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**SOAH DOCKET NO. 473-24-13127.WS
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APPLICATION OF TEXAS WATER	§	BEFORE THE STATE OFFICE
UTILITIES, LP AND SOUTHERN	§	
HORIZONS DEVELOPMENT, INC.	§	OF
FOR SALE, TRANSFER, OR	§	
MERGER OF FACILITIES AND	§	ADMINISTRATIVE HEARINGS
CERTIFICATE RIGHTS IN LIBERTY	§	
AND MONTGOMERY COUNTIES	§	



**DIRECT TESTIMONY OF
FRED BEDNARSKI III
RATE REGULATION DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS
MAY 30, 2024**

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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 (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 Commission from September 2014 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 the 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

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

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

3
4 **Q. Please describe your current work responsibilities.**

5 A. My current responsibilities include reviewing and analyzing water and sewer applications
6 pursuant to the Commission's financial assurance rules established by 16 Texas
7 Administrative Code (TAC) § 24.11 and fair market value rules established by 16 TAC §
8 24.238. My responsibilities also include analyzing financial and economic issues related
9 to regulated public utility companies; recommending financial assurance, fair rates of
10 return on regulated utilities' invested capital; evaluating issues related to rates, pricing,
11 tariff provisions, cost allocation, and rate design; and preparing reports on financial matters
12 related to utility companies and capital markets. A copy of my professional resume is in
13 Attachment FB-1.

14
15 **Q. Please describe specific training you have had in financial review and rate making.**

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

1 and provided testimony for the nine proceedings listed in Attachment FB-2.

2
3 **Q. How many applications have been previously assigned to you for review of financial**
4 **assurance?**

5 A. I have been assigned and have reviewed over 300 applications during my employment with
6 the Commission and the TCEQ for financial assurance and fair market valuation issues.

7
8 **II. PURPOSE & SCOPE OF TESTIMONY**

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

10 A. My role is to testify on the financial assurance and fair market valuation aspects of the
11 application pursuant to the Preliminary Order in this application.¹

12
13 **Q. Have you reviewed the sale, transfer, or merger of facilities application filed by Texas**
14 **Water Utilities, LP and Southern Horizons Development, Inc. (Applicants),**
15 **testimonies filed, and other information filed with the Commission in this matter?**

16 A. Yes.

17
18 **Q. Please explain the scope of your participation in this proceeding.**

19 A. A summary of my participation in this proceeding, State Office of Administrative Hearings
20 Docket No. 473-24-13127.WS, follows:

21 1. I reviewed the financial and fair market valuation information provided by the

¹ Preliminary Order at 7, 10, and 11 (Mar. 7, 2024).

1 Applicants pursuant to Tex. Water Code (TWC) §§ 13.301(b) & (c) and 13.305,
2 and 16 TAC §§ 24.239(f), 24.239 (h)(5)(F), 24.11, and 24.238.

3 2. I am presenting Commission Staff's (Staff) position on the Applicants'
4 demonstration of financial resources to operate and manage the utility and to
5 provide continuous and adequate service to the current and requested utility
6 service areas pursuant to 16 TAC §§ 24.239(f), (h)(5)(F), and 24.11(a) and (c).

7 3. I am also presenting Staff's position on the fair market valuation of Southern
8 Horizons Development, Inc. (Southern Horizons) pursuant to TWC § 13.305 and
9 16 TAC § 24.238.

10
11 **III. FINANCIAL RESOURCES TO OPERATE AND MANAGE THE UTILITY**

12 **Q. Please describe the procedures you followed in your review of Texas Water Utilities,**
13 **LP's (TWU) financial resources to operate and manage Southern Horizons.**

14 A. I reviewed the information included in the application, direct testimonies, responses to
15 discovery, and annual reports. I looked for evidence demonstrating that TWU possesses
16 financial resources sufficient to operate and manage Southern Horizons, and to provide
17 continuous and adequate water service to the requested area. I based my analysis on the
18 application, supplemental filings, direct testimonies, and the Applicants' financial
19 information.

20
21 **Q. Did you review TWU's application in this proceeding on a standalone basis?**

22 A. Yes.

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Q. How did you determine if TWU demonstrated financial capability for providing continuous and adequate water service to the requested area pursuant to TWC §§ 13.301(c) and 13.246(c)(6)?

