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

PREMIER REPORTING
TALLAHASSEE, FLORIDA

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ADMITTED

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1 P R O C E E D I N G S

2 (Transcript follows in sequence from Volume
3 2.)

4 CHAIRMAN SMITH: Okay. Ready?

5 MR. WOODSMALL: Yes, Your Honor. Sorry, Your
6 Honor.

7 CHAIRMAN SMITH: That's okay.

8 MR. WOODSMALL: CSWR-Florida calls Aaron Silas
9 as its next witness.

10 Whereupon,

11 AARON J. SILAS

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

15 EXAMINATION

16 BY MR. WOODSMALL:

17 Q Mr. Silas, have you previously been sworn in
18 this proceeding?

19 A Yes.

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

22 A Aaron Silas. Business address 1630 Des Peres
23 Road, Suite 140, in St. Louis, Missouri, 63131.

24 Q What is your position with CSWR-Florida?

25 A I am Assistant Vice-President over the

1 Regulatory and Customer Experience departments.

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

4 A I did.

5 **Q Do you have that -- both those pieces of**
6 **prefiled testimony before you today?**

7 A I do.

8 **Q Do you have any of corrections or revisions to**
9 **that testimony?**

10 A I do have two corrections to that testimony.
11 So in my prefiled direct testimony, this is page 14 of
12 18. Line 10, I would strike starting at "which
13 incorporates an assumed minimum level of monthly usage"
14 from that testimony.

15 And then starting at line 15, starting at four
16 "usage beyond the amount included in the monthly fixed
17 charge". Those are the only two corrections I would
18 make.

19 **Q If I were to ask you the same questions that**
20 **are contained in your prefiled testimony today, subject**
21 **to those corrections, would your answers be the same?**

22 A Yes.

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

1 today.

2 CHAIRMAN SMITH: So moved.

3 (Whereupon, prefiled direct testimony of Aaron
4 J. Silas was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DIRECT TESTIMONY OF

AARON J. SILAS

on behalf of

CSWR-Florida Utility Operating Company, LLC

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. WHAT IS YOUR POSITION WITH CSWR-FLORIDA UTILITY OPERATING COMPANY?

A. I am the Assistant Vice President of Customer Experience & Regulatory Operations at CSWR, LLC (“CSWR”), the affiliated company that has operational oversight over CSWR’s utility operating companies including CSWR-Florida Utility Operating Company (“CSWR-Florida” or “Company”). I have been employed with CSWR since October 2019 in various roles with increasing responsibility. My current responsibilities include the oversight of all state utility commission regulatory filings for all utility operating companies, including, but not limited to, acquisition cases, rate cases, and CCN (Certificates of Convenience and Necessity) expansions, as well as the coordination of all data request responses and any regulatory compliance filings. Additionally, I oversee the external communications team and CSWR’s Customer Experience department including the third-party call center provider, enabling the Company to communicate with stakeholders regarding operational activities and accurately respond to customer inquiries. I oversee such activities for affiliated operating companies providing water or wastewater utility services to approximately 177,000 connections in Kentucky, Missouri, Arkansas, Tennessee, Louisiana, Texas, Mississippi, North Carolina, South Carolina, Arizona, and Florida.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Science degree with honors from Southern Illinois University

1 in Edwardsville (“SIUE”) with a major in Business Administration specializing in
2 Human Resources and Finance. The first few years of my career were spent in the
3 finance industry, including various roles within U.S. Bank and Stifel Financial Corp.
4 During my employment at Stifel Financial Corp., I received a Master of Business
5 Administration degree from SIUE as well.

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC**
7 **SERVICE COMMISSION (“COMMISSION”)?**

8 A. No. I have, however, testified before the state utility commissions of Mississippi,
9 Tennessee, and Arizona.

10 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CASE?**

11 A. The purpose of my direct testimony is to provide information on several issues in
12 support of the Company’s rate case application. **First**, I outline the initiatives that
13 CSWR’s strategic communications department uses to engage with customers. These
14 initiatives are designed to improve transparency, e.g. providing information on
15 activities in the service area and service related information, ensure clear and consistent
16 communication, and foster a deeper understanding of the services CSWR provides and
17 the challenges CSWR is encountering in assuring safe and efficient utility service.
18 **Second**, I will discuss CSWR’s customer service function, its utilization of a third-
19 party call center, and the test year metrics from the call center which serve as a key
20 indicator of CSWR’s customer service effectiveness and efficiency. I’ll provide
21 insights into new initiatives, the volume and nature of customer inquiries CSWR has
22 received, and why these metrics are important. **Third**, I will discuss the Company’s
23 proposed rate design including a flat consolidated wastewater rate and a volumetric
24 consolidated water rate. **Fourth**, I will discuss and sponsor the Company’s proposed
25 tariffs including the miscellaneous charges contained within them.

1 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

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

3 **Exhibit AJS-1** – Tymber Creek Welcome Letter

4 **Exhibit AJS-2** – Florida Heights Annual Update

5 **Exhibit AJS-3** – the Minimum Filing Requirements consisting of Volume I - the
6 Financial, Rate and Engineering MFRs (co-sponsored with witnesses Brent Thies and
7 Todd Thomas), the E-14 Schedules contained in Volume II – the Billing Analysis, and
8 Volume III, Sections (j) (a list of customer complaints received during the test year)
9 and (k) (customer complaints regarding DEP secondary water quality standards during
10 the past five years) of the Additional Engineering MFRs, all of which are being filed
11 simultaneously in the Docket as required by Commission Rules.

12 **Exhibit AJS-4** – Revised tariff sheets reflecting the proposed interim water and
13 wastewater rates

14 **Exhibit AJS-5** – CSWR-Florida's proposed final water tariff

15 **Exhibit AJS-6** – CSWR-Florida's proposed final wastewater tariff

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

18 A. Yes, except Volume III section (k) of the Additional Engineering MFRs (DEP
19 secondary water quality standards complaints), which are maintained as business
20 records of the Company.

21 **II. STRATEGIC COMMUNICATIONS INITIATIVES**

22 **Q. WOULD YOU SUMMARIZE THE COMPANY'S APPROACH TO**
23 **STRATEGIC COMMUNICATIONS?**

24 A. Yes. CSWR-Florida takes a proactive approach to customer care and is dedicated to
25 maintaining customer transparency. The Company believes that these efforts not only

1 enhance customer satisfaction, but also showcase the Company's commitment to
2 operating in a manner that meets, or exceeds, customer and commission expectations.
3 The strategic communications initiatives I discuss below position CSWR-Florida as a
4 responsible and customer-centric utility.

5 **Q. WOULD YOU DESCRIBE THE INITIATIVES UTILIZED BY CSWR'S**
6 **STRATEGIC COMMUNICATIONS DEPARTMENT?**

7 A. Yes. As with all the CSWR utility operating companies, strategic communications are
8 addressed, under my supervision, at the parent company level. CSWR's Strategic
9 Communications Department engages in several initiatives aimed at enhancing its
10 engagement and communication with customers. One of the primary initiatives has
11 been a comprehensive campaign to update customer contact information. This
12 campaign involves multiple touchpoints, including the distribution of postcards, the
13 incorporation of QR codes on bills for easy updates, and encouraging customers to
14 proactively communicate any changes in their contact details via phone call or email to
15 the call center support staff. This initiative is crucial as it allows CSWR-Florida to
16 swiftly communicate to customers essential updates about service interruptions,
17 construction activities affecting service, and other relevant information regarding their
18 utility service.

19 Additionally, CSWR creates unique and informative 'Welcome Letters' for new
20 acquisitions, which include a 'State of Your Facility' section. This information includes
21 photographs of the facility, a detailed description of the system type, a summary of the
22 system's compliance history, and an outline of CSWR's improvement plans. This is
23 designed to immediately establish the importance of utility infrastructure to customers
24 and to set a high standard of transparency from the outset. It also communicates the
25 customer benefits that result from CSWR-Florida's ownership of the acquired system..

Moreover, CSWR continues to enhance its communications with customers regarding construction projects. Each time a large construction project is completed, customers receive email updates detailing the work done and the underlying need for such improvements. Additionally, for long-term projects, CSWR has implemented community signage to increase visibility and provide information on the work being performed in the community affected by the construction projects. CSWR has also uploaded various case studies and a video detailing the improvements completed at sites that are representative of the type of work the Company completes across the state.

Finally, CSWR is committed to keeping its customers informed about ongoing projects and back-office initiatives through annual updates provided through hard-copy community-specific mailers. While emailing customers provides an instantaneous update, CSWR also understands that some customers may not have access to electronic mail or the internet and would prefer to receive printed mail. In providing these updates at least once per year, CSWR is ensuring that all customers are aware of the work being done in their communities to maintain and improve the utility service.

Q. WHAT ARE THE PRIMARY GOALS OF THESE INITIATIVES?

A. The primary goals of these initiatives are influenced by the principle that 'water is local.' That is to say, while customers may be interested in matters that affect their utilities on a statewide level, the interest in water, as a consumable good that is produced and treated in their community, is necessarily greater at a local level. While water customers in the Sunshine service area, for example, may have a basic interest in improvements made at other systems, their overarching concerns are with the improvements affecting their community. So, while customers receive all of the benefits that result from consolidation and being included in the CSWR-Florida/CSWR umbrella, they are also kept up to date with the individual projects affecting their

1 service. This same principle applies to wastewater services as well. As Assistant Vice
2 President overseeing both the communications department and the call center, my goal
3 is to address the unique concerns of each community that CSWR-Florida serves.

4 **Q. CAN YOU PROVIDE SPECIFIC EXAMPLES OF HOW THESE INITIATIVES**
5 **HAVE IMPACTED CSWR-FLORIDA'S CUSTOMERS?**

6 A. Yes. CSWR-Florida customers have already seen the aforementioned initiatives in
7 action. CSWR-Florida acquired the Tymber Creek water system on May 31st, 2024.
8 On June 3rd, a welcome letter was mailed to all Tymber Creek customers (**Exhibit**
9 **AJS-1**). This letter details CSWR-Florida's first steps when acquiring a facility,
10 explains some of the site deficiencies such as seepage from the chlorine contact
11 chamber, and why it needs to be addressed, and assures customers that the Company
12 will be working diligently to make all necessary improvements to safeguard the
13 Tymber Creek community.

14 I've also attached an example of the hard-copy annual community update I
15 previously mentioned. **Exhibit AJS-2** shows the community update mailed to the
16 Company's Florida Heights water system customers. Florida Heights is a subdivision
17 served by the system formerly owned by Sunshine Utilities of Central Florida, Inc.
18 This update provides a high-level statement regarding the Company's ongoing
19 commitment to providing 24/7 customer service and operations, a description of the
20 work that has been completed to date with their system, and information on additional
21 improvements in progress for the system. This letter highlights CSWR-Florida's
22 commitment to customer and community engagement and consistent communication
23 with its customers.

24 **III. CUSTOMER SERVICE FUNCTIONS**

25 **Q. PLEASE DISCUSS THE COMPANY'S USE OF A THIRD-PARTY**

1 **CUSTOMER SERVICE CONTRACTOR.**

2 A. While CSWR processes all bills for CSWR-Florida, and every other state utility
3 operating company affiliate, CSWR uses a third-party vendor to provide a wide range
4 of non-billing services to customers. Such services include responding to customer
5 billing questions, processing service initiation requests, addressing service termination
6 requests, administering customer bill payments, handling involuntary service shut-offs
7 including generating and mailing all required notices, providing information to builders
8 seeking to connect dwellings under construction to wastewater or water systems, and
9 accumulating and archiving data to support the customer service functions.

10 **Q. WHY DOES CSWR-FLORIDA USE A THIRD-PARTY CONTRACTOR TO**
11 **PERFORM CUSTOMER SERVICE FUNCTIONS?**

12 A. CSWR believes its customers must have 24/7 access to personnel who can answer
13 service and billing questions and competently address issues affecting the quality of
14 service. CSWR also seeks to ensure that CSWR-Florida's customers have access to
15 services like online account information access and bill payment options that are not
16 usually available from smaller standalone systems like those CSWR-Florida has
17 acquired in Florida. Given the scale and operational needs of CSWR-Florida's growing
18 customer base, it is more efficient and cost-effective to partner with a third-party
19 contractor that already has the infrastructure and workforce in place to provide high-
20 quality customer support. Building a comparable in-house operation would require
21 significant time and resources, potentially delaying service improvements for
22 customers.

23 **Q. DO CSWR-AFFILIATED COMPANIES USE THIRD-PARTY**
24 **CONTRACTORS IN OTHER STATES TO PERFORM CUSTOMER SERVICE**
25 **FUNCTIONS?**

1 A. Yes. CSWR's experience in Florida and other states has shown time and again that
2 using third party contractors for customer service functions is the most cost-effective
3 and best available option.

4 **Q. ARE THERE BENEFITS TO THIS APPROACH?**

5 A. Yes. Using a single, third-party contractor for all customer service support functions,
6 both in Florida and across other states, allows CSWR to systematize this function,
7 develop and implement processes and services not generally available to small
8 water/wastewater utilities, and achieve economies of scale that lower customer costs
9 and rates.

10 **Q. IS IT MORE COST-EFFECTIVE TO USE A SINGLE PROVIDER TO**
11 **PROVIDE CUSTOMER SERVICE ACROSS ALL CSWR SYSTEMS INSTEAD**
12 **OF HIRING EMPLOYEES TO PERFORM THOSE TASKS IN EACH STATE?**

13 A. Yes. The primary consideration for CSWR's decision to use a single provider was the
14 desire to provide customers with an array of first-class customer services and service
15 event recording capabilities that systems the size of those acquired by CSWR-Florida
16 would not typically be able to provide at a reasonable per-customer cost. CSWR-
17 Florida's call center partner has developed and deployed a host of state-of-the-art
18 systems and practices that have now been made available to these customers. Because
19 the cost of these systems can be spread across all of the providers clients, CSWR-
20 Florida and its CSWR affiliates can enjoy the benefits of economies of scale. And, as
21 customer service technologies improve and expand, a third-party company can adopt
22 and deploy these improvements much more quickly and cost-effectively than CSWR-
23 Florida could on a stand-alone basis or even as part of the CSWR-affiliated group of
24 utilities.

25 **Q. CAN YOU PROVIDE SPECIFIC EXAMPLES OF THE BENEFITS TO CSWR-**

1 **FLORIDA AND ITS CUSTOMERS?**

2 A. First and foremost, customers receive live answering service – i.e., a live human being
3 answers the call – for all customer emergency service calls twenty-four hours a day. If
4 the subject of the call truly is an emergency, an emergency service responder
5 designated by CSWR-Florida’s third-party operations and maintenance contractor for
6 that service area is contacted, who dispatches personnel to address the problem.

7 In addition to the around-the-clock emergency response services, the vendor
8 also has a staff dedicated and trained to answer customer service and billing questions
9 from 7:00 a.m. – 7:00 p.m.¹ This staff has access to and is knowledgeable about
10 CSWR-Florida’s tariffs, so they can successfully address most billing questions
11 quickly and efficiently. If personnel are unable to answer the question or if the
12 customer requires direct assistance from CSWR-Florida, a CSWR employee is
13 designated to address his or her concerns.

14 Moreover, all customer contacts are thoroughly documented if questions later
15 arise about when calls were made, how many calls were made, and what information
16 the customer received. Customer calls are also recorded and stored to ensure
17 professional conduct toward customers and ensure questions or disputes about
18 customer interactions can quickly be resolved.

19 **Q. WITHOUT SUCH A VENDOR, COULD CSWR-FLORIDA PROVIDE THE**
20 **SAME SERVICES AT A SIMILAR COST?**

21 A. No. CSWR-Florida customers not only benefit from the economies of scale that come
22 from the consolidation of Florida systems, but also from CSWR-Florida’s existence
23 within the CSWR umbrella as well as CSWR being one of several entities served by

¹ CSWR-Florida’s customers are also able to self-serve through an Interactive Voice Response (“IVR”) system.

1 CSWR-Florida's third-party customer service contractor. Without that relationship and
2 the economics of scale that are realized by utilizing these services across multiple
3 states and tens of thousands of customers, it would be cost-prohibitive to provide these
4 services in Florida and to continually invest in the necessary underlying technology to
5 support these services.

6 **Q. HAS CSWR-FLORIDA MADE ANY OTHER CUSTOMER SERVICE**
7 **IMPROVEMENTS AS COMPARED TO PREVIOUS SERVICE PROVIDERS?**

8 A. Yes. CSWR has implemented a Customer Information System called Muni-Link that
9 is used by all CSWR-affiliated operating companies. Muni-Link is a cloud-based
10 utility billing solution designed for municipalities, cities, townships, private utility
11 companies, and authorities who bill customers for water and wastewater services. The
12 software includes electronic billing, online payment processing, built-in Coding
13 Accuracy Support System ("CASS") certification, customer work order management,
14 and a customer portal.

15 Muni-Link's customer portal allows customers to receive bills electronically,
16 make payments, and view their usage, amounts due, and payment histories online. The
17 billing software can be processed by users from any web browser, and users can also
18 manage interest, penalties, payments, notices, liens, and more. Customers can sign up
19 for e-billing to receive either electronic statements or paper billing. Finally, Muni-Link
20 helps organizations qualify for Postal Service automation prices which allow for
21 discounted postage rates.

22 Muni-Link provides users with access to full account information on a single
23 page with Account Central. This also allows customer service representatives to easily
24 access all relevant customer information quickly to provide expedited customer
25 service. Integrations with multiple metering, asset management, and accounting

1 systems are supported, and all data is backed up automatically.

2 **Q. CAN YOU OUTLINE THE KEY METRICS RELATED TO CALL CENTER**
3 **PERFORMANCE DURING THE TEST YEAR?**

4 A. Yes. During the test year from February 1, 2024, through January 31, 2025, CSWR's
5 call center received a total of 44,904 calls from CSWR-Florida's customers. While
6 processing such volumes, the call center maintained a remarkably low abandonment
7 rate of only 0.47%, with just 209 calls abandoned. An abandoned call is one in which
8 the caller hangs up before being connected to a customer service representative. For
9 comparison, an average acceptable industry standard is 7%. This indicates a strong
10 level of accessibility and responsiveness from the CSWR call center. Additionally, the
11 average speed of answer was only 15 seconds compared to a standard of approximately
12 20 seconds, demonstrating prompt service. Average handle time, which measures the
13 duration from when a call is answered to its conclusion, was 5 minutes and 27 seconds
14 highlighting CSWR-Florida's ability to resolve issues efficiently. Combined, these
15 metrics contributed to an overall service rate of 89.81% which represents the
16 percentage of calls answered in 20 seconds or less.

17 **Q. WHAT IMPROVEMENTS OR ADJUSTMENTS HAVE BEEN MADE TO**
18 **IMPROVE CUSTOMER SERVICE SINCE CSWR-FLORIDA ENTERED THE**
19 **STATE?**

20 A. Most notably, CSWR-Florida deployed a voluntary customer satisfaction survey
21 process available at the end of all agent calls. This survey measures key aspects of a
22 customer's experience, specifically satisfaction with the interaction, the adequacy of
23 help received, and the agent's knowledge. Specifically, customers are asked if they
24 were satisfied with their interaction, if they got the help they needed, and if the agent
25 was knowledgeable. Throughout the test year, CSWR-Florida collected responses

1 from 2,844 individual customers and was able to achieve a “perfect survey rate” from
2 88.78% of all responders which means that customers answered “yes” to all of the
3 aforementioned prompts. On average, CSWR-Florida has been able to achieve survey
4 scores on all three of these questions that ranged from 94.41% to 95.27% indicating a
5 very favorable reception from customers.

6 **IV. RATE DESIGN**

7 **Q. PLEASE DESCRIBE THE RATE DESIGN THAT CSWR-FLORIDA**
8 **PROPOSED IN THIS CASE.**

9 A. As described in more detail in the testimony of Mr. Duncan, CSWR-Florida is
10 proposing consolidated statewide rates across its entire Florida footprint. On the
11 wastewater side, the revenue requirement would be collected through a single flat
12 charge multiplied by the appropriate equivalent residential connection (“ERC”)
13 multiplier, which I will explain in detail later in my testimony. On the water side,
14 CSWR-Florida is proposing to use a combination of a base rate and volumetric charge
15 for usage to meet the revenue requirement for providing water service to all customers.

16 **Q. ARE FLAT MONTHLY RATES TYPICAL FOR WASTEWATER SYSTEMS?**

17 A. Yes. The reliance on a flat residential or commercial charge is typical in the
18 wastewater industry and reflects the fact that wastewater customers do not normally
19 have a meter on their wastewater output or that the wastewater provider does not have
20 access to water usage information. More broadly, the use of flat monthly rates for
21 wastewater usage is common for wastewater providers nationwide. For instance, state
22 utility commissions have recently approved flat monthly wastewater charges for
23 CSWR-Florida affiliates in Missouri, Kentucky, Louisiana, Mississippi, Texas, and
24 Tennessee.

25 **Q. DO YOU BELIEVE THAT THE USE OF FLAT MONTHLY WASTEWATER**

RATES REFLECTS COST OF SERVICE?

A. Yes. CSWR-Florida is proposing a flat wastewater service charge for customers as demand for wastewater service is inelastic and there is little to no variance in the cost of service on the residential level due to higher demands placed on the system by varying water usage. The vast majority of costs in the wastewater cost of service are fixed and do not vary with fluctuating residential usage. As such, since very little of the cost of service varies with usage, it makes sense to collect the cost of service through a flat monthly charge rather than through a variable usage charge. Importantly, such a rate design also provides a level of revenue certainty as the utility is not exposed to revenue fluctuations as usage may vary depending on the weather or even due to seasonal fluctuations.

Additionally, wastewater infrastructure is commonly designed to handle fluctuations efficiently, ensuring that increases in residential water usage do not proportionally increase the costs of wastewater treatment. Furthermore, necessary regulatory standards and permit limits are consistent regardless of the flow volume, indicating that additional flow does not result in higher treatment costs. From the customer perspective, adopting a flat rate structure simplifies billing, making billing predictable for customers and reducing complexities associated with usage-based billing.

For commercial customers, CSWR-Florida is proposing to utilize a methodology in which each commercial connection is reviewed and assigned a commercial “type” in accordance with their corresponding water meter size as detailed out in the PSC’s “Calculation of the Wastewater System Meter Equivalents.” In the cases of CSWR-Florida’s wastewater only service areas, CSWR-Florida is proposing to utilize the ERCs currently assigned as approved in the last rate case associated with

1 said area. Currently, the only service areas that would be impacted by this methodology
2 are Sebring Ridge and North Peninsula. In Sebring Ridge, there is a single commercial
3 customer which operates as a condominium that is assigned 252 units which would be
4 utilized in CSWR-Florida's proposed rate design. In North Peninsula, a wastewater
5 only service area that does not have any agreements with or information from the water
6 provider, CSWR-Florida is currently authorized by the Commission to charge 5
7 connections based on ERCs ranging from 6 – 70. CSWR-Florida simply seeks to
8 continue this previously approved practice.

9 **Q. HOW WERE WATER RATES DEVELOPED?**

10 A. The base water rate, ~~which incorporates an assumed minimum level of monthly usage,~~
11 is developed according to the meter/line size of the customer served by the service line
12 because the base rate is in place to ensure that CSWR-Florida can recover the fixed
13 cost of providing services as well as a baseline level of volumetric costs. Larger service
14 lines and meters require additional capacity to be built into the water system to provide
15 regular services and thus have a higher base charge. The volumetric charge, for ~~usage~~
16 ~~beyond the amount included in the monthly fixed charge,~~ on the other hand, is
17 developed to recover the costs that vary due to larger consumption of water by a
18 customer, such as chemicals needed for treatment and power expense for pumping
19 water from the source. This volumetric charge passes the increased variable costs to
20 the customers that are greater consumers of the service provided and also encourages
21 water conservation. At this time, the Company has proposed to recover 25% of
22 revenues from the volumetric charge for the reasons listed above.

23 **Q. ARE THE PROPOSED RATES FOR WATER AND WASTEWATER SERVICE**
24 **JUST AND REASONABLE?**

25 A. Yes. The proposed rates represent a just and reasonable allocation of costs to the

1 customers described above that is consistent with principles of cost causation routinely
2 adopted by utility regulators across the country.

3 **V. PROPOSED TARIFFS**

4 **Q. HAS CSWR-FLORIDA PROPOSED TARIFFS IN THIS CASE?**

5 A. Yes. As part of the items that CSWR-Florida is filing concurrent with this testimony,
6 the Company is filing a proposed tariff attached as **Petitioner's Exhibits AJS-5 &**
7 **AJS-6: Proposed CSWR-Florida Consolidated Water & Wastewater Tariff.** These
8 tariffs not only include the terms and conditions of service, but also include the
9 applicable service charges and the rates that were calculated as described previously.

10 **Q. WERE YOU RESPONSIBLE FOR THE DEVELOPMENT OF THIS TARIFF?**

11 A. Yes. The tariff was prepared under my direction and supervision.

12 **Q. HAS THE COMPANY SOUGHT TO CONSOLIDATE SERVICE CHARGES**
13 **AND TERMS AND CONDITIONS STATE-WIDE?**

14 A. Yes. As a result of its acquisition of numerous systems, the current CSWR-Florida
15 tariffs included terms and conditions that were different, unwieldy, and difficult to
16 administer, not only for the Company, but also for customers. For this reason, not only
17 has CSWR-Florida sought to consolidate rates across all of its water and wastewater
18 service areas, the Company has also proposed to apply the same terms, conditions, and
19 service charges to all systems.

20 **Q. WHAT APPROACH DID CSWR-FLORIDA TAKE WITH RESPECT TO THE**
21 **DEVELOPMENT OF THE TERMS AND CONDITIONS CONTAINED IN**
22 **THOSE PROPOSED STATE-WIDE TARIFFS?**

23 A. CSWR-Florida's proposed tariffs represent an amalgamation of various different
24 sources, including the current CSWR-Florida tariffs. CSWR-Florida also reviewed
25 the proposed tariff to ensure compliance with Commission rules for water and

1 wastewater utilities.

2 **Q. DO YOU BELIEVE THAT THE PROPOSED TARIFF IS JUST AND**
3 **REASONABLE?**

4 A. Yes. These tariffs are not only just and reasonable, they also comply with the various
5 Commission rules and are much easier for the Company, customers, and the
6 Commission to administer.

7 **Q. WHAT APPROACH DID CSWR-FLORIDA TAKE REGARDING THE**
8 **DEVELOPMENT OF SERVICE CHARGES?**

9 A. In some cases, the cost basis for service charges is readily known. In other cases, it is
10 very difficult to ascertain the cost underlying the service charge. For instance, tap fees,
11 connection charges, and main extensions are often challenging to quantify because all
12 cases are different. In this regard, a connection or tap in shallow dirt will be cheaper
13 than a deeper connection that requires the excavation of rock. The costs climb
14 dramatically if the connection requires a road to be excavated and rebuilt. For this
15 reason, CSWR-Florida has proposed that the connection / tap fees & main extensions
16 be charged to the customer at actual cost. The Company is aware of the Commission's
17 direction that the maximum amount of contributions-in-aid-of-construction, net of
18 amortization, should not exceed 75% of the total original cost, net of accumulated
19 depreciation, of the utility's facilities and plant when the facilities and plant are at their
20 designed capacity. Due to the limited amount of CIAC at each plant and the small
21 amount of annual growth, the Company believes that there is little to no risk of being
22 out of compliance with the Commission's rules in regards to these charges. CSWR-
23 Florida will monitor CIAC routinely to ensure compliance. For other service charges,
24 the Company reviewed and then decided to adopt charges that are contained in one of
25 the CSWR-Florida's individual system tariffs. For example, CSWR-Florida believes

1 that a late payment penalty of \$7 (found in the Aquarina tariff) represents a just and
2 reasonable charge used to incentivize payment and reduce spreading further cost across
3 other customers through bad debt expense. Additionally, the Company believes
4 continuing the practice of a \$50.75 charge for the various services that require an
5 operator to visit a premise (found in the Rolling Oaks tariff) allows the Company to
6 recover portions of the cost it takes to perform these visits. Furthermore, this charge
7 closely reflects the actual cost incurred for 30 minutes of an operator's time at the
8 contracted hourly rate. The proposed \$50.75 reasonably approximates the labor
9 expense and allows for minor variation across systems. In the Company's proposal,
10 this charge would be doubled for after-hours work reflecting overtime consistent with
11 Rule 25-30.460(3). This would be applicable to premises visits, reconnection charges,
12 and initial connection charges. Finally, the Company has proposed meter bench test
13 fees as identified in the Florida Administrative Code and approved throughout various
14 tariffs. These adopted service charges have already been reviewed and approved by
15 the Commission. Rather than incur the expense of a cost study and increase rate case
16 expense, I have proposed to adopt the previously approved service charges.

17 **Q. WHAT APPROACH DID CSWR-FLORIDA TAKE IN THE DEVELOPMENT**
18 **OF THE WATER AND WASTEWATER RATES?**

19 A. I have previously described the method for development of water and wastewater rates.
20 In general, the Company's revenue requirement for the test period was consolidated
21 separately across water and wastewater systems. This is to say, the test period revenue
22 requirement was forecasted and compared to the test period forecasted revenues to
23 determine the revenue deficiency for the test period. The rate design to collect this test
24 period revenue requirement was described previously. Specifically, the wastewater
25 revenue requirement is collected on a flat, monthly charge. The water revenue

1 requirement, however, not only includes the flat monthly charge, it also includes a
2 volumetric component that is based on customer usage.

3 **Q. DO YOU BELIEVE THAT THE RATES CONTAINED IN THE PROPOSED**
4 **TARIFF ARE JUST AND REASONABLE?**

5 A. Yes. I believe that those rates are calculated in a manner that is widely accepted and
6 produce just and reasonable rates.

7 **VI. CONCLUSION**

8 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

9 A. Yes.

1 (Whereupon, prefiled rebuttal testimony of
2 Aaron J. Silas was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

REBUTTAL TESTIMONY OF

AARON J. SILAS

on behalf of

CSWR-Florida Utility Operating Company, LLC

APRIL 17, 2026

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TITLE.

A. My name is Aaron J. Silas, and my business address is 1630 Des Peres Rd., Suite 140, St. Louis, Missouri 63131. I currently work as the Assistant Vice President of Customer & Regulatory Operations.

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. The purpose of my rebuttal testimony is to respond to the direct testimony of Public Service Commission Staff ("Staff") witness John Plescow regarding the Office of Consumer Assistance history with consumer complaints against the Company. Additionally, I will address, in conjunction with Mr. Josiah Cox, the comments raised in the Service Hearings held in this case.

II. STAFF'S TESTIMONY

Q. PLEASE DESCRIBE MR. PLESCOW'S TESTIMONY.

A. As set forth in his testimony and accompanying Exhibits JFP-1, 2 and 3, Mr. Plescow outlines the number of consumer complaints logged with the Commission against CSWR-Florida for the four-year period from February 1, 2021, to January 31, 2025. Mr. Plescow also identifies the type of complaint involved as well as whether the complaint appears to be a rule violation.

Q. WHAT IS YOUR UNDERSTANDING OF THE NUMBER AND NATURE OF COMPLAINTS AGAINST THE COMPANY OVER THIS FOUR-YEAR PERIOD?

1 A. As Mr. Plescow indicates, from February 1, 2021, to January 31, 2025, the
2 Commission logged 83 complaints against the Company with 71% of the complaints
3 concerning quality of service issues (Exhibit JFP-1) and 29% involving billing issues
4 (Exhibit JFP-2). Mr. Plescow states that 12 service quality and 14 billing complaints
5 appear to demonstrate a violation of Commission Rules.¹ Finally, Mr. Plescow list
6 the complaints in Exhibit JFP-3 by close type.

7

8

III. COMPANY RESPONSE

9 **Q. HOW ARE THE COMPLAINTS PRESENTED IN STAFF'S EXHIBITS?**

10

11 A. The Exhibits attached to Mr. Plescow's testimony present complaints grouped
12 by utility system and include summary information such as close type, close
13 code, and close date.

14 **Q. DO THE STAFF EXHIBITS PROVIDE ADDITIONAL CONTEXT**
15 **REGARDING OPERATIONAL HISTORY OR CHANGES OVER**
16 **TIME?**

17 A. The exhibits provide system-level listings but do not include narrative context
18 regarding system acquisitions or operational transitions.

19 **Q. SHOULD THE COMMISSION CONSIDER THAT SOME OF THE**
20 **QUALITY OF SERVICE COMPLAINTS IDENTIFIED BY STAFF**
21 **RELATE TO LEGACY CONDITIONS INHERITED BY**
22 **CSWR-FLORIDA?**

¹ Plescow Direct, Docket No. 20250052, filed March 27, 2027, page 3.

1 A. Yes. A portion of the quality of service complaints reflected in Staff exhibits
2 are attributable to legacy system conditions that CSWR-Florida inherited from
3 prior owners. For example, in Marion County, CSWR-Florida acquired 28 water
4 and wastewater systems through five separate transactions. As set forth in the
5 Direct Testimony of Mr. Freeman, these utility assets were generally in a
6 significant state of disrepair at the time of acquisition. In several instances, those
7 systems had longstanding infrastructure deficiencies and poor operational
8 practices - such as the apparent lack of required boil water advisories - that
9 predated the Company's ownership. As a result, complaints related to outages,
10 water quality, and pressure in that area are more indicative of conditions created
11 under prior ownership through a chronic history of disrepair and poor
12 operational practices, rather than through failures by CSWR-Florida after
13 assuming operational responsibility. Staff's exhibits list such complaints by
14 system but do not attempt to distinguish between legacy issues and conditions
15 arising after CSWR-Florida began operating and investing in those systems. The
16 Company believes that such a distinction provides important context to Staff's
17 Exhibits.

18 **Q. EXHIBIT JFP-1 ALSO IDENTIFIED CERTAIN CONSUMER**
19 **COMPLAINTS THAT WERE CATEGORIZED AS POTENTIAL**
20 **VIOLATIONS OF THE COMMISSION'S RESPONSE-TIMELINESS**
21 **RULES. WAS CSWR-FLORIDA AWARE OF ISSUES RELATED TO**
22 **TIMELY RESPONSES DURING THE REVIEW PERIOD?**

1 A. Yes. During the review period, CSWR-Florida became aware, that its internal
2 processes did not consistently ensure timely responses to Commission-referred
3 complaints and inquiries. The Company identified this as a process-related issue
4 and took steps to address it.

5 Q. **WHAT ACTIONS DID CSWR-FLORIDA TAKE TO ADDRESS**
6 **CONCERNS RELATED TO RESPONSE TIMELINESS?**

7 A. As an initial matter, CSWR-Florida takes Commission inquiries and concerns
8 very seriously. The Company strives to be responsive to the interests and
9 questions of its regulators. So, when the Company became aware of this flaw in
10 its processes, it took immediate action.

