



## Filing Receipt

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**APPLICATION OF CSWR-TEXAS  
UTILITY OPERATING COMPANY,  
LLC FOR AUTHORITY TO  
CHANGE RATES**

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§**

**BEFORE THE  
PUBLIC UTILITY COMMISSION  
OF TEXAS**

**DIRECT TESTIMONY AND EXHIBITS**

**OF**

**JOSIAH COX**

**ON BEHALF OF**

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

**February 10, 2023**

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JOSIAH COX, ON BEHALF OF  
CSWR-TEXAS UTILITY OPERATING COMPANY, LLC**

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Exhibit JC-1	Organizational Chart
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1                                   **DIRECT TESTIMONY JOSIAH COX**

2                                   **I.     INTRODUCTION**

3   **Q.     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4   A.     My name is Josiah Cox. My business address is 1630 Des Peres Road, Suite 140,  
5           St. Louis, Missouri, 63131.

6   **Q.     WHAT IS YOUR POSITION WITH CSWR-TEXAS UTILITY**  
7           **OPERATING COMPANY?**

8   A.     I am President of CSWR-Texas Utility Operating Company, LLC (“CSWR-Texas”  
9           or “Company”). I am also President of CSWR, LLC (“CSWR”) and Central States  
10          Water Resources, Inc. (“Central States”), each of which is a CSWR-Texas affiliate.

11 **Q.     PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**  
12 **EXPERIENCE.**

13 A.     I received a Bachelor of Science with a major in Environmental Science from the  
14          University of Kansas. In 2007, I earned an MBA from Washington University in  
15          St. Louis.

16                 Professionally, I have worked at the Kansas state biological survey, where  
17                 I performed wildlife habitat studies. I then worked at a civil engineering firm where  
18                 I was involved in various facets of the land development process including  
19                 permitting, entitlement, civil design, project management, and construction  
20                 management. I focused mainly on the water and wastewater side of the civil  
21                 engineering business and participated in every part of that business from waste-load  
22                 allocation studies (now known as the anti-degradation processes), design,  
23                 permitting, project management, and construction management. I also ran the  
24                 firm’s environmental consulting division and was the second private consultant to

1 submit a water quality impact study in the state of Kentucky in 2003. I later joined  
2 the engineering firm's executive leadership team and helped run all the firm's  
3 operations.

4 Beginning in 2005, I raised money from a group of investors and formed a  
5 full-service civil engineering, environmental consulting, general contracting, and  
6 construction management firm. I served the firm as the Chief Operating Officer,  
7 and finally Chief Executive Officer, and while there I obtained extensive  
8 experience with rural communities in every facet of the water and wastewater  
9 compliance process, including environmental assessment, permitting, design,  
10 construction, operation and community administration of the actual water and  
11 wastewater (sewerage) systems. The firm performed stream sampling and built  
12 waste-load allocation models to determine permissible particle effluent pollutant  
13 loads for receiving water bodies. The firm did full engineering design of multiple  
14 whole community wastewater and water infrastructure systems including wells,  
15 water distribution, water treatment, water storage, wastewater conveyance, and  
16 wastewater treatment plants, pursued the designs through federal and state  
17 administered permitting processes in Missouri, and supervised the construction of  
18 these water and wastewater systems from green field site selection all the way  
19 through system startup and final engineering sign off.

20 In addition to running a design/build firm, starting in 2008, I took over the  
21 operations of an existing rural sewer district. I still act as the administrator of this  
22 system, where I manage the system's functioning, testing, maintenance, performing  
23 all the billing, emergency response, accounts payable/accounts receivable,

1 collections, budgeting, customer service, and public meetings required to service  
2 the community.

3 In late 2010, after working on several small, failing water and wastewater  
4 systems, I created a business plan to acquire and recapitalize failing systems as  
5 investor-owned regulated water and wastewater utility companies. In early 2011, I  
6 went to the capital markets to raise money to implement my plan. Over a period of  
7 approximately three years, I met with over fifty-two infrastructure investment  
8 groups trying to raise necessary financing. In February 2014, I achieved my goal,  
9 and I used the debt and equity capital I was able to raise to start CSWR. In 2018, I  
10 was able to attract an additional large institutional private equity investor, which  
11 allowed me to expand the scope of my business plan.

12 Since its formation, CSWR has acquired, and currently is operating through  
13 various affiliates, approximately 800 water and/or wastewater systems in Missouri,  
14 Kentucky, Louisiana, Texas, Arkansas, Tennessee, Mississippi, Arizona, North  
15 Carolina, South Carolina, and Florida. Utilities within the CSWR-affiliate group  
16 have additional applications pending in Texas, Tennessee, Louisiana, Florida,  
17 North Carolina, South Carolina, Arizona, California, and Mississippi seeking  
18 authorization from utility regulators in those states to acquire even more systems  
19 and customers.

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
21 **PROCEEDING?**

22 A. The purpose of my testimony is three-fold. I will briefly describe CSWR-Texas's  
23 ownership and affiliates and its mission. I will also describe at a high level CSWR-

1 Texas's operations and history in Texas. I will then provide an overview of CSWR-  
2 Texas's request for an increase in rates, including a brief description of its request  
3 to consolidate rates, why that increase is necessary, and why the Commission  
4 should grant that request. Finally, I will introduce each of the CSWR-Texas  
5 witnesses in this case.

