION REGARDING LIMESTONE
AND ITS AFFILIATES**

Q. PLEASE PROVIDE SOME BACKGROUND INFORMATION ABOUT LIMESTONE AND CSWR.

A. Limestone is a limited liability company formed to acquire Cartwright Creek's assets. If the Commission grant's the requests the Joint Applicants have made in this case, Limestone would operate the three wastewater systems being acquired from Cartwright Creek.

Limestone is an affiliate of CSWR. A corporate organization chart illustrating that relationship was filed in this case as Exhibit 4 to the Joint Application.

In late 2010, after working on several small, failing water and wastewater systems, I created a business plan to acquire and recapitalize failing systems as investor-owned regulated water and wastewater utility companies. In early 2011, I went to the capital markets to raise money to implement my plan. Over a period of approximately three years, I met with over fifty-two infrastructure investment groups trying to raise necessary financing. In February 2014, I achieved

my goal, and I used the debt and equity capital I was able to raise to start CSWR. Since its formation, CSWR has acquired, and currently is operating through various affiliates, 9 small water and 16 wastewater systems in Missouri and Arkansas. In Missouri, those systems are regulated by the Missouri Public Service Commission. In Arkansas, the systems are outside the Arkansas Public Service Commission's jurisdiction due to annual revenue thresholds.

In 2018, I was able to attract an additional large institutional private equity investor, which allowed me to expand the scope of my business plan beyond Missouri and Arkansas. This new investor is allowing CSWR to form companies for the purpose of acquiring distressed water and wastewater systems in additional states including Tennessee.

Q. WHAT IS CSWR'S BUSINESS PLAN WITH REGARD TO THE ACQUISITION AND OPERATION OF DISTRESSED WATER AND WASTEWATER SYSTEMS?

A. CSWR's business plan is to pursue the purchase and recapitalization of failing water and wastewater systems and to operate those systems as investor-owned regulated utilities. Many of those systems are not currently regulated, and of those that are regulated by state utility commissions many, if not most, are out of compliance with commission rules and with federal or state pollution laws and regulations. Many of those companies do not even have the federal or state permits required to lawfully operate those systems. We also have found that many of the regulated companies have not increased their rates for a decade or more and, as a result, they don't have the financial resources necessary to build, maintain, and replace assets used to provide service or to bring their operations into compliance with rapidly-changing environmental and water quality regulations. Some of these companies are in receivership and, therefore, lack access to capital necessary to improve their systems.

Because it has made the effort to find investment capital and investors who are willing to make investments and take risks necessary to bring small water and wastewater systems into compliance with current statutes, rules, and regulations, CSWR, through its affiliates, has been able to acquire distressed systems, invest capital necessary to construct or repair physical facilities, and operate those systems in a way that satisfies customers, regulators, and investors alike. CSWR's business plan and the expertise its personnel provide to affiliates have proven successful in multiple states, and there is every reason to believe that record of success would continue if Limestone is authorized to acquire Cartwright Creek's assets and is given the authority to operate those assets in the three areas where Cartwright Creek currently provides service.

Q. IF THE AUTHORIZATIONS REQUESTED IN THE JOINT APPLICATION ARE GRANTED, WOULD LIMESTONE HIRE EMPLOYEES TO PROVIDE SERVICE IN THE AREAS CURRENTLY SERVED BY CARTWRIGHT CREEK?

A. No, Limestone would not hire employees to operate those three systems.

Q. THEN HOW DOES LIMESTONE PROPOSE TO PROVIDE SERVICE TO CUSTOMERS OF THOSE SYSTEMS?

A. If the Joint Application is approved, Limestone would hire a local third-party Operations and Maintenance (O&M) firm that has knowledgeable and experienced personnel, carries the necessary state licenses, and has insurance coverage necessary to manage the daily wastewater operations of the systems at issue in this case. In addition to its service obligations during normal business hours, the O&M firm would be required to have a 24-hour emergency service line for service disruption. In addition, notice of all service disruption calls would be forwarded to me, as Limestone's president.

CSWR has developed a centralized computerized maintenance management system (CCMS) that monitors the performance of our drinking water and wastewater systems and allows CSWR to track the ongoing maintenance and testing of O&M contractors at all our facilities. CSWR uses GIS survey information to accurately map all infrastructure assets which leads to proactive on-going targeted ongoing infrastructure re-investment as part of overall CSWR ownership.

Limestone also will hire a billing and customer service firm to send out bills and handle service-related billing questions. Historically, CSWR has always ensured the billing firm we hire has in place or quickly can establish an online billing system to receive credit card and e-checks from customers and a Limestone-specific customer service email account to field ongoing customer interactions. The customer service representatives are available during normal business hours, can take messages twenty-four hours a day, and all customer correspondence is recorded and logged to consumers' accounts to ensure the highest level of service.

While day-to-day operational, billing, and customer service functions would be provided by non-employee contractors, all management, financial reporting, underground utility safety and location services, Commission regulatory reporting, environmental regulatory reporting and management, operations oversight, utility asset planning, engineering planning, ongoing utility maintenance, utility record keeping, and final customer dispute management would be performed by personnel at CSWR's corporate office, with proportional costs for those services passed down to Limestone. CSWR personnel also would monitor the activities of the non-employee contractors to make sure the systems are being operated and maintained properly and customers needs are being met. The resumes of CSWR personnel who, in addition to me, will be responsible for

providing services or oversight to Limestones operation were attached to the Joint Application as Exhibit 6.

