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APPLICATION OF KEMPNER WATER §
 SUPPLY CORPORATION AND CITY §
 OF COPPERAS COVE FOR SALE, §
 TRANSFER, OR MERGER OF §
 FACILITIES AND CERTIFICATE §
 RIGHTS IN CORYELL COUNTY §
 (BRADFORD OAKS RANCH §
 SUBDIVISION) §

PUBLIC UTILITY COMMISSION
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 PUBLIC UTILITY COMMISSION
 FILING CLERK
 OF TEXAS

COMMISSION STAFF'S RECOMMENDATION ON FINAL DISPOSITION

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest, and files this Recommendation on Final Disposition. In support thereof, Staff shows the following:

I. Background

On September 30, 2015, Kempner Water Supply Corporation (Kempner) and the City of Copperas Cove (the City) (together the Applicants) filed an application for approval of a sale, transfer, or merger (STM) of facilities and certificate rights in Coryell County. The parties seek approval to transfer portions of Kempner's water certificate of convenience and necessity (CCN) No. 10456 and associated facilities to the City and amend the City's CCN No. 10449 accordingly. This application affects approximately 112 acres and 27 current customers in the Bradford Oaks Ranch Subdivision.

On July 12, 2016, Order No. 9 was issued finding proof of notice sufficient and requiring Staff to request a hearing or file a recommendation on the proposed transaction by August 10, 2016. Accordingly, this pleading is timely filed.

II. Recommendation on Final Disposition

As supported by the attached memorandum of Andrew Novak, Financial Analyst, Fred Bednarski III, Financial & Managerial Review Specialist, Jolie Mathis, Engineering Specialist, and Tracy Montes, GIS Specialist of the Commission's Water Utility Regulation Division, Staff recommends that the Applicants be approved to proceed with the proposed transaction. Staff recommends approval of the application because it satisfies Tex. Water Code §§ 13.241, 13.246,

and 13.301, and 16 Tex. Admin. Code §§ 24.102, 24.109 and 24.112 (TAC). Staff recommends that a public hearing is not necessary. Staff further that the Applicants file documentation as evidence that all assets have been transferred to the acquiring entity and that the disposition of any remaining deposits have been addressed as soon as possible pursuant to 16 TAC § 24.109(f).

III. Conclusion

Staff respectfully requests that an order be issued consistent with this Recommendation.


Dated: August 10, 2016

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

Margaret Uhlig Pemberton
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CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on August 10, 2016, in accordance with 16 TAC § 22.74.



Ralph J. Daigneault

PUC Interoffice Memorandum

To: Ralph Daigneault, Attorney
Legal Division

Through: Heidi Graham, Engineer Director
Water Utilities Division

From: Andrew Novak, Financial Analyst
Fred Bednarski III, Financial & Managerial Review Specialist
Jolie Mathis, Engineering Specialist
Tracy Montes, GIS Specialist
Water Utilities Division

Date: August 10, 2016

Subject: **Docket No. 45212**, *Application of Kempner Water Supply Corporation and City of Copperas Cove for Sale, Transfer, or Merger of Certificate Rights in Coryell County (Bradford Oaks Ranch Subdivision)*

On September 30, 2015, Kempner Water Supply Corporation (Seller or Kempner) and the City of Copperas Cove (Purchaser or the City) (collectively, Applicants) filed an application for approval of a sale, transfer, or merger of facilities and certificate rights in Coryell County. The application was filed pursuant to criteria in Tex. Water Code Ann. § 13.301 (TWC) and 16 Tex. Admin. Code §§ 24.106, 24.109, and 24.112 (TAC). The Applicants seek approval to transfer portions of Kempner's water Certificate of Convenience and Necessity (CCN) No. 10456 and associated customers, facilities and service area to the City and amend the City's CCN No. 10449 accordingly. This application affects approximately 112 acres and 27 current customers in the Bradford Oaks Ranch Subdivision.

The application was accepted for filing by the Commission on June 1, 2016. Proper public notice was provided on June 9, 2016, to neighboring systems, landowners, cities and affected parties in Coryell County in accordance with 16 TAC § 24.112(c). The affidavit of notice was received by the Commission on June 15, 2016. The comment period ended July 9, 2016, and no protests, or requests for hearing were received.

Pursuant to TWC §13.301(e), before the expiration of the 120-day notification period, the Commission is required to notify all known parties to the transaction whether the Commission will hold a hearing to determine if this transaction will serve the public interest. For this case, I do not believe a hearing is necessary because I believe the transaction will serve the public interest based on my review of the information in the application and the criteria listed below. I believe the City demonstrates adequate financial, managerial and technical (FMT) capability to provide service to its existing service area plus the area subject to this application. In my review of the public interest factors and the FMT capability of the City, I reviewed the requested amendments pursuant to TWC §13.246(c). Under this statute, the Commission shall consider the following nine criteria when amending a CCN:

- TWC §13.246(c)(1) requires the the adequacy of service currently provided to the requested area be considered. The City of Copperas Cove proposes to transfer a portion of the existing certificated area held by Kempner. Currently, the Bradford Oaks subdivision is part of Kempner's

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CCN. The City provides water to the area and has contracted with Topsey WSC to be the water operator in the Bradford Oaks Subdivision. No customers will be affected by this sale.

