BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In re: DOCKET NO. 20250052-WS

Application for increase in water and wastewater rates in Brevard, Citrus, Duval, Highlands, Marion, and Volusia Counties by CSWR-Florida Utility Operating Company.
____/

VOLUME 2
PAGES 334 - 487

PROCEEDINGS: HEARING

COMMISSIONERS PARTICIPATING: CHAIRMAN GABRIELLA PASSIDOMO SMITH
COMMISSIONER GARY F. CLARK
COMMISSIONER MIKE LA ROSA
COMMISSIONER BOBBY PAYNE
COMMISSIONER ANA ORTEGA

DATE: Monday, June 8, 2026

TIME: Commenced: 9:30 a.m.
Concluded: 3:00 p.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: DEBRA R. KRICK
Court Reporter and
Notary Public in and for
the State of Florida at Large

APPEARANCES: (As heretofore noted.)

PREMIER REPORTING
TALLAHASSEE, FLORIDA

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89-95	As identified in the CEL		401
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169	As identified in the CEL		486

P R O C E E D I N G S

(Transcript follows in sequence from Volume 1.)

CHAIRMAN SMITH: All right. It is about 11:00. Debbie, are you good? Do you want to take a break? We are probably shooting for a lunch break around noon-ish, so in another hour, depending on where we are with the next witness, so that's good?

All right. So then you may call your next witness.

MR. WOODSMALL: Thank you, Your Honor.

CSWR-Florida would call Mr. Todd Thomas as its next witness.

May I proceed?

CHAIRMAN SMITH: Yeah.

MR. WOODSMALL: Thank you.

Whereupon,

TODD THOMAS

was called as a witness, having been previously duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows:

EXAMINATION

BY MR. WOODSMALL:

Q Have you previously been sworn in this

proceeding?

A I have.

Q And would you please state your name and business address for the record?

A My name is Todd Thomas. And I work at 1630 Des Peres Road, Des Peres, Missouri, 63141.

Q And what is your position with CSWR-Florida?

A I am Senior Vice-President, I am responsible for operations and business development, and EH&S.

Q Thank you. And EHS refers to?

A Environmental health and safety.

Q Thank you.

Did you prepare and cause to be filed prefiled direct and rebuttal testimony in this proceeding?

A I did.

Q And do you have that prefiled testimony before you today?

A I do.

Q Do you have any corrections or revisions to that testimony?

A I do not.

Q If I were to ask you the same questions that are contained in your prefiled direct and rebuttal, would your answers be the same?

A Yes, they would.

MR. WOODSMALL: Madam Chair, I would ask that the prefiled direct and rebuttal testimony of Mr. Thomas be inserted into the record as though read.

CHAIRMAN SMITH: So moved.

(Whereupon, prefiled direct testimony of Todd Thomas was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and wastewater rates in Brevard, Citrus, Duval, Highlands, Marion, and Volusia Counties by CSWR-Florida Utility Operating Company, LLC.	DOCKET NO. 20250052-WS

DIRECT TESTIMONY OF

TODD THOMAS

on behalf of

CSWR-Florida Utility Operating Company, LLC

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Todd Thomas. My business address is 1630 Des Peres Road, Suite 140, St. Louis, Missouri 63131.

Q. PLEASE DESCRIBE CSWR, LLC AND CSWR FLORIDA UTILITY OPERATING COMPANY, LLC.

A. CSWR, LLC ("CSWR") is a holding company that, as of March 31, 2024, operated utility operating companies in 11 states. CSWR Florida Utility Operating Company, LLC ("CSWR Florida" or "Company") is the CSWR utility operating company in the State of Florida.

Q. WHAT IS YOUR POSITION WITH CSWR?

A. I am Senior Vice President of CSWR, the affiliated company with operational/managerial oversight over the CSWR operating companies including CSWR Florida. At CSWR, my responsibilities include the acquisition and operation of CSWR-affiliated utilities. Among other duties relevant to this testimony, I am responsible for engaging and overseeing operations and maintenance ("O&M") service providers including contractors responsible for the day-to-day operations of CSWR operating affiliates like CSWR Florida. I oversee such activities for affiliated operating companies providing water or wastewater utility services to over 177,000 connections in Kentucky, Missouri, Arkansas, Tennessee, Louisiana, Texas, Mississippi, North Carolina, South Carolina, Florida, and Florida.

Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. My education includes a Bachelor of Science in Civil Engineering from the Missouri University of Science and Technology and a Master of Business Administration from

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Washington University in St. Louis.

Before joining CSWR in January 2017, I was President of Brotcke Well and Pump, the second largest well driller and service provider in the Midwest; Vice President of Operations and Business Development of the Midwest for American Water Contract Operations; and General Manager of Midwest Operations for Environmental Management Corporation. I currently serve on the East Central Missouri Board of Directors and am an Advisory Board member for the Public Water Supply District 2 of St. Charles County, Missouri, which is the largest water and sewer district in the State of Missouri, serving approximately 60,000 connections.

Brotcke Well and Pump serves municipal potable, regulated potable, and industrial groundwater suppliers in Missouri, Illinois, Kansas, Florida, and Arkansas. Its total number of clients exceeds 200, and the systems it serves range in size from the City of Bloomington, Illinois, with 31,000 water customers, to 230 customers in the City of Eminence, Missouri. Brotcke Well and Pump drills, cleans, treats, and tests wells for regulatory compliance, installs, services, and rebuilds pumps, and installs and services well controls. As President of Brotcke Well and Pump, I was involved in the design, maintenance, and repair of all clients' well systems. Therefore, I have firsthand experience with how much damage can be done by lack of maintenance on a well system and how much money and effort is required to restore a well system after neglect.

As Vice President of Operations and Business Development of the Midwest for American Water Contract Operations, I was responsible for the water and wastewater operations and maintenance contracts for municipal and industrial clients. At one time, I had responsibility for operating water and wastewater systems serving approximately 64,000 residential connections. My responsibilities included the direction and management of annual budgeting for each plant's operations and maintenance, design and planning of plant upgrades and maintenance projects, regulatory reporting, plant operations, and regulatory compliance of these systems.

My position as General Manager of Midwest Operations for Environmental Management Corporation was similar to my position with American Water Contract Operations concerning the size and scope of the systems the company managed.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE STATE UTILITY COMMISSIONS?

A. Yes. I have testified before the Missouri, Mississippi, Texas, Kentucky, Tennessee, Arizona, and Louisiana state utility commissions.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION ("FPSC" OR "COMMISSION")?

A. The purpose of my testimony is:

► To explain the process CSWR uses to identify and engage qualified third-party contractors to provide day-to-day O&M functions for its operating companies like CSWR Florida, and why using third parties to perform these functions is in the best interests of both CSWR Florida and its customers.

► To discuss the O&M contractor that CSWR Florida currently engages for its Florida systems, as well as the roles and responsibilities of CSWR Florida's Florida Regional Manager. I will further describe some of the measures that CSWR Florida has implemented to improve the effectiveness of its O&M partner and its ability to provide safe and adequate service.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes. I am sponsoring or co-sponsoring the following exhibits:

Exhibit TT-1 - a map of the CSWR Florida water and wastewater systems in Florida.

Exhibit TT-2 – a copy of the CSWR Florida Request for Qualification (RFQ) used to identify qualified O&M partners.

Exhibit TT-3 – a copy of a typical RFP package.

Exhibit TT-4 – a copy of a letter from the Missouri Department of Natural Resources discussing the success that CSWR has had in rehabilitating distressed systems in Missouri.

Exhibit TT-5 – a copy of a letter from the Mississippi Department of Environmental Quality addressing similar issues in Mississippi.

Exhibit TT-6 – a recent survey conducted by the Louisiana Department of Health grading the performance of public water/wastewater systems in Louisiana including those operated by the CSWR affiliate in Louisiana.

Exhibit TT-7 – the Minimum Filing Requirements consisting of Volume I (the Financial, Rate and Engineering MFRs, co-sponsored with witnesses Brent Thies and Aaron Silas) and Volume III, Sections (a) through (i) (the Additional Engineering MFRs), all of which are being filed simultaneously in the Docket as required by Commission Rules.

Q. WERE THESE EXHIBITS INCLUDING THE REFERENCED MFRs PREPARED BY YOU OR YOUR STAFF UNDER YOUR SUPERVISION AND CONTROL?

A. Yes, they were, except for Exhibits TT-4 through TT-6 and certain sections of the Volume III additional engineering MFRs, which are maintained by CSWR-Florida as public records and reports and/or records of regularly conducted business activity.

II. <u>OPERATIONS AND MAINTENANCE FUNCTIONS</u>

Q. WHY DOES CSWR FLORIDA USE THIRD-PARTY CONTRACTORS TO

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PERFORM O&M FUNCTIONS INSTEAD OF HIRING EMPLOYEES TO PERFORM THOSE FUNCTIONS?

A. As with all water/wastewater systems, there is a need for licensed, experienced operators in Florida. In my experience, where systems and connections are concentrated in a relatively small area, utilities may be able to cost-effectively employ such operators as part of their workforce. For instance, American Water Works Company operating utilities, since they routinely have concentrated service areas, utilize internalized operations.

In contrast, CSWR Florida's 38 water and wastewater systems in Florida are geographically dispersed across the state. A map showing the location of the systems that CSWR Florida serves in Florida is attached to my testimony as **Exhibit TT-1**. Through these systems, CSWR Florida provides service to approximately 12,500 water and 7,600 wastewater connections. Given this geographical dispersion and the limited number of connections served in Florida, it would be almost impossible for CSWR Florida to cost-effectively employ an in-house workforce of sufficient size to perform all required O&M functions necessary to fulfill the objective of providing customers with safe, reliable, and timely utility service at reasonable rates. Given the dispersed nature of its operations, as well as the fact that it serves a much lower number of customers, CSWR Florida has employed an operations model based on contract operations.

Q. IS WORKFORCE SIZE THE ONLY CONSIDERATION WHEN DECIDING TO EMPLOY THIRD-PARTY CONTRACTORS?

A. No. Operators of our facilities - those performing the O&M functions that are necessary for CSWR Florida - must be highly trained, experienced, and have all state licenses required to operate water and wastewater systems and do so in a manner that complies with federal, state, and local laws and regulations. CSWR believes that, given the internal cost of hiring, training, and retaining qualified employees, it is more economical to retain third-party contractors who already have experienced operators and required state licenses.

Q. DO CSWR-AFFILIATED COMPANIES USE THIRD PARTIES IN OTHER STATES TO PERFORM O&M AND CUSTOMER SERVICE FUNCTIONS?

A. Yes. Using third-party contractors is the method all CSWR utility affiliates have historically used to perform O&M functions. CSWR has learned through its experience in Florida and other states that using third-party contractors is a more cost-effective option for fulfilling these O&M responsibilities where the systems we own and operate are geographically dispersed. However, where our operations are geographically concentrated, we believe hiring employees to perform O&M functions may be a better alternative. That's why CSWR Florida's Louisiana affiliate, Magnolia Water Utility Operating Company ("Magnolia") recently embarked on a program that will utilize company employees at some of its locations to do work previously performed by third-party contractors. In the future, such a change may make sense for portions of CSWR Florida's service area as well. And experience we gain from our insourcing efforts at Magnolia will help us to determine if such a move makes sense in Florida and if so when and how it should be implemented.

Q. PLEASE DESCRIBE THE PROCESS CSWR USES TO IDENTIFY AND ENGAGE THIRD-PARTY O&M CONTRACTORS IN FLORIDA.

A. The process CSWR uses has two distinct parts: identifying qualified contractors and then, after soliciting and evaluating competitive bids, engaging one or more contractors to provide required O&M services for specific systems. In addition, CSWR must conduct regular management and oversight of the O&M contractors it engages to

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ensure that they are doing the work necessary to provide safe, continuous, and adequate service.

Q. HOW DOES CSWR IDENTIFY QUALIFIED CONTRACTORS TO PERFORM THE O&M FUNCTIONS THAT CSWR FLORIDA REQUIRES?

A. CSWR's contractor identification process begins with the evaluation of the qualifications of prospective contractors. CSWR initiates the process with a written Request for Qualification ("RFQ"). CSWR disseminates information about contracting opportunities (including information about how to obtain an RFQ) as broadly as possible throughout the region or state to identify as many potential contractors as possible to bid on available work. CSWR utilizes several avenues to identify potential contractors. These include but are not limited to, web searches, contacting local water associations, word-of-mouth, and local contacts in the area. A copy of the RFQ form that CSWR uses for CSWR Florida is attached to my testimony as **Exhibit TT-2**.

The RFQ requires that contractors be highly trained and experienced and have all state licenses required to operate the relevant water and wastewater systems. CSWR also requires that its contractors commit themselves to responding to customer service emergencies within a specified period – usually within two hours of a request for assistance – regardless of when those emergencies arise. CSWR also requires contractors to provide their insurance. This helps insulate the Company and its customers from liability for acts that result in damage to others.

Q. HOW DOES CSWR EVALUATE RFQ RESPONSES IN THE O&M CONTRACTOR SELECTION PROCESS?

A. The goal of evaluating the RFQ responses is to determine which respondents are qualified to advance to the next step in the process. The RFQ process provides CSWR the opportunity to determine which potential contractors satisfy all the qualifications and requirements stated in the RFQ. Pre-qualifying prospective contractors based on their RFQ responses is critical because it saves time by eliminating unqualified bidders.

Q. WHAT HAPPENS AFTER CSWR HAS EVALUATED THE RFQ RESPONSES AND IDENTIFIED QUALIFIED CONTRACTORS?

A. The next step is to send a formal "Request for Proposal" ("RFP") to qualified contractors. Generally, the RFP includes a proposal letter specifically identifying the contractor's tasks, duties, and responsibilities (sometimes referred to as a "Statement of Work"); a list of all facilities for which CSWR Florida is seeking proposals; the permit numbers of those facilities; a draft of the contract the successful bidder would be required to sign (which includes the Statement of Work); and the date the RFP response is due. Also included in the package is a bid response page, which requires the contractor to provide key cost information about its bid. CSWR considers all of these documents to be a critical part of the response in that it allows CSWR to compare the RFP responses consistently relative to both cost and service levels.

I have included a typical RFP package as **Exhibit TT-3**. These RFPs contain multiple service areas or projects to best utilize economies of scale and yield cost savings for customers. To solicit bids, CSWR will divide up projects regionally to lower operational costs and to make the projects more manageable for CSWR and the selected contractor. Another benefit to the regionalization of its contractor network is that it gives opportunities to local operations firms who are typically more familiar with local conditions and often have prior direct experience with the actual facilities CSWR is seeking support to operate.

Q. HOW DOES CSWR COMPARE RFP RESPONSES AND SELECT A WINNING BID?

A. After identifying which bidders demonstrate the adequate capability to provide services, CSWR determines the "lowest and best-qualified bid," which considers price in the context of the overall quality of the bidder's proposal. Once CSWR has made a preliminary choice of a winning bidder, it schedules a follow-up meeting to confirm the accuracy of the bid documents and to make sure that the contractor understands all requirements and appreciates their importance. Following that meeting, the winning bidder is confirmed and is asked to enter into a signed agreement.

III. FLORIDA O&M PARTNER AND REGIONAL MANAGER

Q. WHICH O&M CONTRACTORS DOES CSWR FLORIDA CURRENTLY USE TO OPERATE AND MAINTAIN ITS FLORIDA WASTEWATER SYSTEMS?

A. CSWR Florida currently uses Clear Water Services ("Clear Water Services") to operate and maintain all the Company's water and wastewater systems. Clear Water Services provides a highly experienced, dedicated, professional team that is able to ensure expert and compliant operations of water/wastewater systems. Clear Water Services' dedicated operations team has a deep bench of skilled personnel that brings decades of experience in the utility industry managing clients' utility operations and offers expertise and best practices for effective, efficient, and compliant operations and maintenance.

Q. WHAT IS THE CURRENT STATUS OF THE O&M CONTRACT THAT CSWR FLORIDA HAS IN PLACE WITH CLEAR WATER SERVICES IN FLORIDA?

A. The Clear Water Services' contract resulted from an RFP that was issued in April 2024. The five-year contract took effect September 1, 2024, and expires August 31, 2029, at which point CSWR Florida intends to issue another statewide RFP for all of the Florida systems.

Q. DOES CSWR UTILIZE ANY TECHNOLOGIES TO ASSIST ITS

CONTRACTORS IN THE PROVISION OF SAFE AND ADEQUATE SERVICE?

A. Yes. CSWR utilizes several off-the-shelf technologies to: (1) cost-effectively enhance work performed by its O&M contractors, (2) help minimize costs, and (3) improve the quality of service provided to CSWR Florida's customers. For example, CSWR has implemented a computerized maintenance management system called ElementsXS to benefit its affiliated utility operating companies. ElementsXS is a work order-based system used to (1) catalog all equipment employed in each CSWR Florida system; (2) host distribution and collection system mapping; (3) automatically schedule preventive maintenance; (4) schedule necessary repairs; and (5) schedule and record responses to customer complaints and service calls. The ElementsXS system operates via smartphones and handheld devices, so it is easily utilized by all CSWR O&M contractors. ElementsXS ensures that CSWR Florida systems are well-maintained; property, plant, and equipment records are maintained; and customer service needs are systematically and expeditiously addressed with appropriate recordkeeping of customer service needs.

Q. DOES ELEMENTSXS PROVIDE OTHER BENEFITS TO CUSTOMERS?

A. Yes. All customer service tasks are integrated through the Company's Customer Information System (Muni-Link) and ElementsXS. This ensures that all information about a customer's request is accurately passed on to the field employee that is dispatched to address the customer's concern. ElementsXS provides the field employee and management with all the information needed to address any customer service issue as well provide a record of any work done to address these issues. All the information input into a customer service task in ElementsXS is also visible to the customer call center employees so that updates can be provided to the customer if needed.

Q. DOES CSWR UTILIZE ANY OTHER TECHNOLOGIES TO MAKE OPERATIONS MORE EFFICIENT AND EFFECTIVE IN FLORIDA?

A. Yes. Another cost-effective technology CSWR employs in many states including Florida is a remote monitoring platform. The remote monitoring sensors on each system are set to provide ongoing utility system operational performance monitoring and early warnings to CSWR Florida and its O&M contractor in the event there are operational issues. In most cases, those warnings are broadcast before the issue adversely affects customers' water or wastewater service. Examples of the types of problems the remote monitoring system is designed to detect include power outages at water wells and wastewater lift stations, chlorine residual readings on water distribution systems, low-pressure issues on water distribution systems, high-level alarms on wastewater system lift stations, and low levels in water storage tanks. When these alarms activate, the remote monitoring system immediately sends information to CSWR Florida and its O&M contractor, which allows the Company and its contractor to react before customers are even aware of the problem and before the problem can affect customer service.

Q. DOES THE DEPLOYMENT OF THIS TECHNOLOGY HELP THE COMPANY TO OPERATE AND MAINTAIN CSWR FLORIDA'S SYSTEMS COST-EFFECTIVELY?

A. Yes. For example, I mentioned in my previous answer that the remote monitoring system is programmed to monitor high-level alarms at wastewater lift stations. Absent remote monitoring, prudent operation (and Florida requirements) requires contractors to check levels in wastewater lift stations daily, which would require the O&M contractor to dispatch an employee each day to check lift station levels. These daily visits are costly and would lead to higher rates. While operators are always on hand to

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respond to issues that are detected, the remote monitoring system mitigates the need for daily visits unless the system detects a problem. The remote monitoring system also archives these daily readings so that they can be accessed in case the systems are subjected to a compliance audit or subsequently develop operational problems. This data allows CSWR to determine the start and duration of the problem, which aids in prompt resolution.

Q. WHAT IS THE STATUS OF CSWR FLORIDA'S DEPLOYMENT OF REMOTE MONITORING?

A. As of June 30, 2024, CSWR Florida has deployed 94 remote monitoring modules in Florida with plans to install additional terminals in the near future.

Q. WHAT OTHER PLATFORMS DOES CSWR USE FOR CSWR FLORIDA SYSTEMS TO COST-EFFECTIVELY OPERATE THOSE SYSTEMS?

A. The last tool, SAMS, is an Environmental Management Information System ("EMIS") for systematically obtaining, processing, and making available relevant environmental information. SAMS is a platform that helps manage the entire compliance and data needs of a water/wastewater utility in a single unified architecture. This platform allows automated reporting to simplify customer confidence reports, discharge monitoring reports, and monthly operations reports. This platform is integrated with the Safe Drinking Water Information System and the EPA's central data exchange. SAMS allows CSWR to monitor results automatically for all of its states and should increase compliance with environmental regulations.

