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January 3, 2023

VIA Electronic Filing to the Office of Commission Clerk

Attn: Melinda Watts, Engineering Specialist  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

**Re: Docket No. 20220064-WS - Application for transfer of water and wastewater facilities of Tymber Creek Utilities, Inc., water Certificate No. 303-W, and wastewater Certificate No. 252-S to CSWR-Florida Utility Operating Company, LLC, in Volusia County.**

Dear Ms. Watts:

CSWR-Florida Utility Operating Company, LLC (“CSWR-Florida UOC” or the “Company”) submits the following responses to Staff’s November 29, 2022 Third Data Request.

1. In response to question 3 of Staff’s Second Data Request, the Utility stated CSWR-Florida UOC does not expect any level of goodwill in this transaction to impact its ability to attract capital.
  - a. Does CSWR-Florida UOC expect the total balance of goodwill for all Florida acquisitions to impact its ability to attract capital?

**RESPONSE: No.**

- b. Does Central States Water Resources LLC (CSWR, LLC) expect the total balance of potential goodwill from its nationwide operations to impact its ability to attract capital?

**RESPONSE: No.**

2. CSWR-Florida UOC’s answer to question 6 of Staff’s Second Data Request was non-responsive in that the answer given did not address whether any measures that have been considered to reduce the level of goodwill nor did it describe any measures considered in detail. In an effort to clarify further the information previously requested and to request some additional information, please see the following series of questions.



- a. Does the amount of goodwill on the consolidated balance sheet of CSWR, LLC primarily represent the difference of the purchase prices and net book values of its cumulative acquisitions nationally? If not, please explain.

**RESPONSE:** CSWR-Florida UOC respectfully disagrees that its answer to question 6 of Staff's Second Data Request was non-responsive. In response to this question, no, the goodwill on the balance sheet of CSWR, LLC is based on pushdown accounting.

- b. Is it correct that CSWR, LLC will provide the investor sources of capital to fund CSWR-Florida UOC's plant investments, as well as the funding of plant investments for its subsidiaries in other states? If not, please explain.

**RESPONSE:** Yes, CSWR-Florida UOC's plant investments have been funded by equity from CSWR, LLC, which also funds plant investments in other states.

- c. Is it correct that every dollar of goodwill funded by CSWR, LLC equity investors represents funds not available to fund CSWR-Florida UOC's plant investments, as well as the funding of plant investments for its subsidiaries in other states? If not, please explain.

**RESPONSE:** No, each investment in plant is considered independently and without regard for any sunk cost associated with goodwill.

- d. To date, has either CSWR, LLC and/or CSWR-Florida UOC purchased any utility systems below their respective net book values? If so, please provide the purchase price and the net book value for each applicable system acquired.

**RESPONSE:** CSWR-Florida UOC to date has not purchased a system in Florida at below net book value. As it pertains to CSWR, LLC and systems outside Florida, CSWR-Florida UOC believes that yes, other CSWR affiliates in other states have purchased some systems below book value. As to the purchase price and net book value of all systems purchased by other CSWR affiliates in all states other than Florida, CSWR-Florida UOC objects. To date, CSWR operating affiliates have purchased 790 systems in 10 states. It is burdensome to review each of those transactions from states other than Florida to identify those where the purchase price was below book value, and irrelevant to any issue in this case.

- e. Would not any acquisitions resulting in negative acquisition adjustments reduce the level of goodwill on the consolidated balance sheet of CSWR, LLC? If not, please explain.

**RESPONSE:** Please see the Company's response to 2a above.



- f. Since Rule 25-30.0371, F.A.C., became effective in 2002, companies have successfully purchased water and wastewater systems resulting in negative acquisition adjustments, with a number of them resulting in no impact to rate base because the purchase price was less than the NBV but greater than 80 percent of the net book value (NBV). Given CSWR, LLC's and/or CSWR-Florida UOC's closed and pending acquisitions in Florida have resulted or may result in positive acquisition adjustments where the purchase price was or is many times greater than the NBV, has either CSWR, LLC and/or CSWR-Florida UOC considered more aggressively purchasing water and wastewater systems in Florida or nationally that result in negative acquisition adjustments in order to reduce the level of goodwill on the consolidated balance sheet of CSWR, LLC? If not, please explain.

