



## **Filing Receipt**

**Filing Date - 2023-08-25 01:16:24 PM**

**Control Number - 54316**

**Item Number - 76**

**SOAH DOCKET NO. 473-23-22451.WS  
PUC DOCKET NO. 54316**

**JOINT APPLICATION OF SW  
MERGER ACQUISITION CORP.,  
CORIX INFRASTRUCTURE (US)  
INC., TEXAS WATER UTILITIES,  
LP, CORIX UTILITIES (TEXAS)  
INC., SWWC UTILITIES, INC., AND  
MIDWAY WATER UTILITIES, INC.  
FOR APPROVAL OF MERGER  
TRANSACTION UNDER TEXAS  
WATER CODE § 13.302**

§  
§  
§  
§  
§  
§  
§  
§  
§  
§

**BEFORE THE STATE OFFICE**

**OF**

**ADMINISTRATIVE HEARINGS**



**DIRECT TESTIMONY OF**

**FRED BEDNARSKI III**

**RATE REGULATION DIVISION**

**PUBLIC UTILITY COMMISSION OF TEXAS**

**AUGUST 25, 2023**

## TABLE OF CONTENTS

I.	PROFESSIONAL QUALIFICATIONS .....	2
II.	PURPOSE AND SCOPE OF TESTIMONY .....	4
III.	MERGER AND CHANGE IN CONTROL.....	5
IV.	FINANCIAL, MANAGERIAL, AND TECHNICAL CAPABILITY OF THE APPLICANTS.....	6
V.	CONCLUSION .....	9

## ATTACHMENTS

Attachment FB-1 Resume of Fred Bednarski III

Attachment FB-2 Previous Testimonies

Attachment FB-3 Confidential

**I. PROFESSIONAL QUALIFICATIONS**

**Q. Please state your name and business address.**

A. Fred Bednarski III, 1701 N. Congress Avenue, P.O. Box 13326, Austin, Texas 78711.

**Q. By whom are you currently employed and how long have you been employed there?**

A. I have been employed in the Rate Regulation Division of the Public Utility Commission of Texas (Commission) as a Senior Financial Analyst since August 2022. Prior to that I was employed by Roland Wawrzyniak Inc., CPA as a Staff Accountant from May 2022 to July 2022 after being employed by the PUC from April 2013 thru April 2022 as a Financial Analyst. Prior to that, I was employed by the Water Supply Division of the Texas Commission on Environmental Quality (TCEQ) from April 2013 to August 2014 as a Financial & Managerial Review Specialist.

**Q. Please describe your educational background and past work experience.**

A. I graduated from the University of Texas in Austin with a Bachelor of Liberal Arts degree in Economics and from Texas State University with a Bachelor of Business Administration degree in Accounting. Before working for TCEQ, I was previously employed as an Auditor for the Health & Human Services Commission Office of Inspector General in Austin, Texas. My responsibilities included examining, investigating, and reviewing financial documentation and management practices to ensure legal compliance with state and federal laws, rules, and regulations pertaining to the Medicaid and Children's Health Insurance Programs. I was also employed as a Trading Operations Analyst with the

Teacher Retirement System of Texas and the State Auditor's Office of Texas as an Auditor.

I have worked in the accounting field since August of 1993.

**Q. Please describe your current work responsibilities.**

A. My responsibilities include reviewing and analyzing water and sewer applications pursuant to the Commission's financial assurance rules established by 16 Texas Administrative Code (TAC) § 24.11. My responsibilities also include analyzing financial and economic issues related to regulated public utility companies; recommending financial assurance, fair rates of return on regulated utilities' invested capital; evaluating issues related to rates, pricing, tariff provisions, cost allocation, and rate design; and preparing reports on financial matters related to utility companies and capital markets. A copy of my professional resume is in Attachment FB-1.

**Q. Please describe specific training you have had in financial review and rate making.**

A. I have worked in water utility regulation for the State of Texas since April 1, 2013. I have received one-on-one rate training sessions by experienced TCEQ and Commission staff. I attended the National Association of Regulatory Utility Commissioners National Utility Rate School, from May 12–16, 2014. I have spent time reviewing and evaluating water and sewer applications for financial assurance since April 2013. I have also spent time evaluating rate applications and making recommendations regarding costs of service and utility rates. I also worked with and under the guidance of experienced experts in the field and provided testimony for eight applications listed in Attachment FB-2.

**Q. How many applications have been previously assigned to you for review of financial assurance?**

A. I have been assigned and reviewed over 300 applications during my employment with the Commission and the TCEQ for financial assurance.

