



Control Number: 46150



Item Number: 139

Addendum StartPage: 0

2017 OCT 30 12:44

SOAH DOCKET NO. 473-17-0685.WS
PUC DOCKET NO. 46150

APPLICATION OF PK-RE § BEFORE THE STATE OFFICE
DEVELOPMENT COMPANY, INC. §
d/b/a OAK SHORES WATER SYSTEM §
AND UNDINE DEVELOPMENT LLC § OF
FOR SALE, TRANSFER, OR MERGER §
OF FACILITIES AND CERTIFICATE §
RIGHTS IN TRAVIS COUNTY § ADMINISTRATIVE HEARINGS

DIRECT TESTIMONY

OF

MICHAEL J. ASHFIELD

ON BEHALF OF

UNDINE DEVELOPMENT, LLC

OCTOBER 30, 2017

**DIRECT TESTIMONY OF
MICHAEL J. ASHFIELD**

TABLE OF CONTENTS

	Page
I. INTRODUCTION	3
II. PURPOSE OF TESTIMONY	4
III. DESCRIPTION OF PK-RE SYSTEMS	5
IV. DESCRIPTION OF UNDINE	6
V. DESCRIPTION OF SETTLEMENT AGREEMENT	7
VI. BENEFITS OF UNDINE’S ACQUISITION OF PK-RE SYSTEMS	10
VII. UNDINE’S MANAGERIAL, TECHNICAL, AND FINANCIAL ABILITY TO PROVIDE CONTINUOUS AND ADEQUATE SERVICES	11
A. Managerial Capability	11
B. Technical Capability	12
C. Financial Ability	13
VIII. IMPROVEMENTS OF SERVICE OR LOWERING OF COSTS	14
IX. CONCLUSION	15

ATTACHMENT 1 – Systems Acquired and Systems with Open STMs

**SOAH DOCKET NO. 473-17-0685.WS
PUC DOCKET NO. 46150**

APPLICATION OF PK-RE	§	BEFORE THE STATE OFFICE
DEVELOPMENT COMPANY, INC.	§	
d/b/a OAK SHORES WATER SYSTEM	§	
AND UNDINE DEVELOPMENT LLC	§	OF
FOR SALE, TRANSFER, OR MERGER	§	
OF FACILITIES AND CERTIFICATE	§	
RIGHTS IN TRAVIS COUNTY	§	ADMINISTRATIVE HEARINGS

**DIRECT TESTIMONY OF
MICHAEL J. ASHFIELD**

I. INTRODUCTION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND ADDRESS

A. My name is Michael J. Ashfield and I am employed as Senior Vice-President of Transactions for Undine Operating, LLC, on behalf of Undine Texas, LLC (“Undine”), parent of Undine Development, LLC, the Applicant in this proceeding. My business address is 10913 Metronome Drive, Houston, Texas 77043.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN A COMMISSION PROCEEDING?

A. No, I have not testified in a Public Utility Commission of Texas (“Commission”) proceeding.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I am a 1989 graduate of Texas A&M University, with a Bachelor of Business Administration degree in both Accounting and Marketing. I was initially employed (June 1989) in Houston at Coopers & Lybrand, a Big Six public accounting firm at the time—it has since merged with Price Waterhouse forming PricewaterhouseCoopers. From January 1998 to September 2000, I was Acquisitions

1 Manager for AquaSource Utility Company, a provider of water and wastewater
2 services. From October 2000 until April 2007, when I was hired at Ni America as a
3 VP of Acquisitions, I provided various consulting services and was CFO of Neutral
4 Posture, a manufacturer of ergonomic seating and enhancements. After the sale of
5 Ni America (in 2015), I was retained by the purchaser of the Ni America systems as
6 part of a one-year transition period. In August 2016, I became part of the Undine
7 team.