6 **Q. ARE YOU SPONSORING ANY SCHEDULES?**

7 A. Yes, I am sponsoring Exhibit JC-1, which is an organizational chart of CSWR and  
8 its affiliates.

9 **II. OVERVIEW OF CSWR-TEXAS'S OWNERSHIP AND AFFILIATES**

10 **Q. PLEASE DESCRIBE CSWR-TEXAS WATER UTILITY OPERATING**  
11 **COMPANY, LLC'S OWNERSHIP AND CORPORATE STRUCTURE.**

12 A. CSWR is a holding company that, as of January 2023, operated utility operating  
13 companies in 11 states: Missouri, Arkansas, Texas, Louisiana, Kentucky,  
14 Tennessee, Mississippi, Florida, Arizona, North Carolina and South Carolina.  
15 CSWR and another affiliate, Central States, provide operational and managerial  
16 oversight and support for all operating utility affiliates within the group and also  
17 provide access to financial resources necessary to acquire water and wastewater  
18 systems and upgrade those systems as required. CSWR-Texas's affiliates currently  
19 operate approximately 800 public drinking water and/or wastewater systems in the  
20 various states through which they provide safe and reliable utility service to  
21 approximately 133,500 individual connections providing water and or sewer  
22 service to almost 400,000 people.

23 CSWR-Texas is the CSWR-affiliated utility operating company in the State  
24 of Texas. A corporate organization chart illustrating the relationship of CSWR-

1 Texas to CSWR, and its affiliates is attached hereto as Exhibit JC-1. For all  
2 companies shown in that exhibit, Central States serves as the designated manager.

3 Through CSWR and Central States, CSWR-Texas has access to  
4 experienced technical and managerial expertise and experience not usually  
5 available to smaller, community-based water and wastewater systems. CSWR's  
6 business model and deep experience make these services available to its affiliates  
7 at a lower cost than otherwise would be available because of the economies of scale  
8 the affiliated structure is able to achieve for its member utility operating companies.

9 **Q. WHAT IS CSWR'S MISSION?**

10 A. The mission of our affiliate group is to "bring safe, reliable and environmentally  
11 responsible water resources to every community in the United States." In  
12 December of 2022, CSWR became the single largest owner of individual domestic  
13 wastewater treatment plants and one of the largest owners of individual drinking  
14 water systems in the U.S. In fact, CSWR is on track to bringing the most water and  
15 wastewater systems out of noncompliance with the Clean Water Act in U.S. history.

16 **Q. WHY DOES CSWR FOCUS ON INVESTING IN DISTRESSED,**  
17 **COMMUNITY-BASED SYSTEMS?**

18 A. CSWR has unique experience working to rehabilitate smaller distressed systems  
19 that have suffered from a lack of investment and would benefit from the transition  
20 to a stable, experienced, long-term management team willing to make necessary  
21 investments to improve the system and then operate the systems at scale in order to  
22 provide a more sophisticated level of service at a reasonable cost. The core focus



1 of CSWR and its management team is providing safe, reliable, and adequate water  
2 and wastewater service to customers.

3 Further, many community-based water or wastewater systems are located  
4 in rural areas. These communities suffer when their access to quality water and  
5 wastewater service is restricted, and that lack of adequate service can directly  
6 impact the long-term vitality of these communities when residents must move away  
7 to areas with better access to utility and other services. We have discovered that  
8 where we were able to step in and rehabilitate a system in order to re-establish  
9 quality service, it contributes to tangible growth in the community.

10 **Q. IS THIS BUSINESS MODEL UNIQUE COMPARED TO OTHER**  
11 **UTILITIES?**

12 A. Yes. Very few operators, even experienced and sophisticated operators, have the  
13 unique experience that is necessary to operate a small, rural, community-based  
14 water or wastewater system. Larger utilities are typically more familiar with  
15 operating much larger systems that serve larger customer bases. They are typically  
16 not experienced in dealing with the challenges that smaller systems face. CSWR-  
17 Texas, for instance, has a very large number of geographically dispersed,  
18 community-based water systems with a relatively small customer base that require  
19 urgent investment and rehabilitation efforts to provide quality water or wastewater  
20 service. Many utilities will avoid taking on these kinds of projects because of the  
21 challenges they know these systems face, the complexities of running disparate  
22 operations, and the upfront costs to improve service.

1           By focusing on smaller systems, CSWR has been able to develop the  
2           necessary expertise to address the challenges that these systems regularly face. For  
3           instance, the Company has developed innovative construction techniques to lower  
4           installation costs or extend existing facilities to delay imminent construction  
5           projects, and it has pioneered new water and wastewater treatment technologies to  
6           treat water more efficiently at lower price points. This experience uniquely  
7           positions CSWR to provide a service to smaller systems that is severely lacking in  
8           places like Texas. CSWR-Texas has used that experience to identify, acquire and  
9           rehabilitate the systems addressed in this application. CSWR most likely has the  
10          most total experience, and certainly the most recent experience, working on small  
11          water and wastewater utilities in the U.S.