Q. PLEASE DESCRIBE YOUR AFFILIATES' EXPERIENCE WITH WASTEWATER/SEWER SYSTEMS.

A. On the wastewater side of the business, our group of affiliated companies has purchased 16 wastewater treatment plants with associated sewer pumping stations, gravity force mains, and gravity conveyance lines. In Missouri, the companies have designed, permitted, and completed construction, with Missouri Department of Natural Resources approval, of approximately \$5 million of sanitary sewer systems since March of 2015. These improvements include wastewater line repairs to remove infiltration and inflow, building sewer main extensions, the repair of multiple lift stations, the construction of lift stations, the closure of an existing regulatory impaired wastewater system, building two fully activated sludge plants, constructing moving bed bio-reactor plants (MBBR), converting two failing wastewater systems into sludge storage/flow equalization and treatment basins, converting failed mechanical systems to I-Fast systems, and constructing various other wastewater supporting improvements. Central States has completed the design and construction permitting for major wastewater improvements for two additional wastewater systems in Missouri, and for new utility acquisitions recently approved in an Elm Hills Utility Operating Company, Inc. acquisition case. These designs include constructing two moving bed bio-reactor plants (MBBR) and constructing various other wastewater supporting improvements. CSWR has also completed or is in the permitting process with the Arkansas Department of Environmental Quality (ADEQ) the design of improvements associated with ten additional wastewater plants in Arkansas.

Q. DOES CSWR HAVE PERSONNEL QUALIFIED TO PERFORM THE SERVICES YOU IDENTIFIED IN YOUR PRECEDING ANSWER?

A. Yes, it does, as evidenced by the fact CSWR already is providing those and other similar services for water and wastewater systems in Missouri and Arkansas. I already described my background and experience in the water and wastewater utility industry, and resumes of the key members of CSWR's senior team who would be involved in Limestone's operations were filed as Exhibit 6 to the Joint Application. Each of those senior leaders, and the other CSWR employees who would assist them, is well-qualified to meet the demands of Limestone and its customers and of this commission and other regulators charged with overseeing Limestone's operations. That level of experience and expertise CSWR currently provides affiliated systems in Missouri and Arkansas and that it would bring to Limestone if the Joint Application is approved is not usually available to small systems like those at issue in this case. But CSWR's business model provides these assets to its affiliates and does so, through economies of scale CSWR's centralized management structure can achieve, at a lower cost than would be the case if Limestone or a similarly-sized company had to acquire or provide such expertise and support on its own.

Q. HAS YOUR GROUP OF AFFILIATED COMPANIES TAKEN STEPS TO IMPROVE SERVICES AT THE SYSTEMS IT NOW OPERATES?

A. Yes. In addition to the capital improvements made on all of the systems, the organization has built from scratch customer service systems at each utility that comply with the Missouri Commission's rules and provide benefits to the customers. This includes 24-hour emergency service phone lines for potential service issues, on-call emergency service contractor personnel, implementation of a computerized maintenance management system for wastewater and drinking water utility assets, customer dissemination of Missouri Department of Natural Resources

mandated drinking water testing information, on-line bill-pay options, up-to-date website bulletins about current service status, and service initiation or discontinuance procedures.

Q. DO LIMESTONE AND CSWR HAVE THE FINANCIAL CAPACITY TO FINANCE, OWN, AND OPERATE THE SYSTEMS YOU PROPOSE TO ACQUIRE FROM CARTWRIGHT CREEK?

A. Yes, Limestone and CSWR have the financial capacity to finance, own, and operate the three systems we propose to acquire from Cartwright Creek.

DESCRIPTION OF THE PROPOSED TRANSACTION

Q. PLEASE DESCRIBE THE WASTEWATER SYSTEMS LIMESTONE PROPOSES TO ACQUIRE FROM CARTWRIGHT CREEK.

A. As I mentioned earlier in my testimony, Limestone proposes to acquire three wastewater systems from Cartwright Creek: Arrington Retreat, The Grasslands, and The Hideaway. All those systems are located in Williamson County. Maps and aerial photographs showing the areas to be acquired from Cartwright Creek were filed as Exhibit 1 to the Joint Application.

Terms of the proposed asset sale are governed by an *Agreement for the Sale of Utility System*, as amended ("Agreement"), between Cartwright Creek and CSWR. A copy of the Agreement, as amended, was filed as Exhibit 9 to the Joint Application, and a copy of the document assigning all assets acquired from Cartwright Creek to Limestone was filed as Exhibit 10. As specified in the Agreement, the purchase price for the assets being acquired from Cartwright Creek is \$880,000.

No closing date for the transaction has been set, but the Agreement identifies various conditions precedent, including obtaining all required regulatory approvals, that must be satisfied before the transaction can close. Section 17 of the Agreement also authorizes CSWR to assign all

its rights to the acquired assets to an affiliated entity. In accordance with that section, at closing CSWR will transfer to Limestone all sewer system assets acquired from Cartwright Creek.

Q. PLEASE DESCRIBE SOME OF THE PROBLEMS THAT EXIST IN THE THREE SYSTEMS CARTWRIGHT CREEK PROPOSES TO SELL TO LIMESTONE.

A. The Grasslands is the largest of the systems Cartwright Creek proposes to sell to Limestone, and it's also the system with the most problems and greatest need for capital investment. The Grasslands service area is a community with approximately 549 residential connections. The collection system is primarily gravity-flow with two mechanical pumping stations, but no flow monitoring or remote monitoring equipment is in place. Facilities serving that area have a total capacity of 250,000 gallons per day ("gpd"), however current inflow and infiltration greatly exceed that capacity – by factors as great as four to seven times designed gpd capacity. The treatment facility serving The Grasslands receives excessive inflow and infiltration and, as a result, exceeds certain maximum operating limits. For example, the total nitrogen limit of 1.9 mg/l is not being met. The system also sometimes exceeds allowable phosphorous. The system is in dire need of repairs to avoid these and other problems at the treatment facility, and CSWR estimates additional investment of more than \$2.3 million would be required to bring the system up to standard and into regulatory compliance.

Q. IF THE COMMISSION APPROVES THE JOINT APPLICATION, IS LIMESTONE WILLING AND ABLE TO MAKE IMPROVEMENTS NECESSARY TO BRING THE WASTEWATER SYSTEM SERVING GRASSLANDS UP TO STANDARD AND INTO COMPLIANCE?

A. Yes. If the Commission grants Limestone the authority it seeks in the Joint Application, Limestone and CSWR are willing and able to invest the capital necessary to bring the Grassland

system up to standard and into compliance. As I described previously, because of the affiliated structure of which they are part, Limestone and CSWR have access to capital adequate to make current improvements to that system and to continue to operate it in a manner that complies with applicable statutes, rules, and regulations and is in the public interest.