Q. WHAT TASKS DOES THE CSWR REGIONAL MANAGER PERFORM TO ENSURE CSWR FLORIDA'S CUSTOMERS RECEIVE CONTINUOUS AND ADEQUATE SERVICE?

A. While the Company is dedicated to streamlining its operations and personnel as much

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as possible to make service affordable and reliable, due to the size and geographical dispersion of its operations in Florida, CSWR has a Regional Manager, Arthur Faiello, who is responsible for overseeing and assisting in all third-party O&M functions in Florida. Having an employee responsible for these Florida-specific duties helps CSWR to ensure that CSWR Florida is fulfilling its commitment to providing safe and reliable water and wastewater service to its customers. In this role, Mr. Faiello oversees the operations of CSWR Florida's third-party O&M contractors to ensure:

- each of CSWR Florida's systems complies with all federal, state, and local public health and environmental regulations.
- the Company's third-party O&M contractors operate consistent with all federal, state, and local safety regulations.
- CSWR Florida's third-party O&M contractors fulfill all contractual obligations; and
- all necessary preventive and corrective maintenance are timely and competently performed on the CSWR Florida systems to keep them functioning and to avoid outages that adversely affect customers.

In addition, Mr. Faiello serves as CSWR Florida's primary in-person customer representative, which ensures that when customers require direct communication with a local representative, Mr. Faiello can ensure that the customer's concerns are addressed. While customers are encouraged to bring issues to the customer experience department, Mr. Faiello fulfills this responsibility to the extent the matters require an in-person visit from a CSWR Florida representative.

Finally, I hold monthly reviews with each Regional Manager to review: (1) dashboards and metrics for timeliness of completing customer servicer emergency work orders, (2) the status of remote monitoring, (3) the frequency of site visits, (4) compliance exceedances causes and corrections, (5) required data entry into SAMS, (6) the budget compared to actual expenses for operations and maintenance, and (7) to confirm that the project oversight tracker has been built and maintained for newly acquired systems.

Q. DO YOU BELIEVE THAT THE USE OF THIRD-PARTY O&M PARTNERS HAS LED TO SAFE AND RELIABLE SERVICE FOR CUSTOMERS?

A. Yes. Feedback from environmental regulators in several of the CSWR states indicates that customers are receiving and experiencing an improved level of service from that previously provided. For instance, in the context of Confluence Rivers Utility Operating Company's recent Missouri rate case, the Missouri Department of Natural Resources provided a letter indicating its appreciation for the actions taken by CSWR in acquiring and rehabilitating distressed water and wastewater systems:

> When systems are unable to resolve their technical, managerial, or financial problems, one reliable solution is selling the system to a higher-performing utility operating company. In Missouri, Confluence Rivers Utility Operating Company, Inc. (CRUOC) is one of the few utility operating companies that is willing to acquire some of the most difficult failing systems. CRUOC has consistently taken swift actions after taking control of these systems to bring them into compliance by employing qualified operators, effectively administering and managing the systems, and investing in repairs and upgrades. CRUOC's willingness to acquire systems with long-standing compliance issues has proven to be beneficial to human health and the environment by bringing many of these systems into compliance with environmental laws. The Department looks forward to continuing to work with CRUOC as it continues to acquire wastewater and

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public water systems in Missouri.[1]

Similarly, the Mississippi Department of Environmental Quality submitted a similar letter to the Mississippi Public Service Commission in support of Great River Utility Operating Company's rate case in that state:

> As you may be aware, Great River Utility Company has recently acquired several drinking water systems across the state. Great River Utility has worked closely with the Bureau's compliance and field staff to maintain compliance with the various rules and regulations of the Safe Drinking Water Act. A viable entity such as Great River Utility desiring to help problematic drinking water systems by investing in them for improved services to citizens is very appreciated and supported by the Bureau. We believe the Bureau's coordination with the PSC to identify problematic drinking water systems and to identify long-term solutions, such as those offered by entities like Great River, is very beneficial to our shared goals and objectives.[2]

Finally, the Louisiana Department of Health has recently issued its 2024 grades of the community public water systems in that state. Under state statute, the Department of Health is required to evaluate the drinking water systems in the state. Of the 64 water systems owned and operated by CSWR's affiliate (Magnolia Water), Magnolia Water received 63 A's and 1 B.[3]

While I believe, based on my personal experience and observation, that CSWR Florida's use of third-party O&M contractors is leading to safe and adequate service in Florida, these representative examples from Missouri, Mississippi, and Louisiana all

[1] Exhibit TT-4.
[2] Exhibit TT-5.
[3] Exhibit TT-6.

provide objective opinions reaching the same conclusion for other CSWR affiliates that are using a similar third-party approach to operations.

IV. ENVIRONMENTAL, HEALTH, AND SAFETY FUNCTIONS

Q. WOULD YOU DESCRIBE THE CSWR ENVIRONMENTAL, HEALTH, AND SAFETY TEAM?

A. Yes. The Environmental, Health, and Safety ("EHS") team works with the state manager, O&M contractor and CSWR engineers to maintain compliance with the Clean Water Act, Safe Drinking Water Act, and Occupational Safety and Health Administration regulatory requirements. In this role the EHS focuses primarily on four (4) important functions:

1) Monitoring and completion of system compliance tasks for each system operated by CSWR Florida, including but not limited to issuing Consumer Confidence Reports ("CCRs") for water systems, backflow device program management, and lead service line inventories.
2) Responds to environmental agency correspondence that arise from agency inspection, complaints to agencies, and violation of numeric standards. In this role, the EHS team ensures that corrective actions are completed and accurately reported to the relevant agency.
3) Effectuation of state and local operating permit transfers and renewals.
4) Facility inspections of any system acquisitions prior to closing, and at least once a year thereafter, to ensure compliance with regulations governing facility operations and maintenance.

Q. DO YOU HAVE A ROLE WITH REGARD TO THE EHS TEAM?

A. Yes. I supervise the EHS team.

Q. HOW DO YOU BELIEVE THE EHS TEAM AND ITS WORK SUPPORT THIS

RATE CASE?

A. As will be discussed, the CSWR Florida EHS team provides immediate benefits to the customers of the small systems acquired by the Company. Specifically, the EHS team ensures that all samples are taken consistent with operating permits and state environmental regulations. Moreover, through its annual inspections, the EHS team visually ensures that the systems are operated in a manner that complies with state and federal requirements. Finally, the EHS team ensures that necessary reports, including CCRs, are prepared and disseminated as required. In many cases, small water and wastewater systems are not aware of such requirements, or do not have the professionally trained staff to meet such requirements. As such, by applying the talents of such a team to the systems that are acquired, CSWR Florida is capable of providing immediate benefits to customers.

Q. DO YOU HAVE ANY RESULTS FROM THE ACTIONS OF THE EHS TEAM IN FLORIDA?

A. Yes. Consistent with the third function described above (facility inspections), the EHS team completed its inspections for the 2024 calendar year by visiting all of the 34 systems acquired, owned and operated by CSWR Florida. Additionally in 2024, the EHS team ensured 100% sample compliance at all of the existing CSWR Florida systems. This has involved 2,683 wastewater samples and 791 drinking water samples.

Q. HAS THE EXISTENCE OF THE CSWR EHS TEAM BROUGHT BENEFITS TO CSWR FLORIDA CUSTOMERS?

A. Absolutely. As mentioned, most small water and wastewater systems do not have the technical expertise to ensure compliance with the myriad governmental regulatory requirements.

Q. DO YOU HAVE ANY PHOTOS THAT SHOW THE IMPROVEMENTS MADE

BY THE CSWR EHS TEAM TO ENSURE REGULATORY COMPLIANCE?

A. Yes. While some of these issues reflected in these photos may seem minor to non-water and wastewater compliance professionals, they show the efforts that the CSWR EHS team takes, and the repairs that are then made, to ensure compliance with all state and federal regulatory requirements. For instance, the CSWR Compliance team identified and resolved safety issues related to failure of previous owners to address spill containment associated with liquid chlorine disinfection systems at several systems.

Liquid Chlorine Spill Containment Measures

Additionally, the CSWR EHS team audited the systems and identified the need for alternative power at several systems.

Backup generation at CSWR Florida systems.

Moreover, the CSWR EHS team ensured safe compliance by placing fire extinguishers at all systems and eye wash stations at systems utilizing chlorine disinfection.

Emergency eye wash station (left), fire extinguisher (right).

Finally, the CSWR EHS team ensured compliance with state regulation regarding site security by installing fencing and barbed wire, and emergency signage at facilities.

Emergency signage and fencing / barbed wire at CSWR Florida systems.

Q. DO WATER AND WASTEWATER SYSTEMS FACE AN INCREASINGLY STRINGENT REGULATORY ENVIRONMENT?

A. Yes. As a result of authority granted to various state and federal agencies, small water and wastewater systems are facing an increasingly stringent and, oftentimes, complex system of environmental requirements and regulations. As an example, in recent years, the Environmental Protection Agency ("EPA") has issued regulations that necessitate sampling for PFAS (described below), and an inventory of lead and copper services lines.

Q. WHAT ARE PFAS?

A. Per and Polyfluoroalkyl Substances ("PFAS") are a very large class of synthetic organofluorine chemical compounds. These substances are used in various industrial applications, including non-stick coatings, firefighting foams, and water-repellent fabrics. PFAS is known as a "forever compound" in that they take so long to degrade.

Q. WHAT IS THE CONCERN WITH PFAS?

A. PFAS are a concern in that they are persistent in the environment, bioaccumulative in organisms, and they are toxic at relatively low (parts per trillion) levels. Recent studies suggest that, when ingested, PFAS may cause various types of cancer.

Q. WHY IS PFAS A PREVALENT ISSUE IN THE WATER INDUSTRY?

A. As I mentioned, PFAS chemicals are persistent in the environment. In certain areas, primarily those with heavy industry or military installations, PFAS has been found to have leached into groundwater aquifers. In April 2024, after notice and comment, the EPA set the maximum contamination level (MCL) for six contaminants (PFOA, PFOS, PFBxS, PFNA, GenX, and a mixture of four different PFAS constituents) with the most stringent MCL set at 4.0 parts per trillion (ppt or ng/L).

Q. HOW LONG DOES THE WATER INDUSTRY HAVE TO ATTAIN COMPLIANCE WITH THE NEW PFAS LIMIT?

A. The EPA established a compliance timeline whereby initial monitoring must be completed within three years of the rule (April 2027). Within five years of the enactment of the rule (April 2029), water utilities must comply with the new PFAS

MCL.

Q. HAS CSWR FLORIDA COMPLETED THIS REQUIRED TESTING IN FLORIDA?

A. As of the filing of this testimony, CSWR Florida owned thirty-one water systems in Florida. CSWR has collected at least one PFAS sample from 22 sites that were acquired as of December 31, 2023. CSWR continues to collect samples from sites as they are acquired and will complete the required testing before the compliance deadline.

Q. PLEASE DESCRIBE THE EPA REQUIREMENT TO TEST LEAD AND COPPER SERVICE LINES.

A. In 1991, the EPA published its Lead and Copper Rule ("LCR") to control lead and copper in drinking water. That rule seeks to reduce the action level of lead to 15 parts per billion and copper to 1.3 parts per million. Recognizing that lead is typically introduced into drinking water from lead service lines fittings, the rule requires public water suppliers to conduct an inventory of lead service lines. Water suppliers are then required to notify persons of known or potential lead service lines. CSWR Florida completed the initial service line inventory by October 16, 2024 and notified customers of the results.

Q. HAS CSWR FLORIDA COMPLETED ITS LEAD AND COPPER MONITORING?

A. Routine lead and copper monitoring is ongoing. Samples will be collected before the September deadline.

Q. ARE THERE A HOST OF OTHER ESSENTIAL COMPLIANCE AND SAFETY ISSUES IN ADDITION TO PFAS AND LCR?

A. Yes. By addressing only a subset of such issues, I do not mean to imply that these are the only two monitoring/compliance areas. Rather, I summarize these two regulations

C6-616

because they demonstrate the increasingly stringent nature of water / wastewater regulation, the fact that such regulations are applicable to all companies, and the difficulty that small water/wastewater companies will have in complying with such regulations. Furthermore, the stringency of water / wastewater regulation will continue to evolve as more pollutants are identified and addressed.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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(Whereupon, prefiled rebuttal testimony of Todd Thomas was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and wastewater rates in Brevard, Citrus, Duval, Highlands, Marion, and Volusia Counties by CSWR-Florida Utility Operating Company, LLC.	))))	DOCKET NO. 20250052-WS

REBUTTAL TESTIMONY OF

TODD THOMAS

on behalf of

CSWR-Florida Utility Operating Company, LLC

April 17, 2026

D5-70

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Todd Thomas, and my business address is 1630 Des Peres Rd., Suite 140, St. Louis, Missouri 63131.

Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS CASE?

A. Yes. I have previously presented direct testimony on behalf of the application, CSWR-Florida Utility Operating Company, LLC. ("CSWR-Florida" or "Company").

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony addresses Attachments A and B to the Complaint and Compliance Data provided by the Florida Department of Environmental Protection ("DEP Report"), which report was submitted into the docket file by the Staff of the Florida Public Service Commission ("Staff") on March 10, 2026. Attachment A to the DEP Report consists of a drinking water and wastewater complaint summary. Attachment B consists of a drinking water and wastewater compliance summary. Then, also attached to the DEP Report, are approximately 370 pages of various records from DEP regarding wastewater compliance matters. Mr. Freeman will provide rebuttal testimony regarding the approximately 370 pages of compliance documents related to the wastewater systems now owned by CSWR-Florida.

D5-71

Q. WHAT IS YOUR UNDERSTANDING AS TO THE BASIS FOR THE DEP REPORT?

A. It is my understanding that the DEP Report was submitted pursuant to Section 367.0812(l)(b) and (c), Florida Statutes (F.S.) which requires that the Commission consider the extent to which the Company "meets secondary water quality standards as established by the Department of Environmental Protection." This determination not only includes testimony and evidence provided by customers and the utility, but also "the results of past tests" and "complaints. . . filed by customers. . . during the past 5 years."

Q. WHAT ARE "SECONDARY WATER QUALITY STANDARDS?"

A. In Chapter 62-550, Florida Administrative Code (F.A.C.) the DEP has promulgated its various drinking water standards, monitoring, and reporting rules. Rule 62-550.200(107), F.A.C. defines "secondary drinking water standards" as a "set of non-mandatory water quality standards for contaminants (not federally enforceable) that are established as guidelines to assist public water systems in managing their drinking water for aesthetic considerations, such as taste, color and odor." Rule 62-550.320, F.A.C provides specific secondary drinking water standards: maximum contaminant levels. Those maximum contaminant levels are then set forth in a table attached to the chapter which is recreated in the following table:

SECONDARY DRINKING WATER STANDARDS

Federal Contaminant ID Number	Contaminant	SMCL (mg/L)*
1002	Aluminum	0.2
1017	Chloride	250
1022	Copper	1
1025	Fluoride	2.0
1028	Iron	0.3
1032	Manganese	0.05
1050	Silver	0.1
1055	Sulfate	250
1095	Zinc	5
1905	Color	15 color units
1920	Odor**	3 (threshold odor number)
1925	pH	6.5 - 8.5
1930	Total Dissolved Solids	500
2905	Foaming Agents	0.5

Abbreviations Used:

SMCL = maximum contaminant level;

mg/L = milligrams per liter.

* Except color, odor, and pH.

** For purpose of compliance with ground water quality secondary standards, as referenced in Chapter 62-520, F.A.C., levels of ethylbenzene exceeding 30 micrograms per liter, toluene exceeding 40 micrograms per liter, or xylenes exceeding 20 micrograms per liter shall be considered equivalent to exceeding the drinking water secondary standard for odor.

Q. DO YOU HAVE ANY GENERAL COMMENTS REGARDING THE SCOPE OF THE DEP REPORT?

A. As set forth in the above referenced statute, the Commission is required to consider the extent to which a water / wastewater utility meets secondary water quality standards "during the past 5 years." As the Commission is aware, CSWR-Florida's mission is to acquire distressed water and wastewater utilities and to rehabilitate them such that they can now provide "safe, reliable, and environmentally responsible water resources" to its customers.

Consistent with this mission, the Company has acquired a total of thirty-eight separate water and wastewater systems through eleven separate transactions. Relevant to the application of the current statutory requirement, however, the Company has not owned any of its systems for the five-year period set forth in the statute. Therefore, much of the information contained in the DEP Report predates the Company's ownership.

Q. WOULD YOU PROVIDE THE DATE ON WHICH CSWR-FLORIDA ACQUIRED EACH OF ITS SYSTEMS?

A. The dates on which the Company closed on each acquisition are as follows:

System	Types	Acquisition Date
Aquarina	Water and Wastewater	May 16, 2022
Sunshine Utilities	Water	May 24, 2022
North Peninsula	Wastewater	May 26, 2022
Neighborhood	Water	November 17, 2022
Rolling Oaks	Water and Wastewater	November 30, 2022
Sebring Ridge	Wastewater	August 31, 2023
CFAT	Water and Wastewater	November 30, 2023
BFF	Wastewater	November 30, 2023
Tradewinds	Water and Wastewater	November 30, 2023
TKCB	Wastewater	December 27, 2023
Tymber Creek	Water and Wastewater	May 31, 2024

Q. THERE ARE SEVERAL BOIL WATER NOTICES LISTED IN ATTACHMENT A. WHAT IS A BOIL WATER NOTICE?

A. A Boil Water Notice ("BWN") is a public notification advising customers to boil tap water before consuming it. These notices are issued when an event has occurred that has caused a known degradation to water quality, or that has the potential to adversely affect water quality. A BWN can be triggered for multiple reasons and can vary depending on the severity of the reason. Examples of events triggering a BWN are water main line breaks, water treatment failures, and extreme weather/natural disasters. BWNs are required when the pressure in the water distribution system has dropped below 20 pounds per square inch ("psi") which does not necessarily constitute an imminent health hazard.

While BWNs can be triggered by different events, the underlying cause of an event may also vary. Given the distressed nature of some of the Company's water systems, system pressure may fall below 20 psi simply because of a main line break caused by the age of the system. Water main line breaks can also be caused by external contractors such as fiber optic installers, breaking the water main lines.

Importantly though, BWNs and the underlying problem (i.e., low distribution system pressure) are not, in and of themselves, an indication of unsafe drinking water. Rather, especially in the case of a low system pressure, they are simply meant to notify customers of conditions that may cause unsafe drinking water. The extent of the unsafe condition must then be verified through follow-up sampling.

Q. DO YOU HAVE ANY COMMENTS ON THE BOIL WATER NOTICES REFLECTED IN ATTACHMENT A OF THE DEP REPORT?

A. Yes.[1]

[1] While the Company can replicate the data contained in the DEP Report for seven of the boil water notices, it has no record of the August 2023 boil water notice for Sunshine – Ocala Garden.

1. Company records indicate that the April 2024 boil water notice for Sunshine – Florida Heights was caused by an infrastructure failure and lasted for three days.

2. In November 2025, customers at Sunshine – Little Lake Weir were notified of a boil water noticed that was caused by a main line break.

3. In August and September 2023, a BWN was issued when the Company was informed that, while distribution system water samples complied with applicable standards, well samples from naturally occurring groundwater prior to disinfection failed to meet certain DEP standards. As a result of these failed samples, the Company sanitized the drinking water well and resampled with subsequent samples found to be in compliance.

4. In June 2023, the Company notified customers of a boil water notice at the Sunshine – Ocala Heights system. This boil water notice was caused by a low-pressure event resulting from a power failure from the electrical supplier and where the automatic transfer switch leads for the backup generator burned up.

5. On August 25, 2023, the Company was notified that, while all samples from the distribution system were in compliance, a well sample from naturally occurring ground water prior to disinfection failed. The Company immediately issued a boil water notice and was required to show that five consecutive samples were in compliance. The Company was informed on August 29 that it had met this standard.

6. On July 7, 2025, the Company issued a boil water notice resulting from a power outage at the Tradewinds system.

Importantly, while the Company had events that caused a BWN, the Company complied with DEP regulations and informed the Department of such events. Additionally, every time a BWN was issued, the Company pulled samples and had the water tested and confirmed safe prior to lifting the notice. Finally, the Company has had no samples fail following a BWN. This indicates that in all the Company's BWNs, water was deemed safe to drink.

