

# **Filing Receipt**

Filing Date - 2023-06-28 02:14:25 PM

Control Number - 53721

Item Number - 62

#### **DOCKET NO. 53721**

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APPLICATION OF CSWR-TEXAS UTILITY OPERATING COMPANY, LLC AND PATTERSON WATER SUPPLY, LLC FOR SALE, TRANSFER, OR MERGER OF FACILITIES AND CERTIFICATE RIGHTS IN DALLAS, DENTON, PARKER, TARRANT, AND WISE COUNTIES

#### PUBLIC UTILITY COMMISSION

**OF TEXAS** 

#### CSWR-TEXAS UTILITY OPERATING COMPANY LLC'S RESPONSE TO ORDER NO. 14

CSWR-Texas Utility Operating Company, LLC ("CSWR-Texas" or "Company") files this Response to Order No. 14. Order No. 14 directed CSWR-Texas to supplement its application and to move to admit additional information into the record no later than June 28, 2023. Therefore, this response is timely filed.

The application in this matter was filed on June 15, 2022, almost one year ago. The transaction between CSWR-Texas and Patterson Water Supply, LLC closed over three months ago. Notice was approved on October 13, 2022, and CSWR-Texas and Patterson filed closing documents on March 24, 2023, which were found sufficient. Staff of the Commission and CSWR-Texas filed a joint supplemental motion to admit evidence and a proposed notice of approval on June 2, 2023. Many of the issues raised in Order No. 14 were previously raised and addressed by CSWR-Texas and Staff.

#### I. <u>CAPITAL IMPROVEMENT PLAN AND, IF NECESSARY, REQUEST FOR</u> <u>GOOD CAUSE EXCEPTION</u>

CSWR-Texas has provided a line-item budget for anticipated repairs and improvements on the water system it is purchasing. This budget is included at pages 21, 82, 470, 527, and 566 in Confidential Attachment J to its application. At the time it entered into a purchase agreement, CSWR-Texas was only able to perform a limited preliminary analysis of any potential necessary improvements because it is not the owner of the property and has only limited access to the subject facilities. Subsequent to its execution of the purchase agreement, CSWR-Texas engaged thirdparty engineers who, as part of the due diligence process, reviewed the visible infrastructure, such as tanks, pumps, and above ground pipes, but the engineer is typically not able to see the extent of any damage to this equipment until a more thorough review can take place subsequent to closing. Those engineers are also unable to review underground facilities or any damage to those facilities. Therefore, CSWR-Texas can only provide a general overview of potential improvement needs and estimated budget for the project. Additionally, because CSWR-Texas cannot know when its STM will be approved, it is difficult to provide a specific timeline for initiation or completion of the project. Further, given the uncertainty of when CSWR-Texas will take over ownership and operation of a system, there is considerable uncertainty regarding the cost and availability of labor and materials and the ability to source necessary equipment.

Confidential Attachment J itemizes each component of the systems where the third-party engineer was able to determine repairs were needed and the estimated cost to repair the system.<sup>1</sup> The budget is broken down by the items that the engineer was able to determine need repair, such as storage tanks, water wells, and fencing. As explained before, CSWR-Texas cannot provide exact costs for each item that needs repair. However, until it seeks bids for repairs, the Company cannot know with any additional certainty what the final cost for repairs will be. A total estimated cost is included in the Company's Highly Sensitive Attachment G to the application, which includes the total amount of capital investment the Company will need to acquire the system and make the necessary capital improvements. The maps included in Confidential Attachment J show the location of the existing facilities. There are no additional construction locations to include on the map based on the recommended repairs.

Once CSWR-Texas begins operating the facility, it is estimated it will take 6 months to fully evaluate the repairs and improvements needed. Following the evaluation, CSWR-Texas estimates it will begin construction within 24 months and that construction will be completed within 30 months after commencing. To the extent necessary, CSWR-Texas requests a good cause exception to the requirements under 16 Texas Administrative Code ("TAC") § 24.2(b) for the reasons stated before.

#### II. <u>REQUEST FOR GOOD CAUSE EXCEPTION TO REQUIREMENT TO</u> <u>PROVIDE LOAN DOCUMENTATION</u>

Order No. 14 directs CSWR-Texas either to provide loan documentation for an amount it will need to make capital improvements on the system or to seek a good cause exception to any

<sup>&</sup>lt;sup>1</sup> Application, Confidential Attachment J at 21, 82, 470, 527, and 566 (Jun. 15, 2022).

requirement that it must provide loan documentation in any STM proceeding where it is estimated that capital improvements will exceed \$100,000, pursuant to 16 TAC § 24.11(e)(5)(A). In Order No. 6, the ALJ raised this issue asking whether CSWR-Texas could use firm capital commitments rather than loan documentation. Both CSWR-Texas and Staff responded to that order, and the ALJ approved the transaction to proceed. There is no reason to revisit this issue and the ALJ's ruling again.

However, because the ALJ has posed this question a second time, CSWR-Texas continues to reassert that this provision should not apply to CSWR-Texas because providing loan documentation is not reasonable, necessary or even possible. CSWR-Texas is already required to maintain a sufficient cash balance to purchase this system and bring it into compliance. CSWR-Texas does not obtain loans for purchasing or repairing systems because this type of capital is not available to small operators like CSWR-Texas at reasonable rates. Thus, CSWR-Texas cannot provide loan documentation. For this reason, and to the extent necessary, CSWR-Texas seeks a good cause exception to this requirement.

However, a good cause exception should not be necessary because CSWR-Texas does not need to provide additional "financial assurance" in this proceeding because it has already demonstrated "adequate financial capability." 16 TAC § 24.239(f) states that "[i]f the transferee cannot demonstrate adequate financial capability, the commission may require that the transferee provide financial assurance to ensure continuous and adequate retail water or sewer utility service is provided ....." Financial assurance is not required under 16 TAC § 24.239, absent a threshold finding that the utility cannot demonstrate "adequate financial capability." Further, 16 TAC required to provide financial assurance under this chapter." It does not speak to financial capability. Likewise, 16 TAC § 24.11(e) explains that an owner or operator may demonstrate financial assurance, and it also does not speak to financial capability. Accordingly, 16 TAC § 24.11 does not apply here because the purchasing utility cannot demonstrate adequate financial capability. Order No. 6 directs CSWR-Texas to provide "financial assurance" under 16 TAC § 24.11 without making the threshold determination that CSWR-Texas was not already financially capable based on its existing facilities and operations in Texas. Although 16 TAC § 24.239(f) does not include a specific test for determining "adequate financial capability," requiring "financial assurance" clearly cannot be the primary measure of adequate financial capability. Otherwise, the Commission is effectively requiring every water and wastewater utility—including Class A and Class B utilities, regardless of their demonstrated financial capability—to provide financial assurance in every STM proceeding.

As previously addressed in this docket, Staff has discretion under Rule § 24.239 to recommend whether CSWR-Texas should be required to provide additional financial assurance.<sup>2</sup> Staff has already directed CSWR-Texas to provide evidence of financial capability through (1) its audited financial statements; (2) bank statements showing sufficient funds are available; and (3) affidavit support from its parent company committing those funds to purchase, repair, and operate each system it has requested to acquire. CSWR-Texas should not be required to commit to additional cumbersome (and expensive) financial assurance tests and requirements, like escrowing funds or obtaining loan approval documents or lines or letters of credit, if no party argues for or recommends such treatment. In general, a Class A or Class B utility that demonstrates it already has a significant presence in Texas, owns millions of dollars of facilities in Texas, serves thousands of customers in Texas, has invested millions of dollars in infrastructure in Texas, and regularly acquires distressed systems in Texas should be considered financially capable to operate in Texas absent extenuating or unique circumstance that mandates other treatment.

Even in its STM proceedings that involve more than \$100,000 in potential capital improvements, like the present case, Staff and the Commission have found that utilities may demonstrate adequate financial capability through audited financial statements and available cash, without requiring "loan approval documents" or other support. For example, in Docket No. 52391, the Commission ruled that the applicant had already satisfied the financial capability requirement through provision of audited financial statements and available cash balances without needing to provide loan approval documents or other additional financial assurance. The Commission ruled similarly on these exact issues in Docket No. 53721 based on Staff's recommendation.<sup>3</sup>

Finally, as a practical matter, it would also make little sense for the Commission to require a utility with sufficient cash on hand to obtain a loan it does not need (and would have to repay

<sup>&</sup>lt;sup>2</sup> Commission Staff's Comments in Support of Joint Motion to Admit Evidence and Proposed Order Approving the Sale and Transfer to Proceed and Request for Expedited Relief (Feb. 27, 2023); SOAH Order No. 12 Approving Sale and Transfer to Proceed (Mar. 2, 2023).

<sup>&</sup>lt;sup>3</sup> SOAH Order No. 12 Approving Sale and Transfer to Proceed.

with interest) instead of purchasing the system outright. Accordingly, if the ALJ finds that 16 TAC § 24.11 is applicable in this proceeding, it should clarify that CSWR-Texas has already satisfied the requirements of 16 TAC § 24.11 and that the transaction should be approved to proceed. Otherwise, the Company requests a good cause exception to any requirement that it must provide loan documentation related to its capital improvements.

