

Control Number: 45919



Item Number: 16

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**DOCKET NO. 45919**

**APPLICATION OF CITY OF §  
PRINCETON TO AMEND A SEWER §  
CERTIFICATE OF CONVENIENCE §  
AND NECESSITY IN COLLIN COUNTY §**

**PUBLIC UTILITY COMMISSION**

**OF TEXAS**

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PUBLIC UTILITY COMMISSION  
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**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 May 2, 2016, the City of Princeton (Princeton) filed an application to amend its sewer certificate of convenience (CCN) No. 21057 in Collin County. Princeton seeks to amend its sewer CCN to include the city limits and extra territorial jurisdiction of Lowry Crossing, Texas.

On September 21, 2016, Order No. 4 was issued requiring Staff to file its final recommendation or request a hearing by November 14, 2016. Accordingly, this pleading is timely filed.

**II. Recommendation on Final Disposition**

Proper public notice of the application was provided on August 18 and August 25, 2016, in *The Princeton Herald*. In addition, on August 18, 2016, individual notice was provided to neighboring systems, landowners, cities and affected parties in Collin County. Affidavits stating that notices were published in the newspaper and provided to all affected parties were filed with on September 6, 2016. The comment period ended September 24, 2016, and no protests or requests for hearing were received.

Staff has completed its formal review of the application on the merits and, based upon the attached memorandum of Fred Bednarski III, Financial Examiner and Patricia Garcia, Engineer in the Commission's Water Utilities Division, Staff recommends approval of the application. Princeton meets all of the statutory requirements of TWC Chapter 13 and the 16 TAC Chapter 24.

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Approving this application to amend CCN No. 21057 is necessary for the service, accommodation, convenience and safety of the public pursuant to 16 TAC § 24.102(c).

Princeton consented to the attached map and certificate on October 27, 2016. Staff also recommends that Princeton file certified copies of the CCN map along with a written description of the CCNs service area in the county clerk's office pursuant to TWC § 13.257 (r) and (s).

### **III. Proposed Procedural Schedule**

Staff proposes a revised deadline of December 2, 2016 to submit a joint proposed notice of approval including findings of fact, conclusions of law, and ordering paragraphs if no disputed issues exist.

### **IV. Conclusion**

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


**Dated: November 14, 2016**

Respectfully Submitted,

### **PUBLIC UTILITY COMMISSION OF TEXAS LEGAL DIVISION**

Margaret Uhlig Pemberton  
Division Director

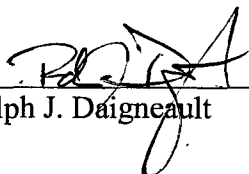
Karen S. Hubbard  
Managing Attorney

  
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**DOCKET NO. 45919**

**CERTIFICATE OF SERVICE**

I certify that a copy of this document will be served on all parties of record on November 14, 2016, in accordance with 16 TAC § 22.74.

  
\_\_\_\_\_  
Ralph J. Daigneault

## PUC Interoffice Memorandum

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**To:** Ralph Daigneault, Attorney  
Legal Division

**Thru:** Heidi Graham, Team Leader  
Water Utilities Division

**From:** Fred Bednarski III, Financial Examiner  
Patricia Garcia, Engineer  
Water Utilities Division

**Date:** November 14, 2016

**Subject:** **Docket No. 45919**, *Application of City of City of Princeton to Amend its Sewer Certificates of Convenience and Necessity in Collin County*

On May 02, 2016 the City of Princeton (Applicant or Princeton) filed an application to amend its sewer Certificate of Convenience and Necessity (CCN) No. 21057 in Collin County pursuant to 16 Tex. Admin. Code §§ 24.8 and 24.102-24.106 (TAC) and Tex. Water Code § 13.246(c) (TWC). The application was deemed sufficient for filing on August 5, 2016.

Proper public notice of the application was provided on August 18 and August 25, 2016, in *The Princeton Herald*. In addition, on August 18, 2016, individual notice was provided to neighboring systems, landowners, cities and affected parties in Collin County. Affidavits stating that notices were published in the newspaper and provided to all affected parties were filed with the PUC on September 6, 2016. The comment period ended September 24, 2016, and no protests or requests for hearing were received.