Q. DO YOU HAVE ANY COMMENTS ON THE WASTEWATER COMPLAINT SUMMARY INCLUDED IN ATTACHMENT A?

A. The wastewater complaint summary in Attachment A includes thirteen complaints associated with odors. Twelve of those complaints predated the ownership of the system by CSWR-Florida. Only one, the 2024 odor complaint at Rolling Oaks occurred since the Company acquisition.

Importantly, an odor complaint at a wastewater plant is not necessarily indicative of an underlying operational issue at the plant. For instance, a customer noticing an odor emanating from a treatment facility may be caused by something as innocuous as a shift in the wind.

Relative to the Rolling Oaks plant specifically, however, the influent runs through a screen before entering the treatment process. The screen is designed to remove rags, wipes, and other items that cannot be treated through the treatment process. The screen then drops these items into a dumpster which is eventually dumped. The odor complaint may have been related to the odor from the dumpster.

Bottom line, odor complaints are not necessarily symptomatic of a wastewater plant that is not being operated correctly. To put in perspective, as of April 14, 2026, the Company has owned eight wastewater facilities for a total of 7,727 days and has one odor complaint.

Q. THE WASTEWATER COMPLAINT SUMMARY IN ATTACHMENT A ALSO IDENTIFIES THREE SANITARY SEWER OVERFLOWS. DO YOU HAVE ANY COMMENTS?

A. A sanitary sewer overflow ("SSO") is a release of untreated or partially treated sewage from a wastewater system. As the EPA recognizes, "SSOs occasionally occur in almost every sewer system, even though systems are intended to collect and contain all the sewage that flows into them. When SSOs happen frequently, it means something is wrong with the system."[2] SSOs can be caused by a multitude of reasons including the introduction of inappropriate materials including wipes and pads, tree roots, leaky sewers, inadequate maintenance, undersized sewers and pumps, or equipment failures.[3]

Relative to Attachment A, each of the SSOs listed occurred prior to acquisition by the Company. As indicated in Mr. Freeman's direct testimony, the Company works diligently to maintain its wastewater facilities and minimize the chance of an SSO.

Q. HAS THE COMPANY REVIEWED ATTACHMENT B TO THE DEP REPORT?

A. Yes. Attachment A contains a listing of "complaints" associated with the Company's water and wastewater facilities. Attachment B is a list of "compliance" issues with those facilities that, given the distressed nature of the assets acquired, is lengthier than Attachment A.

Q. PLEASE DISCUSS.

A. As Mr. Freeman discusses in his direct testimony, and updates in his rebuttal testimony, the Company has acquired several small, distressed, water and

[2] Sanitary Sewer Overflow (SSO) Frequent Questions | US EPA
[3] *Id.*

wastewater facilities. These systems suffer from a chronic history of under-investment and poor operational and maintenance practices. For this reason, the systems also display a history of compliance issues. Given this, at the time the systems were acquired, most had been labeled as "out of compliance" by DEP.

While some systems can be rehabilitated in the short-term through the dedication of the Company's professional operation practices or other basic remedies, most require long-term capital investment involving design, permitting, bidding, and construction activities undertaken in coordination with DEP. Given the long-term nature of these capital investment solutions, the Company will typically execute a Consent Agreement with DEP to provide the time necessary to implement these long-term solutions. However, DEP will, in the interim, typically refer to such systems as "out of compliance."

I mention this, not to dispute the fact that these systems should be included in the DEP Report, but rather to explain that the reference to these systems are a direct result of the inaction by previous ownership and that, given the long-term nature of the solutions involved, they may remain on this list for an extended period of time.

Q. WOULD YOU GIVE AN EXAMPLE OF SUCH A SITUATION FROM THE WASTEWATER COMPLIANCE PORTION OF ATTACHMENT B?

A. Yes. The wastewater compliance summary in Attachment B identifies five CSWR-Florida wastewater facilities that are currently "out of compliance": (1) Rolling Oaks, (2) Sebring Ridge, (3) CFAT – Landfair, (4) North Peninsula, and

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(5) Tymber Creek. As detailed in Mr. Freeman's direct testimony, each system suffers from complicated process issues that have their genesis in the failure of previous owners to maintain and invest in those systems.

For instance, CSWR-Florida acquired the Tymber Creek wastewater facility on May 31, 2024. At the time, the system suffered from recurring SSOs because one of the lift stations that pumps wastewater into the facility was located below flood elevation.

After the acquisition, the Company executed a Consent Order with DEP providing it with an opportunity to analyze and resolve the problem associated with the recurring SSOs. As Mr. Freeman explains in his rebuttal testimony, CSWR-Florida is actively working on this issue. An engineering project is underway to decommission the existing lift station and construct a new one out of the area where the flood plain and protected wetlands are located. While the existence of the Consent Order is referenced in Attachment B, the DEP Report continues to indicate that the system is "out of compliance."

Q. ARE THE ISSUES WITH ROLLING OAKS, SEBRING RIDGE, CFAT – LANDFAIR, AND NORTH PENINSULA SIMILAR?

A. Yes. While the exact nature of the issues may differ, the basic fact pattern still exists with all the systems: past maintenance and investment inactivity by previous owners has evolved into a long-term compliance issue that has mandated a designation of "out of compliance" and will necessitate the long-term coordination of the Company and DEP. Mr. Freeman's direct and rebuttal testimony provides a discussion of these compliance issues as well as the envisioned solution to these problems.

Q. HAVE YOU REVIEWED THE DRINKING WATER COMPLIANCE SUMMARY OF ATTACHMENT B?

A. Yes. As with the other aspects of the DEP Report, it is important to recognize that a significant number of the deficiencies occurred under previous ownership. Moreover, many of the drinking water systems exhibit the same basic fact pattern as the wastewater systems (lack of operational and investment attention by previous owners evolving into bigger system problems).[4] However, the drinking water compliance summary also details a few unfortunate problems on the Company's part. Specifically, the drinking water summary itemizes on a system specific basis, some missed or late samples items. For instance, among others, the Company missed a bacteriological sample at the Aquarina system shortly after it was acquired. Additionally, the Company missed an E coli sample at Sunshine – Ashley Heights, and the Company missed a report for the Sunshine – Country Walk facility.

Q. DO YOU HAVE ANY COMMENTS ON THESE MISSED SAMPLES / REPORTS?

A. Yes. While some of the missed items were the result of the transition in the ownership and operation of the systems shortly following an acquisition, other items were the result of the Company not extending its tracking mechanisms to

[4] *See*, e.g., hydropneumatic tank replacements at Sunshine – Ashley Heights; Sunshine – Belleview Oaks; and Sunshine – Country Walk (Freeman Direct, page 57).

include necessary samples / reports. Where possible, missed samples were rectified with DEP. Specifically, while the Company may have initially missed the scheduled sample date, it is my understanding that it resolved the situation through a late-filed sample. Still again, errors in tracking mechanisms have been corrected to avoid the problem in the future.

Q. WOULD YOU PUT INTO CONTEXT THE NUMBER OF MISSED SAMPLES RELATIVE TO THE NUMBER OF SAMPLES ACTUALLY TAKEN AND SUBMITTED BY THE COMPANY?

A. Yes. The attached tables show the number of samples taken and missed, by year and by drinking water and wastewater.

Drinking water totals only:

Year	Total Samples Required[5]	Samples Missed
2022	396	1
2023	539	9
2024	758	10
2025	567	7
TOTAL	2,260	27

Including 914 annual wastewater samples:

Year	Total Samples Required	Samples Missed
2022	1,283	1
2023	1,453	9
2024	1,672	10
2025	1,481	7
TOTAL	5,889	27

[5] Drinking water samples showed a spike in 2024 as the result of the Company completing necessary triennial sampling.

The previous tables are not intended to minimize the errors that have been made, but to put those errors into perspective and to demonstrate the overall success the Company has had in meeting DEP sampling and reporting requirements.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

BY MR. WOODSMALL:

Q Have you attached any exhibits to your prefiled testimony?

A I have.

Q Would you agree that those exhibits are Exhibits 89 through 95?

A Yes.

Q Do you have any corrections or revisions to those exhibits?

A I do not.

Q And have you prepared a summary of your prefiled testimony and rebuttal testimony?

A I have.

Q Please proceed.

A Thank you.

Commissioners, good morning.

As Mr. Cox explained, the problem of distressed water and wastewater systems requires a comprehensive solution, one that includes capable operators with the expertise to deliver reliable compliant service. My testimony focuses on that first leg of the solution, which is operational expertise. I draw on decades of experience in utility operations and engineering to explain how CSWR manages and operates its systems, and how that approach differs fundamentally from prior ownership.

In my role as Senior Vice-President, I oversee the acquisition, operation and performance of systems serving more than 177,000 connections across 11 states. Through that expertise, I have seen firsthand what it takes to stabilize underperforming systems, maintain compliance and deliver consistent service. At its core, effective operations comes down to alignment, matching the right capabilities to the realities of the systems being served. In Florida.

CSWR operates 38 water and wastewater systems that are geographically dispersed and serve relatively small customer bases. On a stand-alone basis, systems like these are challenging to manage, but with the right operational model, they can perform effectively.

The model begins with the disciplined operational oversight. CSWR maintains a clear chain of accountability, including a dedicated regional manager responsible for day-to-day supervision. And at my level, I conduct regular reviews focused on key performance metrics, emergency response, maintenance completion, compliance and cost control. This structure ensures that issues are identified early and addressed before they affect customers. But oversight alone is not enough. A second critical component is the use of technology to enhance operational performance.

CSWR deploys a comprehensive maintenance management system that tracks assets, schedules preventative maintenance and manages work orders. It is fully integrated with our customer service systems, ensuring coordination between the field and customer interface.

CSWR also utilizes remote monitoring technology that provides realtime visibility into system performance. This allows us to detect and respond to issues often before customers even notice them. Excuse me for a moment. Thank you. These tools give us the visibility and control needed to manage dispersed systems efficiently and reliably.

Another essential element is a strong focus on regulatory compliance. I oversee the CSWR environmental, health and safety team, which ensures adherence to the Safe Drinking Water Act and the Clean Water Act, and other regulatory requirements. This team manages inspections, sampling, reporting and corrective actions.

This function is becoming increasingly important as regulatory compliance grows more complex, including emerging issues such as PFAS and lead in service line inventories. Meeting these requirements demands technical expertise, structured processes and sustained attention, capabilities that smaller systems often lack.

Through CSWR's model, we bring those capabilities to the systems we serve, and that is what fundamentally distinguishes the CSWR approach from prior ownership.

As the record reflects, many prior owners lack the expertise, technology and financial capacity to implement this type of a comprehensive operational model. The result was inconsistent performance, and in many cases, chronic compliance challenges.

Our approach is different. It is built on experienced certified operators, disciplined management, layered oversight, advanced technology and a strong compliance culture, and it produces measurable results. Systems operated more reliably. Compliance improves. Infrastructure is better maintained, and customers receive more consistent service. This is not theoretical. It is demonstrated through our operations and recognized by regulators in multiple states.

The bottom line is simple, operational expertise is not optional. It is essential. Without it, systems decline. With it, they can be stabilized, improved and sustained over the long-term, and that is exactly what CSWR delivers.

My rebuttal testimony focuses on the Florida Department of Environmental Protection report offered by staff. More specifically the complaint and compliance summaries covering our water and wastewater systems.

Let me start with an important point of context. CSWR-Florida's mission is to acquire and rehabilitate distressed water and wastewater systems, systems that, in many cases, suffered from years of underinvestment and poor maintenance before we acquired them. In fact, the company has not owned any of these systems for the full five-year period covered by the DEP report. So much of what appears in that report reflects conditions that existed prior to our ownership, not the result of CSWR's operations.

Turning to the complaint data, I would like to address boil water notices first. These notices are precautionary. They are triggered by events like line breaks, power outages and pressure drops, all conditions that can lead to unsafe drinking water.

That said, however, in every instance where a boil water notice was issued under CSWR's ownership, we followed DEP requirements, conducted testing, and confirmed that the water was safe before lifting the notice. Importantly, we have confirmed no water quality failures following those notices. And essentially what that means, the entire time the BWN notice was in place, the water was still safe to drink, it was just a precautionary notice.

With respect to the wastewater complaints, the report lists 13 odor complaints, but 12 of those occurred before CSWR-Florida acquired the systems. Since that acquisition, we have had just one complaint across thousands of operating days. And I think it's actually over 7,000 operating days. Even then, odor complaints often reflect temporary conditions like wind direction or normal operational processes, not system failure.

Next on the compliant issues, the report identifies several systems as out of compliance. As Mr. Freeman pointed out, this largely reflects -- largely reflects legacy conditions. These systems were already in poor condition when we acquired them. Many require long-term capital improvements, engineering, permitting, construction, which take time to complete. In the interim, DEP may still classify them out of compliance even while we are actively implementing solutions under those agreements.

Finally, I want to address sampling reporting. While there were a number of missed or late samples, often during transmission period or acquisition, the company has corrected those process. And putting into perspective, CSWR completed over 2,200 required drinking samples and only 27 were missed over the multiple years, and nearly 5,900 wastewater samples with the samples missed. This demonstrates a high level of overall compliance and a strong commitment to improving our systems.

I see my light is turning color so I am almost done.

In closing, the DEP report reflects the historical challenges of the systems the company acquired. Our focus and our progress is on fixing those challenges, investing in infrastructure and delivering safe and reliable service to our customers.

CHAIRMAN SMITH: Thank you.

MR. WOODSMALL: Madam Chair, CSWR tenders Mr. Thomas for cross-examination on both his direct and rebuttal testimony.

CHAIRMAN SMITH: Thank you.

OPC, you are recognized.

MR. WATROUS: THANK you, Madam Chair.

EXAMINATION

BY MR. WATROUS:

Q And good morning, Mr. Thomas.

A   Good morning to you.

Q   Mr. Thomas, so CSWR relies on third-party contractors to perform much of the operation and maintenance work for its Florida's systems, is that correct?

A   As was previously pointed out in Mr. Cox's and it Mr. Freeman's testimony, we did previous to March 1st of this year.

Q   Of this year. So during the test year, you relied upon third-party contractors?

A   That is correct.

Q   And is the current CSWR workforce included in this case?

A   It is not. I would -- it's outside the test year, so no.

Q   And so during the test year, because CSWR relied upon contractors for field operations, CSWR had less day-to-day direct contract -- or control over performance, is that correct?

A   I don't necessarily agree with the way you characterized it, but we had one CSWR regional manager who provided oversight to the water and wastewater operations contractor.

Q   And that regional manager, they also oversaw other states as well?

A No. That regional manager was specific to Florida.

Q And was that regional manager an employee of CSWR or a contractor?

A An employee.

Q But that manager cannot physically be present at every system simultaneously, could they?

A No, they could not.

Q So as a result, CSWR had to rely on contractor reporting to assess field performance?

A Yes. Among other things, because CSWR has many internal controls. As a matter of fact, you know, our model from the very beginning is that although it's a contract operator operating the system, it's our computerized maintenance and monitoring system, so all that asset data, you know, all that information in terms of work orders, we were handling all that. All of the remote monitoring is our internal system, so we constantly monitor that. All the SAMs samples data, which is another system for process monitoring control. So although there were as contract -- there was a contract operator operating, all those data platforms were ours. All the oversight was ours. There was actually an extreme amount of control and involvement on our part.

Q And when you mentioned internal controls, are those internal controls documented?

A They were documented many places.

Q And CSWR selected Clear Water Services, is that correct?

A That is correct.

Q And that was through a competitive procurement process?

A It is through an RFQ, then an RFP process.

Q Is Clear Water Services located in Florida?

A I don't recall where their headquarters is, but they have many operations in Florida, not just the ones that they operated for CSWR.

Q And cost was one factor considered in selecting the successful contractor, is that correct?

A That is correct.

Q And did you do a Florida specific study comparing the cost of contractor operations to an in-house workforce?

A No. That's -- not to my knowledge.

Q And so during the test year, your opinion was that contracting what was more economical for CSWR?

A Yes, that is absolutely our position. We did not have the initial economies of scale to enter in with a full workforce. You can imagine, if you have a variety of geographic dispersed facilities and you don't have enough operators to have, you know, basically a full-time equivalent doesn't have enough work to do, that is not economical whatsoever.

Q So you didn't have the people, but CSWR kept buying systems?

A So as you have just led me to talk about here, going the contract operations route, the contract operator was able to, you know, propose a price on our system, so we were enjoying the benefits of not having to pay a full-time equivalent to operate a system. So it was and is economical to continue to pursue the acquisition of additional systems the way we perform our model.

Q And you have testified that CSWR's operational model has been successful in other states?

A Yes.

Q And the examples you cited include Missouri, Mississippi and Louisiana, is that correct?

A That is correct.

Q And did they provide customer satisfaction survey results in those cases?

A Well, I mean, I think Mr. Silas can go into a lot more detail than I can, but, yes, we do have customer satisfaction results. As a matter of fact, at our leadership team, we look at those results every week as a group.

Q And in this case, there are no customer satisfaction survey results for Florida customers?

A I mean, there are.

Q In this case?

A Oh, in this case? I don't know. That's not -- you will have to ask Mr. Silas. I am sorry.

Q And you had also spoke about CSWR's environmental health and safety team, is that correct?

A That's correct.

Q All right. And correct me if I'm wrong, but that was an individual person?

A Yeah. There is one individual person, Jessica Thomas, that lives here. However, she is supported by a complete, you know, EH&S staff too. Very similar to when, you know, Mr. Cox was -- or I think it was Mr. Cox was talking about how you have the benefit of having an entire customer service center to benefit the Florida customers.

Q And the existence of an environmental health and safety team does not guarantee compliance at every Florida system, does it?

A No, it does not.

Q And you had spoke about preexisting issues at

multiple systems?
A That is correct.
Q Didn't CSWR become responsible for these issues after purchase?
A Yes. And as Mr. Freeman talked about in his testimony. Knowing that we have these issues during acquisition, we proactively approach the DEP, and we enter into agreements on consent with them. So we tell them what we believe, you know, our knowledge of what those issues are. We lay out a plan to the best of our ability at that time, and we -- these agreements of consent, you know, they talk about specific things we have to do, and then there is a timeline to get those done.
Q And in regards to those timelines, have you -- or has CSWR requested extension on those timelines?
A That is not -- I am not the best witness for that. I do not know.
Q Thank you, Mr. Thomas. I have no further questions.
CHAIRMAN LA ROSA: Thank you.
Staff?
MR. BLOOM: We have no questions.
CHAIRMAN SMITH: Commissioners?
Commissioner Ortega.

COMMISSIONER ORTEGA: Thank you, Madam Chair.
Good morning.
THE WITNESS: Good morning.
COMMISSIONER ORTEGA: I think you answered my question from the prior witness, and thanks to the Chair, she asked one of the questions I meant to ask of the prior witness as well, but can we go back to some of the compliance issues that are ongoing, and could you just let me know which systems have you guys worked on currently during the test year to bring towards compliance if not full compliance?
THE WITNESS: So every single we own has had work done on it within the test year toward -- moving towards compliance. Mr. Freeman spoke more about the larger projects that require engineering, you know, permitting construction from an operations standpoint. Mr. Cox spoke a lot about the triage. Those are all things that are done in the early stages, but then there is ongoing, and so -- and you heard a little bit about the Sunshine systems.
The Sunshine systems are, you know, are pretty exemplary of all of the type of things that we have done in compliance, even before we have a long-term

engineering project. If you think from the very beginning -- Sunshine, by the way, is all water. So if you think about the water system itself, we will start there. Most of the time, there was zero fencing, zero security, so you have to start there.

Then you look at the wells. Many of these wells were either nonfunctional or even if they were, casings were rusted. There is vents that have to be sealed properly. There is electric, you know, electrical conduit. So wells were in bad shape.

You talk about the easements, oftentimes -- you know, even to put up fencing, you have to have a survey done so that you can know where your property line is so you can put of the fencing, but then we had difficulty from the very beginning understanding our appropriate ingress and egress to come in and maintain these facilities. And oftentimes you can't even get to them because the roads are so bad, and we have to have 24/7 365 access. So that's the well.

Then the wiring components going to the well, most of those control boxes were so old, the wiring was just very unsafe. The control boxes were falling over. We mentioned that there was no remote monitoring on any of these systems, so we put that in place, so at least we know when there is power outages, when the pump is not pumping in the well, so oftentimes we can get to it before the customer even knows.