#### III. SUPPLEMENTAL NOTICE AND REQUEST FOR CLARIFICATION

In Order No. 14, the ALJ states that notice is required to landowners holding tracts of land of 25 acres or more who are wholly or partially included in the area to be certified. To support this requirement, the ALJ cites Texas Water Code § 13.246(a-1) and 16 Tex. Admin. Code § 24.235(b)(2). This provision of the Water Code does not apply in sale, transfer, merger ("STM") proceedings. It is in an entirely separate subchapter of the Water Code for new and amended certificates of convenience and necessity ("CCN"). The notice requirements for STM proceedings are different. And, there is a valid reason for this difference. The purpose of the notice in new and amended CCN proceedings is to allow large landowners to opt out of receiving service from a new CCN. The Water Code specifically notes that those large landowners can opt out from being in the proposed service area. This is not applicable in STM proceedings where the landowners are not taking service from the legacy utility and cannot opt out from the STM.

Additionally, in this case, there are a number of large landowners who are shown as being partially within the Patterson CCN boundaries because the legal descriptions used to draw the CCN boundaries is not as precise as the GIS information available today. However, the customers noticed as a result of the requirement in Order No. 14 do not take service from Patterson and, therefore, none has the ability to opt out of the STM because CSWR-Texas will not be serving them. Notice is not required under the applicable law, and the ALJ should not require these landowners to be noticed.

CSWR-Texas further seeks clarification of how it is required to determine which landowners must receive the notice. Specifically, whether CSWR-Texas may use GIS information to map the CCN boundaries.

In an effort to expedite this proceeding, which has had multiple delays, CSWR-Texas has provided notice to the landowners. The supplemental notice affidavit is attached as Exhibit A and Exhibit B is a redacted sample notice. Exhibit C is the Highly Sensitive list of customers receiving service outside the CCN area. Exhibit D are Highly Sensitive maps showing the exact locations of the customers with tracts of 25 acres or more.

#### IV. CUSTOMERS IN CCN NOS. 13248 AND 20566

Order No. 14 asks whether CSWR-Texas seeks to amend its CCN to include customers served by Patterson but not located within the certificated service area of CCN numbers 13248 and 20566. To clarify, CSWR-Texas does not seek to include those customers outside of the certificated area.

### V. <u>SUPPLEMENTAL MOTION TO ADMIT EVIDENCE</u>

CSWR-Texas respectfully moves for admission of the following documents and information:

- This pleading, including the estimated timeline for completion of capital improvements;
- Supplemental notice affidavit;
- Redacted notice;
- Highly Sensitive list of customers who own tracts of land of 25 acres or more and are partially in the CCN boundary; and
- Highly Sensitive maps showing exact locations of customers with tracts of 25 acres or more.

#### VI. STATEMENT OF CONFIDENTIALITY

The undersigned attorney has reviewed Highly Sensitive Exhibits C and D and confirms that the attachments contain customer-specific information including names, addresses, and account payment histories. This is information is specifically protected by Tex. Util. Code § 182.052 and is expressly protected under Paragraph 6 of the Commission's standard protective order. Accordingly, the information contained in Highly Sensitive Exhibits C and D is exempt from public disclosure under Tex. Gov't Code § 552.101 and Tex. Util. Code 182.052 and merits the Protect Materials designation.

#### VII. **CONCLUSION**

CSWR-Texas respectfully requests that the ALJ admit additional evidence, grant the requested good cause exceptions if necessary, and issue an order approving the transaction. CSWR-Texas also requests all further relief to which it is entitled.

Respectfully submitted,

#### ATTORNEYS FOR CSWR TEXAS UTILITY OPERATING COMPANY, LLC

L. Russell Mitten General Counsel Central States Water Resources, Inc. 1630 Des Peres Rd., Suite 140 Des Peres, Missouri 63131 (314) 380-8595 (314) 763-4743 (fax)

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Evan D. Johnson State Bar No. 24065498 Wendy K. L. Harvel State Bar No. 00796719 Coffin Renner LLP 1011 W. 31st Street Austin, Texas 78705 (512) 879-0900 (512) 879-0912 (fax) evan.johnson@crtxlaw.com wendy.harvel@crtxlaw.com

#### **CERTIFICATE OF SERVICE**

I hereby certify that on June 28, 2023 a true and correct copy of the foregoing document was served on all parties of record via electronic mail in accordance with the Second Order Suspending Rules filed in Project No. 50664,

Way Ka Hal Wendy O.L. Harvel

### SUPPLEMENTAL AFFIDAVIT REGARDING NOTICE

STATE OF MISSOURI § S COUNTY OF ST. LOUIS §

Before me, the undersigned authority, Aaron Silas, being first duly sworn, deposes and states as follows:

- 1. My name is Aaron Silas. I am over 21 years of age, of sound mind, and capable of making this Affidavit. I have personal knowledge of the facts contained herein, and they are true and correct.
- 2. I am the Director of Regulatory Operations of CSWR-Texas Utility Operating Company, LLC ("CSWR-Texas"). I am qualified and authorized to file and verify such form and am personally familiar with notices given with this application.
- 3. I certify that all owners of tracts of land of 25 acres or greater that are wholly or partially located in the requested area received individual notice by mail of the Application of CSWR-Texas and Patterson Water Supply LLC for Sale, Transfer, or Merger of Facilities and Certificate Rights in Dallas, Denton, Parker, Tarrant, and Wise Counties.

Aaron Silas Director of Regulatory Operations CSWR-Texas Utility Operating Company, LLC

SWORN TO AND SUBSCRIBED before me on this  $27^{\text{th}}$  day of June, 2023.

otary Public, State of Missouri



### Notice to Current Customers, Neighboring Systems, and Cities CSWR-TEXAS UTILITY OPERATING COMPANY, LLC, CERTIFICATES OF CONVENIENCE AND NECESSITY (CCN) NOS. 13290 AND 21120, NOTICE OF INTENT TO PURCHASE WATER AND SEWER FACILITIES AND TO TRANSFER WATER AND SEWER SERVICE AREA UNDER CCN NOS. 13248 AND 20566 FROM PATTERSON WATER SUPPLY, LLC IN DALLAS, DENTON, PARKER, TARRANT, AND WISE COUNTIES, TEXAS

To: (Name of Customer, Neighboring System, or City)	(Name of Customer, Neighboring System, or City) Date Notice Mailed: 6/27/2023		
(Address)			
(City State Zip)			
CSWR-Texas Utility Operating Company, LLC	1630 Des Peres Rd, Suite 140		
(Purchaser's Name)	(Address)		
St. Louis, MO	63131		
(City), (State)	(Zip Code)		

has submitted an application with the Public Utility Commission of Texas (Commission) to purchase a portion of the water facilities and to transfer water certificated service area under CCN No. <u>13248</u> and a portion of the sewer facilities and to transfer sewer certificated service area under CCN No. <u>20566</u>, in Dallas, Denton, Parker, Tarrant, and Wise counties, TX from:

Patterson Water Supply, LLC	1011 W. 31 <sup>st</sup> Street	Austin, TX	78705
(Seller's Name)	(Address)	(City), (State)	(Zip Code)

The sale is scheduled to take place if approved by the Commission (Texas Water Code § 13.301). The transaction and the transfer of the CCN includes the following:

### Requested Area 1 (Daineldale Subdivision - Dallas County)

The requested area includes <u>243</u> customer connections, is located approximately <u>2.6</u> mile(s) <u>northeast</u> of downtown <u>DeSoto</u>, Texas, and is generally bounded on the north by <u>East Danieldale</u> <u>Road</u>; on the east by <u>Interstate Highway 35</u>; on the south by <u>East Wintergreen Road</u>; and on the west by <u>Connor Street</u>.

The requested area 1 includes approximately 276 acres of transferred area from (CCN No. 13248).

## Requested Area 2 (Rocky Point Subdivision - Denton County)

The requested area includes <u>134</u> customer connections, is located approximately <u>0.8</u> mile(s) west of downtown <u>Lakewood Village</u>, Texas, and is generally bounded on the north by <u>Easy Street</u>; on the east by <u>Garza Lane</u>; on the south by <u>Lake Lewisville</u>; and on the west by <u>Lake Lewisville</u>.

The requested area 2 includes approximately 59 acres of transferred area from (CCN No. 13248).

### Requested Area 3 Water (Vacation Village Subdivision - Denton County)

The requested area includes <u>406</u> customer connections, is located approximately <u>4.8</u> mile(s) <u>southeast</u> of downtown <u>Denton</u>, Texas, and is generally bounded on the north by <u>Lake Vista Lane</u>; on the east by <u>Lake Shore Lane</u>; on the south by <u>Farm to Market Road 426</u>; and on the west by <u>the intersection of Farm to Market Road 426</u> and Laney Circle.

The requested area 3 water includes approximately <u>78</u> acres of transferred area (from CCN No. 13248).

## Requested Area 3 Sewer (Vacation Village Subdivision - Denton County)

The requested area includes <u>362</u> customer connections, is located approximately <u>4.8</u> mile(s) <u>southeast</u> of downtown <u>Denton</u>, Texas, and is generally bounded on the north by <u>Lake Vista Lane</u>; on the east by <u>Lake Shore Lane</u>; on the south by <u>Farm to Market Road 426</u>; and on the west by <u>the intersection of Farm to Market Road 426</u> and Laney Circle.

The requested area 3 sewer includes approximately <u>78</u> acres of transferred area from (CCN No. 20566).

### Requested Area 4 (Crazy Horse Ranchos Subdivision - Parker County)

The requested area includes <u>75</u> customer connections, is located approximately <u>5</u> mile(s) <u>northwest</u> of downtown <u>Weatherford</u>, Texas, and is generally bounded on the north by <u>Adair Lane</u>; on the east by <u>Zion Hill Road</u>; on the south by <u>Johnson Bend Road</u>; and on the west by <u>the intersection</u> <u>of Farm to Market Road 1185 and Farm to Market Road 920</u>.