11 CSWR-Florida implemented corrective action by hiring a dedicated
12 escalation specialist on March 4, 2024. This position was created specifically to
13 monitor, track, and escalate Commission inquiries and consumer complaints to
14 ensure that responses are timely, complete, and properly documented in
15 accordance with Commission rules.

16 Following the creation of the escalation specialist role, CSWR-Florida
17 strengthened also its oversight of Commission-referred complaints, including
18 centralized monitoring of response deadlines and enhanced coordination
19 between customer service and regulatory staff. These changes are designed to
20 prevent delays and improve compliance with Commission response
21 requirements.

22 Q. **STAFF'S EXHIBITS ALSO INCLUDE CERTAIN COMPLAINTS**
23 **ENTERED AFTER MARCH 4, 2024, THAT WERE CATEGORIZED AS**

1 **RESPONSE-TIMELINESS VIOLATIONS. DOES CSWR-FLORIDA**
2 **AGREE WITH THAT CHARACTERIZATION?**

3 A. CSWR-Florida does not agree that the post-March 4, 2024, procedural
4 categorizations fully or accurately reflect the timing or substance of the
5 Company's responses to the Commission in those cases. In the post-March 2024
6 instances identified in the staff exhibits, CSWR-Florida provided prompt and
7 substantive responses to the Commission, including documented customer
8 outreach, written explanations, and supporting account information. While
9 those matters may later have been assigned procedural close-code classifications
10 by Staff indicating untimely responses, the underlying facts demonstrate timely
11 engagement and good-faith efforts to resolve customer concerns.

12 **Q. CAN YOU PROVIDE SPECIFIC EXAMPLES THAT ILLUSTRATE**
13 **THIS DISAGREEMENT?**

14 A. Yes. For example, Case No. 1447244W, entered on June 10, 2024, was
15 categorized by Staff as a failure to provide resolution within 15 working days.
16 Importantly, however, CSWR-Florida provided a substantive response to the
17 Commission on June 14, 2024, documenting customer contact efforts, including
18 a call placed to the customer, a no-contact letter, and a written explanation
19 addressing the concerns raised.

20 Similarly, in Case No. 1450093W, entered on July 2, 2024,
21 CSWR-Florida responded to the Commission on July 3, 2024, one day after
22 receipt of the complaint. That response confirmed direct customer contact,

1 provided itemized billing adjustments and an updated account statement, and
2 explained the current account status.

3 **Q. ARE THESE THE ONLY INSTANCES IN WHICH CSWR-FLORIDA**
4 **DISPUTES THE CHARACTERIZATION OF POST-MARCH 2024**
5 **RESPONSES AS UNTIMELY?**

6 A. No. These cases are provided as representative examples. They illustrate
7 CSWR-Florida's broader concern that procedural close codes alone do not
8 always capture the actual response timing or level of engagement by the
9 Company following implementation of the escalation specialist role.

10

11

IV. SERVICE HEARINGS

12 **Q. DID YOU ATTEND THE SERVING HEARINGS CONDUCTED BY THE**
13 **COMMISSION IN THIS MATTER?**

14 A. Yes. The Commission conducted four service hearings in this case. First, the
15 Commission held live service hearings in Lecanto and Ocala, Florida on March
16 5, 2026, and in Daytona Beach on March 25, 2026. The Commission also held
17 a virtual service hearing on March 31, 2026. I personally attended and
18 participated in each of these service hearings.

19 **Q. DO YOU TYPICALLY ATTEND CUSTOMER HEARINGS?**

20 A. Yes. As the Vice President in charge of customer service, I attempt to personally
21 attend all customer hearings. Moreover, as Mr. Cox relates, given the
22 importance that the Company places in customer hearings, it requires that a
23 senior executive attend all customer hearings.

1 **Q. DID CSWR-FLORIDA TAKE ANY ACTION FOLLOWING THOSE**
2 **HEARINGS TO ADDRESS CUSTOMER CONCERNS?**

3 A. Yes. Following the service hearings, CSWR-Florida proactively reached out to
4 multiple customers who raised concerns related to service quality, billing issues,
5 or operational matters to ensure that questions were answered and issues were
6 addressed. Post-hearing outreach focused on concerns involving service quality,
7 water or wastewater system operations, billing questions related to usage or
8 leaks, boil water advisories, and other operational topics where additional
9 clarification or follow-up could assist the customer or resolve outstanding issues.

10 **Q. CAN YOU PROVIDE EXAMPLES OF POST-HEARING FOLLOW-UP**
11 **WITH CUSTOMERS WHO RAISED SERVICE OR QUALITY**
12 **CONCERNS?**

13 A. Yes. Following the hearings, CSWR-Florida contacted several customers to
14 address their concerns. For example, customers in the Rolling Oaks service area
15 were contacted regarding meter accuracy, boil water advisories, water quality
16 concerns, and physical service issues such as meter box conditions. In other
17 cases, CSWR-Florida spoke directly with customers regarding sewer odor
18 concerns, provided information on planned facility improvements, and created
19 work orders or provided billing adjustments where appropriate.

20 **Q. WERE THERE ANY CUSTOMER COMMENTS AT THE HEARINGS**
21 **THAT DID NOT RESULT IN DIRECT FOLLOW-UP BY**
22 **CSWR-FLORIDA?**

1 A. Yes. In cases where customer comments related solely to general concerns about
2 rate levels, affordability, or standardized pricing - as opposed to service quality,
3 billing administration, or operational issues - CSWR-Florida did not initiate
4 individual outreach. The Company believes that these matters are more
5 appropriately addressed through the Commission's rate-setting process rather
6 than through individual customer contacts. Customer comments focused solely
7 on rate design or rate impacts are policy matters within the Commission's
8 jurisdiction and are addressed through the formal proceedings in this docket. It
9 is my opinion that outreach on these matters often create confusion regarding
10 the regulatory process.

11 **Q. WHAT DOES CSWR-FLORIDA'S POST-HEARING OUTREACH**
12 **DEMONSTRATE ABOUT ITS APPROACH TO CUSTOMER**
13 **CONCERNS?**

14 A. CSWR-Florida's post-hearing outreach demonstrates the Company's
15 commitment to engaging with customers, addressing service-related concerns
16 and providing transparency and follow-up after customers avail themselves of
17 the Commission's hearing process. This engagement is separate from, and in
18 addition to, the formal regulatory review of rates in this proceeding.

19 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

20 A. Yes

1 BY MR. WOODSMALL:

2 Q Have you attached any exhibits to your
3 prefiled testimony?

4 A Yes.

5 Q Those are exhibits -- I am sorry -- AJS -- or
6 I am sorry, 100 through 105 --

7 A Correct.

8 Q -- correct?

9 A Yes.

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

12 A No.

13 Q Have you prepared a summary of your direct and
14 rebuttal testimony?

15 A I have.

16 Q Would you provide that, please?

17 A Of course.

18 Thank you, Commission.

19 As Mr. Cox noted earlier today, successfully
20 addressing distressing water and wastewater systems
21 requires an acquiring utility with strong technical,
22 operational, managerial and financial expertise. My
23 colleagues have already covered CSWR's operational and
24 engineering strengths. My focus today is on the
25 company's managerial expertise, particularly in

1 regulatory operations, customer experience and
2 communications.

3 At a high level, my role spans regulatory
4 operations, customer experience and communications
5 across a multistate platform serving approximately
6 200,000 connections. While my managerial expertise is
7 focused on regulatory customer experience and corporate
8 communications, CSWR has made a deliberate decision to
9 centralize other core capabilities, including
10 engineering, accounting, finance, information
11 technology, legal an human resources at the parent
12 level. This gives the company three advantages.

13 The first advantage is consistency across all
14 systems. By centralizing these functions, the company
15 knows that the kilowatt hour, regulatory operations for
16 any particular system will be handled in the same way as
17 it is done for other thousand systems in the CSWR
18 umbrella.

19 The second advantage driven by centralization
20 of functions is efficiency through scale. The company
21 has found that efficiencies are delivered and economies
22 of scales realized when these functions are handled at
23 the parent company and not separately by each of the
24 company's 1,000 operating utilities.

25 The third advantage is the speed with which

1 CSWR can deploy improvements with these centralized
2 functions. Throughout my testimony, you will see
3 references to the improvements that have been made with
4 the customer experience function. By centralizing this
5 responsibility, the improvements were immediately
6 deployed at each system rather than attempting to deploy
7 the improvements separately at each remote system.

8 The philosophy is simple. CSWR builds these
9 functional systems once, refines them continuously, and
10 then deploys them on behalf of every operating company.
11 CSWR treats strategic communications as a core
12 operational capability, not just a support function.
13 Concretely that includes a comprehensive effort to
14 improve customer contact data through multichannel
15 outreach, detailed welcome letters for new acquisitions
16 where we explain system conditions, compliance history
17 and improvement plans, and annual and project specific
18 updates to keep customers informed about investments in
19 their communities.

20 A key principle that we operate under is that
21 water is local. While we benefit from scale, customer
22 trust is built at the community level through
23 transparency and relevance.

24 On a customer service side, while we manage
25 this core responsibility, CSWR made a deliberate

1 decision to leverage a third-party platform that allows
2 us to deliver capabilities that small stand-alone
3 systems simply cannot achieve. That includes a 24/7
4 live response for emergencies, advanced billing and
5 customer information systems, and full documentation and
6 tracking of all customer interactions. The results
7 speak to the effectiveness of that model.

8 The customer experience department handled
9 nearly 45,000 Florida calls in the test year. Of those
10 45,000 calls, we maintained a 0.47 percent abandonment
11 rate versus a seven-percent industry benchmark. We also
12 achieved a 15-second average speed of answer and
13 delivered an 89.81 percent service level for timely
14 response. This is very intentional. We measure
15 everything, benchmark against the industry and drive
16 continuous functional improvement from the centralized
17 department to each operating utility.

18 From a regulatory standpoint, the CSWR
19 approach reflects the same centralized managerial
20 function. All Florida regulatory functions are handled
21 by the same centralized regulatory staff that performs
22 the function for the other 10 states. In order to not
23 only drive regulatory efficiencies but also to make its
24 rates and tariffs as customer friendly as possible, the
25 company has historically sought to implement flat

1 structures for wastewater, where costs are largely fixed
2 and demand is inelastic; a hybrid structure for water,
3 combining a base charge with a volumetric component tied
4 to actual usage; and stand-alone -- statewide
5 consolidation of rates which simplifies administrations
6 and stabilizes outcomes. This standardization of
7 tariffs and rate design aligns pricing with underlying
8 cost drivers, provides predictability for customers, and
9 maintains revenue stability for the system.

10 Stepping back, the CSWR managerial expertise
11 is premised on five core principles. One, centralized
12 expertise. Two, standardized systems. Three, leverage
13 scale. Four, measure performance rigorously. And five,
14 communicate transparently. When executed together,
15 those principles allow CSWR to convert scale and to
16 better customer outcomes, lower costs and strong
17 regulatory customer experience and communication
18 performance.

19 Thus far, my summary has focused on CSWR's
20 managerial expertise, especially as it relates to the
21 areas of coms, customer experience and regulatory
22 operations. Since I am appearing just this one time, I
23 also wanted to address the customer service issues
24 addressed in my rebuttal testimony.

25 As I mentioned in that testimony, the purpose

1 of my rebuttal is to address concerns raised in the
2 direct testimony of staff witness Plescow. In his
3 testimony estates between February 1st, 2021, and
4 January 31st, 2025, the Commission logged 83 complaints
5 against CSWR-Florida. 71 percent of the complaints
6 involved quality of service issues, and 29 percent
7 involved billing concerns.

8 As an initial matter, it is important to note
9 that Mr. Plescow's customer service be placed in context
10 with the nature of CSWR-Florida's business plan. As you
11 know by now, the company's mission is to acquire
12 distressed water and sewer systems. As Mr. Freeman
13 stated, in many cases, these systems have a chronic
14 history of noncompliance, therefore, customers of these
15 systems have tired of not seeing any improvement in the
16 deficient utility service quality and a lack of
17 professional customer experience operations. It is not
18 surprising, therefore, that many of these service
19 quality issues will bleed over into CSWR-Florida after
20 it acquires the deficient system.

21 As I mention in my rebuttal, many of the
22 service quality issues are attributable to legacy system
23 conditions that the company inherited upon acquisition.
24 As Mr. Freeman states, these utility assets were
25 generally in a significant state of disrepair with

1 longstanding infrastructure deficiencies and poor
2 operational practices. These poor operational practices
3 extend to a failure to issue required boil water
4 advisories. Naturally, then, customers will register
5 complaints when they suddenly start seeing CSWR-Florida
6 start issuing the mandatory advisories.

7 As I mentioned in my rebuttal, complaints
8 related to outages, waters quality and pressure are more
9 indicative of conditions created under prior ownership
10 rather than failure on the part of CSWR-Florida. Mr.
11 Plescow's testimony does not attempt to distinguish
12 between legacy conditions associated with failures by
13 previous ownership and conditions arising from
14 CSWR-Florida actions. He does raise other concerns
15 related to potential violations of the Commission's
16 response timeliness rule. The company does acknowledge
17 some growing pains in this area. That said, the company
18 has implemented corrective actions to ensure that such
19 problems do not occur in the future, including the
20 hiring of a dedicated escalation specialist to monitor,
21 track and escalate Commission inquiries and complaints.
22 The company has also centralized monitoring of response
23 deadlines and coordinating the flow of information
24 between customer service and regulatory staff.

25 That all said, there are certain statistics

1 presented in Mr. Plescow's testimony with which the
2 company disagrees. As I mentioned in several instances,
3 the company documented timely responses which included
4 thorough substance of the identified issues. For
5 unexplained reasons, the staff's data incorrectly
6 indicates an untimely response. I provide specific
7 examples of this issue at pages five through six of my
8 rebuttal testimony.

9 Finally, in conjunction with the rebuttal
10 testimony of Mr. Cox, I discuss the issues raised at the
11 four local service hearings. I personally attended each
12 of those service hearings, reviewed the transcripts and
13 researched any identified service or billing issues.
14 After conducting this research, I reached out to the
15 individual customers to discuss their concerns and
16 provide information and feedback to attempt to alleviate
17 their service concerns and billing issues. This
18 approach reflects the seriousness with which the company
19 considers customer concerns. Service quality hearings
20 are always attended by senior management and addressed
21 in expedient fashion.

22 In summary, my rebuttal testimony highlights
23 three key points. First, complaint data must be
24 evaluated within the proper operational and historical
25 context, including the condition of acquired systems.

1 Second, CSWR-Florida actively identifies
2 process gaps and implements corrective actions to
3 improve performance and compliance.

4 And third, the company is committed to
5 proactive customer engagement, particularly in response
6 to issues raised through the Commission's hearing
7 process.

8 Taken together, these points demonstrate that
9 CSWR-Florida's centralized managerial approach is
10 responsive, continually improving and focused on
11 delivering strong customer and regulatory outcomes.

12 Thank you.

13 MR. WOODSMALL: Thank you.

14 CSWR-Florida tenders Mr. Silas for
15 cross-examination.

16 CHAIRMAN SMITH: Okay. OPC, you are
17 recognized for cross when you are ready.

18 MR. WATROUS: Thank you, Madam Chair, and the
19 OPC has no questions for Mr. Silas. Thank you.

20 CHAIRMAN SMITH: Staff?

21 MR. BLOOM: We also have no questions.
22 Commissioners? Commissioner Ortega.

23 COMMISSIONER ORTEGA: Thank you, Chair. Just
24 one question.

25 Going back to the flat rate structure for

1 wastewater that you are proposing. I jotted down a
2 couple, but could you tell me what the benefits are
3 of having that flat rate structure for wastewater
4 specifically from the company's view, and then also
5 from the customer's view?

6 THE WITNESS: Yeah, definitely.

7 I think from the company and the customer's
8 view, there are certain components of getting the
9 water usage from the water utility that costs a
10 little bit of money, right. So from the beginning,
11 we would be able to strip out some costs that are
12 associated with charging that usage based
13 wastewater service.

14 Another kind of big benefit that I have seen
15 in other jurisdictions of the flat sewer rate is
16 that customers have kind of an idea of what the
17 monthly bill is going to be month over month,
18 right. So that consistency is actually really
19 simple for customers to follow, and I have seen,
20 you know, higher adoption in auto pay because they
21 trust exactly what the next bill is going to be and
22 more kind of uses around that.

23 So kind of across the board, just the
24 inelastic nature of that wastewater service lends
25 itself to that flat rate.

1 COMMISSIONER ORTEGA: Thank you so much.
2 That's all my questions.

3 CHAIRMAN SMITH: Of course. Thank you.

4 Yeah, I have a couple of questions, just kind
5 of following. You test -- well, you testified CSWR
6 uses a third-party vendor to provide non-billing
7 services to customers, correct? And then I think
8 it was mentioned by an earlier witness. Those
9 all -- are all of those third-party vendors located
10 in Missouri.

11 THE WITNESS: No. So it used to be we have
12 CSRs or agents kind of scattered throughout the
13 country. They work remotely.

14 CHAIRMAN SMITH: And they are all domestically
15 -- they are all domestically employed?

16 THE WITNESS: Correct.

17 CHAIRMAN SMITH: Does the company have any
18 sort of protocols in place to ensure that, you
19 know, specific customers concerns are addressed
20 accurately and efficiently if you have these sort
21 of third-party vendors spread out across the
22 country and not, you know, directly impacted in
23 Florida?

24 THE WITNESS: Yeah, absolutely. So we have
25 multiple escalation processes. We have a bunch of

1 internal staff, so myself and two other
2 individuals, who review this data on a daily basis
3 for to make sure that customers concerns are being
4 caught adequately responded to.

5 So any kind of request for an escalation first
6 goes through a supervisor of that third-party call
7 center. And then if they request further
8 escalation, that comes in-house to myself and my
9 team.

10 Additionally, myself and the leadership team
11 at CSWR, we review customer survey scores. We
12 review customer calls, dispositions for calls on a
13 weekly basis for each individual state, so Florida
14 included, to make sure there aren't kind of these
15 widespread longstanding issues. So we kind of
16 review that information on a weekly basis, and then
17 look at it across the last 90 days as well to see
18 if customer concerns are being addressed in a
19 timely manner, or if they are kind of staying
20 consistent so that we can target those more
21 efficiently.

22 CHAIRMAN SMITH: So you are saying that there
23 is -- basically the case is open for about 90 days,
24 and then at the conclusion of 90 days it closes if
25 the customer's concerns are addressed?

1 THE WITNESS: So generally what we try and do
2 is address the concerns within two days. So that
3 90-day timeframe just looks at any kind of
4 disposition for a service area in general.

5 So if, for example, if Sunshine, if one of
6 those communities calls us for questions about a
7 BWA, right, that kind of event stays on the radar
8 for 90 days to make sure that they are not calling
9 week over week with the same concern, right. So we
10 kind of look at events over the 90-day timeframe,
11 but individual customer concerns we attempt to
12 handle within two business days.

13 CHAIRMAN SMITH: Okay. And then lastly, in
14 your intro you talked about, you know, the customer
15 service hearings and important to have senior
16 management there, which I very much appreciate that
17 you were at all of them. There was one service
18 hearing about that there was a customer named Mr.
19 Buckwald, he testified about a water leak in North
20 Peninsula. In his testimony he said he contacted
21 the emergency number and it did take several days
22 for it to be addressed. I am just wondering if you
23 have a response to that customer's issue, because I
24 am curious about how that was resolved.

25 THE WITNESS: Yeah, absolutely. So just in

1 general, you know, what that looks like is they
2 call the 24/7 emergency line, and emergencies are
3 dispatched immediately, right. So our operators
4 are sent out to address the issue.

5 There are certain situations where there is
6 additional kind of machinery needed to overall fix
7 the issue. And so although we get people on-site
8 extremely quickly, sometimes it does take a day or
9 two to get a contractor potentially, or the right
10 equipment to fix the issue.

11 So that was one of those situations where we
12 were able to identify the issue, get on site within
13 a few hours, but the overall resolution took longer
14 than an emergency normally would.

15 CHAIRMAN SMITH: Okay. And as of now, can you
16 testify that it's been resolved?

17 THE WITNESS: That is my understanding, that
18 it's been resolved. Yes.

19 CHAIRMAN SMITH: Okay. That's all my
20 questions, so redirect?

21 MR. WOODSMALL: No questions, Your Honor.
22 Thank you.

23 CHAIRMAN SMITH: Exhibits?

24 MR. WOODSMALL: I keep doing that. My voice
25 projects anyway.

1 Your Honor, I would move for the admission of
2 Exhibits 100 through 105.

3 CHAIRMAN SMITH: Okay. So moved.

4 (Whereupon, Exhibit Nos. 100-105 were received
5 into evidence.)

6 MR. WOODSMALL: Mr. Silas has been subjected
7 to cross-examination on both his direct and
8 rebuttal, so I would ask that he be excused.

9 CHAIRMAN SMITH: You are excused. Thank you
10 very much.

11 THE WITNESS: Thank you.

12 (Witness excused.)

13 MR. WOODSMALL: Thank you, Your Honor. That's
14 the extent of the company's direct witnesses.

15 CHAIRMAN SMITH: Yes. So we will move to OPC.
16 You are recognized to call your first witness.

17 MR. PONCE: Good afternoon, Commissioners.
18 OPC would like to call to the stand OPC witness
19 Ralph Smith.

20 CHAIRMAN SMITH: Good afternoon, Mr. Smith.
21 Were you -- have you been sworn in?

22 THE WITNESS: I have, yes.

23 CHAIRMAN SMITH: Okay. You may -- you are
24 recognized whenever you are ready.

25 MR. PONCE: Thank you.

1 Whereupon,

2 RALPH SMITH

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

6 EXAMINATION

7 BY MR. PONCE:

8 Q Good afternoon, Mr. Smith.

9 A Good afternoon.

10 Q If you could please state your name and your
11 profession for the record, and your business address?

12 A My name is Ralph Smith. I am a senior
13 regulatory consultant with Larkin & Associates, PLLC.
14 Our business address is 15728 Farmington Road, Livonia,
15 Michigan, 48154.

16 Q And did you cause to be filed prefiled direct
17 expert testimony in this docket on March 20, 2026?

18 A Yes, I did.

19 Q Do you have any corrections to your prefiled
20 testimony?

21 A No.

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

25 A Yes, they would.

1 MR. PONCE: Madam Chairman, I would ask at
2 this time that Mr. Smith's direct testimony be
3 entered into the record as though read.

4 CHAIRMAN SMITH: So moved.

5 (Whereupon, prefiled direct testimony of Ralph
6 Smith was inserted.)

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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.

Docket No.: 20250052-WS

Filed: March 20, 2026

DIRECT TESTIMONY

OF

RALPH SMITH, CPA

ON BEHALF

OF

THE CITIZENS OF THE STATE OF FLORIDA

Walt Trierweiler
Public Counsel

Charles J. Rehwinkel
Deputy Public Counsel

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of the State of Florida*

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Exhibits:

RCS-1, Qualifications Appendix

RCS-2, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Water - Consolidated

RCS-3, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Aquarina Utilities - Water

RCS-4, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for CFAT H2O Landfair WWTF - Water

RCS-5, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Neighborhood Utilities - Water

RCS-6, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Rolling Oaks Utilities - Water

RCS-7, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Sunshine Utilities - Water

RCS-8, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Tradewinds Village - Water

RCS-9, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Tymber Creek Utilities - Water

RCS-10, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Wastewater - Consolidated

RCS-11, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Aquarina Utilities - Wastewater

RCS-12, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for BFF Corp - Wastewater

RCS-13, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for CFAT H2O Landfair WWTF - Wastewater

RCS-14, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for North Peninsula - Wastewater

RCS-15, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Rolling Oaks Utilities - Wastewater

RCS-16, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Sebring Ridge Utilities - Wastewater

RCS-17, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for TKCB - Wastewater

RCS-18, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Tradewinds Village - Wastewater

RCS-19, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Tymber Creek Utilities - Wastewater

RCS-20, Adjustments to Rate Base and Operating Expenses

DIRECT TESTIMONY

OF

RALPH SMITH

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 20250052-WS

I. INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS?

A. My name is Ralph Smith. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory consultant at the firm Larkin & Associates, PLLC (“Larkin”), Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan, 48154.

Q. PLEASE DESCRIBE THE LARKIN FIRM.

A. Larkin is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings, including numerous electric, water and wastewater, gas, and telephone utility cases.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC**
2 **SERVICE COMMISSION (“FPSC” OR “COMMISSION”)?**

3 A. Yes, I have testified before the Commission previously. I have also testified before
4 several other state regulatory commissions.

5
6 **Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR**
7 **QUALIFICATIONS AND EXPERIENCE?**

8 A. Yes. I have attached Exhibit RCS-1, which is a summary of my regulatory experience
9 and qualifications.

10

11 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

12 A. Larkin was retained by the Florida Office of Public Counsel (“OPC”) to review the rate
13 request of CSWR-Florida Utility Operating Company, LLC (“CSWR Florida,” or
14 “Company”) owned by CSWR, LLC. Accordingly, I am appearing on behalf of the
15 Citizens of the State of Florida (“Citizens”).

16

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

18 A. I am presenting OPC's overall recommended revenue requirement in this case. I also
19 sponsor the OPC’s recommended adjustments to the Company's proposed rate base and
20 operating income.

21

22 **Q. WHAT EXHIBITS HAVE YOU ATTACHED TO YOUR TESTIMONY?**

23 A. I have attached the following exhibits:

1
2

Table 1
Exhibits Used in Testimony of Ralph Smith, CPA

RCS-1, Qualifications Appendix

RCS-2, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Water - Consolidated

RCS-3, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Aquarina Utilities - Water

RCS-4, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for CFAT H2O Landfair WWTF - Water

RCS-5, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Neighborhood Utilities - Water

RCS-6, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Rolling Oaks Utilities - Water

RCS-7, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Sunshine Utilities - Water

RCS-8, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Tradewinds Village - Water

RCS-9, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Tymber Creek Utilities - Water

RCS-10, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Wastewater - Consolidated

RCS-11, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Aquarina Utilities - Wastewater

RCS-12, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for BFF Corp - Wastewater

RCS-13, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for CFAT H2O Landfair WWTF - Wastewater

RCS-14, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for North Peninsula - Wastewater

RCS-15, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Rolling Oaks Utilities - Wastewater

RCS-16, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Sebring Ridge Utilities - Wastewater

RCS-17, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for TKCB - Wastewater

RCS-18, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Tradewinds Village - Wastewater

RCS-19, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Tymber Creek Utilities - Wastewater

RCS-20, Adjustments to Rate Base and Operating Expenses

1 Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE
2 FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?

3 A. No.

4

5 II. CSWR FLORIDA'S REQUESTED REVENUE INCREASES

6 Q. PLEASE BRIEFLY SUMMARIZE THE REVENUE INCREASES THAT WAS
7 STATED TO BE REQUESTED BY CSWR FLORIDA IN THE COMPANY'S
8 DIRECT TESTIMONY.

9 A. As stated on page 9 of Company witness Josiah Cox's direct testimony that was filed
10 on May 30, 2025, CSWR Florida asked that the Commission approve a total annual
11 revenue requirement for the water operations of \$7,076,871, which Mr. Cox stated
12 represents an increase of \$3,223,769 over adjusted current revenues of \$3,853,102.

13 For its wastewater operations, Mr. Cox stated that the Company is seeking a
14 total annual revenue requirement of \$4,287,200. Mr. Cox's direct testimony stated that
15 represented an increase of \$954,881 over adjusted current revenues of \$3,332,319.

16

17 Company's Revised Water Utilities Revenue Increase

18 Q. WERE THOSE INCREASES ADJUSTED BY CSWR FLORIDA IN THE
19 COMPANY'S UPDATED FILING ON NOVEMBER 21, 2025?

20 A. Yes. On the Company's MFR Schedule B-1 Excel file filed on November 21, 2025,
21 for the water utilities on a consolidated basis, CSWR Florida shows a total annual
22 revenue requirement of \$6,842,424, which represents an increase of \$3,056,866 or
23 80.75% over adjusted current revenues of \$3,785,558.

1 **Q. HOW HAVE YOU REPRODUCED THE CALCULATION OF CSWR**
 2 **FLORIDA'S REQUESTED REVENUE INCREASE FOR THE WATER**
 3 **UTILITIES ON A CONSOLIDATED BASIS?**

4 A. On Exhibit RCS-2, Schedule A, page 1, in column A1, I have reproduced CSWR
 5 Florida's requested consolidated water revenue increase of \$3,056,866 using
 6 information that was presented by CSWR Florida in its MFR Schedule B-1 Excel file
 7 that was filed on November 21, 2025.

8
 9 **Q. DO YOU ADDRESS THE REVENUE REQUIREMENTS FOR EACH CSWR**
 10 **FLORIDA WATER UTILITY SEPARATELY IN YOUR TESTIMONY?**

11 A. Yes. I address the revenue requirements for each CSWR Florida water utility separately
 12 in my testimony and show related calculations in the following exhibits:

13 **Table 2**
 14 **Exhibits Showing Revenue Requirement Calculations**
 15 **for each CSWR Florida Water Utility**

RCS-3, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Aquarina Utilities - Water

RCS-4, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for CFAT H2O Landfair WWTF - Water

RCS-5, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Neighborhood Utilities - Water

RCS-6, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Rolling Oaks Utilities - Water

RCS-7, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Sunshine Utilities - Water

RCS-8, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Tradewinds Village - Water

RCS-9, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Tymber Creek Utilities - Water

Company's Revised Wastewater Utilities Revenue Increase

Q. WERE THE WASTEWATER UTILITIES INCREASES ALSO ADJUSTED BY CSWR FLORIDA IN THE COMPANY'S UPDATED FILING ON NOVEMBER 21, 2025?

A. Yes. On the Company's MFR Schedule B-2 Excel file filed on November 21, 2025, for the wastewater utilities on a consolidated basis, CSWR Florida shows a total annual revenue requirement of \$3,706,992, which represents an increase of \$232,507 over adjusted current revenues of \$3,474,486.

Q. HOW HAVE YOU REPRODUCED THE CALCULATION OF CSWR FLORIDA'S REQUESTED REVENUE INCREASE FOR THE WASTEWATER UTILITIES ON A CONSOLIDATED BASIS?

A. On Exhibit RCS-10, Schedule A, page 1, in column A1, I have reproduced CSWR Florida's requested consolidated wastewater revenue increase of \$232,507 using information that was presented by CSWR Florida in its MFR Schedule B-2 Excel file that was filed on November 21, 2025.

Q. DO YOU ADDRESS THE REVENUE REQUIREMENTS FOR EACH CSWR FLORIDA WASTEWATER UTILITY SEPARATELY IN YOUR TESTIMONY?

A. Yes. I address the revenue requirements for each CSWR Florida wastewater utility separately in my testimony and show related calculations in the following exhibits:

Table 3
Exhibits Showing Revenue Requirement Calculations
for each CSWR Florida Wastewater Utility

RCS-11, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Aquarina Utilities - Wastewater

RCS-12, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for BFF Corp - Wastewater

RCS-13, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for CFAT H2O Landfair WWTF - Wastewater

RCS-14, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for North Peninsula - Wastewater

RCS-15, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Rolling Oaks Utilities - Wastewater

RCS-16, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Sebring Ridge Utilities - Wastewater

RCS-17, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for TKCB - Wastewater

RCS-18, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Tradewinds Village - Wastewater

RCS-19, Revenue Requirement Summary and Adjustment Schedules for the Test Year ended January 31, 2025 for Tymber Creek Utilities - Wastewater

III. OPC'S ADJUSTED REVENUE INCREASES FOR CONSOLIDATED WATER UTILITIES

Q. WHAT REVENUE INCREASE, IF ANY, SHOULD THE COMMISSION AUTHORIZE FOR CSWR FLORIDA'S CONSOLIDATED WATER UTILITIES DO YOU RECOMMEND?

A. As shown on Exhibit RCS-2, Schedule A, page 1, in column B, for the CSWR Florida consolidated water utilities, I recommend that the Commission not allow a revenue increase of more than \$1.966 million, which is an approximate increase of 52% over adjusted revenues of the \$3,785,558 generated by current rates. The consolidated water utilities increase of no more than \$1.966 million is also shown on Exhibit RCS-2, Schedule C, column D, line 1.

1 **IV. OPC'S ADJUSTED REVENUE CHANGE FOR CONSOLIDATED**
2 **WASTEWATER UTILITIES**

3 **Q. WHAT REVENUE CHANGE, IF ANY, SHOULD THE COMMISSION**
4 **AUTHORIZE FOR CSWR FLORIDA'S CONSOLIDATED WASTEWATER**
5 **UTILITIES DO YOU RECOMMEND?**

6 A. As shown on Exhibit RCS-10, Schedule A, page 1, in column B, for the CSWR Florida
7 consolidated wastewater utilities, I recommend a revenue decrease of at least \$68,327,
8 which is a decrease of approximately 2% from the adjusted revenues of \$3,474,486
9 generated by current rates. The consolidated wastewater utilities revenue decrease of
10 at least \$68,327 is also shown on Exhibit RCS-10, Schedule C, column D, line 1.

11
12 **V. ORGANIZATION OF TESTIMONY**

13 **Q. HOW ARE THE DISCUSSIONS THAT ARE BEING ADDRESSED IN YOUR**
14 **TESTIMONY ORGANIZED?**

15 A. In Section VI, I discuss each of my recommended adjustments which impact the
16 Company's requested revenue requirement. In Section VII, I discuss the organization
17 of the revenue requirement summary schedules for consolidated results and for each
18 water and wastewater utility. In Section VIII, I discuss the organization of the rate base
19 and operating income adjustment schedules. Finally, in Section IX, I summarize the
20 recommended revenue requirement for each CSWR Florida water and wastewater
21 utility and for consolidated water utilities and for the consolidated wastewater utilities.

22
23 **VI. RECOMMENDED ADJUSTMENTS**

24 **Q. WHAT ADJUSTMENTS ARE YOU RECOMMENDING THAT AFFECT**
25 **CSWR'S REQUESTED REVENUE REQUIREMENT?**

1 A. I am recommending the following adjustments that affect CSWR's requested revenue
2 requirements:

- 3 1) Removal of CSWR Florida's requested acquisition adjustments,
4 2) Use of the Commission's updated leverage graph formula for computing
5 the return on equity,
6 3) Reflection of the Company's net operating loss carryforwards ("CF" or
7 "CFs") in the calculation of income tax expense, and
8 4) Removal of the lobbying expense portion of industry association dues.

