

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for an increase in water and)
wastewater rates in Charlotte, Highlands, Lake,)
Lee, Marion, Orange, Pasco, Pinellas, Polk,)
and Seminole Counties by Sunshine Water)
Services Company)

Docket No. 20240068-WS

DIRECT TESTIMONY

OF

STEVEN M. LUBERTOZZI

on behalf of

Sunshine Water Services Company

1 **I. INTRODUCTION & PURPOSE**

2 **Q1. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

3 A1. My name is Steven M. Lubertozi. I am Senior Vice President of Rates, Regulatory and
4 Legislative Affairs for Nexus Water Group, Inc. (“NWG”), a holding company that indirectly
5 controls Sunshine Water Services Company (“SWS” or “Company”). My business address is
6 500 W. Monroe, Suite 3600, Chicago, Illinois 60661.

7 **Q2. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
8 **BACKGROUND.**

9 A2. I graduated from Indiana University in 1990, and I am a Certified Public Accountant. I earned
10 my Master of Business Administration from Northwestern University’s Kellogg School of
11 Management. I am a member of the American Institute of Certified Public Accountants, and I
12 have been employed by a current affiliate of CII since June 2001.

13 I am a past Board Member of the National Association of Water Companies, a past Board
14 Member of the Illinois Chapter of the National Association of Water Companies, a past Board
15 Member of the Indiana Chapter of the National Association of Water Companies, and a past
16 Board Member of the Financial Research Institute.

17 **Q3. WHAT ARE YOUR RESPONSIBILITIES FOR CII?**

18 A3. I am responsible for managing and directing NWG’s economic, regulatory, and legislative
19 activities across North America.

20 **Q4. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY PUBLIC UTILITY**
21 **COMMISSIONS?**

22 A4. Yes. I have provided written and oral testimony before public utility commissions throughout
23 the United States, including the Florida Public Service Commission (“Commission”), on topics
24 ranging from the cost of equity, capital structure, cost of debt, acquisition adjustments,
25 divestment strategies, appropriate levels of operations and maintenance expense, parent

1 company allocations, affiliate transactions, income taxes, and almost every aspect of utility
2 operations.

3 **Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

4 A5. My testimony: (1) addresses the status of the merger of Corix Infrastructure (US) Inc.¹ (“Corix
5 US”) and SW Merger Acquisition Corp. (“SWMAC”, together, “Merger Parties”) (“Merger”);
6 (2) explains that neither the potential costs nor the benefits of the Merger have been reflected
7 in SWS’s proposed revenue requirement; (3) proposes deferral accounts to track benefits and
8 costs to achieve those benefits related to the Merger.

9 **Q6. WAS YOUR TESTIMONY PREPARED BY YOU OR BY SOMEONE UNDER YOUR
10 DIRECT SUPERVISION?**

11 A6. Yes.

12 **II. MERGER STATUS AND COMMITMENTS**

13 **Q7. PLEASE DESCRIBE THE MERGER OF CORIX US AND SWMAC.**

14 A7. On August 26, 2022, Corix Infrastructure Inc. (“CII”) and Corix US (the “Corix Parties”)
15 entered into a transaction agreement (“Transaction Agreement”) with IIF Subway Investment
16 LP, SWMAC, and SouthWest Water Company (“SouthWest”) (collectively the “SouthWest
17 Parties”). The Transaction Agreement provides a framework for combining CII’s water,
18 wastewater, and related businesses, with the water and wastewater businesses owned by
19 SWMAC. Because the Merger occurred at the Corix US level, SWS was not directly affected
20 by the Merger. SWMAC and Corix US had a common vision and mission and shared corporate
21 values. After the closing of the Merger, SWS will continue to strive to provide high-quality,
22 safe, reliable, and sustainable water and sewer service for its customers. Customers will receive
23 their existing services from the same local operational employees at SWS’ approved rates and

¹ Corix US has, since Merger closing, been renamed Nexus Water Group Holdings, Inc.

1 on the approved terms and conditions. The Merger does not change SWS' corporate status or
2 tariffs. While the parties to the Transaction Agreement have incurred transaction costs, they
3 will not seek to recover transaction costs from SWS customers. As of closing, SWS continues
4 to be directly owned and controlled by Nexus Regulated Utilities, Inc.² SWS will continue to
5 have access to the capital needed to make the investments necessary to provide reliable service
6 to its customers. Accordingly, the Merger has been and will be transparent and seamless to the
7 customers of SWS.

8 **Q8. CAN YOU PLEASE PROVIDE AN UPDATE AS TO THE STATUS OF THE**
9 **MERGER?**

10 A8. After entering into the Transaction Agreement, the Corix Parties and SouthWest Parties
11 submitted 27 applications for regulatory approvals, as required, across various state and federal
12 jurisdictions. The Merger has been approved in all applicable jurisdictions, and the Merger
13 was consummated on April 1, 2024. Since the merger only involved a fifty percent change in
14 ownership at the parent company level, and not a majority, no formal approval was required in
15 Florida.