8 **Q. WHAT ARE YOUR DUTIES IN YOUR CURRENT POSITION?**

9 A. As Senior VP of Transactions for Undine Operating, LLC, I am responsible for
10 negotiating and closing the definitive agreements with the sellers of systems Undine
11 and its subsidiaries are purchasing, as well as coordinating internal due diligence
12 procedures and pertinent regulatory filings through closing. Ultimately, I ensure a
13 transaction closes as efficiently as possible for the seller and Undine.

14 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

15 A. I am testifying on behalf of Undine Development, LLC.

16 **II. PURPOSE OF TESTIMONY**

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

18 A. My testimony supports the Settlement Agreement in this case. All the parties to this
19 proceeding support the Settlement Agreement, which settles and resolves all issues in
20 this proceeding related to the application by Undine for approval to acquire the
21 facilities and certificate rights of PK-RE Development Company, Inc., d/b/a/
22 Greenshores Utility Services and d/b/a/ Oak Shores Water System (“PK-RE”) (the
23 “Application”). My testimony addresses the terms of the Settlement Agreement, the
24 ability of Undine to provide continuous and adequate service to the customers of the

1 water and wastewater systems owned by PK-RE (the “PK-RE Systems”), and the
2 financial, technical, and managerial qualifications of Undine.

3 **III. DESCRIPTION OF PK-RE SYSTEMS**

4 **Q. PLEASE DESCRIBE THE PK-RE SYSTEMS.**

5 A. The PK-RE Systems include a water and a wastewater utility. The water utility
6 provides service to Oak Shores, Oak Shores on Lake Austin, Briarpatch, Smokey
7 Ridge Annex and three tracts south thereof, Pearce Annex, Skishores Restaurant and
8 Marina, West Greenshores and Pearce Road Area, Woods of Greenshores, and
9 Greenshores on Lake Austin, for a total of 220 connections. Water service is
10 provided through a surface water treatment plant, and the raw water is obtained both
11 from the Lower Colorado River Authority out of Lake Austin and from one
12 groundwater well.

13 The wastewater utility provides service to Greenshores on Lake Austin
14 Phases 1 and 2, and Woods of Greenshores. The wastewater from customers in
15 Greenshores on Lake Austin is collected and treated in a wastewater plant located in
16 that subdivision. The effluent is disposed of through drip irrigation fields. The
17 wastewater from Woods of Greenshores currently flows to a lift station, where it is
18 pumped and hauled by truck to the treatment plant in Greenshores on Lake Austin.
19 There are 157 sewer connections.

20 PK-RE currently contracts with Crossroads Utility Services, a company
21 located in Round Rock, Texas, to perform all the operational and maintenance
22 activities for the water and sewer utilities.

1 **IV. DESCRIPTION OF UNDINE**

2 **Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF UNDINE.**

3 A. Undine was recently formed to acquire, manage, and operate water and wastewater
4 investor-owned utilities in Texas and other states as opportunities present themselves.
5 The management team brings with it a level of experience that enables it to efficiently
6 carry out the required due diligence and regulatory review before closing on the
7 purchase of a utility. This allows Undine to properly document and plan for
8 operational improvements and, with its funding resources, commit the needed capital
9 to ensure the facilities and infrastructure are in compliance and capable of providing
10 the service desired and expected by its customers.

11 **Q. PLEASE DESCRIBE THE OWNERSHIP STRUCTURE OF UNDINE**
12 **DEVELOPMENT.**

13 A. Undine Development, LLC is wholly owned by Undine Texas, LLC, which is in turn
14 wholly owned by Undine, LLC.

15 **Q. DOES UNDINE OWN ANY OTHER WATER OR WASTEWATER**
16 **UTILITIES?**

17 A. Yes. The owners of Undine have spent much of the last 20 years actively involved in
18 the ownership, management, and operations of water and wastewater utilities under
19 the companies of AquaSource and Ni America. Undine and its sister organizations
20 currently own and operate several systems in Texas. These systems are listed in
21 Attachment 1. Undine has filed for regulatory approval to purchase additional
22 systems as shown on Attachment 1.