9 I discuss each of those recommended adjustments below in the same order in which
10 they have been identified.

11

12 Removal of CSWR Florida's Requested Acquisition Adjustments

13 **Q. WHAT ACQUISITION ADJUSTMENTS HAS CSWR FLORIDA**
14 **REQUESTED?**

15 A. The Company has requested to include in utility rate base, the following three
16 Acquisition Adjustments:

17

18

Table 4
Acquisition Adjustments Requested by CSWR Florida

Utility	Amount
Aquarina Utilities	\$ 2,316,288
Sunshine Utilities	\$ 5,860,877
North Peninsula Utilities Corporation	\$ 1,196,741
Total Acquisition Adjustments	\$ 9,373,906

1 **Q. HAS CSWR FLORIDA PROPOSED AN AMORTIZATION PERIOD FOR THE**
2 **ACQUISITION ADJUSTMENTS?**

3 A. It appears that an amortization period was proposed by the Company, but no
4 amortization expense was included in the Company's proposed revenue requirement in
5 the current rate case, and to date no amortization has been recorded through the end of
6 the test year on the Company's books for accounting purposes. CSWR Florida witness
7 Brent Thies, at page 26 of his direct testimony, recommends an amortization period of
8 30 years for the Company's acquisition adjustments. His testimony also states that this
9 amortization period has been used in the calculation of the revenue requirement in this
10 case.

11

12 **Q. DID THE COMPANY INCLUDE ANY AMORTIZATION OR**
13 **DEPRECIATION EXPENSE FOR THOSE ACQUISITION ADJUSTMENTS IN**
14 **THIS CASE?**

15 A. No.

16

17 **Q. HAS THE COMPANY RECORDED ON ITS BOOKS ANY AMORTIZATION**
18 **OR DEPRECIATION EXPENSE FOR THOSE ACQUISITION**
19 **ADJUSTMENTS?**

20 A. No. As stated in the Company's response to OPC's 2nd Set of Interrogatories No. 3(b),
21 no amortization or depreciation expense has been recorded on the Company's books
22 related to acquisition adjustments for Aquarina Utilities, Sunshine Utilities, and North
23 Peninsula Utilities.

1 **Q. HAVE THOSE ACQUISITIONS BEEN ADDRESSED IN OTHER DOCKETS?**

2 A. Yes. The acquisition adjustments Aquarina Utilities, Sunshine Utilities, and North
3 Peninsula Utilities were addressed in other dockets, 20210093-WS, 20210095-WU,
4 and 20210133-SU, respectively. These dockets are closed. I offer no opinion on how it
5 would be possible for decisions in those closed dockets to be made part of this case. I
6 am not an attorney licensed in Florida and have not been engaged by the OPC to address
7 any legal matters in this docket.

8

9 **Q. HAVE THOSE OTHER DOCKETS BEEN CONSOLIDATED WITH THE**
10 **CSWR FLORIDA RATE CASE?**

11 A. No. The Company's response to OPC's 2nd Set of Interrogatories No. 3(a) confirms
12 that the Company has not requested that those acquisition dockets be consolidated into
13 the current rate case.

14

15 **Q. DID THE OPC OPPOSE THE INCLUSION IN RATE BASE OF THOSE**
16 **ACQUISITION ADJUSTMENTS IN EACH OF THOSE OTHER**
17 **ACQUISITION DOCKETS?**

18 A. Yes. It is my understanding that the OPC opposed the inclusion in rate base of those
19 acquisition adjustments in those prior acquisition dockets and that it continues to
20 oppose their inclusion in rate base in the current CSWR Florida rate case.

21

22 **Q. PLEASE EXPLAIN YOUR REASONS FOR REMOVING THOSE**
23 **ACQUISITION ADJUSTMENTS.**

1 A. Based on my review of the plain language of each of the previously adjudicated
2 acquisition dockets, the Commission found that the Buyer, CSWR Florida, failed to
3 demonstrate the extraordinary circumstances necessary to support the inclusion of a
4 positive acquisition adjustment. In the current rate case, based on my experience as an
5 accountant addressing issues of acquisition adjustments, CSWR Florida has also failed
6 to demonstrate the circumstances necessary to support the inclusion of a positive
7 acquisition adjustment. Thus, the positive acquisition adjustments being sought by the
8 Company should be removed from each of the utility's respective rate bases.

9

10 **Q. WOULD THE INCLUSION OF THOSE POSITIVE ACQUISITION**
11 **ADJUSTMENTS HARM RATEPAYERS BY INCREASING THE REVENUE**
12 **REQUIREMENT?**

13 A. Yes. The inclusion of those positive acquisition adjustments in rate base would harm
14 customers by increasing the revenue requirement of CSWR Florida.

15

16 **Q. WOULD THE INCLUSION OF THOSE POSITIVE ACQUISITION**
17 **ADJUSTMENTS HARM RATEPAYERS BY REQUIRING RATEPAYERS TO**
18 **PAY DUPLICATIVELY FOR UTILITY PLANT THAT HAD BEEN**
19 **DEPRECIATED UNDER THE PREVIOUS OWNERSHIP?**

20 A. Yes. The acquisition adjustments represent amounts paid above the depreciated net
21 book value of the acquired utilities. Thus, having ratepayers pay for those positive
22 acquisition adjustments would essentially require the customers to pay duplicatively
23 and excessively for the same pre-acquisition utility plant as a result of the ownership
24 change.

1 **Q. HAS THE COMPANY DEMONSTRATED THAT THOSE ACQUISITION**
2 **ADJUSTMENTS RELATE TO THE ELIMINATION OF SUBSTANDARD**
3 **CONDITIONS AT SMALL, TROUBLED SYSTEMS AND WOULD ALLOW**
4 **CUSTOMERS TO RECEIVE A BETTER QUALITY OF SERVICE AT**
5 **REASONABLE RATES?**

6 A. No. CSWR Florida has failed to demonstrate that the Aquarina, Sunshine, and North
7 Peninsula systems were small, troubled systems that had substandard operating
8 conditions that could not have been addressed or eliminated by the previous owners.
9 Nor has CSWR Florida demonstrated that including the acquisition adjustments in rate
10 base would provide customers with a better quality of service at just and reasonable
11 rates. In fact, the only impact of including the Aquarina, Sunshine, and North Peninsula
12 acquisition adjustments in rate base would be to increase the revenue requirements for
13 those utilities in the current rate case, which would be a harm to the customers of those
14 utilities, and a harm to customers of other CSWR Florida utilities under the
15 consolidated revenue requirements for the water and wastewater utilities, respectively.

16

17 **Q. MAY THE OPC HAVE ADDITIONAL REASONS FOR REMOVING THOSE**
18 **ACQUISITION ADJUSTMENTS?**

19 A. Yes. It is my understanding that the OPC reserves the right to present additional reasons
20 for removing the CSWR Florida proposed acquisition adjustments from utility rate base
21 to the extent new information that was not previously made available to the OPC comes
22 to light.

1 Q. DID THE STAFF AUDIT REPORT IN THE RATE CASE ALSO
2 RECOMMEND REMOVAL OF THOSE ACQUISITION ADJUSTMENTS?

3 A. Yes.

4

5 Q. HAVE YOU REMOVED THE COMPANY'S PROPOSED ACQUISITION
6 ADJUSTMENTS FROM RATE BASE?

7 A. Yes. Each of the Company's proposed acquisition adjustments have been removed
8 from the rate base that was proposed by CSWR Florida for Aquarina Utilities, Sunshine
9 Utilities, and North Peninsula Utilities. These adjustments also effectively remove the
10 proposed acquisition adjustments from the consolidated rate base(s) as discussed
11 below.

12

13 Q. WHERE IS THE REMOVAL OF THOSE COMPANY PROPOSED
14 ACQUISITION ADJUSTMENTS SHOWN ON YOUR EXHIBITS?

15 A. Exhibit RCS-20, Schedule E-1 shows the removal of the Company's proposed
16 acquisition adjustments. The removal amounts from Exhibit RCS-20, Schedule E-1 are
17 incorporated in the calculations of the revenue requirements for each of the respective
18 utilities on the rate base schedule, Schedule B, and in the revenue requirement schedule,
19 Schedule A, for each of the affected utilities on the following exhibits:

20

Table 5

21

Exhibits Showing Removal of Company Proposed Acquisition Adjustments

RCS-3, Aquarina Utilities - Water RCS-7, Sunshine Utilities - Water RCS-11, Aquarina Utilities - Wastewater RCS-14, North Peninsula - Wastewater

1 **Q. HAVE THE COMPANY'S PROPOSED ACQUISITION ADJUSTMENTS**
2 **ALSO BEEN REMOVED FROM THE CONSOLIDATED WATER AND**
3 **CONSOLIDATED WASTEWATER UTILITY RATE BASE?**

4 A. Yes. The Company's proposed acquisition adjustments have also been removed from
5 the consolidated water and consolidated wastewater utility rate base, as shown on
6 Exhibit RCS-2 for the consolidated water, and on Exhibit RCS-10 for the consolidated
7 wastewater utilities results.

8

9 Commission's Leverage Graph Order for Return on Equity

10 **Q. WHAT COMMISSION ORDER HAVE YOU USED FOR CALCULATING**
11 **THE RETURN ON EQUITY FOR EACH CSWR FLORIDA UTILITY?**

12 A. I used the Commission's Order No. PSC-2025-0213-PAA-WS ("2025 Leverage Graph
13 Order"), that was issued June 18, 2025, in Docket No. 20250006-WS to compute the
14 return on equity ("ROE") for each CSWR Florida utility.

15

16 **Q. WHAT IS THE FORMULA TO USE FOR COMPUTING THE ROE THAT**
17 **WAS SPECIFIED IN THAT ORDER?**

18 A. The formula for computing the ROE specified in the 2025 Leverage Graph Order is as
19 follows: $ROE = 7.17\% + (1.337\% / \text{Equity Ratio})$.

20 The resulting range of returns is 8.51% at 100% equity to 10.51% at 40% equity.

1 **Q. DOES THE STAFF AUDIT REPORT RECOMMEND THAT THE UPDATED**
2 **CALCULATION SHOULD BE APPLIED FOR COMPUTING THE**
3 **COMPANY’S ROE IN THE CURRENT RATE CASE?**

4 A. Yes.

5
6 **Q. DOES CSWR FLORIDA AGREE THAT THE UPDATED CALCULATION**
7 **SHOULD BE APPLIED FOR COMPUTING THE COMPANY’S ROE IN THE**
8 **CURRENT RATE CASE?**

9 A. Yes. In his deposition held on February 25, 2025, Company witness Thies agreed that
10 the currently applicable Commission leverage graph formula, as specified in the 2025
11 Leverage Graph Order, should be used to compute the return on equity (“ROE”) for
12 CSWR Florida in the current rate case.

13
14 **Q. HOW HAVE YOU REFLECTED THE ROE FOR EACH CSWR FLORIDA**
15 **UTILITY USING THE FORMULA FROM THE 2025 LEVERAGE GRAPH**
16 **ORDER?**

17 A. On Schedule D of each of the following exhibits, I show the calculation of the resultant
18 ROE using the formula from the 2025 Leverage Graph Order for each of the CSWR
19 Florida water and wastewater utilities:

Table 6
Exhibits Showing Resultant ROE Calculations for each
CSWR Florida Utility

RCS-3, Aquarina Utilities - Water
 RCS-4, CFAT H2O Landfair WWTF - Water
 RCS-5, Neighborhood Utilities - Water
 RCS-6, Rolling Oaks Utilities - Water
 RCS-7, Sunshine Utilities - Water
 RCS-8, Tradewinds Village - Water
 RCS-9, Tymber Creek Utilities - Water
 RCS-11, Aquarina Utilities - Wastewater
 RCS-12, BFF Corp - Wastewater
 RCS-13, CFAT H2O Landfair WWTF - Wastewater
 RCS-14, North Peninsula - Wastewater
 RCS-15, Rolling Oaks Utilities - Wastewater
 RCS-16, Sebring Ridge Utilities - Wastewater
 RCS-17, TKCB - Wastewater
 RCS-18, Tradewinds Village - Wastewater
 RCS-19, Tymber Creek Utilities - Wastewater

Q. FOCUSING ON THE PRESENTATION IN EXHIBIT RCS-3, FOR AQUARINA UTILITIES - WATER, CAN YOU PLEASE EXPLAIN THE CALCULATION?

A. Yes. Referring to Exhibit RCS-3, Schedule D, which shows the cost of capital calculation for Aquarina Utilities, Water, this utility has only short-term debt and common equity capital. As shown on RCS-3, Schedule D, line 15, after adjustments, the utility has common equity capital of 98.94%. Applying the formula from the 2025 Leverage Graph Order, using that common equity ratio results in an ROE of 8.52% for Aquarina Utilities, Water.

1 **Q. ARE THE OTHER ROE CALCULATIONS FOR EACH WATER AND**
2 **WASTEWATER UTILITY IDENTIFIED IN THE ABOVE-NOTED EXHIBITS**
3 **DONE SIMILARLY?**

4 A. Yes. The ROE calculations for each of the other CSWR Florida water and wastewater
5 utilities are done similarly, as shown on Schedule D of each applicable Exhibit, i.e., on
6 Schedule D from Exhibits RCS-3 through RCS-9 and RCS-11 through RCS-19.

7
8 **Q. WHERE HAVE YOU REFLECTED THE ROE FOR THE COMBINED CSWR**
9 **FLORIDA WATER UTILITIES FOR USING THE FORMULA FROM THE**
10 **2025 LEVERAGE GRAPH ORDER?**

11 A. Exhibit RCS-2, Water - Consolidated, Schedule D shows the calculation of the resultant
12 ROE using the formula from the 2025 Leverage Graph Order for the combined CSWR
13 Florida water utilities.

14
15 **Q. WHAT ROE HAVE YOU CALCULATED FOR THE COMBINED CSWR**
16 **FLORIDA WATER UTILITIES FOR USING THE FORMULA FROM THE**
17 **2025 LEVERAGE GRAPH ORDER?**

18 A. As shown on Exhibit RCS-2, Schedule D, page 2, I calculated an ROE of 8.54% for
19 the consolidated water utilities.

20
21 **Q. WHERE HAVE YOU REFLECTED THE ROE FOR THE COMBINED CSWR**
22 **FLORIDA WASTEWATER UTILITIES FOR USING THE FORMULA FROM**
23 **THE 2025 LEVERAGE GRAPH ORDER?**

1 A. Exhibit RCS-10, Wastewater - Consolidated, Schedule D shows the calculation of the
2 resultant ROE using the formula from the 2025 Leverage Graph Order for the combined
3 CSWR Florida wastewater utilities.

4

5 **Q. WHAT ROE HAVE YOU CALCULATED FOR THE COMBINED CSWR**
6 **FLORIDA WASTEWATER UTILITIES FOR USING THE FORMULA FROM**
7 **THE 2025 LEVERAGE GRAPH ORDER?**

8 A. As shown on Exhibit RCS-10, Schedule D, page 2, I calculated an ROE of 8.54% for
9 the consolidated wastewater utilities.

10

11 Income Tax Allowance and Application of NOL Carryforwards

12 **Q. HOW DID CSWR CALCULATE THE ALLOWANCE FOR INCOME TAX**
13 **EXPENSE IN THE CURRENT RATE CASE?**

14 A. For many but not all of the utilities, CSWR calculated income taxes by multiplying rate
15 base by the Company's proposed weighted cost of common equity to derive state
16 taxable income before state tax exemptions. After applying the state tax exemptions,
17 the Company computed state income tax expenses by multiplying state taxable income
18 by the state income tax rate of 5.50%. After subtracting state income taxes from taxable
19 income, the Company apply the 21% federal corporate income tax rate to its computed
20 amount of federal taxable income to derive its requested federal income tax expense
21 amount.

1 **Q. HAVE YOU REPLICATED CSWR FLORIDA'S CALCULATION OF**
 2 **INCOME TAX EXPENSE FOR EACH UTILITY?**

3 A. Yes. On Schedule A-1 of each of the following Exhibits I have replicated CSWR
 4 Florida's calculation of the income tax expense for each water and wastewater utility:

5 **Table 7**
 6 **Exhibits Showing CSWR Florida's Calculation of Income Tax Expense**
 7 **for each Water and Wastewater Utility**

RCS-3, Aquarina Utilities - Water
 RCS-4, CFAT H2O Landfair WWTF - Water
 RCS-5, Neighborhood Utilities - Water
 RCS-6, Rolling Oaks Utilities - Water
 RCS-7, Sunshine Utilities - Water
 RCS-8, Tradewinds Village - Water
 RCS-9, Tymber Creek Utilities - Water
 RCS-11, Aquarina Utilities - Wastewater
 RCS-12, BFF Corp - Wastewater
 RCS-13, CFAT H2O Landfair WWTF - Wastewater
 RCS-14, North Peninsula - Wastewater
 RCS-15, Rolling Oaks Utilities - Wastewater
 RCS-16, Sebring Ridge Utilities - Wastewater
 RCS-17, TKCB - Wastewater
 RCS-18, Tradewinds Village - Wastewater
 RCS-19, Tymber Creek Utilities - Wastewater

8 **Q. USING THE AQUARINA WATER UTILITY, CAN YOU PLEASE EXPLAIN**
 9 **YOUR REPLICATION OF THE CSWR FLORIDA CALCULATIONS OF**
 10 **INCOME TAXES?**

11 A. Yes. Exhibit RCS-3, Schedule A-1, page 1 of 2, shows the replication of the
 12 Company's proposed calculations of income taxes for the Aquarina Water Utility.

1 Section I replicates the Company's proposed adjustment for income taxes. Line
2 1 reproduces the Company's proposed rate base. Line 2 shows the Company's
3 proposed weighted cost of equity of 8.6769%. Line 3 shows the result of multiplying
4 the weighted cost of equity times the Company's proposed rate base. Line 4 reproduces
5 the Company's amounts for state tax exemptions. Line 5 shows the amount of state
6 taxable income. Line 6 shows state income taxes computed using the tax rate of 5.5%.
7 Line 8 shows federal taxable income. Line 9 shows federal income taxes computed at
8 the federal corporate income tax rate of 21%. Line 10 shows the Company's proposed
9 amounts for state and federal income taxes.

10

11 **Q. WHAT IS SHOWN IN THE OTHER SECTIONS OF EXHIBIT RCS-2,**
12 **SCHEDULE A-1, PAGE 1 OF 2?**

13 A. The other sections relate to replicating each component of the Company's proposed
14 revenue increase for the utility. Section II replicates the Company's proposed
15 adjustment for the return that the Company has proposed. Section III replicates the
16 calculation of the Company's proposed RAF fees. Section IV replicates the
17 components of the Company's proposed revenue increase for the Aquarina water
18 utility.

19

20 **Q. DOES THE COMPANY HAVE INCOME TAX NET OPERATING LOSSES?**

21 A. Yes. Since its formation, the Company has had income tax net operating losses
22 ("NOL"). CSWR Florida has basically reported losses both for book accounting
23 purposes and for income tax purposes since its inception and continuing through the
24 test year. Also, it appears that CSWR Florida's parent company, CSWR, LLC, has not

1 been reflecting a profit. This understanding is based on responses to questions asked
2 of CSWR Florida witness Brent Thies during his deposition and from a review of other
3 information that has been provided by the Company.

4

5 **Q. ARE ANY OF THE COMPANY'S INCOME TAX NET OPERATING LOSSES**
6 **ATTRIBUTABLE TO THE USE OF ACCELERATED FEDERAL INCOME**
7 **TAX DEPRECIATION?**

8 A. No. The Company does not use accelerated federal income tax depreciation. Thus,
9 none of its tax net operating losses are attributable to the use of accelerated federal
10 income tax depreciation.

11

12 **Q. DO THE INTERNAL REVENUE CODE NORMALIZATION RESTRICTIONS**
13 **THAT ARE APPLICABLE TO THE USE BY A UTILITY OF ACCELERATED**
14 **FEDERAL INCOME TAX DEPRECIATION APPLY TO USING CSWR**
15 **FLORIDA'S NOL AMOUNTS?**

16 A. No. Because none of the Company's NOLs or NOL carryforwards were caused by the
17 use of accelerated federal income tax depreciation, the Internal Revenue Code
18 normalization restrictions that are applicable to the use by a utility of accelerated
19 federal income tax depreciation apply to using CSWR Florida's NOL amounts.

20

21 **Q. HAS THE COMMISSION PROVIDED GUIDANCE ON HOW TAX NET**
22 **OPERATING LOSSES SHOULD BE APPLIED IN COMPUTING A**
23 **UTILITY'S INCOME TAX ALLOWANCE?**

1 A. Yes. For example, page 48 of Order No. PSC-06-0170-PAA-WS provides the
2 following guidance for computing a utility's income tax expense allowance when there
3 have been tax net operating losses:

4 "Income Tax Provision

5 The utility has proposed that an income tax provision be calculated. We disagree
6 with this proposal. The utility has never paid income taxes. The utility has substantial
7 net operating loss carry-forwards. Although some of these loss carry-forwards will
8 expire before being used, we believe that for the next five to six years, the utility will
9 incur no income tax liability.

10 This Commission has addressed this issue in the past. The most recent case is that
11 of Sebring Gas System, Inc., in which we found that:

12 [a] corporation may carryforward a NOL [net operating loss] up to 20 years.
13 Although the Company may reflect positive net income in 2005 and the
14 years to follow due to this rate increase, we find that it will take several
15 years before the Company will be able to fully utilize the NOL
16 carryforwards. Further, the customers have not benefited from the tax losses
17 the Company has accumulated over the years, as evidenced by zero income
18 tax expense reflected in prior years' Annual Reports and Earnings
19 Surveillance Reports. Therefore, we find that the amount of income tax
20 expense reflected in the MFRs shall be zero and the federal and state income
21 tax factors in the revenue expansion factor shall be omitted.[1]

22 The instant case has exactly the same facts. Therefore, we decline to include a
23 provision for income taxes in this case."

24 Footnote 1: Order No. PSC-04-1260-PAA-GU, issued December 20, 2004 Docket
25 No. 040270-GU, In re: Application for rate increase by Sebring Gas System, Inc.

1 **Q. HAS CSWR FLORIDA PAID INCOME TAXES?**

2 A. No. CSWR Florida has had both book and income tax NOLs in each year since its
3 inception. Thus, the Company did not have positive taxable income and has not paid
4 income taxes.

5
6 **Q. HAVE THE RULES ON APPLYING NET OPERATING LOSSES CHANGED**
7 **OVER THE YEARS?**

8 A. Yes. At one point, 100% of a company's NOL carryforward amounts could be used to
9 offset taxable income. However, the current income tax rules allow for only offsetting
10 taxable income by 80% of recently generated NOLs and the related NOL
11 carryforwards.

12
13 **Q. WHAT IS YOUR UNDERSTANDING OF HOW NOL CARRYFORWARDS**
14 **CAN CURRENTLY BE APPLIED TO OFFSET FLORIDA STATE**
15 **CORPORATE TAXABLE INCOME?**

16 A. My current understanding is that Florida allows corporations to carry forward NOLs to
17 offset future state income tax. Florida does not allow NOL carrybacks into prior years.
18 State income tax NOLs generated after December 31, 2017 can be carried forward
19 indefinitely. NOLs generated before 2018 expire after 20 years. For tax years
20 beginning on/after January 1, 2021, state NOLs can offset up to 80% of Florida
21 apportioned taxable income. In other words, for tax years 2025 or 2026, a company's
22 post-2020 NOLs can offset up to 80% of Florida tentative apportioned adjusted federal
23 income.

1 **Q. WHAT IS YOUR UNDERSTANDING OF HOW NOL CARRYFORWARDS**
2 **CAN BE APPLIED TO OFFSET CORPORATE TAXABLE INCOME FOR**
3 **FEDERAL INCOME TAX PURPOSES?**

4 A. My understanding is that for U.S. corporations, NOL carryforwards arising in tax years
5 beginning after 2020 can offset a maximum of 80% of taxable income in a single tax
6 year. Such NOLs can be carried forward indefinitely, but the 80% limitation applies
7 annually, with unused federal income tax NOLs continuing to carry forward. In
8 summary, the NOL CF application is limited to offsetting 80% of taxable income
9 calculated without regard to the NOL deduction itself. The federal income tax NOLs
10 arising after 2020 can be carried forward indefinitely, but they cannot be carried back
11 and applied retroactively. In contrast, federal NOL CFs attributable to tax years before
12 2018 generally follow the old rules (20-year carryforward after which they expire). The
13 pre-2018 NOL CFs are also able to offset current year federal taxable income with no
14 percentage limit. NOL CFs attributable to tax years 2018, 2019, and 2020 are not
15 subject to the 80% limitation and can fully offset 100% of taxable income.

16
17 **Q. HOW HAVE YOU APPLIED THAT NOL GUIDANCE IN THE CURRENT**
18 **CSWR FLORIDA RATE CASE?**

19 A. For purposes of the current CSWR Florida rate case, all NOL CFs are presumed for
20 ease of calculation to be generated after tax year 2018 and are subject to the 80%
21 limitation. As shown on Exhibit RCS-3, Schedule A-1, page 2, for Aquarina Water,
22 on lines 5a and 8a, the calculated amounts of state taxable income and federal taxable
23 income are offset by 80% to reflect the application of the Company's state and federal
24 income tax NOL carryforward position. In other words, calculated state and federal

1 taxable income before application of the NOL carryforwards is each reduced by 80%
2 pursuant to the guidance noted above for applying NOLs to state and federal taxable
3 income.

4

5 **Q. WHAT AMOUNT OF STATE AND FEDERAL INCOME TAXES DO YOU**
6 **SHOW FOR THE AQUARINA WATER UTILITY?**

7 A. As calculated on Exhibit RCS-3, Schedule A-1, page 2, for Aquarina Water on line 6,
8 I show \$427 and \$287 of state income tax expense for potable water and non-potable
9 water, respectively. Exhibit RCS-3, Schedule A-1, page 2, line 9, shows \$1,611 and
10 \$207 for federal income tax expense for potable water and non-potable water,
11 respectively. Total state and federal income taxes for the Aquarina water utility are
12 shown on line 10 to be \$2,038 and \$494 for potable water and non-potable water,
13 respectively.

14

15 **Q. ARE THE INCOME TAX ALLOWANCES FOR THE OTHER WATER AND**
16 **WASTEWATER UTILITIES CALCULATED SIMILARLY?**

17 A. Yes. The income tax allowances for the other utilities calculated similarly on Schedule
18 A-1 of Exhibits RCS-4 through RCS-9 for each water utility and on Exhibits RCS-11
19 through RCS-19 to each wastewater utility to show the application of the NOL
20 carryforwards to offset 80% of the applicable state and federal taxable income.

21

22 **Q. YOU PREVIOUSLY INDICATED THAT FOR MANY OF THE UTILITIES,**
23 **CSWR CALCULATED INCOME TAXES BY MULTIPLYING RATE BASE**
24 **BY THE COMPANY'S PROPOSED WEIGHTED COST OF COMMON**

EQUITY TO DERIVE STATE TAXABLE INCOME BEFORE STATE TAX EXEMPTIONS. WAS THAT HOW CSWR FLORIDA PERFORMED THE CALCULATION OF TAXABLE INCOME FOR ALL OF ITS UTILITIES IN THE CURRENT RATE CASE?

A. No. For certain utilities, CSWR Florida first performed the calculation of multiplying rate base by the Company's proposed weighted cost of common equity, but then also multiplied that result by the Company's proposed overall weighted cost of capital. It appears that CSWR performed this type of calculation for determining taxable income for each of the following utilities, which I have reproduced on the following Exhibits and Schedules:

Table 8
Exhibits Showing Calculation Method Used by CSWR Florida
to Determine Taxable Income of Certain Utilities

RCS-4, CFAT H2O Landfair WWTF - Water, Schedule A-1 RCS-5, Neighborhood Utilities - Water, Schedule A-1 RCS-12, BFF Corp - Wastewater, Schedule A-1 RCS-13, CFAT H2O Landfair WWTF - Wastewater, Schedule A-1 RCS-14, North Peninsula - Wastewater, Schedule A-1 RCS-16, Sebring Ridge Utilities - Wastewater, Schedule A-1 RCS-17, TKCB - Wastewater, Schedule A-1
--

Q. DOES THAT EXTRA MULTIPLICATION APPEAR TO REPRESENT A MISTAKE ON THE COMPANY'S PART?

A. Yes.

1 **Q. PLEASE SUMMARIZE THE AMOUNTS OF INCOME TAX ALLOWANCE**
 2 **THAT CSWR FLORIDA HAS REQUESTED FOR WATER UTILITIES AND**
 3 **HOW THOSE COMPARE WITH THE OPC'S ADJUSTED RESULTS.**

4 A. The following table summarizes the amounts of income tax allowance that CSWR
 5 Florida requested for water utilities and how those compare with the OPC's adjusted
 6 results:

7 **Table 9**
 8 **Comparison of CSWR Florida Income Tax Allowances**
 9 **for Water Utilities to OPC's Adjusted Results**

Line	Sch. A-1 from		Income Taxes		
No.	Exhibit	Utility	Per Company	Per OPC	Difference
			(A)	(B)	(C) = (B) - (A)
1	RCS-3	Aquarina Utilities - Water - Potable	\$ 35,381	\$ 2,038	\$ (33,343)
2	RCS-3	Aquarina Utilities - Water - Non-Potable	\$ 25,975	\$ 494	\$ (25,480)
3	RCS-4	CFAT H2O Landfair WWTF - Water	\$ 585	\$ 1,386	\$ 800
4	RCS-5	Neighborhood Utilities - Water	\$ 807	\$ 1,926	\$ 1,119
5	RCS-6	Rolling Oaks Utilities - Water	\$ 65,749	\$ 12,572	\$ (53,177)
6	RCS-7	Sunshine Utilities - Water	\$ 191,197	\$ 14,804	\$ (176,392)
7	RCS-7	Sunshine Utilities - PP-QR	\$ 23,385	\$ 2,922	\$ (20,464)
8	RCS-8	Tradewinds Village - Water	\$ 7,361	\$ 1,448	\$ (5,913)
9	RCS-9	Tymber Creek Utilities - Water	\$ 705	\$ 106	\$ (599)
10		Total Water - Sum of Systems	\$ 351,145	\$ 37,695	\$ (313,449)
11		Difference	\$ 15,399	\$ 539	\$ (14,860)
12	RCS-2	Total Water - Consolidated	\$ 366,544	\$ 38,235	\$ (328,309)

10 **Q. WHERE DO YOU SHOW THE CALCULATION OF THE ADJUSTED**
 11 **INCOME TAXES FOR THE CONSOLIDATED WATER UTILITIES?**

12 A. The calculation of the adjusted income taxes for the consolidated wastewater utilities
 13 is shown on Exhibit RCS-2, Schedule A-1.

1 **Q. PLEASE SUMMARIZE THE AMOUNTS OF INCOME TAX ALLOWANCE**
 2 **THAT CSWR FLORIDA HAS REQUESTED FOR WASTEWATER**
 3 **UTILITIES AND HOW THOSE COMPARE WITH THE OPC'S ADJUSTED**
 4 **RESULTS.**

5 A. The following table summarizes the amounts of income tax allowance that CSWR
 6 Florida requested for wastewater utilities and how those compare with the OPC's
 7 adjusted results:

8 **Table 10**
 9 **Comparison of CSWR Florida Income Tax Allowances for**
 10 **Wastewater Utilities to OPC's Adjusted Results**

Line No.	Sch. A-1 from Exhibit	Utility	Income Taxes		
			Per Company	Per OPC	Difference
			(A)	(B)	(C) = (B) - (A)
1	RCS-11	Aquarina Utilities - Wastewater	\$ 16,917	\$ 2,010	\$ (14,907)
2	RCS-12	BFF Corp - Wastewater	\$ 162	\$ 388	\$ 226
3	RCS-13	CFAT H2O Landfair WWTF - Wastewater	\$ 656	\$ 1,549	\$ 894
4	RCS-14	North Peninsula - Wastewater	\$ 3,826	\$ 3,235	\$ (591)
5	RCS-15	Rolling Oaks Utilities - Wastewater	\$ 78,577	\$ 15,305	\$ (63,272)
6	RCS-16	Sebring Ridge Utilities - Wastewater	\$ 1,276	\$ 2,995	\$ 1,719
7	RCS-17	TKCB - Wastewater	\$ 318	\$ 814	\$ 496
8	RCS-18	Tradewinds Village - Wastewater	\$ 2,377	\$ 445	\$ (1,933)
9	RCS-19	Tymber Creek Utilities - Wastewater	\$ 1,949	\$ 375	\$ (1,574)
10		Total Wastewater - Sum of Systems	\$ 106,058	\$ 27,116	\$ (78,943)
11		Difference	\$ 59,675	\$ (1,055)	\$ (60,729)
12	RCS-10	Total Wastewater - Consolidated	\$ 165,733	\$ 26,061	\$ (139,672)

11 **Q. WHERE DO YOU SHOW THE CALCULATION OF THE ADJUSTED**
 12 **INCOME TAXES FOR THE CONSOLIDATED WASTEWATER UTILITIES?**

13 A. The calculation of the adjusted income taxes for the consolidated wastewater utilities
 14 is shown on Exhibit RCS-10, Schedule A-1.

Lobbying Expense Portion of Industry Association Dues

Q. HAS THE COMMISSION INDICATED THAT THE LOBBYING EXPENSE ASSOCIATED WITH INDUSTRY DUES SHOULD BE DISALLOWED FOR RATEMAKING PURPOSES?

A. Yes. For example, in Order No. PSC-04-1260-PAA-GU, issued December 20, 2004 Docket No. 040270-GU, In re: Application for rate increase by Sebring Gas System, Inc., the Commission stated that it is the Commission's practice to treat lobbying expenses below the line. As a below-the-line item, the lobbying expense is borne by the utility's shareholders and is not charged to ratepayers.

Q. PLEASE EXPLAIN THE ADJUSTMENT FOR THE LOBBYING EXPENSE PORTION OF THE COMPANY'S INDUSTRY ASSOCIATION DUES.

A. As shown on Exhibit RCS-20, Schedule E-2, the lobbying portion of the Company's industry association dues for the American Water Works Association ("AWWA") and the National Association of Water Companies ("NAWC") is being removed. This reduces the Company's proposed expense for the water utilities by \$3,495 and for the wastewater utilities by \$2,111, for a total reduction of \$5,605, as shown on Schedule E-2, page 1, in column I. The adjustment amounts are also shown on Schedule E-2, page 1, in column I for each utility.

Q. DOES THIS ADJUSTMENT COMPLETELY REMOVE LOBBYING COSTS RECORDED ON CSWR FLORIDA'S BOOK?

A. This adjustment only removes the lobbying costs that have been identified as being included in the AWWA and NAWC industry dues invoicing charged to CSWR Florida.

1 To the extent that there are other lobbying costs that are directly or indirectly included
2 in affiliate costs charged to CSWR Florida or included in outside service costs charged
3 to, or recorded on the books of, the Company, I do not concede that such costs are
4 properly treated for ratemaking purposes in this case.

