The alternative, without consolidation, is that some water customers would have an average monthly residential bill ranging from approximately $186 to $674 for 5,000 gallons, while the Laguna sewer customers would have an average monthly residential bill of approximately $569.[122] In particular, if the Company's proposed rates are approved but the systems are not consolidated, 12 water systems will have stand-alone rates that exceed 2.5% MHI (ranging from 2.63% MHI to 15.45% MHI) and the Laguna sewer system will have rates that equal 9.00% MHI. The rates for those systems are not affordable and implementation of those rates would not be just and reasonable.

The ALJs conclude that consolidation of the 62 water systems and the 12 wastewater systems identified in the Application is in the public interest and would produce just and reasonable rates for the customers of each consolidated system. Specifically, the resulting rates for each consolidated system are not unreasonably preferential, prejudicial, or discriminatory, and are sufficient, equitable, and consistent in application to each class of consumers.[123] Additionally, as the undisputed evidence shows, the Company's requested consolidation aligns with the Commission's objective to expedite the acquisition, consolidation, and improvement of distressed water and sewer utilities and promotes conservation.

The ALJs' recommended adjustments to the Company's requested rates and tariffs are discussed below.

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[122] CSWR-Texas Ex. 8 (Ekrut Dir.), Exh. CDE-16; CSWR-Texas Ex. 11 (Cox Reb.) at 25-26.

[123] TWC § 13.182(b).

VI. COST OF SERVICE/REVENUE REQUIREMENT

The two components of a utility's cost of service are its allowable expenses and its return on rate base.[124] The following equation illustrates a utility's allowable expenses and presents a utility's cost of service:

$$\mathbf{RR = O\&M + D + T + FIT + OE + (RB \times ROR)}^{125}$$

CSWR-Texas requests a total water cost of service of $7,365,181,[126] and a total sewer cost of service of $2,263,293.[127] OPUC does not oppose or recommend adjustments to CSWR-Texas's proposed costs of service.[128]

Initially, Staff recommends adjusting CSWR-Texas's proposed costs of service to exclude from consolidation the 39 systems, as addressed above. Based on ALJs' prior findings and recommendations regarding the applicability of Section 13.145 and the Company's annualized test-year data, the ALJs reject Staff's adjustments based on the exclusion of those systems.

Staff also recommends flow-through adjustments to CSWR-Texas's proposed costs of service due to its recommended changes to the Company's

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[124] 16 Tex. Admin. Code § 24.41(a).

[125] RR = revenue requirement; O&M = operations & maintenance expense, including administrative and general expenses; D = depreciation; T = assessments and taxes other than income taxes; FIT = federal income taxes; OE = other expenses; RB = rate base; and ROR = overall rate of return. Staff Ex. 3 (Eiland Dir.) at 5.

[126] CSWR-Texas Ex. 1 (Application) at 357.

[127] CSWR-Texas Ex. 1 (Application) at 429. CSWR-Texas's total overall requested cost of service totals $9,628,474.

[128] *See* OPUC Initial Brief.

proposed rate base and rate of return.[129] Ultimately, Staff did not recommend any other direct adjustments to the Company's proposed allowable expenses.[130]

Accordingly, the ALJs find that CSWR-Texas's proposed allowable expenses are reasonable and necessary, and recommend they be approved. Additionally, the Company's proposed affiliate expense is uncontested and the ALJs recommend it also be approved. The Company's proposed rate base and rate of return are discussed below.

VII. RATE BASE

The rate-base components included within the Application include utility plant in service,[131] accumulated depreciation, working capital allowance, prepayments, and contributions in aid of construction.[132]

A. UNCONTESTED RATE-BASE COMPONENTS

Notwithstanding the acquisition adjustments discussed below, no party challenged the prudence of any specific item included in the Company's requested invested capital or transaction closing costs. Thus, the ALJs conclude that the

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[129] Staff Ex. 3 (Eiland Dir.) at 9-17; Staff Initial Brief at 11-23.

[130] In accordance with Staff's request, the Company separated the proposed amortization expense from the depreciation expense in rebuttal. Staff Ex. 4 (Euton Dir.) at 8; CSWR-Texas Ex. 12 (Thies Reb.), Exh. BT-R-2 (separation of depreciation and amortization amounts); CSWR-Texas Ex. 9 (Watson Dir.), Exh. DAW-2 (Appendix-A-A-1).

[131] Company witness Brent Thies explained that utility plant in service includes the original cost of acquired systems along with acquisition-related expenses and post-acquisition improvements necessary to provide safe and reliable sewer and water service. CSWR-Texas Ex. 6 (Thies Dir.) at 18.

[132] CSWR-Texas Ex. 6 (Thies Dir.) at 18-31.

Company's requested invested capital is prudent and that the transaction costs incurred during the acquisition of the systems identified in the Application through the applicable STM proceedings are reasonable.

B. Acquisition Adjustments for Utility Plant In Service

The utility plant in service included in the Application includes the acquisition asset values for all systems the Company has acquired as of the end of the test year, December 31, 2022.[133] CSWR-Texas seeks to recover the following two types of positive acquisition adjustments for utility plant in service: (1) adjustments to rate base previously approved under the fair market value (FMV) statute and rule to calculate the "ratemaking rate base"[134] of a system, as approved under Water Code § 13.301;[135] and (2) adjustments to rate base based on the difference between the purchase price and the net book value of a system—for systems that were not acquired through the FMV process.

1. Acquisition Adjustments for Systems Approved Under the FMV Process

Water Code section 13.305(g) explicitly requires that the ratemaking rate base approved in a STM proceeding filed under section 13.301 "shall be incorporated into the rate base of the acquiring utility during the utility's next rate-base case under

[133] CSWR-Texas Ex. 6 (Thies Dir.) at 18.

[134] Ratemaking rate base means the dollar value of a selling utility that is incorporated into the rate base of the acquiring utility for post-acquisition ratemaking purposes. TWC § 13.305(a)(2); 16 Tex. Admin. Code § 24.238(b)(4).

[135] TWC § 13.305; 16 Tex. Admin. Code § 24.41(c)(2)(A).

Subchapter F." CSWR-Texas asserts it acquired the following systems subject to this proceeding through the approved FMV process.[136]

Docket No.	System	Former Owner Name	Approved Ratemaking Rate Base[137]
52879	Lakeview Ranchettes, Red Oak, Spanish Grant Subdivision, Emerald Forest, Grand Casa	Carroll Water	*See* CSWR Ex. 1A, SOI Ex. F-1 (Highly Sensitive)
52803	Copano Cove Subdivision, Copano Ridge Subdivision	Copano Cove	*Id.*
52880	Texas Landing Utilities, Texas Landing Deerwood, Texas Landing Goode City	Texas Landing	*Id.*
53326	Aransas Bay Utilities	Aransas Bay Utilities	*Id.*
53456	Lake Limestone Coves	Lake Limestone	*Id.*
53483	Country Squire, Longford Place	North Orange	*Id.*

CSWR-Texas argues that Staff did not address the FMV-related acquisition adjustments requested for these systems and did not incorporate those positive adjustments within its recommended rate base for the Company.[138] It further argues that, notwithstanding Staff's unsuccessful argument that nine of the 14 systems acquired via the FMV process should not be consolidated due to annualized test-year

[136] CSWR-Texas Initial Brief at 31.

[137] CSWR-Texas notes that the Notice of Approval (NOA) for these proceedings are included as Staff Exs. 16 (NOA for PUC Docket No. 53326), 17 (NOA for PUC Docket No. 53483), 20 (NOA for PUC Docket No. 53456), 30 (NOA for PUC Docket No. 52879), and 31 (NOA for PUC Docket No. 52880). The specific ratemaking adjustments are included in CSWR-Texas Ex. 6a (Thies Dir.), Exh. BT-3 (Highly Sensitive).

[138] CSWR-Texas Initial Brief at 30-31; Tr. at 176-79.

data, Staff failed to show why these requested FMV-related acquisition amounts should not be incorporated into its requested rate base under Water Code section 13.305.[139] Staff did not respond to this argument.[140]

The ALJs conclude that, in accordance with Water Code section 13.305, all positive acquisition adjustments for the systems the Company acquired under the FMV process that are subject to this proceeding should be included in its rate base. However, there is some inconsistency in the record regarding which systems were acquired through the FMV process. While CSWR-Texas listed Lake Limestone Cove (Docket No. 53456) in the table above, as provided in its initial brief, that was not one of the six utilities that Company witness Brent Thies testified were acquired through the FMV process.[141] Additionally, Mr. Thies testified that the Company acquired Leon Springs (Docket No. 52410) through the FMV process but that system was not included in the Company's table above.[142] Furthermore, there is inconsistency in the systems listed in the table above and the systems identified as being acquired through the FMV process as provided in Mr. Thies's confidential Exhibit BT-3 titled Summary of Acquisition Adjustments for the Period Ending December 31, 2022.[143] These inconsistencies raise concerns regarding the accuracy the Company's total positive acquisition adjustment for the systems acquired

[139] CSWR-Texas Initial Brief at 31.

[140] *See* Staff Initial and Reply Briefs.

[141] CSWR-Texas Ex. 6 (Thies Dir.) at 29.

[142] CSWR-Texas Ex. 6 (Thies Dir.) at 29.

[143] CSWR-Texas Ex. 6a (Thies Dir.), Exh. BT-3 (Highly Sensitive).

through and outside of the FMV process.[144] The ALJs address these inconsistencies in their recommendation below.

2. Acquisition Adjustments for Systems Acquired Outside the FMV Process[145]

Pursuant to Rule 24.41, CSWR-Texas also proposed certain positive and negative acquisition adjustments for systems acquired outside the FMV process that result in a total $602,018 positive adjustment.[146]

CSWR-Texas argues that OPUC proposes to disallow recovery of this non-FMV positive acquisition adjustment until CSWR-Texas can prove the benefits of its acquisition of these systems.[147] The Company opposes this position, arguing the adjustments are properly included in its requested rate base because it has met the six conditions for inclusion under Rule 24.41(d)(1)(A)-(F). As noted in the

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[144] CSWR-Texas Ex. 6 (Thies Dir.) at 27; CSWR-Texas Ex. 12 (Thies Reb.) at 8; CSWR-Texas Ex. 6a, Exh. BT-3 (Highly Sensitive).

[145] OPUC argues for the first time in its reply brief that CSWR-Texas's requested recovery for the non-FMV system acquisitions should be deferred. As such, OPUC failed to provide the other parties with an opportunity to respond this position. Accordingly, OPUC's arguments on this issue are not further addressed. OPUC Reply Brief at 15-17; *see* Tex. Gov't Code § 2001.051 ("In a contested case, each party is entitled to an opportunity . . . to respond and to present evidence and argument on each issue involved in the case."). However, CSWR-Texas, in its initial brief, generally referenced that "OPUC proposes to disallow recovery of these positive acquisition adjustments until CSWR-Texas can prove the benefits of these systems." CSWR-Texas Initial Brief at 32. Accordingly, the ALJs will address this issue to the extent it was discussed by CSWR-Texas.

[146] 16 Tex. Admin. Code §§ 24.41(d)(1), .239; CSWR-Texas Ex. 12 (Thies Reb.) at 9-11.

[147] CSWR-Texas Initial Brief at 32. The Company did not provide a citation for its assertion of OPUC's position on this issue.

Company's initial brief, the only condition that was contested (Rule 24.41(d)(1)(C)) requires one of the following things to occur as a result of the transaction:[148]

> i. the customers of the system being acquired will receive higher quality or more reliable water or sewer service or that the acquisition was necessary so the customers of the acquiring utility's other systems could receive higher quality or more reliable water or sewer service;
>
> ii. regionalization of retail public utilities, meaning a pooling of financial, managerial, and technical resources that achieve economies of scale or efficiencies of service, was achieved; or
>
> iii. the acquiring utility will become financially stable and technically sound as a result of the acquisition. . . .

Company witnesses Jacob Freeman and Mr. Cox testified that CSWR-Texas has either made significant physical or operational improvements or is in the process of implementing or planning such improvements at each of the systems identified in the Application.[149] Additionally, the Company asserts that each of the acquisitions will result in regionalization by virtue of the requested consolidation, which is an alternative condition to establishing the customer benefit requirement under subsection (d)(1)(C)(ii).

It is apparent from the Company's planned improvements for each applicable system that, once completed, the customers of those systems will receive either higher quality or more reliable water or sewer service. While the Company is in the process of completing its planned improvements for numerous systems, the rule

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[148] 16 Tex. Admin. Code § 24.41(d)(1)(C)(i)-(iii).

[149] CSWR-Texas Ex. 5 (Freeman Dir.), Exh. JF-1 (indicating the planned improvements for each system and the current construction status of those improvements); *see* CSWR-Texas Ex. 3 (Cox Dir.) at 18-20.

does not require that such systems improvements be completed prior to the inclusion of the systems' acquisition adjustments into the rate base, and no party challenged the Company's commitment to completing the identified improvements. Accordingly, the ALJs find that the acquisition for each system identified in the Application meets the condition set forth in subsection (d)(1)(C)(i). Additionally, the ALJs conclude that the Company's acquisition of these systems, notwithstanding any future consolidation, has already resulted in the positive regionalization described in subsection (d)(1)(C)(ii). Therefore, the ALJs find that the Company met its burden to include a positive acquisition adjustment to its rate base under Rule 24.41(d)(1) for the systems it acquired outside of the FMV process.

C. ALJs' Recommendation

Based on the discussion above, the ALJs conclude the Company's requested rate-base components are prudent and reasonable and should be incorporated into its rate base. Accordingly, the ALJs recommend the Commission approve the Company's requested rate bases for the water and wastewater systems as provided in SOI Exhibit E of the Application.[150]

Because no party raised the acquisition adjustment inconsistencies noted above, the total acquisition adjustments CSWR-Texas provided in the Application were used to develop the number-running data. Specifically, the Application shows a positive $1,249,591 acquisition adjustment for the water systems and a positive

[150] CSWR-Texas Ex. 1 (Application) at 10; CSWR-Texas Ex. 8 (Ekrut Dir.) at 24.

