



Control Number: 45151



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December 11, 2015

Mr. Brian H. Lloyd, Executive Director  
Public Utility Commission  
1701 N. Congress  
P.O. Box 13326  
Austin, Texas 78711-3326

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2015 DEC 15 AM 9:19  
PUBLIC UTILITY COMMISSION  
FILING CLERK

Re: PUC Docket No. 45151- City of Celina's Notice of Intent to Provide Retail Water and Sewer Service to 494.819 Acre Area Decertified from Mustang Special Utility District in Denton County

Dear Mr. Lloyd:

Per your request this report is a third party engineering appraisal to determine a compensation value for the approximately 495 acre tract that has been requested to be decertified from Mustang Special Utility District's (Mustang) Certificate of Convenience Necessity (CCN) Nos. 11856 and 20930 per Public Utility Commission (PUC) Order 44629 dated July 16, 2015

### BACKGROUND

The approximate 495 acre tract in question is located within both the water and sewer CCN service areas of Mustang. The City of Celina (Celina) has requested to have this approximately 495 acre tract be decertified from Mustang's water and sewer service areas and this decertification was granted in Docket No. 44629. This third party appraisal is to determine the total amount of just and adequate compensation to be paid to Mustang for the loss of the decertified tract from its CCN service areas. This third party appraisal was prepared to determine the just and adequate compensation to Mustang for the loss of the 495 Tract to its CCN service areas per 30 Tex. Admin. Code §24.113(j)(2). The value of compensation was determined using the factors in 30 Tex. Admin. Code §24.113(k) and only those factors. No compensation was given to any recoverable cost requested that is outside of those listed in the determination of value based on these factors. This engineering appraisal was conduct only for the purpose of determining the value for the decertification of this tract from Mustang's CCN service areas and does not represent an appraisal of determined value for the sale of real property.

DOCUMENTS REVIEWED

Documents reviewed for the preparation of this valuation include, but are not limited to:

1. Jack E. Stowe, Jr., NewGen Strategies & Solutions, "Analysis and Opinion of Decertified CCN from Mustang Special Utility District in PUC Docket No. 45151", Dated November 12, 2015.
2. Jason S. Jones, P.E., Jones-Heroy & Associates, Inc., Independent appraisal of the 495 acres CADG Sutton Fields Tract which has been decertified from Mustang Special Utility District Water and Sewer Certificate of Convenience and Necessity Nos. 11856 and 20930. Dated November 11, 2015
3. Filings with the Public Utility Commission of Texas in Docket No. 45151
4. Jack E. Stowe, Jr., NewGen Strategies & Solutions "Review of City of Celina's Appraisal Filed in PUC Docket No. 45151", Dated November 19, 2015
5. Jason S. Jones, P.E., Jones-Heroy & Associates, Inc., "Review of Mustang Special Utility District's Appraisal of the CADG Sutton Fields Tract Filed in Public Utility Commission (PUC) Docket No. 45151", Dated December 4, 2015
6. Section 13.254 of the Texas Water Code
7. 30 Tex. Admin. Code §24.113(j)

VALUATION OF 495 TRACT DECERTIFIED FROM MUSTANG

The following valuation to determine the just and adequate compensation to Mustang for the decertification of the 495 acre Tract was based on the factors provided in 30 Tex. Admin. Code §24.113 (i).

**Factor 1.** The amount of retail public utility's debt allocable for service in the area in question:

Mustang indicated that the value of any debt allocable to the service area in question was not included in its appraisal as it choose to value each stranded asset and assume each would be compensated under its valuation. Mustang did indicate that it has outstanding debt<sup>1</sup>. However Mustang but did not include an amount for compensation of debt service that was within the factors allowed within 30 Tex. Admin. Code §24.113(k). Celina in its appraisal did agree that a portion of Mustang's debt should be allocated to the value of the service area in question. Celina appraisal calculated this amount to be \$ 45,200.<sup>2</sup> Since Celina has agreed that some portion of debt service should be allocated to the tract being decertified even though Mustang did not request any amount for this factor, the value for this factor should be \$ 42,500.

**The value for Factor 1 is \$42,500.**

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<sup>1</sup> Jack E. Stowe, Jr., NewGen Strategies & Solutions, "Analysis and Opinion of Decertified CCN from Mustang Special Utility District in PUC Docket No. 45151" (November 12, 2015), Attachment O.

<sup>2</sup> Jason S. Jones, P.E., Jones-Heroy & Associates, Inc., Independent appraisal of the 495 acres CADG Sutton Fields Tract which has been decertified from Mustang Special Utility District Water and Sewer Certificate of Convenience and Necessity Nos. 11856 and 20930. (November 11, 2015), Page 3 of 8

**Factor 2.** The value of service facilities of the retail public utility located within the area in question:

Both Mustang and Celina in their own appraisals stated that no water nor wastewater facilities are currently located in the service area in question. Thus no value assigned to this factor.

**The value for Factor 2 is \$0.**

**Factor 3.** The amount of any expenditure for planning, design, or construction of service facilities that are allocable to service to the area in question:

The first two items in this factor are expenditures for planning and design that are allocable to service in the area in question. Mustang did not indicate in its appraisal any cost for planning or design. Celina in its appraisal did allocate \$ 900 for the tract in question proportion of Mustang's 2014 Water and Wastewater Master Plan.<sup>3</sup> Thus \$900 in value will be added for this portion of Factor 3.