Based on my review of the information provided by Princeton, I believe Princeton demonstrates adequate financial, managerial, and technical (FMT) capability to provide service to the area subject to this application. TWC §13.246(c) requires the Commission to consider nine criteria when granting or amending a CCN. Therefore, the following criteria were considered:

- TWC §13.241(b) For sewer utility service, the Commission shall ensure that the Applicant has a TCEQ approved system that is capable of meeting the TCEQ's design criteria for sewer treatment plants, TCEQ rules and the TWC. According to TCEQ's Central Registry website, the Applicant has a Non-Permitted Water Quality system Identification No. R04106035892. The City of Princeton purchases sewer services from North Texas Municipal Water District (NTMWD). A contract was provided for review to the Public Utility Commission of Texas (Commission).
  
- TWC §13.246(c)(1) requires the commission to consider the adequacy of service currently provided to the requested area. The proposed area located in Lowry Crossing currently has septic tanks. The City of Princeton proposes to extend sewer service to the area. Staff determined that the City of Princeton is able to provide sewer utility service to the customers in the proposed area through the contract with NTMWD.

- TWC §13.246(c)(2) requires the commission to consider the need for service in the requested area. The City of Lowry Crossing currently does not have sewer service and desires to have retail sewer service provided within the city limits and the extra-territorial jurisdiction (ETJ) of the city. Residents of the City of Lowry Crossing are currently served via individual private septic systems. On January 12, 2016, the City of Lowry Crossing City Council passed Resolution No. 84 supporting the inclusion of the City limits and the ETJ within the sewer certificate of convenience and necessity (CCN) of the City of Princeton.
- TWC §13.246(c)(3) requires the commission to consider the effect of granting an amendment on the recipient and on any other retail water utility servicing the proximate area. Granting an amendment to the City of Princeton's sewer CCN is expected to help the City of Lowry Crossing develop existing undeveloped land. Several developers have indicated that they will develop land along HWY 380 in the City of Lowry Crossing if sewer service becomes available. Proper notice was provided to other retail water utilities in the area and no protest were received. Therefore granting the amendments will have minimal effect on the recipient and other retail water utilities.
- TWC §13.246(c)(4) requires the commission to consider 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. The proposed area located in Lowry Crossing currently has septic tanks. The City of Princeton proposes to extend sewer service to the area. Staff determined that the City of Princeton is able to provide sewer utility service to the customers in the proposed area through the contract with NTMWD.
- TWC §13.246(c)(5) requires the commission to consider the feasibility of obtaining service from an adjacent retail public utility. On January 12, 2016, the City of Lowry Crossing City Council passed Resolution No. 84 supporting the inclusion of the City limits and the ETJ within the sewer certificate of convenience and necessity (CCN) of the City of Princeton. Additionally, proper notice was provided to other retail water utilities and no protests were received. Therefore it is not feasible for an adjacent retail public utility to service the requested 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 to the area and the applicants financial stability. Princeton currently has excess capacity to provide sewer service to the requested area. Princeton provided its recent audited financial statements. These statements indicate Princeton has the financial ability as listed below.
- 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 certificate. Land in the proposed area is currently not receiving service and are on septic systems.
- TWC § 13.246(8) requires the commission to consider the probable improvement in service or lowering of cost to consumers. Currently, sewer service is not being provided in the area requested. The City of Lowry Crossing has received request for sewer service from land owners.

## Financial Test

Texas Water Code § 13.246(c)(6) (TWC) requires the PUC to consider the financial ability of the Princeton to pay for facilities necessary to provide continuous and adequate service and the financial stability of Princeton. 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 financial tests. Staff notes that the following discussion shows that Princeton meets three out of four leverage tests in which the Princeton is only required to meet one.