5

6 **Q. WHAT IS SHOWN IN THE OTHER COLUMNS OF EXHIBIT RCS-20,**
7 **SCHEDULE E-2, PAGE 1?**

8 A. Column C shows the Company's recorded amounts for AWWA and NAWC dues for
9 the test year. Column D shows the Company's proposed adjustment for known and
10 measurable changes. Column E shows the Company's adjusted test amounts. Column
11 F shows the amounts for each utility that relate to lobbying expense. Columns G and
12 H show the AWWA and NAWC lobbying amounts in the industry association dues,
13 respectively. Column I shows the adjustment to removing lobbying expense from those
14 AWWA and NAWC industry association dues amounts.

15

16 **Q. WHAT IS SHOWN ON EXHIBIT RCS-20, SCHEDULE E-2, PAGE 2?**

17 A. Schedule E-2, page 2, shows additional information on the lobbying amounts that was
18 included in CSWR Florida's AWWA and NAWC dues amounts for 2024 and how
19 those lobbying amounts relate as a percent to those total 2024 amounts of AWWA and
20 NAWC dues.

21

22 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENT TO**
23 **REMOVE LOBBYING EXPENSE ASSOCIATED WITH THE COMPANY'S**
24 **INDUSTRY ASSOCIATION DUES.**

- 1 A. As shown on Exhibit RCS-20, Schedule E-2, page 1, in column I, the Company's
 2 proposed expense for the water utilities is reduced by \$3,495 and for the wastewater
 3 utilities by \$2,111, for a total reduction of \$5,605.

4

5 **VII. ORGANIZATION OF REVENUE REQUIREMENT SUMMARY**
 6 **SCHEDULES**

7 **Q. PLEASE EXPLAIN THE ORGANIZATION OF YOUR REVENUE**
 8 **REQUIREMENT SUMMARY SCHEDULES.**

- 9 A. Each of the following exhibits includes revenue requirement summary schedules:

10

Table 11

11

Exhibits Including Revenue Requirement Summary Schedules

RCS-2, Water - Consolidated
RCS-3, Aquarina Utilities - Water
RCS-4, CFAT H2O Landfair WWTF - Water
RCS-5, Neighborhood Utilities - Water
RCS-6, Rolling Oaks Utilities - Water
RCS-7, Sunshine Utilities - Water
RCS-8, Tradewinds Village - Water
RCS-9, Tymber Creek Utilities - Water
RCS-10, Wastewater - Consolidated
RCS-11, Aquarina Utilities - Wastewater
RCS-12, BFF Corp - Wastewater
RCS-13, CFAT H2O Landfair WWTF - Wastewater
RCS-14, North Peninsula - Wastewater
RCS-15, Rolling Oaks Utilities - Wastewater
RCS-16, Sebring Ridge Utilities - Wastewater
RCS-17, TKCB - Wastewater
RCS-18, Tradewinds Village - Wastewater
RCS-19, Tymber Creek Utilities - Wastewater

Summary Schedules for each Water and Wastewater Utility

Q. PLEASE DISCUSS THE SCHEDULES THAT ARE CONTAINED IN EXHIBITS RCS-3 THROUGH RCS-9 AND RCS-11 THROUGH RCS-19 THAT YOU PREPARED IN SUPPORT OF YOUR TESTIMONY.

A. Each of those exhibits, Exhibits RCS-3 through RCS-9 and RCS-11 through RCS-19 contains a revenue requirement presentation for a particular utility that contains Summary Schedules A, A-1, B, B.1, C, C.1 and D.

Q. WHAT IS SHOWN ON SCHEDULE A?

A. Schedule A presents a reproduction of the Company's proposed revenue requirement increase or decrease and also shows the revenue requirement calculations, giving effect to all of the adjustments I am recommending in this testimony.

Q. WHAT IS SHOWN ON SCHEDULE A-1?

A. Schedule A-1 shows the components of the revenue increase or decrease for each revenue requirement. Each page of Schedule A-1 contains the following sections:

- I. Adjustment for Income Taxes
- II. Adjustment for Required Return
- III. Adjustment for RAF fees on Increased Revenue
- IV. Components of Revenue Increase

Q. WHAT IS SHOWN ON SCHEDULE B?

A. Schedule B presents OPC's adjusted rate base that incorporates each of the adjustments impacting rate base that are recommended by OPC in this case. As noted above, the Company's proposed acquisition adjustments are being removed from rate base.

1 **Q. WHAT IS SHOWN ON SCHEDULE B.1?**

2 A. Schedule B.1, presents each of the adjustments impacting rate base that are
3 recommended by OPC in this case.

4

5 **Q. WHAT IS SHOWN ON SCHEDULE C?**

6 A. OPC's adjusted net operating income is shown on Schedule C. I am recommending
7 that the lobbying portion of industry association dues be removed from the Company's
8 operating expenses and treated as a below-the-line item. As a below-the-line item, such
9 lobbying cost is borne by shareholders and is not charged to ratepayers. As discussed
10 above, the recommended return and the income tax allowances for purposes of this rate
11 case are calculated on Schedule A-1.

12

13 **Q. WHAT IS SHOWN ON SCHEDULE C.1?**

14 A. Schedule C.1 summarizes each of the adjustments impacting net operating income that
15 are recommended by OPC in this case.

16

17 **Q. WHAT IS SHOWN ON SCHEDULE D?**

18 A. Schedule D presents the adjusted capital structure and overall rate of return. Section I
19 reproduces the capital structure and cost rates proposed by CSWR Florida. Section II
20 shows the OPC's adjusted capital structure and cost rates. Additional information
21 presented on Schedule D shows how the Commission's current leverage graph was
22 used to compute the OPC's recommended return on equity.

1 **Q. HOW DID THE COMPANY DERIVE ITS PROPOSED RETURN ON**
2 **EQUITY?**

3 A. CSWR Florida proposed ROEs based on applying a previous version of the leverage
4 formula that is used by the Commission.

6 **Q. WHAT RETURN ON EQUITY HAVE YOU USED?**

7 A. As shown on Schedule D of Exhibits RCS-3 through RCS-9 and RCS-11 through RCS-
8 19, for each water and wastewater utility, I calculated the recommended ROE by
9 applying the leverage formula from the 2025 Leverage Graph Order, issued June 18,
10 2025. This results in slightly lower ROEs than the ones used by CSWR Florida for
11 most but not all of the CSWR Florida water and wastewater utilities.

13 Summary Schedules for the Consolidated Water Utilities

14 **Q. PLEASE DISCUSS THE ORGANIZATION OF YOUR SUMMARY**
15 **SCHEDULES FOR THE CONSOLIDATED WATER UTILITIES.**

16 A. My summary schedules for the consolidated water utility results are presented on
17 Exhibit RCS-2, which contains the following schedules:

1
2

Table 12
Summary Schedules for Consolidated Water Utilities in Exhibit RCS-2

- Schedule A, Calculation of Revenue Deficiency (Sufficiency)
- Schedule A-1, Income Taxes and Components of Revenue Change for New Rates
- Schedule A-2, Summary of Calculated Revenue Deficiency for Each Water Utility
- Schedule B, Adjusted Rate Base
- Schedule B.1, Summary of Rate Base Adjustments
- Schedule B-2, Summary of Rate Base for Each Water Utility
- Schedule B-3, Comparison of Rate Base from Company's Consolidated MFRs to Utility MFRs
- Schedule C, Adjusted Net Operating Income
- Schedule C.1, Summary of Net Operating Income Adjustments
- Schedule C-2, Comparison of Operating Income: Per Company Consolidated Results and Sum of Per Company System Results
- Schedule C-3, Summary of Operating Expenses for Each Water Utility
- Schedule C-4, Summary of Income Tax Allowances for Each Water Utility
- Schedule D, Capital Structure and Cost Rates

3 **Q. WHAT IS SHOWN ON SCHEDULE A OF EXHIBIT RCS-2?**

4 A. Exhibit RCS-2, Schedule A, page 1, shows a comparison of CSWR Florida's proposed
5 revenue requirement with OPC's adjusted revenue requirement for the consolidated
6 water utility systems.

7

8 **Q. WHY IS AN ALTERNATIVE VERSION OF CSWR FLORIDA'S PROPOSED**
9 **REVENUE REQUIREMENT FOR THE CONSOLIDATED RESULTS ALSO**
10 **BEING PRESENTED ON EXHIBIT RCS-2, SCHEDULE A, PAGE 2?**

11 A. Two versions are shown on Exhibit RCS-2, Schedule A. The one shown on Exhibit
12 RCS-2, Schedule A, page 1, replicates the calculations shown in the Company's

1 November 21, 2025 Excel file for Company MFR Schedule B-1 for the consolidated
2 water utilities and shows a comparison of that with the OPC adjusted results.

3 The other version presented on Exhibit RCS-2, Schedule A, page 2, shows for
4 comparative purposes results that are based on a summation of the amounts from each
5 water utility per each water utility's MFR Schedule B-1 for the individual water
6 utilities.

7
8 **Q. WHAT IS SHOWN ON EXHIBIT RCS-2, SCHEDULE A-1?**

9 A. Exhibit RCS-2, Schedule A-1 replicates the Company's calculations of their proposed
10 income taxes for the combined water utilities and also shows the OPC's adjusted
11 results. Schedule A-1 also shows the calculation of the Regulatory Assessment Fee
12 ("RAF") and the components of the change in revenues, i.e., the components of the
13 revenue requirement increase for the consolidated CSWR Florida water utilities.

14
15 **Q. WHAT IS SHOWN ON EXHIBIT RCS-2, SCHEDULE A-2?**

16 A. Exhibit RCS-2, Schedule A-2, in column A, shows a summary of the revenue
17 requirement deficiency (or excess) amounts that were individually calculated for each
18 CSWR Florida water utility as presented by the Company. A comparison with the
19 consolidated results is also presented.

20 Exhibit RCS-2, Schedule A-2, in column B shows a summary of the revenue
21 requirement deficiency (or excess) amounts that were individually calculated for each
22 CSWR Florida water utility as adjusted by the OPC. A comparison with the
23 consolidated results is also presented.

Column C shows differences between the Company's proposed and the OPC's adjusted amounts for each water utility and in total for the consolidated water utilities.

Q. WHAT IS SHOWN ON EXHIBIT RCS-2, SCHEDULE B?

A. Schedule B, presents OPC's adjusted rate base that incorporates each of the adjustments impacting rate base that are recommended by OPC in this case. As noted above, the Company's proposed acquisition adjustments are being removed from rate base.

Q. WHAT IS SHOWN ON SCHEDULE B.1?

A. Schedule B.1, presents each of the adjustments impacting rate base that are recommended by OPC in this case. As noted above, the Company's proposed acquisition adjustments are being removed from rate base.

Q. WHAT IS SHOWN ON SCHEDULE B-2?

A. Exhibit RCS-2, Schedule B-2 shows a summary of the rate base amounts from each water utility and the total and compares that with the rate base amounts from CSWR Florida's consolidated water utility MFR Schedule A-1. The Company's proposed rate base amounts for each water utility per its November 21, 2025 filed revised calculations are listed in column A. The OPC's adjusted results are listed in column B. Column C shows differences between the OPC's adjusted results and CSWR Florida's proposed results. As noted above, the Company's proposed acquisition adjustments are being removed from rate base, which total an adjustment of \$7.870 million to decrease CSWR Florida's proposed consolidated water utility rate base.

1 **Q. WHAT IS SHOWN ON EXHIBIT RCS-2, SCHEDULE B-3?**

2 A. Exhibit RCS-2, Schedule B-3 presents a comparison of CSWR Florida's proposed
3 water utility rate base amounts for the Company's consolidated water utility
4 presentation, which is reproduced in column A, with a comparable summation of water
5 utility rate base from each Company-prepared water utility rate base.

6

7 **Q. WERE THERE SOME DISCREPANCIES BETWEEN THE SUMMARY OF**
8 **INDIVIDUAL WATER UTILITY RATE BASE AMOUNTS AND CSWR**
9 **FLORIDA'S CONSOLIDATED WATER UTILITY MFR SCHEDULE A-1?**

10 A. Yes. As summarized on Exhibit RCS-2, Schedule B-3, some discrepancies were noted
11 for working capital and CIAC. Specifically, the sum of the individual water utility rate
12 base amounts includes a dollar amount for working capital of \$158,903, but the CSWR
13 Florida consolidated water utility appears to reflect a zero amount for that.

14 A rate base difference of \$3,237 for CIAC between those two sources was also
15 noted.

16

17 **Q. WHAT WATER UTILITY RATE BASE HAVE YOU USED TO COMPUTE**
18 **THE CONSOLIDATED WATER UTILITIES REVENUE REQUIREMENT ON**
19 **EXHIBIT RCS-2?**

20 A. On Exhibit RCS-2, Schedule A, page 1 and on Exhibit RCS-2, Schedule B, I used the
21 OPC adjusted rate base amount of \$9,117,526 to compute the consolidated water
22 utilities revenue requirement.

1 **Q. DO YOU PRESENT AN ALTERNATIVE CALCULATION FOR**
2 **ILLUSTRATIVE PURPOSES ON EXHIBIT RCS-2, SCHEDULE A, PAGE 2?**

3 A. Yes. As shown on Exhibit RCS-2, Schedule A, page 2, in column B, on line 1, the rate
4 base amount I used to compute the consolidated water utilities revenue requirement is
5 based on adding up the adjusted rate base amounts for the individual water utilities is
6 \$9,273,192.

7
8 **Q. WHAT IS SHOWN ON EXHIBIT RCS-2, SCHEDULE C?**

9 A. OPC's adjusted net operating income is shown on Schedule C, in column C, before the
10 rate increase, and after the rate increase in column E. Column D shows the components
11 of the maximum consolidated water utility revenue increase based on OPC's
12 recommended adjustments.

13
14 **Q. WHAT ADJUSTMENTS ARE REFLECTED IN EXHIBIT RCS-2, SCHEDULE**
15 **C, COLUMN B?**

16 A. I am recommending that the lobbying portion of industry association dues be removed
17 from the Company's operating expenses and treated as a below-the-line item. As a
18 below-the-line item, such lobbying cost is borne by shareholders and is not charged to
19 ratepayers.

20
21 **Q. ON WHAT SCHEDULE IN EXHIBIT RCS-2, DO YOU SHOW YOUR**
22 **CALCULATION OF THE INCOME TAX EXPENSE ALLOWANCE?**

1 A. As discussed above, the recommended return and the income tax allowances for
2 purposes of this rate case for the consolidated water utilities results are calculated on
3 Exhibit RCS-2, Schedule A-1.
4

5 **Q. WHAT IS SHOWN ON SCHEDULE C.1?**

6 A. Schedule C.1 summarizes each of the adjustments impacting net operating income that
7 are recommended by OPC in this case. As noted above, I am recommending that the
8 lobbying portion of industry association dues be removed from the Company's
9 operating expenses and treated as a below-the-line item, which results in an expense
10 reduction to CSWR Florida's proposed amounts.
11

12 **Q. WHAT IS SHOWN ON EXHIBIT RCS-2, SCHEDULES C-2 AND C-3?**

13 A. Schedules C-2 and C-3 presents comparisons of Operating Income: from the
14 Company's Consolidated Results with the results from summing the per water utility
15 net operating income amounts. A difference of \$38,147 was noted, with the sum of the
16 individual water utility results being higher than CSWR Florida's consolidated water
17 results by that amount.
18

19 **Q. WHAT IS SHOWN ON EXHIBIT RCS-2, SCHEDULE C-4?**

20 A. Exhibit RCS-2, Schedule C-4 presents a summary of Income Tax Allowances for each
21 water utility, on lines 1 through 9, which have been accumulated from Schedule A-1 of
22 Exhibits RCS-3 through RCS-9. Line 10 also shows the total of those amounts. Line
23 11 shows the income tax allowance amounts for the consolidated water utility results

proposed by CSWR Florida in column A and adjusted by the OPC in column B, from Exhibit RCS-2, Schedule A-1, lines 25 and 26.

Q. WHAT IS SHOWN ON EXHIBIT RCS-2, SCHEDULE D?

A. Exhibit RCS-2, Schedule D, page 1, presents the adjusted capital structure and overall rate of return for the consolidated water utilities. Section I reproduces the capital structure and cost rates proposed by CSWR Florida. Section II shows the OPC's adjusted capital structure and cost rates. Additional information presented on Schedule D, page 2, shows how the Commission's 2025 Leverage Graph Order was used to compute the OPC's recommended return on equity for the consolidated water utility operations.

Summary Schedules for the Consolidated Wastewater Utilities

Q. PLEASE DISCUSS THE ORGANIZATION OF YOUR SUMMARY SCHEDULES FOR THE CONSOLIDATED WASTEWATER UTILITIES.

A. My summary schedules for the consolidated water utility results are presented on Exhibit RCS-10, which contains the following schedules:

Table 13**Summary Schedules for Consolidated Wastewater Utilities in Exhibit RCS-10**

- Schedule A, Calculation of Revenue Deficiency (Sufficiency)
- Schedule A-1, Income Taxes and Components of Revenue Change for New Rates
- Schedule A-2, Summary of Calculated Revenue Deficiency for Each Wastewater Utility
- Schedule B, Adjusted Rate Base
- Schedule B.1, Summary of Rate Base Adjustments
- Schedule B-2, Summary of Rate Base for Each Wastewater Utility
- Schedule B-3, Comparison of Rate Base from Company's Consolidated MFRs to Utility MFRs
- Schedule C, Adjusted Net Operating Income
- Schedule C.1, Summary of Net Operating Income Adjustments
- Schedule C-2, Comparison of Operating Income: Per Company Consolidated Results and Sum of Per Company System Results
- Schedule C-3, Summary of Operating Expenses for Each Wastewater Utility
- Schedule C-4, Summary of Income Tax Allowances for Each Wastewater Utility
- Schedule D, Capital Structure and Cost Rates

Q. ARE THE CONSOLIDATED WASTEWATER UTILITY SCHEDULES IN EXHIBIT RCS-10 ORGANIZED SIMILARLY TO THE CONSOLIDATED WATER UTILITY SCHEDULES IN EXHIBIT RCS-2?

A. Yes. The consolidated wastewater utility summary schedules in Exhibit RCS-10 are similarly organized to the consolidated wastewater utility summary schedules discussed above that are in Exhibit RCS-2.

VIII. ORGANIZATION OF RATE BASE AND OPERATING EXPENSE ADJUSTMENT SCHEDULES

Q. PLEASE EXPLAIN THE ORGANIZATION OF YOUR RATE BASE AND OPERATING EXPENSE ADJUSTMENT SCHEDULES.

1 A. Exhibit RCS-20 contains my rate base and operating expense adjustment schedules.
 2 Exhibit RCS-20, Schedule E-1 shows my recommended adjustment to rate base to
 3 remove CSWR Florida's acquisition adjustments for the Aquarina, Sunshine and North
 4 Peninsula utilities. Exhibit RCS-20, Schedule E-2 shows my recommended adjustment
 5 to rate base to remove lobbying expenses from CSWR Florida's AWWA and NAWC
 6 industry association dues expense.

8 **IX. OVERALL REVENUE REQUIREMENT RECOMMENDATION**

9 **Q. WHAT REVENUE REQUIREMENT ARE YOU RECOMMENDING FOR**
 10 **EACH OF THE WATER UTILITIES AND FOR THE CONSOLIDATED**
 11 **WATER UTILITIES?**

12 A. As summarized below, OPC's recommended adjustments in this case result in a
 13 recommended revenue increase for CSWR Florida consolidated water utilities of no
 14 more than \$1.966 million:

15 **Table 14**
 16 **Recommended Revenue Requirement for each Water Utility and**
 17 **Consolidated Water Utilities**

Line No.	Utility	Reference	Revenue Deficiency/(Excess) (A)	Revenue Deficiency/(Excess) (B)	Difference (C) = (B) - (A)
1	Aquarina Utilities - Water - Potable	Exhibit RCS-3, Schedule A, page 1	\$ 185,357	\$ 43,936	\$ (141,420)
2	Aquarina Utilities - Water - Non-Potable	Exhibit RCS-3, Schedule A, page 2	\$ 77,702	\$ (29,078)	\$ (106,780)
3	CFAT H2O Landfair WWTF - Water	Exhibit RCS-4, Schedule A	\$ 132,423	\$ 132,594	\$ 172
4	Neighborhood Utilities - Water	Exhibit RCS-5, Schedule A	\$ 121,840	\$ 122,065	\$ 225
5	Rolling Oaks Utilities - Water	Exhibit RCS-6, Schedule A	\$ 747,928	\$ 682,841	\$ (65,088)
6	Sunshine Utilities - Water	Exhibit RCS-7, Schedule A, page 1	\$ 1,578,639	\$ 885,120	\$ (693,518)
7	Sunshine Utilities - PP-QR	Exhibit RCS-7, Schedule A, page 2	\$ 205,656	\$ 145,509	\$ (60,148)
8	Tradewinds Village - Water	Exhibit RCS-8, Schedule A	\$ (61,389)	\$ (68,123)	\$ (6,734)
9	Tynber Creek Utilities - Water	Exhibit RCS-9, Schedule A	\$ 106,369	\$ 105,778	\$ (591)
10	Total Water - Sum of Systems	Exhibit RCS-2, Schedule A, page 2	\$ 3,094,525	\$ 2,020,642	\$ (1,073,883)
11	Difference from sum of per-utility results		\$ (37,659)	\$ (54,581)	\$ (16,922)
12	Total Water - Consolidated	Exhibit RCS-2, Schedule A, page 1	\$ 3,056,866	\$ 1,966,060	\$ (1,090,806)

1 **Q. WHAT REVENUE REQUIREMENT ARE YOU RECOMMENDING FOR THE**
 2 **WASTEWATER UTILITIES?**

3 A. As summarized below, OPC's recommended adjustments in this case result in a
 4 recommended revenue decrease for CSWR Florida consolidated wastewater utilities of
 5 at least \$68,327. The amounts of revenue increase or decrease for each wastewater
 6 utility are also identified in the following table:

7 **Table 15**
 8 **Recommended Revenue Requirement for Wastewater Utilities**

Line No.	Utility	Reference	Per Company Revenue Deficiency/(Excess) (A)	Per OPC Revenue Deficiency/(Excess) (B)	Difference (C) = (B) - (A)
1	Aquarina Utilities - Wastewater	Exhibit RCS-11, Schedule A	\$ 55,206	\$ 10,118	\$ (45,089)
2	BFF Corp - Wastewater	Exhibit RCS-12, Schedule A	\$ 34,217	\$ 34,226	\$ 9
3	CFAT H2O Landfair WWTF - Wastewater	Exhibit RCS-13, Schedule A	\$ 35,182	\$ 35,382	\$ 200
4	North Peninsula - Wastewater	Exhibit RCS-14, Schedule A	\$ 188,187	\$ 75,508	\$ (112,679)
5	Rolling Oaks Utilities - Wastewater	Exhibit RCS-15, Schedule A	\$ (118,848)	\$ (195,549)	\$ (76,702)
6	Sebring Ridge Utilities - Wastewater	Exhibit RCS-16, Schedule A	\$ 145,176	\$ 145,627	\$ 451
7	TKCB - Wastewater	Exhibit RCS-17, Schedule A	\$ 91,511	\$ 92,364	\$ 853
8	Tradewinds Village - Wastewater	Exhibit RCS-18, Schedule A	\$ (88,483)	\$ (90,746)	\$ (2,263)
9	Tymber Creek Utilities - Wastewater	Exhibit RCS-19, Schedule A	\$ (128,881)	\$ (130,286)	\$ (1,406)
10	Total Wastewater - Sum of Systems	Exhibit RCS-10, Schedule A, page 2	\$ 213,267	\$ (23,357)	\$ (236,624)
11	Difference from sum of per-utility results		\$ 19,240	\$ (44,970)	\$ (64,210)
12	Total Wastewater - Consolidated	Exhibit RCS-10, Schedule A, page 1	\$ 232,507	\$ (68,327)	\$ (300,834)

9 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

10 A. Yes, it does. However, I reserve the right to file supplemental testimony and respond
 11 to material information that becomes available after my testimony is filed. The fact that
 12 I do not address any other particular issues in my testimony or am silent with respect
 13 to any portions of CSWR Florida's petition, MFRs, or direct testimony in this
 14 proceeding should not be interpreted as an approval of any position taken by CSWR
 15 Florida.

1 BY MR. PONCE:

2 Q Mr. Smith, did your prefiled testimony in this
3 docket also contain 20 exhibits, which are labeled in
4 the CEL as Exhibits 106 through 125?

5 A Yes, I did have 20 exhibits.

6 Q And I guess, just to be clear, those are
7 labeled RCS-1 through 20 in your testimony, right?

8 A In my testimony, they were labeled RCS-1
9 through 20, correct.

10 Q Do you have any corrections to make to your
11 exhibits?

12 A No.

13 Q Have you prepared a summary of your testimony?

14 A Yes.

15 Q If you could please provide that. Thank you.

16 A Sure.

17 Good afternoon, Commissioners.

18 My testimony addresses CSWR-Florida's proposed
19 revenue requirements for each of the water and sewer
20 utilities in this rate case. I also present revised
21 revenue requirement for the combined water utilities and
22 separately for the combined sewer utilities.

23 In comparison with the revenue requirements
24 proposed by CSWR-Florida, my recommended revenue
25 requirements for some of the water and sewer utilities

1 are higher and some are lower. For the consolidated
2 water and the consolidated sewer utilities, my proposed
3 revenue requirements are lower. The general reasons for
4 my revenue requirement for the combined water and sewer
5 utilities being lower than those requested by the
6 company are due to the four adjustments that I am
7 recommending.

8 My first adjustment is to remove
9 CSWR-Florida's requested acquisition adjustments for the
10 Aquarina, Sunshine and North Peninsula systems that
11 total 9.374 million.

12 My second adjustment is for the use of the
13 Commission's current leverage graph formula for
14 computing the return on equity.

15 My third adjustment is to reflect the
16 company's net operating loss carry-forwards in the
17 calculation of income tax expense, which offsets
18 80 percent of the calculated taxable income in
19 conformance with income tax laws.

20 My fourth and final adjustment is to remove
21 the lobbying expense portion of industry association
22 dues.

23 And that concludes my summary.

24 **Q Thank you, Mr. Smith.**

25 MR. PONCE: At this time, OPC would tender

1 Mr. Smith for cross-examination.

2 CHAIRMAN SMITH: Okay. CSWR, you are
3 recognized.

4 MR. WOODSMALL: No questions, Your Honor.

5 CHAIRMAN SMITH: Okay. Staff?

6 MR. BLOOM: Thank you, Chair. We do have some
7 questions.

8 EXAMINATION

9 BY MR. BLOOM:

10 Q How are you doing today, Mr. Smith?

11 A I am doing okay. Thanks for asking.

12 Q Good to hear.

13 I am going to be asking you a few questions
14 about the net operating loss carry-forwards just for the
15 ease of time in my future questions, I am going to
16 abbreviate the term it NOL carry-forwards, is it that
17 okay on your part?

18 A Yes.

19 Q In your direct testimony, you applied the NOL
20 carry-forwards to offset 80 percent of CSWR's state and
21 federal taxable income, is that correct?

22 A Yes.

23 Q If a utility incurs a loss, would you agree
24 that in the year of the loss the utility incurred
25 expenses that they did not recover from the customer?

1 A They incurred expenses that were larger than
2 the taxable income, and that produced the potential loss
3 for that particular year.

4 **Q Could I have a yes or no, Mr. Smith, for the**
5 **question?**

6 A Not the way you put it. The reason the
7 company has a net operating loss is that their taxable
8 deductions are larger than their taxable income for that
9 particular year.

10 **Q So they did not recover the costs from**
11 **customers that year, is that correct?**

12 A It's entirely different than recovery. It's
13 strictly taxable deductions and taxable income. If the
14 deductions are higher than the taxable income, they have
15 a tax loss for that year, which they can carry forward
16 indefinitely.

17 **Q Could a utility experience an operating loss**
18 **through no fault of its own?**

19 A I suppose it could. Although, I think
20 management has a lot to do with it.

21 **Q Do you agree that the IRS allows NOL**
22 **carry-forwards to enable businesses to smooth out income**
23 **fluctuations?**

24 A To move out what fluctuations?

25 **Q To smooth out income fluctuations.**

1 A I am not sure that that's the indent of the
2 NOL carry-forwards. In previous years, they used to be
3 able to offset 100 percent of taxable income, but
4 starting in 2020, they can only now be used to offset
5 80 percent.

6 **Q How would a utility be able to smooth out**
7 **income fluctuations if the NOL carry-forward is used to**
8 **reduce income tax expenses when setting utility rates?**

9 A Again, the purpose of the revenue requirement
10 is to try to include a income tax expense allowance
11 that's based on the application of taxes law and the
12 expectation of what the utility will actually be paying,
13 and that's what we have done in this case.

14 They have amounts of NOL carry-forwards.
15 They've never paid income taxes in any of the prior
16 years. If you calculate an amount of taxable income by
17 multiplying the weighted cost of equity times rate base,
18 that gives you kind of a pretax amount of taxable
19 income. The NOLs will offset 80 percent of that.
20 That's how we have calculated income taxes in this rate
21 case.

22 That is consistent with our understanding of
23 the way the Commission has previously addressed
24 utilities with NOLs according to the decision cited on
25 page 23 of my testimony. The only difference here is

1 that for CSWR-Florida, you can no longer totally offset
2 taxable income with NOL carry-forwards, which was the
3 situation in the Commission's prior decision.

4 There, they zeroed out income tax on the basis
5 that the utility had an operating loss carry-forward,
6 wasn't expected to pay any income tax in the next five
7 to six years, and ratepayers had never gotten the
8 benefits of those NOLs. So in that case that's cited on
9 page 23 of my testimony, the Commission totally removed
10 income taxes. Based on current income tax law, we
11 didn't below belief that that would be reasonable, so we
12 have used the NOL carry-forwards to offset 80 percent,
13 which is consistent with income tax law.

14 **Q So just to clarify, your answer is that CSWR**
15 **with not be able to smooth out income fluctuations,**
16 **correct?**

17 A Smoothing out the income, the taxable income
18 fluctuations by offsetting 80 percent of that with the
19 NOL carry-forwards.

20 **Q Oh, okay.**

21 A And that will continue to occur until the NOLs
22 are totally used up, which is expected to take a number
23 of years.

24 **Q Why should the tax benefit associated with the**
25 **NOL carry-forwards be taken from the utility owners and**

1 **assigned to the customers?**

2 A Customers are -- would be the ones paying the
3 increased revenue requirement associated with the return
4 on equity.

5 Keep in mind that this is a company that
6 doesn't have access to investment quality debt
7 financing. Their capital structures are extremely
8 heavily weighted in common equity. The common equity
9 has been used multiplied by the rate base to derive the
10 amount of taxable income. Since the ratepayers are
11 paying for that component of the revenue requirement,
12 it's our recommendation that the Commission not also
13 cause ratepayers to overpay for the utility income taxes
14 that we know the utility is not going to be paying.

15 **Q Are you familiar with the stand-alone approach**
16 **to utility ratemaking?**

17 A I have heard that term used, yes.

18 **Q Do you agree that under the stand-alone**
19 **approach to utility ratemaking, the utility is treated**
20 **as an independent entity?**

21 A I agree with that generally. We have actually
22 calculated independent revenue requirements for each of
23 the utilities involved in this rate case, so we have
24 applied the stand-alone approach. In addition, we have
25 also calculated a combined revenue requirement

1 separately for the water utilities and separately for
2 the wastewater utilities.

3 **Q Do you agree that under the stand-alone**
4 **approach to utility ratemaking that the revenue**
5 **requirement relies exclusively on the regulated**
6 **revenues, deductible operating expenses, interest**
7 **expense and depreciation of the utility itself?**

8 A I generally agree with that, yes.

9 **Q Do you agree that under the stand-alone**
10 **approach to utility ratemaking, a utility's rates are**
11 **set based on its cost of service?**

12 A The revenue requirement is typically based on
13 the cost of service, yes.

14 **Q Do you agree that a utility's cost of service**
15 **should be based on the cost of normal operations?**

16 A Cost of normal operations as adjusted in the
17 particular test year that's being used, yes.

18 **Q Do you believe in general that operating**
19 **losses are a normal condition for a regulated utility?**

20 A Federal income tax operating losses are fairly
21 common in the utility industry. Normally they are at
22 least in part attributable to the use of accelerated
23 federal income tax depreciation.

24 For this particular utility, they don't use
25 accelerated federal income tax depreciation, so all of

1 their operating losses are exempt from IRS normalization
2 requirements.

3 **Q A utility's cost of service includes state and**
4 **federal taxes on its taxable income, is that correct?**

5 A Can you repeat that?

6 **Q Of course.**

7 **A utility's cost of service includes state and**
8 **federal taxes on its taxable income?**

9 A Taxable income, yes, and that's exactly what
10 we have done here.

11 **Q Do you agree that one of the principles of the**
12 **stand-alone approach is that a utility's rates should**
13 **not subsidize nor be subsidized by nonregulated**
14 **operations?**

15 A I agree with that. And here, we are
16 calculating the income taxes based totally on regulated
17 operations, so we are total totally consistent with that
18 principle in this particular rate case.

19 **Q All other things being equal, a utility's**
20 **rates reduced by NOL carry-forwards are lower than if an**
21 **NOL carry-forward was not used to reduce the rates, is**
22 **that correct?**

23 A Not necessarily. We are calculating income
24 tax expense based on what the utility taxable income is
25 projected to be. The NOLs will, in fact, apply to this

1 particular company, and they will reduce taxable income
2 about 80 percent until they are fully utilized, so
3 that's what we have done in the current rate case.

4 **Q If a utility's rates are reduced by an NOL**
5 **carry-forward, aren't those rates being subsidized by an**
6 **NOL carry-forward granted by the IRS to a utility's**
7 **owners?**

8 A It's not an subsidization, it's an accurate
9 calculation of income tax expense. And if you read the
10 details of what we have done here, we have also
11 discovered that the company's calculation of income tax
12 expense for several of the individual systems was
13 understated, so we have tried to correct that too.

14 For a number of the systems, the company
15 calculated taxable income, proforma taxable income by
16 multiplying rate base by the weighted cost of equity,
17 and then they also multiplied that further by the
18 overall cost of capital. So there were a number of
19 individual systems that had income tax calculations that
20 were understated, and we have also corrected for those
21 in my testimony and in our income tax calculations.

22 **Q Are you familiar with the term price signal?**

23 A Yes.

24 **Q Do you agree that appropriate price signals**
25 **are essential because they inform buyers and sellers**

1 **about relative scarcity enabling the effective**
2 **allocation of resources -- or the efficient, excuse me,**
3 **allocation of resources?**

4 A I believe price signals are important to
5 signal the cost of the product that's being provided.
6 And that's one of the reasons why we are removing all of
7 the acquisition adjustments from the utility's rate base
8 that signals that ratepayers are only going to be paying
9 for utility investments in plant in service that's used
10 and useful to providing them service, not paying for
11 inflated prices that were paid to acquire these
12 particular systems. So I believe that's also an
13 important component of price signals.