1 V. DESCRIPTION OF SETTLEMENT AGREEMENT

2 **Q. WHO ARE THE PARTIES TO THE SETTLEMENT AGREEMENT?**

3 A. The signatories to the Settlement Agreement are all of the intervenors: Cynthia and
4 Scott Smiley, Woods of Greenshores Property Owners Association, Alexander
5 “Barry” Williams, Greenshores on Lake Austin Property Owners Association, Inc.,
6 and Staff of the Public Utility Commission of Texas, as well as PK-RE and Undine.
7 The Settlement Agreement has been filed separately, contemporaneously with the
8 filing of this testimony. The Settlement Agreement should be considered with this
9 testimony as being sponsored by me.

10 **Q. PLEASE DESCRIBE THE MATERIAL PROVISIONS OF THE**
11 **SETTLEMENT AGREEMENT.**

12 A. The material provisions of the Settlement Agreement are as follows:

13 1. **Rate Base.**

14 In the Settlement Agreement, Undine has stated that its purchase price for the PK-RE
15 Systems will not exceed \$1.8 million, and that this amount, less further accumulated
16 depreciation, will be the maximum amount that Undine or any successor in interest
17 will seek to include as part of the rate base of the utility for assets acquired from
18 PK-RE for any stand-alone rate application including the PK-RE Systems. This
19 provision addresses the intervenors’ concerns that the rate base of the system was too
20 large, and included amounts that should not have been included.

21 2. **Force Main.**

22 As I have previously described, the wastewater collected by the wastewater utility is
23 currently being collected at an existing lift station in the Woods of Greenshores, and
24 then pumped into trucks and hauled to a wastewater treatment plant in Greenshores
25 on Lake Austin (“pump-and-haul”). Undine has committed to construct and operate a

1 force main to terminate the need for the pump-and-haul operations, subject to receipt
2 of necessary approvals from the City of Austin, Travis County, and any other
3 regulatory body requiring permits or approvals for the project. The force main will
4 be built before any lots in Section 2 of the Woods of Greenshores development are
5 connected to the existing wastewater system.

6 **3. Easements.**

7 Greenshores on Lake Austin Property Owners Association (the “P.O.A.”) has
8 committed to providing Undine two utility easements. One will be across common
9 areas held by the P.O.A., to facilitate the location of a water line. The second
10 easement will be for the construction of the wastewater force main across land owned
11 by the P.O.A., and the P.O.A. is only required to provide the second easement in the
12 event that the wastewater force main will actually cross the P.O.A.’s land. These
13 easements will be provided to Undine at no cost other than Undine’s cost to prepare
14 the documents to effect the easements, and will enable Undine to proceed with the
15 planned construction and improvements for the systems.

16 **4. Impact Fees.**

17 Undine has agreed to require the current owner and developer of undeveloped lots in
18 Section 2 of Woods of Greenshores—Woods of Greenshores, Ltd.—or its assigns, to
19 contribute funds as developer contributions to the utility plant when the lots are sold
20 or before a lot receives a water or wastewater tap. These payments will be recorded
21 as Contributions in Aid of Construction by Undine, in a manner consistent with
22 NARUC accounting standards.

1 **5. Name Change.**

2 Undine currently has an affiliate through which it operates wastewater utilities.
3 Undine has filed an application with the Commission in Docket No. 47641 notifying
4 the Commission of the name change of this affiliate from EMCAD to Undine Texas
5 Environmental, LLC. In future wastewater system acquisitions, Undine Texas
6 Environmental, LLC will be the Undine entity owning wastewater systems. In
7 ongoing and in future water system acquisitions, Undine Texas, LLC is and will be
8 the Undine entity owning those water systems. The Settlement Agreement anticipates
9 a future filing in which Undine may seek Commission approval to transfer either or
10 both of the certificates of convenience and necessity (“CCN”) for the PK-RE Systems
11 and the utility assets associated with such CCNs from Undine Development, LLC to
12 another affiliated Undine entity. Undine commits in the Settlement Agreement that
13 such transfers will not change the ultimate ownership or any management of the
14 systems, nor will they change the operations of the systems or have any impact on the
15 services to be provided by Undine. Likewise, the Settlement Agreement commits the
16 Intervenors to not oppose such filings, provided the transfer does not increase the
17 rates in effect for or impair the service provided to the customers of the PK-RE
18 systems.