$545,739 acquisition adjustment for the wastewater systems.[151] However, the ALJs recommend that the Company be required to review their applicable acquisition adjustments and provide the Commission with clarifying information regarding which systems were acquired through the FMV process and outside of that process, and a corrected total acquisition adjustment amount that should be included in rate base, if applicable.

VIII. RATE OF RETURN

A. RETURN ON EQUITY

The U.S. Supreme Court has set forth a minimum constitutional standard governing equity returns for utility investors:

> From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having comparable risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.[152]

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[151] CSWR-Texas Ex. 1 (Application) at 384 at row 6, column B, 456 at row 6, column B.

[152] Staff Ex. 1A (Sears Dir.) at 6-7; CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 6-7; *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944); *see also Bluefield Waterworks & Improvement Co. v. Pub. Serv. Comm'n of W. Va.*, 262 U.S. 679, 692-93 (1923) ("A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.").

Thus, a utility must have a reasonable opportunity to earn a return that is: (1) commensurate with returns on equity investments in enterprises having comparable risks; (2) sufficient to ensure the financial soundness of the utility's operations; and (3) adequate to attract capital at reasonable rates, thereby enabling it to provide safe and reliable service. The allowed ROE should enable the utility to finance capital expenditures at reasonable rates and to maintain its financial flexibility during the period in which the rates are expected to remain in effect.

CSWR-Texas and Staff presented experts who testified as to an appropriate ROE for the Company given its current financial situation and current market conditions. Those parties' experts used varying mathematical methodologies to estimate their recommended ROEs, including various discounted cash flow (DCF) models, a risk premium model (RPM), and the capital asset pricing model (CAPM). The experts also addressed the recent economic conditions and how they affect their mathematically derived recommendations.

The parties' application of these varying analytic techniques resulted in the following ROE recommendations:

Summary of Parties' ROE Recommendations[153]

Witness	ROE Range		ROE Adjustment	ROE Recommendation
	Low	High		
Dylan D'Ascendis (CSWR-Texas)	9.16%	12.09%	1.50%	12.15%
Emily Sears (Staff)	7.11%	9.81%	N/A	8.20%

OPUC did not provide independent, mathematically derived analyses of CSWR-Texas's ROE or recommend a specific adjustment to the Company's proposed ROE in its initial brief. However, OPUC did state that the Company's requested ROE is "escalated" and also provided an example of its proposed phased-in rate plan for the Company that is based in part on ROE adjustments proposed by its witness Mark Garrett.[154] Specifically, Mr. Garrett recommended that the Commission adjust the Company's requested rate of return of 9.62%[155] according to the recommendations made by Staff and he explained that he used a proxy ROE of 9% for the revenue requirement calculations provided in his testimony.[156] Accordingly, the ALJs understand OPUC's position on ROE to be in support of Staff's proposed ROE adjustments.[157]

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[153] CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 8; Staff Ex. 1A (Sears Dir.) at 20.

[154] OPUC Initial Brief at 12-14. OPUC's proposed phased-in rate plan is discussed later in the PFD.

[155] OPUC Ex. 1 (Garrett Dir.), Exh. MG-2.2, line 3, column K.

[156] OPUC Ex. 1 (Garrett Dir.) at 6-7. The proxy 9% ROE used by Mr. Garrett represents the ROE agreed to in a recently settled water rate case. *See Application of Monarch Utilities I, L.P., for Authority to Change Rates*, Docket No. 50944 (Feb. 23, 2022) (Monarch).

[157] The statements OPUC made in its initial brief regarding ROE are not further addressed.

1. Summary of Parties' ROE Proposals

Company witness Dylan D'Ascendis testified that his recommended ROE of 12.15% is based on the market-based, common-equity cost rates of companies he determined were of relatively similar risk to CSWR-Texas (the Utility Proxy Group) and an analysis of that group's market data as applied to his DCF model, RPM, and CAPM.[158] Based on that analysis, he opined the indicated range of common equity cost rates applicable to the Utility Proxy Group is between 10.13% and 11.13%.[159] He then adjusted the indicated range upward by 1.50% to reflect what he argued is CSWR-Texas's greater business risk due to its substantially smaller size and higher business risk relative to the Utility Proxy Group.[160] Mr. D'Ascendis's model results and ROE recommendation are summarized below:

Discounted Cash Flow Model	9.16%
Risk Premium Model	12.09%
Capital Asset Pricing Model	11.58%
Market Models Applied to Comparable Risk, Non-Price Regulated Companies	11.40%
Indicated Range of Common Equity Cost Rates Before Adjustments for Company-Specific Risk	10.13% - 11.13%
Business Risk Adjustment	1.50%

[158] CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 6-8. Mr. D'Ascendis also applied those models to a proxy group of domestic, non-price-regulated companies that he determined were comparable in total risk to the Utility Proxy Group. However, he asserted that to remain conservative he did not consider the ROE model results from that non-price-regulated group when determining the recommended ROE range identified above. As such, the model results of the non-price-regulated group will not be discussed or considered in the PFD.

[159] CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 8 n.3. Mr. D'Ascendis noted that his indicated range is equal to 50 basis points above and below the midpoint of his three model results.

[160] CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 8.

Indicated Range of Common Equity Cost Rates after Adjustment	11.63% – 12.63%
Recommended Cost of Common Equity	12.15%

Similarly, Staff witness Emily Sears recommended an ROE of 8.20% based on an analysis of her proxy group of utilities (Staff Proxy Group) and an analysis of that group's market data as applied to two separate DCF models and her RPM analysis.[161] The results of Ms. Sears's analyses are provided below:[162]

Methodology	**Point Estimate**	**Range**
Single-stage DCF Analysis	7.59%	5.49% - 9.12%
Multi-stage DCF Analysis	7.11%	6.39% - 8.19%
Conventional Risk Premium	9.81%	N/A
Unadjusted ROE Estimate	8.20%	7.11% - 9.81%

2. Proxy Groups

Because the Company is not publicly traded and does not have publicly traded equity securities, it is necessary to develop groups of publicly traded, comparable companies to serve as "proxies" for the Company. This use of proxy companies is consistent with the *Hope* and *Bluefield* comparable risk standards referenced above.

[161] Staff Ex. 1A (Sears Dir.) at 8-9.

[162] Staff Ex. 1A (Sears Dir.) at 20.

In developing their proxy groups, Mr. D'Ascendis and Ms. Sears applied various screening criteria to identify companies that they determined are appropriately comparable to the Company. The Utility Proxy Group consisted of the following six companies: American States Water Company, American Water Works Company, Inc., California Water Services Group, Essential Utilities Inc., Middlesex Water Company (MSEX), and SJW Group.[163] The Staff Proxy Group also consisted of those six companies as well as Artesian Water (ARTNA) and York Water (YORW).[164]

a) Parties' Arguments

Mr. D'Ascendis criticized Ms. Sears's inclusion of ARTNA and YORW in her proxy group, asserting she misapplied her screening criteria.[165] In particular, he noted that both ARTNA and YORW fail to meet her criteria that the company have a positive (greater than 0%) long-term projected earnings growth rate from *Value Line*. For this reason, Mr. D'Ascendis argued those companies should be eliminated from the Staff Proxy Group.[166] Additionally, Mr. D'Ascendis opined that Global Water Resources, Inc. (GWR) was erroneously excluded from the Staff Proxy Group despite meeting all of Ms. Sears's screening criteria.[167]

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[163] CSWR-Texas 10 (D'Ascendis Dir.) at 18-19.

[164] Staff Ex. 1A (Sears Dir.) at 10-11.

[165] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 4.

[166] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 9; Staff Ex. 1A (Sears Dir.) at 10-11.

[167] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 9; Staff Ex. 1A (Sears Dir.) at 10-11.

In response, Staff notes that the *Value Line* projected earnings growth rates for both ARTNA and YORW state that "consensus 5-year earnings growth [is] not available," which it argues belies Mr. D'Ascendis's contention that they do not meet the criteria requiring a positive long-term projected earnings growth rate.[168] Staff also notes that GWR was not included as a proxy because it only operates principally in two metropolitan cities in Arizona unlike the companies in the Staff Proxy Group and CSWR-Texas, which operate across rural and urban communities and/or across multiple states.[169] Staff further stresses that despite Mr. D'Ascendis's criticism regarding the exclusion of GWR, he did not include that company in the Utility Proxy Group.[170]

Staff did not challenge Mr. D'Ascendis's selection criteria, or the companies included in the Utility Proxy Group.[171]

b) ALJs' Analysis

Staff did not provide argument or evidence to support its assertion that the *Value Line* statement noting "consensus 5-year earnings growth not available" for ARTNA and YORW proves that those systems do in fact have a positive long-term projected earnings growth rate. Ms. Sears's selection criteria were not discretionary; therefore, by failing to meet that criterion, ARTNA and YORW should not have

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[168] Staff Ex. 1B (Sears Confidential Workpaper) at 5, 10; CSWR-Texas Ex. 14 (D'Ascendis Reb.), Exh. Workpaper 19 at 3, 9.

[169] Staff Initial Brief at 27; CSWR-Texas Ex. 14 (D'Ascendis Reb.), Exh. Workpaper 19 at 6.

[170] Staff Initial Brief at 27.

[171] *See generally* Staff Initial Brief.

been included in the Staff Proxy Group. Additionally, Ms. Sears's criteria did not differentiate or exclude companies based on the communities they serve or where they operate. Thus, the ALJs conclude that GWR should have been included in the Staff Proxy Group as it met all of Ms. Sears's selection criteria. Conversely, Mr. D'Ascendis's selection criteria differed from Ms. Sears's and Staff did not argue or prove that Mr. D'Ascendis should have included GWR in the Utility Proxy Group.

In sum, the ALJs agree that, under Ms. Sears's screening criteria, ARTNA and YORW were erroneously included in the Staff Proxy Group and that GWR was erroneously excluded.

3. Methodologies

a) DCF Model

The DCF model is based on the theory that the present value of an expected future stream of net cash flows during the investment holding period can be determined by discounting those cash flows at the cost of capital, or the investors' capitalization rate.[172] In short, the theory underlying the model holds that the price of a share is equal to the present value of all future dividends.[173]

[172] CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 23-24.

[173] Staff Ex. 1A (Sears Dir.) at 11.

The DCF model can be performed as either a single-stage constant-growth version or a multi-stage version. Ms. Sears noted that the constant-growth model recognizes that the return to the stockholder consists of two parts: dividend yield and growth, and that under this model the dividends are assumed to grow at a constant rate and are based on analysts' estimates of the utility's earnings growth over the next five years.[174] For the multi-stage model, she noted it is often employed when there is an expectation of different growth rates over different periods of time.[175] Her multi-stage model used a three-stage growth approach: the first stage is similar to the five years used in the single-stage constant-growth DCF model; the second stage covers years six through 10 and is based on the projected long-term growth in Gross Domestic Product (GDP), which, as applicable to this case, is 5.11%;[176] and the third and final stage covers years 11 through 150 and is also based on the 5.11% long-term GDP growth estimate.[177]

As an initial matter, Mr. D'Ascendis used Ms. Sears's own DCF models to determine what impact excluding ARTNA and YORW from the Staff Proxy Group and including GWR would have on her results. The results of those modified models raised Ms. Sears's average single-stage DCF result to 9.34% and her multi-stage DCF

[174] Staff Ex. 1A (Sears Dir.) at 14.

[175] Staff Ex. 1A (Sears Dir.) at 11-13.

[176] The 5.11% expected long-run nominal growth rate consists of the 3.11% per year average real growth-rate of GDP for the period of 1951 through 2022, as calculated from data reported by the U.S. Bureau of Economic Analysis, and the 2.00% rate of inflation forecast by the Board of Governors of the Federal Reserve in its most recent estimate. Staff Ex. 1A (Sears Dir.) at 15 n.7-8.

[177] Staff Ex. 1A (Sears Dir.) at 14.

result to 7.60%.[178] Based on the findings addressed above, the ALJs conclude that when analyzing Ms. Sears's DCF results, those modified results should be considered as they represent a more accurate reflection of the companies that should have been included in the Staff Proxy Group. Thus, Ms. Sears's DCF results, as modified by Mr. D'Ascendis, are provided below:

Methodology	**Point Estimate**	**Range**
Single-stage DCF Analysis, as modified	9.34%	5.49% - 17.80%
Multi-stage DCF Analysis, as modified	7.60%	6.89% - 9.84%

(i) Single-Stage DCF Model

Mr. D'Ascendis generally agreed with Ms. Sears's single-stage DCF model application except for her inclusion of MSEX's results which he opined was improper as it represents an outlier in Texas. In his opinion, MSEX's DCF result of 5.49% ROE should not be considered because it is indistinguishable from the current 5.41% marginal yield on A-rated utility debt and is at least 2.99 basis points below any ROE approved by this Commission for a water utility.[179] He explained his reasoning in part by noting that:

> It is generally accepted that common equity capital has greater investment risk than debt capital, as common equity shareholders sit behind debt holders in any claim on a company's assets and earnings. Because of this, any investor required return on equity at or below the

[178] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 8, Schedule DWD-R-2.

[179] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 21-22.

marginal yield on long-term debt related to that particular stock is non-sensical and should not be considered.[180]

CSWR-Texas stresses this position, arguing it is absurd to think that investors would accept an ROE that is no higher than the utility's own cost of debt. Thus, CSWR-Texas argued that including MSEX in Ms. Sears's DCF analysis artificially skewed her results downward below a reasonable return.[181]

Staff responds that Mr. D'Ascendis's critique of the inclusion of MSEX in the Staff Proxy Group is not based on any flawed calculation or model input, but simply because he dislikes the result. Staff maintains that Ms. Sears properly included MSEX in her proxy group and that the results of her single-stage DCF methodology are reasonable given the current market conditions.[182]

Staff did not challenge Mr. D'Ascendis's DCF model application or results.[183]

The ALJs conclude the following clarification is necessary: MSEX is included in both the Utility Proxy Group and the Staff Proxy Group. Mr. D'Ascendis's criticism is not that Ms. Sears should have excluded MSEX from her proxy group, but that she should have not have considered MSEX's resulting 5.49% single-stage

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[180] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 19.