14 **Q If NOL carry-forwards are used to reduce a**
15 **utility's rates going forward, doesn't that distort the**
16 **price signal that customers should receive?**

17 A No, it supports an accurate calculation of
18 income tax expense in the utility's revenue requirement.

19 **Q Do you agree that the stand-alone approach**
20 **mathematically guarantees that the income tax allowance**
21 **embedded in rates is directly proportional to the**
22 **regulated income generated by the utility?**

23 A The regulated income generated by the utility
24 will be different from what's being used in the rate
25 case because we are using a test year here to set the

1 revenue requirement and to set income tax expense.

2 What the utility actually generates going
3 forward will dependent on a number of factors, including
4 the number of customers and the usage of those customers
5 of the utility service. So that will be different going
6 forward.

7 **Q Under the stand-alone approach method of**
8 **determining income tax expense for regulated utilities,**
9 **is whether or not the taxes paid the determining factor**
10 **in calculating income tax expense?**

11 A Again, you keep using the term separate return
12 basis or separate basis. That's exactly what we have
13 done. We have calculated income tax expense separately
14 for each of the utilities for which a revenue
15 requirement is being determined in the current rate
16 case.

17 MR. BLOOM: No more questions.

18 CHAIRMAN SMITH: Okay. Commissioners?
19 Any redirect?

20 MR. PONCE: No, Your Honor.

21 CHAIRMAN SMITH: Okay. Exhibits?

22 MR. PONCE: At this time, OPC would ask that
23 Mr. Smith's exhibits identified on the CEL as
24 Exhibits 106 through 125 now be entered into the
25 record.

1 CHAIRMAN SMITH: Okay. Any of objections?

2 Seeing none, Exhibits 106 through 125 will be
3 entered into the record.

4 (Whereupon, Exhibit Nos. 106-125 were received
5 into evidence.)

6 MR. PONCE: In that case, I would ask that our
7 witness be excused.

8 CHAIRMAN SMITH: Yeah, you are excused. Thank
9 you.

10 MR. PONCE: Thank you.

11 (Witness excused.)

12 CHAIRMAN SMITH: All right. We are moving now
13 to staff's witness. You may call him whenever you
14 are ready.

15 Whereupon,

16 CURT MOURING

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

20 EXAMINATION

21 BY MS. CRAWFORD:

22 Q Good afternoon, Mr. Mouring.

23 A Good afternoon.

24 Q And to confirm, you have been sworn already in
25 this proceeding?

1 A Yes, I have.

2 **Q Could you please state your name, position and**
3 **business address for the record?**

4 A My name is Curt Mouring. My position is
5 Director of the Office of Auditing and Performance
6 Analysis. And my business address is 2540 Shumard Oak
7 Boulevard, Tallahassee, Florida, 32399.

8 **Q And you caused to be filed in this proceeding**
9 **direct testimony consisting of two pages with a 91-page,**
10 **Exhibit CM-1?**

11 A Yes.

12 **Q And for the record, that's on the CEL as**
13 **Exhibit 126?**

14 A Yes.

15 **Q And CM-1 is the staff audit report of**
16 **CSWR-Florida, which addresses the utility's filing in**
17 **this docket?**

18 A Yes.

19 **Q Okay. Do you have any revisions to your**
20 **testimony or to Exhibit CM-1?**

21 A I have three sets of revisions to Exhibit
22 CM-1. The first was a revision to Audit Finding 4. The
23 second was a revision to Findings 1, 5 and 11. And the
24 final was a withdrawal of Finding 2 and a revision to
25 Finding 3.

1 **Q** And so if I were to ask you -- with those
2 exceptions noted, if I were to ask you the same
3 questions, would your answers to the -- to your
4 testimony and to your exhibit be the same?

5 **A** Yes, they would.

6 **Q** And have you prepared an opening -- oh, sorry,
7 one more.

8 MS. CRAWFORD: Chairman, I would ask that
9 Mr. Mouring's testimony be entered into the record
10 as though read.

11 CHAIRMAN SMITH: So moved.

12 (Whereupon, prefiled direct testimony of Curt
13 Mouring was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

COMMISSION STAFF

DIRECT TESTIMONY OF CURT MOURING

DOCKET NO. 20250052-WS

MARCH 27, 2026

Q. Please state your name and business address.

A. My name is Curt Mouring. My business address is 2540 Shumard Oak Boulevard, Tallahassee, FL, 32399.

Q. By whom are you presently employed and in what capacity?

A. I am employed by the Florida Public Service Commission (FPSC or Commission) as the Director of the Office of Auditing and Performance Analysis. I have been employed by the Commission since April 2008.

Q. Please give a brief description of your educational background and professional experience.

A. I received a Bachelor of Science Degree in Finance from Florida State University in 2007. I have worked for the FPSC since April 2008, and I have experience in electric, gas, and water and wastewater regulation. I have worked on multiple utility dockets, including rate cases and cost recovery clauses, which require the review and implementation of Auditor's reports. In the course of my career, I have reviewed dozens of Auditor's reports and the accompanying work papers. I am also familiar with sections of the Commission's Administrative Procedures Manual related to auditing and the Commission's Auditing Standard Operating Procedures that dictate how audits are to be performed.

Q. Please describe your current responsibilities.

A. As Director, my responsibilities include the oversight and review of all audit reports

1 issued.

2 **Q. Have you previously presented testimony before this Commission?**

3 A. Yes. I filed testimony in the Sunshine Water Services Company rate case, Docket No.
4 20240068-WS, and in the Duke Energy Florida, LLC Storm Restoration case, Docket
5 No. 20230116-EI.

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of my testimony is to sponsor the staff Auditor's Report of CSWR-
8 Florida Utility Operating Company, LLC which addresses the Utility's filing in Docket
9 No. 20250052-WS. This report is filed with my testimony and is identified as Exhibit
10 CM-1.

11 **Q. Was this audit completed by you or under your direction?**

12 A. Yes. It was completed under my direction.

13 **Q. Please describe the objectives of the audit and the procedures performed during**
14 **the audit?**

15 A. The objectives and procedures are listed in the Objectives and Procedures section of
16 the attached Exhibit CM-1 pages 5 through 9.

17 **Q. Please review the audit findings in this Auditor's Report.**

18 A. There were eleven findings in this Auditor's Report and are found in the Audit
19 Findings section of the attached Exhibit CM-1 pages 10 through 54.

20 **Q. Does that conclude your testimony?**

21 A. Yes.

22

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25

1 BY MS. CRAWFORD:

2 Q And do you have a summary of your testimony,
3 Mr. Mouring?

4 A Very brief. Yes.

5 Q If you would please give it.

6 A Good afternoon, Commissioners.

7 My testimony supports the revised staff
8 auditor's report filed in this case, which is attached
9 as Exhibit CM-1 to my testimony. There were revisions
10 made to Findings 1, 3, 4, 5 and 11, and Finding 2 was
11 withdrawn.

12 Finding 1 was revised to correct a clerical
13 error. Finding 3 was revised to accurately reflect the
14 original costing of land consistent with prior
15 commission orders. Finding 4 was revised to correct an
16 error in the calculation of accumulated amortization of
17 acre. Finding 5 was revised to correct an error in the
18 calculation of depreciation expense. And Finding 11 was
19 revised to reflect the correct property tax expenses.
20 Lastly, Finding 2 was withdrawn because it reflected an
21 incorrect application of Rule 25-30.140.

22 MS. CRAWFORD: With that, Chairman, we tender
23 Mr. Mouring for cross-examination.

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

1 MR. WATROUS: Thank you, Madam Chairman.

2 EXAMINATION

3 BY MR. WATROUS:

4 Q And good afternoon, Mr. Mouring.

5 A Good afternoon.

6 Q And you served as Director of Auditing and
7 Performance Analysis, and that began in April of 2025,
8 is that correct?

9 A Yes.

10 Q And you are responsible for the overall audit
11 report, is that correct?

12 A Yes.

13 Q And can we please go to master number F23008?
14 Mr. Mouring can you see the document that is
15 in front of you?

16 A This is the original workpapers, volume one of
17 three.

18 Q Okay. And what are the original workpapers as
19 they relate to the audit?

20 A They are the official workpapers in support of
21 the audit report itself, including the findings.

22 Q Okay. And what is contained within the
23 workpapers?

24 A Staff's original support documentation used,
25 as well as any calculations or any information that

1 would be needed to support the audit report.

2 **Q** **So this is kind of the analysis or the**
3 **background information of what went into the final audit**
4 **report, is that correct?**

5 **A** **I suppose I would agree with that.**

6 **Q** **Thank you.**

7 **And that is -- I am just going to mark it as**
8 **Exhibit No. 175.**

9 **And if you are responsible for the overall**
10 **audit report, are you also responsible for reviewing**
11 **these official workpapers?**

12 **A** **Yes.**

13 **Q** **And there was a revised Finding 3 that you had**
14 **mentioned just recently. Can you explain what that is?**

15 **MR. WOODSMALL:** Your Honor, I would object at
16 this point. In the Prehearing Order, the order
17 specifically states an admonishment against
18 friendly cross-examination. In this audit report,
19 the revised, the errata, staff eliminated 98
20 percent of land and land rights. So given that it
21 says: Any party conducting what appears to be
22 friendly cross should be prepared to indicate why
23 that witness's direct testimony is adverse to its
24 interest.

25 **Eliminating 98 percent is not adverse to**

1 Public Counsel's interest. I believe what's
2 happening here is not cross combination, rather,
3 Public Counsel is trying to buttress the argument,
4 which is friendly cross-examination and should not
5 be allowed.

6 CHAIRMAN SMITH: Do you have a response, Mr.
7 Watrous?

8 MR. WATROUS: Yeah, so this -- this audit
9 finding came out a week before the hearing. The
10 impact of it on the case is important to the Public
11 Counsel because the Public Counsel does believe in
12 having fair, just and reasonable rates. And if
13 this audit finding does not -- be supported by
14 competent, substantial evidence, we would want it
15 thrown out. We want accurate rates, so I need to
16 make sure I get these audit workpapers in so I can
17 ensure when I brief the Commissioners that it is
18 accurate.

19 MR. WOODSMALL: No question it's important.
20 The problem is, if he wants to do it, he should do
21 it through true cross-examination. This is
22 friendly cross. This witness took a position that
23 is in Public Counsel's favor.

24 This is why we sought to strike the entire
25 thing because it happened so late. Now Public

1 Counsel is trying to say they have been prejudiced
2 by it happening late. We would be happy striking
3 the whole thing, but he shouldn't be trying to do
4 friendly cross. If he wants to try to do it
5 through actual cross-examination of the company's
6 witness, that's appropriate.

7 CHAIRMAN SMITH: I am going to turn to legal
8 counsel -- well, staff, I guess you have -- you
9 want to chime in?

10 MS. CRAWFORD: I would just note, as everybody
11 is aware, this did happen late in the process. To
12 the extent Public Counsel is trying to ascertain
13 the reasons for Mr. Mouring's revision to staff
14 Audit Finding 3, I think that's valid, because as
15 has been observed by several of the CSWR witnesses,
16 there has been no prior discussion regarding the
17 rationale for that revision. So I think -- I think
18 having that rationale explained on the record may
19 be appropriate.

20 Now, whether counsel will then go on to ask
21 questions that may be deemed friendly cross, I
22 don't think we have quite crossed that bridge yet,
23 but we will see if Ms. Helton agrees.

24 CHAIRMAN SMITH: Yeah, I mean, I -- as a
25 preview, I was going to ask that question of the

1 reasons, so I would -- so I am more inclined to
2 hear the rationale, but I would like to hear from
3 my legal counsel, and not be my own lawyer because
4 that's always a bad idea.

5 MS. HELTON: I agree with Ms. Crawford. I
6 don't think -- if we -- if there -- I could see the
7 potential for having friendly cross from Mr.
8 Watrous, but I don't think we are quite there yet.

9 CHAIRMAN SMITH: Okay. All right. So
10 overruled and continue on within those parameters.
11 You understand.

12 MR. WATROUS: Thank you.

13 BY MR. WATROUS:

14 Q So, Mr. Mouring could you please explain what
15 the revised Audit Finding 3 was?

16 A Revised Finding 3 was made to correct the land
17 balances, land and land rights balances to original cost
18 per Commission order.

19 Q Okay. And can we please go to master page
20 number F24739?

21 A Is this the document request for response
22 seven?

23 Q Yes. Yes.

24 Mr. Mouring, can you see what that document
25 is?

1 A Yes.

2 Q Okay. And this is the data request that you
3 and your team had sent out relating to the audit
4 workpapers for the land deeds, is that correct?

5 A It's a document request, but yes.

6 Q Okay. And then would it be accurate to say
7 that the information contained in here you requested of
8 CSWR contained the information that affected revised
9 Audit Finding 3?

10 MR. WOODSMALL: Your Honor, we have gone well
11 past him explaining what he did with Audit Finding
12 3. This is friendly cross.

13 MR. WATROUS: I am asking for the workpapers
14 and the data request that the audit staff asked of
15 CSWR to ensure that if his Audit Finding 3 was
16 revised, that we have the information underneath to
17 be able to make an accurate determination of
18 whether it was correct.

19 MR. WOODSMALL: You could have done that in
20 your testimony. You can certainly do that through
21 cross-examination of the company witness. You are
22 doing friendly cross --

23 MR. WATROUS: The company --

24 MR. WOODSMALL: -- you can try --

25 MR. WATROUS: -- the company witness did not

1 put forth this errata --

2 MR. WOODSMALL: You could have --

3 MR. WATROUS: -- he is the correct witness to
4 ask of this.

5 MR. WOODSMALL: But you are doing it through
6 friendly cross. You could -- you could have done
7 it --

8 CHAIRMAN SMITH: All right.

9 MS. CRAWFORD: Excuse me -- I am sorry.

10 CHAIRMAN SMITH: No, go ahead, Ms. Crawford.

11 MS. CRAWFORD: I was just going to say, I
12 understand that there are opinions back and forth.
13 When there is an objection, please allow the Chair
14 an opportunity to ask questions or to respond
15 accordingly to the objections. It's more orderly
16 that way.

17 Thank you.

18 CHAIRMAN SMITH: Thank you.

19 I think if you can reframe it, please do that,
20 but otherwise, I still think we haven't hit any --
21 I could -- I am going to overrule. It's not -- I
22 think that this is within the scope of this errata
23 and a stuff. So go ahead, just, you know, ask it
24 in a way, though, that it's not leading or anything
25 like that, but I don't think we are there yet, so

1 continue on.

2 BY MR. WATROUS:

3 Q Mr. Mouring, this exhibit in front of you,
4 what does it contain?

5 A This contains the company's response which
6 includes land deeds, land additions and retirements and
7 property tax bills.

8 Q And you requested this information of the
9 company, correct?

10 A Yes.

11 Q And these are contained within your audit
12 workpapers?

13 A Yes.

14 MR. WATROUS: And I would like to mark this as
15 Exhibit 176.

16 MS. CRAWFORD: I am sorry, I will just note
17 that it has already been marked.

18 CHAIRMAN SMITH: Okay. Do we need that
19 number?

20 MS. CRAWFORD: It was previously marked as No.
21 176 on the CEL. It has not yet been entered into
22 the record.

23 CHAIRMAN SMITH: It hasn't been entered.
24 Okay, we will enter it at the end.

25 MR. WATROUS: Okay.

1 BY MR. WATROUS:

2 Q And, Mr. Mouring, why did you ask for this
3 information of the company?

4 A In order to establish the appropriate land
5 balances as well as property tax, ad valorem property
6 taxes.

7 Q Mr. Mouring, I will move on from that. I want
8 to go to audit procedures.

9 So the Commission's audit manual remains the
10 January 2026 version, is that correct?

11 A I think you said January 2026?

12 Q 2016. I am sorry.

13 A Yes.

14 Q And there is no deadline for updating that
15 manual, is that correct?

16 A That's correct.

17 Q And would you agree that auditors must obtain
18 sufficient evidence before making audit findings?

19 A Logically, yes.

20 Q And audit manual provisions are necessary to
21 conduct an accurate audit, is that correct?

22 A Could you repeat that?

23 Q Are the audit manual provisions necessary to
24 conduct an accurate audit?

25 A The procedures outlined in the audit manual

1 are a guide. They are not necessarily required. I
2 think that's laid out in the very beginning here.

3 **Q So with that guide, the audit staff still had**
4 **multiple findings that required correction after the**
5 **issuance of the final audit report?**

6 A There were the revisions that I outlined
7 earlier that were made.

8 **Q And the audit was issued on January 22nd of**
9 **2026, is that correct?**

10 A I believe that's right.

11 **Q Why were there so many erratas after the**
12 **filing of that final audit report?**

13 A For the reasons I outlined in my summary.

14 **Q And would you please say them again?**

15 A Finding 1 was revised to correct a clerical
16 error. Finding 3 was revised to accurately reflect the
17 original cost of land consistent with prior Commission
18 orders. Finding 4 was revised to correct an error in
19 the calculation of accumulated amortization of CIAC.
20 Finding 5 was revised to correct an error in the
21 calculation of depreciation expense. Finding 11 was
22 revised to reflect the correct property tax expense.
23 And Finding 2 was withdrawn because it reflected an
24 incorrect application of Rule 25-30.140.

25 **Q And if you were to update the audit manual,**

1 **could you have prevented those late findings?**

2 A The revisions? I am not sure what you mean by
3 late findings.

4 Q **If the audit manual was updated to be more**
5 **comprehensive, would that have eliminated these**
6 **findings?**

7 A I -- in this case, there was a breakdown in
8 the review process, and that -- I take responsibility
9 for that.

10 Q **I would like to switch to kind of some stuff**
11 **that your team looks at in audits, and the staff**
12 **auditors look at lobbying expenses, is that correct?**

13 A They sample expenses. If lobbying expenses
14 are identified, that would be something that they would
15 remove.

16 Q **So lobbying expenses are generally below the**
17 **line expenses?**

18 A Typically, yes.

19 Q **And as we sit here today, the original audit**
20 **report does not represent the final position of audit**
21 **staff, is that correct?**

22 A Can you repeat that?

23 Q **The January 22nd, 2026, that was not the final**
24 **position of audit staff, is that correct?**

25 A The original one has been revised. The

1 original audit report has been revised.

2 Q So you are asking the Commission to rely on
3 connected calculations?

4 A Yes.

5 Q Thank you, Mr. Mouring. I have no further
6 questions.

7 CHAIRMAN LA ROSA: Thank you.

8 CSWR?

9 MR. WOODSMALL: No questions.

10 CHAIRMAN SMITH: All right. Commissioners?
11 Commissioner Ortega?

12 COMMISSIONER ORTEGA: I have --

13 CHAIRMAN SMITH: Oh, no, she's just -- I --
14 yeah, go ahead, but -- yeah, go ahead. You can go
15 first.

16 COMMISSIONER ORTEGA: Sorry. I heard you
17 maybe have the same questions I have.

18 CHAIRMAN SMITH: Oh. Well, then you ask it,
19 please.

20 COMMISSIONER ORTEGA: Okay. I just want to
21 make sure I understand -- Mr. Mouring, hello. Good
22 afternoon -- why the changes for audit Finding 3?

23 THE WITNESS: So again, the land balances
24 should reflect the original cost when a parcel of
25 land is devoted to utility service. That was not

1 reflected in our original audit finding. That was
2 brought to my attention a day or so before the
3 revised finding was issued.

4 I apologize for the late -- the lateness of it
5 in the process. I understand that that was
6 problematic potentially, but getting it out there,
7 getting the best information we can out there was
8 important for us to do, and there was an error in
9 the audit. And, again, I take responsibility for
10 that.

11 COMMISSIONER ORTEGA: Just a quick follow-up.

12 When you say reflect prior Commission orders,
13 do you mean the original order that granted the
14 transfer, or which particular orders are you
15 speaking of?

16 THE WITNESS: So original cost is established
17 as of a point in time when a piece of land is
18 devoted to utility service. It doesn't change
19 after that point. What we had originally found in
20 Finding 3 did not reflect the -- there are several
21 orders -- there is several Commission orders,
22 including the transfer order, where land
23 balances -- where the original land balances were
24 established.

25 COMMISSIONER ORTEGA: Okay. Thank you.

1 THE WITNESS: Does that -- okay.

2 CHAIRMAN SMITH: So following up on that, are
3 the adjustments in errata of Audit Finding 3, is
4 that information contained within the audit
5 workpapers?

6 THE WITNESS: I believe we have snippet -- the
7 orders in there with one exception. I think that
8 was the Ponderosa Pine/Quail Run, that order may
9 not have been in there.

10 CHAIRMAN SMITH: But everything else?

11 THE WITNESS: Everything else, yes.

12 CHAIRMAN SMITH: Okay.

13 Redirect? I'm sorry, do you have any
14 redirect?

15 MS. CRAWFORD: No redirect. Thank you.

16 CHAIRMAN SMITH: Okay.

17 MS. CRAWFORD: And we would move CEL Exhibit
18 126 into the record.

19 CHAIRMAN SMITH: All right, so moved.

20 (Whereupon, Exhibit No. 126 was received into
21 evidence.)

22 CHAIRMAN SMITH: And then do we have another
23 -- do we have another exhibit from OPC?

24 MR. WATROUS: Yes. I believe it was 175 and
25 176 as marked in the CEL.

1 CHAIRMAN SMITH: Okay. Any objection to
2 those? Seeing none. All right, 175 and 176
3 entered in.

4 (Whereupon, Exhibit Nos. 175-176 were received
5 into evidence.)

6 MS. CRAWFORD: And with your permission, I
7 would ask that the witness be excused.

8 CHAIRMAN SMITH: Yes. You are excused,
9 Mr. Mouring. Thank you.

10 (Witness excused.)

11 MS. CRAWFORD: And next in the course of
12 business would be witness Plescow for staff. His
13 attendance was stipulated to by the parties. I
14 have conferred with each Commissioner's office, who
15 indicated he could also be excused, that they had
16 no questions. And so I would request that the
17 testimony of John Plescow be inserted into the
18 record at this time.

19 CHAIRMAN SMITH: So moved.

20 (Whereupon, prefiled direct testimony of John
21 F. Plescow was inserted.)

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1	BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
2	COMMISSION STAFF
3	DIRECT TESTIMONY OF JOHN F. PLESCOW
4	DOCKET NO. 20250052-WS
5	MARCH 27, 2026
6	Q. Please state your name and address.
7	A. My name is John F. Plescow. My address is 2540 Shumard Oak Boulevard;
8	Tallahassee, Florida 32399-0850.
9	Q. By whom are you employed and in what capacity?
10	A. I am employed by the Florida Public Service Commission (FPSC or Commission) as a
11	Regulatory Program Administrator in the Office of Consumer Assistance.
12	Q. Please give a brief description of your educational background and professional
13	experience.
14	A. I graduated in 1984 with a Bachelor of Science degree and in 1988 with a Master of
15	Science degree from Florida State University. I have worked for the Commission for
16	more than 36 years, and I have experience in consumer complaints and consumer
17	outreach. I work in the Office of Consumer Assistance where I manage consumer
18	complaints, and inquiries.
19	Q. What is the function of the Office of Consumer Assistance?
20	A. The Office of Consumer Assistance's function is to resolve disputes between regulated
21	companies and their customers as quickly, effectively, and inexpensively as possible.
22	Q. Do all consumers that have a dispute with their regulated company contact the
23	Office of Consumer Assistance?
24	A. No. Consumers may initially file their complaint with the regulated company and reach
25	a resolution without the Office's intervention. In fact, consumers are encouraged to

1 allow the regulated company the opportunity to resolve the dispute prior to any
2 Commission involvement.

3 **Q. What is the purpose of your testimony?**

4 A. The purpose of my testimony is to discuss/outline the number of consumer complaints
5 logged with the Commission against CSWR-Florida Utility Operating Company
6 (CSWR-Florida) under Rule 25-22.032, Florida Administrative Code (F.A.C.),
7 Consumer Complaints, from February 1, 2021 to January 31, 2025. My testimony will
8 also provide information on the type of complaints logged and those complaints that
9 appear to be rule violations.

10 **Q. What do your records indicate concerning the number of complaints filed for**
11 **CSWR-Florida?**

12 A. From February 1, 2021 to January 31, 2025 the Commission logged 83 complaints
13 against CSWR-Florida.

14 **Q. What have been the most common types of complaints logged against CSWR-**
15 **Florida during the period of February 1, 2021 to January 31, 2025.**

16 A. During the specified time period, approximately Twenty-nine (29%) percent of the
17 complaints logged with the Commission concerned billing issues, while approximately
18 Seventy-one (71%) percent of the complaints involved quality of service issues.

19 **Q. Do you have any exhibits attached to your testimony?**

20 A. Yes. I am sponsoring JFP-1 and JFP-2, which are listings of consumer complaints
21 logged with the Commission against CSWR-Florida under Rule 25-22.032, F.A.C. The
22 complaints listed were received from February 1, 2021 to January 31, 2025, and were
23 captured in the Commission's Consumer Activity Tracking System. Exhibit JFP-1 lists
24 quality of service complaints and Exhibit JFP-2 lists billing complaints. Both exhibits
25 group the complaints by system.

- 1 **Q. What is a Close Type?**
- 2 A. A Close Type is an internal categorization code. It is assigned to each complaint once
- 3 staff completes its investigation, and a proposed resolution is provided to the
- 4 consumer.
- 5 **Q. Do you have any additional exhibits?**
- 6 A. Yes. Exhibit JFP-3 is a listing of complaints by Close Type.
- 7 **Q. How many of the complaints summarized on your exhibit has staff determined**
- 8 **may be a violation of Commission rules for CSWR-Florida?**
- 9 A. Staff determined that, of the 80 complaints logged against CSWR-Florida during the
- 10 period of February 1, 2021 to January 31, 2025, there were 12 service quality
- 11 complaints and 14 billing complaints that appear to demonstrate a violation of
- 12 Commission Rules.
- 13 **Q. Does that conclude your testimony?**
- 14 A. Yes.
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1 MS. CRAWFORD: And I would also move that
2 Exhibits 127, 128 and 129 be moved into the record
3 as well.

4 CHAIRMAN SMITH: Okay. Those exhibits are
5 moved in.

6 MS. CRAWFORD: Thank you.

7 (Whereupon, Exhibit Nos. 127-129 were received
8 into evidence.)

9 CHAIRMAN SMITH: And then we are done with
10 staff witness. So we will move to CSWR's rebuttal
11 witnesses.

12 MR. WOODSMALL: Thank you, Your Honor.

13 CSWR has two rebuttal witnesses. First we
14 would call Josiah Cox.

15 Your Honor, I believe Mr. Cox has previously
16 been sworn. He has done all the foundational
17 issues, has no changes to his testimony so I would
18 simply ask if he has prepared a summary and to
19 provide it of his rebuttal witness at this time.

20 Whereupon,

21 JOSIAH COX

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

25 THE WITNESS: I am ready.

1 (Whereupon, prefiled rebuttal testimony of
2 Josiah Cox was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

REBUTTAL TESTIMONY OF

JOSIAH COX

on behalf of

CSWR-Florida Utility Operating Company, LLC

April 17, 2026

I. INTRODUCTION

1
2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Josiah Cox, and my business address is 1630 Des Peres Rd., Suite
4 140, St. Louis, Missouri 63131. I am the President of the applicant, CSWR-
5 Florida Utility Operating Company, LLC (“CSWR-Florida” or “Company”).

6 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS CASE?**

7 A. Yes. I have previously presented direct testimony in this case on behalf of
8 CSWR-Florida.

9 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

10 A. The purpose of my rebuttal testimony is three-fold. First, I will introduce the
11 witnesses that will be responsible for providing the Company’s response to the
12 various issues raised by: (a) OPC’s direct testimony filed March 20, 2026 (“OPC
13 Direct”), (b) the direct testimony filed by Staff witness Mouring on March 27,
14 2026 (“Mouring Direct”), (c) the direct testimony filed by Staff witness Plescow
15 on March 27, 2026 (“Plescow Direct”), (d) the complaint and compliance data
16 from the Florida Department of Environmental Protection (“DEP”) that was
17 submitted into the docket file by Staff on March 10, 2026 (“DEP Report”), and
18 (e) testimony provided by customers at the service hearings (“Service
19 Hearings”).

20 Second, I will provide general comments regarding the information
21 elicited during the Service Hearings. My testimony in this regard is
22 complimented by testimony provided by Mr. Aaron Silas, who comments on

1 specific customer testimony from the Service Hearings and steps taken to
2 address the customer concerns.

3 Third, I will respond to issues raised in OPC Direct, and why OPC's
4 positions fail to recognize or address the fundamental problem prevalent in
5 Florida, and the United States, regarding distressed water and wastewater
6 systems.

7 II. WITNESS IDENTIFICATION

8 **Q. HAS THE COMPANY REVIEWED THE ISSUES RAISED IN THE OPC**
9 **DIRECT, MOURING DIRECT, PLESCOW DIRECT, DEP REPORT,**
10 **AND SERVICE HEARINGS?**

11 A. Yes. The Company has reviewed those issues closely.

12 **Q. PLEASE IDENTIFY THE WITNESSES THAT WILL ADDRESS EACH**
13 **OF THE ISSUES.**

14 A. I will respond to OPC and Staff's recommendation to exclude acquisition
15 adjustments from the revenue requirement. In addition, I will generally address
16 some of the themes raised in the customer testimony made at the Service
17 Hearings. Other Company witnesses on rebuttal are as follows:

18 • Brent Thies: CSWR, LLC's ("CSWR") Vice President and Corporate
19 Controller, who testifies regarding most of Staff's audit findings, other than the
20 exclusion of acquisition adjustments (Audit Finding 6). This includes Audit
21 Findings related to plant additions (Audit Finding 1), plant retirements (Audit
22 Finding 2), land and land rights values (Audit Finding 3), Contributions in Aid
23 of Construction (Audit Finding 4), depreciation rates (Audit Finding 5), cash

1 working capital (Audit Finding 7), return on equity (Audit Finding 8), operating
2 revenues (Audit Finding 9), operations and maintenance expense (Audit Finding
3 10), and Taxes other than Income Taxes (Audit Finding 11). In addition, Mr.
4 Thies responds to three adjustments raised by Mr. Smith on behalf of OPC:
5 return on equity, utilization of past net operating losses as a deduction to income
6 tax expense, and the elimination of a portion of the membership dues paid by the
7 Company to the American Water Works Association (“AWWA”) and National
8 Association of Water Companies (“NAWC”).

9 • Aaron Silas: CSWR’s Assistant Vice President of Customer
10 Experience & Regulatory Operations, testifies regarding customer service issues
11 raised in Mr. Plescow’s Direct and at the Service Hearings.

12 • Todd Thomas: CSWR Senior Vice President, testifies regarding the
13 information contained in Attachments A and B in the DEP Report.

14 • Jacob Freeman: CSWR’s Director of Engineering, responds to the
15 remainder of the DEP Report, specifically past compliance issues at the
16 following systems acquired by the Company: (1) Aquarina, (2) CFAT, (3) North
17 Peninsula, (4) Rolling Oaks, (5) Sebring Ridge, (6) TKCB, (7) Tradewinds, and
18 (8) Tymber Creek

19 III. CUSTOMER COMMENTS

20 **Q. DID YOU ATTEND THE SERVING HEARINGS CONDUCTED BY THE**
21 **COMMISSION IN THIS MATTER?**

22 A. Yes. The Commission conducted four service hearings in this case. The
23 Commission held live customer service hearings in Lecanto and Ocala on March

1 5, 2026, and in Daytona Beach on March 25, 2026. The Commission also held
2 a virtual service hearing on March 31, 2026. I personally attended and
3 participated in all three live service hearings. I was unable to attend the virtual
4 service hearing, but I have read the transcript from that virtual hearing.

5 **Q. WHY DO YOU ATTEND CUSTOMER SERVICE HEARINGS?**

6 A. I recognize that customer hearings can often be inconvenient for customers to
7 attend as it involves time away from the multitude of other items demanding the
8 customers' attention, including family and work. Additionally, I understand that
9 a customer hearing can be intimidating to customers as it involves a process that
10 is typically unfamiliar to customers including taking an oath, testifying on utility
11 service matters, and possibly being subjected to questions from attorneys and
12 Commissioners. These hearings are one of the best methods for understanding
13 the concerns of our customers.

14 Therefore, as a matter of respect for the efforts made by the customers as
15 well as my desire to understand what improvements can be made by the
16 Company, I endeavor to attend such customer hearings in person. When my
17 attendance is not possible, I will always send senior executives to participate in
18 these hearings. In this case, several CSWR senior managers were in attendance
19 for the service hearings conducted by the Commission.

20 **Q. WERE THE SERVICE HEARINGS THE ONLY METHOD BY WHICH**
21 **THE COMMISSION SOUGHT COMMENTS FROM THE COMPANY'S**
22 **CUSTOMERS?**

1 A. No. In addition to the four service hearings, customers were given notice they
2 could write or email the Clerk of the Commission, submit comments to the
3 Commission's Office of Consumer Assistance, and contact the Office of Public
4 Counsel.

5 **Q. HAVE CUSTOMERS PROVIDED COMMENTS BEYOND THE**
6 **SERVICE HEARING TESTIMONY?**

7 A. Yes. The docket sheet shows several comments directly from customers.
8 However, as of April 12, 2026, while CSWR-Florida has approximately 13,700
9 customers, the Commission has received fewer than 50 discrete customer
10 comments.¹

11 **Q. HAVE YOU READ THE CUSTOMER COMMENTS SUBMITTED TO**
12 **THE COMMISSION AND FILED IN THIS DOCKET?**

13 A. Yes. I have read the customer comments filed in this docket through April 12,
14 2026.

15 **Q. DOES THE COMPANY HAVE ANY RESPONSE TO THE CUSTOMER**
16 **TESTIMONY GIVEN AT THE SERVICE HEARINGS AND**
17 **COMMENTS FILED IN THE DOCKET?**

18 A. Yes. While I will provide some general thoughts, Mr. Silas will provide more
19 specific details.

¹ An accurate count of the number of comments filed with the Commission is subject to caveats as some customers filed numerous comments and other customer comments were submitted multiple times in identical form as they were routed to the Clerk in different ways. For instance, Mr. Wolfgram had his comments entered into the docket system twice, and he also appeared at the virtual service hearing. Mr. Athey's comments appeared in the docket system seven times as they were routed by different Commissioners separately. Ms. Roberts, Ms. Bratcher, Mr. Curtin, Mr. Dennison, and Mr. Moore also saw their comments filed multiple times.

1 **Q. DID THE NUMBER AND THE NATURE OF THE CUSTOMER**
2 **COMMENTS SURPRISE YOU?**

3 A. No. While there are some issues that were unique to Florida that required the
4 attention of Mr. Silas and his department, most of the comments are consistent
5 with those seen by CSWR in other jurisdictions.

