

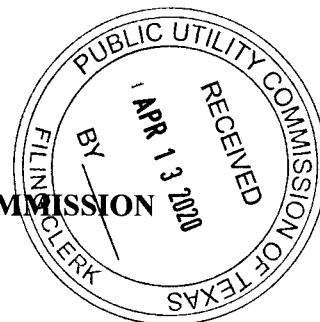
Control Number: 50276



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DOCKET NO. 50276



APPLICATION OF NORTH VICTORIA §
UTILITIES, INC. 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. 50276
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 item 25.

- 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. 50276
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. 50276
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. 50276
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. 50276
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. 50276
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. 50276
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 Second Supplement to the Application in this proceeding, which was filed on March 5, 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. 50276
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. 50276
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. 50276
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. 50276
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFIs

STAFF-CSWR 1-11

Provide a narrative explanation for the decrease in General and Administrative Expenses from \$ [REDACTED] in 2018 according to item 25 to \$ [REDACTED] in 2019 according to item 19.

Response:

The General and Administrative expenses in item 25 are reflective of CSWR, LLC and subsidiaries. Item 19 is a comprehensive projection of the financial statements for CSWR-Texas upon acquiring the initial systems. The difference in the numbers is because item 25 looks at what actually happened with CSWR, LLC and subsidiaries while item 19 is just the sum of recent expense data from the current owners of the systems being applied for.

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