

Control Number 44843



Item Number 23

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 CREEK WATER SUPPLY §
 CORPORATION TO AMEND ITS §
 WATER CERTIFICATE OF §
 CONVENIENCE AND NECESSITY IN §
 BOSQUE COUNTY BY §
 DECERTIFYING THE VM §
 NEIGHBORS WATER GROUP §
 TRACTS

PUBLIC UTILITY COMMISSION

OF TEXAS

2016 AUG 22 PM 1:50
 PUBLIC UTILITY COMMISSION
 FILING CLERK

COMMISSION STAFF'S FINAL RECOMMENDATION

Commission Staff (Staff) of the Public Utility Commission of Texas (Commission) files its Final Recommendation. In support of its Final Recommendation, Staff states the following:

I. Background

On June 16, 2015, Childress Creek Water Supply Corporation (Childress Creek WSC) filed an application with the Commission. Childress Creek WSC requests a decertification of a portion of its service area certificated under water certificate of convenience and necessity (CCN No. 11000). The service area is in Bosque County, Texas. The purpose of the decertification is to allow VM Neighbors Water Group to obtain exempt registration status in Docket No. 44849.¹

On June 16, 2016, the Administrative Law Judge entered Order No. 7, which requires Staff to file a recommendation on Childress Creek WSC's application by August 22, 2016. Additionally, Order No. 7 established certain deadlines for Staff to provide a proposed map and certificate to Childress Creek WSC and for Childress Creek WSC to provide consent to such maps and certificates.

On July 15, 2016, Childress Creek WSC filed its Consent Form regarding Staff's proposed map and proposed amendment to water CCN No. 11000.

¹ See *Application of VM Neighbors Water Group for Exempt Utility Registration*, Docket No. 44849 (pending).

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II. Legal Standard

The Texas Water Code details the requirements for amending a certificate of convenience and necessity. In determining whether to approve the amendment a certificate of convenience and necessity, the Commission 'shall ensure that the applicant possesses the financial, managerial, and technical capability to provide continuous and adequate service.'² With respect to water utility service, the Commission must ensure that the applicant:

- (1) is capable of providing drinking water that meets the requirements of Chapter 341, Health and Safety Code, and requirements of this code; and
- (2) has access to an adequate supply of water.³

The factors that are to be considered by the Commission are:

- (1) the adequacy of service currently provided to the requested area;
- (2) the need for additional service in the requested area, including whether any landowners, prospective landowners, tenants, or residents have requested service;
- (3) the effect of the granting of a certificate or of an amendment on the recipient of the certificate or amendment, on the landowners in the area, and on any retail public utility of the same kind already serving the proximate area;
- (4) the ability of the applicant to provide adequate service, including meeting the standards of the commission, taking into consideration the current and projected density and land use of the area;
- (5) the feasibility of obtaining service from an adjacent retail public utility;
- (6) the financial ability of the applicant to pay for the facilities necessary to provide continuous and adequate service and the financial stability of the applicant, including, if applicable, the adequacy of the applicant's debt-equity ratio;
- (7) environmental integrity;
- (8) the probable improvement of service or lowering of cost to consumers in that area resulting from the granting of the certificate or amendment; and

² Tex. Water Code § 13.241(a).

³ Tex. Water Code § 13.241(b)(1)-(2).

- (9) the effect on the land to be included in the certificated area.⁴

The Commission's substantive rules have substantially similar requirements.⁵

III. Recommendation

Staff recommends that the Commission approve the application.⁶ Childress Creek WSC is capable of providing continuous and adequate service after the decertification. Additionally, Staff recommends that the Commission approve Staff's proposed service area map and proposed amendment to water CCN No. 11000.

Staff's recommendation is based on the following factors listed in Tex. Water Code § 13.246(c):

1. Adequacy of service currently provided to the area that will be decertified. Currently, VM Neighbors Water Group provides service to the area that will be decertified.
2. Need for service in the area that will be decertified. The purpose of the decertification is to allow VM Neighbors Water Group to obtain exempt registration status in Docket No. 44849.
3. The effect of granting an amendment to water CCN No. 11000. Only Childress Creek WSC's water CCN No. 11000 will be affected by this transaction. The service area certificated under water CCN No. 11000 will be amended to reflect the decertification.
4. The ability of Childress Creek WSC to provide adequate service. Childress Creek WSC has a public water system (PWS No. 0180026) that is approved by the Texas Commission on Environmental Quality, and Childress Creek WSC currently serves approximately 805 water connections. A review of the Texas Commission on Environmental Quality's records indicates that Childress Creek WSC has no unresolved violations.
5. The feasibility of obtaining water service from an adjacent retail public utility. Staff did not analyze this factor.