Q. WHAT RATES, RULES, AND REGULATIONS WOULD BE IN EFFECT FOR THE THREE SYSTEMS AT ISSUE IN THIS CASE?

A. Initially, Limestone proposes to adopt the tariffs, rules, and rates currently in effect for the three Cartwright Creek systems. However, if the revenue requirement for any or all those systems increase – as likely would be the case given the additional capital investment needed for system upgrades and improvements – or as our own operating experience dictates, in the near-term future Limestone may petition the Commission to increase rates or change certain operating regulations. In the future, Limestone also may also seek authority to consolidate the rates of the three systems it proposes to acquire.

Q. ARE LIMESTONE AND CSWR FAMILIAR WITH THE COMMISSION'S RULES AND REGULATIONS GOVERNING WASTEWATER UTILITIES AND DO YOU PLEDGE TO OPERATE THE THREE SYSTEMS IN A MANNER THAT COMPLIES WITH THOSE RULES AND REGULATIONS?

A. Yes, we have familiarized ourselves with the Commission's rules and regulations and pledge to operate the three systems in a manner that complies with all Commission requirements.

Q. DO YOU BELIEVE THE PROPOSED TRANSACTIONS ARE IN THE PUBLIC INTEREST?

A. Yes. I believe the proposed acquisition of Cartwright Creek's would be consistent with and would promote the public interest. Limestone and CSWR are fully qualified, in all respects, to own and operate the systems to be acquired and to otherwise provide safe and adequate service.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

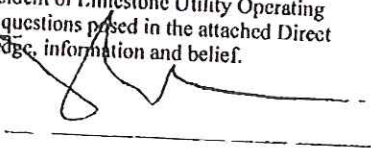
JOSIAH COX
DIRECT TESTIMONY

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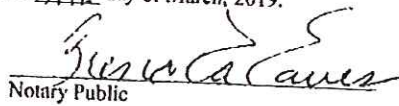
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STATE OF MISSOURI)
)
COUNTY OF St. Louis) ss

I, Josiah Cox, state that I am the President of Limestone Utility Operating Company, LLC and, that the answers to the questions posed in the attached Direct Testimony are true to the best of my knowledge, information and belief.



Subscribed and sworn to before me this 11th day of March, 2019.


Notary Public

My Commission Expires: 01/31/2021



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of

The Proposed Acquisition by Bluegrass Water)
Utility Operating Company, LLC and the)
Transfer of Ownership and Control of Assets)
by: P.R. Wastewater Management, Inc.;)
Marshall County Environmental Services LLC;)
LH Treatment Company, LLC; Kingswood)
Development, Inc.; Airview Utilities, LLC;)
Brocklyn Utilities, LLC; Fox Run Utilities,)
LLC; and, Lake Columbia Utilities, Inc.)

No. 2019-00104

**Verified Joint Application for Approval of Acquisition and
Transfer of Ownership and Control of Utility Assets**

The Applicants, the acquirer and the eight (8) transferring utilities named in the above caption, jointly submit this Application pursuant to KRS 278.020(6), (7), and (10), requesting that the Commission approve the acquisition and transfer of control of utility assets used in providing wastewater services to more than 1300 customers in areas of Bullitt, Franklin, Hardin, Madison, Marshall, McCracken, Scott, and Shelby Counties, Kentucky. Upon completion of the proposed transactions, after Commission approval therefor is granted, (1) Bluegrass Water Utility Operating Company, LLC will become a utility subject to the jurisdiction of this Commission and will adopt each transferring utility's tariff for the provision of wastewater services to that utility's customers, and (2) each transferring utility will cease to have any ownership or control of utility facilities and will no longer be a utility subject to the jurisdiction of the Commission. This Application has been verified on behalf of each Applicant; the Verifications are gathered in Exhibit A hereto. To establish compliance of the proposed acquisition/transfer with KRS 278.020 standards, Applicants submit the attached exhibits A-N and further state as follows:

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I. Applicants

A. Acquirer: Bluegrass Water Utility Operating Company, LLC

1. Bluegrass Water Utility Operating Company, LLC (“Bluegrass UOC” or “Acquirer”) is a limited liability company organized and existing under the laws of the Commonwealth of Kentucky with its principal office and place of business at 500 Northwest Plaza Drive, Suite 500, Saint Ann, MO 63074. Bluegrass UOC was organized on March 21, 2019, and is currently in good standing in Kentucky. Bluegrass UOC’s mailing address and electronic mail address to be used for service in this case are as set out on Exhibit B to this Application.

2. Bluegrass UOC’s member is Bluegrass Water Utility Holding Company, LLC. Bluegrass UOC is a manager-managed company; its manager is Central States Water Resources, Inc.

3. Bluegrass Water Utility Holding Company, LLC (“Holding Company”) is a limited liability company organized and existing under the laws of the Commonwealth of Kentucky with its principal office and place of business at 500 Northwest Plaza Drive, Suite 500, Saint Ann, MO 63074. Holding Company was organized on March 21, 2019, and is currently in good standing in Kentucky. It is the member-owner of Bluegrass UOC.

4. Kentucky Central States Water Resources, LLC (“Ky. CSWR”) is a limited liability company organized and existing under the laws of the Commonwealth of Kentucky with its principal office and place of business at 500 Northwest Plaza Drive, Suite 500, Saint Ann, MO 63074. Ky. CSWR was organized on December 5, 2018, and is currently in good standing in Kentucky. It is the member-owner of Holding Company.

5. First Round CSWR, LLC (“First Round”) is a limited liability company organized on January 23, 2014, and existing under the laws of the State of Missouri. Central States Water

Resources, Inc. (“CSWR”) is a corporation organized on January 27, 2014, and existing under the laws of the State of Missouri. Each has its principal office and place of business at 500 Northwest Plaza Drive, Suite 500, Saint Ann, MO 63074 and is currently in good standing in Missouri; neither is authorized to do business in the Commonwealth of Kentucky. These two Missouri entities are affiliates of each other.

