

Control Number: 45715



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APPLICATION OF VILLAS OF
WILLOWBROOK HOMEOWNERS
ASSOCIATION, INC. AND MONARCH
UTILITIES I, LP FOR SALE,
TRANSFER, OR MERGER OF
FACILITIES AND CERTIFICATE
RIGHTS IN HARRIS COUNTY

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PUBLIC UTILITY COMMISSION
UTILITY COMMISSION
FILING CLERK

OF TEXAS

COMMISSION STAFF'S RECOMMENDATION

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest, and files this Recommendation, and would show the following:

I. BACKGROUND

On March 11, 2016, Villas of Willowbrook Homeowners Association, Inc. (Willowbrook) and Monarch Utilities I, L.P. (Monarch) (collectively Applicants) filed an application for the sale, transfer, or merger of facilities and certificate of convenience and necessity rights in Harris County. On August 19, 2016, Order No. 4 was issued, setting September 21, 2016 as the deadline for Staff to request a hearing or file a recommendation on the approval of the sale.

II. RECOMMENDATION

Staff recommends that the requested transaction be approved, as supported by the attached memorandum from Sean Scaff and Emily Sears of the Water Utilities Division. Specifically, Staff recommends that Monarch demonstrates adequate financial, managerial, and technical capability to provide service to the area subject to this application, as required by TEX. WATER CODE § 13.301(b). Staff further recommends that Willowbrook and Monarch be allowed to proceed with the proposed transaction.

Dated: September 21, 2016

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

Margaret Uhlig Pemberton
Division Director

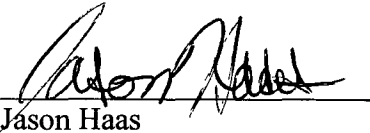
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CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on September 21, 2016 in accordance with 16 Tex. Admin. Code § 22.74.


Jason Haas

PUC Interoffice Memorandum

To: Jason Haas, Attorney
Legal Division

Thru: Tammy Benter, Director
Water Utilities Division

From: Sean Scaff, Engineering Specialist
Emily Sears, Financial Analyst
Water Utilities Division

Date: September 16, 2016

Subject: **Docket No. 45715**, *Application of Villas of Willowbrook Homeowners Association, Inc. and Monarch Utilities I, LP for sale, transfer, or merger (STM) of facilities and certificate rights in Harris County*

On March 11, 2016, Villas of Willowbrook Homeowners Association, Inc. (Willowbrook) and Monarch Utilities I, L.P. (Monarch) filed an application for the sale, transfer, or merger of facilities and certificate of convenience and necessity rights in Harris County. Specifically, Monarch seeks approval to purchase the water and sewer system assets of Willowbrook. Monarch also requests to amend its water certificate of convenience and necessity (CCN) number 12983 and sewer (CCN) number 20899.

Staff has reviewed the above referenced application and recommends that the sale be approved. Specifically, Staff finds that Monarch demonstrates adequate financial, managerial, and technical capability to provide service to the area subject to this application, as required by TWC § 13.301(b). In the review of the public interest factors and the financial, managerial, and technical capability of the Monarch, Staff reviewed the requested transaction pursuant to TWC § 13.246(c). A detailed review is provided below.

TWC § 13.246(c)(1) and 16 TAC § 24.102(d)(1)

In considering whether to amend a certificate, the Commission shall consider the adequacy of service currently provided to the requested area. Willowbrook is currently served by Harris County MUD 19 (MUD), which is a Texas Commission on Environmental Quality (TCEQ) approved public water systems (PWS). The MUD is currently serving the area on an interim basis and has placed a moratorium on the development of new connections, until new management of the facilities is available. If the CCN amendment is approved, Monarch will take over ownership of the facilities and certificate rights in the area. The MUD and Monarch have included a new wholesale agreement for water and sewer service that will go into effect once the application is approved.

Based upon documents provided by the applicant and records available from TCEQ, Staff has determined that Willowbrook constitutes a separate Public Water System as there is more than 15 permanent connections and the area is served through a master meter. Monarch is aware of this and has already applied for a PWS designation through the TCEQ and will take over full maintenance and operation of the system to meet all TCEQ required drinking water standards after the approval of the sale.