6 **Q. PLEASE EXPLAIN.**

7 A. The mission of CSWR, and its affiliate group operating in eleven states, is to
8 bring safe, reliable, and environmentally responsible water resources to every
9 community in the United States. In December 2022, CSWR became the single
10 largest owner of individual domestic wastewater treatment plants and one of the
11 largest owners of individual drinking water systems in the United States and has
12 continued to add systems since that date. In fact, CSWR believes that its
13 subsidiaries have brought more domestic water and wastewater systems out of
14 noncompliance with the Clean Water Act (“CWA”) than any other single entity
15 since the CWA’s passage in 1972.

16 CSWR and its affiliates strive to meet this goal by acquiring and investing
17 in distressed, community-based water and wastewater systems. CSWR then
18 invests in these systems and operates them in a manner that allows them to
19 comply with applicable health, safety, and environmental laws.

20 The operations of CSWR-Florida are consistent with this overall mission
21 statement. Since acquiring its first system in May 2022, CSWR-Florida has
22 acquired a total of 38 distressed water and wastewater systems. As Mr. Freeman
23 describes in his Direct Testimony, these systems all generally exhibit the same

deteriorated condition as well as a chronic history of non-compliance with applicable health, safety, and environmental regulations.

This is relevant as the customers of these distressed systems have suffered for years, if not decades, from substandard utility service. Therefore, customers are generally less receptive to a rate increase when they have grown accustomed to poor utility and customer service. In this regard, the comments expressed in this rate case, CSWR-Florida's first, echo the comments expressed by customers in CSWR's first rates cases in several other states.

Q. DO YOU HAVE ANY OTHER GENERAL COMMENTS REGARDING THE CUSTOMER COMMENTS IN THIS CASE?

A. Yes. Many of the comments in this docket complain about the percentage increase requested by the Company. Again, this did not surprise me. As described by the National Regulatory Research Institute, and from my own experience, the failure to seek rate increases is symptomatic of small, distressed water and wastewater systems.

[Often times the smaller companies fail to ask the Commission for sufficient rate increases or do not ask at all because of the time and complexity, either real or perceived, involved in a rate case filing]; the small plants may be older, less efficient, and insufficiently maintained; management may not be skilled in properly running a water and sewer utility; and the smaller customer base means economies of scale are not at the same level as the larger companies. Also, it cannot be overlooked that the accuracy of the bookkeeping of smaller companies is often in question due to poor recordkeeping, uncertain cost allocation between personal and business expenses, and improper accounting procedures.²

² *Viability Policies and Assessment Methods for Small Water Utilities*, National Regulatory Research Institute, June 1992, at pages 3-4.

1 The distressed systems acquired by the Company reflect this unfortunate
2 characteristic. Of the 38 systems acquired by CSWR-Florida, 31 have gone
3 more than 14 years without a rate case. The Sebring Ridge system has not had
4 a rate increase since 1996.

5 The failure to seek a rate increase in thirty years generally leads to several
6 irrefutable conclusions. **First**, given its failure to seek rate increases, the utility
7 management is failing to invest in the system. Therefore, most of the plant assets
8 have likely reached the end of their useful lives. Thus, as Mr. Freeman
9 described, it is not surprising that the Sebring Ridge system, after 30 years
10 without a rate increase or capital reinvestment, would display a litany of system
11 problems.³

12 **Second**, the failure to seek a rate increase in 30 years also leads to the
13 undeniable conclusion that the adopted rates were no longer compensatory.
14 Through simple inflation in the costs of electricity, chemicals, labor, and
15 insurance, one would expect that rates would have been increased to capture
16 these cost increases. The failure to seek rate increases for such an extended
17 period means that rates no longer cover the basic costs of operating the system.
18 Given this, when a rate increase is eventually sought to cover these costs, the
19 increase will be more significant than if the utility had sought regular increases.

20 **Third**, and most relevant to this discussion, the failure to seek regular rate
21 increases for an extended period typically means that customers become

³ See, Direct Testimony of Jacob Freeman, Docket No. 20250052-WS, filed May 30, 2025, pages 22-23.

1 accustomed to a deflated utility rate and when a rate increase is eventually sought
2 customers will be more outspoken.

3 It is not surprising that a disproportionate number of customer comments
4 have been received from consumers at the Sebring Ridge system. The last rate
5 increase for Sebring Ridge occurred in July 1996. It is not surprising then that
6 when the previous wastewater base rate of \$16.17 / month was increased by the
7 Commission on an interim basis to \$59.43, that customers would be unhappy.
8 That increase does not include the volumetric component of the rate. Of the 30
9 discrete written customer comments, eleven were from customers of Sebring
10 Ridge.

11 **Q. DO YOU HAVE ANY OTHER SPECIFIC THOUGHTS REGARDING**
12 **OTHER CUSTOMER COMMENTS?**

13 A. Yes. In at least four separate comments, customers expressed concerns with the
14 Company's proposal to consolidate rates across its Florida systems.⁴

15 **Q. PLEASE EXPLAIN THE COMPANY'S RATIONALE FOR**
16 **CONSOLIDATED RATES?**

17 A. Consolidation of rates is a method for mitigating rate impacts for customers
18 compared to rates set on a system-specific basis. Ultimately, all the systems
19 acquired by CSWR-Florida will require capital investment to ensure that the
20 treatment and distribution systems can meet environmental standards. Thus, for
21 example, given the capital investment made at Aquarina, absent consolidation,

⁴ See, written comment of Joe LaCognata, filed January 23, 2026; written comment of Julie Bratcher, filed February 24, 2026; oral comments of Jeff Buckwald, service hearing of March 25, 2026 (pages 19-23); oral comments of Tommy White, service hearing of March 25, 2026 (pages 32-33).

1 stand-alone rates would be \$80.18. Through consolidation, however, the
2 revenue requirement impact is spread across a larger number of customers, and
3 the monthly rate is reduced to \$38.81.

4 Consolidation provides similar rate mitigating benefits to wastewater
5 operations. Given the capital improvements made at BFF, an average standalone
6 bill would be \$94.54. As a result of consolidation, however, the average monthly
7 bill would be reduced to \$38.75.

8 **Q. DO YOU HAVE ANY CLOSING THOUGHTS REGARDING THE**
9 **CUSTOMER COMMENTS?**

10 A. It is certainly not my intention to minimize the concerns of customers. Given
11 the affordability concerns that are constantly discussed in the news, customers
12 have a right to express such concerns. That said, in this case, many of the
13 customers have suffered for years, if not decades, from inferior utility service.
14 For most, this is the first time in over a decade that they have had an opportunity
15 to complain about such service. My hope is that these customers, once they
16 realize the tremendous improvements that are being made to their utility service,
17 as well as the professional customer service and corporate communications
18 brought by the Company, will become more satisfied with these benefits and
19 that they are receiving real value for the increase in rates.

20 **IV. RESPONSE TO OPC**

21 **Q. WHAT DID THE COMPANY ORIGINALLY PROPOSE WITH**
22 **REGARDS TO THE RECOVERY OF ACQUISITION ADJUSTMENTS.**

1 A. In its filing MFRs, CSWR-Florida requested recovery of acquisition adjustments
2 associated with the acquisition of the Aquarina, North Peninsula, and Sunshine
3 Utilities systems. As we explain in great detail in the separate acquisition
4 adjustment dockets opened for these three systems,⁵ these acquisitions more than
5 meet the standards for granting acquisition adjustments under the Commission’s
6 revised acquisition adjustments rule. In each situation, the acquired system was
7 “non-viable” as a result of: (1) its failure to comply with federal, state, or local
8 regulations governing primary or secondary water quality or other health, safety,
9 or environmental standard or had a history of violations of such regulations or
10 standards, and (2) a record of insufficient investment, repair or maintenance of
11 assets or an inability to acquire and maintain adequate managerial, operational,
12 financial, or technical capabilities to ensure safe and reliable service to its
13 customer.⁶ In addition, and consistent with the Commission’s rule, both North
14 Peninsula and Aquarina were non-viable because each was insolvent.⁷

15 Additionally, each of these systems was acquired through an arm’s length
16 transaction in that CSWR-Florida was not affiliated in any manner with the
17 acquired company of its owners. Finally, consistent with the rule, the acquisition

⁵ Aquarina (Docket No. 20250043), North Peninsula (Docket No. 20250038), and Sunshine Utilities (Docket No. 20250047).

⁶ See, Direct Testimony of Jacob Freeman, Docket No. 20250052, filed May 30, 2025 (“Freeman Direct”), at pages 137-139 for a discussion of the history of compliance issues at Aquarina wastewater system; pages 152-153 for a discussion of the history of compliance issues at Aquarina water system; pages 7-11 for a discussion of the history of compliance issues at North Peninsula wastewater system; and pages 48-50 for a discussion of the history of compliance issues at the Sunshine Utilities water systems.

⁷ See, Direct Testimony of Josiah Cox, Docket No. 20250052, filed May 30, 2025 (“Cox Direct”), at page 24 for a discussion of the insolvent nature of Aquarina. See, Cox Direct, pages 23-24 for a discussion of the insolvent nature of North Peninsula.

1 of the non-viable company provides tangible benefits to the acquired entity's
2 customers.⁸

3 **Q. DOES THE COMPANY STILL PROPOSE TO INCLUDE THE**
4 **REVENUE REQUIREMENT EFFECTS OF THESE THREE**
5 **ACQUISITION ADJUSTMENTS IN THIS RATE CASE?**

6 A. Yes, if circumstances allow, meaning that acquisition adjustments have been
7 granted by the Commission in one or more of the three separate acquisition
8 adjustment dockets before a final order is issued in this rate case. As
9 demonstrated in its acquisition adjustment petitions, Aquarina, North Peninsula,
10 and Sunshine Utilities were each non-viable. The acquisition of those systems
11 has led to discernible benefits for the customers of those systems. These tangible
12 benefits are ubiquitous. Of greatest impact, customers have benefitted from the
13 availability of the Company's financial resources. As Mr. Freeman has
14 explained, CSWR-Florida has invested tremendously in each system to assess
15 the existing assets and make improvements to ensure that each system can
16 operate at its utmost. Moreover, as Mr. Thomas discusses, the Company has
17 also dedicated tremendous operational resources to ensure that the systems are
18 operated professionally.⁹ In addition, the Company has deployed a professional
19 Environmental, Health, and Safety staff to ensure that monitoring and
20 compliance tasks are performed in a timely fashion.¹⁰ Finally, as Mr. Silas

⁸ See, Freeman Direct, pages 139-142 for a discussion of the improvements made by CSWR-Florida at Aquarina wastewater; pages 153-158 for a discussion of the improvements made by CSWR-Florida at Aquarina water; pages 13-20 for a discussion of the improvements made by CSWR-Florida at North Peninsula wastewater; and pages 50-63 for a discussion of the improvements made by CSWR-Florida at the Sunshine water systems.

⁹ See, Thomas Direct, Docket No. 20250052, filed May 30, 2025 ("Thomas Direct"), pages 4-16.

¹⁰ *Id.* at pages 16-22.

1 discusses, the Company has also included these systems within its larger
2 umbrella of companies nationwide that allows the Company to achieve the
3 critical mass necessary to provide professional customer service and corporate
4 communications functions for its customers.¹¹ These three acquisitions
5 have produced unquestioned benefits to the Company's Florida customers.
6 Specifically, the rate effects of the revenue requirement in this case are mitigated
7 by the increased customer counts resulting from these acquisitions. It would
8 seem inequitable for these benefits to flow through rates in this case but then
9 deny the Company recovery of the very acquisition adjustments that produced
10 these benefits.

11 Thus, it is disappointing that the acquisition adjustment dockets could not
12 be processed in a more expeditious manner to give the Commission an
13 opportunity to consider the recovery of those adjustments in this rate case.

14 **Q. DOES OPC AGREE WITH THE COMPANY'S REQUEST TO**
15 **RECOVER THE AQUARINA, NORTH PENINSULA, AND SUNSHINE**
16 **UTILITIES ACQUISITION ADJUSTMENTS?**

17 A. No. In his testimony on behalf of OPC, Mr. Smith makes broadbrush claims,
18 without specific reference to the standards contained in the Commission's rule
19 or to any specific evidence, that CSWR-Florida has "failed to demonstrate the
20 circumstances necessary to support the inclusion of a positive acquisition
21 adjustment."¹² Mr. Smith continues to note, again without any regard to the

¹¹ See, Silas Direct, Docket No. 20250052, filed May 30, 2025 ("Silas Direct"), pages 3-12.

¹² Smith Direct, Docket No. 20250052, filed March 20, 2025 ("Smith Direct"), page 12.

1 standards contained in the Commission’s rule, that “the inclusion of those
2 positive acquisition adjustments in rate base would harm customers by
3 increasing the revenue requirement of CSWR Florida.”¹³ Finally, Mr. Smith
4 asserts that having ratepayers pay for those positive acquisition adjustments
5 would essentially require the customers to pay “duplicatively and excessively
6 for the same pre-acquisition utility plant as a result of the ownership change.”¹⁴

7 **Q. DID STAFF RECOMMEND RECOVERY OF THESE ACQUISITION**
8 **ADJUSTMENTS IN ITS AUDIT?**

9 A. No. In Audit Finding 6, Staff simply pointed out that “these acquisition
10 adjustments have not been approved by this Commission as of the date of this
11 audit report and should not be included in the respective rate base
12 calculations.”¹⁵

13 **Q. DO YOU AGREE WITH OPC’S ASSERTION THAT CSWR-FLORIDA**
14 **HAS “FAILED TO DEMONSTRATE THE CIRCUMSTANCES**
15 **NECESSARY TO SUPPORT THE INCLUSION OF A POSITIVE**
16 **ACQUISITION ADJUSTMENT”?**

17 A. No. As thoroughly presented by CSWR-Florida in the separate acquisition
18 adjustment dockets, each of the acquired companies were non-viable, acquired
19 through an arm’s length transaction, and because of the financial, technical, and
20 managerial resources that CSWR-Florida has dedicated to these non-viable

¹³ *Id.*

¹⁴ *Id.*

¹⁵ Mouring Direct, Docket No. 20250052, filed March 27, 2026, Exhibit CM-1, page 21 of 91.

1 systems, customers unquestionably benefit from the acquisitions. The
2 “circumstances necessary” are more than present.

3 **Q. DO YOU AGREE WITH MR. SMITH’S ASSERTION THAT “THE**
4 **INCLUSION OF THESE POSITIVE ACQUISITION ADJUSTMENTS**
5 **WOULD HARM RATEPAYERS BY INCREASING THE REVENUE**
6 **REQUIREMENT”?**

7 A. Absolutely not. OPC makes this assertion by taking an incomplete view of the
8 regulatory paradigm. It is often said that the purpose of regulation is to ensure
9 the provision of safe and adequate service at just and reasonable rates. Here,
10 OPC, like many other consumer advocates, neglects to ever consider the need
11 for safe and adequate service, and I would add reliable and environmentally
12 responsible service, and, instead, remains laser-focused on rates. Given the
13 assertion that the acquisition adjustment essentially requires “the customers to
14 pay duplicatively and excessively for the same pre-acquisition utility plant as a
15 result of the ownership change,” it is apparent that Mr. Smith never even
16 considers the operational benefits possible through an acquisition adjustment
17 and, instead, focuses entirely on the rates portion of the regulatory paradigm.

18 Contrary to Mr. Smith’s assertion, and because of the forethought
19 underlying its revised acquisition adjustment rule, the Commission has ensured
20 that ratepayers would not be “harmed” by the acquisition adjustment. The
21 Commission’s rule specifically looks to whether “customers from the acquired
22 utility will benefit from the acquisition.” Customers must be found to benefit
23 from the acquisition for the Commission to grant an acquisition adjustment.

1 **Q. DO YOU AGREE WITH MR. SMITH’S ASSERTION THAT AN**
2 **ACQUISITION ADJUSTMENT REQUIRES “CUSTOMERS TO PAY**
3 **DUPLICATIVELY AND EXCESSIVELY FOR THE SAME PRE-**
4 **ACQUISITION UTILITY PLANT AS A RESULT OF THE OWNERSHIP**
5 **CHANGE”?**

6 A. No. Owners of small water and wastewater systems typically refuse to sell for
7 net book value. This refusal is typically premised on two perceptions. ***First***, the
8 owner of the small, distressed system may perceive that a system provides an
9 opportunity for increased revenue and profits over and above what the utility
10 currently receives. This would particularly be the case for a system that may be
11 capable of organic growth. Therefore, the current owner perceives that future
12 revenues justify a sales price in excess of net book value.

13 ***Second***, in many situations, the owner of the small, distressed system is
14 also the primary operator. When established, rates will “typically include not
15 only a return on invested capital but also recovery of operating expenses.
16 Operating expenses include salaries of employees that operate the systems, but
17 also those that handle billing, regulatory, bookkeeping and management
18 functions. Therefore, an owner that is also an employee responsible for
19 operations, billing, and other functions may also receive recovery in rates a
20 salary for all those activities.”¹⁶ Oftentimes then, the sale price not only includes
21 the net book value of the assets, but also the owner’s perceived growth in
22 revenues, and the loss of the income stream as the primary operator of the

¹⁶ *Id.*

1 system. “As such, a premium above net book value must be paid to incentivize
2 the owner to sell the small, distressed water or wastewater system. Given this
3 reality, it would be inequitable to expect an acquiring company to pay this
4 premium to acquire the system but then disallow it in the calculation of post-
5 acquisition rates.”¹⁷

6 **Q. DID MR. SMITH PROVIDE ANY POLICY SUPPORT FOR HIS VIEW**
7 **OF ACQUISITION ADJUSTMENTS?**

8 A. No. Mr. Smith simply states that his disallowance is “based upon [his]
9 experience as an accountant addressing issues of acquisition adjustments.”¹⁸

10 **Q. HAVE YOU PROVIDED POLICY SUPPORT FOR THE COMPANY’S**
11 **REQUEST TO RECOVER THESE THREE ACQUISITION**
12 **ADJUSTMENTS?**

13 A. Yes. CSWR-Florida has provided voluminous documentation, in both the
14 acquisition cases and in this rate case, justifying recovery of the requested
15 acquisition adjustments. For example, in my Direct Testimony in this case I
16 pointed out that various utility regulatory groups “have recognized the need to
17 encourage the acquisition of small water systems by larger, better managed and
18 well capitalized water companies. Oftentimes, this has focused on the need to
19 allow recovery of some acquisition price above net book value.”¹⁹

20 For instance, the National Regulatory Research Institute has pointed out
21 that, in regards to the owners of small, distressed water and wastewater systems,

¹⁷ *Id.*

¹⁸ *Smith Direct*, page 12.

¹⁹ *Cox Direct*, page 14.

1 “[s]ometimes the best option is to get the existing owner / operator out of the
2 water business, using whatever means are available under the commission’s
3 authority.”²⁰ The report then concludes that one of the best “means” available
4 under a commission’s authority is the recovery of an acquisition adjustment.

5 Moreover, dispelling Mr. Smith’s assertions, the report then posits that,
6 “over the long-term, as consolidation occurs, fixed costs and associated rates if
7 the acquiring system decline on a unit basis as they are spread over a larger
8 customer base.”²¹

9 The policy views of the National Regulatory Research Institute have
10 taken hold in numerous states. As my Direct Testimony indicates, just among
11 the states in which CSWR operates, policies for the recovery of acquisition
12 adjustments have been implemented by Florida, Texas, and Tennessee.

13 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

14 **A. Yes.**

²⁰ *The Small Water Company Dilemma: Processes and Techniques for Elective Regulation*, published October 2011, at page 16.

²¹ *Id.*

1 THE WITNESS: All right. Afternoon,
2 Commission. I appreciate another opportunity to be
3 up here.

4 So I submitted my rebuttal testimony to
5 address two points. First, I thought -- I sought
6 to address customer issues raised during the
7 service hearings. Second, I respond to OPC on the
8 issue of acquisition adjustments.

9 I personally attended three of the in-person
10 customer hearings because I believe it's important
11 to listen to our customers. While I understand
12 their frustration, especially around proposed rate
13 increases, the number of comments is relatively
14 small compared to our total customer base. Only 43
15 different households wrote in, and approximately 25
16 people showed up to those hearings, compared to
17 about 20,000 households, or 60,000 people this case
18 represents.

19 That said, however, the customer comments
20 regarding both quality of service and the magnitude
21 of rate increases were expected. From a quality of
22 service standpoint, most of the systems acquired
23 were severely under-maintained and out of
24 compliance for years, sometimes decades. The
25 systems that had been deprived of maintenance and

1 any capital investment. That lack of investment
2 inevitably leads to the deteriorated
3 infrastructure, regulatory violations and poor
4 service. Thus, the customers of these systems had
5 been subjected to horrible utility service and
6 interior customer service. Therefore, while the
7 complaints were primarily the result of a legacy
8 back of lack of attention, the customers were
9 understandably going to complain once given a
10 chance.

11 From a rate standpoint, many of these systems
12 had not had a rate increase in decades. There is
13 also -- this is also indicative of ownership that
14 is not attentive to the operation and maintenance
15 needs of the systems.

16 When rates are 30 years old, they are not
17 reflective of current costs of chemicals,
18 electricity, labor and taxes. Thus, CSWR acquired
19 these systems to start providing professional
20 operations, began to invest in the systems' assets.
21 The inevitable rate increase is going to look much
22 larger than if the previous owner had maintained
23 the rates reflective of current costs.

24 In any case, whether from a quality of service
25 or rate increase standpoint, the complaints are

1 misdirected at CSWR and should more properly be
2 focused to previous owners.

3 Turning to OPC's positions, I firmly disagree
4 with OPC's view in acquisition adjustments. These
5 adjustments reflect a premium paid to acquire
6 failing systems. That is a price that was
7 necessary to remove inattentive owners, failing
8 owners from the water and sewer business in
9 Florida.

10 Given they are accustomed -- given that these
11 adjustments are accompanied by improvements in
12 service, they should be recoverable. In our case,
13 the systems acquired by CSWR were clearly
14 nonviable, were purchased at arm's-length and have
15 already seen substantial improvements due to the
16 company's investment and operational expertise to
17 date.

18 OPC focuses exclusively on keeping rates low
19 while entirely ignoring the equally important goal
20 of providing safe, reliable and environmentally in
21 compliance service. OPC offers no independent
22 solution for fixing the distressed water systems.
23 Their only goal is to punishing the company that
24 not -- that does offer, the only company offers
25 hope for this problem.

1 Additionally, the claim that acquisition
2 adjustments forces customers to, quote, pay twice,
3 misunderstands how these transactions work.
4 Distressed system owners will not sell at book
5 value. A premium is often necessary to incentivize
6 the sale and transition these systems to a capable
7 operator. Denying recovery of that premium only
8 discourages the consolidation that regulators and
9 policy experts agree is needed.

10 OPC's argument assumes that customers receive
11 no added value from acquisitions, which isn't
12 incorrect. The company's acquisitions fall by
13 significant investments, bring modern
14 infrastructure, regulatory compliance and
15 professional operations, benefits customers would
16 not have had absent the acquisition adjustment.
17 Simply, private entities won't purchase these
18 systems if they are not allowed to recover an
19 unavoidable acquisition adjustment.

20 In closing, despite OPC's single-minded focus,
21 I want to stress that this case is not just about
22 rates. It's about fixing long neglected systems
23 and delivering safe and reliable service. While my
24 company strives to maintain affordable rates and to
25 avoid any customer complaints, I believe that as

1 even more improvements become visible and service
2 quality continually increases, customers see the
3 value of these investments.

4 MR. WOODSMALL: Thank you, Madam Chair,
5 CSWR-Florida tenders Mr. Cox for cross-examination
6 on his rebuttal testimony.

7 CHAIRMAN SMITH: Okay. OPC, you are
8 recognized for cross.

9 MR. WATROUS: Thank you, Madam Chair, and the
10 Office of Public Counsel has no questions for Mr.
11 Cox.

12 CHAIRMAN SMITH: Okay. Staff?

13 MS. CRAWFORD: Staff has no questions. Thank
14 you.

15 CHAIRMAN SMITH: Commissioners, any questions
16 on Mr. Cox's rebuttal? None.

17 Okay. So I am going to assume no redirect
18 there?

19 MR. WOODSMALL: I have plenty, but --

20 CHAIRMAN SMITH: You do have redirect?

21 MR. WOODSMALL: No.

22 CHAIRMAN SMITH: Oh, I was, like, I don't
23 think so.

24 MR. WOODSMALL: And we have no exhibits to
25 offer.

1 CHAIRMAN SMITH: Yes. Right.

2 Okay. So Mr. Cox, you are excused for good
3 now.

4 THE WITNESS: Thank you.

5 (Witness excused.)

6 MR. WOODSMALL: We would call our last
7 witness, and that is Mr. Thies on his rebuttal
8 testimony.

9 Whereupon,

10 BRENT THIES

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

14 MR. WOODSMALL: Your Honor, I am -- Mr. Thies
15 has been sworn. He has made his corrections. I am
16 tendering him for cross-examination on his rebuttal
17 and the supplemental rebuttal that was accepted by
18 the Commission.

19 (Whereupon, prefiled rebuttal testimony of
20 Brent Thies was inserted.)

21

22

23

24

25

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

REBUTTAL TESTIMONY OF

BRENT THIES

on behalf of

CSWR-Florida Utility Operating Company, LLC

April 17, 2026

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

5 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS CASE?

6 A. Yes. I have previously presented direct testimony on behalf of CSWR-Florida Utility
7 Operating Company, LLC. (“CSWR-Florida” or “Company”).

8 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

9 A. The purpose of my rebuttal testimony is to respond to the direct testimony of Public
10 Service Commission Staff (“Staff”) witness Curt Mouring regarding Staff’s Audit.
11 Additionally, I will respond to three of the recommendations contained in the direct
12 testimony of the Florida Office of Public Counsel (“OPC”) witness Ralph Smith.,
13 regarding return on equity, Net Operating Losses (NOL) and a disallowance of
14 American Water Works Association (AWWA) and National Association of Water
15 Companies (NAWC) membership dues.

16
17 II. STAFF’S AUDIT FINDINGS

18 Q. PLEASE EXPLAIN STAFF’S AUDIT FINDING NO. 1.

19 A. In its audit, Staff conducted a testing of plant additions made by the Company between
20 January 31, 2022, and January 31, 2023. In this finding, Staff noted some discrepancies
21 in Accounts 331 and 360 for the North Peninsula, Neighborhood, and Rolling Oaks
22 systems related to several invoices. As a result, Staff recommends a total increase to
23 plant balances of \$4,796.

24 Q. WHAT ARE YOUR COMMENTS REGARDING STAFF’S AUDIT FINDING
25 NO. 1?

1 A. I agree with Audit Finding No. 1.

2 **Q. PLEASE EXPLAIN STAFF'S AUDIT FINDING NO. 2.**

3 A. In its audit, Staff reviewed the plant retirements made by the Company at its various
4 systems. In this finding, Staff noted that the Company failed to reduce retirements for
5 the proscribed net salvage value for the various accounts. Given this, Staff
6 recommended a total plant reduction of \$65,857.

7 **Q. WHAT ARE YOUR COMMENTS REGARDING STAFF'S AUDIT FINDING**
8 **NO. 2?**

9 A. I agree with Audit Finding No. 2.

10 **Q. PLEASE EXPLAIN STAFF'S AUDIT FINDING NO. 3.**

11 A. In its audit, Staff compared the values that the Company assigned to land and land
12 rights to the Commission decisions in the various acquisition orders. Specifically, this
13 finding recommends: (1) an increase of \$33,672 to land and land rights accounts for
14 the Tymber Creek, Rolling Oaks, and Sebring Ridge systems and (2) a reduction of
15 \$32,768 for the Ponderosa Pines and Quail Run systems of the Sunshine Utilities
16 acquisition.

17 **Q. WHAT ARE YOUR COMMENTS REGARDING STAFF'S AUDIT FINDING**
18 **NO. 3?**

19 A. While I agree with Staff's finding regarding the Tymber Creek, Rolling Oaks, and
20 Sebring Ridge systems, I disagree with its finding regarding land and land rights values
21 for the Ponderosa Pines, and Quail Run systems of the Sunshine Utilities acquisition.

22 **Q. WHY DO YOU DISAGREE WITH STAFF'S AUDIT FINDING REGARDING**
23 **THE LAND VALUES OF THE PONDEROSA PINES AND QUAIL RUN**
24 **SYSTEMS?**

1 A. In its acquisition decision for the Sunshine utilities transaction, the Commission did not
2 break down land and land rights values between the individual Sunshine systems.
3 Based on that decision, the Company recorded a total value of \$173,304 for the
4 Sunshine transaction.¹ The Company then split this amount among the 23 service areas
5 acquired in the Sunshine acquisition. Recognizing that these costs were associated with
6 land and land rights for the Ponderosa Pines and Qual Run systems and are consistent
7 with the values recognized in the Commission's acquisition decision, the Commission
8 should reject Audit Finding No. 3.

9 **Q. PLEASE EXPLAIN STAFF'S AUDIT FINDING NO. 4.**

10 A. In Audit Finding No. 4, Staff claims that the Company "did not appropriately record
11 certain water and wastewater additions as Contributions in Aid of Construction
12 ("CIAC")" and suggests that CIAC balances should be increased \$3,375,771. This
13 increase in CIAC serves to decrease the rate base upon which the Company is permitted
14 to earn its authorized rate of return. As discussed below, Audit Finding No. 4 is in
15 error.

16 **Q. WHAT ARE YOUR COMMENTS REGARDING STAFF'S AUDIT FINDING**
17 **NO. 4?**

18 A. The Company has reviewed the workpapers underlying Staff Audit Finding No.
19 4. The Company believes that the discrepancy between the Company's
20 calculation of the CIAC balance and the Staff's calculation is due to two errors
21 in Staff's calculation. First, in Table 4-1 (Ending Balances Variances of CIAC
22 – Water), Staff has transposed the third (Ending Balance as of 01/31/2025 per
23 MFR) and fourth column (Variance). This has the effect of inflating the CIAC

¹ This includes \$80,777 of Commission approved land value, \$73,143 of closing costs, and costs of \$19,384 associated with obtaining two easements.

1 balance. Accounting for just this error, Staff's Table 4-1 should be restated as
2 follows:

Table 4-1 Ending Balances Variances of CIAC – Water

Company	Ending Balance as of 01/31/2025 per Audit	Ending Balance as of 01/31/2025 per MFR	Variance
Aquarina Utilities	\$549,950	421,159	128,791
Neighborhood Utilities	\$308,102	269,576	38,526
Rolling Oaks Utilities	\$2,632,351	2,315,859	316,492

3
4 Staff's calculation of CIAC balances had an additional error. During the test
5 year, the Company mistakenly entered a CIAC debit for several utilities. At the end of
6 the month review, the Company realized its error and entered a correcting credit. In its
7 audit, Staff picked up the initial CIAC debit but failed to recognize the correcting credit
8 for that month. The recognition of this correcting amount would eliminate the
9 discrepancy between the Staff and Company's CIAC balance and should be
10 recognized.

11 The Company has had an ongoing dialogue with the Staff regarding these errors
12 in its CIAC calculation. It is my understanding that, on April 14, Staff filed its memo
13 revising Audit Finding 4. As a result of this revision, Staff's CIAC adjustment has
14 been changed to a reduction in CIAC of \$22,811. Given this revision, CSWR-Florida
15 agrees with Staff's revised Audit Finding 4.

16 **Q. PLEASE EXPLAIN STAFF'S AUDIT FINDING NO. 5.**

17 A. At the time that it filed this rate case, the Company asked that its various systems be
18 consolidated. That consolidation would result in a single Class A utility. CSWR-
19 Florida then applied the Commission prescribed depreciation rates for Class A water
20 and wastewater utilities to the rate base for these systems. However, prior to

1 consolidation, many of the systems (BFF, CFAT, Neighborhood, Sebring Ridge,
2 TKCB, and Tymber Creek) were more appropriately classified as Class C utilities on a
3 stand-alone basis. Recognizing that the Class C depreciation rates recommended by
4 Staff to calculate depreciation expense are higher than those for Class A utilities, the
5 Company's depreciation expense using Class A depreciation rates was too low. For
6 this reason, Staff applied the depreciation rates for Class C utilities to these systems
7 and recommended an increase of \$21,520 in depreciation expense.

8 **Q. WHAT ARE YOUR COMMENTS REGARDING STAFF'S AUDIT FINDING**
9 **NO. 5?**

10 A. I agree with the classification of these utilities as Class C based on their history as well
11 as the consequent increase to depreciation expense in Audit Finding No. 5. However,
12 the Company requests that each of the systems owned by CSWR-Florida be treated as
13 part of a consolidated whole which would then qualify as a Class A utility, and that the
14 depreciation rates going forward be based on a consolidated Class A utility.

15 **Q. PLEASE EXPLAIN STAFF'S AUDIT FINDING NO. 7.**

16 A. In its rate case filing, the Company utilized the balance sheet method for calculating
17 working capital. In its audit report, however, Staff pointed out that Class C utilities
18 generally use the 1/8 of Operation and Maintenance expenses for calculating working
19 capital. For this reason, the Staff made findings regarding the calculation of working
20 capital for the Company's systems. In total, the Staff's Audit Finding serves to increase
21 the working capital portion of rate base by \$42,624.

22 **Q. WHAT ARE YOUR COMMENTS REGARDING STAFF'S AUDIT FINDING**
23 **NO. 7?**

24 A. I agree with Audit Finding No. 7.

25 **Q. PLEASE EXPLAIN STAFF'S AUDIT FINDING NO. 8.**

1 A. In Audit Finding No. 8, Staff recommended a reduction in common equity of \$9,538
2 associated with a related-party credit agreement. This results in a capital structure that
3 is slightly more leveraged with a lower amount of common equity. Additionally, the
4 Staff noted that the Company had recommended a return on equity of 8.77%. Staff
5 pointed out that this differs from the return on equity authorized by the current leverage
6 formula approved by the Commission in Order No. PSC-2025-0213-PAA-WS.

7 **Q. WHAT ARE YOUR COMMENTS REGARDING STAFF'S AUDIT FINDING**
8 **NO. 8?**

9 A. I agree with Audit Finding No. 8. At the time that it filed this case, the Commission's
10 leverage formula dictated a return on equity of 8.77%. During the pendency of this
11 case, however, the Commission issued Order No. PSC-2025-0213-PAA-WS which
12 reduced the authorized return on equity for utilities with the Company's capital
13 structure. The Company does not object to utilizing the updated return on equity.

14 **Q. PLEASE EXPLAIN STAFF'S AUDIT FINDING NO. 9.**

15 A. In its audit, Staff sought to replicate the Company's calculation of operating revenues.
16 While Staff recommends significant reductions in its operating revenue calculation,
17 Staff has not provided any workpapers to support the calculation. Nevertheless Staff
18 recommends a reduction in operating revenues of \$1,403,815.