12   **Q.   HAS CSWR IDENTIFIED AND ACQUIRED DISTRESSED COMMUNITY-**  
13   **BASED WATER OR WASTEWATER SYSTEMS IN TEXAS THAT**  
14   **REQUIRED SIGNIFICANT IMPROVEMENTS IN ORDER TO ACHIEVE**  
15   **COMPLIANCE WITH STATE AND FEDERAL REGULATIONS?**

16   A.   Yes. As I will explain in more detail in the next section of my testimony, CSWR-  
17          Texas has filed 54 separate sale, transfer, or merger (“STMs”) cases to acquire  
18          water or wastewater systems in Texas, and each of these systems was either out of  
19          compliance at the time of acquisition or was at risk of being out of compliance due  
20          to a need to upgrade and modernize those systems to meet existing regulatory  
21          compliance requirements.

1   **Q.   DO CSWR AND ITS SUBSIDIARIES HAVE EXPERIENCE ACQUIRING**  
2       **AND OPERATING DISTRESSED SYSTEMS IN OTHER STATES?**

3   A.   Yes. Since March 2015, affiliates in Texas, Arizona, Florida, Mississippi, North  
4       Carolina, Tennessee, Missouri, Arkansas, Kentucky, Louisiana, and South Carolina  
5       have designed, permitted, and completed construction—with the approval of state  
6       drinking water and wastewater regulatory authorities—of over \$100 million in  
7       upgrades and improvements to drinking water systems. Those upgrades and  
8       improvements include construction of ground water storage tanks and drinking  
9       water pressurization pump assemblies, drilling water wells, erecting or  
10      rehabilitating well houses, decommissioning failed wells, patching/sanding/coating  
11      water storage tanks, replacing meter pits with new meters, replacing or repairing  
12      numerous water distribution mains, installing numerous isolation valve systems,  
13      installing multiple flush hydrants, and constructing or rehabilitating various other  
14      improvements to existing drinking water systems.

15           For wastewater systems, these same CSWR-Texas-affiliated companies  
16      have designed, permitted, and completed construction of over \$300 million of  
17      system improvements. Those improvements include wastewater main repairs to  
18      remedy infiltration and inflow problems, construction of sewer main extensions,  
19      construction and repairs of multiple lift stations, closures of environmentally-  
20      distressed wastewater treatment plants, conversion of failing wastewater treatment  
21      plants into sludge storage/flow equalization and treatment basins, conversion of  
22      failed mechanical systems to integrated fixed film activated sludge (“IFAS”)

1 systems, and construction of various other improvements to existing wastewater  
2 treatment facilities.

3 Accordingly, through CSWR and Central States, CSWR-Texas has access  
4 to experienced technical and managerial expertise and experience not usually  
5 available to water systems of the sizes that have recently been acquired. And  
6 CSWR's business model makes these assets available to its affiliates at a lower cost  
7 than otherwise would be available because of the economies of scale the affiliated  
8 structure is able to achieve for its member utility operating companies.

9 **Q. DO THESE TEXAS SYSTEMS TYPICALLY ALREADY HAVE**  
10 **COMPENSATORY RATES IN PLACE WHEN YOU ACQUIRE THEM?**

11 A. No. The rates for most of the systems that CSWR-Texas acquires are far below the  
12 actual cost of service. This is typically because the owners of these systems have  
13 not adjusted their rates in several years, if not decades, to keep track with ongoing  
14 Operations and Maintenance ("O&M") increases. As a result, those owners have  
15 simply stopped performing much of the maintenance necessary to keep these  
16 systems in compliance. For example, in 2020, CSWR-Texas was approved to  
17 acquire Treetop Estates, which had not experienced a rate increase since 1994.  
18 Similarly, in 2021, CSWR-Texas acquired Big Wood Springs, which had not had a  
19 rate increase since 1990.

20 Therefore, without even factoring in the millions of dollars of capital  
21 improvements that are necessary to be installed in these systems in order to comply  
22 with state and federal water and wastewater regulations, rates are typically well  
23 below what the current operation costs are for these systems.

1   **Q.   DO SMALLER UTILITIES TYPICALLY EXPERIENCE CHALLENGES**  
2       **OBTAINING FINANCING TO ACQUIRE AND REHABILITATE**  
3       **SMALLER, DISTRESSED WATER OR WASTEWATER SYSTEMS?**

4   A.   Yes. There are typically significant challenges to these smaller, distressed systems  
5       securing funding because most traditional lenders will not loan money to a new  
6       market entrant utility due to the significant risks that the utility will never be able  
7       to: (1) recoup the upfront costs it incurs to acquire and rehabilitate a system, (2) get  
8       approval of fully compensatory rates that allow for service of any debt supporting  
9       these costs, or (3) be willing to bear the environmental and/or health risks to which  
10      these small utilities are exposed.

11   **Q.   HAS CSWR BEEN ABLE TO SECURE FINANCING FOR ITS**  
12      **ACQUISITIONS AND REHABILITATION PROJECTS IN TEXAS?**

13   A.   Yes. CSWR has been able to secure an ongoing commitment from an institutional  
14      infrastructure-focused private equity firm to provide equity capital necessary to  
15      purchase small, oftentimes distressed, systems and then make the investments  
16      necessary to bring those systems into compliance with applicable health, safety,  
17      and environmental protection laws and regulations.

18           In addition, where CSWR-affiliates have processed rate cases, they have  
19      been able to demonstrate some level of free cash flow that allows it to secure debt  
20      financing from a commercial lender. For instance, CSWR affiliates in Louisiana,  
21      Kentucky and Missouri have recently completed debt financing with CoBank.  
22      CSWR-Texas believes it, too, will have access to commercial debt if its rates are

increased to a level that provides the financial security and stability commercial lenders require.

