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DIVISION OF ENGINEERING
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Public Service Commission

November 29, 2022

Susan Clark, Esq.
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Tallahassee, FL 32301
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STAFF'S THIRD DATA REQUEST
VIA EMAIL

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. Clark:

Please provide the information requested below regarding CSWR-Florida Utility Operating Company, LLC (CSWR-Florida UOC or Utility) to the Office of Commission Clerk by **Tuesday, January 3, 2023**.

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?
 - 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?
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.

- 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.
 - 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.
 - 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.
 - 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.
 - 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.
 - 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.
 - 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.
 - 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?
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.

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- a. Does CSWR, LLC and its subsidiaries follow generally accepted accounting principles (GAAP), particularly Accounting Standards Codification 350-40?
 - b. If yes, under GAAP would the four acquisition adjustment denials decided by this Commission result in impairments once the annual audit is performed?
 - 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?
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.

Please file all responses electronically at the Commission's website at www.floridapsc.com, by selecting the Clerk's Office and Electronic Filing Web Form. Please contact me by phone at (850) 413-6952 or email mwatts@psc.state.fl.us, if you have any questions.

Sincerely,

/s/ Melinda Watts

Melinda Watts
Engineering Specialist

MW:jp

cc: Mr. Thomas Crabb, Esq. (tcrabb@radeylaw.com)
Ms. Suzanne Turner (sturner@radeylaw.com)
Office of the Commission Clerk (Docket No. 20220064-WS)