6. A corporate organization chart illustrating the relationship between Bluegrass UOC, Holding Company, Ky. CSWR, First Round, and CSWR is attached as Exhibit C to this Application. These entities and their affiliates are referred to collectively herein as “CSWR Group” or “the Group.”

7. CSWR Group was created to acquire and recapitalize failing systems as investor-owned regulated water and wastewater utility companies. The Group has acquired — and is operating through affiliates — nine (9) small water systems and 16 small wastewater systems in Missouri and Arkansas.¹ In 2018, CSWR Group attracted an additional, large institutional private equity investor, enabling the expansion of its business beyond Missouri and Arkansas, and allowing the Group to form affiliates for the purpose of acquiring and professionalizing distressed water or wastewater systems in other states, including Tennessee² and Kentucky.

8. CSWR Group strives to effectively address the challenges of providing proper water and wastewater management facilities for underserved communities. It leverages extensive regulatory expertise and financial resources to facilitate cost-effective solutions to upgrade

¹ The Missouri systems are all regulated by the Missouri Public Service Commission; the Arkansas systems are below the annual-revenue thresholds and so fall outside the jurisdiction of the Arkansas Public Service Commission.

² CSWR affiliate Limestone Water Utility Operating Company, LLC, has applied to the Tennessee Public Utility Commission for authority to acquire and operate the water-utility assets of Cartwright Creek, LLC, Tenn. PUC dkt. # 19-00035.

facilities to meet the ever more stringent state and federal standards. The staff of CSWR Group lends its technical expertise to the affiliates, handling everything from evaluation to design and construction of facilities.

9. Bluegrass UOC has been organized/established by CSWR Group with the purpose that it will acquire the utility assets from the transferring utilities and will thereafter own, control, operate, and manage those facilities to provide collection, transmission, and treatment of sewage for the public for compensation, subject to the jurisdiction of the Commission.

B. Transferring Utilities

10. Each of the eight (8) transferring utilities is organized under the laws of the Commonwealth of Kentucky; with the exceptions noted in paragraphs 15 and 35 below, each is currently in good standing in Kentucky. Each is also a wastewater or sewer utility as defined by KRS 278.010(3)(f) and subject to the jurisdiction of the Commission. The mailing address and electronic mail address for each transferring utility to be used for service in this case are as set out on Exhibit B to this Application.

11. As typical among systems acquired and then operated by CSWR Group, many of the transferring utilities are out of compliance with Commission rules and with federal or state pollution laws and regulations. Many do not have the permits required to lawfully operate the systems; most have not adjusted their rates for a decade or more and do not have the financial resources necessary to build, maintain, and replace facilities used to provide service or to bring operations into compliance with rapidly-changing environmental and water-quality regulations.

1. P.R. Wastewater Management, Inc.

12. P.R. Wastewater Management, Inc. ("P.R. Wastewater") is a class C sewer utility, PSC ID# 900500. P.R. Wastewater was incorporated in Kentucky on March 9, 1989; it began

sewer operations in 1990. Its most recently-filed annual report is for 2018, and states that as of year-end 2018, it had 358 residential and 3 commercial customers.

13. P.R. Wastewater's current tariff, for Persimmon Ridge Development, located in western Shelby County, Kentucky, is PSC Ky. No. 1999-331. P.R. Wastewater has a currently-pending application for an alternative rate adjustment, filed November 5, 2018, and designated Case No. 2018-00339. A Commission decision on the application is anticipated around the beginning of May 2019.

14. The P.R. Wastewater treatment facilities consist of a two-cell aerated lagoon system with chlorine disinfection. The first cell is fully aerated while the second cell is partially aerated. The second cell also has a baffle spanning the lagoon cell to create a non-aerated or anaerobic zone that can help reduce solids in the effluent. From the anaerobic zone, the lagoon effluent has liquid chlorine added for disinfection prior to the contact chamber. Historically, the plant has struggled to meet disinfection requirements due to the chlorine dosage levels not being sufficient for disinfection; in addition, the facility may not be capable of meeting ammonia limits on a consistent basis. Collection is by a gravity sewer system that includes five pump stations.

2. Marshall County Environmental Services LLC

15. Marshall County Environmental Services LLC ("MCES") is a class C sewer utility, PSC ID# 903800. MCES is a member-managed limited-liability company that was organized in Kentucky on May 5, 2012. It is currently in bad standing with the Kentucky Secretary of State, and has been administratively dissolved. In 2013, it acquired wastewater collection, transmission, and treatment assets of the Great Oaks Subdivision in McCracken County and the Golden Acres Subdivision in Marshall County pursuant to the 11/19/12 final order (as amended by the 1/2/13 and 2/12/13 orders) in Case No. 2012-00436. Its most recently-filed annual report

is for 2016, and states that as of year-end 2016, it had 126 single-family and 4 apartment/condominium residential customers.

16. MCES's current tariff is PSC Ky. No.1, and contains separate and distinct rates and charges for the Great Oaks Subdivision in McCracken County and the Golden Acres Subdivision in Marshall County. The tariff became effective March 26, 2013.

17. MCES has been fined by the Commission for failure to file timely annual reports for 2017 and 2018. *See* Cases Nos. 2017-00032 and 2018-00264. The Kentucky Secretary of State administratively dissolved MCES on September 28, 2013, for failure to file its 2013 annual report in a timely manner.

18. MCES owns and operates systems in two Kentucky counties. The Golden Acres wastewater system (Marshall County) consists of a standard extended aeration activated sludge facility. This system did not have an active permit to operate at the time MCES agreed to sell the system; the permit appears to have expired on February 1, 2015. The treatment plant consists of an aeration tank, clarifier, and chlorine. The facility structure, air piping, and sludge returns are functional. The facility's operating permit states it has capacity of 25,000 gpd, but based on calculations, the actual capacity is closer to around 18,000 gpd. There are about 31 houses that are served by the Golden Acres facility. Since the first quarter of 2018, the plant has been exceeding limits for ammonia, *e. coli*, and other contaminants, probably due to equipment failure. There are significant issues with inflow and infiltration for both the treatment and collection systems.

19. The Great Oaks treatment system (McCracken County) is made up of a standard extended aeration activated sludge facility. This system did not have an active permit to operate at the time MCES agreed to sell the system; the permit appears to have expired on May 1, 2012.