19 **6. PK-RE Rate Case.**

20 PK-RE currently has a rate increase application pending at the Commission, Docket
21 No. 46333, for the PK-RE Systems to be transferred to Undine upon approval of this
22 Application. Most of the signatories herein are also parties to that docket. In the
23 Settlement Agreement, PK-RE agrees to withdraw that rate application within

1 10 business days after the closing of the transaction approved in this Docket No.
2 46150.

3 **VI. BENEFITS OF UNDINE'S ACQUISITION OF**
4 **PK-RE SYSTEMS**

5 **Q. WHAT BENEFITS WILL UNDINE PROVIDE FOR THE CUSTOMERS OF**
6 **THE PK-RE SYSTEMS?**

7 A. The Undine management team brings to customers of the PK-RE Systems the unique
8 benefit of many years of successful utility acquisition, infrastructure renovation,
9 regulatory compliance, necessary financial capacity, and improved customer service
10 and communications. Undine has the financial resources to provide maintenance,
11 repairs, and additional capital investment as needed. The commitments made by
12 Undine in the Settlement Agreement will start the process of improving the quality
13 and level of service provided to the customers.

14 **Q. WILL UNDINE SEEK TO RESOLVE ANY OUTSTANDING CUSTOMER**
15 **SERVICE ISSUES?**

16 A. Yes. Undine will work to ensure that all outstanding customer service issues are
17 addressed and resolved. Undine has already begun customer outreach.

18 **Q. WHAT IS UNDINE'S COMPLIANCE HISTORY WITH THE TEXAS**
19 **COMMISSION ON ENVIRONMENTAL QUALITY ("TCEQ") OR THE**
20 **TEXAS DEPARTMENT OF HEALTH?**

21 A. Undine is a relatively new company, but it has recently purchased several water and
22 wastewater utilities in Texas. Undine has been compliant with the TCEQ and the
23 Texas Department of Health since its inception.

1 Q. HAS UNDINE EVER HAD ISSUES WITH MISMANAGEMENT OR MISUSE
2 OF REVENUES AS A UTILITY SERVICE PROVIDER?

3 A. No.

4 VII. UNDINE'S MANAGERIAL, TECHNICAL, AND FINANCIAL
5 ABILITY TO PROVIDE CONTINUOUS
6 AND ADEQUATE SERVICES

7 A. Managerial Capability

8 Q. PLEASE DESCRIBE UNDINE'S MANAGERIAL CAPABILITY TO
9 PROVIDE CONTINUOUS AND ADEQUATE SERVICE.

10 A. Undine was recently formed to acquire, own, and manage operations of water and
11 wastewater systems throughout Texas and the southern United States. The Undine
12 management team is comprised of seven people, each having 20 or more years of
13 experience in the water and wastewater industry. Essentially this same group
14 founded AquaSource in 1996 and through that entity acquired 130 water and
15 wastewater systems in 16 states, representing 130,000 customers. More recently, this
16 team was responsible for founding Ni America, and from 2007 to 2015 grew that
17 customer base from 0 to over 45,000 customers in Texas, South Carolina, and
18 Florida.

19 The Undine team of professionals has developed a highly successful due
20 diligence and integration process, and over the past 20 years has brought regulatory
21 compliance, improved customer service, and funding of improvements to the
22 undercapitalized water and wastewater industries. We meet with and provide
23 presentations to our customers detailing, among other things, required system
24 improvements, reasons for requested rate relief, before and after photographs of

1 improvements made, descriptions of the rate process, and an introduction to our
2 customers of the State regulators and their responsibilities.