[181] CSWR-Texas Initial Brief at 25.

[182] Staff Initial Brief at 27; Staff Reply Brief at 14.

[183] *See* Staff Initial Brief. In its reply brief, Staff noted that while Ms. Sears did not challenge Mr. D'Ascendis's ROE models or his application of those models, Staff does not support or agree with them. Staff Reply Brief at 12-13.

DCF result when calculating the overall average of the Staff Proxy Group's single-stage DCF result.[184] However, the ALJs note that in Mr. D'Ascendis's DCF model, MSEX's indicated ROE result was only slightly higher than Ms. Sears's at 5.81%, and that he also incorporated that result in his calculation of the overall average of the Utility Proxy Group's DCF result.[185]

Thus, while the ALJs agree that the inclusion of an ROE that is on par with the cost of debt defies basic financial principles that investors would require greater return for bearing more risk, it appears that is the current situation for MSEX and its investors based on Mr. D'Ascendis's and Ms. Sears's comparable results. Coupled with the fact that Mr. D'Ascendis considered MSEX's indicated ROE in his calculations and recommendations in this case, the ALJs find that Ms. Sears did not act improperly by doing so as well.

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[184] Staff Ex. 1a (Sears Dir.), Exh. ES-7. The ALJs confirm that in Mr. D'Ascendis's replication of Ms. Sears's DCF models to determine the impact of excluding ARTNA and YORW from the Staff Proxy Group and including GWR, he included MSEX's results when determining the average overall Staff Proxy Group result for both models.

[185] CSWR-Texas Ex. 10 (D'Ascendis Dir.), Exh. DWD-3 at 1. Note, the 9.16% figure provided as the DCF result in the table above summarizing Mr. D'Ascendis's ROE model results is not the 9.11% average of his results but rather the average of the mean and median of his results.

(ii) Multi-Stage DCF Model

(a) CSWR-Texas's Arguments

Mr. D'Ascendis first challenged Ms. Sears's choice to use a multi-stage DCF model in this proceeding and argued the results of that model are unreliable as to the Company's specific growth.[186] Specifically, he testified that:

> [t]he economics of the public utility business indicate that the industry is in the steady-state, or constant-growth stage of a multi-stage DCF, which would mean that the three- to five-year projected growth rates for each company would be the "steady-state" or terminal growth rate appropriate for the DCF model for utility companies, not the GDP growth rate, which is not a company-specific growth rate, nor is it an upward bound for growth.[187]

Based on his testimony, the Company argues that financial theory supports treating public utilities as mature companies with a single steady growth and therefore Mr. D'Ascendis's single-stage constant growth DCF model produced more reliable results than Ms. Sears's multi-stage DCF model.[188] In short, the Company argues that economic theory holds that the U.S. GDP growth rate is not an accurate barometer of a utility's growth rate.[189]

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[186] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 21.

[187] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 23-25.

[188] CSWR-Texas Initial Brief at 26. The finance text that Mr. D'Ascendis relies on to support this position, *Investments*, specifically addressed electric utilities, not water or wastewater utilities. CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 15.

[189] CSWR-Texas Reply Brief at 21.

Ultimately, the Company contends that by averaging the results from her two DCF models with her RPM result, Ms. Sears improperly placed two-thirds weight on her DCF results which unreasonably skewed her recommended ROE range downward. Mr. D'Ascendis testified that, while the DCF model is useful, Ms. Sears's overreliance on her DCF results is problematic, in part, because "DCF models assume a market-to-book (M/B) ratio of 1.0 and therefore under- or over-states investors' required return when market value exceeds or is less than book value, respectively."[190] As such, he opined that the market-based DCF will produce the total annual dollar return expected by investors only when market and book values of common equity are equal, which he asserted is a very rare and unlikely situation.[191] The Company argues that Ms. Sears's ultimate ROE recommendation would have been considerably higher and more reflective of the Company's business risk had she used only one DCF model or included a CAPM analysis to offset the use of her two DCF models.[192]

Mr. D'Ascendis also challenged some of the inputs Ms. Sears used for her multi-stage DCF model, including the use of historical GDP growth for the period of 1951 to 2022 and the projected measure of inflation. First, Mr. D'Ascendis stated that Ms. Sears's model should have included data from an additional four years, 1947-1950, and that the inclusion of that data would result in her U.S. GDP growth rate estimate rising from 3.11% to 3.20%.[193] Staff agrees that Ms. Sears should have

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[190] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 10-11.

[191] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 10-11.

[192] CSWR-Texas Initial Brief at 26.

[193] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 25-26.

included data from those additional four years in her model.[194] The Company argues the omission of that data ultimately lowered Ms. Sears's ROE results.[195] Second, Mr. D'Ascendis challenged her use of the Federal Reserve's 2.0% target inflation rate, arguing that a more objective estimate should have been used, such as the 2.24% implied 30-year Treasury Inflation-Protected Securities spread estimate or the 2.20% average of projected Consumer Price Index for the years 2025-2029 and 2030-2034 estimate from *Blue Chip Financial Forecasts*.[196]

(b) Staff's Arguments

Staff maintains that there is no single infallible approach to estimating a utility's ROE, which is why variations in the chosen approaches, even in the application of the same approach by different analysts, is not only commonplace but expected.[197] Staff supports Ms. Sears's choice to give more weight to her DCF models over her RPM approach because the DCF models are well-established and have been relied upon in rate-case decisions at the Commission for at least the last three decades.[198] In particular, Staff asserts that if utilities are in a constant-growth stage of a multi-stage DCF, as Mr. D'Ascendis asserts, they would outpace the general U.S. growth rate of approximately 3.11%, which Staff contends is unrealistic. Staff acknowledges that while that is the assumption underlying the single-stage

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[194] Staff Initial Brief at 31.

[195] CSWR-Texas Reply Brief at 21.

[196] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 25-26.

[197] Staff Ex. 1A (Sears Dir.) at 8. Mr. D'Ascendis agreed that there is no single infallible approach to estimate the ROE in all circumstances. CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 18.

[198] Staff Ex. 1A (Sears Dir.) at 9; Staff Initial Brief at 30; Staff Reply Brief at 13.

DCF model, it would result in an absurd outcome and therefore it is reasonable to blend the single- and multi-stage DCF models rather than focusing solely on a single-stage model like Mr. D'Ascendis.[199]

With respect to Mr. D'Ascendis's specific input criticisms, Staff first argues that Ms. Sears's omission of data from years 1947-1950 would result in only a nominal change that would have "very little effect" on her produced result.[200] Second, Staff argues that no evidence was provided to explain why Mr. D'Ascendis's alternative inflation rate estimates are either more objective or more accurate than the Federal Reserve's target rate. Instead, Staff argues that since the Federal Reserve is the principal entity that maintains and affects inflation, its target rate is the most accurate estimate to rely upon.[201]

(c) ALJs' Analysis

The ALJs conclude that by averaging her single-stage and multi-stage DCF results with her RPM result to determine the Company's ROE, Ms. Sears placed too much weight on her DCF results, which unreasonably skewed her recommendation downward. It is also uncontested that one input in Ms. Sears's multi-stage DCF model is inaccurate, the effect of which produced a lower result, even if only to a minimal extent.[202] Additionally, Staff did not sufficiently explain why a multi-stage

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[199] Staff Initial Brief at 31.

[200] Staff Initial Brief at 31.

[201] Staff Initial Brief at 31.

[202] Staff Initial Brief at 31.

DCF was appropriately applied in this proceeding given Mr. D'Ascendis's criticisms. Therefore, the ALJs conclude that Ms. Sears's multi-stage DCF results should not bear any weight in this proceeding. Accordingly, the ALJs conclude that Ms. Sears's multi-stage DCF analysis should be disregarded as unreliable.

b) RPM

Mr. D'Ascendis criticized Ms. Sears's use of current interest rates, as opposed to projected interest rates, and her use of annual authorized returns in favor of individual authorized returns in her RPM approach. Specifically, he challenged her use of current interest rates, despite her recognition that a cost of capital analysis and general ratemaking are forward-looking concepts and that projected growth rates should be used.[203] For example, Ms. Sears used analyst-projected growth rates rather than historical data as a proxy for investor expectations of growth in her DCF model for that exact reason, but did not apply that same logic to selecting an appropriate interest rate in her RPM approach.[204]

Further, Mr. D'Ascendis argued that her use of annual authorized returns, rather than individual cases, is susceptible to misleading fluctuations. He reasoned that such averaging is improper because some years have more rate case decisions than others, and when they are averaged together, the years with less rate cases will garner unnecessary weight.[205] Additionally, he opined that reviewing

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[203] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 26-27.

[204] Staff Ex. 1A (Sears Dir.) at 16; CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 27-29.

[205] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 29.

Commission-approved ROEs on an individual case basis, instead of using an annual average, is more accurate because interest rates and market conditions change during a calendar year, so if the annual average of authorized returns and interest rates is used, the fluctuation between the interest rates and equity risk premiums during the year is unaccounted for.[206] Mr. D'Ascendis testified that if Ms. Sears's RPM inputs were modified to reflect a prospective Moody's BAA-rated public utility bond yield and individual rate case data instead of average annual data, her RPM result would rise to 9.90% from 9.81%.[207]

Staff did not respond to the criticisms regarding Ms. Sears's RPM approach and did not challenge Mr. D'Ascendis's RPM application or his 12.09% RPM result.[208]

The ALJs are persuaded that the proposed changes to Mr. Sears's RPM inputs, as identified by Mr. D'Ascendis, have merit. Once Ms. Sears's RPM approach is modified to reflect those changed inputs it produces a modified result of 9.90%, representing a slight 0.09% increase from Ms. Sears's result. Because Mr. D'Ascendis presented only the two criticisms referenced above against Ms. Sears's RPM application, the ALJs conclude it stands to reason that once modified, Ms. Sears's 9.90% RPM result is reasonable.

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[206] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 29.

[207] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 29-31, Exh. Schedule DWD-R-7 and Chart 2.

[208] *See* Staff Initial Brief; Mr. D'Ascendis's RPM result is derived from averaging the results of his two RPM analyses (the predictive risk premium model (12.64%) and the adjusted market approach results (11.53%)). CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 27-40.

It is uncontested that expert opinions can differ on many factors relevant to an ROE recommendation such as basic assumptions about risk, economic conditions, and investor expectations, and that variations in such experts' chosen approaches, and even the application of the same approach or methodology, are commonplace. However, as Ms. Sears explained, despite this expected variation between experts' results, the results of various methods should generally be close to each other or their estimates should have overlapping ranges.[209] Consequently, it is a reasonable presumption that an expert's own results from various methods should generally be close to each other as well. This conclusion is supported by Mr. D'Ascendis's concern regarding the 2.46 basis points difference between Ms. Sears's average DCF result and her RPM result.[210]

In this instance, Ms. Sears's modified single-stage DCF and RPM results of 9.34% and 9.90%, respectively, are generally close together and align with Mr. D'Ascendis's 9.16% DCF result. Conversely, Mr. D'Ascendis's 12.09% RPM is not generally close to those results. While Staff did not present any criticisms against Mr. D'Ascendis's RPM approach, the ALJs are left questioning why there is such a large divide between his RPM result and the other results discussed above. Additionally, the ALJs question why Mr. D'Ascendis's RPM result is so much higher than prior Commission-approved ROEs for water utilities.[211] Specifically, the

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[209] Staff Ex. 1A (Sears Dir.) at 8.

[210] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 18 ("[t]he concern I have with Ms. Sears's analysis is that her two model results are far apart (DCF average: 7.35%, RPM result: 9.81%)....").

[211] *See* Staff Ex. 5. The ALJs acknowledge that market conditions have changed since these cases were decided, but that alone cannot explain the significant gap between the Commission-ordered ROEs and Mr. D'Ascendis's RPM result.

ROEs approved in Docket Nos. 50944, 46747, 45720, and 45720 were 9.0%, 9.07%, 8.79%, and 8.48%, respectively.[212]

The Company bears the burden to prove its requested ROE is reasonable, and for the reasons addressed above, the ALJs find that it did not sufficiently demonstrate that Mr. D'Ascendis's 12.09% RPM result, representing a 2.93 basis points difference from his DCF result, is reasonable and should be used to calculate the Company's ROE.

c) CAPM

(i) CSWR-Texas's Arguments

Mr. D'Ascendis's CAPM analysis produced an ROE of 11.58%. Ms. Sears did not perform a CAPM analysis. Mr. D'Ascendis argued that by not conducting a CAPM analysis, Ms. Sears failed to test the reasonableness of her ROE analyses. As noted above, Mr. D'Ascendis is concerned with how far apart her average DCF result and RPM result were from each other. He stressed that this concern is increased when, as noted above, the DCF result is shown to understate the investor-

[212] *Application of Monarch Utilities I L.P. for Authority to Change Rates*, Docket No. 50944, Order at FoF Nos. 84-85 (Feb. 23, 2022); *Application of Cypress Gardens Mobile Home Subdivision for Authority to Change Rates*, Docket No. 46747, Order at FoF Nos. 17-18 (Sept. 15, 2019); *Application of Double Diamond Utility Company, Inc. for a Rate/Tariff Change*, Docket No. 46245, Order at FoF No. 126 (Dec. 12, 2019); *Application of Rio Concho Aviation, Inc. for a Rate/Tariff Change*, Docket No. 45720, Order at FoF No. 41 (June 29, 2017). While Docket No. 50944 resulted in settlement and is therefore not precedential, it is useful as a comparison to the ALJs' recommended ROE in this proceeding. The ALJs reference only the recent water rate cases in which the Commission-approved ROE was explicitly stated in the final order. Nevertheless, the Commission has recently approved rates for other water utilities based on settlement in which the approved overall rate of return is lower than what the ALJs recommend in this proceeding. Thus, for those cases, the ALJs conclude it is a reasonable presumption that the approved ROEs are also lower than Mr. D'Ascendis's RPM result and his ultimate ROE recommendation. While those cases are not precedential, they are useful as comparisons to the ALJs' recommended ROE in this proceeding. *See* Staff Ex. 5 (Docket Nos. 50557, 50200, 49887, 49337, and 48819).

required return when M/B ratios are over 1.0 times.[213] To support his position that Ms. Sears should have performed a third model analysis, Mr. D'Ascendis reasoned that, "like all cost of common equity models, the DCF has its limitations and that the use of multiple cost of common equity models in conjunction with informed expert judgement provides a more accurate and reliable picture of the investor-required ROE than does a narrow evaluation of the results of one model."[214]

Mr. D'Ascendis also cited to financial literature supporting the use of multiple cost-of-common-equity models in determining a utility's investor-required return which provide in part:

- No one individual method provides the necessary level of precision **for determining a fair return, but each method provides useful evidence to facilitate the exercise of an informed judgment.** Reliance on any single method or preset formula is inappropriate when dealing with investor expectations because of possible measurement difficulties and vagaries in individual companies' market data.[215]
- Three methods typically are used: (1) the Capital Asset Pricing Model (CAPM), (2) the discounted cash flow (DCF) model, and (3) the bond-yield-plus-risk premium approach. **These methods are not mutually exclusive – no method dominates the others,** and all are subject to error when used in practice. Therefore . . . we generally use all three methods and choose among them on the basis of our confidence in the data used for each. . . .[216]

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[213] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 18.