The requested area 4 includes approximately 253 acres of transferred area from (CCN No. 13248).

### Requested Area 5 (Cooley Point Subdivision - Tarrant County)

The requested area includes <u>55</u> customer connections, is located approximately <u>1.9</u> mile(s) <u>southwest</u> of downtown <u>Newark</u>, Texas, and is generally bounded on the north by <u>Eagle Mountain</u> <u>Lake</u>; on the east by <u>Eagle Mountain Lake</u>; on the south by <u>Eagle Mountain Lake</u>; and on the west by <u>Briar Road</u>.

The requested area 5 includes approximately 23 acres of transferred area from (CCN No. 13248).

### Requested Area 6 (Hills of Briar Oaks Subdivision - Wise County)

The requested area includes <u>188</u> customer connections, is located approximately <u>2.4</u> mile(s) <u>west</u> of downtown <u>Newark</u>, Texas, and is generally bounded on the north by <u>County Road 4659</u>; on the east by <u>Eagle Mountain Lake</u>; on the south by <u>Briar Road</u>; and on the west by <u>Farm to Market Road 730</u>.

The requested area 6 includes approximately 1,164 acres of transferred area from (CCN No. 13248).

# The total water requested area includes 1,101 customer connections and approximately 1,853 acres of transferred area from (CCN No. 13248).

The total sewer requested area includes 362 customer connections and approximately 78 acres of transferred area from (CCN No. 20566).

# The application proposes the subtraction of approximately <u>1,853</u> acres from CCN No. 13248 See enclosed map showing the requested area.

This transaction will not have an effect on the current customer's rates and services.

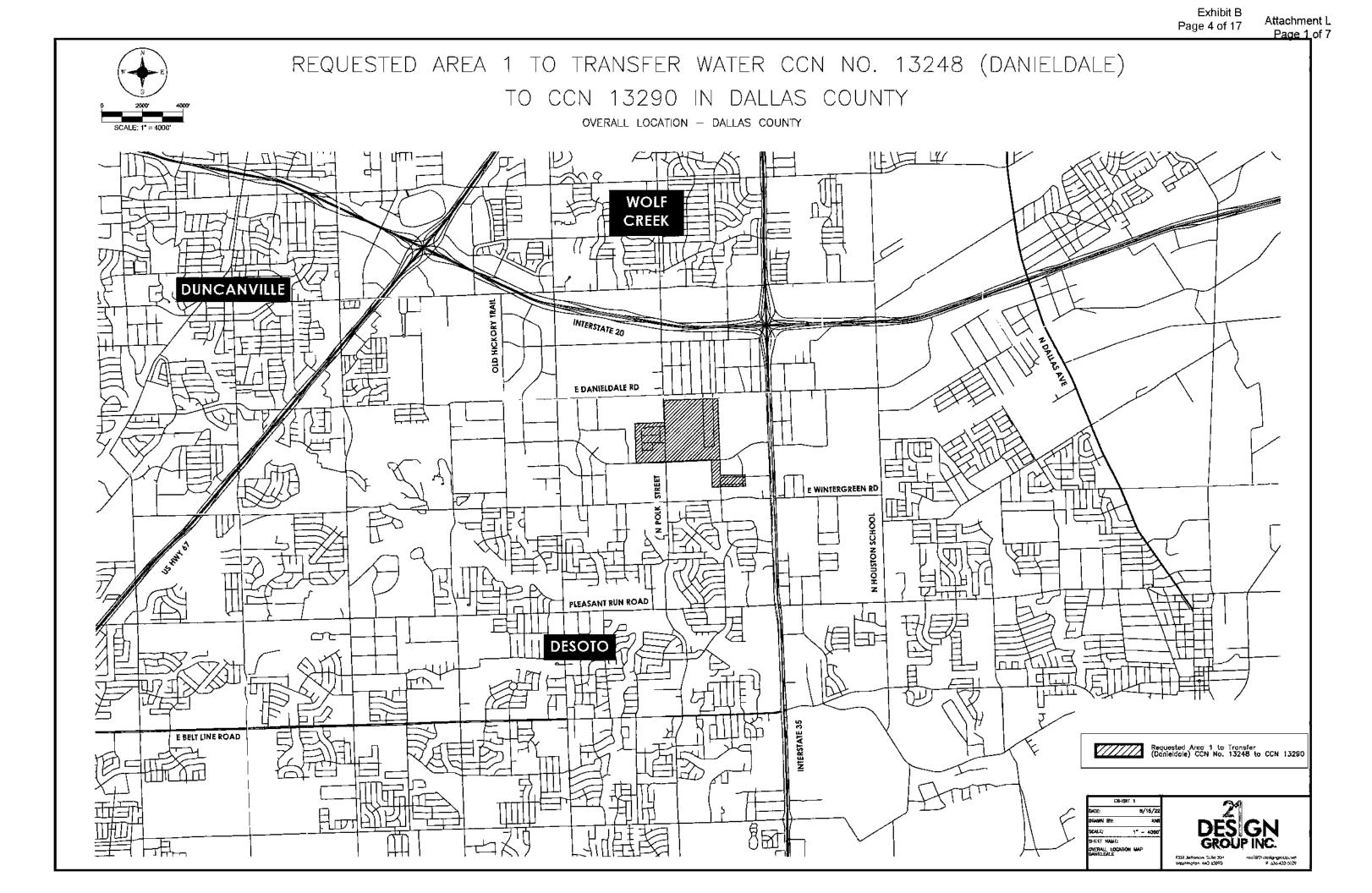
Persons who wish to intervene in the proceeding or comment upon action sought should contact the Public Utility Commission, P.O. Box 13326, Austin, Texas 78711-3326, or call the Public Utility Commission at (512) 936-7120 or (888) 782-8477. Hearing- and speech-impaired individuals with text telephones (TTY) may contact the commission at (512) 936-7136. The deadline for intervention in the proceeding is (30 days from the mailing or publication of notice, whichever occurs later, unless otherwise provided by the presiding officer). You must send a letter requesting intervention to the commission which is received by that date. The letter must include the person's name, address, email address and fax number if applicable.

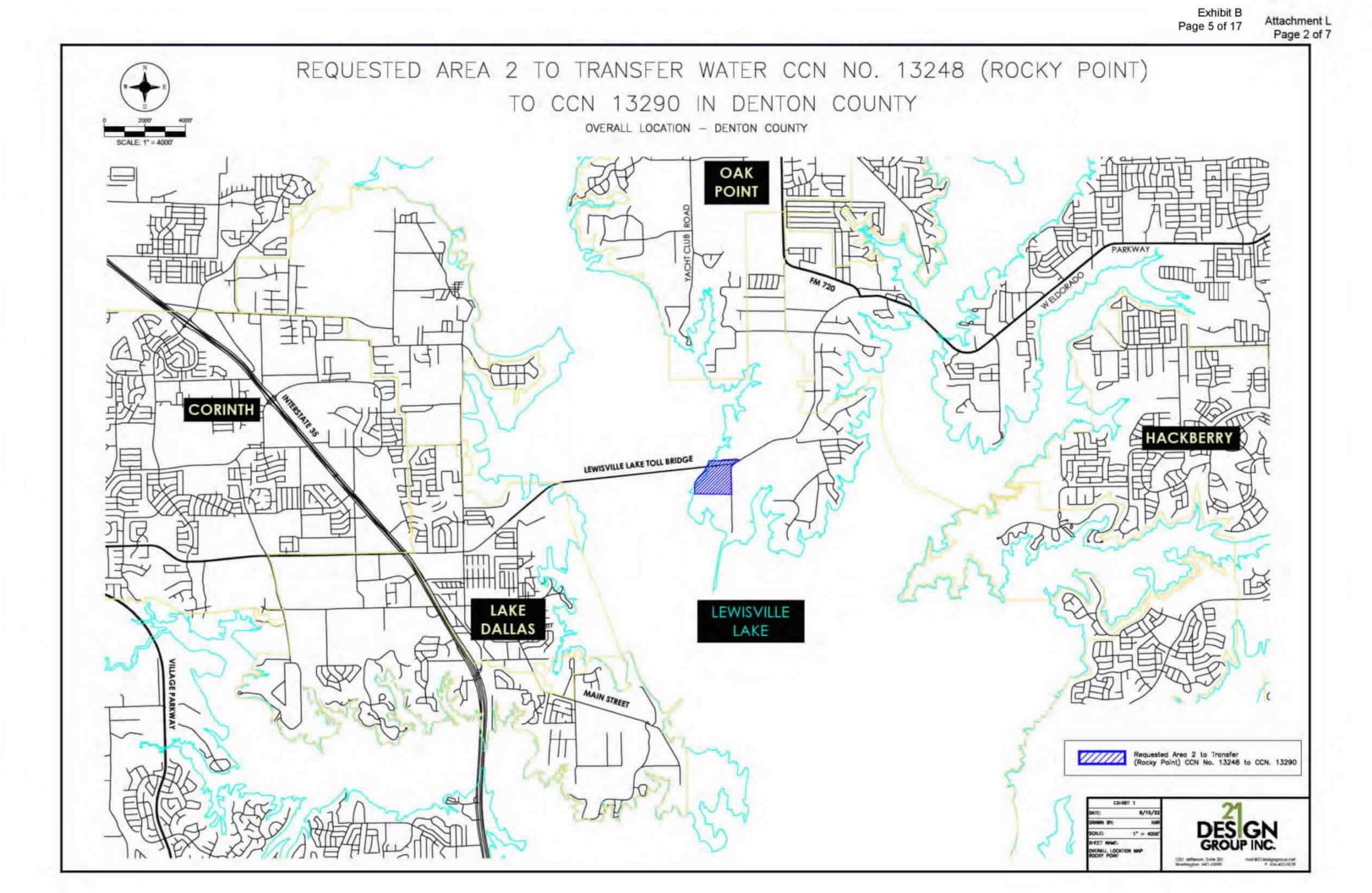
If a valid public hearing is requested, the Commission will forward the application to the State Office of Administrative Hearings (SOAH) for a hearing. If no settlement is reached and an evidentiary hearing is held, SOAH will submit a recommendation to the Commission for final decision. An evidentiary hearing is a legal proceeding similar to a civil trial in state district court.