⁴ Tex. Water Code § 13.246(c).

⁵ See generally 16 Tex. Admin. Code § 24.102(a)(1), (d).

⁶ Staff's recommendation is based on the attached memorandum from Debbie Reyes Tamayo from the Water Utilities Division.

6. The financial ability of Childress Creek WSC to pay for facilities necessary to provide continuous and adequate service. Staff reviewed Childress Creek WSC's audited financial statements as of June 30, 2013. As of June 30, 2013, long term debt was \$124,345 and total equity was \$1.99 million, with the corresponding debt-to-equity ratio being 0.06 to 1. A ratio of less than 1 to 1 is preferred for analysis of financial/managerial capabilities. A debt to equity ratio of 0.06 to 1 indicates that Childress Creek WSC funds operations and capital expenses with more equity than debt.

With regard to debt service coverage, as of June 30, 2013, Childress Creek WSC had operating income of \$78,192 and a depreciation expense was \$142,696. Principle and interest expense on long term debt was \$33,988. The corresponding debt service coverage ratio is 6.5 to 1. A debt service coverage ratio of at least 1.25:1 is preferred when reviewing financial capability. This minimum ratio ensures that there are sufficient reserve funds for debt payment and repairs and maintenance.

7. Impact on environmental integrity. There will be no impact on environmental integrity as a result of the transaction.

8. Improvement of service or lower of cost to customers. Staff did not analyze this factor because the application involves a decertification.

9. Effect on land. There will be no impact on environmental integrity as a result of the transaction.

Attached to this recommendation are the proposed service area map and proposed water CCN No. 11000. Childress Creek WSC has consented to the proposed service area map and proposed water CCN No. 11000

IV Conclusion

Staff recommends that the Commission approve Childress Creek WSC's decertification request and approve Staff's proposed amendments to the service area and to water CCN No. 11000.

Date: August 22, 2016

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF
TEXAS LEGAL DIVISION**

Margaret Uhlig Pemberton
Division Director
Legal Division

Stephen Mack
Managing Attorney
Legal Division

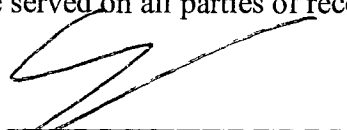


Sam Chang
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(512) 936-7261
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DOCKET NO. 44843

CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on August 22, 2016, in accordance with 16 TAC § 22.74.



Sam Chang

DOCKET NO. 44843

APPLICATION OF CHILDRESS	§	PUBLIC UTILITY COMMISSION
CREEK WATER SUPPLY	§	
CORPORATION TO AMEND ITS	§	OF TEXAS
WATER CERTIFICATE OF	§	
CONVENIENCE AND NECESSITY IN	§	
BOSQUE COUNTY BY	§	
DECERTIFYING THE VM	§	
NEIGHBORS WATER GROUP	§	
TRACTS		

MEMORANDUM FROM DEBBIE REYES TAMAYO

PUC Interoffice Memorandum

To: Sam Chang
Legal Division

Thru: Tammy Benter, Director
Lisa Fuentes, Work Leader
Water Utility Division

From: Debbie Reyes Tamayo, Program Specialist
Fred Bednarski III, Financial and Managerial Review Specialist
Patty Garcia, Engineering Specialist
Tracy Montes, GIS Specialist
Komal Patel, GIS Specialist
Water Utilities Division

Date: July 18, 2016

Subject: **Docket No. 44843;** *Application of Childress Creek Water Supply Corporation (WSC) to Amend its Water Certificate of Convenience and Necessity (CCN) in Bosque County by Decertifying the VM Neighbors Water Group Tracts*

On June 16, 2015, Childress Creek WSC (Applicant) filed an application to decertify a portion of its Certificate of Convenience and Necessity (CCN) No. 11000 in Bosque County pursuant to 16 Tex. Admin. Code §§ 24.102 through 24.105 (TAC) and Tex. Water Code § 13.246(c) (TWC). The purpose of the application is to decertify the proposed area so that VM Neighbors Water Group, who currently provides service to eight customers located in the proposed area, can proceed with their filing to obtain exempt registration status in Docket No. 44849.