### **III. DESCRIPTION OF CSWR-TEXAS**

**Q. PLEASE DESCRIBE CSWR-TEXAS'S CURRENT OPERATIONS IN TEXAS.**

A. As of December 31, 2022, CSWR-Texas provides water service to approximately 7,000 water connections and 2,700 wastewater connections in portions of the following Texas counties: Angelina, Aransas, Austin, Bexar, Burleson, Burnet, Calhoun, Camp, Denton, Ellis, Erath, Gillespie, Guadalupe, Harris, Hays, Hidalgo, Hood, Jackson, Kerr, Llano, Lubbock, McCulloch, Montague, Montgomery, Navarro, Orange, Parker, Polk, Robertson, Sabine, San Augustine, Victoria, Wilson, and Wood. A map showing the geographically dispersed nature of CSWR-Texas's operations is attached to the direct testimony of Senior Vice President Todd Thomas. As of the filing date of this rate case, CSWR-Texas has invested over \$24.5 million to acquire, upgrade, and improve the water and wastewater systems it currently owns and operates in Texas.

**Q. YOU MENTIONED BEFORE THAT CSWR AND CSWR-TEXAS HAVE IDENTIFIED AND ACQUIRED DISTRESSED COMMUNITY-BASED WATER OR WASTEWATER SYSTEMS IN TEXAS. PLEASE DESCRIBE CSWR-TEXAS'S EXPERIENCE TO DATE IN TEXAS.**

A. CSWR-Texas has built an enviable track record of acquiring troubled systems, investing capital necessary to bring those systems into compliance with applicable health, safety, and environmental laws, and then operating those systems in a compliant, professional, and cost-effective manner. Of the systems that CSWR-

1 Texas has acquired since it entered the state in 2020, almost every system was out  
2 of compliance at the time that CSWR-Texas acquired it, and all required some  
3 immediate upfront influx of capital to fund repairs, improvements, and updates to  
4 its operations and maintenance practices. Since acquiring these systems, CSWR-  
5 Texas has invested in improvements to these systems in order to bring them into  
6 compliance or place them on a path to compliance going forward.

7 **Q. CAN YOU PROVIDE SOME CONCRETE EXAMPLES OF THE**  
8 **CONCERNS YOU HAVE IDENTIFIED AT THE SYSTEMS YOU**  
9 **ACQUIRED IN TEXAS?**

10 A. Yes. Attached to the application filed in this proceeding is a photo album  
11 demonstrating some of the most severe compliance concerns CSWR-Texas  
12 identified upon acquiring its system. A video of the condition of certain systems at  
13 the time they were acquired is also available at this link.<sup>1</sup>

14 **Q. IN ADDITION TO THE SYSTEMS CSWR-TEXAS INTENDS TO**  
15 **ACQUIRE, HAS THE COMPANY WORKED WITH STATE**  
16 **REGULATORS TO IDENTIFY OTHER DISTRESSED SYSTEMS AND**  
17 **STEPPED IN TO ASSIST THOSE SYSTEMS ON AN EMERGENCY**  
18 **BASIS?**

19 A. Yes. These systems are typically in an extremely difficult position in that they  
20 require extensive and immediate repairs but lack the funds to make those repairs.  
21 Consistent with its mission to ensure safe and reliable water service to all people,  
22 and because of its expertise in rehabilitating smaller systems, CSWR-Texas has

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<sup>1</sup> The video can be found online at the following address: <https://f.io/zftkNmNb>

1        been willing to work with regulators to step in on an emergency basis to operate  
2        systems (e.g., Aero Valley, Castlecomb, Farrar, and Smith Systems) that are  
3        experiencing severe deficiencies in water or wastewater service.<sup>2</sup> CSWR-Texas  
4        has been in constant communication with regulators throughout the last three years  
5        and will continue to work with them to identify systems in need of new ownership,  
6        financing, and expertise. These systems are the kind that are not able to maintain  
7        even the basic provision of service and pose potential human health risks for  
8        community members. For example, when CSWR-Texas acquired Aero Valley, the  
9        entire community had been under a boil water notice for over eight years.

10    **Q.    WILL THE ESTABLISHMENT OF COMPENSATORY RATES AS PART**  
11        **OF THIS PROCEEDING IMPROVE CSWR-TEXAS'S ABILITY TO**  
12        **ACCESS FUNDING TO OPERATE AND CONTINUE TO INVEST IN**  
13        **THESE SYSTEMS?**

14    A.    Yes. The establishment of compensatory rates will likely allow CSWR-Texas to  
15        access debt facilities that are currently unavailable, which should result in lower  
16        capital costs and also allow CSWR-Texas to further its mission of acquiring and  
17        rehabilitating additional distressed systems of which there are an abundance in  
18        Texas.

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<sup>2</sup> As explained by Mr. Freeman, CSWR-Texas is currently operating Castlecomb, Farrar, and Smith systems on a temporary basis. In addition, CSWR-Texas previously operated Aero Valley on a temporary basis prior to actually being approved to acquire that system. Additional information about the challenges facing the Aero Valley system is included in my testimony workpapers.