16 TAC § 24.11(e)(2) refers to the leverage test. Below is a summary of all four leverage tests' results:

- a. 16 TAC § 24.11(e)(2)(A) states that the owner or operator must have a **debt to equity ratio of less than one**, using long term debt and equity or net assets. Based on the calculations below the Applicant has a debt to equity ratio of 0.99 which meets the debt to equity ratio requirement.
  - i. FY2015 Equity = \$20,112,033
  - ii. FY 2015 Long-Term Notes Payable = \$20,086,786
  - iii. FY 2015 Debt to Equity Ratio =  $\$20,086,786 / \$20,112,033 = 0.99$
- b. 16 TAC § 24.11(e)(2)(B) states the owner or operator must have a **debt service coverage ratio of more than 1.25** using annual net operating income before depreciation and non-cash expenses divided by annual combined long term debt payments. Based on the calculations below the applicant has a debt service coverage ratio of 1.59 which meets the debt service requirement.
  - i. FY2015 Total Funds Annual Net Operating Income before depreciation and non-cash expenses = \$4,025,639
  - ii. FY2015 Annual Long-term Debt Payments = \$2,537,349
  - iii. FY2015 Debt Service Ratio =  $\$4,025,639 / \$2,537,349 = 1.59$
- c. 16 TAC § 24.11(e)(2)(C) states the owner or operator must have **sufficient unrestricted cash available as a cushion for two years of debt service**. Based on the calculations below there is sufficient cash and pooled investments, including restricted cash for debt service, available for two years of debt service which does not meet this requirement.
  - i. FY2015 Total Pooled Investments and Cash Available = \$2,788,878
  - ii. Two Years Debt Service Payments = \$5,074,698
  - iii.  $< \$2,285,820$

- d. 16 TAC § 24.11(e)(2)(D) states the owner or operator must have **an investment-grade credit rating** from Standard & Poor's Financial Services LLC, Moody's Investors Service, or Fitch Ratings Inc. Princeton has an A+ or Stable investment grade credit rating from Standard and Poor. Therefore Princeton does meet this requirement since the Applicant has an investment-grade credit rating.

