



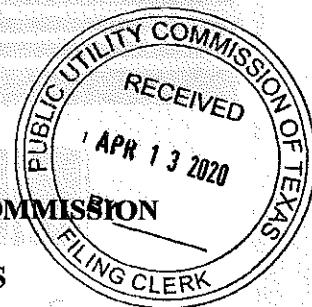
Control Number: 50251



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Addendum StartPage: 0

DOCKET NO. 50251



APPLICATION OF JRM WATER LLC §
AND CSWR-TEXAS UTILITY §
OPERATING COMPANY, LLC FOR §
SALE, TRANSFER, OR MERGER OF §
FACILITIES AND CERTIFICATE §
RIGHTS IN VICTORIA COUNTY §

PUBLIC UTILITY COMMISSION
OF TEXAS

**CSWR-TEXAS UTILITY OPERATING COMPANY, LLC'S
REDACTED RESPONSE TO STAFF'S FIRST REQUEST FOR INFORMATION**

Attached hereto and incorporated herein by reference are CSWR-Texas Utility Operating Company, LLC's ("CSWR Texas") written responses to the aforementioned request for information. Each such response is set forth on or attached to a separate page upon which the request has been restated. Such responses are also made without waiver of CSWR Texas' right to contest the admissibility of any such matters upon hearing. CSWR Texas hereby stipulates that its responses may be treated by all parties exactly as if they were filed under oath.

Respectfully submitted,

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ATTORNEYS FOR CENTRAL STATES
WATER RESOURCES, INC.

CERTIFICATE OF SERVICE

I hereby certify that on this 13th day of April 2020, notice of the filing of this document was provided to all parties of record via electronic mail in accordance with the Order Suspending Rules, issued in Project No. 50664.


Evan D. Johnson

PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-1

Provide a detailed explanation of the calculation and ratemaking effects of the goodwill asset balance of \$ [REDACTED] and paid in capital amount of \$ [REDACTED] on the CSWR, LLC and Subsidiaries Consolidated Balance Sheet as of 12-31-2018 as shown in confidential attachment G.

- a) Please provide a detailed description of the transaction(s) that caused the increase in goodwill from 12/31/17 to 12/31/18 [REDACTED].
- b) Please provide a detailed description of the transaction(s) that caused the increase in paid in capital change from 12/31/17 to 12/31/18 resulting in a balance of \$ [REDACTED].

Response:

Information responsive to this request has been deemed Confidential under the Protective Order issued in this docket and is being provided separately under seal.

On November 19, 2018, CSWR, LLC and all of its wholly owned subsidiaries were acquired by a new private equity investment partner. The purchase accounting methodology used to record the transaction resulted in intangible assets, goodwill and additional paid-in capital being recognized on the books of CSWR, LLC. None of the amounts resulting from the acquisition have been recorded on the books of the CSWR, LLC-held utility operating companies. Goodwill relates to a portion of the consideration transferred that was greater than the value of the acquired assets. Additional paid-in represents the equity portion remaining after values were assigned to intangible assets and retained earnings and other equity accounts were reset. The journal entry on the books of CSWR, LLC is attached. See Confidential Attachment Staff-CSWR RFI 1-1.

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.
Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.

PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-2

Please provide the general journal entries recorded for the year end 12/31/2017 and 12/31/2018 for CSRW, LLC relevant to the Consolidated Balance Sheet, including any journal entries affected by the transaction that created the goodwill asset balance of \$ [REDACTED] and the change in paid in capital from 12/31/2017 to 12/31/2018.

Response:

Information responsive to this request has been deemed Confidential under the Protective Order issued in this docket and is being provided separately under seal.

Please see response to Staff-CSWR RFI 1-1 for a breakdown of the goodwill asset balance and paid in capital values.

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.
Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.

PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-3

Provide documentation, such as individual net worth statements, balance sheets, or bank statements, showing that the equity investors upon which CSWR, LLC relies upon to provide sufficient equity to purchase the water and wastewater systems and related assets CSWR-Texas seeks to acquire, specifically, the funds available for the purchase price in this docket and the resulting equity infusion to cover cash shortages for the first year of operations.

Response:

CSWR Texas does not have access to the requested information or know if such information exists.

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.

Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.

PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-4

Provide affidavits from all equity investors owning CSWR, LLC indicating their ability and willingness to cover any and all required improvements and operational losses for the companies being purchased.

Response:

No written agreement exists between CSWR, LLC, and its equity investor governing equity investments in CSWR Texas. However, the investor has verbally committed to invest equity sufficient to fund the acquisition and required improvements. Similar verbal commitments were made with respect to equity investments necessary to acquire and improve utility assets affiliated companies currently own and operate in Missouri, Arkansas, Kentucky, and Louisiana. As evidenced by acquisitions and improvements made in each of those states, regulators can rely on such verbal investment commitments.

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.

Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.

PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-5

Provide a list of each company being purchased, the water systems within the company being purchased, and the purchase price for each company.

Response:

Information responsive to this request has been deemed Confidential under the Protective Order issued in this docket and is being provided separately under seal.

See Confidential Attachment Staff-CSWR RFI 1-5.

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.

Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.

PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-6

Provide a definition of "Successor" and "Predecessor" as the terms are used on CSWR, LLC and Subsidiaries Consolidated Balance Sheets and Income Statements for 2018 and 2017.

Response:

CSWR, LLC was acquired by US Water Systems, LLC on November 19, 2018. The referenced financial statements contain activity for the acquired business (the "Successor") and reflect the application of pushdown accounting. Successor financial statements are as of December 31, 2018 and for the period from November 19, 2018 to December 31, 2018. The Company's consolidated financial statements and certain footnote disclosures are presented in two distinct periods in 2018 to indicate the application of two different bases of accounting, which may not be comparable, between the periods presented. The periods prior to the acquisition date are identified as "Predecessor" and the period after the acquisition date is identified as "Successor."

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.
Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.

**PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs**

STAFF-CSWR 1-7

Provide a capital improvement plan for each public water system being acquired to bring it into compliance with TCEQ standards. Please include a budget, an estimated timeline for improvements to each public water system, and the source of funds to make the necessary improvements.

Response:

See the Company's Third Supplement to the Application in this proceeding, which was filed on April 9, 2020.

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.

Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.

PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-8

Provide copies of any due diligence assessments and reports prepared in connection with purchases included in the projections provided in this docket.

Response:

Pursuant to an agreement among counsel, this request does not seek privileged information.

See the Preliminary Engineering Report filed as Attachment J to the Company's Application.

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.

Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.

PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-9

Provide a detailed explanation for the positive income reflected in the projections provided, specifically in the second year of operations. Please include calculations for income and expenses supporting the net income.

Response:

Please see the assumptions memo included in the Company's supplement to its Application filed on March 3, 2020. As shown therein, general and administrative expenses were developed utilizing an assumed \$150 total per connection as demonstrated in the assumptions memo.

Operating expenses are estimated on a per-system basis and broken down by O&M, Repairs, Power, Chemicals, and Purchased water/sewer. These estimates are based on systems of similar size and condition. The purchased water/sewer is based on historical data available for the system.

With regards to revenues, the projections assume a rate increase in years 2 and 3. Year 2 assumes a revenue per meter of \$67 and years 3 on assume a revenue of \$85.27 per meter. These projections assume that after the acquisition the Public Utility Commission of Texas will approve compensatory rates that reflect the Company's reasonable and necessary operating expenses and a reasonable opportunity to earn a fair return on its investment.

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.
Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.

PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-10

Provide a projected timeline for individual purchases included in the income statement projections provided in this docket.

Response:

The Company does not have a projected timeline at this time. Pursuant to discussion with Commission Staff, CSWR Texas agreed to file a limited number of applications at a time in order to facilitate review and not overburden Commission resources. The Company anticipated filing all of the additional applications by June 2020. However, because of the restrictions placed on CSWR Texas by the COVID-19 crisis, the Company assumes some delay in the filing and processing of its applications. It will continue to evaluate the timing of its future filings and update this response accordingly.

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.
Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.

**PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs**

STAFF-CSWR 1-11

DATE: 03/11/2020

Provide a five-year budget, which begins with the year 2020, for CSWR, LLC.

Response:

See the projected information provided in the Supplement to the Application filed on March 3, 2020.

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.

Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.

PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-12

Provide a list of water assets to be transferred by the company being purchased. Please include the original cost of plant in service, the date the item was placed in service for sewer service, and accumulated depreciation amount of each asset that total the amounts report for application page 6 of 20 for each system as applicable.

Response:

The current owners of this system have indicated to CSWR Texas that a list of water assets does not exist. The original cost of plant in service and accumulated depreciation amounts included in the Application were provided to the Company by the current owners based on the current owners' books and records.

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.

Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.

PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-13

If the equity investment required to cover the purchase price of \$ [REDACTED] and operational deficit of \$ [REDACTED] will not come from the equity investors referenced in Question No. Staff 1-3 above, please provide:

- a) the names of the entities or persons who will provide the funding; and
- b) documentation such as individual net worth statements, balance sheets, or bank statements showing that the entities or persons have the funds available to make the equity infusions.

Response:

The equity investment will come from the equity investors referenced.

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.
Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.

PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-14

Provide the total amount of income or loss incurred by CSWR, LLC for January 1, 2018 through December 31, 2018.

Response:

Please see audited 2018 financial statements included in the supplement to the Application filed on March 3, 2020. The total loss amounts to \$3,092,685.

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.
Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.

PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-15

Does CSWR, LLC or any of its affiliates intend to request return on investment for the difference between the purchase price paid for Texas water utility assets and the original cost less accumulated depreciation of Texas water utility assets to be purchased in the transactions for which projections are made in this docket?

- a) **If yes, provide an explanation as to why the transaction is in the public interest.**
- b) **If no, please provide a full explanation addressing the issue of business going concern in the case of possible operational losses and lack of return on invested capital that is substantially higher than rate base.**

Response:

Yes. Please see the Company's response to Question No. 14, included in Attachment K to its Application. CSWR, LLC intends to request a return on investment based on the difference between the purchase price paid for Texas water utility assets and the original cost less accumulated depreciation or, otherwise, the net book value as determined by some other reasonable valuation method. Whether or not there is a difference between the purchase price paid and the original cost less accumulated depreciation and contributions in aid on construction is still under review. Currently, the best records for determining net book value of assets is the current owner's accounting records. It is CSWR's experience that these records often did not completely account for the entire asset value of the system being transferred due to lack of sophistication around recording system improvements, additions or repairs/replacements that extended usable life of assets. It is CSWR's experience that an independent third party original cost study provides the most accurate valuation of distressed utility assets like those at issue here.

Please see the Company's responses to Questions No. 16, 17 and 20 included in Attachment K to its Application. The transaction is in the public's interest because CSWR has demonstrated an ability to consolidate small water utility and make necessary investments in systems to ensure that safe, reliable service is provided to customers. This system is currently in a distressed state, has numerous outstanding TCEQ violations and is currently not in compliance with applicable regulations. Accordingly, the system's customers are not currently being provided safe, continuous and adequate service. Moreover, the system has experienced numerous operational challenges in just the last three months, including system failures, mandatory water boil notices, and loss of critical personnel necessary to operate the system. This system would benefit from the transition to a stable, long-term management team willing to make necessary investments to improve the system. As further explained in the Company's application,

- CSWR Texas has access to much needed capital that it will use to make reasonable, prudent, and timely investments to bring the system back into compliance with all applicable rules and regulations;

PUC DOCKET NO. 50251
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-15 (con't)

- Through its affiliates, CSWR Texas has access to experienced technical and managerial expertise and experience not usually available to systems of this size and at a lower cost than otherwise would be available because of the economies of scale the affiliated structure is able to achieve;
- CSWR Texas will implement new management and customer service systems and practices that will greatly improve the level of service to customers;
- CSWR Texas will seek to consolidate and regionalize this system with other systems it acquires in order to pool financial, managerial, and technical resources that achieve economies of scale or efficiencies of service; and
- CSWR Texas will operate the system to ensure it is in compliance with all environmental regulations.

As a result of the acquisition, the system will become a part of a financially stable and technically sound utility and customers will receive higher quality and more reliable service. Also, the purchase price for Texas water utility is the lowest agreeable negotiated price between the parties.

Preparer: Aaron Silas, Business Analyst, Central States Water Resources, Inc.
Sponsor: Mike Duncan, Assistant Vice President, Central States Water Resources, Inc.