



Control Number: 45848



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July 6, 2016

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

RECEIVED
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PUBLIC UTILITY COMMISSION
FILING CLERK

Re: PUC Docket No. 45848: City of Celina's Notice of Intent to Provide Retail Water and Sewer Service to a 128 Acre Tract Decertified from Aqua Texas, Inc. 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 128 acre tract that has been decertified from Aqua Texas, Inc. (Aqua Texas) Certificates of Convenience Necessity (CCN) Nos. 13201 and 21059 per Public Utility Commission (PUC) Order 45329.

BACKGROUND

The approximate 128 acre tract in question was located within both the water and sewer CCN service areas of Aqua Texas. CADG Sutton Fields II, LLC requested to have this approximately 128 acre tract be decertified from Aqua Texas's water and sewer service areas and this decertification was granted in Docket No. 45329. The City of Celina (Celina) provided notice of its intent to provide retail water and sewer service to the decertified tract in this Docket. This third party appraisal is to determine the total amount of just and adequate compensation to be paid to Aqua Texas for the loss of the decertified tract from its CCN service areas. This third party appraisal was prepared 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 Aqua Texas'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. Joshua M. Korman and John Kostohryz, KOR Group "Decertification Compensation For Docket No. 45329; City Of Celina's Notice Of Intent To Provide Water And Sewer Service To Area Decertified From Aqua Texas, Inc. In Denton County, Texas; Public Utility Commission of Texas" Dated June 13, 2016.
2. Jason S. Jones, P.E., Jones-Heroy & Associates, Inc., Independent appraisal of a portion of the Aqua Texas water Certificate of Convenience and Necessity (CCN) No. 13201 and sewer CCN No. 21059, located approximately 6.5 miles southwest of the City of Celina along FM 428 and FM 1385 in Denton County, Texas. Dated June 9, 2016
3. Filings with the Public Utility Commission of Texas in Docket No. 45329 and 45848
4. Section 13.254 of the Texas Water Code
5. 30 Tex. Admin. Code §24.113

VALUATION OF 128 TRACT DECERTIFIED FROM AQUA TEXAS

The following valuation to determine the just and adequate compensation to Aqua Texas for the decertification of the 128 acre tract is based on the factors provided in 30 Tex. Admin. Code §24.113 (k).

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

Aqua Texas indicated in its appraisal that this factor was not applicable. Celina in its appraisal agreed that no value be given for this factor. Since both parties agreed that there should be no value applied for this factor then the value should be zero.

The value for Factor 1 is \$ 0.

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

Aqua Texas again determined this factor was not applicable and assigned no value to this factor. Celina in their own appraisals stated that no water nor wastewater facilities are currently located in the service area in question. Thus no value is applied for 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:

Aqua Texas in its appraisal stated that it performed planning and design activities that included the tract in question. In addition, it obtained, transferred, maintained and renewed a waste water discharge permit to specifically serve this tract. Its appraisal estimated that Aqua Texas had expenses attributed to this activities

of \$ 38, 250.¹ Celina in its appraisal agreed that Aqua Texas had maintained a waste water permit for the tract that would now become useless and valueless to Aqua Texas upon decertification. However, Celina disagreed that no other planning, nor design expenses were allocable on the area in question.² Aqua Texas performed planning and design work believing that it would be required to provide serve to the tract in question at some time in the future. Decertification of this tract will render both the allocable planning and design work and the discharge permit obsolete. Thus the value for this factor should be \$ 38,250

The value for Factor 3 is \$ 38,250.

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

Both Aqua Texas and Celina agreed that this factor was not applicable and thus, no value should be assigned 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:

Again both Aqua Texas and Celina agreed that this factor was not applicable. 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.³ Therefore no future revenues will be lost from existing customers. No value was assigned for this factor.

The value for Factor 6 is \$0.