In determining whether to grant or amend a CCN, the Commission shall ensure that the Applicant possesses the financial, managerial, and technical capability to provide continuous and adequate service pursuant to TWC § 13.241(a) and 16 TAC § 24.102(a). The Commission shall also consider the nine elements as stated in TWC § 13.246(c) and 16 TAC § 24.102(d). Staff has reviewed the above referenced application, and has found that it has met the requirements to amend a water CCN, as detailed below.

Proper public notice was published on April 27, 2016, and May 4, 2016, with the Clifton Record, according to the affidavits of notice received at PUC on May 19, 2016. Notice was provided to current customers, neighboring systems, cities, other affected parties and landowners in Bosque County, Texas on April 26, 2016. The comment period ended June 3, 2016, and no protests or requests to opt out were received.

TWC § 13.246(c) requires the Commission to consider nine criteria when granting or amending a CCN. The following criteria were considered:

TWC §13.246(c)(1) requires the Commission to consider the adequacy of service currently provided to the requested area. Currently, VM Neighbors Water Group provides service to the requested area. The purpose of the application is to decertify the proposed area to allow the VM Neighbors Water Group to serve the area after their registration as an exempt utility is approved by the Commission.

TWC § 13.246(c)(2) and 16 TAC § 24.102(d)(2)

In considering whether to grant or amend a certificate, the Commission shall consider the need for additional service in the proposed area. The Applicant was already certificated to serve the area. Upon approval of this application, Applicant's CCN No. 11000 will be amended by decertifying the proposed area so that VM Neighbors Water Group, who currently provides service to eight customers located in the proposed area, can proceed with their filing to obtain exempt registration status in Docket No. 44849.

TWC §13.246(c)(3) requires the Commission to consider the effect of granting an amendment on the recipient, on the landowners in the area, and on any other retail water utility servicing the proximate area. Only the Applicant's CCN No. 11000 will be affected by this application. The CCN boundaries will be amended to reflect the decertification of the proposed area. No other retail utilities or landowners will be affected by this application:

TWC §13.246(c)(4) requires the Commission to consider the ability of the applicant to provide adequate service. The Applicant has the technical capability to provide continuous and adequate service as required in 16 TAC § 24.102(a) to remainder of their current customers and its certificated area. These conclusions are based on information provided by the Applicant prior to this date and may not reflect any changes in their status subsequent to this date. The Applicant has a TCEQ approved public water system, (PWS) No. 0180026. The Applicant currently serves approximately 805 water connections. This application is to decertify an area. No new construction is needed to serve this area. The Applicant meets the requirements of 16 TAC § 24.105(a)(14)(B). The Applicant has access to an adequate supply of water and has the capacity to serve their current customers. A review of TCEQ's Central Registry database and Drinking Water Watch indicates that the PWS has no unresolved violations.

TWC §13.246(c)(5) requires the Commission to consider the feasibility of obtaining service from an adjacent retail public utility. Not applicable. The purpose of the application is to decertify a portion of the applicant's CCN area.

TWC §13.246(c)(6) requires the Commission to consider the financial ability of the applicant to pay for facilities necessary to provide continuous and adequate service. Not applicable. The CCN boundary changes will not have a material impact on the Applicant's financial or managerial capabilities. However, the Applicant's audited financial statements as of June 30, 2013 were available. The statements include an unqualified auditor's opinion that the financial statements presented fairly, in all material respects, the financial position of the Applicant as of June 30, 2013 and 2012, and the

results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Total equity for The Applicant was \$1.99 million as of June 30, 2013 and long term debt was \$124,345; therefore the Applicant's debt to equity ratio as of June 30, 2013 was \$124,345 thousand to \$1.99 million, or 0.06 to 1.00. A ratio of less than 1 to 1 is preferred for analysis of financial/managerial capabilities. The Applicant's ratio shows that The Applicant funds operations and capital expenses with more equity than debt. I also noted that operating income was \$78,192 and depreciation expense was \$142,696. Principle and interest expense on long term debt was \$33,988; therefore, the debt service coverage ratio calculates to be \$220,888 to \$33,988 or 6.5 to 1.00. A ratio of at least 1.25:1 is preferred when reviewing financial capability to ensure that reserve funds for debt payment and repairs and maintenance are built up and maintained. Additionally, the Applicant possesses a cash on hand and a bank balance of \$456,002.12.

The Applicant has an elected board of directors. The Applicant also has a certified water operator on staff and has been providing retail water utility service for many years. The Applicant does not have any unaddressed outstanding violations with the TCEQ. Therefore, I believe The Applicant has the managerial capability to continue to provide adequate service to their amended area.