[214] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 13.

[215] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 16 (citing Roger A. Morin, *Modern Regulatory Finance* 476 (PUR Books LLC, 2021)) (emphasis included).

[216] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 16 (citing Roger A. Morin, *Modern Regulatory Finance* 476 (PUR Books LLC, 2021)) (emphasis included).

- In practical work, *it is often best to use all three methods* – CAPM, bond yield plus risk premium, and DCF – and then apply judgment when the methods produce different results. People experienced in estimating equity capital costs recognize that both careful analysis and some very fine judgments are required.[217]

CSWR-Texas further notes that while Ms. Sears did not perform a CAPM in this proceeding, she has presented a CAPM analysis in at least nine prior Commission dockets.[218] Mr. D'Ascendis testified that while Ms. Sears did not use her CAPM analysis in those cases as a primary method, she did use it to confirm the reasonableness of her other model results.[219] Additionally, at the hearing, Ms. Sears confirmed that, in prior rate proceedings before the Commission and in a rate proceeding currently pending before the Commission (Docket No. 54634), Staff has performed a CAPM analysis and relied upon those results to either calculate Staff's ROE recommendation or to check the reasonableness of Staff's other ROE analyses.[220] In fact, the Company asserts that the Commission itself relied on RPM, DCF, and CAPM models as recently as June 2023 in approving a utility's ROE in an electric rate case.[221]

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[217] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 17-18 (citing Eugene F. Brigham and Louis C. Gapenski, *Financial Management – Theory and Practice* 256 (The Dryden Press, 4th Ed., 1985)) (emphasis included).

[218] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 18 n.19; Tr. at 134.

[219] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 18.

[220] CSWR-Texas Initial Brief at 24; Tr. at 134-38.

[221] *Application of Oncor Electric Delivery Company LLC for Authority to Change Rates*, Docket No. 53601, Order on Rehearing at FoF No. 186 (June 30, 2023) ("The results of the discounted cash flow model, the risk premium approach, and capital asset pricing model support an ROE of 9.7%.").

A CAPM model, Mr. D'Ascendis testified, would have confirmed that Ms. Sears's recommendation was unreasonable.[222] Mr. D'Ascendis replicated the CAPM analyses that Ms. Sears performed in Docket No. 48460 using the market data from this case, and asserted that the historical and forecasted CAPM analysis produced results of 8.96% and 12.98%, respectively.[223] The resulting average of those results is 10.97%,[224] which Mr. D'Ascendis argued would confirm the reasonableness of Ms. Sears's RPM result of 9.81% but not her DCF model results of 7.59% and 7.11%. As such, the Company argues that if Ms. Sears had performed this analysis, she would have appropriately weighted her RPM result more heavily when making her ultimate recommendation, which would have resulted in a higher ROE recommendation.[225]

(ii) Staff's Arguments

Ms. Sears testified that there were several reasons for why she deviated from her prior practice of performing a CAPM analysis. First, when she relocated from the Commission's Water Division to the Rate Regulation Division, she was asked to review her analysis and determine if she wanted to keep the methodologies she had been using for rate proceedings (i.e., single- and multi-stage DCF models and CAPM), or if she wanted to revise them. Given that opportunity, she decided to

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[222] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 19.

[223] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 19, Exh. Schedule DWD-R-5.

[224] This represents the overall average of the historical and forecasted CAPM results of 8.96% and 12.98%, respectively. This calculation is similar to how Mr. D'Ascendis calculated his overall CAPM result, which represents the average of the mean (11.77%) and median (11.38%) results of his traditional and empirical CAPM analysis. CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 46.

[225] CSWR-Texas Initial Brief at 25.

replace the CAPM analysis with the RPM approach.[226] She also noted that depending on the economic conditions and the merits of the case, different methodologies can be employed based on what an analyst thinks is reasonable. Upon review of this case, she determined that the two DCF models and the RPM analysis were "relevant enough."[227] Additionally, she explained that within at least the last 10 years, except for recently in Docket No. 54634,[228] when Staff did perform a CAPM analysis, those results were not used to determine an ROE recommendation but rather served as a qualitative check on the other models' results.[229]

Moreover, Staff argues that Ms. Sears's prior dockets in which she performed a CAPM analysis do not support the Company's insistence that all three methods be used because she did not use all three methods in those dockets. Specifically, in those dockets, she performed only one DCF model upon which she based her recommendation and then the CAPM analysis to check the reasonableness of her DCF result.[230] Staff also stresses that the Company did not present a single example of when a DCF method was combined with more than one risk premium method (i.e., RPM and CAPM) in a water case. Even if it had, Staff argues, such an occurrence would not prove that those same models should be used in the current

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[226] Tr. at 144.

[227] Tr. at 144-45.

[228] *Application of Southwestern Public Service Company for Authority to Change Rates,* Docket No. 54634, Application (Feb. 8, 2023) (pending).

[229] Tr. at 145. Staff recently filed testimony in Docket No. 54634 on August 11, 2023, in which the results of the CAPM analysis conducted were considered along with the results of the single- and multi-stage DCF models and the RPM analysis to develop Staff's ultimate ROE recommendation.

[230] Staff Reply Brief at 13-14.

case because, as Mr. D'Ascendis noted, relying on a "preset formula is inappropriate when dealing with investor expectations because of possible measurement difficulties and vagaries in individual companies' market data."[231]

Staff did not challenge Mr. D'Ascendis's CAPM analysis or his 11.58% CAPM result.[232]

(iii) ALJs' Analysis

The evidence shows that the use of multiple cost-of-common-equity models in conjunction with informed expert judgment provides a more accurate and reliable picture of the investor-required ROE than does a narrow evaluation of the results of one model. Additionally, as previously noted, while variation between results is expected, the results of various methods should generally be close to each other or their estimates should have overlapping ranges.

However, the Commission does not require the use of any particular model or models when calculating a utility's ROE, and it is clear that the selection of the appropriate models and their inputs can vary among qualified experts and requires professional judgment. Accordingly, the ALJs do not fault Ms. Sears for not performing a CAPM analysis.

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[231] Staff Reply Brief at 14; *see* CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 16 (citing Roger A. Morin, *Modern Regulatory Finance* 476 (PUR Books LLC, 2021)) (emphasis not included).

[232] *See* Staff Initial Brief.

Nevertheless, the ALJs find useful Mr. D'Ascendis's replication of Ms. Sears's prior CAPM analysis using the market data for this proceeding. As Mr. D'Ascendis testified, this replicated analysis resulted in an average 10.97%, which would have validated Ms. Sears's 9.81% RPM result but not her DCF results. For this reason, and based on the ALJs' prior conclusion that Ms. Sears's modified 9.90% RPM result is reasonable, the ALJs further find that the 10.97% average of the replicated CAPM analysis is reasonable.

The ALJs previously concluded that Ms. Sears's modified 9.34% single-stage DCF and 9.90% RPM results should be considered and that her multi-stage DCF result should be disregarded. Thus, when comparing the 10.97% replicated CAPM result to Mr. D'Ascendis's 9.16% DCF result and Ms. Sears's modified DCF and RPM results, the ALJs conclude they are generally close to each other.

Again, while Staff did not present any criticisms of Mr. D'Ascendis's CAPM application or result, the ALJs are left questioning why there is such a large divide between his CAPM result and the reasonable and "generally close" results discussed above. Additionally, the ALJs question why Mr. D'Ascendis's 11.58% CAPM result is so much higher than the prior Commission-approved ROEs for water utilities, as previously discussed.[233]

[233] Docket No. 50944, Order at FoF Nos. 84-85; Docket No. 46747, Order at FoF Nos. 17-18; Docket No. 46245, Order at FoF No. 126; Docket No. 45720, Order at FoF No. 41; *see also* Staff Ex. 5 (Docket Nos. 50557, 50200, 49887, 49337, and 48819).

The Company bears the burden to prove its requested ROE is reasonable, and for the reasons addressed above, the ALJs find that it did not sufficiently demonstrate that Mr. D'Ascendis's 11.58% CAPM result, representing a 2.42 basis points difference from his DCF result, is reasonable and should be used to calculate the Company's ROE.

d) Business Risk

Mr. D'Ascendis adjusted his recommended ROE range upward by 1.50% to reflect what he argued was the Company's "greater business risk due to its substantially smaller size relative to the Utility Proxy Group and extraordinary operating risk."[234] Ms. Sears did not adopt Mr. D'Ascendis's business risk adjustment, and the Company argues that her failure to do so resulted in her ROE recommendation being significantly understated.[235]

Mr. D'Ascendis opined that his recommended business risk adjustment is necessary because of the Company's extraordinary operating risks due to "its acquisition of mainly troubled water and wastewater systems, which is only exacerbated by its small size."[236] He testified that while the rehabilitation of troubled systems generally makes up a small portion of the operations of the Utility Proxy Group, it is the majority of the Company's operations due to its numerous

[234] CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 8.

[235] CSWR-Texas Initial Brief at 26.

[236] CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 55.

acquisitions of such systems, many of which were at the behest of the Commission or other state agencies.[237]

Additionally, he asserted that the Company's smaller size relative to those proxy companies indicates a greater relative business risk.[238] To support his position that size is a risk factor that must be reflected when estimating a utility's ROE and that smaller firms have greater risk, he cited to various economic literature purporting that investors generally demand greater returns from smaller firms to compensate for less marketability and liquidity of their securities.[239]

Staff opposes an adjustment for risk, arguing that that the risk Mr. D'Ascendis based his recommendation upon should be greatly diminished once the Commission sets new rates. Once that occurs, the Company will be able to charge rates that allow it to recuperate the capital costs expended to upgrade the applicable systems to bring them into compliance with various state and federal standards and to keep up with increasing operations and maintenance expenses. Staff contends that by charging those newly approved rates, any future operational risks above and beyond that of other similar water utilities is eliminated.[240] Staff further argues that to award the

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[237] The Company argues that unlike the larger more established companies in the utility proxy group, CSWR-Texas is almost wholly comprised of water and wastewater system that were out of compliance and required immediate upfront influx of capital to fund repairs, improvements, and updates to their operations and maintenance practices immediately upon acquisition. CSWR-Texas witness Josiah Cox listed the systems that the Company has acquired based on its conversations with the Commission and other state agencies, many of which are subject to this proceeding. CSWR-Texas Ex. 3 (Cox Dir.) at 14:1-5; CSWR-Texas Ex. 11 (Cox. Reb.) at 14-16.

[238] CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 51-52 ("all else being equal, size has a material bearing on risk . . . because smaller companies generally are less able to cope with significant events that affect sales, revenues, and earning.").

[239] CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 52-54.

[240] Staff Initial Brief at 34.

Company a premium for business risk would provide it with an opportunity to earn a higher return on its investment than it is entitled to and would allow the Company to charge an improper elevated rate well after it has eliminated any risk posed by such troubled systems.

Ms. Sears opined that that an upward adjustment to account for the Company's relative size is inappropriate because such a size adjustment conflicts with the Commission's precedent for water and electric utilities going back more than 20 years.[241] For example, recently, in Docket No. 46245, the Commission recently rejected a water utility's requested ROE that included a small-size risk premium. The utility in that docket operates two water systems serving a total of 927 water customers, which is significantly less than the approximately 300,000 Texas customers served by the Company.[242]

Additionally, Ms. Sears challenged Mr. D'Ascendis's arguments that the Company's alleged business risk is exacerbated by its size, arguing that the basic nature of a water utility's business does not change significantly with respect to size.[243] To support this position, she cited to financial literature that considered size premiums in the utility industry and determined that, in contrast to the literature findings citied by Mr. D'Ascendis, "neither large nor small utilities merit a premium

[241] Staff Ex. 1A (Sears Dir.) at 24-25.

[242] Staff Ex. 1A (Sears Dir.) at 24.

[243] Staff Ex. 1A (Sears Dir.) at 24.

because of their size"[244] and that "business and financial risks are very similar among the utilities regardless of their size ... and the findings suggest that there is no need to adjust for the firm size in utility rate regulations."[245]

In sum, according to Staff, the Company failed to prove why the Commission should deviate from its long-standing precedent in this case, and approval of the Company's requested risk premium adjustment is inappropriate and contravenes general ratemaking principles.[246]

The ALJs find there is insufficient evidence and reasoning to deviate from the Commission's long-standing precedent of rejecting size-related premiums. Additionally, the ALJs find that much of the extraordinary business risks the Company refers to will be mitigated with the Commission's ultimate approval of the rates in this case as they will account for the significant capital the Company has invested to rehabilitate the systems. Thus, the ALJs conclude the requested 1.50% upward adjustment is unreasonable as it would allow the Company to earn a higher return on its investment than it is entitled to.