16 **III. MERGER IMPACTS FOR RATE CASE**

17 **Q9. CAN YOU PLEASE PROVIDE AN UPDATE AS TO THE STATUS OF**
18 **INTEGRATING THE MERGER PARTIES?**

19 A9. While the Merger Parties could begin planning for integration, integration could not commence
20 until the Merger closed. As noted above, the Merger closed on April 1, 2024. Accordingly,
21 integration of the administrative and general functions that support the separate water and
22 wastewater operations of CII and Southwest has only just begun.

² Nexus Regulated Utilities, Inc. was known as Corix Regulated Utilities (US), Inc (“CRU US”) before Merger closing. CRU US was also formerly known as Utilities Inc.

1 The Merger is expected to produce financial benefits associated with increased scale. The
2 Merger Parties anticipate that the integration of the administrative and general functions that
3 support the operations of CII's operating subsidiaries, including SWS, with the administrative
4 and general functions of SouthWest will take several years. The Merger Parties have taken and
5 will continue to take a deliberate approach to planning for integration, and then executing on
6 integration plans to mitigate potential risks to customers. To this end, the Merger Parties have
7 established an Integration Management Office to supervise the projects necessary to ensure
8 continuity of service upon closing and integrate operations following closing of the Merger.
9 SWS also recognizes that, due to SouthWest's acquisition of the Ni Florida systems in 2021,
10 there is potential for integration benefits at the local operations level. Likewise, the Company
11 is assessing the operations of Ni Florida to determine if, where, and when integration of
12 operating activities within Florida can be attained.

13 **Q10. HAS SWS REFLECTED ANY IMPACTS OF THE MERGER IN ITS TEST YEAR**
14 **REVENUE REQUIREMENT IN THE CURRENT DOCKET?**

15 A10. SWS's proposed revenue requirement reflects neither all of the benefits associated with the
16 Merger nor the costs to achieve those benefits for several reasons. First, as described above,
17 the integration planning has started but integration will not occur until several years after the
18 Merger closed. Thus, the potential benefits of the Merger that may affect SWS in the current
19 rate case are not currently known and measurable. Third, while benefits are expected to accrue
20 over time, there will be costs to achieve the benefits, and costs of integration tend to precede
21 the accrual of benefits. Based on the above considerations, SWS is not able to reasonably
22 estimate at this time the costs and benefits that will accrue to SWS.

23 **Q11. DOES SWS PROPOSE ANY CUSTOMER PROTECTIONS IN THIS DOCKET TO**
24 **ADDRESS THE POTENTIAL IMPACTS OF THE MERGER NOT REASONABLY**
25 **KNOWN AT THIS TIME?**

1 A11. Yes. The Company proposes establishing two deferral accounts that capture the benefits and
2 costs to achieve integration benefits – one for administrative and general (“A&G”, i.e.,
3 Corporate or Support Services) and one for local operations. The Company recommends that
4 the Commission allow the Company to defer the benefits and costs to achieve these benefits of
5 integrating A&G functions, as well as for local operations, resulting from the Merger. The
6 Company proposes to call the A&G deferral the “Integration Customer Protection Deferral
7 Mechanism”, and the local operations deferral the “Local Integration Customer Protection
8 Deferral Mechanism”. These mechanisms will capture accrued benefits and incurred costs to
9 achieve integration benefits. The deferrals will be reviewed in each rate case, culminating in
10 a final review in the first rate case filing after the completion of the five-year period following
11 the Merger closing. SWS proposes that for each mechanism it may recover the costs of
12 integration only to the extent that the benefits of integration meet or exceed such costs (“Net
13 Benefits”). To the extent the costs of integration exceed benefits (“Net Costs”), SWS
14 acknowledges that it will not recover Net Costs. SWS will propose to return the deferred Net
15 Benefits to customers in future rate cases. After costs and benefits of integration are reflected
16 in a general rate case, SWS will discontinue deferring those costs and benefits (since they
17 would now be reflected in customer rates) and will track and defer only costs and benefits
18 incremental to those reflected in rates in order to avoid re-litigation of reflected impacts and
19 potential double-counting.

20 SWS believes the proposed deferral accounts provide customer protection for unknown scale
21 or timing of potential impacts of the Merger. The deferrals also provide flexibility from a
22 ratemaking perspective in the current rate case: should the Merger’s impacts not develop
23 according to initial plans, or new/unplanned benefits be identified and achieved, there will be
24 no risk with foregoing reflecting Merger impacts in the approved revenue requirement, as they
25 will be accrued to the benefit of customers. SWS, therefore, believes its approach is a

1 reasonable and prudent method to managing the uncertainty of the potential impacts of the
2 Merger that balances the interest of all parties, including the Company's customers.

3 **IV. CONCLUSION**

4 **Q12. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 A12. Yes, it does. I however reserve the right to update this testimony should new information
6 become available in the future.