1   **Q.    DOES CSWR-TEXAS INTEND TO ACQUIRE ADDITIONAL SYSTEMS**  
 2       **IN TEXAS?**

3    A.    Yes. In fact, CSWR-Texas has 12 pending STM cases with several nonfunctioning  
 4       or non-compliant systems that are at various stages before the Commission.  
 5       Further, CSWR-Texas is currently negotiating to acquire numerous other systems  
 6       that will likely result in the filing of additional STMs during the pendency of this  
 7       proceeding. For this reason, establishing rates for the systems that CSWR-Texas  
 8       already owns is critical to support the ongoing expansion of its Texas service  
 9       territory.

10   **Q.    PLEASE DESCRIBE THE GENERAL NATURE AND CONDITION OF**  
 11       **THE DRINKING WATER SYSTEMS ACQUIRED BY CSWR-TEXAS.**

12   A.    As reflected in greater detail in Jacob Freeman’s testimony, CSWR-Texas routinely  
 13       confronts and addresses issues at drinking water systems associated with:

- 14           •   wells: including the need to replace, rehabilitate and decommission wells;
- 15           •   storage tanks: including the replacement of deteriorated tanks; patching,  
 16           sanding, and recoating of existing tanks; and the rehabilitation of structural  
 17           issues associated with tank foundations;
- 18           •   pipes: especially the replacement of deteriorated steel piping or the coating  
 19           of PVC piping that did not include necessary UV coating;
- 20           •   booster pumps: including either the installation of additional booster  
 21           pumps or the rehabilitation of existing pumps in order to maintain proper  
 22           distribution system pressure;

- 1           • disinfection systems: including the replacement of dangerous gaseous
- 2           chlorine with tablet chlorine as well as necessary improvements for iron
- 3           sequestration and particle filtering systems;
- 4           • power and control systems: including replacing damaged and exposed
- 5           wiring, the replacement of power boxes, and the addition of emergency
- 6           backup power;
- 7           • remote monitoring systems: CSWR-Texas has now installed remote
- 8           monitoring at 72% of its facilities in order to better monitor system
- 9           performance, maintain service, and expedite operator response to
- 10          equipment concerns; and
- 11          • distribution systems: including the replacement and repair of leaking
- 12          mains; the installation of valve infrastructure allowing for the isolation of
- 13          portions of the system during maintenance; and the installation of flushing
- 14          infrastructure to clear sediment and stagnant water, which may include
- 15          harmful disinfection byproducts.

16          In addition, CSWR-Texas must continually address issues with vegetation  
 17          management, trash and debris, facility access, system security and drainage  
 18          grading.

19      **Q.     PLEASE DESCRIBE THE GENERAL NATURE AND CONDITION OF**  
 20      **THE WASTEWATER COLLECTION AND TREATMENT FACILITIES**  
 21      **ACQUIRED BY CSWR-TEXAS.**

22      A.     As reflected in greater detail in Mr. Freeman’s testimony, CSWR-Texas routinely  
 23      confronts issues associated with:

- 1           • collection systems: including the repair and replacement of collection lines  
2           and lift stations to remedy leaks and mitigate system inflow and infiltration  
3           as well as pumping accumulated sludge from lift stations, which prevents  
4           sanitary sewer overflows, which can expose community members to  
5           pathogens in nearby water bodies;
- 6           • activated sludge treatment facilities: including the removal of accumulated  
7           sludge; the repair or replacement of damaged or missing blowers and other  
8           aeration equipment; the repair of damaged clarifier and disinfection  
9           equipment, power and control systems and tank structures; and the  
10          installation of remote monitoring equipment, which allows the systems to  
11          properly treat waste protecting the environment while removing human  
12          health contaminants; and
- 13          • non-discharging septic systems: including the accumulation of solids in  
14          septic tanks, which again prevents both sanitary sewer overflows, and  
15          sewage backing up into residences.

16           In addition, CSWR-Texas must continually address issues with vegetation  
17          management, trash and debris, facility access, system security and drainage  
18          grading.

19   **Q.   PLEASE DESCRIBE THE ACTIONS THE COMPANY TOOK TO**  
20   **RECTIFY THESE CONDITIONS AND IMPROVE SERVICE TO**  
21   **CUSTOMERS.**

22   A.   As set forth in greater detail in Mr. Freeman's testimony, since its first acquisition  
23          in late 2020, CSWR-Texas has completed improvement projects at 16 of the

systems acquired in Texas, has begun implementing improvements at 38 additional sites, and is in the design phase for improvements at the remaining 20 facilities.

Those improvements include:

- repairing and/or replacing ground storage and hydropneumatic storage tanks at sites with deteriorating drinking water storage equipment, which improves the capacity and reliability of the existing system assets;
- installing additional ground storage tanks, hydropneumatic storage tanks, and booster pumps at facilities that failed to meet minimum capacity requirements set forth by the Texas Commission on Environmental Quality (“TCEQ”), which improves capacity for systems that lacked such reliability and resolves TCEQ compliance issues related to capacity requirements;
- replacing dangerous gaseous chlorine disinfection systems with safer liquid chlorine disinfection systems and completed general repairs and reconfiguration of many systems, which improves the removal of dangerous pathogens from the drinking water;
- replacing damaged piping, installing new or repairing old fencing where it failed to meet minimum fencing requirements, which decreases leaks, improves reliability, and increases system security;
- repairing damaged power and control systems, which allows for improved operator control of system equipment, and
- installing remote monitoring equipment, which helps to prevent service interruptions to customers.