However, the ALJs commend the Company for acquiring numerous troubled systems and bringing them into compliance and conclude that some upward

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[244] Staff Ex. 1A (Sears Dir.) at 24 (citing Wallace Davidson III, Kenneth Ferris, and William Reichenstein, *A Note on the Relationship Between Firm Size and Return in the Electric Utility Industry*, Journal of Accounting, Auditing, and Finance Vol. 8, Issue 3, 193-202 (1993)).

[245] Staff Ex. 1A (Sears Dir.) at 24 (citing Annie Wong, *Utility Stocks and the Size Effect: An Empirical Analysis*, Journal of Midwest Finance Association at 98 (1993)).

[246] Staff Initial Brief at 34-35; Staff Ex. 1A (Sears Dir.) at 24-25.

adjustment for its business risk in doing so is warranted and consistent with recent Commission precedent.[247] Accordingly, the ALJs recommend approval of a 0.50% upward adjustment in recognition of the Company's business risk in acquiring numerous distressed systems.

4. ALJs' ROE Recommendation

For the reasons addressed below, the ALJs recommend a 10.03% ROE for the Company.

As previously noted, the ALJs concluded that Ms. Sears's multi-stage DCF result is unreliable and recommend it be disregarded for purposes of calculating a reasonable ROE for the Company. Additionally, the ALJs concluded there was insufficient evidence to justify the large discrepancy between Mr. D'Ascendis's RPM and CAPM results and the results determined to be reasonable (i.e., his DCF result and Ms. Sears's modified DCF and RPM results). Therefore, the ALJs were unable to determine whether his RPM and CAPM results are reasonable and should influence their recommended ROE for the Company.

Accordingly, the ALJs conclude the more prudent approach is to use the following results for purposes of calculating a reasonable ROE for the Company:

- Mr. D'Ascendis's 9.16% DCF result;
- Ms. Sears's modified 9.34% single-stage DCF result; and
- Ms. Sears's modified 9.90% RPM result.

[247] Docket No. 53601, Order on Rehearing at FoF No. 185 (June 30, 2023) ("A 9.7% ROE is consistent with Oncor's business and regulatory risk.").

Additionally, the ALJs find that while the 10.97% replicated CAPM result produced by Mr. D'Ascendis is sufficient to validate the reasonableness of the results listed in the bullet points above, there is too much uncertainty regarding the analysis underlying that result to use it in calculating a reasonable ROE for the Company. Thus, the ALJs recommend that it be used solely as a qualitative check.

In sum, the ALJs conclude the evidence indicates a reasonable range for the Company's ROE is 9.16% - 9.90%. The ALJs also conclude that a 0.50% upward adjustment for the Company's business risk is warranted, which results in a revised ROE range of 9.66% - 10.40%. Ultimately, the ALJs recommend the Commission adopt the mid-point of 10.03% as the best approximation of an appropriate ROE for CSWR-Texas.

B. COST OF DEBT

CSWR-Texas proposes a 6.52% cost of debt, which represents the actual weighted effective cost of debt of its out-of-state affiliates. The Company proposes to use its sister companies' cost of debt as a proxy because it has not yet been able to acquire debt financing for its Texas operations.[248] The Company argues its proposal is reasonable because it follows the same business model as its sister companies and they have similar risk profiles. For these reasons, the Company argues a 6.52% proxy cost of debt represents the best gauge of what interest rates would be available when

[248] CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 21, Exh. DWD-2; CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 4-6.

the Company seeks to acquire long-term debt upon the Commission's approval of rates in this proceeding.[249]

Staff opposes the Company's request, arguing there is no precedent of the Commission accepting a cross-state comparison to establish a utility's cost of debt in Texas. Staff also argues the Company failed to provide any comparable information or data on the regulatory business environments of the Company's affiliates' applicable states that would have allowed Staff to analyze the actual, long-term debt costs in those states to confirm if it would be applicable to the current proceeding.[250] Additionally, Ms. Sears noted that the Company's proposal is well above the public utility bond average for the past 12 years.[251] Staff opines that, using the Mergent Bond Records as a guide, the Company's proposal represents a "significant premium over Baa Public Utility Bond Yields,"[252] rendering the proposal equivalent to speculative and non-investment grade junk bonds.[253]

Instead, Staff proposes a 5.03% cost of debt based on the average bond yields for utilities with a Baa bond rating in 2022.[254] This cost of debt, Staff argues, is well within the average cost of debt approved by the Commission and is comparable to

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[249] CSWR-Texas Initial Brief at 28; CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 5-6.

[250] Tr. at 143.

[251] Staff Ex. 1A (Sears Dir.), Attachment ES-11; *see* Staff Ex. 5 (Rate of Return Report (Sept. 7, 2023)).

[252] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 5.

[253] Tr. at 143.

[254] Staff Ex. 1A (Sears Dir.) at 21.

other public utility bond rates issued for the year ending December 2022.[255] As Ms. Sears noted, "[w]hile this information might not reflect the exact cost at which [the Company] could obtain debt, it is the best approximation of the cost of debt for a public utility during the test year."[256]

CSWR-Texas challenges Staff's proposal, arguing Staff ignored the Company's unique operating risks, including its current and historical net operating losses, which makes it unable to secure debt at 5.03%.[257] Additionally, Mr. D'Ascendis testified that Staff produced no evidence that, if rated, the Company would receive a Baa rating.[258] Based on his comparison of the Company's sister companies and Ms. Sears's data for the average yield on Baa public bonds from 2022, Mr. D'Ascendis noted that the Company's sister companies paid a "significant premium" over those bonds, which indicates they would be rated below Baa. He reasoned this represents a comparable example to the Company and indicates the Company would also have a bond rating lower than Baa.[259] For these reasons, CSWR-Texas argues there is no evidence to suggest that the 2022 Baa bond rating-based cost of debt is reasonable, or even realistic, for the Company.

Moreover, the Company notes that Ms. Sears's Exhibit ES-11 shows that the cost of debt for Baa-rated utilities was 5.60% during the first six months of 2023 and

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[255] Staff Ex. 1A (Sears Dir.) at 21-22.

[256] Staff Ex. 1A (Sears Dir.) at 22.

[257] CSWR-Texas Reply Brief at 14.

[258] Tr. at 130-31.

[259] CSWR-Texas Ex. 14 (D'Ascendis Reb.) at 6-8.

that she failed to explain why she used the 2022 data instead of the more current data.[260] Thus, the Company requests that if the Commission defers to Baa Public Utility Bond averages to determine its cost of debt, that it adopt the most current values, which would result in a 5.60% cost of debt instead of 5.03%.[261]

Finally, CSWR-Texas argues that, in asserting that the Company's requested cost of debt signals its business model is equivalent to a "speculative, junk bond" that is too risky, Staff ignores the fact that the Texas Legislature and the Commission have encouraged larger, more experienced utility companies to acquire these distressed systems.[262]

It is undisputed that because CSWR-Texas has no debt, its cost of debt must be estimated. The ALJs conclude that Ms. Sears did not use the most current data available and therefore the 2023 data indicating a 5.60% cost of debt for Baa-rated utilities should be considered instead of her 5.03% proposal. However, in conflict with the underlying basis of Staff's recommendation, the evidence shows that the Company, if rated, would not qualify for a Baa rating. Instead, the Company would likely pay a premium for debt, like its sister companies, compared with the prevailing Baa Public Utility Bond Yields. Nevertheless, the ALJs find that the 6.52% cost of debt the Company proposes is out of line with historically approved

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[260] Tr. at 129-30.

[261] CSWR-Texas Reply Brief at 15.

[262] Tr. at 143. As stated previously, the Company acquired many of the systems subject to this proceeding at the behest of the Commission and other state agencies. CSWR-Texas Ex. 11 (Cox Reb.) at 12-14.

costs of debt and there is insufficient data to prove it is reasonable for the Company's Texas operations.

In sum, the ALJs find the Company's requested cost of debt too high and Staff's proposal too low. A reasonable cost of debt, therefore, lies somewhere between 5.60% and 6.52%. To account for this discrepancy, the ALJs recommend the mid-point of 6.06% as a reasonable cost of debt for CSWR-Texas.

C. CAPITAL STRUCTURE

Similar to the discussion above, because CSWR-Texas does not carry any debt, the Company requested a hypothetical capital structure of 45% long-term debt and 55% common equity.[263] Staff proposed a capital structure of 48% debt and 52% equity based on the industry average.[264]

Mr. D'Ascendis explained that his proposal for a 55% common equity "is generally consistent with the higher range of common equity ratios maintained by the Utility Proxy Group" and that he "chose a higher-than-average hypothetical capital structure for CSWR-Texas due to its extraordinary operating risks."[265] In its reply brief, the Company clarified that while Mr. D'Ascendis agreed that Staff's

[263] CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 22; CSWR-Texas Ex. 1 (Application), Exh. Schedule III-1; CSWR-Texas Initial Brief at 29.

[264] Staff Ex. 1a (Sears Dir.) at 22, Exh. ES-4.

[265] CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 20.

proposal was also reasonable, it did not adopt that position in its proposed revenue requirement.[266]

The ALJs find that Staff's proposal is reasonable and that the Company did not sufficiently demonstrate that a 55% common equity was reasonable or necessary due its operating risks, particularly considering the 0.50% upward adjustment to ROE recommended above. Thus, the ALJs recommend a capital structure of 48% debt and 52% equity be adopted.

D. OVERALL RATE OF RETURN

Based on the forgoing discussion, the ALJs recommend the Company be provided an opportunity to earn an overall rate of return of 8.13%, as provided below:[267]

Summary of Recommended Rate of Return

Type of Capital	Ratios	Cost Rate	Weighted Cost Rate
Long-Term Debt	48.00%	6.06%	2.91%[268]
Common Equity	52.00%	10.03%	5.22%[269]
Total	100.00%		**8.13%**

[266] CSWR-Texas Reply Brief at 14.

[267] The Company requested an overall rate of return of 9.61% and Staff recommended an overall rate of return of 6.68%. CSWR-Texas Ex. 10 (D'Ascendis Dir.) at 6; Staff Ex. 1A (Sears Dir.) at 23.

[268] This figure was rounded to its nearest hundredth.

[269] This figure was rounded to its nearest hundredth.

IX. RATE DESIGN AND TARIFFS

A. CONSOLIDATED RATE DESIGNS

Notwithstanding the discussion on meter equivalent ratios (MERs) below, no party challenged the Company's proposed water and wastewater rate designs.[270] Summaries of the specific rate designs are provided below:

- For its water systems, the Company is proposing to utilize a two-part rate consisting of a monthly fixed charge, which increases based on meter size, and a uniform volumetric rate applied per 1,000 gallons of usage.[271] For systems that do not use water meters, customers are simply billed a flat amount per month regardless of usage.[272]
- For its wastewater systems, the Company is proposing a flat, system-wide monthly sewer rate for all customers.[273]

In designing its requested rates, the Company did not rely on the MERs recommended in the Class B RFP or by Staff. Instead, the Company proposes a nonstandard meter ratio. Staff opposes the Company's proposal and recommends

[270] As discussed above, Mr. Hill did not contest the Company's overall request but argued for Quiet Village II specifically to be excepted from the requested consolidation and rate increases. Quiet Village Ex. 2.

[271] CSWR-Texas Ex. 8 (Ekrut Dir.) at 39-40.

[272] The Company asserts this approach will standardize and modernize the rates while also mitigating rates compared to stand-alone rates, and further asserts that charging a volumetric rate also encourages conservation.

[273] The Company contends a flat rate design is necessary because over half of its current sewer customers are currently billed a flat, uniform rate per month or are billed based on volumetric data obtained from another provider; thus, this approach would result in a simplified rate design. CSWR-Texas Ex. 1 (Application), Exh. B.

that the Commission's standard meter ratios be adopted instead.[274] The Company does not oppose Staff's MERs recommendation.[275]

The ALJs recommend the Company's proposed consolidated rates be adopted, as modified to incorporate Staff's MERs recommendation and the ALJs' recommendations set forth in the PFD.

B. STANDARDIZED TARIFFS

In addition to consolidating the rates and tariffs for the 62 water systems and 12 wastewater systems, the Company proposes to standardize its water and sewer tariff terms and conditions as well as its miscellaneous fees across all systems.[276]

Staff opposes CSWR-Texas's proposed tariff revisions based on its previously rejected arguments that the substantial similarity standard applies and that the Company's annualized test-year data for certain systems is inadequate. This argument is rejected for the reasons previously provided.

The ALJs recommend approval of the Company's proposed standardization of its water and wastewater tariff terms and conditions and miscellaneous fees.

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[274] Staff Ex. 2 (Blanchard Dir.) at 6.

[275] The Company stated that Staff's recommendation would impact only 72 customers out of the total 7,106 customers affected by the Application, or approximately 1% of CSWR-Texas's customer base. CSWR-Texas Ex. 13 (Ekrut Reb.) at 29-30.

[276] CSWR-Texas Ex. 8 (Ekrut Dir.) at 44-45.

X. PASS-THROUGH PROVISIONS

CSWR-Texas proposes pass-through charges for groundwater production fees, purchased water fees, and/or purchased sewer treatment costs for the following systems: Hilltop Home Addition, Hilltop Estates, Laguna Tres, Laguna Vista, Treetops Phase I, WaterCo, Emerald Forest, Grande Casa Ranchitos, Lakeview Ranchettes Estates, Spanish Grant, Oak Hills Ranch Estates, Oak Hill Ranchettes, Tall Pines Utility, Copano Cove, Copano Ridge, Copano Heights Units 1 & 2, Franklin Water Systems 1 & 3, Quiet Village II, and Woodland Harbor.[277]

As an initial matter, Staff does not challenge the pass-through provisions requested by the Company to account for charges from Laguna Ocho/M&I to the Laguna Vista and Laguna Tres systems or from the City of Lubbock to the Franklin Water Systems 1 & 3.[278] As such, the ALJs recommend those requests be approved.