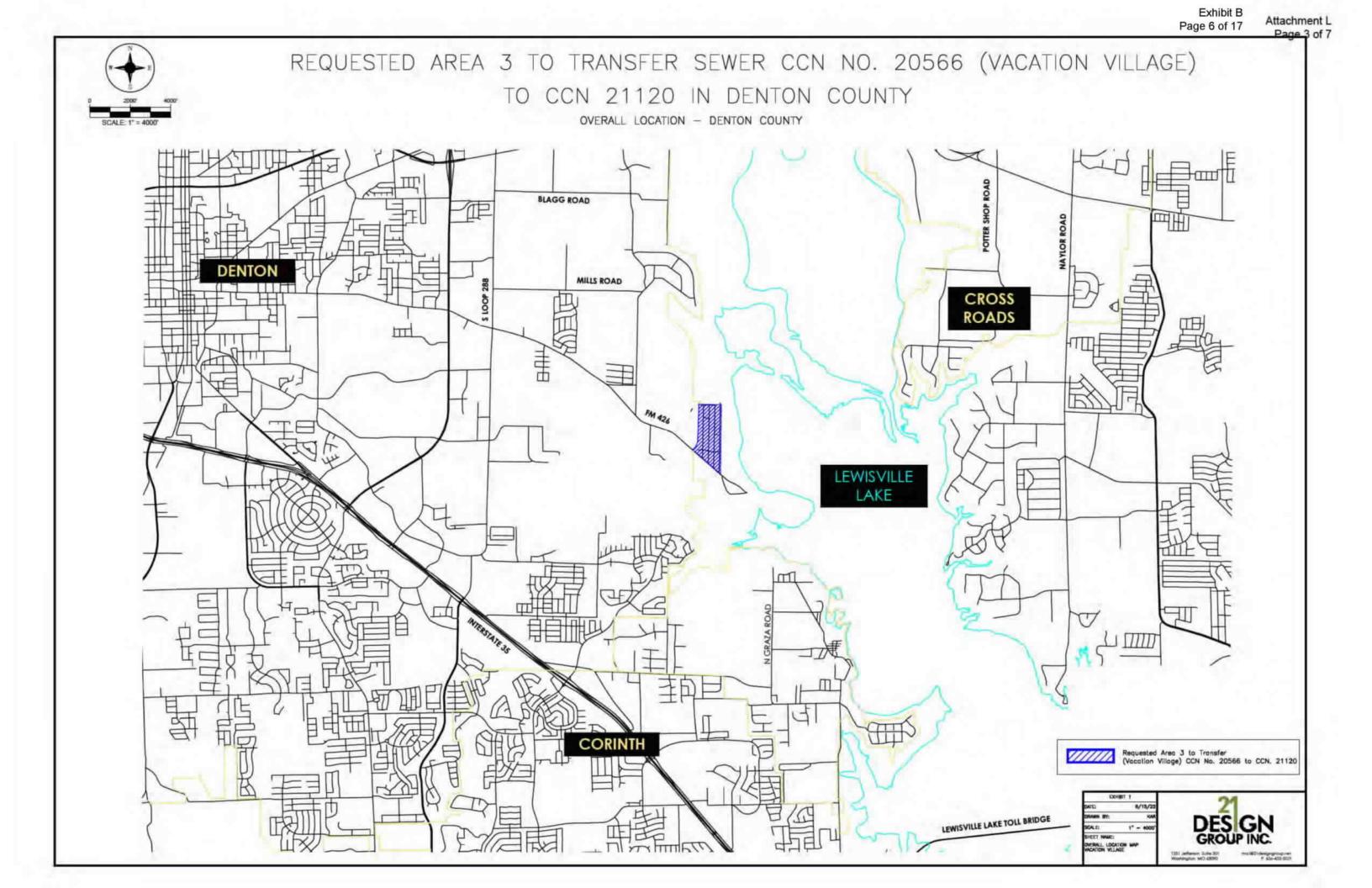
Si desea información en español, puede llamar al 1-888-782-8477.