Factor 7. Necessary and reasonable legal expenses and professional fees

Celina filed notice of its intent to provide service to the decertified of the tract in the water and sewer service area tract of Aqua Texas. Aqua Texas did not initiate the decertification request and certainly should

¹ Joshua M. Korman and John Kostohryz, KOR Group "Decertification Compensation For Docket No. 45329; City Of Celina's Notice Of Intent To Provide Water And Sewer Service To Area Decertified From Aqua Texas, Inc. In Denton County, Texas; Public Utility Commission of Texas" (June 13, 2016), Page 5

² Jason S. Jones, P.E., Jones-Heroy & Associates, Inc., Independent appraisal of a portion of the Aqua Texas water Certificate of Convenience and Necessity (CCN) No. 13201 and sewer CCN No. 21059, located approximately 6.5 miles southwest of the City of Celina along FM 428 and FM 1385 in Denton County, Texas. (June 9, 2016), Page 4 of 6

³ Public Utility Commission of Texas Order in Docket No. 45329, Finding of Facts No. 21 and 28" (March 22, 2016)

be compensated for its legal expense and professional fees associated with this Docket. Aqua Texas in its appraisal stated that it will incur \$ 31,589 of legal expense and professional fees in connection with this Docket.⁴ Celina agreed that Aqua Texas has incurred legal and professional expenses in addressing this Docket.⁵ Therefore, the value attributed to this factor should \$31,589.

The value for Factor 7 is \$ 31,589.

Factor 8. Other relevant factors:

Aqua Texas had requested \$ 916,107 in estimated value for this factor. This value as based on a determination of lost economic opportunity and intangible personal property right. Aqua Texas appraisal calculated this value using anticipated annual net income from future water and sewer customers.⁶ The rates and thus the determined income of an investor owned utility such as Aqua Texas are established by the Public Utility Commission based on the allowable expenses for an historical test year data plus known and measurable changes. As per 30 Tex. Admin. Code §24.31(c) (5) (A) (iv), known and measurable changes can be consider if they can be reasonable certainty be identified, quantified and matched. It is not known exactly what the customer base within the tract in question will be at any period in the future. Nor does Aqua Texas know what its anticipated net income will be from service to the decertified area in the future. Since a future number of connections is not known or measurable at this time, future rates for which revenues would be generated and thus any potential income cannot be determined. If Aqua Texas had existing customers in the decertified service area then it would be entitled to compensation for future lost income from its known current customer base. However, since no current are being served in the tract at the current time. Nor it is known nor measurable what would be the anticipated annual net income from future water and sewer customers no value was assigned for other relevant factors.

The value for Factor 8 is \$0.

⁴ Joshua M. Korman and John Kostohryz, KOR Group "Decertification Compensation For Docket No. 45329; City Of Celina's Notice Of Intent To Provide Water And Sewer Service To Area Decertified From Aqua Texas, Inc. In Denton County, Texas; Public Utility Commission of Texas" (June 13, 2016), Page 6.

⁵ Jason S. Jones, P.E., Jones-Heroy & Associates, Inc., Independent appraisal of a portion of the Aqua Texas water Certificate of Convenience and Necessity (CCN) No. 13201 and sewer CCN No. 21059, located approximately 6.5 miles southwest of the City of Celina along FM 428 and FM 1385 in Denton County, Texas. (June 9, 2016), Page 5 of 6

⁶ Joshua M. Korman and John Kostohryz, KOR Group "Decertification Compensation For Docket No. 45329; City Of Celina's Notice Of Intent To Provide Water And Sewer Service To Area Decertified From Aqua Texas, Inc. In Denton County, Texas; Public Utility Commission of Texas" (June 13, 2016), Page 7

CONCLUSION

Based on this third party engineering appraisal, the recommended just and adequate compensation Aqua Texas should receive for the decertification from its CCN service areas of the 128 acre tract requested should be **\$ 69,839** as summarized in Table 1.

Table 1: Value per Determining Factors

Factor 1:	\$	0
Factor 2:		0
Factor 3:		38,250
Factor 4:		0
Factor 5:		0
Factor 6:		0
Factor 7:		31,589
Factor 8:	\$	<u>0</u>
Total Value:	\$	69,839

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