The plant consists of an aeration tank, clarifier, and chlorine equipment, and appears to have the basic capacity to treat for normal flows from the approximately 161 houses that are connected to it. However, the facility has not had any preventive maintenance and has been generally unmaintained for a number of years. Only portions of the plant process are actually operating, while other sections of the aeration-activated facility are stagnant. During 2018, the plant exceeded multiple contaminant limits, including but not limited to ammonia, total residual chlorine (TRC), and *e. coli*, indicating abandonment or equipment malfunction. The influent pump station has also not been maintained, and the blowers are in disrepair. In addition, the sludge returns and air header system require repair. It is not known whether the collection system is all gravity, pressure, or has any pump stations.

3. LH Treatment Company, LLC

20. LH Treatment Company, LLC (“LH”) is a class C sewer utility in Scott County Kentucky, PSC ID# 901300. LH is a member-managed limited-liability company organized in Kentucky on July 12, 2016; it began sewer operations in July 2017 after acquiring Longview Land Company LLC. Its most recently-filed annual report is for 2017, and states that as of year-end 2017, LH had 261 single-family and 16 condominium/apartment residential customers.

21. LH’s current tariff is Longview Land Company LLC, P.S.C. KY. No. 1,³ for serving Longview Estates and Homestead subdivisions in Scott County, Kentucky. This tariff was initially effective August 28, 2003, and was most recently updated with a rate adjustment pursuant to Case No. 2009-00075, on July 20, 2009.

³ Through internal transactions, apparently, the former Longview Land Company, LLC is now LH Treatment Company, LLC.

22. The initial wastewater treatment plant was constructed from 1971 to 1975 and expanded in 1990 to serve the neighboring Longview and Homestead subdivisions in Scott County. LH treats wastewater with a standard extended aeration activated sludge facility. The permit appears to have expired on December 31, 2018. The plant consists of an aeration tank, clarifier, and chlorine disinfection with de-chlorination. The facility occasionally exceeds limits for environmental contaminants. In 2018, the facility violated limits for ammonia, *e. coli*, and other contaminants.

4. Kingswood Development, Inc.

23. Kingswood Development, Inc. ("Kingswood") is a class C sewer utility in Bullitt County, Kentucky, PSC ID# 9000700. Kingswood was incorporated in Kentucky on May 3, 1996. It is currently in good standing with the Kentucky Secretary of State. Its most recently submitted annual report was for 2018; the filed report for 2016 documents that Kingswood served 124 residential customers at year end.

24. Kingswood serves Kingswood Development in east Mount Washington, Bullitt County, under the original tariff, which was effective on February 27, 1998.

25. Kingswood's sewer plant was originally constructed in 1998, and appears to have sufficient capacity to serve 124 residential properties. The treatment plant includes an aeration tank, comminutors at the influent point, aerobic sludge digestion, a clarifier, and ultraviolet disinfection followed by post-aeration. There have been sporadic violations of limits, including for ammonia, total suspended solids, and biochemical oxygen demand.

5. Airview Utilities, LLC

26. Airview Utilities LLC ("Airview") is a class C sewer utility in Hardin County, Kentucky, PSC ID# 9002400. Airview is a member-managed limited-liability company that was

organized in Kentucky on January 7, 2005. It is currently in good standing with the Kentucky Secretary of State. Its most recently-filed annual report was in 2017, which states it served 203 residential customers at year end.

27. Airview's tariff, for Airview Estates Subdivision in Hardin County, Kentucky, is P.S.C. KY. No. 1 and was originally effective October 5, 2010, as authorized in Case No. 2010-0064. The last rate revision was made effective through Case No. 2014-00215, on December 22, 2014. As of July 11, 2016, Airview filed for Commission approval to abandon and surrender its utility facilities; although there were significant proceedings through September 2018 in Commission Case No. 2016-00207, there have been no subsequent steps taken in that case and this Commission has not approved abandonment.

28. Airview's wastewater treatment facility is made up of a standard extended aeration activated sludge facility. The permit to operate has expired; however, Airview has submitted an application to renew the permit. The facilities include an aeration tank, mechanical clarifier, and chlorine disinfection; the system also has a remote lift station containing two rebuilt pumps. The plant is in serious disrepair with extensive contamination concerns as the various portions of the plant continue to fail. Major renovations are needed to reboot this plant to allow it to provide appropriate utility services.

6. Brocklyn Utilities, LLC

29. Brocklyn Utilities, LLC ("Brocklyn") is a class C sewer utility in Madison County, Kentucky, PSC ID# 9002200. Brocklyn is a member-managed limited-liability company organized in Kentucky on July 16, 2004. It is currently in good standing with the Kentucky Secretary of State. Its most recently-filed annual report was for 2017, which states it served 168 residential customers (70 single family homes and 98 apartment/condominiums) at year end.

30. Brocklyn's current tariff for Brocklyn Subdivision in Madison County, Kentucky is P.S.C. KY. No. 1 and was effective October 5, 2010, pursuant to Case No. 2010-0063.

31. Brocklyn's wastewater treatment facility is made up of a standard extended aeration activated sludge facility. The plant, initially constructed in 1969, consists of an aeration tank, clarifier, polishing earthen cell, and chlorine disinfection. The facility is in an overall state of disrepair and has had exceedances of permit limits for contaminants, with a tank that is borderline for meeting the needs of its number of dependent residents. The permit to operate has expired; however, Brocklyn has submitted an application to renew the permit.

7. Fox Run Utilities, LLC

32. Fox Run Utilities, LLC ("Fox Run") is a class D sewer utility in Franklin County, Kentucky, PSC ID# 9003100. Fox Run is a member-managed limited-liability company organized in Kentucky on November 13, 2007. It is currently in good standing with the Kentucky Secretary of State. Fox Run's most recently-filed annual report was for 2017, which stated that it served 34 residential customers at year's end.