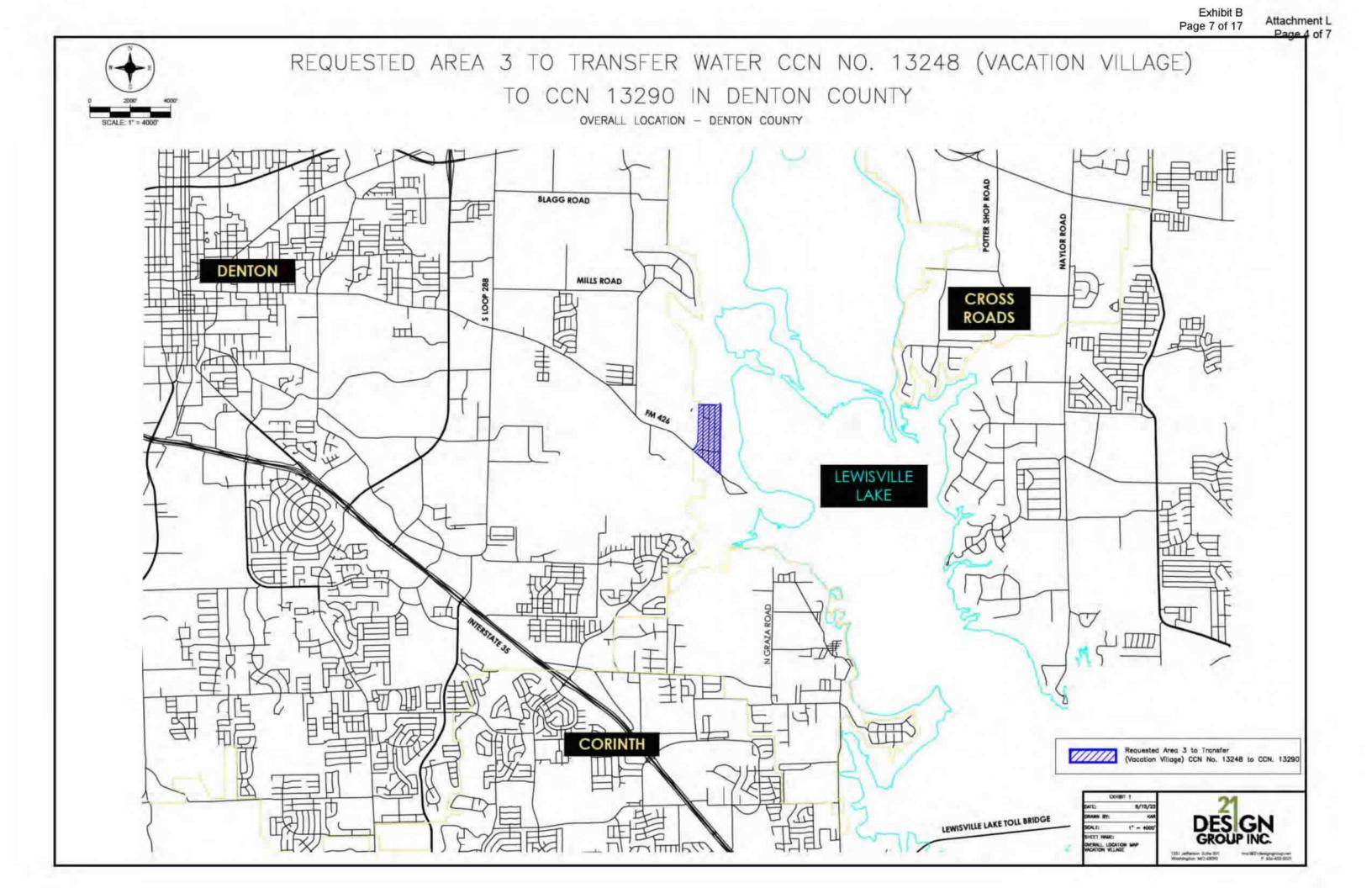
Aaron Silas Utility Representative

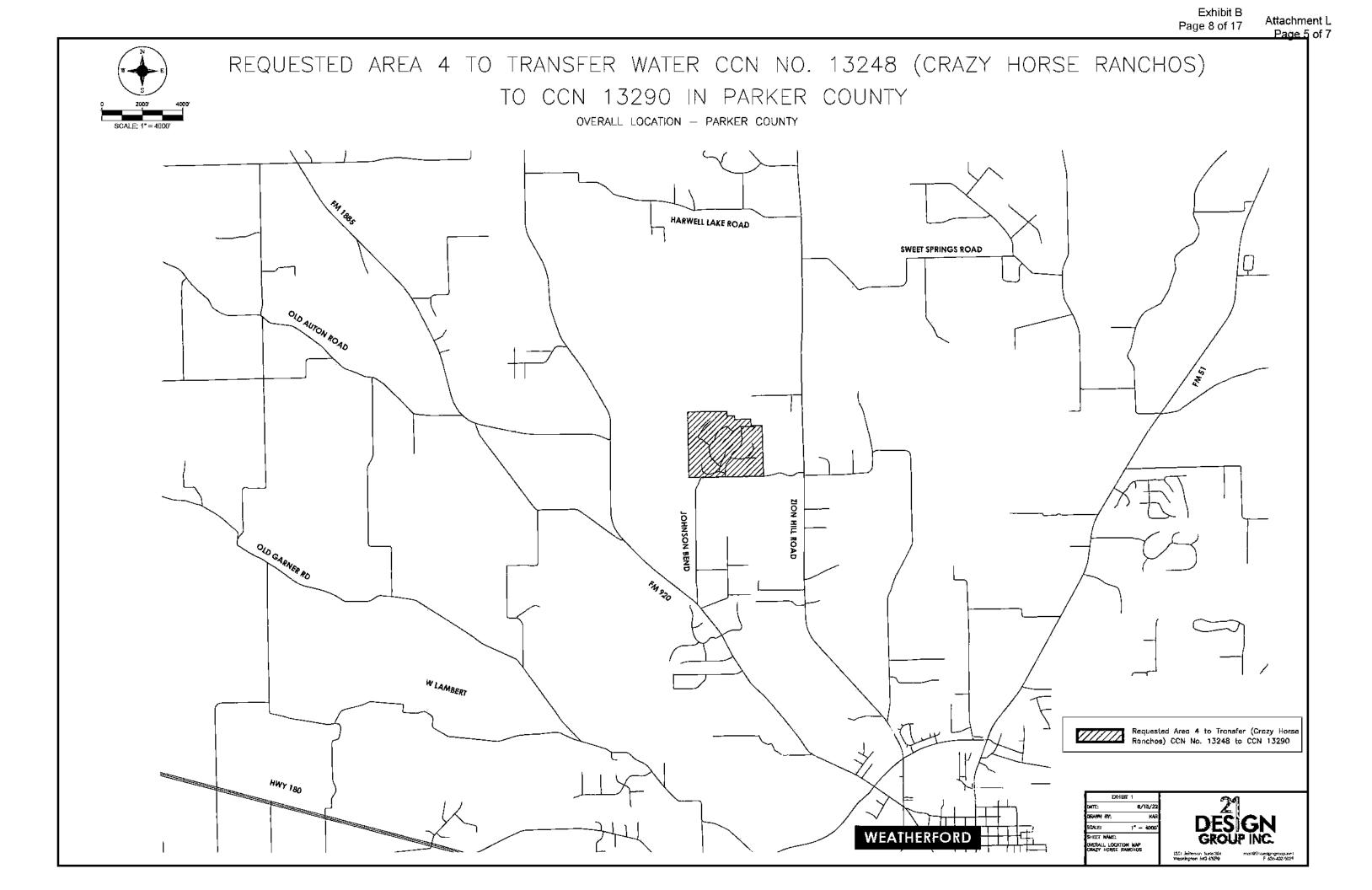
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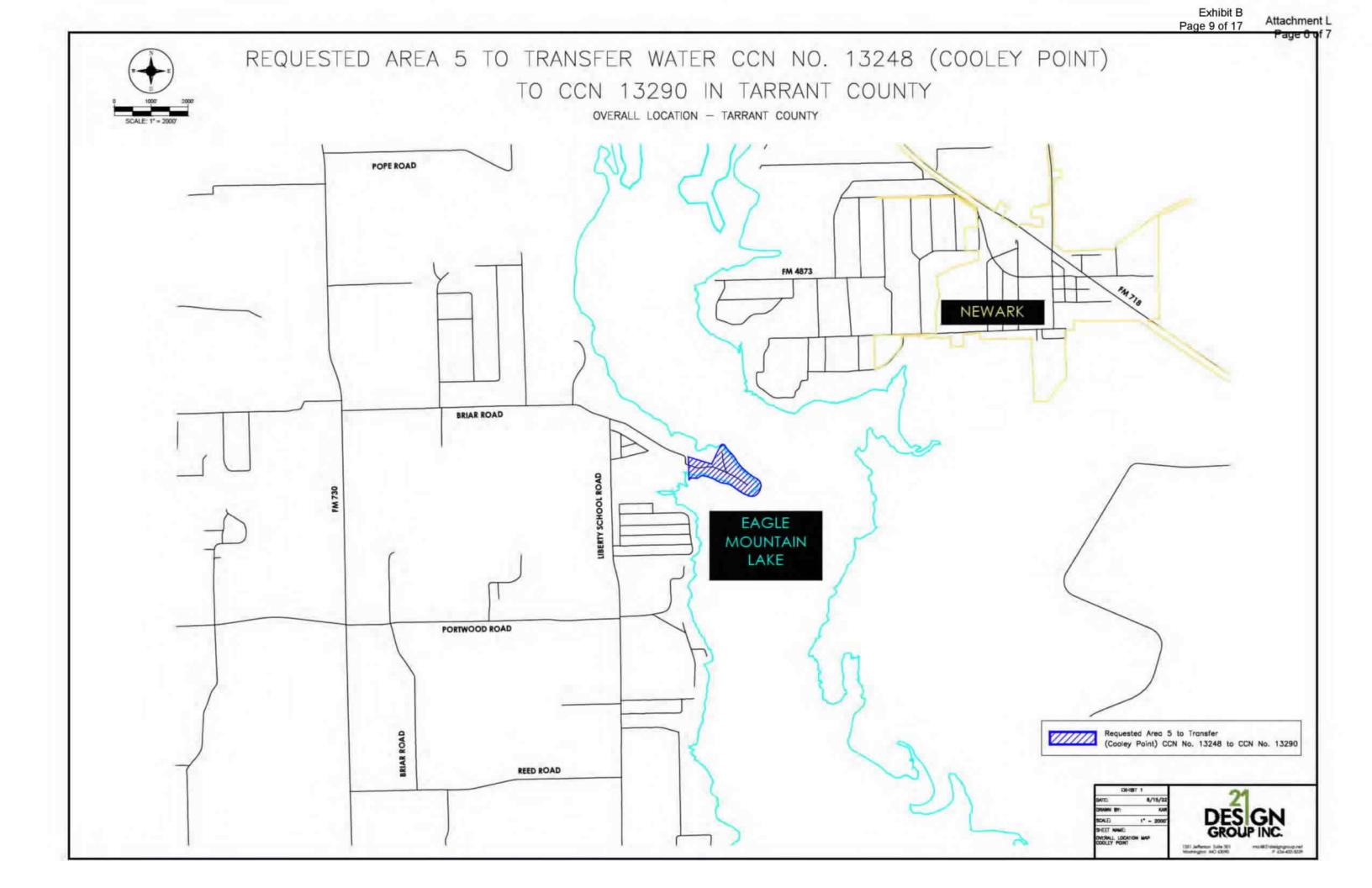