TWC §§13.246(7) and (9) requires the Commission to consider the environmental integrity and the effect on the land to be included in the CCN. Not applicable. The CCN boundary change will not have a material impact on the environmental integrity of the land in the proposed areas.

TWC § 13.246(8) requires the Commission to consider the probable improvement in service or lowering of cost to consumers. Not applicable. The purpose of the application is to decertify a portion of the applicant's CCN area.

Based on my review of the application, and for the reasons stated above, the Applicant is capable of providing continuous and adequate service. The Applicant meets all of the statutory requirements of TWC Chapter 13 and 16 TAC Chapter 24 rules and regulations. Approving this application to decertify a portion of its CCN No. 11000 in Bosque County pursuant to 16 Tex. Admin. Code §§ 24.102 through 24.105 (TAC) and Tex. Water Code § 13.246(c) (TWC) is necessary for the service, accommodation, convenience and safety of the public pursuant to 16 TAC § 24.102(c). Staff recommends approval of the application.

The Applicant consented to the attached revised map and certificate on July 5, 2016, and filed with PUC on July 15, 2016. Based on the above information, Staff recommends the Commission do the following:

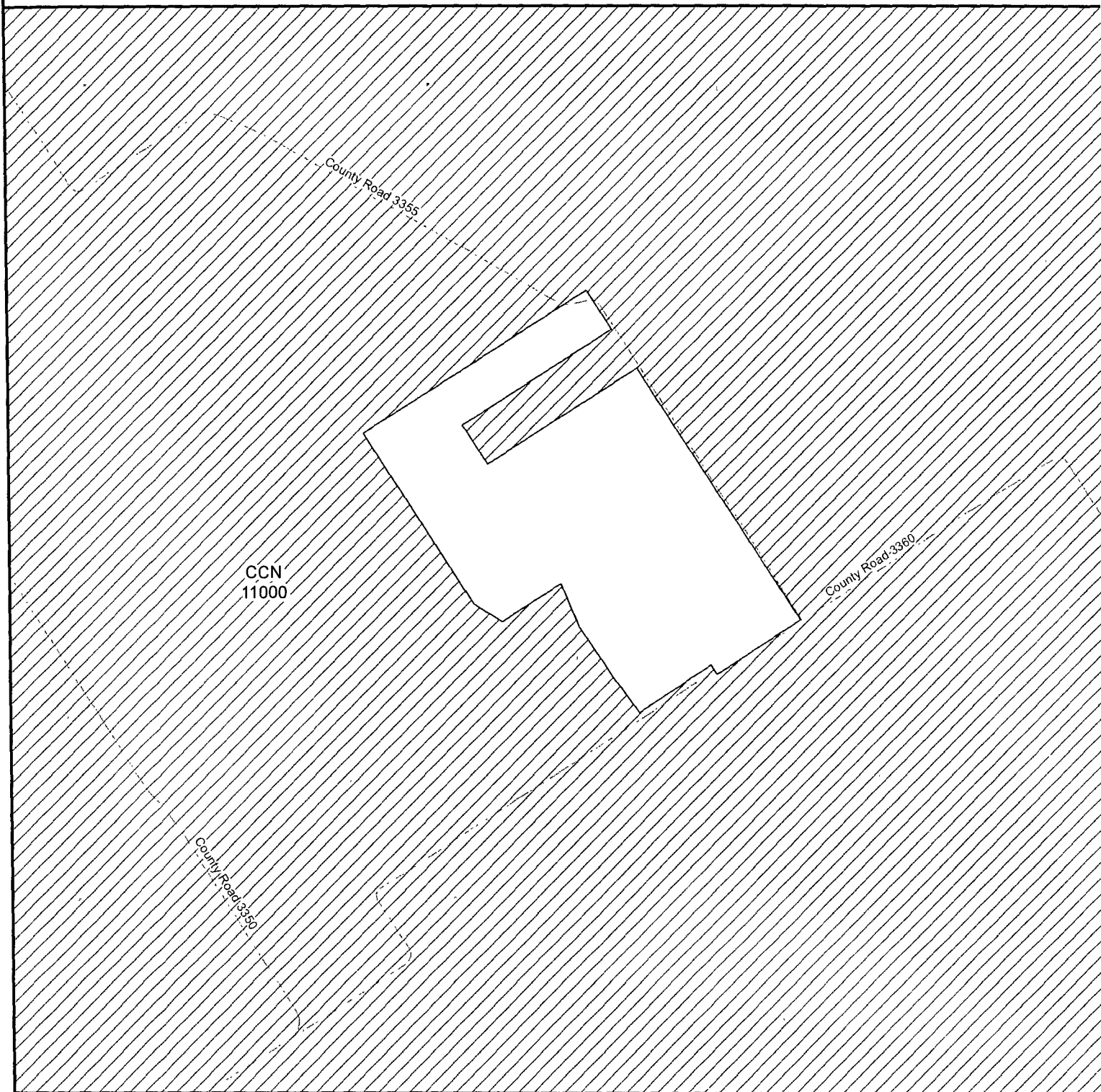
- Issue an order; and
- Provide the attached map to the Applicant.