1 As a result of these improvements, the Company has taken many systems from a  
2 state of chronic compliance failures and regulatory shortcomings to a state where  
3 the systems can provide safe and reliable service while meeting all regulatory  
4 compliance requirements. The Company works hard to rectify unacceptable long-  
5 term regulatory, conditional, and service issues while minimizing rate impacts to  
6 customers.

7 **IV. OVERVIEW OF REQUESTED RELIEF**

8 **Q. PLEASE SUMMARIZE THE RATE INCREASE CSWR-TEXAS IS**  
9 **PROPOSING IN THIS CASE.**

10 A. This rate filing is designed to achieve two primary objectives. First, CSWR-Texas  
11 needs to increase rates to a level that allows it to recover reasonable operating costs  
12 and provide a fair return on the investments it has made to serve these customers.  
13 Specifically, CSWR-Texas is asking the Commission to approve a total annual  
14 revenue requirement for the wastewater operations of approximately \$2.3 million,  
15 which represents an annual increase of approximately \$1.2 million over revenues  
16 collected under current rates. In addition, CSWR-Texas is seeking a revenue  
17 requirement for water operations of approximately \$7.4 million, which represents  
18 an increase of approximately \$3.6 million over revenues collected under current  
19 rates. The specific elements of the revenue requirement and how it was derived are  
20 discussed in detail in the direct testimony of Company witness Brent Thies, who  
21 serves as Vice President and Controller of our affiliate group.

22 Second, CSWR-Texas seeks to unify the terms of service and consolidate  
23 rates statewide in order to simplify its in-state operations and regulatory  
24 obligations. As detailed in the testimony of Company witnesses Mike Duncan and

1 Chris Ekrut, statewide consolidation not only provides efficiencies for CSWR-  
2 Texas and the regulators, it also facilitates the rehabilitation of distressed systems  
3 and mitigates rate impacts at many CSWR-Texas systems. For instance, absent  
4 consolidation, a household using 10,000 gallons a month in the Walnut Bend  
5 service area would have a monthly bill of \$674.49 for water service alone.  
6 Similarly, for a sewer customer in the Laguna service area, absent consolidation, a  
7 household would have a monthly bill of approximately \$568.59 for sewer service  
8 alone.

9 **Q. ARE THERE OTHER UNIQUE FACTORS AFFECTING THIS RATE**  
10 **APPLICATION?**

11 A. Yes. As the Commission is aware and I mentioned before, the systems CSWR-  
12 Texas has acquired were typically poorly managed with failing infrastructure, and  
13 the owners of those systems usually lacked the technical, managerial, and financial  
14 ability to operate those systems and make capital investments necessary to ensure  
15 both regulatory compliance and safe, efficient, and reliable service to customers.  
16 Many of those owners also failed to seek timely rate increases necessary to enable  
17 them to properly fund on-going operations and maintenance activities at a  
18 reasonable cost to customers. As a result, the rates that CSWR-Texas adopted when  
19 it acquired the systems were insufficient to cover the operating costs and also failed  
20 to provide a reasonable opportunity to earn a reasonable rate of return.

21 The good news is that CSWR-Texas's ability to acquire funding and utilize  
22 its unique skill set in Texas changed that paradigm. As described in Mr. Thomas'  
23 testimony, CSWR-Texas's experienced and licensed professionals now oversee the

1 operation and maintenance of these systems. And, CSWR-Texas has implemented  
2 operational changes and made necessary plant investments to significantly improve  
3 service and set all systems on a path to fully comply with federal, state, and local  
4 laws and regulations. As Mr. Thomas explains, CSWR-Texas also has significantly  
5 upgraded and improved the customer service available to those systems so that  
6 customers in each community have access to assistance to address and remediate  
7 service or billing issues as they arise.

8 **Q. HAVE COSTS INCREASED TO UPGRADE AND IMPROVE THESE**  
9 **SYSTEMS AND OPERATE THEM IN A MANNER THAT ENSURES**  
10 **CUSTOMERS HAVE SAFE AND RELIABLE SERVICE THAT**  
11 **COMPLIES WITH ALL APPLICABLE HEALTH, SAFETY, AND**  
12 **ENVIRONMENTAL REGULATIONS?**

13 A. Yes. Costs to provide service have increased significantly over the last several  
14 years. Most of this increase is attributable to increases in O&M and capital  
15 investment necessary to ensure the water and wastewater systems CSWR-Texas  
16 owns and operate in a manner that complies with applicable health, safety, and  
17 environmental laws. For example, when CSWR-Texas purchases a system with  
18 failed electrical and mechanical systems necessary power and operations costs go  
19 up when these systems are repaired. There are numerous other examples of how  
20 operating costs increase when failed utilities are brought back into operating  
21 compliance. In addition, the Company recently has seen the cost of labor,  
22 chemicals and testing fees increase significantly.

To address these cost increases, CSWR-Texas is seeking an increase in its rates in order to ensure it has sufficient cash flows to continue to work to improve quality of service at its existing systems, as well as to continue to acquire distressed systems in need of new ownership. CSWR-Texas has expended a great deal of effort to find ways to mitigate these cost increases by:

- building scale across its family of affiliates in several states,
- using innovative construction techniques to lower installation costs or extend existing facilities to delay imminent construction projects, and
- pioneering new water and wastewater treatment technologies to treat water more efficiently at lower price points.

All of these efforts are intended to lower operating costs while improving access to safe and reliable water and wastewater services across the state.