19 **Q. WHAT ARE YOUR COMMENTS REGARDING STAFF'S AUDIT FINDING**
20 **NO. 9?**

21 A. As indicated, given the lack of workpapers supporting Staff's calculation of operating
22 revenues, the Company has been unable to determine the appropriateness of any of
23 Staff's reductions in operating revenues for any of the Company systems. Given Staff's
24 failure to provide support for its adjustment, the Company must disagree with the Audit
25 Finding No. 9. Nevertheless, the Company points out that Staff's reduction in

1 operating revenues would only serve to decrease net operating income by \$1.4 million
2 which would increase the revenue deficiency by \$1.4 million. In the interest of
3 narrowing the issues for Commission decision, the Company will continue to support
4 the amount of operating revenues in its general ledger and forego any additional
5 revenue increase that would result from Staff's reduction in operating revenues.

6 **Q. PLEASE EXPLAIN STAFF'S AUDIT FINDING NO. 10.**

7 A. In its audit, Staff reviewed the operation and maintenance expenses for each of the
8 Company's systems. Ultimately, across all these systems, the Staff recommended a
9 total increase of \$7,901.

10 **Q. WHAT ARE YOUR COMMENTS REGARDING STAFF'S AUDIT FINDING**
11 **NO. 10?**

12 A. I agree with Audit Finding No. 10.

13 **Q. PLEASE EXPLAIN STAFF'S AUDIT FINDING NO. 11.**

14 A. Audit Finding No. 11 concerns Staff's calculation of Taxes Other Than Income Taxes.
15 There, Staff seeks to reduce the amount of Regulatory Assessment Fees ("RAF") by
16 \$44,231. Additionally, Staff seeks to reduce the amount of Property Taxes included in
17 the revenue requirement calculation by \$3,161.

18 **Q. WHAT ARE YOUR COMMENTS REGARDING STAFF'S AUDIT FINDING**
19 **NO. 11?**

20 A. The Company accepts Staff's adjustment in Audit Finding No. 11.

21

22

III. OPC ADJUSTMENTS

1
2 **Q. OPC WITNESS SMITH RECOMMENDS AN ADJUSTMENT TO THE**
3 **RETURN ON EQUITY. DO YOU AGREE WITH HIS ADJUSTMENT?**

4 A. Yes. As mentioned regarding Staff's Audit Finding No. 8, the Company filed its rate
5 case at the time that the 2024 return on equity was still in effect. During the pendency
6 of this case, the Commission issued its 2025 Leverage Graph Order which reduced the
7 return on equity that would be applicable to the Company. Given that change, the
8 Company accepts Mr. Smith's return on equity adjustment.

9 **Q. PLEASE EXPLAIN OPC'S ADJUSTMENT REGARDING THE ALLOWANCE**
10 **FOR INCOME TAXES.**

11 A. At pages 19-29 of his testimony, Mr. Smith recommends reducing the income tax
12 allowance in this case to account for past net operating losses ("NOLs").

13 **Q. HOW DID THE COMPANY CALCULATE INCOME TAXES?**

14 A. As Mr. Smith recognizes,

15 For many, but not all of the utilities, CSWR calculated income taxes by
16 multiplying rate base by the Company's proposed weighted cost of
17 common equity to derive state taxable income before state tax
18 exemptions. After applying the state tax exemptions, the Company
19 computed state income tax expenses by multiplying state taxable
20 income by the state income tax rate of 5.50%. After subtracting state
21 income taxes from taxable income, the Company apply[sic] the 21%
22 federal corporate income tax rate to its computed amount of federal
23 taxable income to derive its requested federal income tax expense
24 amount.²

25 **Q. DOES MR. SMITH RECOMMEND THAT INCOME TAXES BE**
26 **CALCULATED IN THE SAME MANNER?**

27 A. No.

28 **Q. HOW DOES MR. SMITH CALCULATE INCOME TAXES?**

² Smith Direct, Docket No. 20250052-WS, filed March 20, 2026, at page 19.

1 A. At pages 21-26, Mr. Smith points out that the Company has incurred past net operating
2 losses associated with its operation of the acquired systems in Florida. Without
3 considering that shareholders were solely responsible for funding the operations of
4 these systems during the period in which these net operating losses were incurred, Mr.
5 Smith then seeks to utilize these net operating losses as a deduction to lower the
6 calculated income taxes included in rates in this case.

7 Since its formation, the Company has had income tax net operating
8 losses ("NOL"). CSWR Florida has basically reported losses both for
9 book accounting purposes and for income tax purposes since its
10 inception and continuing through the test year. Also, it appears that
11 CSWR Florida's parent company, CSWR, LLC, has not been reflecting
12 a profit.³

13
14 Mr. Smith goes on to recognize that the Internal Revenue Code allows a Company to
15 use 80% of past net operating losses to offset taxable income.

16 At one point, 100% of a company's NOL carryforward amounts could
17 be used to offset taxable income. However, the current income tax rules
18 allow for only offsetting taxable income by 80% of recently generated
19 NOLs and the related NOL carryforwards.⁴

20
21 Again, without considering that shareholders solely supplied the operating capital
22 necessary to operate the utility during the period in which these net operating losses
23 were incurred, Mr. Smith seeks to appropriate these shareholder-funded net operating
24 losses for the benefit of customers.

25 For purposes of the current CSWR Florida rate case, all NOL CFs are
26 presumed for ease of calculation to be generated after tax year 2018 and
27 are subject to the 80% limitation. As shown on Exhibit RCS-3, Schedule
28 A-1, page 2, for Aquarina Water, on lines 5a and 8a, the calculated
29 amounts of state taxable income and federal taxable income are offset by
30 80% to reflect the application of the Company's state and federal income
31 tax NOL carryforward position. In other words, calculated state and
32 federal taxable income before application of the NOL carryforwards is
33 each reduced by 80% pursuant to the guidance noted above for applying
34 NOLs to state and federal taxable income.⁵

³ *Id.*, at pages 21-22.

⁴ *Id.*, at page 24.

⁵ *Id.*, at pages 25-26.

1 **Q. HOW WERE THE NET OPERATING LOSSES CREATED?**

2 A. As the Commission understands, at the time that it acquired its various Florida systems,
3 CSWR-Florida adopted the rates that were then in effect for the acquired utility. As
4 Mr. Cox previously testified:

5 [T]he systems CSWR Florida acquired were typically poorly managed
6 and the previous owners lacked the technical, managerial, and
7 financial ability to make the necessary capital investments to ensure
8 regulatory compliance and provide safe, efficient, and reliable service
9 to customers. Moreover, most of the previous owners failed to seek
10 timely rate increases necessary to properly operate and maintain the
11 systems. As a result, at the time of acquisition many of these systems
12 were losing money, which means the rates the Company adopted when
13 it acquired these systems - i.e., rates in effect at closing - were not fully
14 compensatory even under the cost and investment structures
15 previously in place. The additional costs CSWR Florida has and
16 continues to incur to upgrade and improve the systems and operate
17 them in a manner that ensures customers receive safe and reliable
18 service that complies with all applicable health, safety, and
19 environmental regulations have significantly increased operating
20 losses.⁶

21
22 Effectively then, ratepayers have already benefited from having CSWR Florida
23 provide a more professional level of service at rates that were not fully compensatory.
24 After receiving the benefits of such deflated rates, OPC now seeks to have the
25 ratepayers benefit from lower rates in the future resulting from the net operating losses
26 previously incurred. It is inequitable for the ratepayers to benefit in the future from the
27 net operating losses that resulted from that previous underpriced service.

28 **Q. DO YOU AGREE WITH MR. SMITH'S RECOGNITION OF NET**
29 **OPERATING LOSSES IN THE CALCULATION OF INCOME TAXES?**

30 A. No. As I mentioned, Mr. Smith's argument fails in at least two ways. First, his
31 methodology represents a significant departure from the normal methodology used to

⁶ Cox Direct, Docket No. 20250052-WS, filed May 30, 2026, at page 10-11. The outdated and non-compensatory nature of the adopted rates were exemplified by the fact that some systems had not had a rate increase (other than the small price index increases) in decades. For instance, Sebring Ridge had not had an increase since 1995. Additionally, Tymber Creek, CFAT H2O, and Tradewinds had not had rate increases since 2010.

1 calculate income taxes in the state of Florida. CSWR-Florida is not asking the
2 Commission for a special handling of income taxes but instead seeks the same
3 treatment as other utilities have received.

4 Second, and as described above, the OPC position seeks to take away the benefit
5 of the shareholder's investment in CSWR-Florida. This is done by not allowing
6 shareholders to recognize a potential future benefit of net operating loss carryforward
7 for tax purposes. I emphasize "potential" future benefit because shareholders are not
8 guaranteed a profit but rather the opportunity to earn a profit. OPC's position fails to
9 recognize that shareholders provided the funds needed to cover operating costs that
10 were significantly higher than the operating revenues.

11 **Q. HAVE ANY STATE UTILITY COMMISSIONS AGREED WITH YOUR**
12 **LOGIC?**

13 A. Yes. In 2023, the Missouri Public Service Commission issued its decision finding that
14 it was inappropriate to recognize past net operating losses in the calculation of income
15 taxes included in future rates.⁷

16 The Commission finds that setting an income tax expense without
17 consideration of Confluence Rivers' net operating loss carryforward
18 balance is appropriate in this circumstance. Income tax expense, a
19 hypothetical construct used in ratemaking, is the result of multiplying
20 the rate base by the Commission authorized rate of return and then the
21 statutory tax rate. This provides the utility recovery of the income tax
22 expense associated with its authorized return on its investment.

23
24 Confluence Rivers has purchased many water and sewer utilities in
25 Missouri while leaving the existing utility rates in place. Some utility
26 systems purchased by Confluence Rivers have not had rate increases for
27 many years. Confluence Rivers has made capital improvements through
28 investments and has maintained the utility system operations while
29 actual costs have exceeded revenues generated by the existing rates.

30
31 Rate cases allow for recovery of earnings on plant investments and the
32 current costs to provide services through utility rates. Theoretically,

⁷ Report and Order, Case No. WR-2023-0006, issued October 25, 2023.

1 only earnings create taxable income because rates provide recovery of
2 all expenses. Revenues less expenses equals taxable income. When
3 there is no taxable income there are no earnings. When expenses exceed
4 revenues, net operating losses are recognized equal to the excess
5 expense amount. The existence of net operating losses indicates that
6 Confluence Rivers has paid for expenses it did not recover from
7 customer revenues.⁸
8

9 **Q. WHAT IS YOUR RECOMMENDATION REGARDING OPC'S**
10 **ADJUSTMENT REGARDING INCOME TAXES?**

11 A. I recommend that the Commission recognize the inequitable nature of allowing
12 customers to benefit in the past from improved utility service at deflated rates and to
13 again benefit from depressed future rates resulting from those past net operating losses.
14 Instead, the Commission should continue to calculate income tax for ratemaking
15 purposes by multiplying rate base by the Company's proposed weighted cost of
16 common equity and then multiplying by the 21% federal corporate income tax rate.

17 **Q. PLEASE EXPLAIN OPC'S ADJUSTMENT REGARDING AWWA AND**
18 **NAWC MEMBERSHIP DUES?**

19 A. At pages 30-32 of his testimony, OPC Witness Smith recommends that the Commission
20 disallow a portion of the Company's industry association dues for the American Water
21 Works Association ("AWWA") and National Association of Water Companies
22 ("NAWC") on the basis that this portion constitutes a lobbying expense that is typically
23 disallowed by the Commission. On this basis, Mr. Smith recommends that the
24 Commission disallow, as lobbying costs, \$103 of the AWWA and \$5,502 of the NAWC
25 dues.

26 **Q. DO YOU AGREE WITH MR. SMITH'S DISALLOWANCE OF A PORTION**
27 **OF AWWA AND NAWC DUES?**

⁸ *Id.* at pages 16-19.

1 A. No. Mr. Smith blindly disallows a portion of AWWA and NAWC dues without any
 2 consideration of whether those dues provide a benefit to ratepayers. A quick review of
 3 the AWWA and NAWC webpages demonstrates that both organizations lobby on
 4 matters that are beneficial to ratepayers.

5 As its website depicts, the NAWC members “collaborate, share best practices
 6 and leverage their strengths to benefit the communities they serve.”⁹ With this in mind,
 7 the NAWC recently published a white paper that “serves as a practical guide for
 8 municipal, local government and utility leaders to fund, modernize and secure
 9 America’s water systems for the long term.”¹⁰ Additionally, in conjunction with
 10 Bluefield Research, the NAWC published a report detailing “the significant workforce
 11 issues facing the U.S. water industry and highlights the creative, effective strategies
 12 being implemented to solve them.”¹¹

13 On the legislative front, the NAWC lobbied Congress to permanently fund the
 14 Low-Income Household Water Assistance Program (“LIHWAP”). As referenced in
 15 the NAWC press release:

16 The LIHWAP Establishment Act would provide dedicated support for
 17 water, recognizing that access to running water is essential for public
 18 health and for citizens to remain in their homes. The bill would deliver
 19 funds through states directly to water and wastewater utilities to
 20 subsidize bills for households in need. Congress created LIHWAP to
 21 assist customers struggling to pay their water bills. As the first federal
 22 program to exclusively assist low-income families with their water and
 23 wastewater bills, LIHWAP helped more than 1.7 million households
 24 across the country maintain or restore water service.¹²
 25

⁹ [Association of Regulated Water Companies - NAWC](#)

¹⁰ [New white paper from Veolia and NAWC defines economic imperative to improve America’s water infrastructure - National Association of Water Companies \(NAWC\)](#)

¹¹ [New Report: National Association of Water Companies and Bluefield Research Detail Workforce Challenges and Innovative Solutions in Water Utility Sector - National Association of Water Companies \(NAWC\)](#)

¹² [NAWC Applauds Bipartisan Introduction of the LIHWAP Establishment Act - National Association of Water Companies \(NAWC\)](#)

1 Similarly, the AWWA provides benefits to customers through its educational and
2 lobbying efforts. As with the NAWC, the AWWA lobbied Congress to permanently
3 fund low-income water assistance. As described in AWWA press releases:

4 In collaboration with a coalition of leading drinking water and
5 wastewater sector organizations, AWWA has prioritized low-income
6 water assistance for several years, including this year at the
7 Association's annual Fly-In.

8
9 Sponsored by U.S. Reps. Eric Sorensen (D-IL), Lori Chavez-DeRemer
10 (R-OR), Kim Schrier (D-Wash.), and Jenniffer Gonzalez-Colon,
11 the *Low-Income Household Water Assistance Program Establishment*
12 *Act* (H.R. 8032) is a companion bill to Senate legislation introduced by
13 Sen. Alex Padilla (D-CA) earlier this year. Both proposals would
14 permanently authorize the Department of Health and Human Services'
15 Low-Income Household Water Assistance Program (LIHWAP),
16 established by Congress in 2020 to promote public health by easing the
17 burden on families struggling to afford their monthly water bills.

18
19 Since that time, LIHWAP has proven to be a critical lifeline, allowing
20 more than 1.6 million households across 49 states and numerous tribes
21 and territories to maintain water and wastewater services in the face of
22 economic hardship.

23
24 Unfortunately, the temporary program expired at the end of 2023,
25 leaving low-income families nationwide at risk of losing access to
26 essential water services. This legislation would also support
27 communities as they invest in critical drinking water and wastewater
28 infrastructure upgrades by ensuring ratepayer affordability over time.

29
30 "For two years, LIHWAP has served as a lifeline for customers
31 struggling to keep up with their water bills," said Tracy Mehan,
32 executive director of the American Water Works Association's
33 Government Affairs Office. "We are pleased that Reps. Sorensen and
34 Chavez-DeRemer have joined Sen. Padilla in the next phase of moving
35 this key legislation forward. Authorizing a permanent low-income
36 assistance program is an important step towards assuring that all
37 households have access to safe and reliable water service."¹³

38
39 **Q. DO YOU BELIEVE THAT CSWR-FLORIDA RATEPAYERS BENEFIT FROM**
40 **THE NAWC AND AWWA LOBBYING EFFORTS SUPPORTED BY THE**
41 **COMPANY?**

¹³ [New bipartisan legislation continues Low-Income Household Water Assistance Program - American Water Works Association](#)

1 A. Yes. As demonstrated, both the NAWC and AWWA have been on the front line in
 2 supporting the establishment of permanent LIHWAP funding. Recognizing that this
 3 legislation would allow low-income customers to continue to receive water services, it
 4 is beneficial to customers. In fact, the best indication of the beneficial nature of such
 5 legislation is found in the fact that the National Association of Regulatory Utility
 6 Commissioners (“NARUC”), an organization supported by the Florida Commission,
 7 supported the same legislation.¹⁴

8 The National Association of Regulatory Utility Commissioners is
 9 asking Congress to continue protecting the needs of vulnerable
 10 communities through the Low Income Household Water Assistance
 11 Program. Known as LIHWAP, the program provides vital assistance to
 12 low-income families to ensure access to affordable water utility services
 13 and is set to expire this year.

14
 15 “Access to clean and safe drinking water is essential for every person’s
 16 daily living, sanitation and ability to function in the economy. The lack
 17 of running water makes a dwelling uninhabitable; therefore, any lapse
 18 in LIHWAP funding is a serious problem,” said NARUC President
 19 Michael Caron, of the Connecticut Public Utilities Regulatory
 20 Authority. “There is no question that any interruption in funding will
 21 cause Americans to suffer.”¹⁵

22
 23 **Q. WHAT IS YOUR POSITION WITH REGARDS TO OPC’S ADJUSTMENT TO**
 24 **DISALLOW A PORTION OF AWWA AND NAWC MEMBERSHIP DUES?**

25 A. As I have shown, Florida ratepayers benefit from CSWR-Florida’s support for AWWA
 26 and NAWC’s lobbying efforts encouraging the funding of LIHWAP. The beneficial
 27 nature of such efforts is demonstrated by the fact that NARUC, an entity supported by

¹⁴ NARUC was created “to serve the public interest by improving the quality and effectiveness of public utility regulation. NARUC is the national association representing the state public service commissioners who regulate essential utility services in your state. NARUC members are responsible for assuring reliable utility service at fair, just, and reasonable rates.” [Home - NARUC](#) “NARUC's members include all 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands.” [History & Background - NARUC](#) Currently, Chair Passidomo Smith serves on the Board of Directors – Appointed Members ([Information on Committee: Board of Directors Appointed Members: NARUC](#)) and Commissioner La Rosa serves on the Board of Directors – Committee Chairs ([Information on Committee: Board of Directors Committee Chairs: NARUC](#))

¹⁵ [D584F621-90E2-77CA-EF50-E70E3099143A](#)

1 the Florida Commission, also lauded such legislative efforts. Moreover, Mr. Smith has
 2 failed to show that either NAWC and AWWA have lobbied on matters that solely
 3 benefit shareholders. Given this failure, the Commission should reject Mr. Smith's
 4 fourth adjustment.

5 **Q. PLEASE SUMMARIZE YOUR POSITION ON THE VARIOUS**
 6 **ADJUSTMENTS ADVANCES BY AUDIT STAFF AND OPC.**

7 A. While I have opposed certain adjustments, CSWR-Florida accepts the following
 8 adjustments:¹⁶

- 9 1. Staff Audit Finding 1: increase to plant balance of \$4,796 associated with plant
 10 additions.
- 11 2. Staff Audit Finding 2: decrease to plant balance of \$65,857 associated with the
 12 failure to include the proscribed amounts of net salvage in plant retirements.
 13
- 14 3. Staff Audit Finding 3: that portion of Audit Finding 3 constituting an increase
 15 of \$33,672 to land and land rights accounts for the Tymber Creek, Rolling Oaks,
 16 and Sebring Ridge systems.
 17
- 18 4. Staff Audit Finding 4: a reduction of \$22,811 in the CIAC offset to rate base.
 19
- 20 5. Staff Audit Finding 5: an increase of \$21,520 in depreciation expense
 21 associated with the utilization of depreciation rates for the systems that are
 22 Class C utilities.
 23
- 24 6. Staff Audit Finding 7: increase the working capital portion of rate base by
 25 \$42,624.
 26
- 27 7. Staff Audit Finding 8 and OPC ROE: a reduction in the return on equity to
 28 8.52% associated with the current leverage formula approved by the
 29 Commission in Order No. PSC-2025-0213-PAA-WS.
 30
- 31 8. Staff Audit Finding 10: an increase in operation and maintenance expenses of
 32 \$7,901.
 33
- 34 9. Staff Audit Finding 11: a decrease in Taxes Other Than Income Taxes of
 35 \$42,766 associated with Staff's substitution of 2024 property taxes for 2023
 36 property taxes for a limited number of systems.
 37
 38

¹⁶ These adjustments are total between water and wastewater operations. These adjustments will need to be calculated separately for water and wastewater when the final revenue requirement is calculated.

1 **Q. WHAT FINDINGS AND ISSUES WOULD REMAIN OUTSTANDING AFTER**
2 **THE COMPANY'S ACCEPTANCE OF THESE FINDINGS AND**
3 **ADJUSTMENTS?**

4 A. The outstanding issues and the Company's calculation of the value of these issues are
5 as follows:

- 6 1. A portion of Staff Audit Finding No. 3 reducing the land and land rights for the
7 Ponderosa Pines and Quail Run systems of Sunshine Utilities.
8
9 2. OPC Adjustment No. 3 related to utilization of 80% of Net Operating Losses
10 associated with past periods to reduce the amount of income taxes included in
11 rates.
12
13 3. OPC Adjustment No. 4 related to OPC's disallowance of a portion of the
14 Company's AWWA and NAWC dues as lobbying expenses.
15

16 **IV. RATE CASE EXPENSE**

17 **Q. PLEASE SUMMARIZE THE COMPANY'S REQUEST ON RATE CASE**
18 **EXPENSE.**

19 A. In my Direct Testimony, I indicated that it was the Company's understanding that rate
20 case expense is treated as a line-item surcharge on customers' bills. Given this, I
21 indicated:

22 [T]he final amount of rate case expense is unknown at this point, I would
23 propose that rate case expense be updated at the time of the hearing or
24 in the context of any settlement agreement. I then propose that the final
25 amount be amortized over three years. The amortized amount should
26 then be allocated between water and sewer operations and recovered
27 based upon equivalent residential units for water and wastewater.¹⁷

28 **Q. DID ANY PARTY OPPOSE THE COMPANY'S PROPOSAL FOR**
29 **RECOVERING RATE CASE EXPENSE?**

30 A. No. Neither Staff nor OPC filed testimony on the recovery of rate case expense.

¹⁷ *Thies Direct*, Case No. 20250052, filed May 30, 2025, page 20.

1 **Q. DO YOU HAVE AN UPDATE ON THE LEVEL OF RATE CASE EXPENSE TO**
2 **DATE?**

3 A. Yes. Consistent with my commitment to “update” rate case expense, the Company has
4 incurred \$623,485 of rate case expenses through March 30, 2026.

5 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

6 A. Yes.

DOCKET NO. 20250052-WS

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. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS CASE?

A. Yes. I have previously presented direct and rebuttal testimony on behalf of CSWR-Florida Utility Operating Company, LLC. (“CSWR-Florida” or “Company”).

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL REBUTTAL TESTIMONY?

A. The purpose of my supplemental rebuttal testimony is to respond to the Revised Audit Report filed by the Public Service Commission Staff (“Staff”) on May 28, 2026.

II. TIMING

Q. PLEASE DISCUSS THE TIMING CONCERNS ASSOCIATED WITH STAFF’S REVISED AUDIT REPORT.

A. CSWR-Florida filed its Petition, testimony, and associated minimum filing requirements in this case on May 28, 2025. The Company subsequently submitted additional information to correct deficiencies identified by Staff. Ultimately, the Company’s filing was accepted as complete, and the requested rates were suspended by the Commission on August 5, 2025.

On December 16, 2025, the Commission issued its Order Establishing Procedure. That procedural order established a deadline for Staff’s testimony

1 and exhibits of March 27, 2026. Beyond that, the procedural order provided a
2 deadline for the filing of the Company's rebuttal testimony of April 17, 2026,
3 and a discovery deadline of May 13, 2026. Thus, Staff's Revised Audit Report
4 was filed: (1) after Staff had approximately 10 months to review the Company's
5 filing, (2) two months after its deadline for filing its testimony, (3) six weeks
6 after the Company's opportunity for rebuttal testimony, and (4) two weeks after
7 the discovery deadline. Given this, absent this supplemental rebuttal testimony,
8 Staff has effectively precluded the Company from any opportunity to respond to
9 the audit findings in the Staff's Revised Audit Report.

10 **III. SCOPE OF STAFF'S REVISED AUDIT REPORT**

11 **Q. WHAT CHANGED AS A RESULT OF STAFF'S REVISED AUDIT** 12 **REPORT?**

13 A. On the cover page of its Revised Audit Report, Staff indicates that it: (1)
14 withdraws Audit Finding 2 contained in its initial audit report filed January 22,
15 2026, related to plant retirements, and (2) revises Audit Finding 3 contained in
16 that same audit report related to land and land values.

17 **Q. PLEASE EXPLAIN STAFF'S AUDIT FINDING NO. 2.**

18 A. In its initial audit report, Staff reviewed the plant retirements made by the
19 Company at its various systems. In this finding, Staff noted that the Company
20 failed to reduce retirements for the proscribed net salvage value for the various
21 accounts. Given this, Staff recommended a total plant reduction of \$65,857.
22 Through the Revised Audit Report, however, Staff now withdraws Audit

1 Finding 2 related to plant retirements. Staff provides no rationale for its
2 withdrawal of Audit Finding 2.

3 **Q. PLEASE EXPLAIN STAFF'S REVISED AUDIT FINDING NO. 3.**

4 A. Audit Finding No. 3 relates to Land & Land Rights accounts. In the Revised
5 Audit Report, Staff reduces the amounts contained in Account 303 related to
6 several of the Company's water and wastewater systems. Specifically, it appears
7 that Staff reduced its rate base recommended amount to the recorded amount as
8 of the date that the Company acquired the specific system. The net impact of
9 Staff's Revised Audit Finding No. 3 is to reduce the Company's water rate base
10 by \$2,944,567 and wastewater rate base by \$2,976,066.

System	Type	Initial	Revised	Difference
Aquarina	Potable Water	\$83,093	\$37,582	\$(45,511)
	Non-Potable Water	\$27,487	\$24,498	\$(2,989)
	Wastewater	\$67,076	\$33,680	\$(33,396)
Sunshine	Water	\$363,670	\$70,777	\$(292,893)
Sunshine PP/QR	Water	\$32,768	\$10,000	\$(22,768)
North Peninsula	Wastewater	\$93,203	\$46,800	\$(46,403)
Neighborhood	Water	\$39,628	\$1,000	\$(38,628)
BFF	Wastewater	\$34,751	\$1,579	\$(33,172)
CFAT	Water	\$54,295	\$19,500	\$(34,795)
	Wastewater	\$55,948	\$39,000	\$(16,948)
Tradewinds	Water	\$119,988	\$70,000	\$(49,988)
	Wastewater	\$33,938	\$0	\$(33,938)
Tymber Creek	Water	\$24,067	\$1,131	\$(22,936)
	Wastewater	\$26,794	\$4,524	\$(22,270)
Sebring Ridge	Wastewater	\$103,019	\$45,716	\$(57,303)
TKCB	Wastewater	\$83,755	\$36,203	\$(47,552)
Rolling Oaks	Water	\$2,443,987	\$9,928	\$2,434,059
	Wastewater	\$2,694,945	\$9,861	\$2,685,084
TOTAL	Water	\$3,188,983	\$244,416	\$(2,944,567)
	Wastewater	\$3,193,429	\$217,363	\$(2,976,066)

11 In its Revised Audit Report, Staff indicated that the Sunshine MFR amount was \$475,568. The
12 Sunshine Land and Land Rights Account in the MFR was actually \$363,670. Therefore, I have
13 utilized the correct amounts in this table and replaced Staff's erroneous calculation.

1 IV. COMPANY'S RESPONSE

2 Q. DO YOU AGREE WITH STAFF'S WITHDRAWAL OF AUDIT
3 FINDING 2?

4 A. Staff withdrew Audit Finding 2 without any explanation of the underlying
5 rationale. In my rebuttal testimony, I indicated my acceptance of Staff's original
6 Audit Finding 2. Accordingly, since Staff's withdrawal of Audit Finding 2
7 increases the Company's rate base by \$65,857, I am willing to accept the
8 withdrawal of this audit finding.

9 Q. DO YOU UNDERSTAND THE RATIONALE UNDERLYING STAFF'S
10 REVISED AUDIT FINDING NO. 3?

11 A. No. Staff failed to provide parties with any testimony or workpapers to explain
12 Revised Audit Finding No. 3 beyond what is simply stated in the Audit Report.
13 Therefore, it is not clear whether Staff conducted an itemized review of the costs
14 booked to Account 303 and made specific cost disallowances or whether Staff
15 simply made a wholesale disallowance of all incremental costs included in that
16 Account since the time the system was acquired.

17 From the brief description in the Revised Audit Report, it appears that
18 Staff took the latter approach and simply made a comparison of the amount
19 booked by the Company to Account 303 for each system as of the test year and
20 compared that amount to the Commission's land value finding in each system's
21 acquisition docket.

22 For instance, regarding North Peninsula, Staff's Revised Audit Report
23 states:

Audit staff verified the Land balance of the North Peninsula Wastewater system in the amount of \$46,800, but the Utility reflected a Land balance in the amount of \$93,203 in its MFRs. Based on the Commission Order No. PSC-2022-0116-PAA-SU, and the supporting documentation, the Land balance of the North Peninsula Wastewater system should be decreased by \$46,403.

The referenced Commission acquisition decision of March 17, 2022, states:

The Utility's general ledger reflected a land balance of \$46,800 as of July 31, 2021. There have been no additions to land since May 30, 2018. Therefore, there will be no adjustments to the Utility's land balance.¹

It appears that Staff made no review of the specific costs recorded in Account 303 and simply made a wholesale disallowance of any incremental costs that were booked to the Account since the Commission's order over four years ago.

Q. DO YOU AGREE WITH STAFF'S REVISED AUDIT FINDING NO. 3?

A. No. Staff's revised audit finding seems to be based upon the incorrect premise that the balance in the land and land rights account should be a static figure. It appears Staff believes that the land and land rights balance should be the same in this rate case as it was on the seller's books at the time of the original acquisition docket for that system.

The Uniform System of Accounts, however, does not limit the account solely to the initial value of the land, nor does it preclude the booking of additional costs after a certain date. Rather, Account 303 provides for the

¹ Order No. PSC-2022-0116-PAA-SU, issued March 17, 2022, at page 6.

1 continued recording of costs related to surveys, closing costs, title costs,
2 easements, and other land rights.

3 This account shall include the cost of land and land rights used in
4 connection with source of supply, pumping, water treatment plant,
5 transmission and distribution, and general plant accounts (See
6 Accounting Instruction 24). A sample of items to be included in
7 this account are listed below:
8

- 9 11. Surveys in connection with the acquisition, but not amounts
10 paid for topographical surveys and maps where such costs
11 are attributable to structures or plant equipment erected or
12 to be erected or installed on such land.
13 12. Taxes assumed, accrued to date of transfer or title.
14 13. Title, examining, clearing, insuring and registering in
15 connection with the acquisition and defending against
16 claims related to the period prior to the acquisition.
17 14. Appraisals prior to closing title.
18

19 Moreover, Accounting Instruction 24, expressly referenced within
20 Account 303 provides for the recording of the cost of easements to Account 303.
21 “The accounts for land and land rights include the cost of land owned in fee by
22 the utility and rights, such as leaseholds, easements, water and water power
23 rights, diversion rights, submersion rights, rights of way, and other like interests
24 in land.” Similar accounting instructions and definitions are included in the
25 NARUC Uniform System of Accounts for Sewer related to account 353. Thus,
26 the Uniform System of Accounts clearly contemplates that additional entries can
27 and should be made to these accounts as additional costs are incurred.

28 **Q. WHAT COSTS DID CSWR-FLORIDA BOOK TO ACCOUNT 303**
29 **(LAND AND LAND RIGHTS) THAT CAUSED THE AMOUNT IN**
30 **THESE ACCOUNTS TO INCREASE?**

1 A. Consistent with the Uniform System of Accounts, CSWR-Florida has properly
 2 booked the costs of easements, land rights, surveys, appraisals, and closing costs.
 3 This causes, contrary to Staff's misplaced assumption, the value in Account 303
 4 to increase.

5 **Q. CAN YOU PROVIDE A SPECIFIC EXAMPLE OF THE COSTS**
 6 **DISALLOWED BY STAFF IN ACCOUNT 303?**

7 A. Yes. While Staff did not provide workpapers supporting its Revised Audit
 8 Finding No. 3, the Company believes that it can exactly identify the nature of
 9 the disallowed costs for many systems. For example, in its Revised Audit
 10 Report, Staff made the following finding with regards to Sebring Ridge:

11 Audit staff verified the Land balance of the Sebring Ridge
 12 Wastewater system in the amount of \$45,716, but the Utility
 13 reflected a Land balance in the amount of \$103,019 in its MFRs.
 14 Based on the Commission Order No. PSC-2023-0216-PAA-SU,
 15 and the supporting documentation, the Land balance of the
 16 Sebring Ridge Wastewater system should be decreased by
 17 \$57,303.

18
 19 I confirmed that the referenced Commission Order finds "a total land balance of
 20 \$45,716 as of August 31, 2022."² Since that date, however, the Company has
 21 booked an additional \$57,303.31 of costs to Account 303 for Sebring Ridge.

22 On August 29, 2023, the Company booked \$14,104.12 of closing costs:

23	Closing fee to Trow & Dobbins	\$7,250.00
24	Title Insurance	\$5,120.00
25	Municipal Lien Search	\$134.00
26	Recording Fees – Deed of Easement	\$52.50
27	Recording Fees – General Assignment	\$52.50
28	Recording Fees – Affidavit re: Exception #9	\$52.50
29	Deed State Tax / Stamps	\$1,750.00
30	Overnight Fees to Trow & Dobbins	\$96.37

² Order No. PSC-2021-0216-PAA-SU, issued July 27, 2023, at page 6 (emphasis added).

1	Certificate of Good Standing	\$13.75
2	Prepayment of Title Search	<u>\$(375.00)</u>
3	Total Closing Costs:	\$14,104.12

4 Subsequently, the Company booked an additional \$43,199.19 of
 5 easement, survey, mapping, and title costs.

6	Easement & Access	\$2,940.00
7	Easement & Access Legal Work	\$1,006.80
8	GIS Mapping	\$1,638.75
9	Survey	\$31,947.34
10	Title Work	<u>\$5,666.30</u>
11	Total Easement / Survey / GIS Costs:	\$43,199.19

12
 13 **Q. WERE THESE COSTS RELATED TO SEBRING RIDGE PROPERLY**
 14 **BOOKED TO ACCOUNT 303?**

15 A. Yes. Account 303 allows for the continued recording of costs to this Account
 16 and provides a “sample of items to be included in this account” including:

- 17 5. Conveyancers’ and other notaries’ fees
- 18 6. Fees, commissions, and salaries to brokers, agents, and others in
- 19 connection with the acquisition of the land or land rights.
- 20 11. Surveys in connection with the acquisition. . .
- 21 13. Title, examining, clearing, insuring and registering in connection
- 22 with the acquisition. . .
- 23 16. Filing satisfaction of mortgage
- 24 17. Documentary stamps

25 Thus, it appears that, Staff has disallowed all these closing, easement,
 26 survey, and title costs that were properly recorded pursuant to the unambiguous
 27 directions of Account 303.