33. Fox Run serves Fox Run Estates, located in Franklin County, Kentucky, under its tariff P.S.C. KY. No. 1, effective July 27, 2010, per Case No. 2010-0060. Fox Run began service to Fox Run Estates by adopting the tariff of Downstream, Inc., from which it purchased the wastewater treatment and collection system pursuant to Commission approval granted in the Order dated April 11, 2008, in Case No. 2008-00024.

34. Fox Run's wastewater treatment facility is made up of a standard extended aeration activated sludge facility. The permit to operate has expired; however, Fox Run has submitted an application to renew the permit. The facilities include an influent pump station, aeration tank, clarifier, polishing filter, and chlorine disinfection; the system also has two remote lift

stations. The plant is in general disrepair and has had exceedances of permit limits. An independent engineer has identified necessary updates to this facility, including but not limited to extensive mechanical equipment investments and an overhaul of the pump station to ensure reliability.

8. Lake Columbia Utilities, Inc.

35. Lake Columbia Utilities, Inc. (“Lake Columbia”) is a class D sewer utility in Bullitt County, Kentucky, PSC ID# 45875. Lake Columbia was incorporated in Kentucky on June 22, 1995. It is currently in bad standing with the Kentucky Secretary of State and has been administratively dissolved. Its most recently-filed annual report was for 2017, which states that at year’s end it served 33 residential customers.

36. Lake Columbia’s current tariff, P.S.C. KY. No. 3, is for Lake Columbia Estates in northern Bullitt County, Kentucky, and is based on a tariff adopted by Lake Columbia that was initially issued and effective on March 9, 1993. A rate adjustment was made pursuant to Case No. 2000-458, effective August 24, 2001. Lake Columbia has failed to file required reports on time, as addressed in Case No. 2011-00346.

37. Lake Columbia’s wastewater treatment facility is made up of a standard extended aeration activated sludge facility. The system has an active operating permit that is set to expire on November 30, 2019. The facilities include an influent splitter/bar screen box, aeration tank, clarifier, and chlorine disinfection. The plant is in disarray and has not been maintained, and the system has had exceedances of permit limits. The independent engineer who examined this facility opined that this facility had seen its useful life and needs a complete overhaul and/or replacement. As a result, required improvements will necessitate major reconstruction — perhaps an entire new treatment facility, with possible reuse of the existing facility for flow equalization.

II. Proposed Acquisition/Transfer

A. Agreements

38. CSWR has entered into an Agreement for Sale of Utility System with each transferring utility, attached as a redacted Exhibit hereto,⁴ as follows:

<u>Seller</u>	<u>Date</u>	<u>Exhibit</u>
P.R. Wastewater	11/9/18	D
MCES	3/14/19	E
LH Treatment	1/29/19	F
Kingswood	3/19/19	G
Airview	2/27/19	H
Brocklyn	2/27/19	I
Fox Run	2/27/19	J
Lake Columbia	2/27/19	K

39. Each Agreement designates the buyer as CSWR or its affiliate and provides that, at the Closing, the transferring utility shall sell, transfer, assign, and deliver its assets to CSWR or CSWR's designated affiliate. CSWR has designated Bluegrass UOC, its affiliate, as the buyer for each Agreement attached hereto (Exhibits D-K).

40. Each Agreement provides for the sale of all of the assets owned by the transferring utility pertaining to its operation of a regulated sewer system. The sale includes all assets used or useful to operate the system, including real property interests, sewer service machinery and equipment, other tangible fixtures or personalty, franchises, contract rights, customer deposits, accounts receivable, and other intangibles.

⁴ Joint Applicants are requesting confidential treatment of the redacted material in a Joint Motion for Confidential Treatment submitted concurrently with this Joint Application.

41. Except as otherwise specified in a particular Agreement, the Agreements also provide for the buyer (Bluegrass UOC) to assume liability and become responsible at the Closing “for all obligations in connection with the Assets going forward, excepting responsibility for any liabilities and/or obligations of Seller in connection with the Assets that existed prior to the date of the Closing.” Airview Utilities will remain responsible for fines that may be imposed in Commission Case No. 2016-00207 or in *Cabinet v. Airview*, No. DOW-34206-052.

42. The sale of assets under terms specified in the Agreement promotes the interests of the public generally and of transferring utilities’ customers more specifically. Numerous deficiencies exist in the wastewater systems to be acquired, and the current owner/operator of those systems is unwilling or unable to expend the capital necessary to remedy those deficiencies. Bluegrass UOC has worked with an engineer to address the shortcomings of each system and has outlined a plan to bring each into full operating compliance to ensure that after closing full operation of the systems can continue, with even greater provision of service to the customers of each.

43. To alleviate these and other problems, existing facilities and processes must be extensively modified and/or constructed. Additional capital investment is required to bring these systems up to standard and into compliance.

44. A 50/50 capital structure has been developed for Bluegrass UOC. After Commission approval has been given and before the Closing, Bluegrass UOC will be funded by CSWR Group affiliates, with equity capital from First Round and debt financing from US Water Capital,

LLC. First Round's consolidated balance sheet and income statement for 2018 are attached to this Joint Application as redacted Exhibit L.⁵

45. First Round has been funding and will continue to fund pre-Closing costs for Bluegrass UOC, including due diligence work relating to the transferring utilities' assets and compliance efforts.

B. Closing

46. The Closing of each sale is to take place no later than 45 days "after the effective date of any necessary regulatory approval, satisfaction of Seller's Representations and Warranties and Conditions Precedent set forth herein, ... or at such other time as the parties hereto may mutually agree." Agreement ¶5. The 45-day period and the possibility that the triggers will be met for transferring utilities at different times allows for the respective Closings to take place on different days.

47. During the interim period between satisfaction of one or more triggers and the Closing, the transferring utility is to obtain the legal right to transfer all of the assets, identify property boundaries, easement locations, and all interests in land in connection with its operation and maintenance of the system (¶6D), and will work to bring the conduct of the utility system into full compliance with regulatory requirements (¶6E). Facility-specific needs and identified steps have been set out in the reports prepared by an independent engineer. While most of the identified diagnostic tests, repairs, and improvements will take place post-Closing, Bluegrass UOC and each of the utilities have begun the process of working through these issues to move the facilities in the right direction prior to Closing.