**Q. ARE THE RATE INCREASES THAT CSWR-TEXAS REQUESTS REASONABLE AND NECESSARY?**

A. Yes. First, CSWR-Texas has made significant capital investments to upgrade its Texas systems and bring them into regulatory compliance. To be clear, these were not elective improvements, they were *necessitated* by the application of environmental standards when the Commission approved each of CSWR-Texas's acquisitions.<sup>3</sup> So, to the extent that a system lacked the necessary blowers and disinfection equipment in order to meet environmental mandates, CSWR-Texas has

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<sup>3</sup> See, e.g., *Application of CSWR-Texas Utility Operating Company, LLC and Aransas Bay Utilities Co., LLC for Sale, Transfer, or Merger of Facilities and Certificate Rights in Aransas County*, Docket No. 53326, Notice of Approval at Finding of Fact ("FoF") Nos. 33-37 (Dec. 16, 2022) (finding approval is reasonable based on CSWR-Texas's commitment to make certain improvements to the system upon closing in order to return the system to compliance with applicable regulations); see also Docket No. 53326, Staff Recommendation on Approval of Sale (Jul 12, 2022).



1 invested the necessary capital to meet these environmental standards. The proposed  
2 rate increase seeks recovery of the cost of these assets and improvements.

3 In addition, the proposed rates capture the increased costs to operate water  
4 or wastewater systems in a professional manner that complies with applicable law.  
5 In this regard, it is far costlier to operate a system in a compliant manner than to  
6 operate a failing, non-compliant system. For example, many of the wastewater  
7 systems that CSWR-Texas acquired lacked functional mechanical components  
8 (e.g., booster pumps, aerators, and treatment equipment). As a result, chemical and  
9 power costs were often non-existent. When that equipment was installed, brought  
10 online and operated properly, power and operational costs necessarily increased.  
11 Almost all the systems that CSWR-Texas acquired have exhibited significant long-  
12 term compliance and operational issues. This rate request reflects the increased  
13 operating costs required to address those deficiencies.

14 Finally, as I mentioned earlier, some of the systems that CSWR-Texas has  
15 acquired have not sought rate increases in years or even decades. As a result, the  
16 rates currently in effect did not recover the costs of operating a distressed system,  
17 let alone the cost of operating these systems in a compliant manner. Just increasing  
18 rates to a level that is common for Texas water or wastewater customers will result  
19 in a seemingly large percentage increase over current rates in some communities,  
20 but those rates merely reflect what customers likely would already be paying if the  
21 previous owners had simply exercised regulatory diligence and regularly raised  
22 rates to levels required to cover their operating costs, provide a fair return on

investment, and recover other costs and investment necessary to ensure safe and reliable service so customers.

**V. WITNESS INTRODUCTION**

**Q. PLEASE LIST THE WITNESSES WHO ARE PROVIDING DIRECT TESTIMONY IN SUPPORT OF THE PROPOSED RATE INCREASE.**

A. Seven other witnesses will provide direct testimony in support of the proposed rate increase. Those witnesses and the subjects they will cover in their respective testimonies are as follows:

- Todd Thomas, Senior Vice President of CSWR, LLC, explains the process CSWR uses to identify and engage qualified third-party contractors to provide day-to-day O&M functions for its operating companies like CSWR-Texas, and why using third parties to perform these functions is in the best interests of both CSWR-Texas and its customers; identifies and describes the O&M contractors that CSWR-Texas currently engages for its Texas systems as well as certain steps it has taken to maximize its ability to provide safe and adequate service; explains the process by which CSWR relies upon a third-party to provide quality customer service to Texas customers; and discusses the impacts of Winter Storms Uri and Elliott on Texas facilities.
- Jacob Freeman, Director of Engineering of CSWR, LLC, describes in detail the systems owned and operated by CSWR-Texas, the challenges confronted by CSWR-Texas upon taking ownership of these systems, and the steps that it is taking to resolve those problems in order to ensure compliance with applicable state and federal regulations. In addition, Mr. Freeman describes the process by which CSWR-Texas engages third-party engineering and construction partners to implement these system improvements.
- Brent Thies, Vice President and Controller for CSWR, LLC, sponsors the books and records of CSWR-Texas that support the requested revenue increase. He also describes the method by which the CSWR-Texas revenue requirement was calculated.
- Mike Duncan, Vice President for CSWR, LLC, supports CSWR-Texas's consolidation request by describing how the Texas water and wastewater systems are substantially similar in terms of facilities and quality of service.

