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DOCKET NO. 51065

APPLICATION OF TREETOP §  
UTILITIES, INC. AND CSWR-TEXAS §  
UTILITY OPERATING COMPANY, §  
LLC FOR SALE, TRANSFER, OR §  
MERGER OF FACILITIES AND §  
CERTIFICATE RIGHTS IN PARKER §  
COUNTY §

BEFORE THE  
PUBLIC UTILITY COMMISSION  
OF TEXAS



**CSWR-TEXAS UTILITY OPERATING COMPANY, LLC'S  
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,

L. Russell Mitten  
General Counsel  
Central States Water Resources, Inc.  
1650 Des Peres Rd., Suite 303  
St. Louis, MO 63131  
(314) 380-8595  
(314) 763-4743 (Fax)



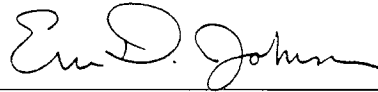
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Evan D. Johnson  
State Bar No. 24065498  
Kate Norman  
State Bar No. 24051121  
C. Glenn Adkins  
State Bar No. 24103097  
Coffin Renner LLP  
1011 W. 31<sup>st</sup> Street  
Austin, Texas 78705  
(512) 879-0900  
(512) 879-0912 (fax)  
[evan.johnson@crtxlaw.com](mailto:evan.johnson@crtxlaw.com)  
[kate.norman@crtxlaw.com](mailto:kate.norman@crtxlaw.com)  
[glenn.adkins@crtxlaw.com](mailto:glenn.adkins@crtxlaw.com)

**ATTORNEYS FOR CSWR, LLC**

**CERTIFICATE OF SERVICE**

I hereby certify that on this 2<sup>nd</sup> day of September 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.



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Evan D. Johnson

**PUC DOCKET NO. 51065**  
**CSWR-Texas Utility Operating Company, LLC's**  
**RESPONSES TO STAFF'S 1<sup>st</sup> RFI**

**STAFF 1-1:**

**Please provide the following:**

- a. the most current bank statement reflecting the cash account balance of CSWR;**
- b. the most recent year-to-date interim financial statements of CSWR for 2020; and**
- c. an explanation of how CSWR plans on moving to profitability and an estimate as to when CSWR will become profitable.**

**Response:**

Documents responsive to this request have been deemed highly sensitive or confidential and are being provided in accordance with the terms of the protective order in this docket.

- a. See Highly Sensitive Attachment Staff 1-1(a).
- b. See Confidential Attachment Staff 1-1(b).
- c. Almost all the water and wastewater systems CSWR's affiliated operating companies acquire are distressed, undercapitalized, mismanaged, out of regulatory compliance, or some combination of those attributes. Another characteristic of those systems is their rates have not increased for many years – in some cases several decades – so at the time of acquisition they are operating at a net loss. Fortunately, in addition to the equity capital required to acquire these systems and make expenditures necessary to remedy their most pressing problems, CSWR's investors have provided working capital sufficient to cover short-term operating losses.

To stem any current or future losses, each affiliated operating company has adopted a business model that calls for rate case filings within a reasonable period—generally 12 months—of closing, or as necessary. Establishing fully compensatory rates will allow each operating affiliate—including CSWR Texas and CSWR—to increase revenue by an amount sufficient to cover its reasonable operating costs and receive a reasonable return on the value of its acquired rate base and any reasonable investments made subsequent to closing. For instance, CSWR Texas expect to move to profitability by filing a rate case at the PUCT within 12 months of closing on this system, or as soon as necessary, and by establishing rates that provide recovery of CSWR Texas' reasonable operating expenses and allow a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service, as determined by the PUCT. How long it will take either the individual affiliates or CSWR to become profitable depends on the pace and volume of future acquisitions and the ability to set reasonable rates, as necessary, once those acquisitions close.

Preparer: Aaron Silas, Business Analyst  
Sponsor: Mike Duncan, Assistant Vice President

**PUC DOCKET NO. 51065**  
**CSWR-Texas Utility Operating Company, LLC's**  
**RESPONSES TO STAFF'S 1<sup>st</sup> RFI**

**STAFF 1-2:**

**Provide the specific reasons that CSWR is in a loss position. For each reason given, quantify the dollar effect on annual revenues and the estimated dollar effect on revenues for the next two years.**

**Response:**

The Company has not analyzed the dollar effect on annual revenues or the estimated dollar effect on revenues for the next two years. The Company's mission is to bring safe, reliable, and environmentally responsible water resources to every community in the United States. Oftentimes, this results in the Company acquiring severely distressed systems that have not had a change in rates in decades. As the Company adopts the rates upon acquisition of the system, CSWR affiliated companies provide the level of service necessary for safety and reliability and spend the capital necessary to bring these systems into compliance while charging these outdated rates. This results in the loss position identified on the financial statements. As mentioned in the Company's response to RFI 1-1(c), to the extent the Company is not profitable, it will seek to increase rates to a more reasonable level after proper review and approval from the applicable state regulatory agency.

Preparer: Aaron Silas, Business Analyst  
Sponsor: Mike Duncan, Assistant Vice President