**II. PURPOSE & SCOPE OF TESTIMONY**

**Q. Please explain your role in this case.**

A. My role is to testify on the financial, managerial, and technical aspects of the application pursuant to the Preliminary Order in this application.<sup>1</sup>

**Q. Have you reviewed the joint merger application filed by SW Merger Acquisition Corp. (SWMAC); Corix Infrastructure (US) Inc. (Corix US); Texas Water Utilities, LP; Corix Utilities (Texas) Inc.; SWWC Utilities, Inc.; and Midway Water Utilities, Inc. (collectively, the Joint Applicants), the testimonies filed, and other information filed with the Commission in this matter?**

A. Yes.

**Q. Please explain the scope of your participation in this proceeding.**

A. A summary of my participation in this proceeding includes the following:

1. I reviewed the financial, managerial, and technical information provided by the Joint Applicants and Intermediate Newco pursuant to Texas Water Code (TWC)

---

<sup>1</sup> Preliminary Order (Jun. 29, 2023).

§ 13.302(b) and 16 Texas Administrative Code (TAC) §§ 24.243 and 24.11.

2. I am presenting Commission Staff's (Staff) position on the Joint Applicants' and Intermediate Newco's demonstration of adequate financial, managerial, and technical capability for providing continuous and adequate service to the requested area and to the people in the service area subject to this transaction, pursuant to 16 TAC §§ 24.243(c) and 24.11(a) and (c).

### III. MERGER AND CHANGE IN CONTROL

**Q. As a result of the proposed transaction, are the Joint Applicants proposing to transfer the stock rights of Texas Water Utilities, LP; Corix Utilities (Texas) Inc.; SWWC Utilities, Inc.; and Midway Water Utilities, Inc. (collectively, the Texas Utilities)?**

A. No, the merger does not involve the transfer of the stock rights of any of the Texas Utilities.<sup>2</sup> However, the merger creates Intermediate Newco, which will have a 100% indirect controlling interest over the Texas Utilities subject to this application.<sup>3</sup> Corix US in turn will have 100% control of Intermediate Newco.<sup>4</sup>

---

<sup>2</sup> Application at bates page 004-005 (Nov. 9, 2022).

<sup>3</sup> *Id.* at bates pages 003, 007-009, 028, and 029.

<sup>4</sup> *Id.* at bates 027.

**IV. FINANCIAL, MANAGERIAL, AND TECHNICAL CAPABILITY OF THE JOINT APPLICANTS**

**Q. Please describe the procedures you followed in your review of the financial, managerial, and technical capabilities of the merged companies.**

A. I reviewed the information included in the application, direct testimonies, responses to discovery, and annual reports. I looked for evidence demonstrating the Joint Applicants' and Intermediate Newco's financial, managerial, and technical ability to provide adequate financial, managerial, and technical capability for providing continuous and adequate water and sewer service to the requested area. I based my analysis on the application, direct testimonies, and Intermediate Newco's proforma financial statements, responses to requests for information, and annual reports.

**Q. How did you determine if Intermediate Newco and the Joint Applicants acquiring a controlling interest in the Texas Utilities demonstrated financial, managerial, and technical capability for providing continuous and adequate service to the requested area pursuant to 16 TAC § 24.243(b)?**

A. I reviewed the information provided by the Joint Applicants based on the Commission's financial assurance rules under 16 TAC § 24.11. These rules establish the criteria to demonstrate if a retail public utility has the financial resources to operate and manage the utility and to provide continuous and adequate service to the current utility service area. Financial assurance must be demonstrated by compliance with subsection (d) or (e). I reviewed the application and supplemental information based on 16 TAC 24.11(e), which



requires the Joint Applicants to pass one of the leverage tests under 16 TAC § 24.11(e)(2), and the operations test under 16 TAC § 24.11(e)(3).

**Q. Based on your review, do the Joint Applicants pass one of the Leverage Tests established by 16 TAC § 24.11(e)(2)?**

A. Yes. Based on my review of Intermediate Newco's financial statements, I calculate the debt service coverage ratio to be greater than 1.25, as shown in confidential Attachment FB-3. Because the ratio is greater than 1.25, I recommend a finding that Intermediate Newco meets the leverage test specified in 16 TAC § 24.11(e)(2)(B).