For the remaining systems, CSWR-Texas either requested changes to existing pass-through calculations or proposed the establishment of pass-through provisions. Those requests, and Staff's corresponding objections, are discussed below.

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[277] CSWR-Texas Ex. 8 (Ekrut Dir.) at 44-45; Staff Ex. 3 (Eiland Dir.) at 20-21 (Table KE-10) (Ms. Eiland generated this table based on CSWR-Texas witness Chris Ekrut's direct testimony).

[278] Staff Ex. 3 (Eiland Dir.) at 19 (Ms. Eiland confirmed the Company's proposed pass-through rates for Franklin Water 1 and 3 (charged by the City of Lubbock for purchased wholesale treated water) and for Laguna Tres and Laguna Vista (charged by Laguna Ocho/M&I for emergency purchased wholesale water) were correct in the third errata to her testimony); Staff Reply Brief at 20.

A. STAFF'S ARGUMENTS

The following table represents the systems that have existing pass-through provisions for which Staff contests the Company's requested changes:[279]

Pass-Through Entity	Source of Water	Facilities
Prairielands Groundwater Conservation District	Groundwater Production Fees	Emerald Forest, Grande Casa Ranchitos, Lakeview Ranchettes Estates, and Spanish Grant
North Harris County Regional Water Authority	Groundwater Production Fees	Tall Pines Utility
Buena Vista Bethel Special Utility District	Emergency Purchased Wholesale Treated Water	Emerald Forest, Grande Casa Ranchitos, Lakeview Ranchettes Estates, and Spanish Grant
City of Rockport	Purchased Wholesale Treated Water	Copano Heights Units 1&2

Staff recommends denial of the Company's proposed pass-through provisions to account for charges from the Prairielands Groundwater Conservation District (GCD) and the North Harris Regional Water Authority (RWA) to the systems listed

[279] Emerald Forest, Grande Casa Ranchitos, Lakeview Ranchettes Estates, and Spanish Grant are charged pass-through rates from two separate entities for different purposes: the Prairielands Groundwater Conservation District (GCD) charges for groundwater production fees and the Buena Vista Bethel Special Utility District (BVBSUD) charges for emergency purchased wholesale treated water. The ALJs generated this table by revising the Table KE-11 provided in Ms. Eiland's testimony to include the existing BVBSUD pass-through provisions. *See* Staff Ex. 3 (Eiland Dir.) at 21.

above because the current pass-through charges from those entities is already incorporated in the rate. Therefore, Staff contends no change is warranted.[280]

Staff also argues that, because Rule 24.25(b)(2) is the only Commission rule that addresses pass-through provisions, it governs both the Company's request to revise the existing pass-through provisions above as well as its request to establish the new pass-through rates identified below. As such, Staff maintains the Company was required to comply with Rule 24.25(b)(2)(F)(i)(V) and provide 12 months of historical line loss documentation to support its proposed changes to the pass-through provisions from the Buena Vista Bethel Special Utility District (BVBSUD) and the City of Rockport to the systems listed above. Staff witness Eiland confirmed that the Company did not provide that data for these systems and recommended the Company's requests be denied.[281]

The following table represents the systems for which the Company is requesting to establish new pass-through provisions.[282]

Pass-Through Entity	**Source of Water**	**Facilities**
Upper Trinity Groundwater Conservation District	Groundwater Production Fees	Hilltop Home Addition, Hilltop Estates, Laguna Tres, Laguna Vista, and Treetops Phase I

[280] Staff Ex. 3 (Eiland Dir.) at 21.

[281] Staff Ex. 3 (Eiland Dir.) at 19.

[282] Quiet Village II is charged pass-through rates from the North Alamo Water Supply Corporation (WSC) for two different purposes: groundwater production fees and purchased wastewater treatment from the City of Donna.

Pass-Through Entity	Source of Water	Facilities
Upper Trinity Groundwater Conservation District	Groundwater Production Fees	WaterCo
Guadalupe County Groundwater Conservation District	Groundwater Production Fees	Oak Hills Ranch Estates and Oak Hill Ranchettes
City of Rockport	Purchased Wholesale Treated Water	Copano Cove and Copano Ridge
North Alamo Water Supply Corporation	Purchased Wholesale Treated Water	Quiet Village II
Bi-County Water Supply Corporation	Emergency Purchased Wholesale Treated Water	Woodland Harbor
North Alamo Water Supply Corporation (City of Donna)	Purchased Wastewater Treatment from City of Donna (Billed through North Alamo Water Supply Corporation)	Quiet Village II

Ms. Eiland recommended denying the Company's proposed establishment of pass-through provisions for the pass-through entities above for three reasons. First, Ms. Eiland disagreed with the proposed pass-through provisions to account for charges from the Upper Trinity GCD to Hilltop Home Addition, Hilltop Estates, and Treetops Phase 1 because the Company averaged the line-loss percentages across these systems instead of calculating a line-loss percentage for each system separately.[283] Staff argues this is problematic because there is a lack of individualized

[283] Staff Ex. 3 (Eiland Dir.) at 21-22.

data, and as Ms. Eiland noted, "[s]eparate pass-through provisions do not require an annual true-up and are more administratively efficient as opposed to a combined pass-through provision."[284]

Second, Ms. Eiland disagreed with the proposed pass-through provisions to account for charges from the Guadalupe County GCD and the North Alamo Water Supply Corporation (WSC) to the systems listed above because the Company assumed a 15% line-loss factor for these systems, as historical data for the systems was either unavailable or inadequate. Thus, Ms. Eiland testified that such an assumption is improper because it is not supported by 12 months of historical documentation and therefore does not comply with Rule 24.25(b)(2).

Finally, Ms. Eiland disagreed with the Company's proposed pass-through provisions to account for charges from the Upper Trinity GCD to WaterCo, and from the City of Rockport and Bi-County WSC for the systems listed above, because the Company did not file any historical line-loss data for those systems. As a result, Ms. Eiland testified that she was unable to determine whether the Company's requests were supported under Rule 24.25(b)(2)(F)(i)(IV), which requires documentation supporting the stated amounts of any new or modified pass-through costs.[285]

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[284] Staff Ex. 3 (Eiland Dir.) at 22. There appears to be a disconnect between Ms. Eiland's testimony and Staff's assertion that Mr. Ekrut's averaging of these systems' line-loss data "presents a practical problem, since true-ups have to be performed on a system-by-system basis and there is no mechanism for performing a true-up of a combined pass-through provision." Staff Initial Brief at 53 (citing to a portion of Ms. Eiland's direct testimony applicable to different systems).

[285] Staff Ex. 3 (Eiland Dir.) at 22.

Although Staff initially supported Ms. Eiland's recommendation to disallow each of the requested pass-through provisions discussed above,[286] Staff presented an alternative solution for the first time in its reply brief. Staff conceded that all of Ms. Eiland's recommendations focus on line-loss data, which does not affect the actual costs charged by the pass-through entities identified above. Thus, Staff currently contends that:

> Notwithstanding 'the language of the formula that requires actual line loss data for the preceding 12 months'. . . the fact remains that CSWR-Texas can still collect on its actual costs without including line loss information. Accordingly, for the systems that did not include sufficient line loss data, Staff recommends that CSWR-Texas only collect the gallonage charge by the source supplier and file to update its tariff when it has sufficient line loss data."[287]

B. CSWR-TEXAS'S ARGUMENTS

First, CSWR-Texas witness Ekrut confirmed that the Company did not propose changes to the current pass-through fees charged by the Prairielands GCD and the North Harris RWA.[288] Thus, the amounts proposed by the Company for those pass-through entities reflects the current charge.

Next, the Company argues that Staff's reliance on Rule 24.25(b)(2)(F)(i)(IV)-(V) is misguided because it applies only to a "minor tariff change" made outside the scope of a comprehensive rate case and is therefore inapplicable in this proceeding.

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[286] Staff Initial Brief at 52-54.

[287] Staff Reply Brief at 19 (citations omitted).

[288] CSWR-Texas Ex. 8 (Ekrut Dir.) at 47-48.

The Company further argues that Staff overlooked Rule 24.25(b)(2)(D), which specifically allows a utility to file a true-up report for a combined pass-through charge.[289]

The Company also alleges that readdressing the proposed pass-through rate provisions after this proceeding once it has 12 months of historical line loss data for the systems, as Staff proposes, will waste resources.

Finally, the Company contends that if its requested pass-through provisions are denied, the costs that make up those proposed provisions must be incorporated into its base rate revenue requirement to be included in the rates approved as part of this proceeding.[290] Failure to incorporate those costs, the Company asserts, would essentially disallow recovery of costs otherwise deemed just and reasonable.[291]

C. ALJs' ANALYSIS

The ALJs first address the Company's requests regarding systems with existing pass-through provisions. Initially, the ALJs find that Staff did not present evidence to show that the current pass-through fees charged by the Prairielands GCD and the North Harris RWA differ from what the Company proposed. Given

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[289] 16 Tex. Admin. Code § 24.25(b)(2)(D) ("A change in the combined pass-through provision may be implemented only once per year. The utility must file a true-up report within one month after the end of the true-up period. The report must reconcile both expenses and revenues related to the combined pass-through charge for the true-up period.").

[290] CSWR-Texas Ex. 13 (Ekrut Reb.) at 25, Exh. CDE-R-1 through CDE-R-36. Mr. Ekrut provided calculations to the Company's revenue requirement reflecting that change.

[291] CSWR-Texas Ex. 13 (Ekrut Reb.) at 25, Exh. CDE-R-1 through CDE-R-36.

that the Company confirmed it did not propose a change to those existing fees, the ALJs find the Company's proposed pass-through fees for those entities represent the current charges and recommend that they be approved.

Next, the ALJs recommend the Commission deny the Company's proposed pass-through provisions to be charged by BVBSUD and by the City of Rockport to Copano Heights Units 1 & 2 and keep the existing provisions in place. Although the Commission has no rules regarding pass-through provisions independent of Rule 24.25(b)(2) concerning minor tariff changes, the ALJs conclude that the rule and its required documentation are nevertheless instructive of what is necessary for the proper calculation and review to determine the reasonableness of a pass-through provision. Although the current proceeding is a comprehensive rate case and the Commission has access to a wider range of data than it would if the Company were seeking just a minor tariff change, the fact remains that the Company has not provided enough information to determine whether the proposed pass-through rate is reasonable. Thus, the Company has not supported an adjustment to the rate.[292]

Turning to the requested pass-through provisions for those systems that do not currently have any, the ALJs recommend the Commission approve the Company's proposals for pass-through fees to be charged by the Upper Trinity GCD to Hilltop Addition, Hilltop Estates, Laguna Tres, Laguna Vista, and Treetops Phase 1. The ALJs conclude that a combined or averaged pass-through rate, as the Company proposed for those systems, is consistent with Rule 24.25(b)(2)(D). In

[292] *See* 16 Tex. Admin. Code § 24.25(b)(2)(F)(i)(V).

addition, because Staff did not challenge whether the Company provided the 12 months of historical data for those systems, the ALJs presume the Company's proposal is also consistent with Rule 24.25(b)(2)(F).

Finally, the ALJs recommend the Commission deny the Company's remaining proposed pass-through provisions to be charged by the Guadalupe County GCD; North Alamo WSC; Upper Trinity GCD to WaterCo; the City of Rockport to Copano Cove and Copano Ridge; and Bi-County WSC. The Company did not present 12 months of historical line-loss data for these systems, and therefore its proposals are not consistent with 24.25(b)(2)(F). As noted above, without that breadth of data, it is impossible to determine whether the requested pass-through provisions are reasonable. However, for these systems, the ALJs also recommend that, as presented by Staff, the Company be authorized to collect the gallonage charge by the pass-through entity or source supplier until it files an application for a minor tariff change to update those provisions when it has sufficient line-loss data for the systems.[293]

XI. RATE CASE EXPENSES

For the reasons addressed below, the ALJs recommend that the Company recover $459,367 in rate case expenses to be surcharged over a 24-month period. Additionally, the ALJs recommend approval of Staff's uncontested proposal to

[293] Because minor tariff changes are not subject to the 12-month stay-out period under Rule 24.29(b) and may be processed without a contested case hearing, they can be filed as soon as the relevant data is available. *See* 16 Tex. Admin. Code § 24.29(b)(1), (4).

allocate the approved rate-case-expenses surcharge amongst each system identified in the Application and the Leon Springs and Shady Grove sewer facilities.[294]

A. REQUESTED AMOUNT

CSWR-Texas seeks to recover $484,367 in rate case expenses.[295] Staff supports the Company's request to recover the entire amount requested except for a $25,000 flat fee charged to the Company by ScottMadden, Inc. for providing the direct testimony of Mr. D'Ascendis and his supporting schedules exhibits.[296] Staff witness Eiland testified that this flat fee should be disallowed because it is "a fixed-fee billing and is not supported by any billing information, such as hours billed, rates charged per hour, and a detailed description or dates of the work performed," as required by Rule 24.44(b).[297]

In addition, Staff asserts that without knowing the hourly rate charged by Mr. D'Ascendis, Staff is unable to determine whether his hourly rate exceeded the hourly rates previously disallowed by the Commission in other rate cases.[298] Thus, Staff argues it is unable to determine whether this expense is reasonable and

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[294] Staff Initial Brief at 49.

[295] CSWR-Texas Ex. 12 (Thies Reb.), Exh. BT-R-3 at 23; CSWR-Texas Reply Brief, Exhibit A. In accordance with Staff's request, the Company submitted with its reply brief an update of its rate case expenses to reflect all expenses incurred through August 31, 2023. Staff Initial Brief at 48. Staff witness Ms. Eiland recommended that the Commission update the amount of RCEs surcharge during the number-running process based on the Company's updated rate case expenses. Staff Ex. 3 (Eiland Dir.) at 28.