I talk about the power. You know, I think with Sunshine, there were no generators, and so we had to come in and put the generators in.

The storage tanks at Sunshine, if you go through and look at all the different systems, most of these storage tanks, which they are called high pressure or pressure pneumatic -- high pressure pneumatic tanks, they were rusted, the weld seams were rusted. We actually had one blow up. Thankfully the operator was not injured at that time. They require an ASME tag --

MR. WATROUS: Objection. Narrative.

CHAIRMAN SMITH: Do you feel like he has --

THE WITNESS: I thought I was answering the -- oh, excuse me.

CHAIRMAN SMITH: I just want to make sure Commissioner Ortega's question is being answered. Do you think he has gone a little bit too?

COMMISSIONER ORTEGA: Thank you. I think that was very helpful and a long list of projects that you guys have worked on in that system, so thank you for providing that detail.

I think that's all I have for that particular question, but if I can have a follow-up, I have another question around the operators the contracted operators. Switching gears a little bit.

THE WITNESS: Okay.

COMMISSIONER ORTEGA: So you mentioned that there is a cost savings associated with going through this model of contracted workers. Are there other benefits that you see as using -- or that you saw using that model for the Florida systems?

THE WITNESS: So I will go back to the contract operations component for a moment.

So when you are coming into a new state, you do -- with a contract operator, you have the benefit, and if you go through you our RFQ and RFU process -- RFP process -- you have the benefit of getting Florida experienced contract operations personnel, oftentimes who actually these operators some of them were the prior operators that were hired, but given better manage and better tools. So the ability to ramp up the learning curve without any, you know, with less risk, I guess, is much greater with the contract operations approach.

COMMISSIONER ORTEGA: Okay. Thank you. That's all my questions. Thank you.

CHAIRMAN SMITH: Other Commissioners?

I have just one question. Of those systems that were in noncompliance in the test year, how many are now in compliance?

THE WITNESS: Mr. Freeman gave those numbers, and I have them right here, I believe. You know, since I don't have a summary, can I just go through them? How about I will count yeses?

CHAIRMAN SMITH: Yes. Yeah, that would be great.

THE WITNESS: From the yeses we have one, two, three, four, five, six, seven, eight, nine, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20.

CHAIRMAN SMITH: 20.

THE WITNESS: The balance of the -- the balance would be nos. And again, all of those nos are not necessarily out of compliance. If you -- in those agreements, there is a list of multiple items. Many of them could already be done and you are waiting for the determination on one final component of that agreement on consent.

CHAIRMAN SMITH: Thank you.

Redirect?

MR. WOODSMALL: Thank you, Your Honor.

FURTHER EXAMINATION

BY MR. WOODSMALL:

Q You were asked some questions about the benefits of using contract operators up front. Now that the company has gone to internalized operations, can you tell me some of the benefits of internalized operations?

A So customers, you know, just from that very foundation level, I do believe they appreciate seeing a --

MR. WATROUS: I am going to object. This is outside the scope of his testimony.

MR. WOODSMALL: Everything that -- this was all -- it was outside the scope of his testimony in his prefiled testimony because that was prepared at a time when we were using contract operations, but OPC and Commissioner Ortega talked about internalized operations, so it's not outside the scope of the questions that were asked of him.

MR. WATSON: And that was to clarify whether or not they were inside the test year or outside the test year, and these fall outside the test year.

MR. WOODSMALL: Commissioner Ortega asked some questions as well.

THE COURT: I am going to sustain the objection. I think it is outside the scope, so if you can just, yes, stick with what --

BY MR. WOODSMALL:

Q Okay. You were asked some questions by OPC basically questioning whether contract operators could, quote, "be simultaneously present at assume numerous systems", do you recall that question?

A I -- my recollection was whether a regional manager could be simultaneously present at all the locations.

Q Okay. I stand corrected.

Would you agree that one of the benefits of remote monitoring is that it is simultaneously present at all systems?

MR. WATROUS: Objection. Leading.

MR. WOODSMALL: Can you tell me what --

CHAIRMAN SMITH: Is there another way you can ask that?

BY MR. WOODSMALL:

Q -- one of the benefits of remote monitoring is?

A One of the -- there is many, but one of the benefits of remote monitoring is the fact that you do not have to have an operator present all the time. If there are issues such as power loss, or if there is a main break and you don't see pressure flowing any more, if you see a pump that's about ready to go out because the amperage is high, there is many, many benefits to remote monitoring that benefit the customer and make it more economical.

Q You used the acronyms RFP and RFQ when talking about the contract operators. Can you tell me what RFP and RFQ stand for?

A Yes. Thank you.

RFQs are request for qualifications. So first we are searching for qualified operations firms. And then after reviewing all those qualifications, we narrow it down to a select number of qualified operators to go for a request for proposal, where we are evaluating them on their price and other factors.

Q You talked with Commissioner Ortega, you mentioned that a number of the -- a number of the improvements that the company had made to these systems, and one of them you talked about was generators.

A Yes.

Q Can you tell me why the company installs generators, why is there a benefit there?

A For -- particularly for a water system, and a lot of these smaller water systems, I mention the fact that there is a well, oftentimes a single well, and there is a high pressure tank. The amount of storage in that tank is probably three or four hours. And so if you lose power, which is often the case in these kind of, I will call them rural areas where we are, if you don't have the backup generator, you are going to lose water pressure.

Q You talked with Commissioner Ortega about consent agreements. Do you recall that?

A I do.

Q And has -- first off, can you tell me what a consent agreement is?

A A consent agreement is basically just a negotiated agreement where we say certain things we are going to fix or do in a defined period of time.

Q And has CSWR brought systems out of a state of noncompliance that's under a consent agreement into compliance within the stated period of time?

A We have, and many of those ones are the ones I read out of the book as I was rattling off the yeses.

Q Okay. And you were saying something about some consent agreements will cover multiple systems, is that correct?

A It covers multiple factors, or it could, again, a large area like Sunshine, with 23 different water systems, it can cover multiple systems too.

Q Okay. And so just as a hypothetical, if you have a consent agreement that covers four systems, three of them could be in a state of compliance but not yet released off of a consent agreement because one is still in noncompliance?

A That is correct.

Q Okay. And do you believe that that has occurred with CSWR with some of these systems?

A That is the fact in the detail, and Mr. Freeman certainly has more information. There are many of the systems now that are close to coming off the agreement of consent because there is just, you know, one or two remaining items on that AOC, agreement on consent.

Q Thank you.

MR. WOODSMALL: I have no further questions, Your Honor.

I would move for the admission of Exhibits 89 through 95.

CHAIRMAN SMITH: All right. Any objections?

Seeing none, Exhibits 85 through 95 will be entered into the record.

(Whereupon, Exhibit Nos. 85-95 were received into evidence.)

MR. WOODSMALL: And Mr. Thomas testified and took cross-examination on both his direct and rebuttal, therefore, I ask for this witness to be excused.

CHAIRMAN SMITH: Mr. Thomas, you are excused. Thank you very much.

THE WITNESS: Thank you.

MR. WOODSMALL: Thank you, Your Honor.

(Witness excused.)

CHAIRMAN SMITH: You may call your next witness.

MR. WOODSMALL: Your Honor, CSWR-Florida calls Mr. Mike Duncan as its next witness.

CHAIRMAN SMITH: You may proceed whenever you are ready.

MR. WOODSMALL: May I proceed?

CHAIRMAN SMITH: Yes.

Whereupon,

MICHAEL DUNCAN

was called as a witness, having been previously duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows:

EXAMINATION

BY MR. WOODSMALL:

Q Mr. Duncan, have you previously been sworn in this proceeding?

A I have.

Q Would you statement your name and business address for the record?

A Yes. Mike Duncan. 1630 Des Peres Road, Suite 140, St. Louis, Missouri, 63131.

Q And what is your position with CSWR-Florida?

A I am Vice-President overseeing Customer Service Technology and Capital Planning.

Q Did you prepare and cause to be filed direct prefiled testimony in this proceeding?

A I did.

Q Do you have that prefiled direct testimony before you today?

A I do.

Q And do you have any corrections, revisions or clarifications to that testimony?

A I do not.

Q If I were to ask you the same questions that are contained in your prefiled testimony today, would your answers be the same?

A Yes.

MR. WOODSMALL: Your Honor, I would ask that the prefiled direct testimony of Mr. Duncan be inserted into the record as though read.

CHAIRMAN SMITH: So moved.

(Whereupon, prefiled direct testimony of Michael Duncan was inserted.)

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FPSC - COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and wastewater rates in Brevard, Citrus, Duval, Highlands, Marion, and Volusia Counties by CSWR-Florida Utility Operating Company, LLC.	)))))	DOCKET NO. 20250052-WS

DIRECT TESTIMONY OF

MICHAEL DUNCAN

on behalf of

CSWR-Florida Utility Operating Company, LLC

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Mike Duncan. My business address is 1630 Des Peres Road, Suite 140, St. Louis Missouri, 63131.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am Vice President of CSWR, LLC ("CSWR"), the affiliated company providing managerial and operational services to CSWR-Florida Utility Operating Company, LLC, ("CSWR-Florida" or "Company").

Q. WHAT ARE YOUR DUTIES AS VICE PRESIDENT?

A. At CSWR, my responsibilities include managing the information technology (IT), regulatory, and customer service operations. At the present time, I oversee such activities for affiliated companies providing water or wastewater utility services to more than 177,000 connections in Arizona, Arkansas, Florida, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, and Texas.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Arts degree with honors from Washington University in St. Louis with a major in Religious Studies. The first eleven years of my career were spent as an administrator and later director at a non-profit organization in St. Louis, Missouri. In my final position, I oversaw accounting, finance, human resources, IT and communications for the organization. During my employment at the non-profit, I received a Master's Degree in Business Administration with honors from Olin School of Business at Washington University in St. Louis. Prior to beginning with CSWR, I spent two years as Director of Operations with Auto Tire & Parts Napa, a partner-owned chain of auto parts stores, overseeing projects related to distribution, logistics, IT, and general management.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS COMMISSION?

A. No. While I have not previously filed testimony before the Florida Public Service Commission ("Commission"), I have previously filed testimony before the state utility commissions in Arizona, Kentucky, Louisiana, Mississippi, Tennessee, and Texas.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN SUPPORT OF THIS RATE CASE?

A. The purpose of my testimony is to discuss CSWR-Florida's request to consolidate rates across all its Florida operations and how consolidation will help stabilize rates and mitigate rate shock and encourage the acquisition of small, distressed systems.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. No.

RATE CONSOLIDATION

Q. HOW DOES CSWR-FLORIDA PLAN TO MITIGATE THE EFFECT ON CUSTOMERS OF THE RATE INCREASES THAT IT SEEKS IN THIS CASE?

A. It would be cost prohibitive for a small water / wastewater system to provide the professional services that customers should expect from their utilities. CSWR-Florida is able to provide these services by leveraging the economies of scale that have been created across its 11-state affiliate footprint. Even then, however, it would still be cost prohibitive to provide these services to many small systems if rates are established on a system-by-system basis. For example, if wastewater rates were established on a system-specific basis for the water system formerly owned by Aquarina Utilities, Inc., based on CSWR-Florida's proposed revenue requirement the system-specific average bill would be $74.29 as opposed to the proposed consolidated average bill of $44.22.[1]

CSWR-Florida seeks to maximize the economies of scale inherent from its ownership of several systems in Florida and the ownership of hundreds of systems in the United States by the CSWR affiliate group. These economies of scale and rate consolidation mitigate the customer impact of the rate increase in this case. Specifically, CSWR-Florida maintains that, by consolidating rates across its seven (7) water systems and across its nine (9) wastewater systems, it can mitigate the "rate shock" that would be experienced by many customers. Therefore, CSWR-Florida proposes to mitigate the impact of the rate increases it requires by consolidating rates for all of its Florida systems.[2] Under that consolidation proposal, all CSWR-Florida customers would be charged the same statewide rate for water service and/or the same statewide rate for wastewater service.

Q. WOULD YOU DESCRIBE SOME OF THE BENEFITS OF CONSOLIDATED TARIFF PRICING?

A. It has been CSWR's experience that consolidated pricing results in several benefits. ***First***, as has been well-established in the industry, single tariff pricing helps to encourage the acquisition of small, troubled water and wastewater systems by spreading costs to a larger customer base.[3] ***Second***, the consolidation of systems into

[1] Still again, in a recent CSWR-Texas rate case, the Laguna Vista / Tres wastewater system would have had a $537.55/month rate absent statewide consolidation. With consolidation, the rate for that system was mitigated to $63.28/month.

[2] While I describe the policy reasons for consolidation and the benefits resulting from consolidation, Mr. Silas implements the consolidation in his proposed rate design.

[3] In support of each of these assertions regarding the benefits of consolidation, CSWR-Florida notes testimony from the Staff in recent Missouri Public Service Commission rate cases. ""The systems that MAWC [Missouri American Water Company] has been purchasing are small systems with mostly small, primarily residential customer bases. In order to keep these small systems in proper working order so that they can continue to provide safe, adequate, and reliable service to their customers, investment is needed or will need to be made in the future. When improvements need to be made, the higher cost of upgrades must be spread over the smaller customer base, which may cause rates to increase dramatically. The dramatic increases may result in rate shock to consumers. . . In Staff's opinion, moving away from a strict DSP [District Specific Pricing] rate design philosophy will encourage not only MAWC, but other water and sewer utilities, to invest in Missouri." (Missouri Public Service Commission Case No. WR-2015-0301, Busch Direct, filed January 20, 2016, pages 8 and 9).

a single tariff mitigates rate impacts and promotes affordability.[4] ***Third***, while there may be different technologies utilized at different systems, all CSWR-Florida systems share many of the same costs of service, generally use the same third-party operations firm, and are managed to the same service quality standards.[5] ***Fourth***, the development of a single set of tariffs provides for a heightened level of regulatory, administrative, and billing efficiency. Specifically, CSWR-Florida, as well as the Commission, will not have to maintain familiarity with a multitude of rules and rates, which will lower customer costs.[6] ***Fifth***, since all systems will eventually require large capital investments over the next number of years, any perceived inequities associated with system subsidization will be short-lived and will eventually balance out.[7] ***Sixth***, since consolidated tariffs provide a more simplified approach to rates and rules, I believe that it is more consumer friendly than dozens of different rate sheets.

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[4] "Staff agrees that spreading out costs over a larger customer base will tend to lower rates." "Mr. Jenkins makes a good point that complying with regulations is expensive and spreading those costs over a larger customer base allows for the benefit of economies of scale to lower costs to the customers." (Missouri Public Service Commission Case No. WR-2017-0285, Busch Rebuttal, filed January 24, 2018, page 15 and 16). "The primary benefit of STP [Single Tariff Pricing] is that it spreads out costs to a larger customer base." (Missouri Public Service Commission Case No. WR-2015-0301, Busch Direct, filed January 20, 2016, page 6).

[5] "The consistency in costs to serve customers between districts is attributable to the fact that most of the costs of providing service to Missouri-American's customers are very similar, if not the same, from district to district because a portion of Missouri-American's statewide costs are allocated to the various districts. So, for example, Missouri-American's costs of capital will be the same for each of the districts. When Missouri-American buys pipe, meters, and other supplies, the cost of those supplies will be the same in all districts. Similarly, management salaries for Missouri-American's executives will be allocated equally to customers in each of the districts." (Missouri Public Service Commission Case No. WR-2015-0301, Report and Order, at page 12).

[6] "The reason for the difficulty in developing rates on a district-specific basis is the need to allocate corporate costs to each separate service territory. Corporate costs are a substantial portion of the cost of service for MAWC. Trying to determine the most equitable manner to allocate those costs to each service territory (especially the very small service territories) is difficult when attempting to determine the true cost of service to those service territories. Combining these service territories in the manner as Staff has in this proceeding alleviates some of the need for precision. (Missouri Public Service Commission Case No. WR-2015-0301, Busch Direct, filed January 20, 2016, page 7). Consolidation "may benefit the customers through reduced rate case expense, as is it is likely that the Company will not have to allocate as many resources to future rate cases." (*Id.*).

[7] "All water systems will eventually require large capital investments. If the cost of making those investments is spread among consolidated districts, in the long term any perceived short-term unfairness will be balanced out." (Missouri Public Service Commission Case No. WR-2015-0301, Report and Order, issued May 26, 2016, at page 16).

Q. HAVE CONSOLIDATED RATES BEEN RECOGNIZED AS A SOLUTION TO THE PROBLEM OF SMALL WATER AND WASTEWATER SYSTEMS?

A. Yes. For years it has been recognized that single tariff pricing and the consolidation of rates encourages the consolidation of small water and wastewater systems into larger utilities. For instance, in a 2008 report, the National Regulatory Research Institute stated:

> Single tariff pricing is another way to encourage mergers. Enabling a uniform rate structure or consolidated rates for systems owned by the same entity may encourage a corporate utility to grow its business by acquiring – whether contiguous or interconnected or not – other systems. With consolidated pricing, customers pay the same price even though their individual system may have unique operating characteristics and needs. Single tariff pricing makes it easier to share costs among larger numbers of customers.[8]

Q. WILL CONSOLIDATED RATES REQUIRE CUSTOMERS SERVED BY "BETTER" SYSTEMS TO SUPPORT THE COST OF IMPROVEMENTS CSWR-FLORIDA IS MAKING TO SOME OF ITS WORST SYSTEMS?

A. While this may appear to be true in the short run, it is not true if you take a longer-term view. In each of the communities CSWR-Florida serves, all of the distribution and treatment systems will eventually require major repairs and replacements. Some of those systems require more urgent investments that require upgrades and improvements now. However, over time, all the systems that CSWR-Florida acquires in Florida will require those same or similar investments. So, whatever short-term support may flow

[8] *Small Water Systems: Challenges and Recommendations*, National Regulatory Research Institute ("NRRI"), February 7, 2008 (citing to *Joint Report of the US EPA and NARUC, Consolidated Water Rates: Issues and Practices in Single Tariff Pricing*, September 1999).

between systems that are in differing states of repair and compliance initially, that situation will inevitably reverse and even out over time.

I also note that average cost pricing and state-wide rates are the rule rather than the exception in utility pricing. For example, although it may cost an electric or gas utility much more to serve some individual customers than it does to serve others, electric and gas utilities have for decades had uniform rates for all customers within each rate class.

Consolidated rates reflect the common benefits all of its Florida customers will receive from being served by CSWR-Florida, services that are provided more cost-effectively by consolidating systems to realize economies of scale, rather than system-specific rates, which would, in effect, punish customers of the currently most challenged systems for necessary investments each community will certainly require in the future.

Finally, consolidated rates have the effect of providing more gradual rate increases as compared to the huge rate increases that some systems would see under system-specific rates. For instance, a treatment plant upgrade for a system serving 26 connections such as Ocala Garden Apartments would result in a huge rate increase under a system-specific rate structure. In contrast, however, the rate increase is tempered if such costs are allowed to be spread across all of the CSWR-Florida connections.

Q. HAVE RATES BEEN CONSOLIDATED TO ANY DEGREE FOR CSWR-FLORIDA SYSTEMS ALREADY?

A. Yes. The assets CSWR-Florida acquired from Sunshine Utilities of Central Florida under one water certificate of authorization consist of 23 water systems. The rates for those systems were previously consolidated at a monthly rate of $9.57 for Ponderosa

Pines and Quail Run, and $8.72 for all other systems.

Q. HAVE CONSOLIDATED RATES BEEN IMPLEMENTED FOR OTHER CSWR AFFILIATES?

A. Yes. CSWR affiliates operating in Louisiana, Mississippi, Texas, Missouri and Kentucky have all had rates for their respective water and wastewater systems consolidated. The following conclusion from the Kentucky Public Service Commission is indicative of the logic utilized by these states in approving the consolidation of systems:

> The Commission supports the principle that utility rates should be cost based, and that in most circumstances each class of utility ratepayers should pay the costs which the utility incurs to provide that class with utility service. The majority of Bluegrass Water's customers are in the residential class. A separate rate for each geographically distinct merged system of Bluegrass Water would create unreasonable and undue hardship to individuals in some areas served by Bluegrass Water.[9]

In Arizona, where CSWR has filed a rate case (Docket No. WS-2155A-24-0219) with a proposal to consolidate rates, the Arizona Corporation Commission has issued a definitive policy statement encouraging the consolidation of water and wastewater systems.