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

In considering whether to amend a certificate, the Commission shall consider the need for additional service in the proposed area. This application is for the transfer of existing facilities, customers and service area. Because this is existing service area with existing customers, the need for service was already established.

TWC § 13.246(c)(3) and 16 TAC § 24.102(d)(3)

In considering whether to amend a certificate, the Commission shall consider the effect of granting an amendment on the Applicants, on the landowners in the area, and on any retail public utility of the same kind already serving the proximate area. The effect of the proposed transaction is that the service area and customers of Willowbrook would be transferred to Monarch. In turn, Monarch's water and sewer CCNs would be amended to include the new area. In addition, the rates charged to the customers affected by this transfer will not be changing due to the transfer and there are no other retail public utilities of the same kind that would be affected by the proposed transaction.

TWC § 13.246(c)(4) and 16 TAC § 24.102(d)(4)

In considering whether to amend a certificate, the Commission shall consider the ability of the purchaser 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. Monarch is one of the largest Investor Owned Utilities (IOU) water providers in the state. As such, Monarch has the financial ability through customer collections and infusions of capital from lenders to make all necessary repairs and improvements its public water systems, as needed, to keep in full compliance with all TCEQ and Commission regulations. Additionally, the Villas of Willowbrook would be required to only staff one class C water operator. Monarch would staff four operators, three of which hold class B or higher licenses.

TWC § 13.246(c)(5) and 16 TAC § 24.102(d)(5)

In considering whether to grant or amend a certificate, the Commission shall consider the feasibility of obtaining service from an adjacent retail public utility. The proposed area will be provided retail water and sewer utility service from Willowbrook's existing infrastructure under the ownership and operation of Monarch; therefore, the feasibility of obtaining service from an adjacent retail public utility was not evaluated.

TWC § 13.246(c)(6) and 16 TAC § 24.102(d)(6)

In considering whether to grant or amend a certificate, the Commission shall consider 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. A financial review found that Monarch demonstrated adequate financial and managerial capability to provide service to the area subject to this application.

According to the application, no water or sewer facilities will be constructed or improved at this time; therefore, the Applicant will not incur any capital costs from the construction of facilities. The application shows a purchase price of \$183,144, with a net book value of \$189,964.

Based on the information provided by the Applicant in this filing, the Applicant 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. The Applicant has a debt to equity ratio of 0.49. A ratio of less than one, using long term debt and equity or net assets is preferred because it demonstrates that the Applicant can fund operations and capital costs because the Applicant is not highly leveraged and financing would reasonably be available. The Applicant also has a debt service

coverage (DSC) ratio of 1.95. A ratio of more than 1.25 is preferred because this means that the utility is able to pay back its debts comfortably. The Applicant filed its financial documentation confidentially and therefore, Staff has only presented the results of calculations to determine whether or not the Applicant meets the financial assurance tests.

TWC § 13.246(c)(7) and 16 TAC § 24.102(d)(7)

In considering whether to grant or amend a certificate, the Commission shall consider the environmental integrity of the proposed area resulting from the granting of the certificate or amendment. Because the area will be served with existing infrastructure, the amendment will not require any construction or disruption of the environment and will maintain the environmental integrity of the area.

TWC § 13.246(c)(8) and 16 TAC § 24.102(d)(8)

In considering whether to grant or amend a certificate, the Commission shall consider the probable improvement in service or lowering of cost to consumers in that area resulting from the granting of the certificate or amendment. The service will be maintained in accordance with the way in which it is currently operated. The Applicants did not include any anticipated upgrades or changes in the operation of the certificated areas which would indicate an improvement in service. The rates being charged to affected customers will stay the same after the transaction.

TWC § 13.246(c)(9) and 16 TAC § 24.102(d)(9)

In considering whether to grant or amend a certificate, the Commission shall consider the effect on the land to be included in the certificated area. The transfer of the facilities from Willowbrook to Monarch does not require any construction or disruption of the land.

Final Recommendation

Staff have considered Monarch's ability to provide continuous and adequate service pursuant to the CCN criteria outlined in 16 TAC § 24.102(d). Pursuant to 16 TAC § 24.109(f), Staff recommends the following:

1. that a public hearing on the Application is not necessary;
2. that the transaction will serve the public interest; and,
3. that the Applicants be allowed to proceed with the proposed transaction.