The third item in determining a value for this factor is any expenditures for the construction of service facilities allocable to the area in question. Mustang in its connections projected growth in Attachment P of its appraisal indicates that growth in areas outside of the tract in question will fully absorb the loss of potential customers in the decertified tract within seven years.<sup>4</sup> A value was then determined for the construction of facilities allocated to serve the tract in question until these facilities are necessary and fully used to provide serve to future customers outside the decertified area. Mustang in its appraisal calculated a net present value for the equity portion of the facilities allocated for the decertified area to be \$ 203,392 for the seven years until these facilities are fully used to provide service to other potential customers.<sup>5</sup> Therefore, the value for this item of factor 3 should be \$ 203,392. The total value for this factor should be \$ 204,292.

**The value for Factor 3 is \$ 204,292.**

**Factor 4.** The amount of the retail public utility's contractual obligations allocable to the area in question:

Mustang in its appraisal stated that it has several contractual obligation with the Upper Trinity Regional Water District for with a portion was allocated to serve the tract in question in the future. In addition, Mustang states that these obligation could potentially be used to service future growth outside the decertified tract.<sup>6</sup> Mustang in its connection projected growth attachment in its appraisal indicates that growth in areas outside of the tract in question will fully absorb the loss of potential customers in the decertified tract within seven years.<sup>7</sup> No customers in the tract in question were ever served through these obligation as the tract does not have any current customer. Mustang will in the future need these contracted obligations to serve other potential customers. Given that Mustang never used the obligations in this tract

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<sup>3</sup> Jason S. Jones, P.E., Jones-Heroy & Associates, Inc., Independent appraisal of the 495 acres CADG Sutton Fields Tract which has been decertified from Mustang Special Utility District Water and Sewer Certificate of Convenience and Necessity Nos. 11856 and 20930. (November 11, 2015), Table 4

<sup>4</sup> Jack E. Stowe, Jr., NewGen Strategies & Solutions, "Analysis and Opinion of Decertified CCN from Mustang Special Utility District in PUC Docket No. 45151" (November 12, 2015), Attachments N.

<sup>5</sup> Jack E. Stowe, Jr., NewGen Strategies & Solutions, "Analysis and Opinion of Decertified CCN from Mustang Special Utility District in PUC Docket No. 45151" (November 12, 2015), Attachments P.

<sup>6</sup> Jack E. Stowe, Jr., NewGen Strategies & Solutions, "Analysis and Opinion of Decertified CCN from Mustang Special Utility District in PUC Docket No. 45151" (November 12, 2015), Pages 3 and 4.

<sup>7</sup> Jack E. Stowe, Jr., NewGen Strategies & Solutions, "Analysis and Opinion of Decertified CCN from Mustang Special Utility District in PUC Docket No. 45151" (November 12, 2015), Attachments N.

in question and projects that it will need these obligation in the future, it is not clearly defined that this obligation was only needed for the area in question or allocated to potential growth in other areas. Either way, Mustang projects that it will continue to need these contractual obligations to meet future growth within its other service area. Thus, no value should be allocated for this factor.

**The value for Factor 4 is \$0.**

**Factor 5.** Any demonstrated impairment of service or increased of cost to consumers of the retail public utility remaining after the decertification:

Both Mustang and Celina in their own appraisals stated that they did not believe there would be any impact on the service nor an increase in cost to consumers after the decertification of this tract from the service area in question. Therefore no value was assigned to this factor.

**The value for Factor 5 is \$0.**

**Factor 6.** The impact on future revenues lost from existing customers:

The area to be decertified does not have any existing customers thus no future revenues will be lost from existing customers. No value was allocated for this factor.

**The value for Factor 6 is \$0.**

**Factor 7.** Necessary and reasonable legal expenses and professional fees

Celina petitioned for release from the certified water and sewer service areas of Mustang. Mustang did not initiate this decertification request and certainly has the right to challenge the decertification. Even Celina agrees that Mustang has incurred legal and professional expenses in addressing this decertification. A review of the invoices provided by Mustang<sup>8</sup> for legal and professional services involving this decertification indicated that these are necessary and reasonable legal and professional expenses. If Mustang can show that it incurred other necessary and reasonable fee associated with this docket then the value for this factor should be increase to include those expenses.

**The value for Factor 7 is \$ 8,589.**

**Factor 8.** Other relevant factors:

Neither party could identify any other relevant factors. Thus, not value was allocated for other relevant factors.

**The value for Factor 8 is \$0.**

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<sup>8</sup> Jack E. Stowe, Jr., NewGen Strategies & Solutions, "Analysis and Opinion of Decertified CCN from Mustang Special Utility District in PUC Docket No. 45151" (November 12, 2015), Attachments H and I.

CONCLUSION

Based on this third party engineering appraisal, the recommended just and adequate compensation Mustang should receive for the decertification from its CCN service areas of the 495 acre tract requested should be **\$ 258,081** as summarized in Table 1.

Table 1: Value per Determining Factors

Factor 1:	\$ 45,200
Factor 2:	0
Factor 3:	204,292
Factor 4:	0
Factor 5:	0
Factor 6:	0
Factor 7:	8,589
Factor 8:	<u>\$ 0</u>
Total Value:	\$ 258,081

Should you have any further questions concerning this evaluation, please do not hesitate to contact us at (512) 264-9124.

Sincerely,



Bret W. Fenner, P.E.  
B & D Environmental, Inc.

Enclosures