Staff also recommends the Applicant file copies of the CCN map along with a written description of the CCN service area in the respective county clerks' offices in Bosque County pursuant to Texas Water Code § 13.257 (r) and (s).

TB/LF/DRT

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Childress Creek Water Supply Corporation
Portion of Water Service Area
CCN No. 11000
PUC Docket No. 44843
Amended CCN No. 11000 in Bosque and McLennan Counties



Public Utility Commission of Texas
1701 N. Congress Ave
Austin, TX 78701

Water CCN Service Area

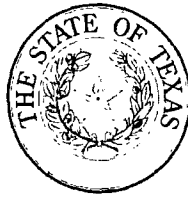


11000 Childress Creek Water Supply Corporation

0 500 1,000
Feet



Map by Komal Patel
Date created: June 27, 2016
Project Path n\finalmapping\44843ChildressCreekWSC.mxd



Public Utility Commission Of Texas

By These Presents Be It Known To All That

Childress Creek Water Supply Corporation

having obtained certification to provide water utility service for the convenience and necessity of the public, and it having been determined by this Commission that the public convenience and necessity would in fact be advanced by the provision of such service, Childress Creek Water Supply Corporation is entitled to this

Certificate of Convenience and Necessity No. 11000

to provide continuous and adequate water utility service to that service area or those service areas in Bosque and McLennan Counties as by final Order or Orders duly entered by this Commission, which Order or Orders resulting from Docket No. 44843 are on file at the Commission offices in Austin, Texas; and are matters of official record available for public inspection; and be it known further that these presents do evidence the authority and the duty of the Childress Creek Water Supply Corporation to provide such utility service in accordance with the laws of this State and Rules of this Commission, subject only to any power and responsibility of this Commission to revoke or amend this Certificate in whole or in part upon a subsequent showing that the public convenience and necessity would be better served thereby.