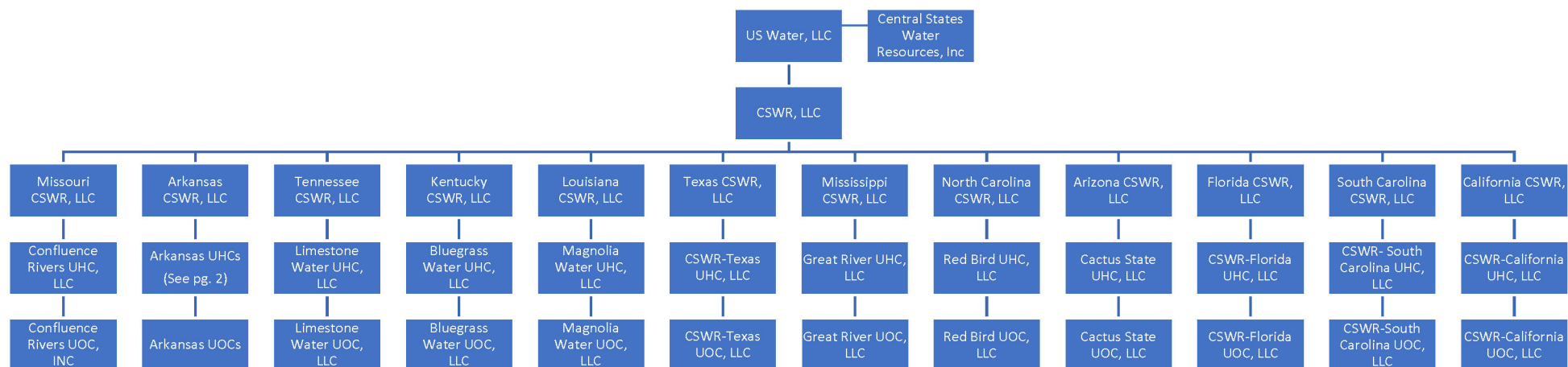
- 1 • Chris Ekrut, NewGen Strategies and Solution, supports the calculation of the  
2 revenue requirement, including pro forma revenues and operating expenses,  
3 amortization expenses, taxes other than income taxes, cost allocations, and rate  
4 base. He also calculated the rates and rate design that are included in the  
5 Company's proposed tariff. He also supports systemwide consolidation by  
6 demonstrating how the affected systems are similar in terms of the cost to serve  
7 each system and how the proposed rate design promotes conservation compared  
8 to operating the systems on a non-consolidated basis.
- 9 • Dane Watson, Alliance Consulting Group, discuss the recent depreciation study  
10 conducted for CSWR-Texas water and sewer assets and supports and justifies  
11 the recommended depreciation rates for the Company's water and sewer assets  
12 based on the results of the depreciation study.
- 13 • Dylan D'Ascendis, ScottMadden, Inc., supports the appropriate capital  
14 structure and corresponding cost rates the Company should be given the  
15 opportunity to earn on its jurisdictional rate base.

16 **VI. CONCLUSION**

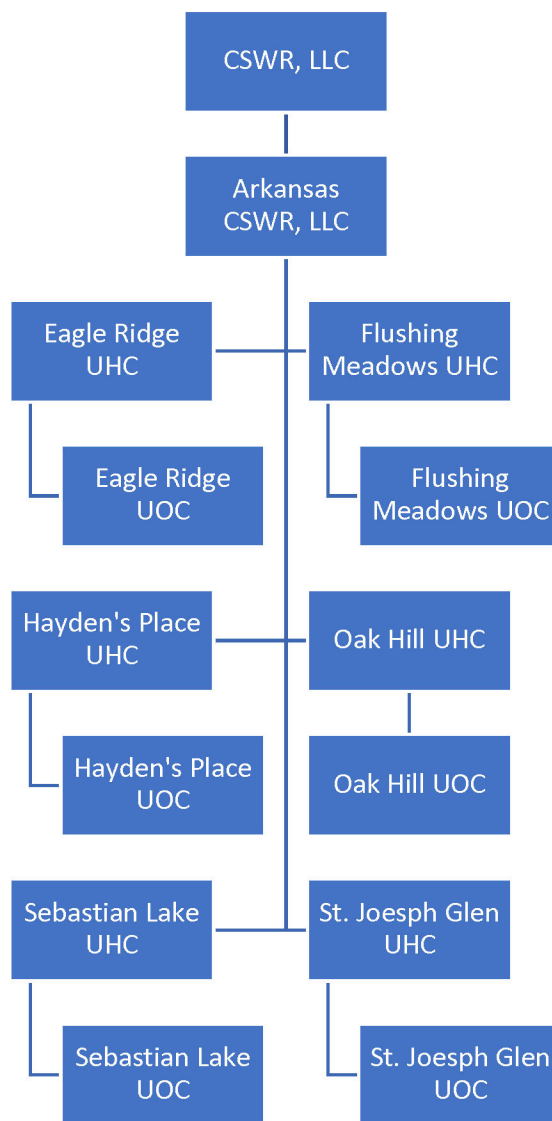
17 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

18 A. Yes, it does.

## Central States Water Resources Corporate Entity Organizational Chart



**Arkansas CSWR Organizational Chart Detail**



STATE OF TEXAS

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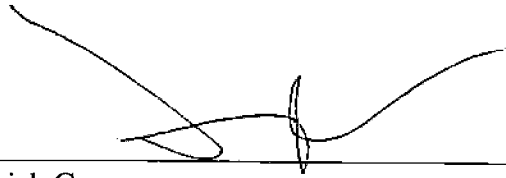
COUNTY OF TRAVIS

**AFFIDAVIT OF JOSIAH COX**

BEFORE ME, the undersigned authority, on this day personally appeared Josiah Cox, who having been placed under oath by me did depose as follows:

1. "My name is Josiah Cox. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based on my personal knowledge. My current position is President/Manager of CSWR-Texas Utility Operating Company, LLC.
2. I have prepared the foregoing direct testimony and the information contained in this document is true and correct to the best of my knowledge."

Further affiant sayeth not.

  
\_\_\_\_\_  
Josiah Cox

SUBSCRIBED AND SWORN TO BEFORE ME by the Josiah Cox on this 24th day of January, 2023.

  
\_\_\_\_\_  
Notary Public, State of Texas

My commission expires: 6/19/2023