28 **Q. PLEASE EXPLAIN WHY THESE DISALLOWED COSTS ARE**
 29 **NECESSARY TO THE PROVISION OF WATER AND WASTEWATER**
 30 **SERVICE AND BENEFICIAL TO CUSTOMERS.**

31

1 A. A prime example of the need to incur costs that are subsequently booked to
2 Account 353 occurred at Tymber Creek.³ There, after the closing of the
3 acquisition, and given the uncertainty of the seller's asset records, CSWR-
4 Florida incurred costs related to a survey. As a result of that survey, the
5 Company was able to identify a lift station that, while tied the Tymber Creek
6 wastewater system, was not owned by the utility. Instead, the lift station,
7 connected to a swimming pool and other community assets, was owned by the
8 Homeowners' Association. Given the condition of the lift station, the
9 Homeowners' Association insisted that it was owned by the utility. As a result
10 of the survey, however, CSWR-Florida was able to determine that the lift station
11 was not an acquired asset. Given this, the Company was able to avoid the capital
12 and operating costs associated with this third-party lift station. Clearly then, as
13 a result of this post-acquisition cost, that was recorded in Account 303, the
14 Company was able to minimize costs to all Florida ratepayers.

15 **Q. ARE THE COSTS DISALLOWED BY STAFF IN REVISED AUDIT**
16 **FINDING NO. 3 MATERIAL AND SIGNIFICANT?**

17 A. Yes. As reflected in the table shown earlier in my testimony, Staff proposes to
18 disallow approximately \$6.38 million of rate base through its Land and Land
19 Rights disallowance. This has a significant impact on the Company's proposed
20 revenue requirement. Specifically, Staff's misplaced adjustment would reduce

³ As mentioned, Account 353 is wastewater account for land and land rights, and is therefore the analog to Account 303 which is applicable to water utilities.

1 the Company's proposed water revenue requirement by \$327,552 (5.91%) and
2 wastewater revenue requirement by \$331,056 (10.21%).

3 **Q. HAS CSWR PREVIOUSLY ENCOUNTERED THIS ISSUE IN**
4 **ANOTHER JURISDICTION?**

5 A. Yes. In a recent Tennessee rate case, the Consumer Advocate Division of the
6 Tennessee Attorney General suggested, as Staff has here, that the amount of
7 costs booked to Account 303 had improperly increased beyond that previously
8 reported. Without attempting to understand the nature of the increase in this
9 account, the Consumer Advocate wrongly suggested that the increased amount
10 was effectively "an acquisition adjustment" and recommended a disallowance
11 of the increased amount. The Tennessee Commission explained the Consumer
12 Advocate's proposed adjustment as follows:

13 The Consumer Advocate disagreed with the Company's valuation
14 of the water-related portion of UPIS that specifically pertained to
15 land and land rights. Mr. Kaml asserted that Limestone's proposed
16 values in this account are higher than those reported in other
17 sources and cited two reasons for disallowing the values that
18 Limestone used. First, he stated that a fundamental premise of the
19 rate base rate of return methodology is the use of original
20 (historical) cost, limiting rate base to the cost of acquiring assets
21 less depreciation, rather than current market value or replacement
22 cost. Mr. Kaml emphasized that this method is straightforward
23 and transparent, ensuring that customers pay for costs incurred by
24 a service provider only once and in the amount of the actual costs.

25
26 Second, Mr. Kaml stated that the Company did not provide any
27 information suggesting alternative uses for its land other than
28 operating the utility and argued that, in the absence of an
29 alternative use, there is no basis for increasing its land values
30 above their acquired book values. Mr. Kaml states that the
31 Company's entries to increase its land values represent "a writeup
32 without any actual capital investment, in which case there should
33 not be an increase in value." Consequently, Mr. Kaml

recommended lowering the Company's water-related land and land rights account valuation, resulting in a recommended \$1,555,361 adjusted gross UPIS.⁴

As here, the Company informed the Commission that the increased amounts in Account 303 represented "costs for surveys, easements, and other land rights."⁵

Mr. Thies noted that the valuation of the Company's land and land rights account does not remain static, and that the USOA specifically allows recording of various costs to land accounts, such as those associated with surveys, titles, easements, and other land rights, to USOA water account 303, Land and Land Rights. Mr. Thies explained that the Company has recorded legitimate transactions expressly provided for by USOA instructions and concluded by attesting that any resulting increases are not inappropriate, as suggested by the Consumer Advocate.⁶

The Tennessee Commission reviewed the increased costs in this Account and found that they include "expenses for closing, titling, property appraisals, engineering surveys, mapping/drafting reports, and easements."⁷ Ultimately, the Commission treated these as transaction costs related to the acquisition of the utility and allowed recovery as they "will result in substantial benefits to customers."⁸

Q. ARE THERE POLICY CONCERNS IMPLICATED BY STAFF'S WHOLESALE DISALLOWANCE OF COSTS BOOKED TO ACCOUNT 303?

A. Absolutely. As Mr. Freeman discusses, the systems acquired by CSWR-Florida were all in various states of disrepair and most displayed a chronic history of

⁴ *Order Setting Utility Rates*, Docket No. 24-00044, issued July 10, 2025, at page 44.

⁵ *Id.*, page 45.

⁶ *Id.*

⁷ *Id.*

⁸ *Id.*, pages 45-46 and 50.

1 non-compliance with environmental regulations. Many states are issuing policy
2 statements designed to encourage the acquisition of these distressed systems by
3 well-capitalized private entities that can devote technical, financial, and
4 managerial expertise and resources to these distressed systems. In fact, in recent
5 years, the Florida Commission has issued rules providing for: (1) the recovering
6 of acquisition adjustments associated with the acquisition of non-viable utilities
7 (25-30.0371 F.A.C. – effective June 17, 2024) and (2) the establishment of rate
8 base value utilizing appraisal valuations (25-30.0372 F.A.C. – effective May 15,
9 2024).

10 While the Commission is taking steps designed to incentivize the
11 acquisition of non-viable systems, Staff's position would appear to undermine
12 these policy goals by disallowing the costs necessary to acquire those distressed
13 systems. Therefore, this adjustment would appear to discourage the acquisition
14 of the distressed systems.

15 V. RECOMMENDATION

16 Q. WHAT IS YOUR RECOMMENDATION?

17 A. The amount in Account 303 for Land and Land Values is not a static amount.
18 Rather, Instruction 24 to the Uniform Systems of Accounts specifically
19 contemplates the booking of costs associated with the acquisition of easements,
20 rights of way, and other like interests in lands. Beyond this, the description of
21 Account 303 also recognize the appropriateness of costs associated with surveys,
22 appraisals, and closing costs.

1 By relying on amounts booked to that account at the time of a system's
2 acquisition by CSWR-Florida and not recognizing that the balance in this
3 account can change over time, Staff has inappropriately disallowed a vast
4 amount of costs that were necessary in the provision of safe and adequate
5 service. For this reason, I recommend that the Commission reject Staff's
6 Revised Audit Finding No. 3.

7 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL REBUTTAL**
8 **TESTIMONY?**

9 **A. Yes.**

1 EXAMINATION

2 BY MR. WOODSMALL:

3 Q Do you have a summary of your rebuttal and
4 supplemental rebuttal, Mr. Thies?

5 A I do.

6 Good afternoon. I am here to summarize my
7 rebuttal and supplemental rebuttal testimony. In that
8 testimony, I respond to both OPC witness Smith's direct
9 testimony as well as the various iterations of staff's
10 audit report.

11 Starting with staff's audit report, the
12 company agreed with many and most of staff's findings,
13 including adjustments to depreciation, working capital,
14 operating expenses and taxes. We also accept the
15 updated return on equity based on the Commission's most
16 recent leverage form.

17 On CIAC, staff initially proposed a very large
18 increase that would have significantly reduced. After
19 reviewing the underlying calculation, the company was
20 unable to identify several errors, and ultimately the
21 staff published an updated report revising its position.

22 That said, as detailed in my supplemental
23 rebuttal, a significant disagreement exists on the
24 quantification of land and land rights. Initially staff
25 largely agreed to the company's quantification. Shortly

1 before the hearing, the staff's changed its approach to
2 quantifying these values and filed a position to
3 disallow \$6.4 million of rate base. Needless to say,
4 the company strongly disagrees with that adjustment.

5 Staff assumes that land and land values should
6 remain fixed at the level established at the time of the
7 acquisition. Given this understanding, staff posits
8 that land and land rights should be the same as that
9 recognized by the Commission three to four years ago in
10 the various acquisition dockets. Therefore, staff made
11 a disallowance of all post acquisition costs related to
12 land rights without evaluating their nature or
13 necessity.

14 Staff's position that the value of the land
15 and land rights should remain static is incorrect. As I
16 point out, the Uniform System of Accounts allows
17 utilities to continue recording legitimate costs in
18 these accounts over time, including easements, surveys,
19 title work and closing costs. The post acquisition land
20 right costs are real and necessary costs incurred after
21 acquisition to secure property rights, verify assets and
22 support system operations. As pointed out in my
23 testimony, these costs ultimately deliver real benefits
24 to customers.

25 I mention in my testimony the company

1 confirmed a similar position from the Tennessee Public
2 Advocate. And there, the Commission specifically
3 reviewed each of the costs and determined that they were
4 reasonable. I urge the Florida Commission to also
5 recognize the critical nature of these costs and allow
6 them to be booked for rate base.

7 Turning to OPC's recommendations, there are
8 two key areas. First, we strongly disagree with OPC's
9 proposal regarding net operating losses, or NOLs. OPC
10 proposes to use past NOLs to reduce income taxes in
11 current rates. The problem with that approach is that
12 these losses were funded entirely by shareholders. When
13 the company acquired these systems, many were operating
14 at loss -- at a loss without dated non-compensatory
15 rates. The company invested capital to improve service
16 and compliance all while absorbing those losses.
17 Customers have already benefited from that through
18 improved service and artificially low rates.

19 The company's position is consistent with how
20 income taxes are typically calculated in ratemaking and
21 is supported by regulatory precedent, including a recent
22 Missouri Public Service Commission decision rejecting a
23 similar NOL adjustment.

24 Finally, OPC recommends disallowing a portion
25 of industry association dues, claiming they relate to

1 lobbying. We disagree. Organizations like AWWA and
2 NAWC provide clear benefits to customers, including
3 research, best practices and advocacy for programs like
4 LIHWAP, Low-Income Household Water Assistant Program,
5 which helps vulnerable customers maintain access to
6 water service.

7 In summary, the company strongly recommends
8 that the Commission recognize how is decisions here
9 affect the Commission's recent steps to incentivize the
10 acquisition of distressed water and wastewaters systems
11 and reject these findings.

12 MR. WOODSMALL: Thank you, Your Honor. With
13 that, I would tender Mr. Thies for
14 cross-examination on his rebuttal and his
15 supplemental rebuttal testimony.

16 MS. HELTON: Madam Chairman, I am sorry to
17 interrupt. There is a question about whether Mr.
18 Thies' rebuttal and supplemental rebuttal testimony
19 was inserted into the record, and I just wanted to
20 make sure that that had happened.

21 CHAIRMAN SMITH: I think he did. Well, I
22 checked it, but, again, I am in newborn brain mode.

23 MR. WOODSMALL: If I haven't, I would offer
24 Mr. Thies', direct, rebuttal and supplemental
25 rebuttal as if read here today.

1 CHAIRMAN SMITH: Okay. So moved.

2 MR. SCHULTZ: And the last witness, too,
3 witness Cox is the one Debbie said may not have
4 been --

5 MS. HELTON: Oh, I am sorry, I misunderstood.
6 I guess could we do the same for Mr. Cox just to
7 make sure?

8 MR. WOODSMALL: I am slipping all over. I am
9 sorry.

10 CHAIRMAN SMITH: No. No. I am sorry if I
11 didn't catch it. Yes, please go ahead.

12 MR. WOODSMALL: CSWR-Florida would offer --
13 also offer Mr. Cox's rebuttal testimony as if read
14 here today.

15 CHAIRMAN SMITH: So moved.

16 MR. WOODSMALL: Thank you.

17 CHAIRMAN SMITH: Okay. OPC, you are
18 recognized for cross.

19 MR. WATROUS: Thank you, Madam Chair.

20 EXAMINATION

21 BY MR. WATROUS:

22 Q To it's good to see you again, Mr. Thies.

23 A You too.

24 Q So I know in your direct testimony, you had
25 mentioned the operating losses and the income tax

1 **expense associated with net operating loss**
2 **carry-forwards, and you also bring them up again in your**
3 **rebuttal. And so if there is a cumulative -- if there**
4 **is a cumulative operating loss, those losses generate**
5 **net operating loss carry-forwards, is that correct?**

6 A Yes.

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

9 A Yes.

10 **Q And CSWR is seeking recovery of current income**
11 **expense from customers, correct?**

12 A Yeah, consistent with traditional ratemaking,
13 CSWR-Florida is requesting recovery of income tax
14 expense in this case.

15 **Q And CSWR-Florida's taxable income is negative?**

16 A CSWR's taxable income as of its most recent
17 tax filing, which would be 2025, was negative, yes.

18 **Q And those losses were reported for both**
19 **accounting and income tax purposes, is that correct?**

20 A The company has no material differences
21 between accounting and tax records, so that's correct.

22 **Q Thank you. I wanted to clarify that.**

23 **And so you are requesting that customers pay**
24 **for tax expenses that the company does not incur?**

25 A I am requesting consistent treatment with a

1 ratemaking formula that I believe those two retroactive
2 ratemaking kind of approach if it's denied. Using past
3 losses to offset current expenses is prohibited by law
4 according to some of the Commission's own orders.

5 **Q So you are asking customers to pay for a tax**
6 **expense that the company does not actually incur, is**
7 **that correct?**

8 A Potentially. Obviously, future income isn't
9 known, but potentially.

10 **Q Okay. So that's a yes?**

11 A It's a -- it's a -- it's a possibly.

12 **Q So in this case, you are not asking customers**
13 **to pay for a tax expense that the company does not**
14 **actually incur?**

15 A We are asking for customers to pay for income
16 tax on the required income.

17 **Q On the income, not the income tax?**

18 A Income tax is a function of income, and so we
19 are asking them to pay the income tax on the required
20 income from the rate bases in this case.

21 **Q Even though there is a net negative income for**
22 **the company, is that correct?**

23 A Historically, yes.

24 **Q And I just want to clarify, CSWR does not**
25 **apply accelerated depreciation, is that correct?**

1 A That's correct.

2 **Q All right. And there is no normalization**
3 **issue?**

4 A Correct.

5 **Q Okay. Thank you, Mr. Thies. I have no**
6 **further questions, for you.**

7 A Thank you.

8 CHAIRMAN SMITH: Staff? Try one more time.
9 Mike just checked it. Try -- yeah, maybe just
10 switch mics, it if that's okay.

11 MR. BLOOM: Can everyone hear me now? Sorry
12 for that technical difficulty.

13 EXAMINATION

14 BY MR. BLOOM:

15 **Q Good to see you again, Mr. Thies.**

16 A You too.

17 **Q What do you consider the most recent leverage**
18 **formula?**

19 A Excuse me?

20 **Q What do you consider the most recent leverage**
21 **formula?**

22 A Obviously the most recent one published by the
23 Commission when we filed the case, it was a whole
24 leverage formula ago. So we used the then current one,
25 and one has been published since then.

1 **Q So that would be the 2025 one, correct?**

2 **A That's correct.**

3 **Q In your rebuttal testimony, you address how**
4 **Ralph Smith calculated income taxes, is that correct?**

5 **A I do. Yes.**

6 **Q Mr. Smith applied the NOL carry-forwards to**
7 **offset 80 percent of CSWR state and federal income**
8 **taxes, is that correct?**

9 **A That's correct.**

10 **Q If a utility incurs a loss, would you agree**
11 **that in the year of loss the utility incurred expenses**
12 **that they did not recover from customers?**

13 **A Yes.**

14 **Q Could a utility experience an operating loss**
15 **through no fault of its own?**

16 **A Absolutely.**

17 **Q Do you agree that the IRS allows NOL**
18 **carry-forwards to enable businesses to smooth out income**
19 **fluctuations?**

20 **A Yes.**

21 **Q Would a utility be able to smooth out income**
22 **fluctuations if the NOL carry-forwards is used to reduce**
23 **income tax expense when setting utility rates?**

24 **A They would not have that tool certainly.**

25 **Q Should the tax benefit associated with the NOL**

1 **carry-forwards be taken from the utility's owners and**
2 **assigned to the customers?**

3 A No.

4 Q **Are you familiar with the stand-alone approach**
5 **to utility ratemaking?**

6 A Yes.

7 Q **Do you agree that under the stand-alone**
8 **approach to utility ratemaking, the utility is treated**
9 **as an independent entity?**

10 A Yes.

11 Q **Do you agree that under the stand-alone**
12 **approach that the revenue requirement relies exclusively**
13 **on the regulated revenues, deductible operating**
14 **expenses, interest expense and depreciation of the**
15 **utility itself?**

16 A Yes.

17 Q **Do you agree that under the stand-alone**
18 **approach to utility ratemaking, a utility's rates are**
19 **set based on its cost of service?**

20 A Yes.

21 Q **Do you agree that a utility's cost of service**
22 **should be based on the costs associated with normal**
23 **operations?**

24 A Yes.

25 Q **Do you believe in general that operating**

1 losses are normal -- are a normal condition for
2 regulated utilities?

3 A No.

4 Q A utility's cost of service includes state and
5 federal taxes on its taxable income, is that correct?

6 A That's correct.

7 Q Do you agree that one of the principles of the
8 stand-alone approach is that a utility's rates should
9 not subsidize nor be subsidized by non-jurisdictional
10 operations?

11 A Yes.

12 Q All other things being equal, a utility's
13 rates reduced by NOL carry-forward are lower than if an
14 NOL carry-forward was not used to reduce the rates, is
15 that correct?

16 A That's correct.

17 Q If a utility's rates are reduced by an NOL
18 carry-forward, aren't those rates being subsidized by
19 the an NOL carry-forward granted by the IRS to the
20 utility's owners?

21 A Yes.

22 Q Are you familiar with the term price signal?

23 A Yes.

24 Q Do you agree that the appropriate price
25 signals are that -- do you agree that appropriate price

1 signals are essential because they inform buyers and
2 sellers about relative scarcity, enabling the efficient
3 allocation of resources?

4 A Yes.

5 Q If NOL carry-forwards are used to reduce a
6 utility's rates going forward, doesn't that distort the
7 price signal that a customer should receive?

8 A Yes.

9 Q Do you agree that the stand-alone approach
10 mathematically guarantees that the income tax allowance
11 embedded in the rates is directly proportional to the
12 regulated income generated by the utility?

13 A Yes.

14 Q Under the stand-alone approach method of
15 determining income tax expense for regulated utilities,
16 is whether or not the tax is paid the determining factor
17 in calculating income tax expense?

18 A No.

19 Q Okay. Mr. Thies, I am going to go back to
20 some questions I was asking earlier about the Valbridge
21 appraisal. I might revisit a few of the questions I
22 asked before just to kind of set up my later ones.

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

1 A The appraisal was used because there was doubt
2 about the original -- or about the costs that we knew at
3 the time, but, yes, that is true.

4 **Q The appraisal by Valbridge was completed in**
5 **2022, correct?**

6 A That's correct.

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

9 A Yes.

10 **Q There are also charges for the Rolling Oaks**
11 **closing costs of 110,000 included in land and land**
12 **rights balance, subject to check, correct?**

13 A Yes, that's correct.

14 **Q Were these costs attributable to the original**
15 **acquisition of land for public service by the seller or**
16 **for the closing costs of the purchase of the system by**
17 **CSWR?**

18 A I mean, there would be a significant, you
19 know, breakdown of those costs, would be things like
20 title insurance, recording, those kinds of things. So
21 they would not have been there prior to closing, but
22 those costs have various causes and uses in terms of
23 being part of the land values.

24 **Q So then just to clarify -- just to clarify,**
25 **these costs were not attributable to the original**

1 acquisition of land for public services by the seller,
2 correct?

3 A Not by the seller. Correct.

4 Q You would agree that those closing costs are
5 for the acquisition of the utility and not the land?

6 A The significant of the assets purchased there
7 were the land and -- the assets sit on land, right. So
8 I think it's one in the same.

9 Q The remaining utility systems in the case,
10 CSWR included similar costs in the land and land rights,
11 correct?

12 A That's correct.

13 Q And those costs were also for the acquisition
14 of systems and were they also for the land?

15 A They would have been associated with the
16 transfer of that land to CSWR, yes.

17 Q And those costs were also for the acquisition
18 of the system and not for the land specifically?

19 A They were not a dollar paid -- no, they would
20 have been associated with the transfer of that land, so,
21 therefore, those costs would be associated with the cost
22 of that land under the Uniform System of Accounts.

23 Q Okay. Mr. Thies, I am going to move on to a
24 discussion about the Tennessee Public Utility order that
25 you mentioned in your supplemental rebuttal testimony.

1 A Uh-huh.

2 Q And just to confirm, in your supplemental
3 rebuttal testimony, you reference an order from the
4 Tennessee Public Utility Commission, correct?

5 A I do, yes.

6 Q Specifically the order concerned a petition of
7 Limestone Water Operating Company, LLC, to increase
8 charges, fees and rates, and for approval of a general
9 rate increase and consolidated rates, correct?

10 A That's correct.

11 Q And CSWR, LLC, is the parent company of
12 Limestone Water Utility?

13 A Correct.

14 Q So CSWR was part of the proceeding discussed
15 in the Tennessee order?

16 A Yes.

17 Q Moving back to your supplemental rebuttal
18 testimony, you discuss how this order addressed a
19 dispute around CSWR booking certain costs in land and
20 land rights, correct?

21 A I do address that, yes.

22 Q And the disputed costs concern closing costs,
23 surveys, easements and appraisals, correct?

24 A Correct.

25 Q You stated that the utility treated these

1 **disputed costs as transactional costs related to the**
2 **acquisition of the utility, correct?**

3 A The Commission in Tennessee has a specific
4 rule under which they categorize cost as transaction
5 cost. I think that's a little bit different and nuanced
6 than the USOA itself in terms of survey costs and title
7 and transfer costs being part of land values. So the
8 Tennessee Commission has a rule under which they bundle
9 those up and deal with them separate from the land and
10 land values account, and the costs associated with land.

11 **Q Okay. You also discuss how the Tennessee**
12 **Consumer Advocate disputed these costs, correct?**

13 A Correct.

14 **Q They recommended reducing Limestone Water**
15 **Utility's water related land and land rights account by**
16 **\$133,458 for water and 543,901 for wastewater, subject**
17 **to check, correct?**

18 A Correct.

19 **Q And the Tennessee Commission approved these**
20 **reductions in land and land rights accounts, correct?**

21 A The Tennessee Commission dealt with this group
22 of costs, not in land and land rights, but the
23 transaction cost rule that they had. So technically
24 they did -- they did approve the transfer of costs out
25 of land and land values but only because they had

1 another way to handle these types of costs.

2 **Q But not in the land and land rights account,**
3 **correct?**

4 A By their own statutes, no. They dealt with it
5 in another manner.

6 **Q And that's because NARUC's USOA does not allow**
7 **for the inclusion?**

8 A That's incorrect. In fact, in the order, it
9 admits that these can be dealt with under the land
10 accounts but that the Commission has their own rules
11 about transaction costs in Tennessee.

12 **Q And just to clarify again, the Tennessee**
13 **Commission did remove those dollars amounts from land**
14 **and land rights, correct?**

15 A They transferred them from and land and land
16 rights to the transaction cost grouping, yes.

17 **Q No further questions.**

18 CHAIRMAN SMITH: Okay. Commissioners?
19 Commissioner Ortega.

20 COMMISSIONER ORTEGA: Thank you. Good
21 afternoon.

22 THE WITNESS: Hello.

23 COMMISSIONER ORTEGA: I had two sets of
24 questions, but I think staff asked some of them, so
25 I am just going to go to the land.

1 THE WITNESS: Uh-huh.

2 COMMISSIONER ORTEGA: Can you help me
3 understand when you say the NARUC system of
4 accounts allows for the costs that you are asking
5 for. Can you help me understand how that -- your
6 understanding of that?

7 THE WITNESS: Sure. Yeah.

8 So under the NARUC Uniform System of Accounts,
9 there is Account 303 and 353, which are land and
10 land rights for water and sewer respectively, and
11 they specifically mention that it's obviously the
12 costing of like fee simple ownership in land, but
13 things like title insurance and surveys and
14 easements as well; which obviously easement is not
15 an ownership but a right of use, and so all of
16 those things can be included in Accounts 303 and
17 353 under the USOA.

18 COMMISSIONER ORTEGA: Thank you. And earlier
19 we talked about the Commission rule, and I don't
20 have the rule number either, but do you recall when
21 we spoke about the Commission rule earlier being
22 original cost?

23 THE WITNESS: Yes.

24 COMMISSIONER ORTEGA: And so could you help me
25 understand how -- and I know you are not a lawyer,

1 but I did see you got a Master's of Divinity, so
2 maybe that's helpful here too. I'm not sure.

3 THE WITNESS: Maybe.

4 COMMISSIONER ORTEGA: Maybe.

5 Can you help me understand your understanding
6 of that rule, does that contradict the NARUC
7 account?

8 THE WITNESS: Not in my opinion, because,
9 again, you know, original costs, there is a dollar
10 value paid for the fee simple interest in land, and
11 then there are associated costs with that, right.
12 So, you know, it's similar to -- and, you know,
13 again, I am not an engineer either, but, you know,
14 if you go buy a blower system at a wastewater
15 plant, there are costs to ship it, there are costs
16 to place it, to construct it, to bolt it to the
17 ground, whatever you got to do, and I think the
18 easements and the other land rights are similar.
19 There are costs you have to incur to use that land
20 for its intended purpose, which in this case is
21 utility service.

22 COMMISSIONER ORTEGA: Thank you.

23 And then in your summary, you made reference
24 to benefits to customers for including those
25 amounts?

1 THE WITNESS: Yeah.

2 COMMISSIONER ORTEGA: Could you explain to me
3 some benefits that you would see to the customers
4 for including those accounts?

5 THE WITNESS: Sure, and I think if I can share
6 a couple of examples. One is in one of the service
7 areas, and I mentioned this in testimony, the HOA
8 actually owned a lift station, but there had been,
9 it seems, a handshake agreement for the utility to
10 service that lift station, and so it's only when
11 obtaining property records that you realize that
12 customers should not be responsible to pay for this
13 lift station or its maintenance, and without doing
14 the easement research and the title research we
15 would not have known that.

16 There is another situation where we have
17 access to a facility, but it's not suitable for
18 getting the construction into equipment into the
19 facility. And this is one of old Sunshine systems.
20 And so we have to do work to find another easement
21 to find another we to get construction equipment to
22 that plant to do the improvements.

23 COMMISSIONER ORTEGA: Thank you.

24 Can I have just a second to make sure that I
25 don't have any more questions?

1 CHAIRMAN SMITH: Yeah.

2 I might, while you are taking that second,
3 just for clarity on the rule, to have it for the
4 record, can I have staff say that rule number just
5 so it's clear, so we are not just -- not that I
6 am --

7 MR. BLOOM: I am sorry, just give me one
8 moment.

9 CHAIRMAN SMITH: Yeah.

10 COMMISSIONER ORTEGA: Thank you.

11 MR. BLOOM: Chair, it is 25-30.140(1)(r).

12 CHAIRMAN SMITH: Thank you.

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

15 CHAIRMAN SMITH: All right. And redirect?

16 MR. WOODSMALL: Thank you.

17 FURTHER EXAMINATION

18 BY MR. WOODSMALL:

19 Q Let's work backwards. You were asked some
20 questions by staff about the Tennessee order. Do you
21 recall that?

22 A Yes.

23 Q And in that order, does the Tennessee
24 Commission explain whether they look at -- they looked
25 at the costs that had been booked there, booked to

1 **Account 303?**

2 A They do, and they mention that those costs
3 could be dealt with there, but that they had another way
4 to do that just under Tennessee rule.

5 **Q But did the Commission make any finding about**
6 **the reasonableness or the prudence of those costs?**

7 MR. WATROUS: Objection. Leading.

8 MR. WOODSMALL: I didn't lead. I just asked
9 if they did. If they didn't, they didn't. If they
10 did, they did.

11 CHAIRMAN SMITH: Can you answer that a yes/no?

12 THE WITNESS: Yes.

13 BY MR. WOODSMALL:

14 **Q And can you tell me what the finding was?**

15 A They found that those costs were reasonable,
16 but, again, under the rule, they had a cost sharing
17 mechanism already built in, but they found the costs
18 reasonable.

19 **Q Okay. But the Tennessee Commission reviewed**
20 **all the individual costs that had been booked to that**
21 **account after the original land costs were booked into**
22 **that account, is that true?**

23 A That's correct.

24 **Q And in this case, can you tell, did staff make**
25 **a similar determination or did staff make a wholesale**

1 **disallowance of all those costs?**

2 A Staff disallowed -- staff's disallowance
3 includes everything that was post the acquisition case
4 orders. So from that perspective, anything that got
5 into those accounts after the date of acquisition has
6 now been removed under their recommendation.

7 **Q So in response to questions from Commissioner**
8 **Ortega, the type of easements and land rights that are**
9 **of value to customers, staff has a disallowed those by**
10 **going back to an order from four years ago, is that**
11 **correct?**

12 A That's correct.

13 **Q Okay. You were asked some questions and you**
14 **talked about Rolling -- these are questions from staff**
15 **where you used an appraisal for Rolling Oaks. Do you**
16 **recall that?**

17 A Yes.

18 **Q And can you tell me why you used that**
19 **appraisal and how you used that appraisal?**

20 A Yeah, we used that appraisal to book the land
21 values, and the reason for is that is because the
22 Rolling Oaks system is a very large system. It has
23 something like near 30 acres of fee simple land and 80
24 acres under easement, and the books and records showed
25 18 to \$19,000 of land value between water and sewer.

1 And so it seemed clear that what was on the books was
2 not full, sufficient complete which, you know, from our
3 experience and our perspective, is actually common among
4 the type of systems that we buy, where the books and
5 records don't actually reflect what has been placed into
6 service, or owned, or donated, or whatever, to the
7 utility.

8 **Q And since Rolling Oaks was not a Commission**
9 **regulated system, would Rolling Oaks have had annual**
10 **reports or other documentation submitted to the**
11 **Commission with any of these values?**

12 A They were regulated by Citrus County, and so
13 they had some annual reports, but they were kind of
14 scant. And one of the documents that we got during the
15 acquisition was an independent third-party report that,
16 from a group -- I believe it's called Ralph Tillis, I am
17 not sure if I am saying that right, but they did an
18 evaluation of those assets and were unable to verify the
19 land amounts either. They ended up just taking what the
20 company reported.

21 **Q Okay. You were asked some questions by OPC**
22 **about income taxes and net operating losses. Do you**
23 **recall that?**

24 A Yes.

25 **Q Can you tell me how income taxes are generally**

1 **calculated for ratemaking purposes?**

2 A Yeah. So, you know, a company's net income is
3 a function of its rate base and its capital structure
4 and the return on equity. And when that is all
5 calculated together, you obviously then have tax on that
6 amount, and that tax is calculated in a very
7 straightforward way. Whether there are, you know,
8 accelerated depreciation things, or whatever, you still
9 calculate it in that very straightforward manner of just
10 income times the tax rate.

11 **Q So income taxes is based upon the normalized**
12 **ratemaking equation regardless of what happened with**
13 **what you paid in income taxes in past years, is that**
14 **correct?**

15 A That's correct.

16 **Q I have no further questions.**

17 MR. WOODSMALL: Thank you, Your Honor.

18 He had no exhibits to offer. I believe I have
19 asked that his rebuttal and supplemental rebuttal
20 be included. So I think I am caught up.

21 CHAIRMAN SMITH: Okay.

22 MR. WOODSMALL: Thank you.

23 CHAIRMAN SMITH: So you are excused. Thank
24 you.

25 (Witness excused.)

1 CHAIRMAN SMITH: And that concludes witness
2 testimony, so, staff, yes, is there additional --
3 oh, yes.

4 MS. CRAWFORD: Just one kind of housekeeping
5 question. I would point everybody to
6 cross-examination Exhibit 167 on the CEL. That's
7 CSWR's updated Florida Department of Environmental
8 Protection compliance letters, that has not, by my
9 record, been previously entered into the record.
10 Is it CSWR's intent to have that in so it could be
11 referred to in post --

12 MR. WOODSMALL: It was initially. We never
13 used it in any cross-examination or any redirect,
14 so the information came out in other ways, so we
15 never offered that, and I don't intend to offer it
16 at this time.

17 MS. CRAWFORD: In order for the Commission to
18 have the complete information, I think there is
19 detail in those letters that we maybe don't have
20 through the testimony supported. Would there be an
21 objection to putting that exhibit in --

22 MR. WOODSMALL: No, not from --

23 MS. CRAWFORD: -- either parties?

24 MR. WATROUS: No. The OPC would support it.
25 We want the Commission to have the most relevant

1 information.

2 MR. WOODSMALL: Therefore, we would offer
3 Exhibit 167, Your Honor.

4 CHAIRMAN SMITH: Thank you very much, so
5 moved.

6 (Whereupon, Exhibit No. 167 was received into
7 evidence.)

8 MS. CRAWFORD: Thank you.

9 CHAIRMAN SMITH: Okay. So with that, any
10 additional matters we need to address?

11 MR. BLOOM: Staff notes that post-hearing
12 briefs, if any, are limited to 40 pages and due to
13 be filed on July 10th.

14 CHAIRMAN SMITH: Okay. Parties -- July 10th.
15 Parties, do you have any additional matters
16 you need to present? Seeing none.

17 Okay, I appreciate all of your testimony and
18 your efficiency in this hearing. We are adjourned.

19 (Proceedings concluded.)
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CERTIFICATE OF REPORTER

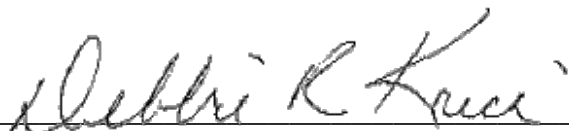
STATE OF FLORIDA)
COUNTY OF LEON)

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 23rd day of June, 2026.


DEBRA R. KRICK
NOTARY PUBLIC
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