Additionally, I reviewed the annual reports for each of the Texas Utilities and determined that the combined SouthWest Water Companies, as well as Corix Utilities (Texas) Inc., demonstrate a debt-to-equity ratio of less than one, as shown in confidential Attachment FB-3. Because the combined ratios are less than one, I recommend a finding that the Texas Utilities meet the leverage test specified in 16 TAC § 24.11(e)(2)(A).

**Q. Based on your review do the Joint Applicants pass the Operations Test established by 16 TAC § 24.11(e)(3)?**

A. Yes. An owner or operator must demonstrate sufficient available cash to cover projected cash shortages for operations and maintenance expense during the first five years of operations; or an affiliated interest may provide a written guaranty of coverage of temporary cash shortages if the affiliated interest also satisfies the leverage test, as required by 16 TAC § 24.11(e)(3).

Intermediate Newco provided its financial statements that project no cash shortages to cover, as shown in confidential Attachment FB-3. The Texas Utilities' combined annual reports indicate no net projected operating shortages to cover, as so shown in confidential Attachment FB-3. To pay for required capital improvements, Intermediate Newco has access to a line of credit sufficient to pay for required improvements and cash shortages should they occur, as shown in confidential Attachment FB-3. Therefore, I recommend a finding that Intermediate Newco and the Texas Utilities meet the operations test specified in 16 TAC § 24.11(e)(3).

**Q. Do the Joint Applicants demonstrate the required managerial and technical capabilities?**

A. Yes. Based on the application, agreements and responses to request for information, I determined that the direct stock ownership of the Texas Utilities will remain unchanged.<sup>5</sup> The Texas Utilities will continue to be operated locally by licensed operators and provide safe and reliable water and sewer service.<sup>6</sup> In response to requests for information, the Joint Applicants provided a list of capital improvements necessary to provide continuous and adequate water and sewer service to the requested area. The uncompleted capital improvements total \$11,721,476. To pay for the necessary improvements, the Joint Applicants have access to sufficient funds from letters of credit, as noted in confidential

---

<sup>5</sup> *Id.* at bates pages 001, 028, 029, and 0252.

<sup>6</sup> *Id.* at bates pages 010, 227, 228, 239, 252, 266, and 270.

Attachment FB-3.<sup>7</sup>

**VI. CONCLUSION**

**Q. Have the Joint Applicants demonstrated adequate financial, managerial, and technical capability for providing continuous and adequate service to the area subject to this application?**

A. Yes. The Joint Applicants demonstrate adequate financial, managerial, and technical capability to provide continuous and adequate service to the area subject to this application pursuant to 16 TAC §§ 24.243 and 24.11.

**Q. Does this conclude your pre-filed testimony?**

A. Yes. However, I reserve the right to supplement this testimony during the course of the hearing as new information is presented.

---

<sup>7</sup> Joint Applicants' Response to Commission Staff's Third Request for Information at Responses to Staff 3-3 and Staff 3-4 (Jul. 5, 2023).

**Fred Bednarski III**  
820 San Remo Boulevard  
Lakeway, Texas 78734  
(512)-786-3989

Educational Background

**The University of Texas**  
Austin, Texas  
Degree: BA/Economics

May 1989

**Southwest Texas State University**  
San Marcos, Texas  
Degree: BBA/Accounting

August 1995

Work Experience

**Public Utility Commission**  
Austin, Texas  
Sr. Financial Analyst

8/2022–Present

Responsibilities include analyzing financial and economic issues related to regulated public utility companies; recommending financial assurance, fair rates of return on regulated utilities' invested capital; evaluating issues related to rates, pricing, tariff provisions, cost allocation, and rate design; and preparing reports on financial matters related to utility companies and capital markets.

**Roland Wawrzyniak Inc., CPA**  
Austin, Texas  
Staff Accountant

5/2022–7/2022

Responsible for full-cycle accounting duties for multiple client accounts, including bank reconciliations, payables, receivables, preparing journal entries and financial statements.

**Public Utility Commission/TCEQ**  
Austin, Texas  
Financial Analyst

4/2013–4/2022

Responsibilities include reviewing water and sewer utility retail rate change applications for costs of service to ensure rates are just and reasonable; conducting special utility audits as directed; participating in utility case settlement negotiations; providing testimony for evidentiary hearings; reviewing, auditing, and analyzing comprehensive reports; performing financial and managerial reviews of water and sewer utilities; summarizing and reporting recommendations; and providing assistance to public water and sewer utilities in developing business plans.