**RESPONSE: Purchase prices paid for systems are the result of arms-length negotiations between the parties. CSWR-Florida UOC was formed last year and has no firsthand knowledge of market conditions in Florida years or decades before then.**

- g. If fair market value regulation were to be adopted in a current original cost regulation state where CSWR, LLC has a water and/or wastewater systems, would CSWR, LLC be more likely to divest some of its systems in order to reduce the level of goodwill on the consolidated balance sheet of CSWR, LLC? If not, please explain.

**RESPONSE: No. As stated above, through its 12/31/2021 audited balance sheet, CSWR, LLC has not carried goodwill associated with system acquisitions on its balance sheet. CSWR, LLC affiliates operate both in states with and without fair market value regulation but to this point, CSWR, LLC has not considered significant divestitures as part of its business practice.**

- h. Other than possible future acquisitions resulting in negative acquisition adjustments, has CSWR LLC and/or CSWR-Florida UOC considered any measures to reduce the level of goodwill on the consolidated balance sheet of CSWR, LLC? If so, please describe the measures considered in detail. If not, please explain.

**RESPONSE: Please see the Company's response to 2a above.**

- i. For the purchase of the systems already closed and the ones pending, does CSWR-Florida UOC plan to request consolidated rates in its first rate case petition?

**RESPONSE: Yes.**

3. In response to question 6 of Staff's Second Data Request, the Utility stated, as part of its annual audit procedures, no impairments have been recorded or suggested by auditors.
- a. Does CSWR, LLC and its subsidiaries follow generally accepted accounting principles (GAAP), particularly Accounting Standards Codification 350-40?



**RESPONSE: Yes, CSWR, LLC and its subsidiaries follow GAAP. Per the answer to 2a above, the goodwill held on CSWR, LLC's balance sheet is the result of pushdown accounting. Consequently, the parent and its auditors are responsible to assess the goodwill for impairment and direct any impairment charges to the books of CSWR, LLC. To date, no impairments have been directed or recorded. Please note that goodwill impairments are discussed in ASC 350-20.**

- b. If yes, under GAAP would the four acquisition adjustment denials decided by this Commission result in impairments once the annual audit is performed?

**RESPONSE: CSWR, LLC's fiscal year ends 12/31/2022 and consequently no final review of goodwill/acquisition adjustments from 2022 activity has been completed. However, ASC 350-20 requires an impairment adjustment based on fair value which would be assessed in a different manner than historic net book value.**

- c. If CSWR, LLC and its subsidiaries do not follow GAAP, what accounting or other standards does CSWR, LLC use to determine any impairment to goodwill?

**RESPONSE: N/A -- CSWR, LLC and its subsidiaries follow GAAP.**

4. CSWR-Florida UOC's answer to question 8 of Staff's Second Data Request was non-responsive in that the answer given was to refer to the response to question 7 rather than address whether equity investors could advise CSWR management to divest systems to recoup some of its investment on which it was not earning a return via the denial(s) of a positive acquisition adjustment(s), and, if not, explain why. In an effort to clarify further the information previously requested, could the equity investors of CSWR, LLC advise either the management of CSWR, LLC and/or CSWR-Florida UOC to divest systems to recoup some of their investment on which they are not earning a return via the denial of a positive acquisition adjustment(s)? If not, please explain.

**RESPONSE: Hypothetically, the equity investors of CSWR, LLC and CSWR-Florida UOC could advise management on divestitures.**

Thank you for providing CSWR-Florida UOC the opportunity to submit additional information in support of the application.

Sincerely,

*/s/ Thomas A. Crabb*

Thomas A. Crabb  
Attorney for CSWR-Florida UOC

cc: Patricia A. Christensen, Esq., Office of Public Counsel (christensen.patty@leg.state.fl.us)  
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