According to the most recent TCEQ inspection report dated November 19, 2014 and a review of TCEQ's Central Registry, Topsey WSC has no unresolved violations. In addition, Topsey WSC will employ experienced operators that are knowledgeable about operations as well as the requirements for continuous and adequate service.

- TWC §13.246(c)(2) requires consider the need for service in the requested area be considered. The requested area, Bradford Oaks Ranch subdivision, is currently within the City's corporate boundaries. The City currently provides water service to the area.
- TWC §13.246(c)(3) requires the effect of granting an amendment on the recipient and on any other retail utility servicing the proximate area be considered. Granting the CCN amendment to the City will have no effect on the requested area. The area, Bradford Oaks Ranch subdivision, is already receiving water service from the City. All affected parties and utilities within 2 miles were noticed and no protests or requests for hearing were received.
- TWC §13.246(c)(4) requires the ability of the applicant to provide adequate water service be considered. The City currently provides water service to approximately 12,600 service connections. The City has the capacity to serve its current customers. Additionally, the City has demonstrated that there is currently infrastructure in place to serve the additional connections. Therefore, the City meets the requirements of TWC §13.241(c)(4) and 16 TAC §24.102(d)(4).
- TWC §13.246(c)(5) requires the feasibility of obtaining service from an adjacent retail public utility to be considered. In this case, the area is currently certified to Kempner who does not have the capacity to provide water service to the area and has agreed to decertify the area. Additionally staff noted that the City already provides water service to the area and no protest or requests for hearing were received regarding the application. Therefore it is not feasible to obtain service from an adjacent retail public utility.
- TWC §13.246(c)(6) requires the financial ability of the applicant to pay for facilities necessary to provide continuous and adequate service to the area and the applicant's financial stability be considered. Bradford Oaks Ranch subdivision, is already being served by the City, therefore no additional facilities are required to serve the area. The City additionally provided its recent audited financial statements. These statements indicate the City has the financial ability as listed below.
- TWC §§13.246(c)(7) and (9) requires the environmental integrity and the effect on the land to be included in the certificate be considered. The Bradford Oaks Ranch subdivision will continue to receive water service from the City and therefore, the sale will have no effect on the land.
- TWC § 13.246(c)(8) requires the probable improvement in service or lowering of cost to consumers to be considered. Currently 27 customers exist in the requested service area. The City's water system has a superior rating from TCEQ and has no unresolved violations. There will be no change in service since the area will continue to receive quality service from the City.

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With respect to the City's financial and managerial capability, Texas Water Code § 13.246(c)(6) (TWC) requires the PUC to consider the financial ability of Copperas Cove to pay for facilities necessary to provide continuous and adequate service and the financial stability of Copperas Cove. 16 Texas Admin. Code § 24.11 (TAC) establishes criteria to demonstrate that an owner or operator of a retail public utility has the financial resources to operate and manage the utility and to provide continuous and adequate service to the current and proposed utility service area. 16 TAC § 24.11(e) lists the criteria to pass the financial tests which consists of the leverage test and operations test.

The City's audited financial statements were provided as of September 30, 2015. I noted the City's proprietary operating income was \$3.69 million and depreciation expense was \$2.34 million for the City's proprietary funds. Principle and interest expense on long term debt was \$3.84 million for the City's proprietary fund. Therefore, the debt service coverage ratio calculates to be \$6.03 million to \$3.84 thousand or 1.57 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 I noted total equity of the City was \$31.6 million. The City's long term debt to equity ratio at September 30, 2015, was \$30.1 million to \$31.6 million, or 0.98 to 1.00. A ratio of less than 1 to 1 is preferred for analysis of financial/managerial capabilities because it demonstrates that the City can leverage to borrow, if necessary, to make capital improvements. Additionally, I noted Standard & Poor rated the City's bonds AA which is a stable outlook, as of June 16, 2016. The City satisfies the leverage test pursuant to 16 TAC § 24.11 (e) (2). Furthermore the City's proprietary fund reported cash and cash equivalents in the amount of \$5.5 million for FY 2015. Finally, the City provided its water and sewer fund's adopted budget for FY2016 which reported budgeted revenues of \$12 million and expense of 11.6 million resulting in excess revenues of \$406 thousand as well as no additional monies are required for the City to serve the requested area. Therefore, the City satisfies the operations test pursuant to 16 TAC § 24.11 (e) (3). I conclude that the City has the financial capability to proceed with this application.

Additionally noted, the City has an elected City Council and Mayor. The City also has a sufficient number of certified water operators on staff and has been providing retail water utility service for many years. The City does not have any unaddressed outstanding violations with the TCEQ and currently provides water service to approximately 12,600 connections.

Pursuant to 16 TAC § 24.109(f), Staff recommends that the transaction will serve the public interest and allow the Applicants to proceed with the proposed transaction and should therefore be approved. Staff further recommends that a public hearing is not necessary. Staff also recommends that the Applicants be ordered to file documentation as evidence that all assets have been transferred to the acquiring entity and that the disposition of any remaining deposits have been addressed as soon as possible pursuant to 16 TAC § 24.109(f).

HG/AN/FB/JM/TM