**Office of Inspector General Texas HHSC**

8/2010-3/2013

Austin, Texas

Auditor

Performed moderately complex auditing work for the Medicaid/CHIP Audit Unit (MCAU). Responsibilities included examining, investigating, and reviewing financial documentation and management practices to ensure legal compliance with state and federal laws, rules, and regulations pertaining to the Medicaid and Children's Health Insurance Programs. Worked as part of audit teams within the MCAU in conducting audits for program economy, efficiency, and effectiveness with a goal of identifying and eliminating waste, abuse, and fraud within the programs. Worked under general supervision with limited latitude for the use of initiative and independent judgment.

**Texas Teacher Retirement System**

8/2004-7/2010

Austin, Texas

Trading Operations Analyst

Performed complex analysis, support, and accounting of equity trading operations. Responsibilities included assisting in developing and implementing automated processes, assisting in administering trading systems, monitoring the trading and execution and settlement process, researching, reconciling, and resolving problems and discrepancies, performing pre- and post-trade analytics, verifying exchange rates and conversions, and providing back up assistance to the Senior Trading Operations Specialist. Assisted in preparation of Board Commission Report.

**Texas State Auditor**

4/1998-7/2004

Austin, Texas

Staff Auditor

Responsibilities included the examination, investigation, and review of records, reports, financial statements, and management practices to ensure legal compliance with state statutes and internal regulations, and performance of audits for program economy, efficiency, and effectiveness. Team member on several financial audits as well as compliance and management control audits, and Team leader for 2 Performance Measure Audits.

**JI Specialty Services, Inc.**

8/1997-12/1997

Austin, Texas

Corporate Accountant

Prepared Financial statements, consolidation of statements, intercompany transactions, reconciliations, managed cash, and payroll.

**Hydrolab Corporation**

9/1995-8/1997

Austin, Texas

Staff Accountant

Responsible for accounts receivable, monthly sales and commission report preparation, reconciliation of various G/L accounts, deposit preparation, monthly and quarterly sales tax returns, and credit analysis.

**Ricon Products and Fast**

9/1995- 9/1996

**Stop Stores, Inc.**

Austin, Texas

## Accountant

Responsible for payroll, accounts receivable, accounts payable, reconcile statements, and post entries to the general ledger.

**William Bonner CPA**

8/1993-9/1994

Austin, Texas

## Bookkeeper

Reconciled bank statements coded and posted checks to the general ledger and conducted general administrative duties.

**Austin Teachers Federal Credit Union**

4/1993-9/1994

Austin, Texas

## Financial Service Representative

**Awards and Certificates**

- The University of Texas Football Letterman (1986 and 1988)
- Employee of the month, Austin Teachers Federal Credit Union (July 29, 1994)
- Passed the Audit and Business Law sections of the CPA exam
- Bushel of Fun Award from TRS for demonstrating outstanding dedication by working flexible and long hours to accommodate both International and Domestic Trade Operations
- Certified Governmental Auditing Professional exam passed (December 4, 2010)
- National Association of Regulatory Utility Commissioners Utility Rate School from (May 12-16, 2014)

**Skills and Software Experience**

- Software Experience: Bloomberg Trading System, Gateway (data management software), PAM (equity security accounting system), Windows, Microsoft Office, Microsoft Excel, Teammate (auditing software), and other accounting software (Peachtree, Mapics, QuickBooks, Xero, Citrix Sharefile, and Gusto)
- Ten key by touch
- Typing speed 50 words per minute

- Docket No. 42862 – Appeal of Water and Sewer Rates Charged by the Town of Woodloch  
CCN Nos. 12312 and 20141
- Docket No. 43175 – Application of Community Water Service, Inc. and Walter J. Carroll  
Water Company, Inc. for Sale, Transfer, or Merger of Facilities and Certificate Rights in Ellis  
County
- Docket No. 43554 – Petition of Mansions at Turkey Creek, LP Pursuant to Texas Water Code  
§ 13.043 for Review of the Decision by Northwood Municipal Utility Districts No. 1 to Change  
Rates in Harris County
- Docket No. 45283 – Ratepayers’ Appeal of the Decision by North San Saba Water Supply  
Corporation to Change Rates
- Docket No. 45435 – Complaint of Melanie Bittone Against Kingwood Lakes Apartments
- Docket No. 46256 – Application of Liberty Utilities (Woodmark Sewer) Corp. and Liberty  
Utilities (Tall Timbers Sewer) Corp. for a Rate/Tariff Change
- Docket No. 47182 – Ratepayers’ Appeal of the Decision by Kempner Water Supply  
Corporation to Change Rates
- Docket No. 47897 – Application of Forest Glen Utility Company for Authority to Change  
Rates