[296] Staff Ex. 3 (Eiland Dir.) at 24-25.

[297] Staff Ex. 3 (Eiland Dir.) at 26-27.

[298] *See Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 51415, FoF No. 309 and CoL No. 40 (Jan. 14, 2022) (disallowing hourly attorney rates in excess of $550 per hour as unreasonable).

necessary, as required by Rule 24.44(a).[299] For these reasons, Staff argues the requested $25,000 fixed fee is unsubstantiated and should be disallowed. Staff opines that approval of this expense would create bad precedent because utilities seeking to recover rate case expenses in future proceedings could simply request reimbursement without providing support or details to verify its requests.[300]

CSWR-Texas argues that there is no rule or policy restricting fixed-fee billing arrangements absent a finding that the specific fee is unreasonable based on the factors in Rule 24.44(b).[301] Company witness Thies explained that using a fixed-fee agreement for its outside cost of capital expert in this proceeding was reasonable because it provides some certainty by capping the cost of a typically complicated piece of expert testimony.[302] Mr. Thies reasoned that "expert witnesses commonly charge flat fees for work in Texas" like Mr. D'Ascendis did in this case and that, based on the Company's experience in other states, hourly expenses for expert cost of capital testimony often exceed $25,000.[303]

The ALJs conclude that Rule 24.44(b) does not bar fixed-fee billing arrangements for expert testimony. However, it does require a utility seeking

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[299] Staff Ex. 3 (Eiland Dir.) at 25.

[300] Staff Reply Brief at 18-19.

[301] CSWR-Texas Initial Brief at 40.

[302] CSWR-Texas Ex. 12 (Thies Reb.) at 15.

[303] CSWR-Texas Ex. 12 (Thies Reb.) at 15.

recovery of rate case expenses to "submit information that sufficiently details and itemizes all rate-case expenses," including evidence showing:

(1) the nature, extent, and difficulty of the work done by the attorney or other professional in the rate case;

(2) the time and labor expended by the attorney or other professional;

(3) the fees or other consideration paid to the attorney or other professional for the services rendered;

(4) the expenses incurred for lodging, meals and beverages, transportation, or other services or materials;

(5) the nature and scope of the rate case, including:

(A) the size of the utility and number and type of consumers served;

(B) the amount of money or value of property or interest at stake;

(C) the novelty or complexity of the issues addressed;

(D) the amount and complexity of discovery;

(E) the occurrence and length of a hearing; and

(6) the specific issue or issues in the rate case and the amount of rate-case expenses reasonably associated with each issue.

Menu

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Stocks Under $10

Value Investor

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Method For Trading

Research Wizard

	2/12/25
Current Quarter	1.13
EPS Last Quarter	1.80
Last EPS Surprise	-2.17%
ABR	2.67

Earnings ESP	0.00%
Current Year	5.28
Next Year	5.69
EPS (TTM)	5.05
P/E (F1)	25.94

% EPS Growth Estimates	AWK	IND	S&P
Current Qtr (12/2024)	28.41	-24.48	20.57
Next Qtr (03/2025)	11.58	-32.99	13.17
Current Year (12/2024)	7.76	8.40	12.40
Next Year (12/2025)	7.77	8.00	18.75
Past 5 Years	8.10	11.10	8.10
Next 5 Years	8.10	8.50	NA
PE	25.94	22.90	25.13
PEG Ratio	3.19	2.69	NA

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Research for AWK

Analyst Snapshot

Price and EPS Surprise Chart

Interactive Chart | Fundamental Chart

Sales Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Zacks Consensus Estimate	1.08B	1.03B	4.55B	4.70B
# of Estimates	4	3	4	4
High Estimate	1.11B	1.06B	4.59B	4.83B
Low Estimate	1.06B	999.43M	4.50B	4.52B
Year ago Sales	1.03B	1.01B	4.23B	4.55B
Year over Year Growth Est.	4.98%	1.46%	7.37%	3.38%

Earnings Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Zacks Consensus Estimate	1.13	1.06	5.28	5.69
# of Estimates	3	3	7	7
Most Recent Consensus	1.10	1.04	5.27	5.67
High Estimate	1.17	1.08	5.34	5.73
Low Estimate	1.10	1.04	5.25	5.65
Year ago EPS	0.88	0.95	4.90	5.28
Year over Year Growth Est.	28.41%	11.58%	7.76%	7.79%

Agreement - Estimate Revisions

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Up Last 7 Days	0	0	0	0
Up Last 30 Days	3	1	2	2
Up Last 60 Days	3	2	2	2
Down Last 7 Days	0	0	0	0
Down Last 30 Days	0	1	1	2
Down Last 60 Days	0	1	0	2

Magnitude - Consensus Estimate Trend

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Current	1.13	1.06	5.28	5.69
7 Days Ago	1.13	1.06	5.28	5.69
30 Days Ago	1.09	1.06	5.27	5.69
60 Days Ago	1.08	1.06	5.27	5.69
90 Days Ago	1.08	1.06	5.26	5.69

Upside - Most Accurate Estimate Versus Zacks Consensus

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Most Accurate Estimate	1.13	1.06	5.30	5.70
Zacks Consensus Estimate	1.13	1.06	5.28	5.69
Earnings ESP	0.00%	0.31%	0.34%	0.22%

Surprise - Reported Earnings History

	Quarter Ending (9/2024)	Quarter Ending (6/2024)	Quarter Ending (3/2024)	Quarter Ending (12/2023)	Average Surprise
Reported	1.80	1.42	0.95	0.88	NA
Estimate	1.84	1.47	0.99	0.84	NA
Difference	-0.04	-0.05	-0.04	0.04	-0.02
Surprise	-2.17%	-3.40%	-4.04%	4.76%	-1.21%

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Method For Trading

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	2/19/25
Current Quarter	0.59
EPS Last Quarter	0.95
Last EPS Surprise	-4.04%
ABR	2.50

Earnings ESP	0.00%
Current Year	3.02
Next Year	3.30
EPS (TTM)	2.97
P/E (F1)	28.25

% EPS Growth Estimates	AWR	IND	S&P
Current Qtr (12/2024)	7.27	-24.48	20.57
Next Qtr (03/2025)	17.74	-32.99	13.17
Current Year (12/2024)	5.96	8.40	12.40
Next Year (12/2025)	9.27	8.00	18.75
Past 5 Years	8.90	11.10	8.10
Next 5 Years	6.30	8.50	NA
PE	28.25	22.90	25.13
PEG Ratio	4.48	2.69	NA

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Research for AWR

Analyst Snapshot

Price and EPS Surprise Chart

Interactive Chart | Fundamental Chart

Sales Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Zacks Consensus Estimate	126.00M	142.00M	577.00M	621.00M
# of Estimates	1	1	1	1
High Estimate	126.00M	142.00M	577.00M	621.00M
Low Estimate	126.00M	142.00M	577.00M	621.00M
Year ago Sales	125.18M	135.25M	595.70M	577.00M
Year over Year Growth Est.	0.66%	4.99%	-3.14%	7.63%

Earnings Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Zacks Consensus Estimate	0.59	0.73	3.02	3.30
# of Estimates	1	1	2	2
Most Recent Consensus	0.59	0.73	3.01	3.29
High Estimate	0.59	0.73	3.03	3.31
Low Estimate	0.59	0.73	3.01	3.29
Year ago EPS	0.55	0.62	2.85	3.02
Year over Year Growth Est.	7.27%	17.74%	5.96%	9.27%

Agreement - Estimate Revisions

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Up Last 7 Days	0	0	0	0
Up Last 30 Days	1	1	0	0
Up Last 60 Days	1	1	0	0
Down Last 7 Days	0	0	0	0
Down Last 30 Days	0	0	1	1
Down Last 60 Days	0	0	1	1

Magnitude - Consensus Estimate Trend

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Current	0.59	0.73	3.02	3.30
7 Days Ago	0.59	0.73	3.02	3.30
30 Days Ago	0.56	0.63	3.03	3.35
60 Days Ago	0.56	0.63	3.03	3.35
90 Days Ago	0.56	0.63	3.03	3.35

Upside - Most Accurate Estimate Versus Zacks Consensus

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Most Accurate Estimate	0.59	0.73	3.01	3.29
Zacks Consensus Estimate	0.59	0.73	3.02	3.30
Earnings ESP	0.00%	0.00%	-0.33%	-0.30%

Surprise - Reported Earnings History

	Quarter Ending (9/2024)	Quarter Ending (6/2024)	Quarter Ending (3/2024)	Quarter Ending (12/2023)	Average Surprise
Reported	0.95	0.85	0.62	0.55	NA
Estimate	0.99	0.84	0.59	0.53	NA
Difference	-0.04	0.01	0.03	0.02	0.01
Surprise	-4.04%	1.19%	5.08%	3.77%	1.50%

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	3/6/25
Current Quarter	0.37
EPS Last Quarter	1.03
Last EPS Surprise	-5.50%
ABR	2.20

Earnings ESP -1.37%

Current Year	3.29
Next Year	2.35
EPS (TTM)	3.46
P/E (F1)	15.56

% EPS Growth Estimates	CWT	IND	S&P
Current Qtr (12/2024)	-28.85	-24.48	20.57
Next Qtr (03/2025)	-85.95	-32.99	13.17
Current Year (12/2024)	261.54	8.40	12.40
Next Year (12/2025)	-28.57	8.00	18.75
Past 5 Years	-7.70	11.10	8.10
Next 5 Years	NA	8.50	NA
PE	15.56	22.90	25.13
PEG Ratio	NA	2.69	NA

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Research for CWT

Analyst Snapshot

Price and EPS Surprise Chart

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Sales Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Zacks Consensus Estimate	231.11M	179.52M	1.05B	934.90M
# of Estimates	2	2	2	2
High Estimate	235.00M	182.00M	1.05B	959.00M
Low Estimate	227.21M	177.03M	1.04B	910.80M
Year ago Sales	214.51M	270.75M	794.63M	1.05B
Year over Year Growth Est.	7.74%	-33.70%	31.62%	-10.61%

Earnings Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Zacks Consensus Estimate	0.37	0.17	3.29	2.35
# of Estimates	2	2	3	3
Most Recent Consensus	0.36	NA	3.31	2.36
High Estimate	0.37	0.17	3.31	2.40
Low Estimate	0.36	0.16	3.26	2.30
Year ago EPS	0.52	1.21	0.91	3.29
Year over Year Growth Est.	-28.85%	-85.95%	261.54%	-28.47%

Agreement - Estimate Revisions

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Up Last 7 Days	0	0	0	0
Up Last 30 Days	0	0	0	0
Up Last 60 Days	0	0	0	0
Down Last 7 Days	0	0	0	0
Down Last 30 Days	1	0	2	2
Down Last 60 Days	1	0	2	2

Magnitude - Consensus Estimate Trend

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Current	0.37	0.17	3.29	2.35
7 Days Ago	0.37	0.17	3.29	2.35
30 Days Ago	0.37	0.17	3.33	2.38
60 Days Ago	0.37	0.17	3.33	2.38
90 Days Ago	0.37	0.17	3.33	2.37

Upside - Most Accurate Estimate Versus Zacks Consensus

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Most Accurate Estimate	0.36	0.17	3.31	2.33
Zacks Consensus Estimate	0.37	0.17	3.29	2.35
Earnings ESP	-1.37%	0.00%	0.46%	-0.99%

Surprise - Reported Earnings History

	Quarter Ending (9/2024)	Quarter Ending (6/2024)	Quarter Ending (3/2024)	Quarter Ending (12/2023)	Average Surprise
Reported	1.03	0.70	1.21	0.52	NA
Estimate	1.09	0.39	0.21	1.50	NA
Difference	-0.06	0.31	1.00	-0.98	0.07
Surprise	-5.50%	79.49%	476.19%	-65.33%	121.21%

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	3/5/25
Current Quarter	0.06
EPS Last Quarter	0.12
Last EPS Surprise	9.09%
ABR	1.00

Earnings ESP	0.00%
Current Year	0.28
Next Year	0.30
EPS (TTM)	0.29
P/E (F1)	47.86

% EPS Growth Estimates	GWRS	IND	S&P
Current Qtr (12/2024)	-14.29	-24.48	20.57
Next Qtr (03/2025)	66.67	-32.99	13.17
Current Year (12/2024)	7.69	8.40	12.40
Next Year (12/2025)	7.14	8.00	18.75
Past 5 Years	15.90	11.10	8.10
Next 5 Years	15.00	8.50	NA
PE	47.86	22.90	25.13
PEG Ratio	3.19	2.69	NA

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Research for GWRS

Snapshot

1 Month 3 Months 6 Months YTD 1 Year

Interactive Chart | Fundamental Chart

Sales Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Zacks Consensus Estimate	12.70M	12.00M	52.40M	55.00M
# of Estimates	2	1	2	2
High Estimate	13.00M	12.00M	53.00M	56.00M
Low Estimate	12.40M	12.00M	51.80M	54.00M
Year ago Sales	12.37M	11.61M	53.03M	52.40M
Year over Year Growth Est.	2.67%	3.36%	-1.18%	4.96%

Earnings Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Zacks Consensus Estimate	0.06	0.05	0.28	0.30
# of Estimates	2	1	2	2
Most Recent Consensus	NA	NA	0.28	0.30
High Estimate	0.08	0.05	0.30	0.36
Low Estimate	0.04	0.05	0.26	0.23
Year ago EPS	0.07	0.03	0.26	0.28
Year over Year Growth Est.	-14.29%	66.67%	7.69%	5.36%

Agreement - Estimate Revisions

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Up Last 7 Days	0	0	0	0
Up Last 30 Days	0	0	1	1
Up Last 60 Days	0	0	1	1
Down Last 7 Days	0	0	0	0
Down Last 30 Days	0	0	1	1
Down Last 60 Days	0	0	1	1