⁵ Joint Applicants are requesting confidential treatment of the material redacted from Exhibit L in a Joint Motion for Confidential Treatment submitted concurrently with this Joint Application.

C. Post-Closing

48. From and after the Closing of the acquisition from each transferring utility, Bluegrass UOC will assume responsibility for the operation of the respective wastewater systems.

49. Following the Closing on each system, Bluegrass UOC will adopt, and provide service in accordance with, the respective transferring utility's then-existing and -effective tariff on file with the Commission.

50. The systems acquired will be operated by a qualified, experienced, third-party operations and maintenance ("O&M") firm engaged by Bluegrass UOC. That firm is Midwest Water Operations, LLC. This O&M firm has knowledgeable and experienced personnel, who carry the necessary state licenses, and has insurance coverage necessary to manage the daily wastewater operations of the systems. In addition to service obligations during normal business hours, the O&M firm is required to have a 24-hour emergency service line on which customers may report any service disruption. In addition, notice of service disruption calls would be forwarded to Josiah Cox, the president of CSWR, Bluegrass UOC's manager.

51. A qualified, experienced, third-party firm engaged by Bluegrass UOC will send out bills and handle service-related billing questions for the acquired systems. That firm is Nitor Billing Services, LLC. This firm has in place or can quickly establish an online billing system to receive credit cards and e-checks from customers and a Bluegrass UOC specific customer service email account to handle customer inquiries and other interactions. The customer service representatives are to be available during normal business hours, and to take messages 24 hours a day. In addition, all electronic or paper correspondence is recorded and logged to the respective customer's account to ensure the highest level of service.

52. While day-to-day operations, billing, and customer service functions would be provided by third-party contractors, all management, financial reporting, underground utility safety and locations services, Commission and environmental regulatory reporting and management, record keeping, and final customer dispute management would be performed by personnel at CSWR's corporate office. Proportional costs for those services will be allocated to Bluegrass UOC. Professional narratives of CSWR personnel who will be responsible for providing oversight of the acquired systems' operation are attached as Exhibit M.

53. The 50-50 capital structure described in paragraph 44 above will provide Bluegrass UOC with post-Closing access to working capital and financing resources.

54. Bluegrass UOC will make any necessary improvements over time to ensure that the existing and future customers of a system are provided with a quality of service equal to or better than that currently being provided by the respective transferring utility. This includes 24-hour emergency phone lines for potential service issues, on-call emergency service contractor personnel, implementation of a computerized maintenance management system for utility assets, on-line bill-pay options, up-to-date website bulletins about current service status and service initiation/discontinuance procedures.

55. In addition, detailed plans have been developed to improve the physical facilities and operations overall. CSWR engaged an independent engineer to make site inspections and thoroughly evaluate each facility from top to bottom. While the engineer identified multiple shortcomings for each system, the areas for improvement and required modifications were also identified. Bluegrass UOC has secured necessary funding and plans to address each system's shortcomings to bring each into compliance within the year following closing.

56. Bluegrass UOC anticipates spending \$2.9 million to address the problems identified by the engineer. Each transferring utility's system (and the two systems currently owned and operated by MCES) will have its collection facilities smoke tested and video inspected for diagnostic purposes, and the system will be mapped (or the existing mapping will be reviewed for accuracy). Several of the systems require major renovations, replacements of significant portions of the equipment, or other overhauls. Other examples of planned repairs and improvements are given in the following paragraphs.

57. The improvements being planned for the PR Wastewater treatment system are to: (1) replace surface aerators with a more efficient system; (2) evaluate sludge levels within the lagoon; (3) evaluate electrical service for any aeration modifications; (4) modify programming and electrical to either install an ultraviolet unit or auto-adjusting chlorine pump; and, (5) install rip-rap protection at the effluent point into creek.

58. The improvements being planned for the MCES Golden Acres treatment system are to: (1) provide flow equalization; (2) replace diffusers; (3) regrade around the treatment plant (to reduce inflow and infiltration) and install new fencing; and (4) install equipment for mission monitoring and de-chlorination. For the collection system, the work required includes installing a flow meter.

59. The improvements contemplated for the MCES Great Oaks treatment system are to: (1) provide flow equalization; (2) replace diffusers, return lines, and blowers; and (3) sand blast and repaint tankage and metal components.

60. In the near term, Bluegrass UOC will track expenses, revenues, and assets on a per-system basis. Each acquired utility will be treated as one system — except MCES, for which the facilities and operations for Great Oaks Subdivision (McCracken County) and Golden Acres

Subdivision (Marshall County) will each be treated as a separate system. Bluegrass UOC's plan is to report or cause each acquired utility to report its gross operating revenues derived from Kentucky business for calendar year 2019 through the date of closing, and then to report gross operating revenues on a combined basis for Bluegrass UOC from the date of closing through year-end 2019. However, Bluegrass UOC will follow any directives of the Commission requiring reporting for 2019 on a full-year basis for the systems, individually or in combination.

61. Over time, Bluegrass UOC will integrate the systems so that regulatory and technical standards are met on a uniform basis, and customers will be served under one tariff with uniform terms and conditions (including rates).

III. KRS 278.020(6), (7), and (10) standards

A. Bluegrass UOC has the financial, technical, and managerial abilities to provide reasonable service.

62. Bluegrass UOC, through its affiliation with and support from CSWR has the necessary abilities to provide services to the communities associated with the nine identified systems. CSWR's business plan is to pursue the purchase and recapitalization of failing water and wastewater systems and to operate those systems as investor-owned regulated utilities. Many of those systems are not currently regulated, and of those that are regulated by state utility commissions many, if not most, are not in full compliance with commission rules and with federal or state pollution laws and regulations. Many of those companies do not even have the federal or state permits required to lawfully operate those systems. Furthermore, many of the regulated companies do not have the financial resources necessary to build, maintain, and replace assets used to provide service or to bring their operations into full compliance with environmental and water quality regulations.