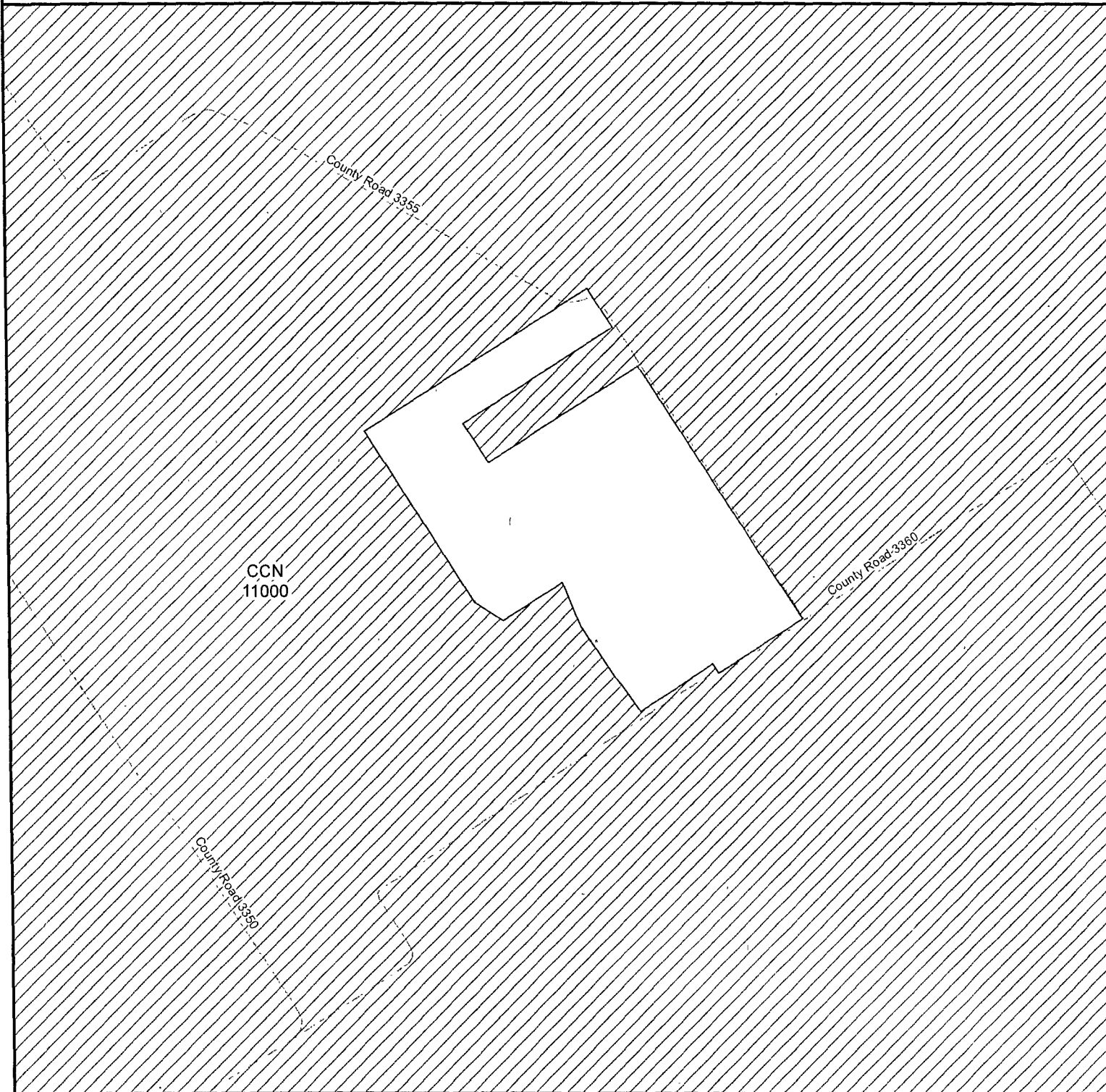
Issued at Austin, Texas, this _____ day of _____ 2016.

DOCKET NO. 44843

APPLICATION OF CHILDRESS	§	PUBLIC UTILITY COMMISSION
CREEK WATER SUPPLY	§	
CORPORATION TO AMEND ITS	§	OF TEXAS
WATER CERTIFICATE OF	§	
CONVENIENCE AND NECESSITY IN	§	
BOSQUE COUNTY BY	§	
DECERTIFYING THE VM	§	
NEIGHBORS WATER GROUP	§	
TRACTS		

COMMISSION STAFF'S PROPOSED SERVICE AREA MAP

Childress Creek Water Supply Corporation
Portion of Water Service Area
CCN No. 11000
PUC Docket No. 44843
Amended CCN No. 11000 in Bosque and McLennan Counties



Water CCN Service Area

 11000 Childress Creek Water Supply Corporation

0 500 1,000
Feet



DOCKET NO. 44843

APPLICATION OF CHILDRESS	§	PUBLIC UTILITY COMMISSION
CREEK WATER SUPPLY	§	
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WATER CERTIFICATE OF	§	
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BOSQUE COUNTY BY	§	
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NEIGHBORS WATER GROUP	§	
TRACTS		

COMMISSION STAFF'S PROPOSED AMENDED WATER CCN NO. 11000



Public Utility Commission Of Texas

By These Presents Be It Known To All That

Childress Creek Water Supply Corporation

having obtained certification to provide water utility service for the convenience and necessity of the public, and it having been determined by this Commission that the public convenience and necessity would in fact be advanced by the provision of such service, Childress Creek Water Supply Corporation is entitled to this

Certificate of Convenience and Necessity No. 11000

to provide continuous and adequate water utility service to that service area or those service areas in Bosque and McLennan Counties as by final Order or Orders duly entered by this Commission, which Order or Orders resulting from Docket No. 44843 are on file at the Commission offices in Austin, Texas; and are matters of official record available for public inspection; and be it known further that these presents do evidence the authority and the duty of the Childress Creek Water Supply Corporation to provide such utility service in accordance with the laws of this State and Rules of this Commission, subject only to any power and responsibility of this Commission to revoke or amend this Certificate in whole or in part upon a subsequent showing that the public convenience and necessity would be better served thereby.

Issued at Austin, Texas, this _____ day of _____ 2016.