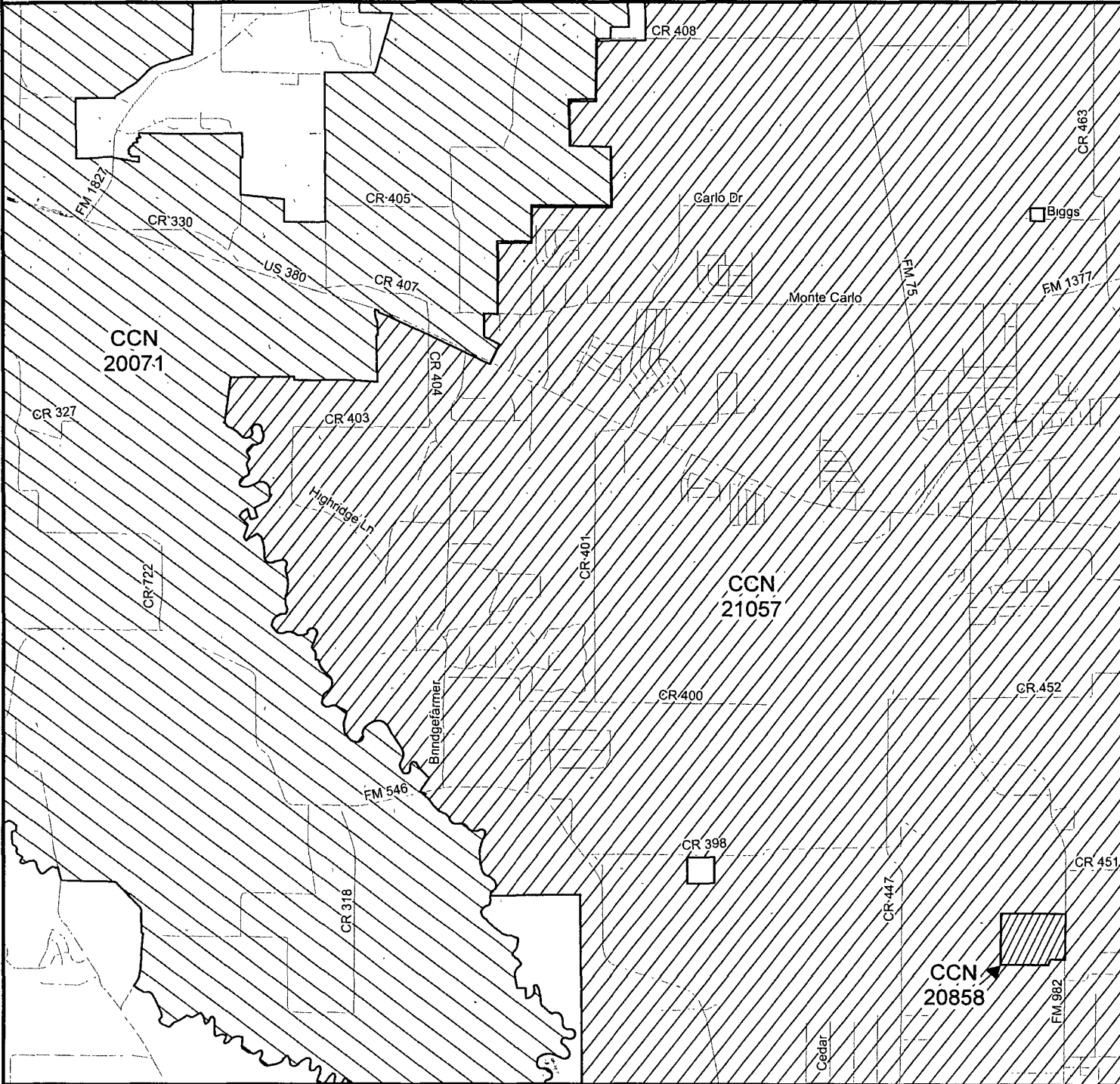
16 TAC § 24.11(e)(3) refers to the operations test. This states that the owner or operator must demonstrate sufficient cash is available to cover any projected operations and maintenance shortages in the first five years of operations. Princeton currently operates a sewer system that serves approximately 2,806 connections in their sewer CCN area of 28,147 acres and does not have any income shortages. Additionally noted per Princeton's budget no shortages are foreseen. Princeton has the capacity and ability to serve their current and requested areas and no improvements are needed to meet the Texas Commission on Environmental Quality standards. Thus, there are no cash shortages to cover.

Princeton meets all of the statutory requirements of TWC Chapter 13 and the Commission's Chapter 24 rules and regulations, and is capable of providing continuous and adequate service as detailed above. Approving this application to amend Princeton's CCN No. 21057 is necessary for the service, accommodation, convenience and safety of the public.

Staff recommends approval of the application. The Applicant consented to the attached map and certificate on October 27, 2016. Staff also recommends that the Applicant file certified copies of the CCN map along with a written description of the CCNs service area in the county clerk's office pursuant to TWC § 13.257 (r) and (s).






City of Princeton  
 Portion of Sewer Service Area  
 CCN No. 21057  
 PUC Docket No. 45919  
 Amended CCN No. 21057 in Collin County



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

**Sewer CCN Service Areas**

-  21057 - City of Princeton
-  20071 - City of McKinney
-  20858 - Lavon Country Meadows Ltd

Map by: Kristy Ngu  
 Date created: October 18, 2011  
 Project Path: n:\Final Maps\45919.r



# **Public Utility Commission of Texas**

**By These Presents Be It Known To All That  
City of Princeton**

having obtained certification to provide sewer 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, City of Princeton is entitled to this

## **Certificate of Convenience and Necessity No. 21057**

to provide continuous and adequate sewer utility service to that service area or those service areas in Collin County as by final Order or Orders duly entered by this Commission, which Order or Orders resulting from Docket No. 45919 are on file at the Commission offices in Austin, Texas; and are a matter of official record available for public inspection; and be it known further that these presents do evidence the authority and the duty of City of Princeton 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, the \_\_\_\_\_ day of \_\_\_\_\_ 2016.