3 **B. Technical Capability**

4 **Q. PLEASE DESCRIBE UNDINE'S TECHNICAL CAPABILITY TO PROVIDE**
5 **SERVICE.**

6 A. The Company has knowledgeable employees and adheres to best practices in the
7 fields of customer service, billing and collection, accounting and finance,
8 environmental health and safety, human resources, legal, information technology,
9 regulatory compliance, operations, maintenance, and management.

10 Undine has a long-standing relationship with Utility Group of Texas, LLC
11 ("Utility Group"), a third-party contractor with many years of experience in operating
12 water and wastewater utilities in Texas. Utility Group will provide a full-time
13 contract manager, Mr. John Wittenzellner, tasked with the responsibility of
14 supporting and working directly for Mr. Andy Thomas, Senior Vice-President of
15 Undine. Mr. Wittenzellner will assist with supervising operations, performing due
16 diligence activities, and helping to provide general management services for Undine.
17 These services will include support in the supervision of labor, and the provision of
18 transportation, tools, equipment, and operational consultants to operate and maintain
19 the utility systems. Utility Group will also provide billing and customer services,
20 collection services, meter reading services, and administration of customers'
21 accounts, as well as complete shut-offs, turn-ons, and new customer inspections.

1 Q. DOES UNDINE HAVE THE ABILITY TO MAKE THE CAPITAL
2 IMPROVEMENTS AND BUILD ANY NECESSARY INFRASTRUCTURE TO
3 SERVE THIS AREA?

4 A. Yes. Undine has the financial resources available to meet and comply with the
5 regulatory agencies' requirements for capital improvements and repairs.

6 Q. CAN UNDINE THEN PROVIDE ADEQUATE SERVICE TO THE AREA,
7 MEETING THE STANDARDS OF THE COMMISSION, AND TAKING INTO
8 CONSIDERATION THE CURRENT AND PROJECTED DENSITY AND
9 LAND USE OF THE AREA?

10 A. Yes.

11 C. Financial Ability

12 Q. DOES UNDINE HAVE THE FINANCIAL ABILITY TO PROVIDE
13 CONTINUOUS AND ADEQUATE SERVICE TO THE CUSTOMERS OF THE
14 PK-RE SYSTEMS?

15 A. Yes, it does. Undine's ultimate parent company, Undine Group, LLC, is currently
16 funded by \$3.239 million of investment from Management, private equity investment
17 of approximately \$4.761 million, and an additional \$14.638 million committed to
18 Undine Group, LLC. Undine has the ability to access a total of approximately \$50
19 million of investment capital, and expects to add debt provided by Plains Capital, Inc.
20 or other investment grade financial institutions by December 31, 2017. Undine
21 Group, LLC will use equity funding described above to cover any financial shortfalls
22 or capital needs. Once the equity is committed it cannot be rescinded for any reason
23 in the normal course of business, and in no event will a system be abandoned once it

1 has been acquired by Undine. The irrevocable equity commitment means that any
2 needed improvements can, and will, be made.

3 **Q. WHAT IS THE COMPANY'S DEBT-TO-EQUITY RATIO?**

4 A. The Company is currently funded with over \$4.7 million of equity and no debt.
5 Going forward, our debt-to-equity ratio should fall in line with the industry, which
6 depending on the circumstances is generally thought to be on a one-part debt to one
7 part equity basis.

8 **Q. IN TERMS OF ITS DEBT-TO-EQUITY RATIO, DOES UNDINE HAVE THE**
9 **FINANCIAL ABILITY TO PAY FOR THE FACILITIES NECESSARY TO**
10 **PROVIDE CONTINUOUS AND ADEQUATE SERVICE?**

11 A. Yes. Our existing lines of equity and traditional debt financing will allow us to
12 acquire the facilities and provide continuous and adequate service. With the new
13 financing we are in an even better position to meet our obligations to the customers
14 and the regulators.