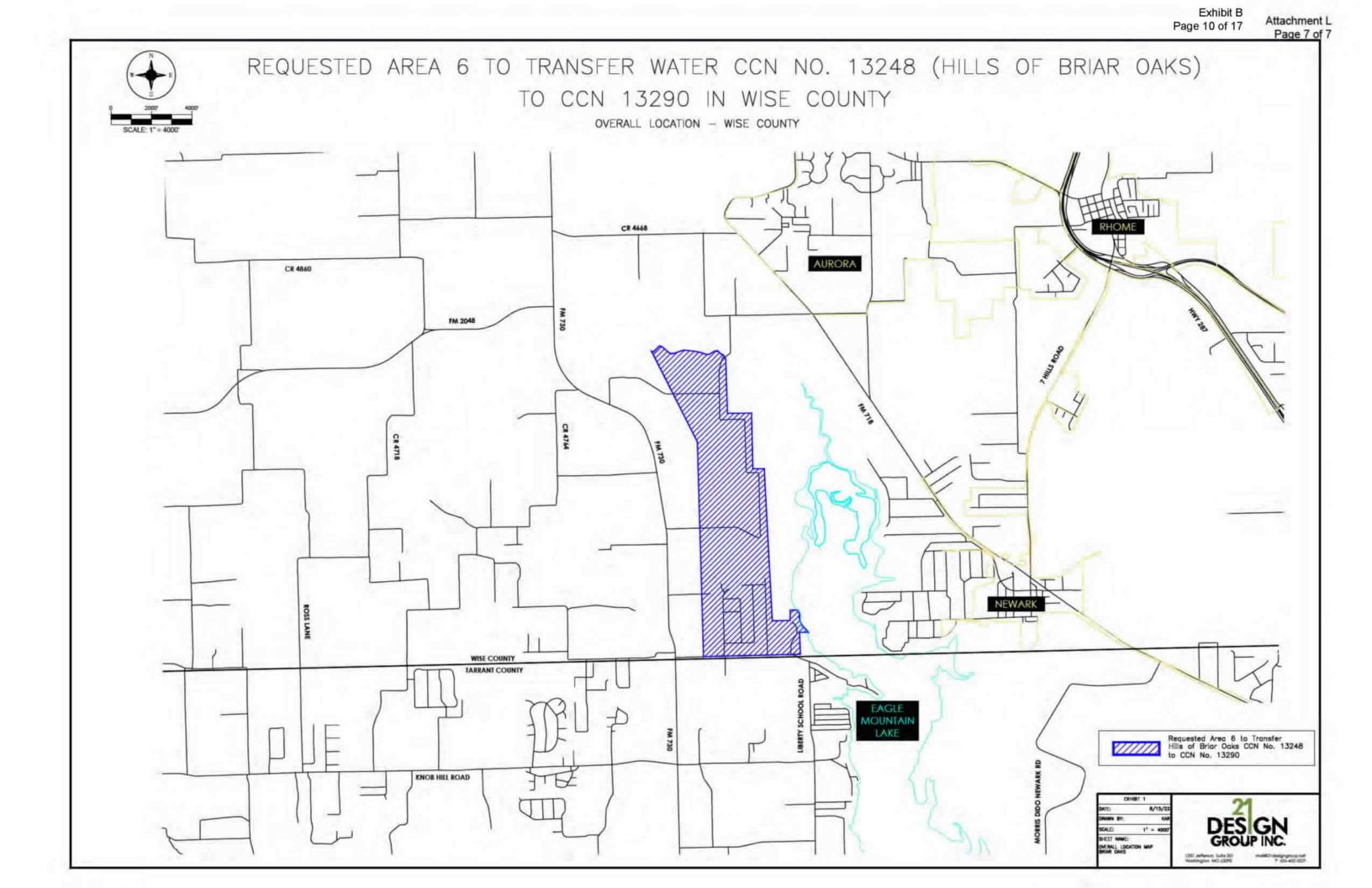


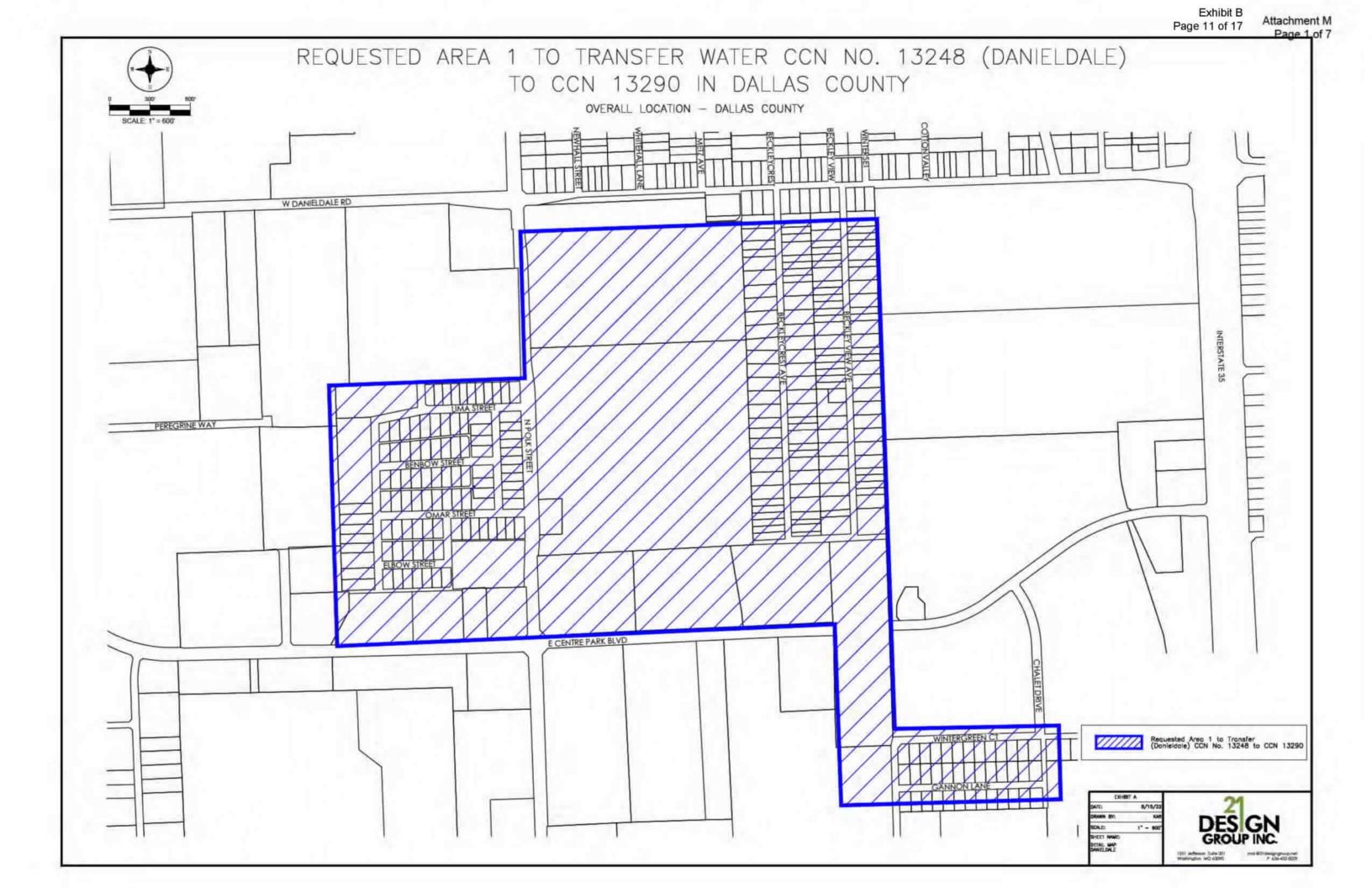


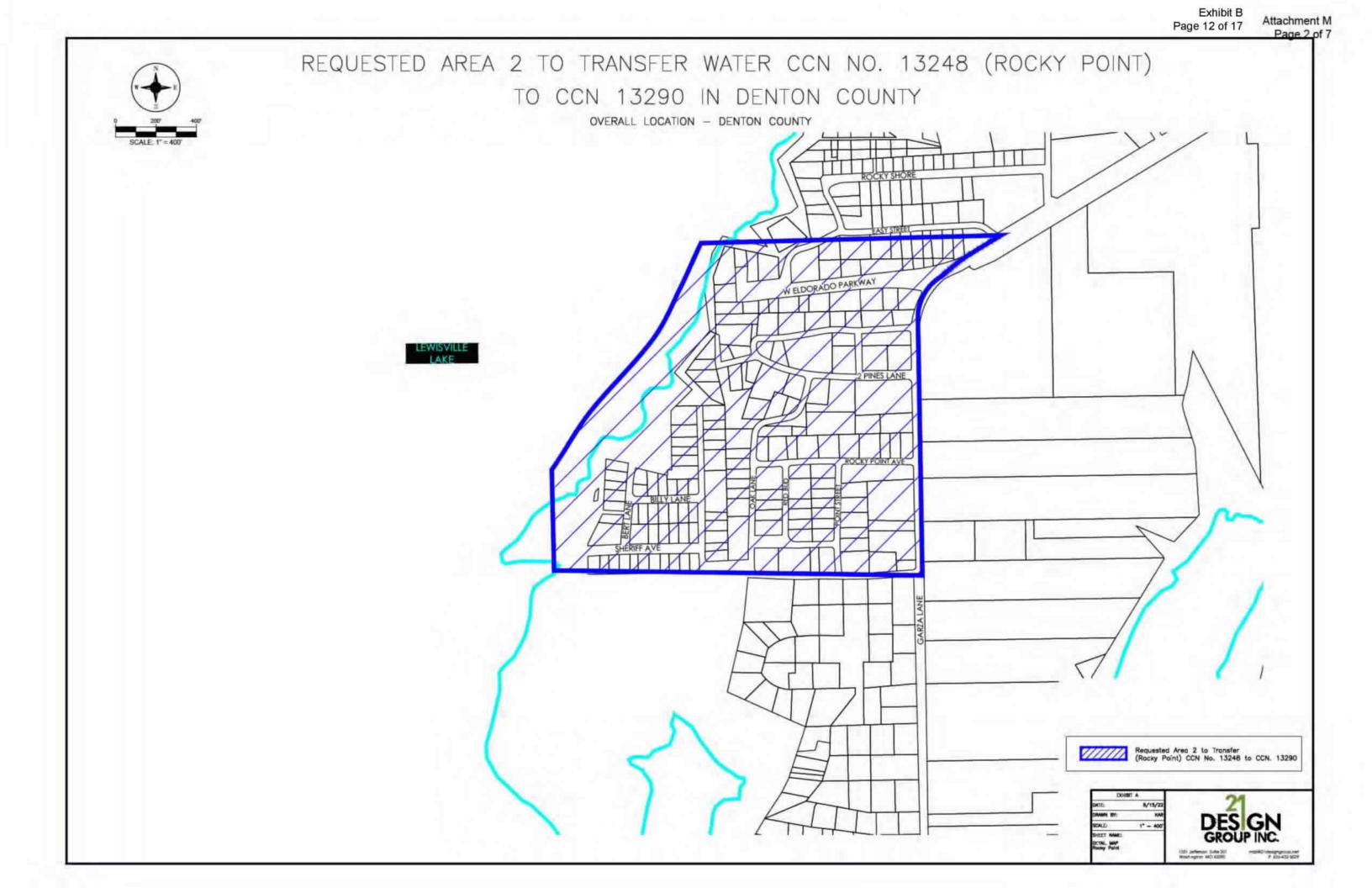


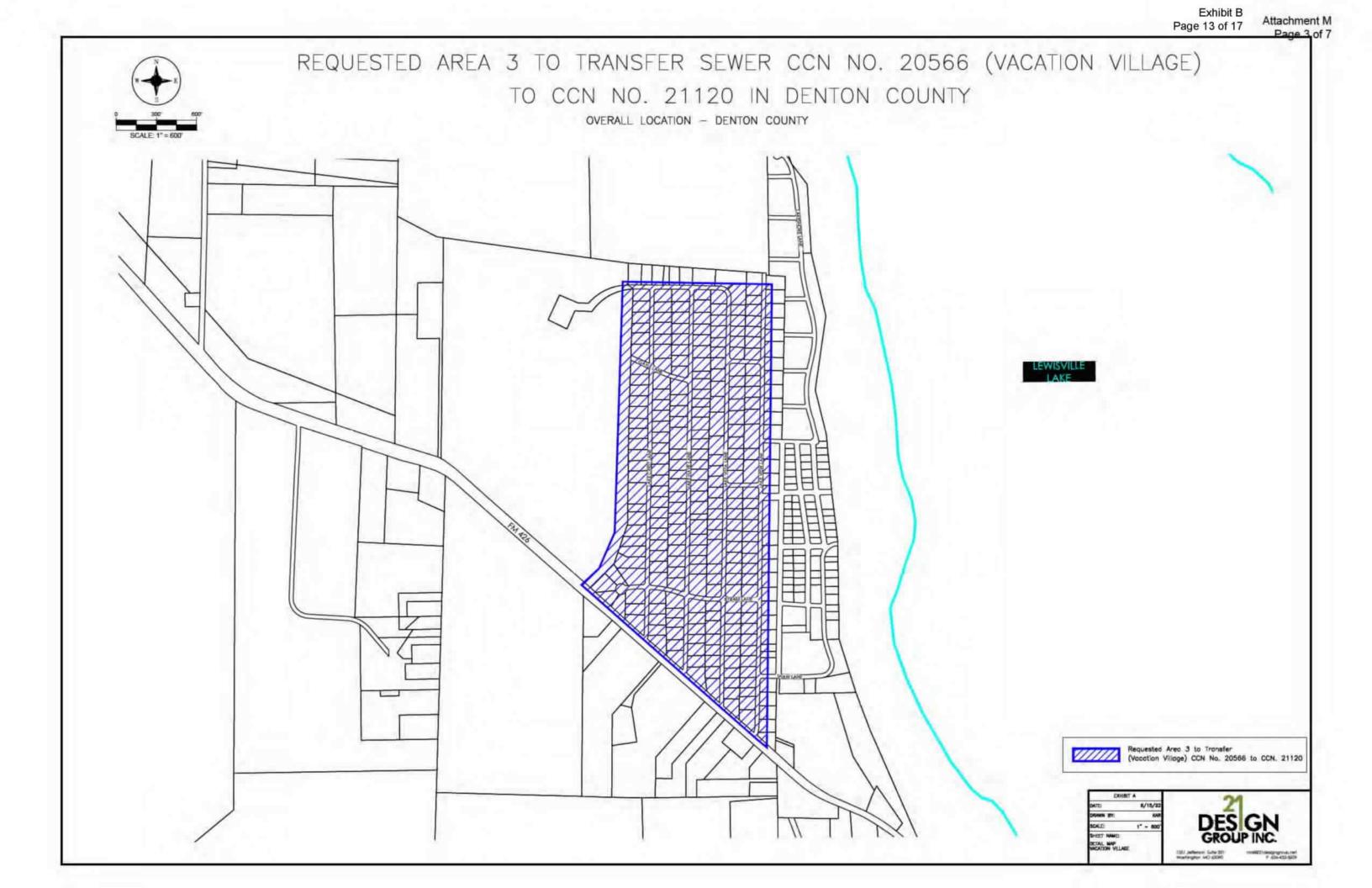


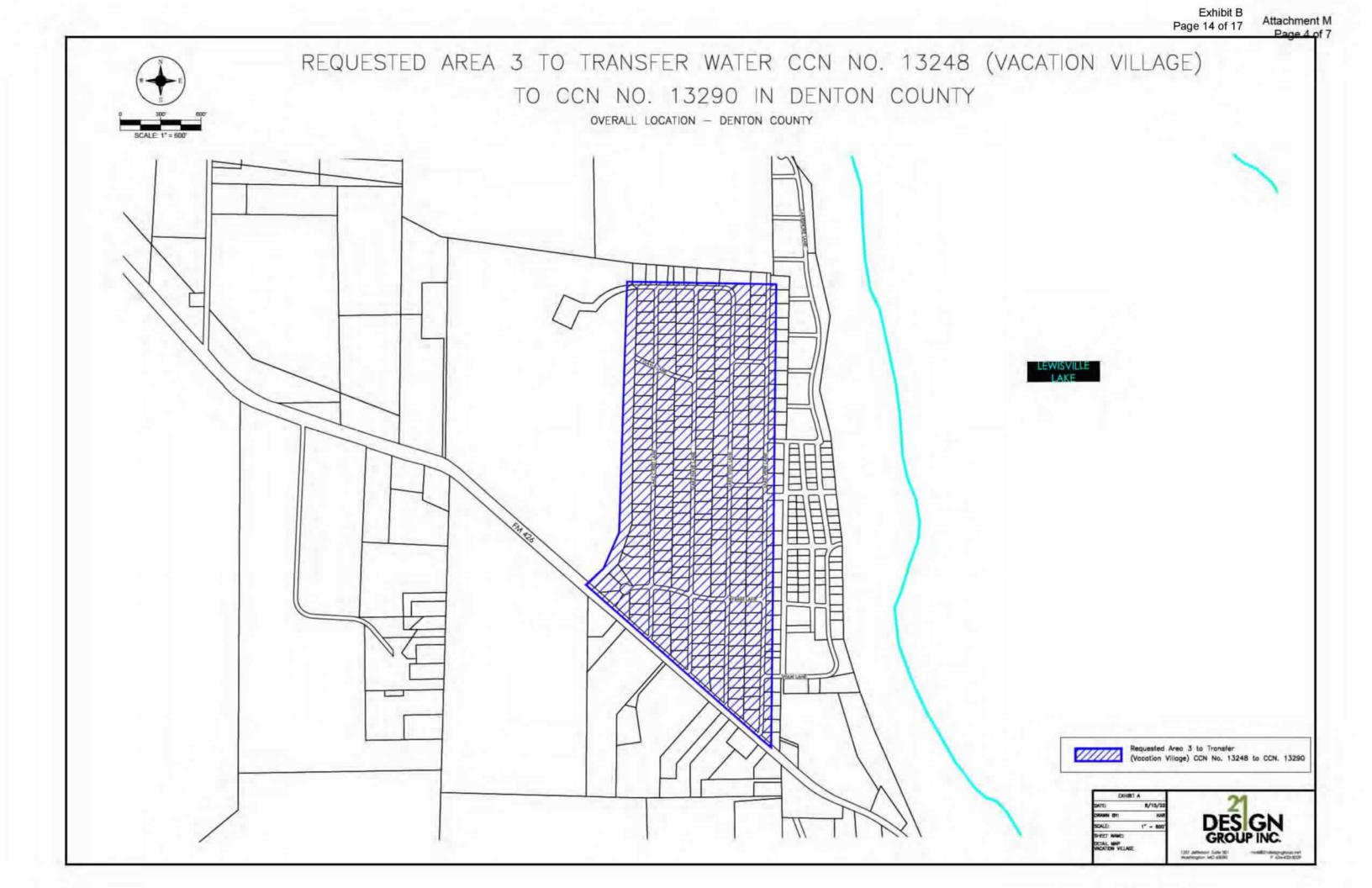