> The private water utility industry in Arizona is highly fragmented and problematic. This Commission has seen first-hand the extent to which small water utilities sometimes struggle both financially and

[9] In re: Bluegrass Water Utility Operating Company, Case No. 2022-00432, issued February 14, 2024, at page 96.

operationally. The struggles of these companies can have direct impacts on the service they provide to their customers. Consolidating the small systems through purchases by larger systems has long been proposed as a solution to the problems associated with small systems. This Commission has endorsed consolidation through purchase at various times over the past decades. We recognize that consolidation can be an effective method of solving problems associated with small systems and propose several policies here to encourage consolidation directly.

* * * * *

Policy Regarding Rate Consolidation for Small Jointly Owned Water Utilities: The Commission has largely treated Small Utilities in rural areas as stand-alone entities for ratemaking purposes. Traditionally, a strict interpretation of the "cost user pays" principle has inhibited small water systems that do not share common facilities from consolidating rate designs. ***As a general policy, the Commission believes that the practical benefits from allowing rate consolidation involving small water and wastewater utilities far outweigh the benefits of a strict adherence to this theoretical principle.***[10]

CAPITAL PLANNING & RECOVERY

Q. WHAT IS THE PROCESS CSWR-FLORIDA USES TO ASSESS CAPITAL INVESTMENT REQUIRED FOR ITS SYSTEMS?

A. Upon reaching an asset purchase agreement with a utility, CSWR-Florida commissions third-party engineers to assess the condition of the utility assets, the compliance history

[10] Docket No. W-00000C-16-0151, Decision No. 75626, issued June 25, 2016, at pages 1 and 18 (emphasis added).

of the public water system or wastewater treatment plant, and other available operational data to develop an overall condition assessment for each system that is being acquired. These reports have been submitted with each of CSWR-Florida's acquisition applications , and they serve as the initial baseline for a capital plan for each system. Next, in the 90 days prior to closing on utility acquisition transactions, two additional assessments are completed by the CSWR Environmental, Health & Safety (EHS) team and the third-party operations and maintenance contractor to note any additional immediate capital investment needs for the system to address significant safety or operational issues that for various reasons were not captured in the initial assessment. From these three assessments, an initial capital investment schedule is constructed for each utility that includes projects to be completed over the first 1,3 and 5 years of ownership. Typically, 1-year projects address immediate compliance, service, and safety issues at the plant that do not require permitting from the Florida Department of Environmental Protection ("FDEP") to complete. Three-year projects are special projects that address compliance or service issues that require special permitting from state regulators, such as additional or modified treatment processes in wastewater treatment plans or additional treatment or capacity in water systems. Five-year projects generally address replacing components of the systems that have exceeded their useful life and have the most significant combined consequence and likelihood of failure. These projects are stored in a capital planning database in the Company's GIS system.

Once the Company owns a system, these project plans are updated as day-to-day operations help further inform the system's needs. Projects can be reprioritized and funded as needs arise in the system and service is stabilized for the community. Additional project needs that are identified are added to this database as needs arise.

All of these projects then roll up to a master capital plan for all CSWR-Florida, which allows the Company to plan capital sourcing for planned projects.

Q. HOW DOES THIS CAPITAL PLANNING EFFORT BENEFIT CUSTOMERS?

This capital planning process benefits customers by providing a roadmap for maintaining safe, reliable service for the long-term future. A five-year capital plan that is constantly being reviewed, augmented, and adjusted ensures that the Company can provide clear visibility to capital markets and to the Commission about the capital needs of the Company to continue providing safe, reliable service through prudent and targeted capital investment.

Q. DOES CSWR-FLORIDA PLAN TO USE ANY RATE MECHANISMS RELATED TO THIS CAPITAL PLAN?

Unfortunately, no such mechanisms exist in Florida to create surcharges for capital investment programs. CSWR-Florida would welcome the opportunity to implement a mechanism similar to Gas Reliability Infrastructure Program surcharge (GRIP) in Florida to provide regular review and recovery of capital investment in water systems. Capital investment surcharge programs are established and well utilized in other jurisdictions where CSWR-affiliated utilities operate, such as Arizona, Kentucky, Missouri, Tennessee, and Texas. Current cost adjustments for water and wastewater utilities in Florida allow for adjustments for increased expenses but do not adequately allow such utilities to recover costs of needed capital investment in systems without the burden of a full rate case. Creating a mechanism in Florida for capital investment programs would encourage required investment in systems to ensure safe, reliable service for customers while reducing regulatory lag for utilities while giving the Commission annual visibility into capital investment and the benefits those investments provide to customers.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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BY MR. WOODSMALL:

Q Have you attached any exhibits to your prefiled testimony?

A I have not.

Q Have you prepared a summary of your prefiled testimony?

A I have.

Q Would you please provide that to the parties and the Commission?

A Yes.

Thank you, Commissioners, for being here today.

In his summary, Mr. Cox discusses the three-legged school approach to solving the problem with distressed water and wastewater systems in this country. As he mentions, the first leg of that stool involves technical, operational, managerial and financial expertise. Mr. Cox appeared.

You have heard from Mr. Thomas and Mr. Freeman regarding the engineering and operational expertise deployed at the systems acquired by CSWR-Florida. Later, Mr. Thies will describe CSWR's financial expertise, and Mr. Silas will discuss some of the managerial expertise that CSWR brings to the systems that it acquires.

While expertise is critical, it does not work in a vacuum. As Mr. Cox concluded if you have expertise without scale, the economics fail. Scale does not occur, however, without the second leg, which is consolidation.

Most of the systems that CSWR acquires are small and distressed, and on their own they simply cannot support the level of professional operations, compliance and investments that customers deserve. Each system were priced independently. The systems will have with a -- with a small number of customers and systems with a higher cost profile may experience greater rate shock.

For instance, as shown in the updated individual minimum filing requirements, the Aquarina stand-alone water rate average bill would be $99.73 a month. By spreading costs across the statewide number of customers, Aquarina's rate and average bill is moved to a consolidated rate of $44.91.

Consolidation also provides efficiencies. Stand-alone rate design associated with the multitude of systems owned and operated by the company can be cumbersome for the company, regulators and customers. Consolidation allows these parties to familiarize themselves with a single set of rates, terms and conditions of service. These efficiencies will also lead to lower costs in the future as the company's customer experience, billing and regulatory departments administer a single set of tariffs.

Ultimately, by consolidating rates across our Florida systems, the company can spread costs across a broader customer base, stabilize bills, improve affordability, capture efficiencies, and allow the company to bring systems up to modern standards. This consolidation approach also supports CSWR's broader mission of acquiring and improving underperforming utilities.

Consolidated pricing makes it economically feasible to take on small struggling systems and invest in them knowing that costs can be managed across the platform rather than borne by a handful of customers. Over time, as every system requires upgrades, these costs naturally balance out across all customers. The benefits of consolidation and its intrinsic link to the acquisition of troubled systems was recognized as early as 2008 by the National Regulatory Research Institute. To date, state utility commissions have broadly supported CSWR's consolidation strategy. Regulators in Missouri, Texas, Kentucky, Arizona, Mississippi and Louisiana have approved the company's consolidation requests and unlocked the efficiencies and rate mitigation inherent in consolidation.

Ultimately, the company's consolidation approach reflects the consistent theme, scale drives better outcomes. By leveraging the company's Florida platform, standardizing operations and planning investments systematically, the company can lower costs, reduce regulatory complexity, provide higher quality service.

Thank you.

MR. WOODSMALL: Your Honor, tender witness Duncan for cross-examination.

CHAIRMAN SMITH: Okay. Mr. Watrous, you are recognized for cross.

MR. WATROUS: Thank you, Madam Chair, and can morning, Mr. Duncan.

THE WITNESS: Good morning.

MR. WATROUS: Sorry to disappoint, but OPC has no questions for you today.

CHAIRMAN SMITH: All right.

Staff?

MR. BLOOM: We also have no questions.

CHAIRMAN SMITH: Commissioners?

Yeah, Commissioner Ortega, ask a question, please.

COMMISSIONER ORTEGA: Thank you. Just real quickly.

I noticed in your testimony you talked about the capital planning and the opportunity to recover the cost implementing your capital plan, and you spoke about recovery mechanism that Florida doesn't have but other states does. Are you -- are you asking the Commission to implement a rate recovery mechanism like the GRIP that you mentioned in your testimony, or were you just pointing it out? Can you tell me more about that?

THE WITNESS: Just pointed it out, that mechanisms already exist in other states, such as with SERA (PH) in Missouri, or infrastructure and surcharges in Arizona; future test years in Kentucky; programs in Tennessee where we can have formula rate plans that update our rates on a regular basis to recognize improvements as they are done along the way are some of the mechanisms that we have seen that encourage capital investment in the state while getting recovery in a timely manner without having to go through the full rate case proceeding.

COMMISSIONER ORTEGA: Okay. Thank you. That's all.

CHAIRMAN SMITH: Okay. Do you have any redirect?

MR. WOODSMALL: No redirect. Thank you, Your Honor.

CHAIRMAN SMITH: Okay.

MR. WOODSMALL: Mr. Duncan did not have any exhibits, therefore, I ask the witness to be excused.

CHAIRMAN SMITH: Mr. Duncan, you are excused.

(Witness excused.)

MR. WOODSMALL: Thank you, Your Honor.

CHAIRMAN LA ROSA: So you may call your next witness.

MR. WOODSMALL: CSWR-Florida calls Mr. Brent Thies as it's next witness.

CHAIRMAN SMITH: You may proceed whenever you are witness is ready.

MR. WOODSMALL: Thank you, Your Honor.

Whereupon,

BRENT THIES

was called as a witness, having been previously duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows:

EXAMINATION

BY MR. WOODSMALL:

Q Have you previously been sworn in this proceeding?

A Yes.

Q Would you please state your name and business address for the record?

A Present Thies. Business address is 1630 Des Peres Road, Des Peres, Missouri, 63131.

Q And what is your position with CSWR-Florida?

A I am a Senior Vice-President for Accounting and Finance.

Q Did you prepare and cause to be filed prefiled direct and rebuttal testimony in this proceeding?

A I did.

Q Do you have any -- do you have that prefiled testimony before you today?

A I do.

Q And do you have any corrections or revisions to that testimony?

A Not at this time.

Q If I were to ask you the same questions that are contained in your prefiled direct and rebuttal today, would your answers be the same?

A Yes.

MR. WOODSMALL: Your Honor, I would ask that -- since Mr. Thies will appear later on his rebuttal, I would ask that his prefiled direct be inserted into the record as though read.

CHAIRMAN SMITH: So moved.

(Whereupon, prefiled direct testimony of Brent Thies was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and wastewater rates in Brevard, Citrus, Duval, Highlands, Marion, and Volusia Counties by CSWR-Florida Utility Operating Company, LLC.	DOCKET NO. 20250052-WS

DIRECT TESTIMONY OF

BRENT THIES

on behalf of

CSWR-Florida Utility Operating Company, LLC

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Brent G. Thies, and my business address is 1630 Des Peres Rd., Suite 140, St. Louis, Missouri 63131.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by CSWR, LLC ("CSWR" or "Parent"). My current position is Vice President & Corporate Controller.

Q. ON WHOSE BEHALF ARE YOU FILING THIS DIRECT TESTIMONY?

A. I am filing on behalf of CSWR-Florida Utility Operating Company, LLC ("CSWR-Florida" or "Company"), which is a subsidiary of CSWR.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS COMMISSION?

A. While I have not previously filed testimony before the Florida Public Service Commission ("Commission"), I have previously filed testimony before the state utility commissions in Arizona, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, Tennessee, and Texas.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I hold a Bachelor of Arts in Communications/Public Relations from Missouri Baptist University in St. Louis, Missouri, and a Bachelor of Science in Accounting from Liberty University in Virginia. I also hold a Master of Divinity degree from Midwestern Baptist Theological Seminary in Kansas City, Missouri, and a Master of Business Administration degree from the University of Missouri-St. Louis. I am licensed as a Certified Public Accountant in the state of Missouri.

I have been employed in the Accounting and Finance department of CSWR since July 2017. I started at CSWR as the Senior Accountant, responsible for monthly accounting work for CSWR and its regulated utility subsidiaries. This included analysis and reporting related to regulatory requirements. I was promoted to Controller in October 2018 and Vice President & Corporate Controller in February 2022. While at CSWR, I have contributed to the financial analysis, planning, and filing requirements for multiple rate case filings in other jurisdictions and various data requests and analysis items in acquisition cases in the jurisdictions where CSWR subsidiaries operate.

Before CSWR, I was the Controller of a multi-entity non-profit in St. Louis, Missouri. While at CSWR, I completed the Fundamentals, Intermediate, and Advanced Regulatory Studies Programs through the Institute of Public Utilities at Michigan State University.

Q. WHAT ARE YOUR DUTIES AS VICE PRESIDENT & CORPORATE CONTROLLER?

A. As Vice President & Corporate Controller, I am responsible for the accounting books and records of CSWR and its regulated utility subsidiaries. This includes setting financial controls and accounting policy along with the responsibility for the accurate recording of revenues, expenses, and capital expenditures. With my team, I am also responsible for billing operations, preparing and filing regulatory annual reports and responding to certain data requests for the regulated utility subsidiaries of CSWR. My responsibilities also include preparation of monthly and quarterly management reports and interfacing with external auditors and tax professionals.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. My testimony will support the quantification of the revenue requirement in this case and other selected financial and accounting issues. Specific topics covered in my testimony include:

- ▶ Accounting Controls and Budget Procedures
- ▶ Test Year and Revenue Requirement Calculation
- ▶ Operating Expenses
- ▶ Revenues
- ▶ Rate Base: including requested acquisition premiums
- ▶ Depreciation Expense and CIAC Amortization
- ▶ Test Year Known and Measurable Adjustments
- ▶ Income Taxes

Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?

A. Yes. I am sponsoring or co-sponsoring the following exhibits:

Exhibit BT-1 - Central States Water Resources Cost Allocation Manual;

Exhibit BT-2 – Cost allocation schedules and workpapers;

Exhibit BT-3 – Reconciliation of the annual report to the trial balance and MFRs; and

Exhibit BT-4 – the Minimum Filing Requirements consisting of Volume I (the Financial, Rate and Engineering MFRs, co-sponsored with witnesses Todd Thomas and Aaron Silas), which are being filed simultaneously in the Docket as required by Commission Rules.

Q. WAS THE INFORMATION CONTAINED IN THE FINANCIAL EXHIBITS OBTAINED OR DERIVED FROM THE BOOKS AND RECORDS OF CSWR-FLORIDA?

A. Yes.

Q. WERE THESE EXHIBITS PREPARED BY YOU OR YOUR STAFF UNDER YOUR SUPERVISION AND CONTROL?

A. Yes.

II. ACCOUNTING CONTROLS AND BUDGET PROCEDURES

Q. PLEASE SUMMARIZE THE CORPORATE ACCOUNTING POLICIES FOR CSWR-FLORIDA AND CSWR.

A. CSWR and CSWR-Florida keep and maintain financial accounting records on an accrual basis in accordance with General Accepted Accounting Practices ("GAAP") in the United States. The Company uses the account structure and procedures provided in the Uniform System of Accounts for Water and Wastewater Utilities as published by the National Association of Regulatory Utility Commissioners ("NARUC"). CSWR has obtained unqualified audit opinions, based on GAAP, annually since 2015. These audits have included a review of control procedures and the corporate control environment.

Q. HOW ARE THE OPERATING BUDGETS FOR CSWR-FLORIDA DEVELOPED?

A. The Company undertakes an annual budgeting process and proposes a budget to management in November of each year. Operating budgets are developed based on available data from prior periods, which are adjusted for any changes to operations. For systems that have been owned and operated by CSWR-Florida or any other affiliate, the most recent monthly results are analyzed by internal accounting and finance staff. Once known changes have been incorporated, the operating budgets are sent to operations staff for review and adjustment. For systems that are expected to be acquired, budgets are set by examining the records available from prior owners, by comparing historical data from similar facilities that are already owned and by incorporating any estimates obtained for contracted services. Once the operations team reviews, adjusts, and confirms all amounts, the budgets are sent to management for review and approval.

Q. WHAT IS THE CAPITALIZATION POLICY OF CSWR AND CSWR-FLORIDA?

A. The Company is engaged in a significant amount of capital improvement in the systems that it owns across the state of Florida. At the same time, operational enhancements and capital maintenance are ongoing. The Company seeks to capitalize all costs that represent new assets or represent costs that serve to restore, expand, or enhance the useful lives of existing assets. To limit *de minimis* items and inefficient procedures, the Company capitalizes costs of construction, individually installed equipment, or capital maintenance items that aggregate to $500 or more.

Q. ARE THERE ANY ITEMS ON THE FINANCIAL BOOKS OF CSWR-FLORIDA WHICH ARE NOT INCLUDED IN THIS RATE FILING?

A. Yes. In addition to the water and wastewater systems that it owns, CSWR-Florida is the court-appointed receiver and temporary operator for the North Charlotte water and wastewater systems. As these systems were not owned by CSWR-Florida as of the end of the test year, no operating costs or rate base items related to these systems are included in this rate filing.

III. DEVELOPMENT OF THE TEST YEAR COST OF SERVICE

Q. PLEASE EXPLAIN WHAT YOU MEAN BY THE TERM "REVENUE REQUIREMENT."

A. It is well established that the "revenue requirement" is "the revenue total that the utility is authorized to collect" and is generally set to equal the utility's cost of service.[1] The cost of service is the sum total of: (1) operations and maintenance expense, (2) depreciation expense, (3) income taxes and other types of taxes, and (4) a reasonable

[1] *See Public Utility Economics*, Garfield & Lovejoy, 1964, at page 44.

return on the utility's rate base. Formulaically, the cost of service equation is:

$$RR = E + d + T + R(V-D)$$

Where: RR = Revenue Requirement

E = Operating and Other Allowable Expenses

d = Depreciation Expense

T = Taxes

R = Rate of Return

V = Valuation of Utility Plant and other allowed assets, generally Original Cost

D = Accumulated Depreciation

(V-D) = Rate Base

R(V-D) = Earnings Allowed on Rate Base.[2]

To the extent that the revenue requirement exceeds the utility's normalized revenues at present rates, a revenue deficiency exists and a rate increase is needed.

Q. **PLEASE EXPLAIN THE PERIOD FOR WHICH THE REVENUE REQUIREMENT IS CALCULATED.**

A. The revenue requirement is determined based on the utility revenue, expenses, and rate base as reflected on the Company's books and records for the 12-month period ended January 31, 2025, which is the test year approved for this case. Due to the integration of a newly acquired system during the test year and the amount of ongoing capital investments planned or in process to provide safe and reliable service, amounts were normalized, annualized, or otherwise adjusted to make the historical test year more representative of ongoing operations. Additionally, the in-service value of certain

[2] *Id*. At pages 44-45

construction projects that had not been completed as of the end of the test year were incorporated into rate base as a component of utility plant in service. Adjustments to the test year are discussed in further detail later in my testimony.

Q. HOW DOES THE TEST YEAR RELATE TO THE ACQUISITIONS THAT HAVE BEEN MADE BY CSWR-FLORIDA?

A. As of the end of the test year, CSWR-Florida has acquired a total of twenty-six drinking water systems and two wastewater systems. These systems provide service to approximately 12,540 water connections and approximately 7,624 wastewater connections. Therefore, this rate case considers the financial impacts of those acquisitions that closed prior to January 31, 2025. No future or anticipated acquisitions are included in this case. As mentioned above, one system, Tymber Creek, was acquired during the test year.

Q. WHAT IS CSWR-FLORIDA'S CALCULATED REVENUE REQUIREMENT IN THIS CASE?

A. As found on the Schedule of Water Net Operating Income (Schedule B-1) of the CSWR-Florida consolidated filing package attached to this testimony, the Company's consolidated water revenue requirement in this proceeding, equal to the cost of providing water service, is $7,076,871 for the adjusted test year ending January 31, 2025. Similarly, as found on Schedule of Wastewater Net Operating Income (Schedule B-2) of the CSWR-Florida consolidated filing package attached to this testimony the Company's consolidated wastewater revenue requirement for the January 31, 2025, test year is $4,287,200. Per the requirements of the Commission, the Company has provided a full set of filing schedules for each tariff district. The table below outlines the revenue requirements and average water and wastewater rates for each individual system as well as for the fully consolidated company.