15 **VIII. IMPROVEMENTS OF SERVICE OR LOWERING**
16 **OF COSTS**

17 **Q. PLEASE DESCRIBE ANY OTHER IMPROVEMENTS OF SERVICE OR**
18 **LOWERING OF COSTS THAT MAY RESULT FROM APPROVAL OF THIS**
19 **APPLICATION.**

20 A. Undine expects to make numerous improvements to service, including but not limited
21 to: more reliable management of operations, improved cost allocation and
22 documentation, more accurate records and documentation for rate case preparation,
23 better financial capacity to meet all capital improvement requirements and needed
24 repairs (including any measures required to meet customer peak water capacity

1 demands), as well as necessary renovation issues of the wastewater treatment plant.
2 Under Undine ownership, we would also expect improved communications and
3 coordination with customers and regulators.

4 **IX. CONCLUSION**

5 **Q. SHOULD THE COMMISSION APPROVE AND IMPLEMENT THE TERMS**
6 **OF THE SETTLEMENT AGREEMENT?**

7 A. Yes, it should. The Settlement Agreement and approval of the Application will bring
8 service improvements to the customers of the PK-RE Systems. After approval of its
9 Application, Undine will endeavor to close the transaction as soon as possible. Once
10 the transaction has closed and Undine has possession, it will immediately take
11 concrete steps to bring improved service to the customers.

12 **Q. IS THIS SETTLEMENT AGREEMENT IN THE PUBLIC INTEREST?**

13 A. Yes. The Signatories agree that the Settlement Agreement is in the public interest.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes, it does.

Attachment 1
Systems Acquired and Systems with Open STMs

Company Name	Systems Acquired	Connection Count
EMCAD (now Undine Texas Environmental, LLC)	Country Vista	113
	Grand Ranch	62
	Mayfair	172
Sugartree	Sugartree	104
Orbit Water Systems, Inc	723/River Ranch	72
	Angle Acres	44
	Angle Acres WWTP	44
	Bayou Colony	26
	Beechwood	103
	Beechwood WWTP	103
	Bernard Oaks	71
	Blue Sage Gardens	48
	Brandi Estates	39
	Brazos Oaks	0
	Briar Meadows	35
	Colony Cove	53
	Colony Trails	71
	Coronado Country	39
	Country Acres	91
	Country Meadows	45
	Crystal Lake	30
	Demi John Island	89
	Demi John Place	89
	Larkspur	7
	Lee Ridge	25
	Mark V	98
	Mooreland	56
	Quail Valley	11
	Riverside Estates	58
	Rosharon Road	74
	Ryan Long 1	15
	Ryan Long 2	17
	San Bernard	53
	Sandy Meadow	65
	Snug Harbor	39
	Spanish Bit	27
	Tejas Lakes	72
Village Lakes	0	
Wilco	65	
Wolf Glen	34	

TOTAL 2,259

Company Name	Systems Pending Regulatory Approval	Connection Count
PK-RE	(Water) Oak Shores, Oak Shores on Lake Austin, Briarpatch, Smokey Ridge Annex and three tracts south thereof, Pearce Annex, Skishores Restaurant and Marina, West Greenshores and Pearce Rd Area, Woods of Greenshores Subdivision, Greenshores on Lake Austin	220
	(Sewer) Greenshores on Lake Austin Phase I, II and Woods of Greenshores Subdivision	157
Suburban	Beaumont Place	549
	Castlewood	346
	Cypress Bend	242
	Reservoir Acres	220
Community	Forest Manor	98
	Heathergate	109
	Sweetgum Forest	27
Consumers	Greengate Acres	99
	Highland Mobie Home Sub	25
	Highland Ridge	196
	Huffman Heights	119
	Joy Village	52
	Lakewood Colony	57
	Meadowlake Estates	219
	Peach Creek Oaks	70
	Pioneer Trails	133
	Porter Terrace	109
	Spring Forest	258
	Springmont	175
Tall Cedars	57	
Urban Acres	177	
Gulf Coast	Magnolia Bend Water	51
	Spring Crossing	1
	Southwood Estates/Cold River Ranch	1062

TOTAL 4,828