

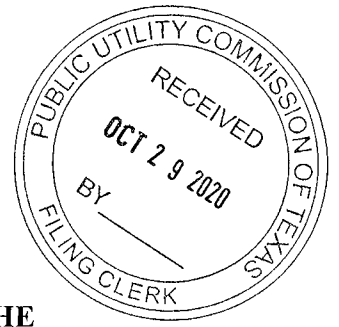


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DOCKET NO. 51089

**APPLICATION OF DONALD E. WILSON §
D/B/A QUIET VILLAGE II D/B/A QV §
UTILITY AND CSWR-TEXAS UTILITY §
OPERATING COMPANY, LLC FOR §
SALE, TRANSFER, OR MERGER OF §
FACILITIES AND CERTIFICATE §
RIGHTS IN HIDALGO 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)

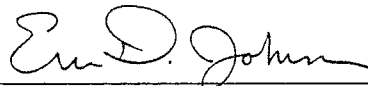


Evan D. Johnson
State Bar No. 24065498
Kate Norman
State Bar No. 24051121
C. Glenn Adkins
State Bar No. 24103097
Coffin Renner LLP
1011 W. 31st Street
Austin, Texas 78705
(512) 879-0900
(512) 879-0912 (fax)
evan.johnson@crtxlaw.com
kate.norman@crtxlaw.com
glenn.adkins@crtxlaw.com

ATTORNEYS FOR CSWR, LLC

CERTIFICATE OF SERVICE

I hereby certify that on this 29th day of October 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

DOCKET NO. 51089
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFI

STAFF 1-1:

Mr. Wilson purchases treated water from North Alamo Water Supply Corporation (North Alamo WSC) and sewer treatment from the City of Donna. CSWR-Texas states there are no contracts with either North Alamo WSC for water or the City of Donna for sewer treatment. Please describe all actions taken by CSWR-Texas to secure written agreements with North Alamo WSC and the City of Donna and explain how CSWR-Texas will demonstrate that it has the water and sewer treatment capacity necessary to provide continuous and adequate service if written agreements are not obtained.

Response:

Please see the attached purchase agreement, Confidential Staff 1-1 Attachment, between Quiet Village and North Alamo WSC ("North Alamo"), which was just recently provide to CSWR Texas by Quiet Village. CSWR-Texas has been in contact with Quiet Village and North Alamo and intends to assume the current agreement or initiate a new agreement once the acquisition is complete to ensure service is uninterrupted. Please note that although the initial term of the agreement expired, the parties have continued to operate under the terms of the agreement since 2001.

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

DOCKET NO. 51089
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFI

STAFF 1-2:

Please explain how CSWR-Texas and Mr. Wilson plan to remedy the outstanding regulatory assessment fees owed to the Texas Commission on Environmental Quality (TCEQ) for the years of 2015 through 2017. For more information about the unpaid fees, please call the TCEQ at 512-239-4691.)

Response:

The outstanding regulatory assessment fees were paid on October 16, 2020.

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

DOCKET NO. 51089
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFI

STAFF 1-3:

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 becoming profitable 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 1-3(a).
- b. See Confidential Attachment Staff 1-3(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

DOCKET NO. 51089
CSWR-Texas Utility Operating Company, LLC's
RESPONSES TO STAFF'S 1st RFI

STAFF 1-4:

Please 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 1-3(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