A. I reviewed the information provided by the Applicants based on the Commission’s financial assurance rules under 16 TAC § 24.11. These rules establish the criteria to demonstrate that a retail public utility has the financial resources to operate and manage the utility and to provide continuous and adequate service to the current and proposed 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 Applicants to pass one of the five leverage tests under 16 TAC § 24.11(e)(2), the operations test under 16 TAC § 24.11(e)(3), and the requirement to provide loan approval documents under 16 TAC § 24.11(e)(5)(A).

Q. Based on your review, does the purchaser, TWU, pass one of the Leverage Tests established by 16 TAC § 24.11(e)(2)?

A. Yes. TWU filed an affidavit stating that SouthWest Water Company (SouthWest), TWU’s affiliate, is capable, available, and willing to cover any temporary cash shortages and operating expense shortfalls.² Based on my review of SouthWest’s audited 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

² Confidential Attachments to STM application at 98 and 99 (Feb. 2, 2023).

1 finding that TWU's affiliate meets the leverage test specified in 16 TAC § 24.11(e)(2)(B).

2 I also recommend a finding that—through its affiliate—TWU meets the leverage test as
3 specified in 16 TAC § 24.11(e)(2)(E).

4
5 **Q. Based on your review, does TWU pass the Operations Test established by 16 TAC §
6 24.11(e)(3)?**

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

12 The affidavit provided by TWU demonstrates a written guarantee of coverage of
13 temporary cash shortages from an affiliated interest.³ TWU projects no net operating and
14 maintenance shortages, as shown in confidential attachment FB-3. Therefore, I
15 recommend a finding that TWU meets the operations test specified in 16 TAC §
16 24.11(e)(3).

17
18 **Q. Based on your review, did TWU provide documentation of adequate funding for the
19 purchase of an existing system plus any improvements necessary to provide
20 continuous and adequate service to the existing customers per 16 TAC §
21 24.11(e)(5)(A)?**

³ *Id.*

1 A. Yes. TWU has filed documentation demonstrating a firm capital commitment for funding
2 of the purchase price and planned system improvements for Southern Horizons' water
3 system as shown in confidential attachment FB-3. Therefore, I recommend a finding that
4 TWU satisfies the requirements of 16 TAC § 24.11(e)(5)(A) and that a good cause
5 exception should be granted if needed.
6

7 IV. FAIR MARKET VALUATION

8 **Q. Based on your review, did TWU demonstrate compliance with the fair market**
9 **valuation standards pursuant to TWC § 13.305 and 16 TAC § 24.238 as applicable?**

10 A. Yes. Based on my review of the application and supplemental information, TWU complied
11 with TWC § 13.305 and 16 TAC § 24.238. Additionally, I determined the average of the
12 three appraisal amounts reported by each of the utility valuation experts as well as the sales
13 price, as shown in confidential Attachment FB-3.
14

15 **Q. Was the ratemaking rate base for Southern Horizons included in the application the**
16 **lesser of the fair market value or the purchase price, as required by TWC § 13.305(g),**
17 **TWC § 13.305(h)(3), and 16 TAC § 24.238(b)(3)-(4)?**

18 A. Yes. I recommend that because the average of the three appraisals yields a fair market
19 value which equals the sales price, the ratemaking rate base for Southern Horizons is the
20 average of the three appraisal amounts, shown in confidential Attachment FB-3, as
21 prescribed by the provisions of TWC § 13.305(g).
22

V. CONCLUSION

1
2 **Q. Has TWU demonstrated adequate financial resources to operate and manage the**
3 **utility and to provide continuous and adequate service to the current and requested**
4 **utility service areas?**

5 A. Yes. TWU meets the financial tests of 16 TAC § 24.11(e), and I do not recommend that
6 the Commission require additional financial assurance. Consequently, I recommend a
7 finding that TWU demonstrates the financial and managerial capability needed to provide
8 continuous and adequate service to the area subject to this application. My conclusions are
9 based on information provided by TWU before the date of this memorandum and may not
10 reflect any changes in TWU's status after this review.

11
12 **Q. Does this conclude your pre-filed testimony?**

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

Fred Bednarski III

Educational Background

- The University of Texas** May 1989
Austin, Texas
Degree: BA/Economics
- Southwest Texas State University** August 1995
San Marcos, Texas
Degree: BBA/Accounting

Work Experience

- Public Utility Commission** 8/2022–Present
Austin, Texas
Sr. Financial Analyst
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** 5/2022–7/2022
Austin, Texas
Staff Accountant
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** 4/2013–4/2022
Austin, Texas
Financial Analyst
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.

JJ 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 District No. 1 to Change
Rates
- 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,
Adara Communities, and Chowdary Yalamanchili
- 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
- 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