Q. WHAT IS THE COMPANY'S RETURN ON EQUITY ("ROE") AT CURRENT RATES?

A. To date, CSWR-Florida has incurred operational losses on its water and sewer operations each year of the Company's existence. The Company's total retained net operating loss as of the end of the test year is approximately $3,935,392. This accumulated loss is reflective of many factors, including the cost associated with proper and professional operations of the Company's systems and the reality that many of the systems acquired by CSWR-Florida had not experienced rate increases in many years. This ongoing net operating loss results in an ROE of -8.98%% for water and –1.77% for wastewater. In many cases, the operating losses incurred by CSWR-Florida had been experienced by the prior owners of the systems. In fact, a review of annual report data from the year immediately prior to CSWR-Florida's acquisition, shows that six of the eleven acquired systems recorded a net operating loss. This fact illustrates that the rates charged by the systems acquired by CSWR-Florida were insufficient to cover operating costs and a provide a fair and reasonable return on invested capital to the owners.

Q. **WHAT RATES OF RETURN ON RATE BASE AND RETURN ON EQUITY WERE USED TO CALCULATE THE REVENUE REQUIREMENT IN THIS CASE?**

A. In arriving at the return on rate base values included in the calculation of the test year revenue requirement, the Company used the leverage formula as outlined and approved by the Commission in docket 20240006-WS on May 22, 2024, to determine its Return on Equity ("ROE"). The leverage formula is as follows.

Return on Equity = 6.94% + (1.719%/equity ratio)

The Company used its actual capital structure for the calculation, which, as of January

31, 2025, included 97.43 equity and 2.57% debt. When the equity ratio was placed into the formula, the resulting calculated ROE is 8.76%.

CSWR-FL ROE = 8.74% +(1.719%/97.76%)

As of the end of the test year, CSWR-Florida has been unable to source any debt using its own creditworthiness. Commercial banks and lenders generally require that a company's operations generate sufficient cash flows to service debt. This means that enough cash must be available for interest and principal payments after all daily operations have been funded. Given that CSWR-Florida has already incurred millions of dollars in operating losses and will continue its loss position until sufficient rates can be charged, it is not possible for the Company to obtain commercial debt. CSWR-Florida hopes to be able to source commercial debt once rates from this case are put into effect. A number of CSWR's regulated affiliates in other states have been able to secure commercial debt once positive cash flows can be generated through rates. The only debt that is on the books of CSWR-Florida is from its Parent. The debt is based on a note between the Company and the Parent and carries the same rate of interest (8.5%) as that charged to the Parent. This debt became available to CSWR-Florida in November 2024 and up until that time all capital sourced by the Company was equity provided by the Parent. For that reason, the Company's actual capital structure is heavily weighted toward equity as of January 31, 2025.

Based on the ROE calculated using the Commission's leverage formula, the Company's interest rate on its short-term debt and its capital structure, the return on rate base is calculated as 8.76%. The table below provides the full calculation.

Items of Capital	Total Value	% of Structure	Cost	Contribution
Equity	27,393,575	97.43%	8.79%	8.54%
Short-term debt	722,441	2.57%	8.50%	0.22%
Totals	28,116,016	100.00%		8.76%
TOTAL RATE OF RETURN ON RATE BASE				**8.76%**

IV. <u>OPERATING EXPENSES</u>

Q. PLEASE DESCRIBE THE COMPANY'S TREATMENT OF OPERATING EXPENSES.

A. The operating expenses included in CSWR-Florida's cost of service are categorized into three main groups. ***First***, some costs are directly incurred by CSWR-Florida, including contract operations and maintenance, fuel & power, chemicals, bad debt, depreciation and amortization, property taxes, and administrative expenses. ***Second***, there are costs incurred by CSWR-Florida that are part of contracts or invoices for services provided to all CSWR subsidiaries. These are combined for administrative and cost efficiency and directly charged to the operating utility subsidiaries for which the service was provided. These jointly billed costs include property and liability insurance, certain software and management consulting services, and billing system costs. ***Third***, there are indirect charges in the form of overhead charges allocated to CSWR-Florida by its Parent, CSWR. The methodologies used to assign direct charges, jointly billed charges, and indirect charges to CSWR-Florida are the same as those used to assign charges to all other CSWR affiliates and are part of CSWR's written accounting policy as outlined in the Company's Cost Allocation Manual ("CAM").[3]

[3] Details regarding the Company's Cost Allocation Manual is described in greater detail below.

A. DIRECTLY INCURRED COSTS

Q. PLEASE DESCRIBE CONTRACT OPERATIONS EXPENSE, WHICH IS A DIRECTLY ASSIGNED COST.

A. CSWR-Florida does not employ water or wastewater field operations staff but instead contracts with professional third-party water and wastewater operations and maintenance companies. These contractors are managed by an employee of CSWR who is assigned to manage the system operations of CSWR-Florida.[4] This model provides the ability to expense operations and management costs in a direct manner that does not require further allocation methodologies. Since these contract operations costs are incurred exclusively for CSWR-Florida, they are billed directly to CSWR-Florida. Similarly, operations and management costs for other state utility operating subsidiaries are billed directly to that subsidiary.[5]

Q. WHAT AMOUNT OF BAD DEBT EXPENSE IS INCLUDED IN THE FILING?

A. The Company has historically experienced a bad debt expense equivalent to 1% of gross revenue. This is also the amount the Company uses for planning purposes. This amount has been included in the cost-of-service calculations as a directly incurred expense.

Q. ARE THERE OTHER COSTS THAT ARE DIRECTLY ASSIGNED TO CSWR-FLORIDA?

A. Yes. My reference to third-party operations and maintenance costs and bad debt expenses are simply examples of costs that are directly assigned, with third-party operations and maintenance being the largest. As mentioned earlier, other costs that

[4] Please see the testimony of Mr. Todd Thomas for a discussion of the duties of CSWR-Florida's regional manager.

[5] CSWR-Florida's process for operating and maintaining its properties using outside contractors is discussed in greater detail in the direct testimony of Company witness Todd Thomas.

are directly assigned include fuel and power, chemicals, depreciation and amortization, property taxes, and administrative expenses.

Q. DID ANY DIRECTLY ASSIGNED COSTS HAVE TO BE ANNUALIZED?

A. Yes.

Q. PLEASE EXPLAIN WHAT IS MEANT BY ANNUALIZED COSTS.

A. As set forth in *Accounting for Public Utilities*, "historic data will likely require restatement for actual occurrences not expected to recur or for events that are expected to occur but did not exist (in whole or in part) in the test year."[6] The treatise then explicitly recognizes that one of the various types of pro forma adjustments are "annualizing adjustments (to extend over the period, or to eliminate from the period, events that had partial period effects and are either recurring or have terminated.)"

As applied to CSWR-Florida in this rate proceeding, the most significant type of annualization involved the restatement of cost and revenues for the system that was acquired during the test year. For this system, CSWR-Florida did not incur a full year of expenses or revenues.[7] Thus, because it was acquired during the test year, expenses and revenues for Tymber Creek needed to be annualized.

Q. PLEASE EXPLAIN HOW YOU ANNUALIZED EXPENSES FOR THE TYMBER CREEK SYSTEM.

A. The annualization methodology is straightforward. Specifically, the Company used historic actuals and known values to project the totals that would be incurred for a full year of operations. Thus, since Tymber Creek was acquired four months into the test year (May 2024), the Company only booked expenses for eight months. The monthly average of the eight months of expense was used to calculate the average run rate of

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[6] *Accounting for Public Utilities*, Hahn & Aliff, 1989, Section 7.05.

[7] Additionally, CSWR-Florida was unable to obtain raw data for expenses or revenue due to poor record-keeping by prior ownership, which is not uncommon for non-viable utilities.

the particular expense for the system. The run rate was then used to estimate the annualized expense and revenue for the four-month period where no expenses were incurred during the test period.

Q. WERE THERE ANY OTHER ADJUSTMENTS MADE TO DIRECTLY INCURRED COSTS?

A. Yes. CSWR-Florida has made known and measurable adjustments to the test year level of expenses for certain costs that changed during or after the end of the test year. These include adjustments made to Miscellaneous Expense and Depreciation Expense to normalize the historic test year level of expense and establish the true cost of service. They also include adjustments to customer billing expense and contract operations expense.

Q. **PLEASE DESCRIBE THE ADJUSTMENT TO CUSTOMER BILLING EXPENSE.**

A. As described in the testimony of Aaron Silas, CSWR has used a third-party contractor to provide customer service support and call center services. The same vendor has provided these services to all of CSWR's regulated utility affiliates for many years. During the test year, CSWR was able to negotiate a cost decrease that became effective January 1, 2025. The lower cost was used to apply a known and measurable decrease to the test period cost of service in this case. This cost was allocated to the separate tariff areas based on customer count. The total for this adjustment is a decrease of $50,449 for water and $30,672 for wastewater.

Q. PLEASE DESCRIBE THE ADJUSTMENT TO CONTRACT OPERATIONS EXPENSE.

A. As mentioned above, CSWR-Florida uses a third-party contractor to provide water and sewer system operations. The scope of the work of this contractor is described more fully in the testimony of Company witness Todd Thomas. After a formal request for proposal (RFP) and bid process, the contract with the contract with the third-party operations firm was renewed, necessitating a known and measurable adjustment to expense. The adjustment was allocated to specific tariffed areas based on the specifics of the contract. The total for this adjustment is an increase to the base fee of the contract of $245,305 for water and $255,007 for wastewater. The contract now includes certain additional components of operational cost including testing, chemicals and sludge hauling. The adjustment for inclusion of these costs in the contract result in a decrease in operating expense of $207,931 for water and $123,866 for wastewater.

B. JOINTLY BILLED COSTS

Q. HOW DOES CSWR ALLOCATE JOINTLY BILLED COSTS?

A. As the managing entity for its various operating utility subsidiaries, CSWR can negotiate agreements on behalf of its subsidiaries that reflect economies of scale and administrative efficiencies each affiliate could not achieve on its own. These charges are referred to as jointly billed charges. Examples include insurance costs and certain software costs. When this situation occurs, CSWR identifies the cost drivers related to the incurred service and directly charges that cost to its utility operating subsidiaries consistent with those cost drivers, as stated in the CAM.

Q. PLEASE DESCRIBE THE INSURANCE EXPENSE INCLUDED IN THE TEST YEAR, WHICH IS A JOINTLY BILLED COST.

A. Property, general liability, and environmental liability insurance coverage is provided to CSWR-Florida and other utility subsidiaries as part of a single policy held by CSWR. The policy is billed to CSWR but covers all the regulated utility subsidiaries owned by CSWR. Procuring a combined policy creates cost efficiencies and results in better coverage than might otherwise be obtained should each utility operating company seek an individual policy. The costs for the policy coverage are allocated to CSWR-Florida and each regulated utility subsidiary based on the replacement values of covered assets. Again, insurance expense is simply an example of a cost that is jointly billed. There are other costs that are jointly billed to the utility operating subsidiaries.

Q. PLEASE IDENTIFY AND DESCRIBE ANY ADJUSTMENTS TO JOINTLY BILLED COSTS.

A. First, an adjustment was applied to the test year expense for property insurance. The annualized run rate of expense for the newly acquired systems was incorporated into the test year property insurance expense along with a reconciliation for all other service areas. In 2024, the total cost of the Company's policies decreased, leading to a reduction in the amount billed to CSWR-Florida. The adjustment to property insurance expense has been included to accurately reflect a full twelve months of the reduced insurance expense under the current policy. Please see the Schedule of Adjustments to Operating Expense (Schedule B-3), attached to this testimony, which outlines all known and measurable adjustments to the test period.

C. <u>INDIRECT CHARGES</u>

Q. WHAT ARE INDIRECT CHARGES?

A. Indirect costs are those that cannot be directly charged to the operating subsidiaries. For instance, certain general and administrative expenses are allocated to CSWR-Florida and other operating subsidiaries from their parent, CSWR. These expenses support the operations of all operating subsidiaries, including CSWR-Florida, and include the cost of corporate managerial services such as executive management, legal, accounting, engineering, compliance, operations, human resources, customer experience, and other business services. These shared administrative expenses allow CSWR-Florida and its component systems to benefit from the cost efficiencies and shared expertise of a larger organization that otherwise would not be available to a company like CSWR-Florida. Further, if CSWR did not provide these services to CSWR-Florida, the Company would need to employ personnel to provide those services because they are required for utility operations.

Q. DO COSTS ALLOCATED FROM CSWR INCLUDE PAYROLL AND BENEFITS COSTS?

A. Yes. The overhead allocations include payroll and benefits costs for CSWR employees who perform tasks and provide services necessary for CSWR-Florida to function.

Q. DOES CSWR EXCLUDE ANY COSTS FROM THE POOL OF INDIRECT ALLOCATION EXPENSES?

A. Yes. CSWR incurs expenses that are excluded from the calculation of costs that are allocated to its subsidiaries. In addition to costs such as advertising, lobbying and charitable donations, CSWR also excludes certain charges which are related exclusively to business development activities.

Q. HOW ARE INDIRECT CHARGES ALLOCATED TO CSWR-FLORIDA?

A. As described in the CAM, CSWR uses a three-factor formula to allocate general and administrative costs and other corporate overhead costs that cannot otherwise be directly assigned or jointly charged to its subsidiaries. The component factors of the allocation formula are operating expense, customer count, and utility plant in service (“UPIS”). These factors correspond to the significant drivers of these corporate overhead expense that CSWR incurs for its affiliates. For example, a higher level of operating expense in a particular subsidiary would naturally require more time and higher expense at the corporate level to perform the necessary accounting procedures to track costs and ensure timely payment of vendors. Similarly, a larger number of customers at a particular subsidiary would result in more management time, and the associated compensation expense, devoted to that subsidiary from groups like the Customer Experience staff. Calculation of the three-part Overhead Allocation is reviewed at the end of each fiscal quarter by CSWR management. For the expense included in this filing, the total allocated overhead expense during the test year was determined using the actual cost incurred by CSWR for the period and adjusted for known and measurable items.

Q. WHAT IS THE TOTAL AMOUNT OF COST ASSIGNED TO CSWR-FLORIDA FROM CSWR?

A. The total amount of overhead costs allocated from CSWR to CSWR-Florida as part of the calculation of cost of service is $1,575,945. Of this total, $1,193,333 is a direct charge based on costs associated with CSWR employees assigned in full or part to CSWR-Florida. The remainder of the charge is indirect cost allocated to CSWR-Florida by CSWR and includes the cost types described earlier in this testimony. Once allocated to CSWR-Florida based on the three-factor formula, costs are allocated to individual tariff districts based on connection counts. The table below shows the amount of CSWR's cost assigned to each tariff district.

C5-523

Water/Wastewater	Acq Filing	Allocation %	Cost Allocation
Water	Aquarina	2%	$ 34,545
Wastewater	BFF Corp	1%	$ 8,988
Water	CFAT H2O Landfair WWTF	1%	$ 18,601
Water	Neighborhood Utilities	2%	$ 34,936
Wastewater	North Peninsula	3%	$ 48,066
Water	Rolling Oaks Utilities	31%	$ 491,135
Wastewater	Sebring Ridge Utilities	1%	$ 22,431
Water	Sunshine Utilities	21%	$ 324,505
Wastewater	TKCB	1%	$ 21,962
Water	Tradewinds Village	3%	$ 42,673
Water	Tymber Creek Utilities, Incorporated	2%	$ 33,685
Wastewater	Aquarina	2%	$ 27,042
Wastewater	CFAT H2O Landfair WWTF	1%	$ 18,758
Wastewater	Tradewinds Village	2%	$ 30,325
Wastewater	Tymber Creek Utilities, Incorporated	2%	$ 32,826
Wastewater	Rolling Oaks Utilities	24%	$ 385,467
		100%	$ 1,575,945

Q. IS CSWR'S CAM REASONABLE?

A. Yes. As reflected in Exhibit JC-1 attached to the direct testimony of Mr. Josiah Cox, CSWR has several affiliate entities across its eleven-state operational footprint. The affiliates are organized primarily by state. Each state in which CSWR affiliates operate has at least two holding companies, which contain no transactional activity, and at least one regulated state operating company. When allocating costs, CSWR directly assigns costs as much as possible. To the extent that a cost is directly incurred on behalf of a particular state utility operating company, it is billed to that state. In this way, CSWR avoids the possibility that a cost that is beneficial to one state impacts another. As discussed previously, there are instances, however, when costs cannot be directly billed to CSWR's utility operating subsidiaries. These jointly billed costs are billed by CSWR in such a way that they are only assigned down from CSWR and are never assigned from one state operating entity to other states. This helps to maintain costs at the state that receives the benefits.

In addition to the policies for incurring and allocating expenses, it is worth noting that CSWR does not have any non-regulated operations. While CSWR uses many vendors for engineering, construction, operations, and some customer service functions, these are all third parties, independent from CSWR. Ultimately, other than equity and working capital contributions provided by CSWR or the allocation of indirect costs from CSWR, the state operating entities do not engage in any affiliate transactions. Given that there are limited affiliate transactions (including none to the state or intermediate holding companies), and that CSWR provides the same services for all its regulated utility subsidiaries, I believe that CSWR's allocation methodology is reasonable to CSWR-Florida's customers.

Q. ARE ANY COSTS ASSIGNED OR ALLOCATED TO CSWR-FLORIDA THAT COME FROM AFFILIATES BESIDES CSWR?

A. No, CSWR-Florida does not transact business with its affiliated state utility entities. Instead, affiliate transactions are limited solely to equity and working capital contributions provided by CSWR or the allocation of indirect costs from CSWR associated with management activities provided by CSWR. Relative to such management activities, the costs charged to CSWR-Florida are at CSWR's actual cost and are composed of the same component pieces as those charged to other affiliates. Therefore, the prices charged to CSWR-Florida are no higher than the prices CSWR charges to other affiliates for the same item. Costs for corporate overhead items such as rent, office supplies, and salaries are subjected to the allocation methodology described above but are not otherwise modified before being expensed to the books and records of any subsidiary.

Q. HAS CSWR-FLORIDA INCLUDED ANY COSTS ASSOCIATED WITH CHARITABLE OR CIVIC CONTRIBUTIONS, LEGISLATIVE ADVOCACY

EXPENSES, OR POLITICAL/PROMOTIONAL ADVERTISING?

A. No. CSWR-Florida has not included any costs related to donations, lobbying activities or political/promotional advertising.

Q. PLEASE DESCRIBE ANY RATE CASE EXPENSE THE COMPANY HAS INCLUDED IN THIS FILING.

A. The Company has incurred costs associated with preparation of financial exhibits and supporting testimony. Rate case expenses also include the cost of Florida regulatory counsel involved in this proceeding. Rate case expense will also include printing, mailing, and publication costs imposed of communication with customers as part of the rate case process. The Company expects to update rate case expense amounts as invoices are received throughout this case.

Q. HOW IS RATE CASE EXPENSE TREATED FOR PURPOSES OF COST OF SERVICE?

A. It is my understanding that Florida utilities typically recover rate case expense as a line-item surcharge on customer bills. Given that the final amount of rate case expense is unknown at this point, I would propose that rate case expense be updated at the time of the hearing or in the context of any settlement agreement. I then propose that the final amount be amortized over three years. The amortized amount should then be allocated between water and sewer operations and recovered based upon equivalent residential units for water and wastewater. An estimate of CSWR-Florida's rate case expense and the proposed surcharge is attached to this testimony.

V. REVENUES

Q. CAN YOU EXPLAIN THE ROLE THAT REVENUES HAS IN THE QUANTIFICATION OF THE REVENUE DEFICIENCY?

A. Yes. A utility's revenue requirement for a test period is calculated based upon a return on capital invested plus allowable operating and other types of expenses. This revenue requirement is then compared to the expected revenues for the same test period. The difference between test period revenue requirement and test period revenues is the utility's test period revenue deficiency.

Q. HOW DID THE COMPANY CALCULATE TEST PERIOD REVENUES?

A. In general, the Company used actual and annualized revenues from the twenty-six water and the two wastewater systems that the Company owned as of January 31, 2025.

Q. PLEASE EXPLAIN WHAT IS MEANT BY "ANNUALIZED REVENUES."

A. As explained previously with regard to operating expenses, proper ratemaking accounting necessitates certain data be restated for events that did not exist, in whole or in part, for the test year. Thus, while revenues for most systems were collected by CSWR-Florida for an entire twelve months, revenues for a system that was acquired during the test period would need to be annualized in order to include a full twelve months of those expenses.