Magnitude - Consensus Estimate Trend

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Current	0.06	0.05	0.28	0.30
7 Days Ago	0.06	0.05	0.28	0.30
30 Days Ago	0.06	0.05	0.27	0.31
60 Days Ago	0.06	0.05	0.27	0.31
90 Days Ago	0.06	0.05	0.27	0.31

Upside - Most Accurate Estimate Versus Zacks Consensus

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Most Accurate Estimate	0.06	0.05	0.28	0.30
Zacks Consensus Estimate	0.06	0.05	0.28	0.30
Earnings ESP	0.00%	0.00%	0.00%	0.00%

Surprise - Reported Earnings History

	Quarter Ending (9/2024)	Quarter Ending (6/2024)	Quarter Ending (3/2024)	Quarter Ending (12/2023)	Average Surprise
Reported	0.12	0.07	0.03	0.07	NA
Estimate	0.11	0.08	0.03	0.05	NA
Difference	0.01	-0.01	0.00	0.02	0.01
Surprise	9.09%	-12.50%	0.00%	40.00%	9.15%

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	3/6/25
Current Quarter	0.36
EPS Last Quarter	0.80
Last EPS Surprise	19.40%
ABR	2.00

Earnings ESP	0.00%
Current Year	2.34
Next Year	2.39
EPS (TTM)	2.30
P/E (F1)	27.96

% EPS Growth Estimates	MSEX	IND	S&P
Current Qtr (12/2024)	12.50	-24.48	20.57
Next Qtr (03/2025)	-18.64	-32.99	13.17
Current Year (12/2024)	32.95	8.40	12.40
Next Year (12/2025)	2.14	8.00	18.75
Past 5 Years	-0.30	11.10	8.10
Next 5 Years	NA	8.50	NA
PE	27.96	22.90	25.13
PEG Ratio	NA	2.69	NA

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Research for MSEX

Snapshot

Price and EPS Surprise Chart

1 Month | 3 Months | 6 Months | YTD | 1 Year

Interactive Chart | Fundamental Chart

Sales Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Zacks Consensus Estimate	41.00M	42.00M	186.00M	192.00M
# of Estimates	1	1	1	1
High Estimate	41.00M	42.00M	186.00M	192.00M
Low Estimate	41.00M	42.00M	186.00M	192.00M
Year ago Sales	38.60M	40.52M	166.27M	186.00M
Year over Year Growth Est.	6.22%	3.65%	11.86%	3.23%

Earnings Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Zacks Consensus Estimate	0.36	0.48	2.34	2.39
# of Estimates	1	1	1	1
Most Recent Consensus	NA	0.48	2.34	2.39
High Estimate	0.36	0.48	2.34	2.39
Low Estimate	0.36	0.48	2.34	2.39
Year ago EPS	0.32	0.59	1.76	2.34
Year over Year Growth Est.	12.50%	-18.64%	32.95%	2.14%

Agreement - Estimate Revisions

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Up Last 7 Days	0	0	0	0
Up Last 30 Days	0	1	1	1
Up Last 60 Days	0	1	1	1
Down Last 7 Days	0	0	0	0
Down Last 30 Days	0	0	0	0
Down Last 60 Days	0	0	0	0

Magnitude - Consensus Estimate Trend

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Current	0.36	0.48	2.34	2.39
7 Days Ago	0.36	0.48	2.34	2.39
30 Days Ago	0.36	0.45	2.21	2.36
60 Days Ago	0.36	0.45	2.21	2.36
90 Days Ago	0.36	0.45	2.21	2.36

Upside - Most Accurate Estimate Versus Zacks Consensus

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Most Accurate Estimate	0.36	0.48	2.34	2.39
Zacks Consensus Estimate	0.36	0.48	2.34	2.39
Earnings ESP	0.00%	0.00%	0.00%	0.00%

Surprise - Reported Earnings History

	Quarter Ending (9/2024)	Quarter Ending (6/2024)	Quarter Ending (3/2024)	Quarter Ending (12/2023)	Average Surprise
Reported	0.80	0.59	0.59	0.32	NA
Estimate	0.67	0.64	0.45	0.46	NA
Difference	0.13	-0.05	0.14	-0.14	0.02
Surprise	19.40%	-7.81%	31.11%	-30.43%	3.07%

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	2/19/25
Current Quarter	0.55
EPS Last Quarter	1.18
Last EPS Surprise	0.00%
ABR	2.33

Earnings ESP	2.44%
Current Year	2.75
Next Year	2.98
EPS (TTM)	2.79
P/E (F1)	20.30

% EPS Growth Estimates	SJW	IND	S&P
Current Qtr (12/2024)	-6.78	-24.48	20.57
Next Qtr (03/2025)	22.22	-32.99	13.17
Current Year (12/2024)	2.61	8.40	12.40
Next Year (12/2025)	8.36	8.00	18.75
Past 5 Years	4.20	11.10	8.10
Next 5 Years	6.10	8.50	NA
PE	20.30	22.90	25.13
PEG Ratio	3.35	2.69	NA

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Research for SJW

Snapshot

Price and EPS Surprise Chart

Interactive Chart | Fundamental Chart

Sales Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Zacks Consensus Estimate	175.92M	156.57M	715.23M	755.03M
# of Estimates	2	2	2	2
High Estimate	176.00M	157.00M	726.45M	758.00M
Low Estimate	175.83M	156.13M	704.00M	752.05M
Year ago Sales	171.34M	149.38M	670.36M	715.23M
Year over Year Growth Est.	2.67%	4.81%	6.69%	5.56%

Earnings Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Zacks Consensus Estimate	0.55	0.44	2.75	2.98
# of Estimates	3	2	4	4
Most Recent Consensus	0.57	0.40	2.74	2.96
High Estimate	0.57	0.47	2.77	3.08
Low Estimate	0.51	0.40	2.71	2.92
Year ago EPS	0.59	0.36	2.68	2.75
Year over Year Growth Est.	-6.78%	22.22%	2.61%	8.64%

Agreement - Estimate Revisions

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Up Last 7 Days	0	0	0	0
Up Last 30 Days	1	1	0	1
Up Last 60 Days	2	2	0	2
Down Last 7 Days	0	0	0	0
Down Last 30 Days	0	0	0	0
Down Last 60 Days	0	0	0	0

Magnitude - Consensus Estimate Trend

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Current	0.55	0.44	2.75	2.98
7 Days Ago	0.55	0.44	2.75	2.98
30 Days Ago	0.54	0.42	2.75	2.98
60 Days Ago	0.54	0.41	2.75	2.97
90 Days Ago	0.56	0.41	2.76	2.98

Upside - Most Accurate Estimate Versus Zacks Consensus

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Most Accurate Estimate	0.56	0.47	2.75	2.97
Zacks Consensus Estimate	0.55	0.44	2.75	2.98
Earnings ESP	2.44%	8.05%	0.00%	-0.42%

Surprise - Reported Earnings History

	Quarter Ending (9/2024)	Quarter Ending (6/2024)	Quarter Ending (3/2024)	Quarter Ending (12/2023)	Average Surprise
Reported	1.18	0.66	0.36	0.59	NA
Estimate	1.18	0.57	0.35	0.60	NA
Difference	0.00	0.09	0.01	-0.01	0.02
Surprise	0.00%	15.79%	2.86%	-1.67%	4.25%

Annual Estimates By Analyst

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	2/27/25
Current Quarter	0.65
EPS Last Quarter	0.25
Last EPS Surprise	8.70%
ABR	1.45

Earnings ESP	17.53%
Current Year	2.01
Next Year	2.12
EPS (TTM)	1.76
P/E (F1)	19.97

% EPS Growth Estimates	WTRG	IND	S&P
Current Qtr (12/2024)	30.00	-24.48	20.57
Next Qtr (03/2025)	9.59	-32.99	13.17
Current Year (12/2024)	8.06	8.40	12.40
Next Year (12/2025)	5.47	8.00	18.75
Past 5 Years	5.60	11.10	8.10
Next 5 Years	6.30	8.50	NA
PE	19.97	22.90	25.13
PEG Ratio	3.17	2.69	NA

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Research for WTRG

Analyst Snapshot

Price and EPS Surprise Chart

1 Month 3 Months 6 Months YTD 1 Year

Interactive Chart | Fundamental Chart

Sales Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Zacks Consensus Estimate	533.96M	699.82M	2.05B	2.26B
# of Estimates	2	2	3	3
High Estimate	535.91M	709.64M	2.13B	2.37B
Low Estimate	532.00M	690.00M	2.01B	2.19B
Year ago Sales	479.42M	612.07M	2.05B	2.05B
Year over Year Growth Est.	11.38%	14.34%	-0.03%	9.88%

Earnings Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Zacks Consensus Estimate	0.65	0.80	2.01	2.12
# of Estimates	3	2	4	6
Most Recent Consensus	NA	NA	1.96	2.10
High Estimate	0.76	0.80	2.14	2.20
Low Estimate	0.50	0.79	1.91	2.08
Year ago EPS	0.50	0.73	1.86	2.01
Year over Year Growth Est.	30.00%	9.59%	8.06%	5.81%

Agreement - Estimate Revisions

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Up Last 7 Days	0	0	0	0
Up Last 30 Days	0	0	2	1
Up Last 60 Days	1	0	1	0
Down Last 7 Days	0	0	0	1
Down Last 30 Days	0	0	0	3
Down Last 60 Days	0	0	0	2

Magnitude - Consensus Estimate Trend

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Current	0.65	0.80	2.01	2.12
7 Days Ago	0.65	0.80	2.01	2.12
30 Days Ago	0.59	0.80	1.99	2.12
60 Days Ago	0.58	0.80	1.95	2.11
90 Days Ago	0.58	0.80	1.94	2.11

Upside - Most Accurate Estimate Versus Zacks Consensus

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (12/2024)	Next Year (12/2025)
Most Accurate Estimate	0.76	0.80	2.08	2.13
Zacks Consensus Estimate	0.65	0.80	2.01	2.12
Earnings ESP	17.53%	0.00%	3.49%	0.39%

Surprise - Reported Earnings History

	Quarter Ending (9/2024)	Quarter Ending (6/2024)	Quarter Ending (3/2024)	Quarter Ending (12/2023)	Average Surprise
Reported	0.25	0.28	0.73	0.50	NA
Estimate	0.23	0.30	0.76	0.49	NA
Difference	0.02	-0.02	-0.03	0.01	-0.01
Surprise	8.70%	-6.67%	-3.95%	2.04%	0.03%

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	2/6/25
Current Quarter	2.36
EPS Last Quarter	1.64
Last EPS Surprise	10.07%
ABR	1.95

Earnings ESP	0.07%
Current Year	7.43
Next Year	8.40
EPS (TTM)	6.75
P/E (F1)	31.95

% EPS Growth Estimates	AAPL	IND	S&P
Current Qtr (12/2024)	8.26	6.89	20.57
Next Qtr (03/2025)	9.80	9.57	13.17
Current Year (09/2025)	10.07	13.90	12.40
Next Year (09/2026)	13.06	18.80	18.75
Past 5 Years	16.80	8.50	8.10
Next 5 Years	13.70	13.20	NA
PE	31.95	18.00	25.13
PEG Ratio	2.33	1.36	NA

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See Brokerage Recommendations

See Earnings Report Transcript

Research for AAPL

Analyst Snapshot

Price and EPS Surprise Chart

1 Month 3 Months 6 Months YTD 1 Year

Interactive Chart | Fundamental Chart

Sales Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (9/2025)	Next Year (9/2026)
Zacks Consensus Estimate	124.10B	96.24B	412.80B	451.23B
# of Estimates	9	8	9	8
High Estimate	124.90B	100.79B	431.18B	476.04B
Low Estimate	123.06B	91.80B	401.69B	436.71B
Year ago Sales	119.58B	90.75B	391.04B	412.80B
Year over Year Growth Est.	3.78%	6.04%	5.57%	9.31%

Earnings Estimates

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (9/2025)	Next Year (9/2026)
Zacks Consensus Estimate	2.36	1.68	7.43	8.40
# of Estimates	11	8	12	9
Most Recent Consensus	2.23	1.65	7.24	8.36
High Estimate	2.50	1.78	7.85	9.35
Low Estimate	2.23	1.57	7.05	8.12
Year ago EPS	2.18	1.53	6.75	7.43
Year over Year Growth Est.	8.26%	9.80%	10.07%	13.04%

Agreement - Estimate Revisions

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (9/2025)	Next Year (9/2026)
Up Last 7 Days	0	0	0	0
Up Last 30 Days	2	1	3	3
Up Last 60 Days	2	1	3	3
Down Last 7 Days	0	1	1	1
Down Last 30 Days	5	5	7	1
Down Last 60 Days	5	5	7	2

Magnitude - Consensus Estimate Trend

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (9/2025)	Next Year (9/2026)
Current	2.36	1.68	7.43	8.40
7 Days Ago	2.36	1.69	7.43	8.40
30 Days Ago	2.36	1.70	7.48	8.52
60 Days Ago	2.38	1.73	7.55	8.60
90 Days Ago	2.39	1.73	7.55	8.60

Upside - Most Accurate Estimate Versus Zacks Consensus

	Current Qtr (12/2024)	Next Qtr (3/2025)	Current Year (9/2025)	Next Year (9/2026)
Most Accurate Estimate	2.36	1.70	7.48	8.28
Zacks Consensus Estimate	2.36	1.68	7.43	8.40
Earnings ESP	0.07%	1.14%	0.70%	-1.42%

Surprise - Reported Earnings History

	Quarter Ending (9/2024)	Quarter Ending (6/2024)	Quarter Ending (3/2024)	Quarter Ending (12/2023)	Average Surprise
Reported	1.64	1.40	1.53	2.18	NA
Estimate	1.49	1.34	1.51	2.09	NA
Difference	0.15	0.06	0.02	0.09	0.08
Surprise	10.07%	4.48%	1.32%	4.31%	5.05%

Quarterly Estimates By Analyst

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