63. Because it has made the effort to find investment capital and investors who are willing to make investments and take the risks necessary to bring small water and wastewater systems into compliance with current statutes, rules, and regulations, CSWR, through its affiliates, has been able to acquire distressed systems, invest capital necessary to construct or repair physical facilities, and operate those systems in a way that satisfies customers, regulators, and investors alike. CSWR's business plan and the expertise its personnel provide to affiliates have proven successful in multiple states, and there is every reason to believe that record of success would continue if Bluegrass UOC is authorized to acquire the assets of these eight utilities and proceeds to operate those assets in the nine areas where these systems currently provide service.

64. The level of experience and expertise that CSWR currently provides to its affiliated systems in Missouri and Arkansas and that it would bring to the acquired systems is not usually available to small systems like those for which transfer approval is sought in this case. Furthermore, through economies of scale that CSWR's centralized management structures can achieve, this experience and expertise is available at a lower cost than would be the case if Bluegrass UOC or the individual acquired systems had to provide such expertise and support on its own. Where additional or supplemental expertise is required (*e.g.*, personnel holding licenses or certifications required by Kentucky law), Bluegrass UOC or CSWR will engage qualified independent contractors to satisfy those needs.

1. Financial ability

65. Bluegrass UOC has the financial capability necessary to acquire, own, and operate the transferring utilities' assets. US Water Capital, LLC will provide debt financing; First Round, equity financing. First Round's consolidated balance sheet and income statement for 2018 is attached to this Joint Application as redacted Exhibit L. A *pro forma* income statement

and balance sheet for Bluegrass UOC for the first year of its proposed operation of these systems are attached as redacted Exhibit N.⁶ The *pro forma* statements for Bluegrass UOC reflect the acquisition costs, the costs of the planned improvements, and the most-recent publicly-available reported annual operating expenses and revenues of the individual transferring utilities.

66. Bluegrass UOC has secured the commitment of equity capital and long-term loans to finance the acquisitions, the planned repairs and improvements, and operation of the systems.

2. Technical ability

67. As demonstrated by the success of CSWR's operating affiliates in Missouri and Arkansas, access to CSWR's technical resources has greatly improved the quality of service to its customers. If this Joint Application grants approval of the proposed acquisition and transfers, the same benefits would be brought to these systems and the customers they serve.

68. In addition, technical ability has been demonstrated by the pre-Closing work undertaken to identify system deficiencies and plan concrete steps to address them, bring the systems into compliance, and update and improve their operation.

3. Managerial ability

69. CSWR currently manages water and wastewater systems in Missouri and Arkansas that provide services to approximately 4,000 customers. Again, CSWR's actions in taking these previously failing systems and providing skilled management allowed these systems to reverse course from failing to complying with state and federal regulation while providing better service to a broader customer base. CSWR's experienced management team has extensive knowledge of how to address the issues that arise in small failing systems and resolve these

⁶ Joint Applicants are requesting confidential treatment of the redacted material in Exhibits L and N in a Joint Motion for Confidential Treatment submitted concurrently with this Joint Application.

issues to enable the systems to provide competent services, which would better serve the communities currently dependent on each of the nine systems (eight utilities) which this Joint Application addresses.

70. Managerial ability is also shown by the engagement of qualified third-party firms to provide operation and maintenance of the systems and customer service and billing, as well as in the oversight of these firms and functions by CSWR.

B. The proposed acquisition is to be made in accordance with the law, for a proper purpose, and is consistent with the public interest.

71. Bluegrass UOC's proposed acquisition of the nine identified systems, from the eight transferring utilities, is in accordance with the law, for a proper purpose, and is consistent with the public interest. The proposed acquisition thus meets the standards of KRS 278.020(7).

1. Made in accordance with the law

72. The proposed acquisitions and transfers will not occur before or without the Commission's approval therefor.

73. In addition to this application to the Commission, Applicants will make all required regulatory filings for the proposed transactions and expect to receive all required approvals. In particular, the Applicants will apply for the transfer of any KPDES permits for each system to Bluegrass UOC.

74. Each proposed transaction has been approved by Bluegrass UOC's member and by the board or member(s) of each transferring utility.

2. For a proper purpose

75. Bluegrass UOC is acquiring the utility assets to operate them for the purpose of providing reasonable, effective, and efficient wastewater service to existing and future customers.

76. The acquisitions will result in the transfer of assets to an entity that will have sufficient capital and operating funds to operate, maintain, and expand the systems. Aggregation of the assets and operations of the transferring utility in one operating company affiliated with entities that have substantial experience and expertise in operating wastewater systems is also likely to create economies of scale and scope that can sustain and improve existing service.

3. Consistent with the public interest

77. All the transferring utilities are struggling to comply with applicable state and federal regulations as well as provide services to customers. Full compliance with both state and federal regulations is imperative for purposes of health and safety, and the customers would receive better service. CSWR has researched the state of the existing systems and has concrete plans and the financial commitment to bring these systems in compliance to serve the customers and community as a whole.

78. The acquired sewer systems are all troubled or marginal as they exist now. It is in the public interest that these sewer utility systems be acquired by an entity that will professionalize the operations and has a focus on long-term ownership, substantial resources, and affiliation with experienced sewer-system owner-operators.

C. Bluegrass UOC has provided evidence of financial integrity to ensure the continuity of sewer service in the event that Bluegrass UOC cannot continue to provide service.

79. Bluegrass UOC has provided herewith evidence of its financial integrity to ensure the continuity of wastewater service in paragraphs 44-45 and 65-66 above and in attached redacted Exhibits L and N.

80. To the extent that the Commission requires further evidence of financial integrity not found in the cited paragraphs and Exhibits, Bluegrass UOC will provide such information upon Commission request in this matter.

IV. Conclusion

WHEREFORE, the Applicants request that the Commission grant expedited consideration and relief as follows:

- (1) Issue a final order regarding this Joint Application within the 60-day period provided in KRS 278.020(7);
- (2) Grant this Joint Application as submitted or, in the alternative, with appropriate terms and conditions prescribed;
- (3) Permit Bluegrass UOC after the proposed acquisition/transfer to operate the transferred utility assets in accordance with the respective tariffs, adopted by Bluegrass UOC; and
- (4) Relieve each transferring utility of any further utility obligations after it has transferred its assets.

Respectfully submitted,

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