Q. HOW DID THE COMPANY ANNUALIZE REVENUES FOR THE TEST PERIOD?

A. CSWR-Florida analyzed revenues for each system the Company owned as of the end of test period. For the Tymber Creek system, revenues needed to be annualized because that system was not owned by CSWR-Florida for a full year. The Company took the number of bills in the last month of the test period and multiplied them by the average monthly revenue by customer. This expected monthly revenue figure was then multiplied by twelve to provide an annualized expected revenue for Tymber Creek. The Company then subtracted the test period actual revenues from these annualized numbers to get the proforma revenue adjustment for the test year.

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VI. RATE BASE

Q. WHAT ARE THE COMPONENTS OF RATE BASE INCLUDED IN THIS FILING?

A. Major components of rate base include:

- ►UPIS, including the recovery of proposed acquisition premiums which are being sought by the Company in other dockets
- ►Accumulated Depreciation
- ►Contributions in Aid of Construction ("CIAC")

Each of these major components is described in the testimony that follows.

A. UTILITY PLANT IN SERVICE

Q. PLEASE DESCRIBE UPIS.

A. UPIS includes the original cost of acquired systems and post-acquisition improvements necessary to provide safe and reliable sewer and water services. UPIS also includes recovery of proposed acquisition premiums for the North Peninsula, Aquarina, and Sunshine Utilities systems. UPIS in this filing includes asset values for all systems that were owned and operated by CSWR-Florida as of January 31, 2025. The thirteen-month average balances of UPIS for water and sewer as of January 31, 2025, are shown in the **Schedule of Water Rate Base (A-1) and Schedule of Wastewater Rate Base (A-2)** attached to this testimony. I will address each component separately.

1. Original Cost of Assets

Q. WHAT IS THE ACCOUNTING TREATMENT THAT CSWR-FLORIDA HAS USED IN RECORDING HISTORICAL ASSET VALUES FOR ITS ACQUISITIONS?

A. The Company's determination of accurate net book values began with an examination of the historical values of acquired assets using books and records provided by prior

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owners, including the annual reports provided to the Commission, when available. Where these values were available in sufficient detail, they were the primary source of the information used to initially record the amounts of the acquired assets. This is in keeping with the Utility Plant Instructions contained in the Uniform System of Accounts published by the NARUC, which is the system of accounts this Commission directs water utilities to use in Florida. As it relates to an acquired system, the instructions state, "all amounts included in the accounts for utility plant acquired as an operating unit or system, shall be stated at the cost incurred by the person who first devoted the property to utility service."[8] Where detailed annual reports were available, CSWR-Florida adjusted the balances for any known and measurable changes that have occurred since the annual report was filed and used the adjusted values to create acquisition date accounting entries on its books.[9] In each of CSWR-Florida's acquisition cases, historical book values were reviewed and discussed with Commission Staff. The Company has used the values assigned or agreed to in the acquisition cases for its determination of historical book values.

Q. HOW DOES CSWR-FLORIDA DETERMINE THE REASONABLENESS OF THE PURCHASE PRICE FOR A SYSTEM?

A. When evaluating a system for possible acquisition, CSWR-Florida routinely consults publicly available documents (such as Commission annual reports and information available from health and environmental regulators) and conducts site visits to gauge for itself the plant configuration and the condition of equipment. However, the final purchase price is determined based on arms-length negotiations between the parties,

[8] Uniform System of Accounts for Class A Water Utilities. National Association of Regulated Utility Commissioners, Washington, D.C., p. 20 (1996).

[9] Please note that the known and measurable changes in this instance consisted primarily of adjusting the accumulated depreciation reserve by calculating depreciation expense between the date of the annual report used to obtain asset account balances and the date of acquisition.

with CSWR-Florida's objective being to pay the least amount necessary to acquire the system, make necessary improvements, and establish rates based on a reasonable cost of service.

Q. HAS CSWR-FLORIDA EVER ACQUIRED A SYSTEM OR ASSET FROM AN AFFILIATE?

A. No. Each of the systems purchased in Florida was purchased from a non-affiliated, wholly independent third-party.

2. Acquisition Premiums

Q. WOULD YOU EXPLAIN WHAT AN ACQUISITION PREMIUM IS?

A. Yes. An acquisition premium is generally the amount by which the purchase price exceeds the net book value of the acquired assets.

Q. WOULD YOU PROVIDE THE ACQUISITION PREMIUM THAT IS BEING SOUGHT FOR EACH SYSTEM IN THIS CASE?

A. Yes. The acquisition premium that is being sought before the Commission for each acquisition is reflected in the following table.

Acquisition	Docket	Acquisition Premium
Aquarina	20210093-WS	$2,009,303
Sunshine	2021-0095-WU	$5,457,165
North Peninsula	2021-0133-SU	$1,196,741

Q. DOES THE COMMISSION ALLOW FOR THE RECOVERY OF ACQUISITION PREMIUMS?

A. Yes. As explained by Mr. Cox, the Commission allows for the recovery of acquisition premiums based upon consideration of specific conditions. As reflected in his testimony, Mr. Cox briefly addresses these conditions. However, because the

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acquisition adjustments for each of the acquisitions I previously mentioned are the subject of separate dockets focused solely on that issue, most of the Company's evidence in support of the proposed acquisition adjustments is presented in those dockets. Ultimately, CSWR-Florida believes it meets all conditions and should be granted recovery of each acquisition-specific acquisition adjustment.

Q. DOES CSWR-FLORIDA SEEK TO RECOVER AN ACQUISITION ADJUSTMENT FOR EACH OF THE SYSTEMS IT HAS ACQUIRED TO DATE?

A. No. As Mr. Cox explains, CSWR-Florida only seeks to recover an acquisition premium for those systems for which the Company has had sufficient time in which to make capital improvements and service improvements necessary to allow the acquired non-viable system to be transformed into a viable system. As such, CSWR-Florida seeks to recover in rate base an acquisition adjustment associated with the following acquisitions: Aquarina, Sunshine Utilities and North Peninsula.

Q. HOW DOES CSWR-FLORIDA PROPOSE TO ADDRESS THE ACQUISITION ADJUSTMENTS FOR THE REMAINING ACQUISITIONS?

A. As mentioned, CSWR-Florida does not seek to recover an acquisition adjustment associated with an acquisition until it has had adequate time to make the capital investments and service improvements necessary to transform a non-viable system into a viable system. As such, CSWR-Florida intends to seek recovery of the acquisition adjustments in future dockets and incorporate any premiums for these remaining systems in a future rate case before the Commission.

Q. WHAT AMORTIZATION PERIOD DOES THE COMPANY SEEK TO UTILIZE FOR THE REQUESTED ACQUISITION ADJUSTMENTS?

A. Utility water and wastewater plant assets, such as underground collection and distribution pipes, are long-lived assets, often with useful lives of fifty years. Various other assets including structures, tanks, and treatment equipment have lives that are twenty years or more. Generally, CSWR-Florida believes acquisition adjustments should be amortized at a rate similar to the useful lives of the plant assets that constitute the system to which the adjustment applies. For this reason, I recommend an amortization period of thirty (30) years for the requested acquisition adjustments. A thirty-year amortization period for proposed acquisition adjustments has been used in the calculation of the revenue requirement in this case.

B. ACCUMULATED DEPRECIATION

Q. WHAT IS ACCUMULATED DEPRECIATION?

A. As the name implies, accumulated depreciation is simply a quantification of the depreciation that has accumulated on plant used in water or sewer utility service since the asset was placed in service. Since it reflects a reduction in the value of an asset that was recovered by the utility from ratepayers, accumulated depreciation is an offset to rate base.

Q. PLEASE DESCRIBE THE CALCULATION OF ACCUMULATED DEPRECIATION.

A. Accumulated depreciation consists of the historical total of UPIS depreciation to date. Where available, the balances in accumulated depreciation that were associated with assets acquired by CSWR-Florida from the prior owners have been carried forward on the books of CSWR-Florida. Acquired assets and those improvements that CSWR-Florida has subsequently placed into service have been depreciated according to rates previously approved by the Commission for the prior owner. The values for accumulated depreciation that are included in rate base are based on life to date depreciation of UPIS placed into service as of January 31, 2025.

C. CONTRIBUTIONS IN AID OF CONSTRUCTION

Q. WHAT ARE CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")?

A. CIAC reflects non-refundable money or physical property that is received from third parties and thus is not considered to be investor supplied capital. An example would be a portion of a water or sewer main that was relocated to accommodate road alignment changes and the relocation was funded by a local municipality. Another example includes tap fees that a customer pays to connect to the water or sewer system. Where the tap fee is equivalent to the cost of the assets and labor required to connect a customer to the system, the tap fee should be accounted for as CIAC. CIAC balances are calculated as of the end of the test period.

VII. DEPRECIATION EXPENSE AND CIAC AMORTIZATION

A. DEPRECIATION EXPENSE

Q. WHAT IS DEPRECIATION EXPENSE?

A. Depreciation expense is the recovery, over time, of the capital investment represented by UPIS. Typically, depreciation rates that reflect the expected lifespan of a particular asset, as well as the cost of removal of that asset upon retirement and the salvage value of the retired asset, are determined through a depreciation study.

Q. HAS THE COMPANY USED A DEPRECIATION STUDY TO PROPOSE DEPRECIATION RATES IN THIS CASE?

A. No. While the Company initiated a depreciation study, such a study can be an expensive undertaking for a company the size of CSWR-Florida. Therefore, because the Commission has published recommended depreciation rates for water and wastewater systems, the Company has applied the Commission's recommended depreciation rates for class A water and wastewater utilities to all of its rate base assets in this case.

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Q. WHAT DEPRECIATION RATES HAS CSWR-FLORIDA BEEN USING FOR THE ASSETS THAT IT HAS ACQUIRED AND CONSTRUCTED?

A. Consistent with its approved acquisition applications, CSWR-Florida has been using the depreciation rates provided by the Commission.

Q. WHAT DEPRECIATION RATES DOES CSWR-FLORIDA PROPOSE TO UTILIZE GOING FORWARD?

A. The Company proposes to utilize a single set of depreciation rates for all of its water and wastewater assets. The utilization of a single set of depreciation rates not only simplifies the Company's books and records, it will also simplify the ratemaking process going forward. Therefore, CSWR-Florida proposes that it be authorized to utilize the rates set forth by the Commission for class A water and wastewater utilities.

Q. WOULD YOU PLEASE DESCRIBE THE DEPRECIATION EXPENSE REQUESTED FOR RECOVERY IN THIS CASE?

A. Yes. Depreciation expense was calculated by multiplying the test year average UPIS balances for each plant account by the depreciation rates. Depreciation expense is shown on **Net Depreciation Expense-Water (Schedule B-13) and Net Depreciation Expense-Sewer (Schedule B-14)** attached to this Testimony.

B. CIAC AMORTIZATION

Q. HOW SHOULD CIAC BE TREATED FOR RATEMAKING PURPOSES?

A. As mentioned, CIAC balances are not investor-supplied capital. As such, it is inappropriate for the Company to earn a return on CIAC balances. That said, however, CIAC is also associated with an actual physical asset. As with assets funded through investor capital, CIAC-related assets also deteriorate over time. As such, CIAC balances also diminish over time. In this case, CSWR-Florida proposes to amortize CIAC balances for particular plant accounts over the same time as similar accounts

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funded by investor capital are depreciated. CIAC amortization, which is similarly calculated by multiplying average CIAC balances for the test year by the applicable amortization rate for the underlying asset supported by CIAC, also essentially offsets the depreciation expense resulting from assets funded by CIAC.

VIII. INCOME TAXES

Q. WHAT IS THE FEDERAL TAX CLASSIFICATION OF CSWR-FLORIDA?

A. While CSWR-Florida is organized as a limited liability company, it has elected treatment as a C-Corporation for federal and state income tax purposes. Accordingly, CSWR-Florida is required to file Form 1120 annually with the Internal Revenue Service.

Q. HOW HAS CSWR-FLORIDA CALCULATED INCOME TAX IN ITS REVENUE REQUIREMENT?

A. The income tax rates used by CSWR-Florida are 21percent for federal income and 4.9 percent for Florida state income.

Q. HAS THE COMPANY INCURRED HISTORIAL NET OPERATING LOSSES?

A. Yes. As detailed previously, the Company has incurred $3.94 million of net operating losses since it entered Florida in January 2025. These losses represent the cost to provide safe and reliable water and wastewater service to customers and also reflect the reality that the existing rates are unable to support the provision of such service. As such, the Company's equity investors have provided the necessary capital to cover losses. The Company is not seeking to recover any portion of historic losses; therefore, the losses incurred by CSWR-Florida should not affect the calculation of income tax expense used for determining rates in this case.

Q. HAS THE COMPANY INCLUDED A DEFERRED TAX ASSET ASSOCIATED WITH THESE NET OPERATING LOSSES ?

A. No. The net operating losses represent a current and historic cash outlay for the Company, as described above. The longer-term impact of the net operating losses is that they result in a deferred tax asset that is roughly equivalent to the total net operating loss multiplied by the combined income tax rate. Effectively, the Company's equity investors have supplied approximately $3.94 million of cash to operate the CSWR-Florida systems and have received a deferred asset worth a fraction of the total cash outlay. While deferred tax assets and liabilities are traditionally included as components of rate base calculation, the Company has not included the deferred tax asset in its rate base.

Q. DOES THE COMPANY SEEK ANY RECOVERY OF A DEFERRED TAX ASSET IN THIS CASE?

A. No.

IX. <u>INTERIM RATES</u>

Q. PLEASE GENERALLY DESCRIBE THE FINANCIAL CONDITION OF CSWR-FLORIDA.

A. As described earlier in this testimony, CSWR-Florida has acquired numerous small, distressed water and wastewater systems. With a history of non-compliance, a lack of resources and rampant underinvestment, these systems were in desperate need of new ownership. Other Company witnesses have described the condition of systems upon acquisition and the improvements that will be required to maintain system functionality and compliance.

In addition to the additional capital and operating costs needed to operate these systems, at the closing of each transaction CSWR-Florida adopted the billing rates that were in place at each of the systems under prior ownership. In many cases, these rates were insufficient to fund daily operations, which meant the prior owners recorded operating losses for some or all the years immediately preceding those acquisitions. These factors caused CSWR-Florida to generate operating losses for the more than three years that it has been in business. As stated earlier in this testimony, CSWR-Florida generates negative returns of 8.98% for water and 1.77X% for wastewater and the Company's cumulative operating losses total more than $3.94 million. These operating losses have been funded by CSWR-Florida's Parent, along with the millions of dollars of capital investment that has been made into the systems.

Q. **WHAT RELIEF IS CSWR-FLORIDA SEEKING TO STEM ITS OPERATING LOSSES UNTIL THE COMMISSION CAN MAKE A FINAL DECISION IN THIS RATE CASE?**

A. With this rate case, CSWR-Florida is seeking rates that cover the necessary costs of operating its systems along with a fair return on its prudently invested capital. The Company is also requesting interim rate relief, pursuant to Section 367.082, F.R.S. The Company has earned negative rates of return on a consolidated basis. However, for the sake of determining appropriate interim rates the table below shows the rates of return earned by each tariff district that is included in the filing compared to the rate of return approved in the last rate case that included the district. In addition, the table shows the calculation of underearnings, which is based on the rate base for each system included in CSWR-Florida's full rate filing package. Even though they have been included in the full rate filing package, the rate base figures used to calculate the underearnings do not include any portion of acquisition premiums.

Water/Wastewater	Acq Filing	Achieved Rate of Return	Required Rate of Return
Water	Aquarina	3.66%	10.04%
Wastewater	Aquarina	4.98%	9.43%
Wastewater	BFF Corp	-16.91%	10.21%
Water	CFAT H2O Landfair WWTF	-28.20%	10.04%
Wastewater	CFAT H2O Landfair WWTF	-1.67%	10.04%
Water	Neighborhood Utilities	-24.97%	10.04%
Wastewater	North Peninsula	-0.22%	9.47%
Water	Rolling Oaks Utilities	-20.37%	10.43%
Wastewater	Rolling Oaks Utilities	8.60%	9.82%
Wastewater	Sebring Ridge Utilities	-11.32%	9.52%
Water	Sunshine Utilities	-7.97%	8.16%
Wastewater	TKCB	-22.24%	10.04%
Water	Tradewinds Village	60.62%	10.04%
Wastewater	Tradewinds Village	80.47%	10.04%
Water	Tymber Creek Utilities, Incorporated	3.66%	10.04%
Wastewater	Tymber Creek Utilities, Incorporated	4.98%	9.43%

Q. WHAT RATE OF RETURN WAS USED TO CALCULATE UNDEREARNINGS?

A. Per the definition of "required rate of return" as outlined in section 5(b)2 of Section 367.082, the calculation included the rate of return on equity used to set rates in the last pre-closing case for each of systems CSWR-Florida's acquired . The Company then applied its rate of interest on debt from its Parent, because that is the only debt included in the capital structure of CSWR-Florida. The rate of interest charged on this debt is 8.5%. The Company also utilized its actual capital structure, when arriving at the required rate of return.

Q. PLEASE SUMMARIZE THE COMPANY'S REQUEST?

A. CSWR-Florida requests that interim rate relief be approved that will generate sufficient revenues so it can earn the minimum of the range of rate of return. Further, the Company requests that the interim billing rates outlined in the testimony of witness Aaron Silas be approved.

X. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

BY MR. WOODSMALL:

Q Have you attached any exhibits to your prefiled testimony?

A Yes, I have.

Q And are those exhibits labeled as Exhibits 96 through 99?

A They are.

Q Do you have any corrections or revisions to those exhibits?

A No.

Q And have you prepared a summary of your prefiled direct testimony?

A Yes, I have.

Q And would you provide that summary of your prefiled direct to the parties and the Commission at this time?

A Yes.

Commissioners, thank you for your time today.

Mr. Cox concluded that any solution to the problem with distressed systems must include the existence of acquiring companies with financial expertise. Through my summary, I will demonstrate CSWR's financial qualifications.

My role as Senior Vice-President is not simply to report numbers. It's to ensure that every financial conclusion is anchored in sound accounting principles and transparent methodologies with clear attention to cost of service ratemaking. The basis for achieving such goals is necessarily premised accounting controls and budget procedures.

Given this, all the CSWR companies maintain their financial records in accordance with GAAP, Generally Accepted Accounting Principles, and utilize the account structure and instructions set forth in the Uniform System of Accounts prepared by the National Association of Regulatory Utility Commissioners. As a result, CSWR has obtained unqualified audit opinions the 11 years that it has been in existence.

Financial controls extend to the attention to the annual operating budgets, the utilization of a ridged capitalization policy, and the application of a consistent cost allocation manual. The accuracy and consistency of company's books and records stands in contrast of the incomplete records obtained from prior owners.

In my testimony, I indicated that accumulated depreciation balances were not always available from previous owners. Problems with the integrity of prior financial records extends to all aspects of the balance sheet. Given this, and recognizing that CSWR has engaged in hundreds of distressed system acquisitions, I have no problems concluding that most of the prior owners lacked financial expertise.

The company's financial books form the basis of the qualification of revenue requirement -- of the revenue requirements. I approach this calculation by applying the cost of service formula. My financial analysis necessarily starts with review of rate base and the capital investment and evaluation. I construct rate base from utility plant cost, accumulated depreciation and further plant investments.

Given the pendency of the acquisition adjustment dockets, as well as their inherent value to the customers, I also included acquisition premiums for Aquarina, Neighborhood and North Peninsula. At the same time, I maintain a clear distinction between investor funds and non-investor funded CIAC.

Turning to the revenues and expense portion of the ratemaking equation, I utilized the per books value for each component. That said, because utilities are dynamic, acquiring systems, investing in infrastructure and evolving operations, I make targeted adjustments in normalizations to reflect ongoing conditions. For example, since the Tymber Creek system was only on for part of the test year, I annualized revenues and expenses to reflect a full year of operations.

Ultimately, based upon this process, I concluded that the company's revenue requirement is approximately $7.1 million for water operations, and $4.3 million for wastewater operations.

Ultimately, my work is grounded in detailed reconciliation and audit ready transparency. It is reflected in the extensive minimum filing requirements prepared for each company's system, every figure in the filing is traced back to the books and records, supported with schedules and backed by vendor invoices. This ensures that regulators and stakeholders can fully understand and validate how the company derived its financial conclusions.

In sum, the financial expertise that the company brings is multifaceted and incorporates strict accounting and auditing, as well as timely access to capital. This is the type of expertise that the Commission should expect from the entities acquiring Florida's distressed water systems.

Thank you.