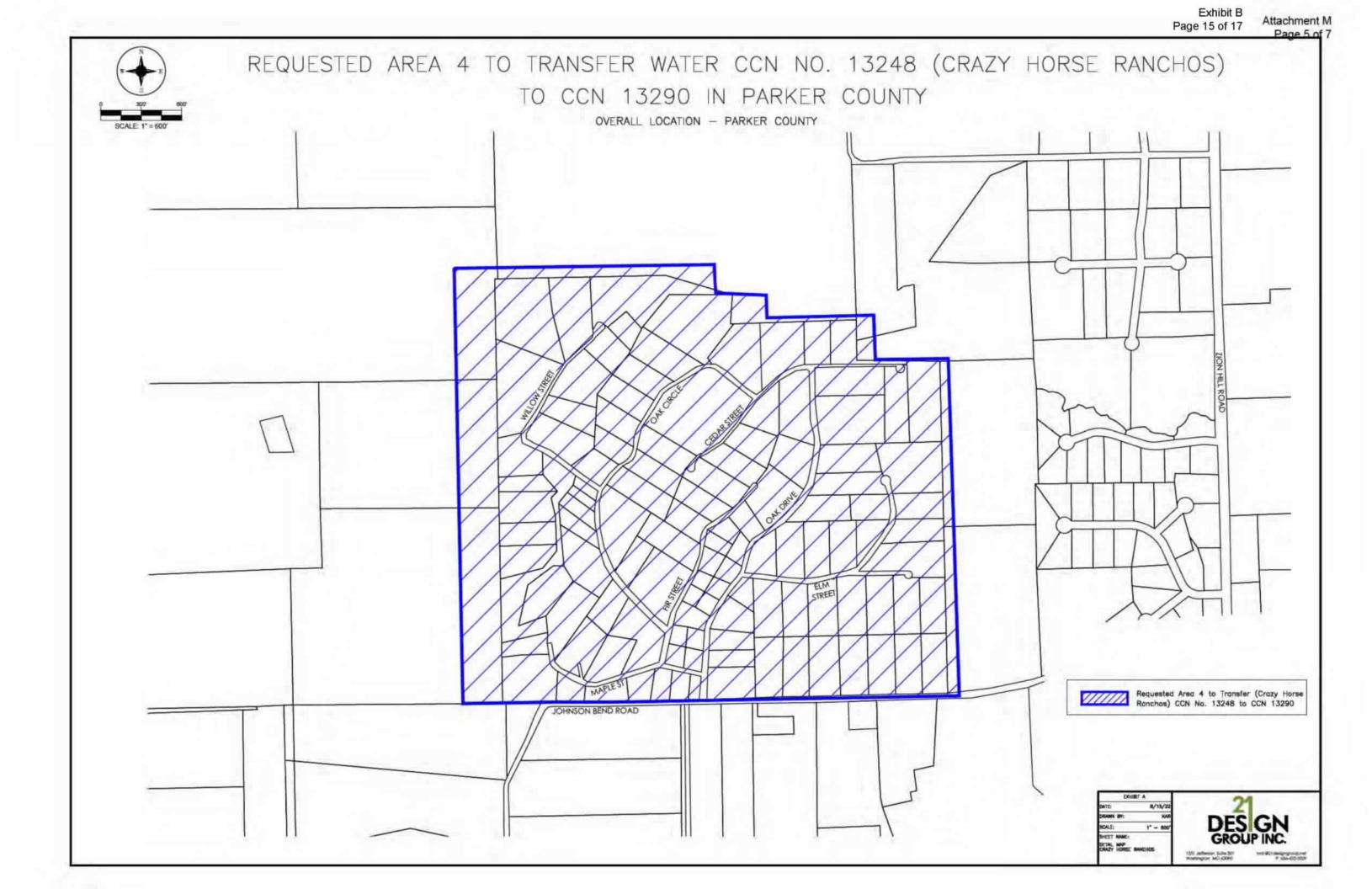


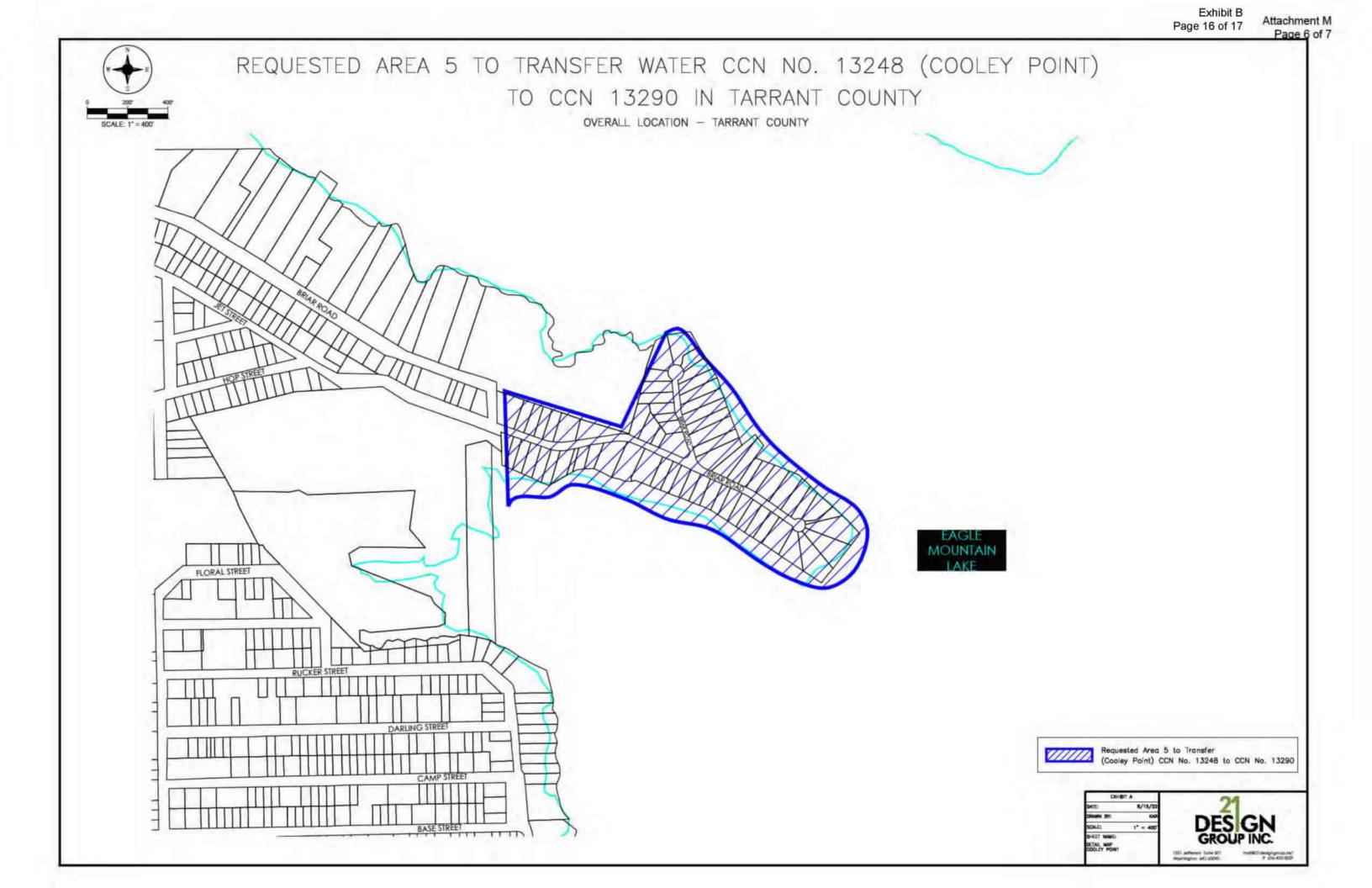












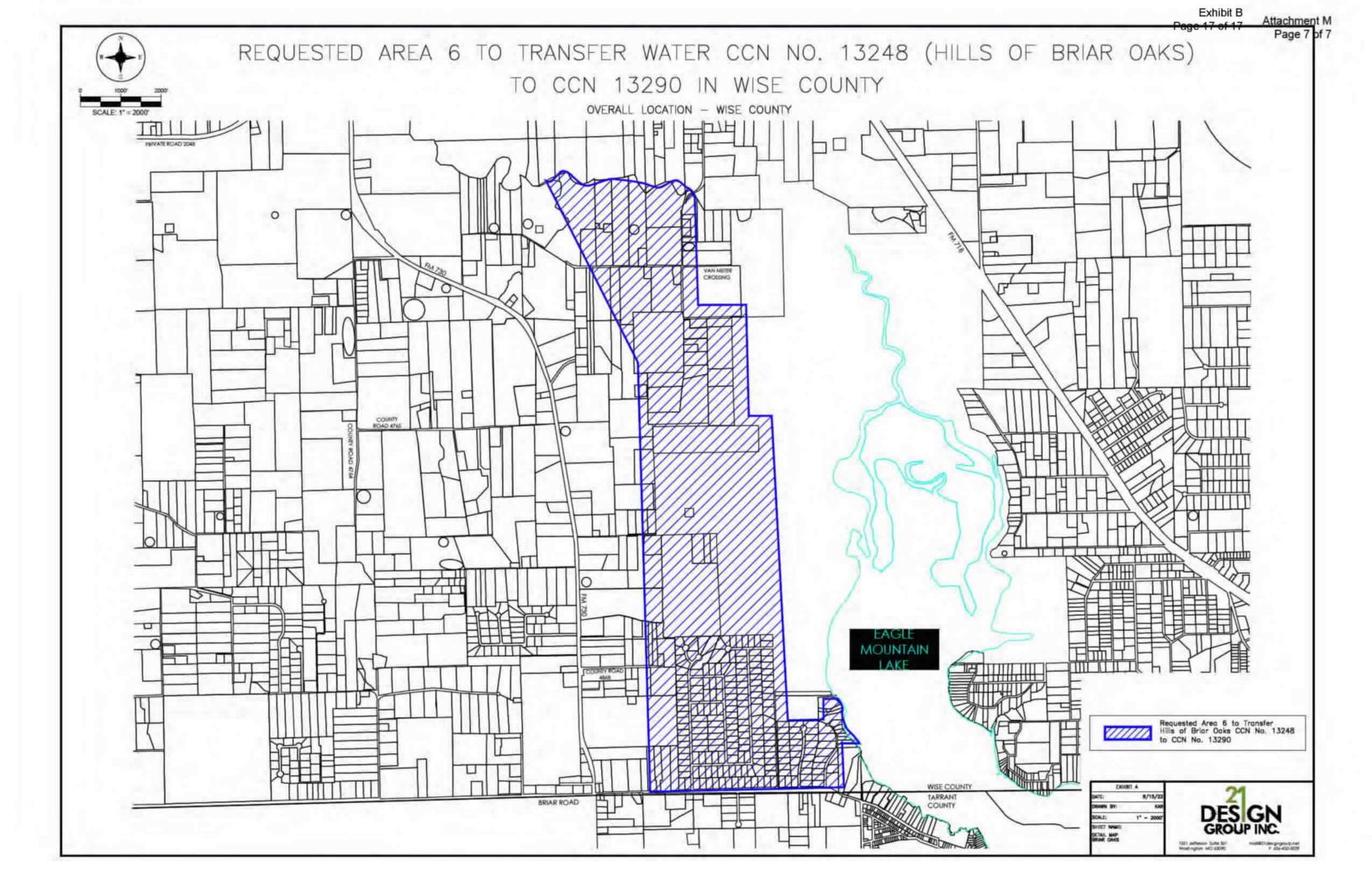


Exhibit C to the Response to Order No. 14 is Highly Sensitive and will be provided pursuant to the Protective Order Exhibit D to the Response to Order No. 14 is Highly Sensitive and will be provided pursuant to the Protective Order