CHAIRMAN SMITH: Thank you.

MR. WOODSMALL: I would tender the witness for cross-examination on his direct testimony, Your Honor.

CHAIRMAN SMITH: Mr. Watrous, you are recognized.

MR. WATROUS: Thank you, Madam Chair.

EXAMINATION

BY MR. WATROUS:

Q And good morning, Mr. Thies.

A Good morning, Mr. Watrous.

Q I had to double check the time to make sure it was still morning.

You are the corporate controller for CSWR, the parent of CSWR-Florida, is that correct?

A I was until recently, and I was promoted and hired a new controller, but for the test year was, yes.

Q Thank you.

And you have sponsored the financial testimony in this proceeding?

A That's correct.

Q And your testimony addresses the return on equity, capital structure, expenses, rate base, taxes and interim rates?

A That's correct.

Q And you are not offering testimony as an engineer, is that correct?

A That's correct.

Q And you are not offering testimony as an

operator of water and wastewater systems?

A That's correct.

Q So in your testimony, when you reference operational needs or service improvements, you were relying upon inputs from others?

A Of course.

Q And CSWR's business model is to acquire distressed systems, is that correct?

A That's correct.

Q Many of those systems had histories of underinvestment?

A Yes.

Q And some systems experienced operating losses even prior to CSWR's acquisition?

A That's correct.

Q And would you agree that CSWR seeks to pay the least amount of money necessary to acquire a system?

A Yes.

Q And how much money as CSWR expended acquiring systems in Florida?

A Do you mean just on acquisition costs alone?

Q Correct.

A I don't have the exact number. I would estimate $45 million.

Q And you are also responsible for internal

controls and corporate governance practices, is that correct?

A As they relate to the financial statements, yes.

Q And with the financial statements, did those go through an established audit committee at CSWR, LLC?

A They -- they go through board governance. There is no specific audit committee, but there is board oversight.

Q And CSWR-Florida has incurred operating losses every year of its existence, is that correct?

A That's correct.

Q And to your knowledge, has the parent company CSWR, LLC, ever been profitable?

A Not at a consolidated level.

Q And CSWR, LLC, was started in February of 2014, is that correct?

A It was 2014. I am not sure I know the month.

Q And regarding CSWR-Florida's cumulative losses, those, just to clarify, were approximately 3.9 million?

A Yes, during the test year, yes.

Q Okay. And CSWR-Florida, during the test year, could not obtain commercial debt on its own creditworthiness?

A That is correct.

Q And commercial lenders require sufficient cash flow before extending debt?

A That is my experience, yes.

Q And help me understand this so that I can clarify it, but enough cash must be available for interest and principle payments after all daily cash are funded, is that what we are talking about?

A That's -- generally. I mean, there is more to underwriting than that, but, yes, generally in terms of cash flows is required, it would need to be cash that's available after your basic operations are paid for.

Q And so CSWR has five acquisition adjustments outstanding in separate dockets, right?

A I believe it's five. I know that we discussed three in this case, but I believe it's five total at this time.

Q So those are worth a little over 40 million total, is that correct?

A That's correct.

Q Okay. So assume that this rate case is final and approved, and you got the rates that you wanted, if CSWR-Florida was denied those acquisition premiums, would CSWR be able to demonstrate sufficient cash flow in order to obtain commercial debt on its own

creditworthiness?

A Can you repeat the question, please?

Q So assuming you have the rates set in this case as you requested.

A Uh-huh.

Q If CSWR-Florida is denied acquisition premiums in the outside dockets, will CSWR be able to obtain commercial debt on its own creditworthiness?

A That denial would impact debt in the future, but in the short-term, some marginal amount of debt would be available, yes.

Q So the 3.9 million in cumulative operating losses, those losses generated net operating loss carry-forwards, is that correct?

A Yes.

Q And net operating losses reduce future taxable income, is that correct?

A That is correct.

Q CSWR's taxable income as it currently stands is negative, is that correct?

A Yes.

Q And CSWR-Florida has reported losses for both accounting and income tax purposes through its inception?

A Yes.

Q And CSWR-Florida is still seeking recovery of the current income tax expense from customers in this case, is that correct?

MR. WOODSMALL: Your Honor, I would only object to the extent that net operating losses is discussed in Mr. Thies' rebuttal testimony. Eventually we are going to get to all these questions, but if you want the record clear as to questions on rebuttal, this should properly be deferred to later.

CHAIRMAN SMITH: Mr. Watrous, are you okay waiting to when he comes back?

MR. WATROUS: Yeah. Yeah. I gave him a preview.

CHAIRMAN SMITH: Okay.

BY MR. WATROUS:

Q Okay. Mr. Thies, you had testified that lobbying expenses were excluded from allocated costs, is that correct?

A That's correct.

Q And the company belongs to organizations such as the AWWA and the NAWC, is that correct?

A That's correct.

Q And CSWR pays dues to those organizations?

A That's correct.

Q And these organizations do engage in lobbying, is that correct?

MR. WOODSMALL: Your Honor, like acquisition adjustments, the AWWA and NAWC issue is contained in his rebuttal testimony. I have no problems going into it if we want to be done with him.

CHAIRMAN SMITH: You haven't stipulated to having him do rebuttal and direct together, so I think, yeah, you need to hold off and ask those later.

MR. WATROUS: Give me one moment, Commissioner.

He does address lobbying in his testimony two separate times, in the direct testimony. So if I can ask these few questions, I would be --

CHAIRMAN SMITH: Yeah, if they are -- as long as they are directed to his direct testimony.

MR. WATROUS: Okay.

BY MR. WATROUS:

Q Okay. So, Mr. Thies, the AWWA and the NAWC, those organizations engage in lobbying, is that correct?

A Among other operations, they do. I don't know how much, but certainly they do.

Q Okay. Thank you.

And so you are responsible for filing CSWR's

annual reports, is that correct?

A   CSWR-Florida's? Yeah. Yes.

Q   Okay. Can we please go to master F2-564?

A   You are going to have to help me find --

CHAIRMAN SMITH: It will be up on that on the screen.

THE WITNESS: Thank you.

MR. WATROUS: Let us know when you can see that document.

MR. SCHULTZ: You should be able to scroll and you can just scroll through there.

THE WITNESS: Okay, just scrolling on it. Okay. Got it. Thank you.

MR. WATROUS: I would like to mark this as an exhibit, and I believe it is OPC 2, No. 169 in the CEL.

So, Mr. Thies --

MS. HELTON: Madam Chairman, just for the record, I am showing on the screen that it's exhibit, CEL Exhibit No. 169. If we could use the CEL numbers, that will -- that will make the record much clearer.

CHAIRMAN SMITH: Yeah.

MR. WATROUS: I apologize. I thought I said 169, but my apologies.

MS. HELTON: I didn't hear that.

BY MR. WATROUS:

Q And, Mr. Thies, so you see this document?

A Yes.

Q Okay. And you can see that this is CSWR-Florida's annual report for the Aquarina system?

A Yes.

Q Okay. And are you responsible for filing these annual reports?

A Yes.

Q Okay. And all these reports within this composite exhibit are the annual reports, and they contain -- well, do annual reports contain the utility's balance sheet and income statement?

A Yes, they -- yes, they do.

Q Okay. And would they also contain the utility's cost of capital?

A I do not remember how the cost of capital appears in this particular annual report.

Q Well, just in general, generally, would they cover the utility's cost of capital?

A You would be able to derive it from the annual report, yes.

Q Okay. And they also give an overview of the water and wastewater operations?

A Yes.

Q And year-end rate base?

A Yes.

Q And plant in service?

A Yes.

Q And non-used and useful?

A I am not certain about that part.

Q Okay. What about CIAC?

A Yes.

Q Acquisition adjustments?

A I am not sure that they are called out specifically, but certainly they are part of the balance sheet so they would be in the report.

Q Okay. And working capital?

A Yes.

Q And operating revenue?

A Yes.

MR. WATROUS: I would like to enter this into the -- I would like to enter this exhibit now if we could, or do you want to wait?

CHAIRMAN SMITH: We will move it, like, when he is done.

MR. WATROUS: Okay.

CHAIRMAN SMITH: I just, but I am going to -- this is my only preview of if there is an objection to the exhibit, make sure it's noted now so there's not --

MR. WOODSMALL: No objection, Your Honor.

CHAIRMAN SMITH: All right. All right. Go ahead.

BY MR. WATROUS:

Q And you are aware that the utilities are required to file annual reports as required by Florida rules?

A Yes.

Q Okay. Thank you, I have no further questions.

CHAIRMAN SMITH: Okay. Thank you.

Staff?

MR. BLOOM: Thank you, Madam Chairman. We do have some questions.

EXAMINATION

BY MR. BLOOM:

Q Mr. Thies, how are you doing today?

A Doing well. Thank you.

Q Good. Good.

I am going to ask you a few questions about management expenses, but before we get into that, I just want to make sure that we are on the same page concerning terms. Could you please tell me the difference between CSWR-Florida, CSWR, LLC, CSWR, Inc.,

and CSWR Group?
A Yeah. So CSWR-Florida is the state operating entity that has filed this rate case. CSWR, LLC, is what I would call the management company. The parent. Central States Water Resources, Inc., is an entity that's in the corporate structure but has no expenses or balance sheet. And then what was the other entity you requested?
Q CSWR Group?
A CSWR Group is not a legal entity. It's just the term we use kind of in our email to designate the entirety of the whole of CSWR companies.
Q Got that.
In CSWR's response to staff's discovery, you explained the methodology used to allocate salaries and other compensation from CSWR, LLC, to Florida, is that correct?
A That's correct.
Q You also discuss the cost allocation manual, also known as CAM, correct?
A Correct.
Q You explain that timesheets are used for employees who change hours dir -- or charge hours directly to CSWR-Florida, correct?
A Correct.

Q You also explained that all other time not attributed to a specific state is allocated by overhead -- is allocated by the overhead allocation percentage?

A Subject to a few exclusion, that is correct.

Q You describe that employees holding the title of director or above are exempt from recording their time, correct?

A Correct.

Q Also in CSWR's response to staff's discovery, you stated that CSWR, LLC, does not have a board of directors, correct?

A That correct.

Q Just to confirm, CSWR, LLC, does not have a board of directors or any equivalent employees?

A Could -- what do you mean -- I don't understand what you said about equivalent employees.

Q What entity is the board oversight?

A So CSWR, LLC, is manager, and so Mr. Cox is able to sign on behalf of that entity. The board level is -- U.S. Water Systems is a board entity that is above CSWR and is the owner.

Q Got that.

And in addition, CSWR-Florida does not have a board of directors or any equivalent employees?

A During the filing, CSWR-Florida did not have employees, Mr. Cox, again, functions as the manager and, therefore, the board.

Q Does CSWR, Inc., have a board of directors or any equivalent employees?

A No employees. I am not sure what the board structure is for that entity.

Q Are any board costs included in management services?

A No.

Q Where could I locate employees holding the title director or above who are exempt from the recording of their time?

A I do not know. I am sure we would have submitted that. I know that we have some compensation study information that indicates the highest paid employees. I am not sure where the comprehensive list of directors is in this filing.

Q Does CSWR-Florida have any parent company, holding company or affiliate which has a board of directors?

A Well, I mean, the U.S. Water board would be there, and then I am not clear on the legal structure of all those other entities, so I am not sure I have a comprehensive answer to that question.

Q And then would that be the same for CSWR, LLC?

A Yes.

Q And CSWR, Inc.?

A Yes.

Q Does CSWR-Florida pay any portion of expenses for any Board of Directors located anywhere within any level of CSWR?

A No.

Q Is any portion of the CSWR, Inc., directors salaries, benefits or compensation allocated down to CSWR-Florida?

A No.

Q Is any portion of the CSWR, Inc., directors salaries, benefits or compensation allocated down to CSWR, LLC?

A No.

Q Please name the NARUC accounts in which the allocated portion is recorded.

A It would be account 922.

Q And then would you also know the dollar amounts of the directors salaries, benefits or other compensation that had been included in the aforementioned accounts?

A Excuse me, we haven't included any board of directors salaries or expenses in this. If there was any allocation between CSWR, LLC, the parent and

CSWR-Florida, it would be through account 922, but in this case, it does not include any board of directors salaries or expenses.

Q Okay. The board of directors expense at CSWR, Inc., includes directors and officers insurance, correct?

A The directors and officers insurance for the directors and officers of CSWR, LLC, which would include the title director. Not just the board of director folks.

Q Got that.

And then to clarify, does any portion of the board of directors and officers insurance expense from CSWR, Inc., get allocated to CSWR-Florida?

A The directors and officers insurance, again, that covers the employees of CSWR, LLC, does gets allocated.

Q Do you know by how much?

A Not of that policy. I don't have that number.

Q Mr. Thies, I am going to move on to a set of questions about land and land rights accounts.

According to CSWR's response to staff's discovery, CSWR is requesting a land and land rights value of $5,140,073, subject to check, correct?

A Subject to check, that's correct.

Q And you would agree that the original land and land rights balance for Rolling Oaks when placed into public service was $9,928 for water, and $9,861 for wastewater, subject to check?

A That's correct.

Q Do you know what the term original cost means?

A I do.

Q Are you aware that Florida is an original cost state?

A I am.

Q Are you familiar with the Commission rules on plant depreciation?

A On -- excuse me, can you repeat that?

Q Yeah, of course.

Are you familiar with the Commission rules on plant depreciation?

A You said depreciation or appreciation.

Q Depreciation.

A Yes, I am.

Q Specifically, are you familiar with Commission Rule 25-30.140(1)(r)?

A Not familiar with the title there, but if you describe it, I may be familiar with the context.

Q So the rule itself states: In the event that an asset is acquired that is already in public service,

the original historic costs of the asset should be recorded in plant in service. Would you agree with that?

A As a general concept of regulated utility accounting, yes. I wasn't familiar with that rule citation.

Q Is it correct that CSWR used a Valbridge appraisal as the estimate for the land value of Rolling Oaks?

A It is.

Q The appraisal by Valbridge was completed in '22, correct -- or 2022?

A 2022, that's correct.

Q Was the land included in the Valbridge appraisal placed into service before 2022?

A Yes.

Q There are also charges for Rolling Oaks closing costs of 110,000 included in the land and land rights balance, correct?

MR. WOODSMALL: Your Honor, again, we are getting questions that are all contained in Mr. Thies' rebuttal, which he will be up for later.

CHAIRMAN SMITH: Do you have a response?

MR. BLOOM: I believe these were in the direct.

CHAIRMAN SMITH: Could you point to where it is in the direct testimony?

MR. BLOOM: Yeah, just hold on a second. I am sorry, it was from discovery. My apologies.

CHAIRMAN SMITH: So sustained.

MR. BLOOM: I don't believe the Valbridge appraisal, though, was specifically in the rebuttal.

CHAIRMAN SMITH: Is it in the direct testi -- in his direct testimony?

MR. BLOOM: No, but he is the witness for land and land rights.

MR. WOODSMALL: It goes to the valuation that's in the land and land rights accounts, which is rebuttal to the staff Revised Audit Finding 3, so it's in his rebuttal.

CHAIRMAN SMITH: Do you mind just waiting so that -- just to keep the record --

MR. BLOOM: Yeah, that's no problem. And then I have no further questions.

CHAIRMAN SMITH: Okay. Thank you.

Commissioners?

COMMISSIONER ORTEGA: I have --

CHAIRMAN SMITH: Yeah, questions on his direct testimony, to clarify.

Okay. Seeing none, redirect?

MR. WOODSMALL: Thank you, Your Honor. I will be brief.

FURTHER EXAMINATION

BY MR. WOODSMALL:

Q You were asked some questions by OPC to the extent that CSWR-Florida has had operating losses in every year. Do you recall that question?

A I do.

Q Can you tell me why CSWR-Florida incurs operating losses in every year of its existence?

A Yeah. There really are two primary reasons why that is the case. One, systems that we have acquired do not have sufficient rates to support their operations. So one of the witnesses before mentioned a system that hadn't raised rates since the 1990s, and so clearly, that has not kept up with the cost of inflation and those types of things.

And then secondly, when we take over a system, we often incur expenses that hadn't been incurred before for what we would call basic operations. You know, Mr. Cox early on mentioned electric costs can go up when you operate the system properly and turn on components that hadn't been turned on before, and so the rates that are in place often do not incorporate what we would call full and sufficient operations of those plants and, therefore, you end up with an operating loss.

Q Thank you.

You were asked a question about whether CSWR-Florida has debt. Do you recall that?

A Yes.

Q And can you tell me why doesn't CSWR-Florida have debt in its capital structure?

A CSWR-Florida has debt, but only with its parent entity, and so it has no commercial or external debt because it doesn't have the cash flows necessary to support repayment of that debt.

Q Does CSWR-Florida hope to be able to issue that external debt following this case?

A Yes. It would be a cheaper rate of interest and, therefore, better for the customers, so CSWR-Florida hopes to do that.

Q And why does this rate case affect CSWR-Florida's ability to issue such debt?

A Because it will generate more revenue, which would be more cash flows and, therefore, support a request for debt.

Q You were asked some questions by OPC about whether CSWR-Florida could still issue debt in this case -- after this case if acquisition adjustments were

not approved. Do you recall that?

A Yes.

Q Would CSWR-Florida be able to issue more debt if acquisition adjustments were approved?

A Of course.

Q And would that more debt allow it to come closer to balancing its capital stack?

A Yes, certainly, and open the pathway for more investment into the systems it currently owns, and others in the future as well.

Q And balancing its capital structure, is that beneficial to customers?

MR. WATROUS: Objection. Leading.

BY MR. WOODSMALL:

Q Can you tell me if there are any benefits associated with balancing its capital structure?

A Yeah. So generally, a utility wants a balanced capital structure, something near 50 percent equity, 50 percent debt. Equity being more costly than debt. If you have more than 50 percent equity, it would be more expensive for customers to support that utility in the ratemaking calculation.

Q And so if acquisition adjustments are approved and the company is able to issue more debt, come closer to balancing its capital structure, how would those

benefits flow back to ratepayers?

A Lower cost of capital.

Q Through the leverage formula?

A Yes.

Q You were asked questions about AWWA and NAWC lobbying efforts. Do you recall that?

A Yes.

Q And can you tell me, are there any benefits to customers associated with those lobbying efforts?

A Yes. One of the witnesses talked about a LIHWAP program, which is a low-income water support program that was available during COVID that has been defunded, or the funding has run out, and so I know NAWC has sought to increase funding and secure funding for that program, which would benefit low-income ratepayers.

And then AWWA is an industry standard company, an industry standard organization. It sets a lot of rules, including some conversions for meter sizes to help in developing rate design and revenue requirement. So both those organizations have significant benefits to the industry and to customers.

Q Finally, in some questions by staff that got started before we agreed to push them into rebuttal, you were asked whether you realized that Florida was an original cost state. Do you recall that question?

A Yes.

Q And would you agree that the cost of surveys, easements and the acquisition of other land rights are original costs?

A Yes.

Q So they would flow into the various land and land rights accounts after the acquisition of the system by CSWR-Florida?

A Yes. They would flow in whenever they are paid for. And so if they did not exist at the time of to the acquisition, they would not be in that cost, but then, when they are paid for, they would enure to original cost.

Q Thank you.

MR. WOODSMALL: I have no further questions, Your Honor.

CHAIRMAN SMITH: Okay. All right. So let's move exhibits for his direct.

MR. WOODSMALL: Yes, I am sorry. Move the admission of Exhibits 96 through 99.

CHAIRMAN SMITH: No objections? All right. So Exhibits 96 through 99 will be entered into the record.

(Whereupon, Exhibit Nos. 96-99 were received into evidence.)

CHAIRMAN SMITH: Mr. Watrous, you have an exhibit?

MR. WATROUS: Yes. We had OPC 2, which is Exhibit 169 in the CEL.

MR. WOODSMALL: No objections.

CHAIRMAN SMITH: All right. No objections, so Exhibit 169 entered into the record.

(Whereupon, Exhibit No. 169 was received into evidence.)

MR. WOODSMALL: Mr. Thies will re -- will take the stand later on his rebuttal, so I would ask for him to be excused on his direct testimony.

CHAIRMAN SMITH: You are temporarily excused.

And we will all take a lunch break now. It's 12:10, let's say we are going to start back at 1:15. So see I will all then.

(Lunch recess.)

(Transcript continues in sequence in Volume 3.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA KRICK, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 22nd day of June, 2026.

DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #HH575054
EXPIRES AUGUST 13, 2028