



Control Number: 45942



Item Number: 8

Addendum StartPage: 0

DOCKET NO. 45942

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APPLICATION OF SWEA GARDENS
ESTATE UTILITY, INC. AND
MUNICIPAL OPERATIONS, LLC FOR
SALE, TRANSFER OR MERGER OF
FACILITIES AND CERTIFICATE
RIGHTS IN HARRIS COUNTY

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PUBLIC UTILITY COMMISSION
OF TEXAS
PUBLIC UTILITY COMMISSION
FILING CLERK

COMMISSION STAFF'S SECOND ADMINISTRATIVE COMPLETENESS RECOMMENDATION

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest and files this response to Order No. 2, Staff's Administrative Completeness Recommendation. In support, thereof, Staff would show the following:

I. BACKGROUND

On May 9, 2016, Swea Gardens Estate Utility, Inc. (Swea Gardens) and Municipal Operations, LLC (Municipal Operations) (collectively, Applicants) filed an application (the Application) with the Public Utility Commission of Texas (Commission) for sale, transfer, or merger of facilities and certificate rights in Harris County. Municipal Operations seeks approval to acquire the water assets and certificate rights of Swea Gardens. These include transfer of Swea Gardens' water certificate of convenience and necessity (CCN) No. 11872, which would affect approximately 2 acres and 495 current customers.

On June 9, 2016, the Commission administrative law judge (ALJ) issued Order No. 2, finding the application deficient and requiring the Applicants to file a supplement curing the identified deficiencies by June 21, 2016. Municipal Operations filed a supplement to address these deficiencies on June 30, 2016. Order No. 2 also requiring Staff to file a supplemental recommendation regarding the administrative completeness of the Application by July 21, 2016. Therefore, this pleading is timely filed.

II. DEFICIENCY RECOMMENDATION

As indicated in the attached memorandum of Emily Sears and Kristy Nguyen of the Water Utilities Division, Staff reviewed the supplemental materials submitted by the Applicants and determined that the Application is still not sufficient. The Applicants did sufficiently

8

respond to three of the deficiency issues identified by Staff's recommendation by supplying a copy of the sales contract, reconciling the historical and projected taps with the connection count, and utilizing Swea Garden's information to appropriately reflect financial indicators. However, in response to Staff's request for historical financial information from Municipal Operations, the Applicants state that "Municipal Operations, LLC is a newly formed company with no historical financial records."¹ Staff notes that the Application states, "Municipal Operation has been in business for 14 years..."² Staff requests that Municipal Operations, LLC clarify its ownership structure. If it is owned by a parent company, then Municipal Operations should provide historical financial information for that parent company. If Municipal Operations, LLC is both new and independent (i.e. with no parent company or affiliate companies that could provide financial support), then Municipal Operations should confirm that and may ultimately be required to supply a bond or financial assurances. Because of this continued insufficiency, Staff recommends that the Application be found administratively incomplete at this time and that the Applicants be ordered to address this matter.

III. PROCEDURAL SCHEDULE

Due to the deficiencies in the Application, Staff does not recommend a procedural schedule for the evaluation of the merits of the Application at this time. Staff recommends that the Applicants be given until August 5, 2016 to file a supplement addressing the identified deficiency in the Application.

IV. CONCLUSION

For the reasons stated above, Staff respectfully recommends that the Application be found insufficient and that the Applicants be ordered to file a supplement addressing the deficiencies identified by August 5, 2016.

Dated: July 21, 2016

¹ Municipal Operation's Supplement to the Application at 1 (June 30, 2016).

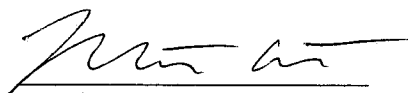
² Application at 5 (May 9, 2016).

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

Margaret Uhlig Pemberton
Division Director

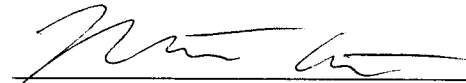
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**DOCKET NO. 45942
CERTIFICATE OF SERVICE**

I, Matthew A. Arth, Attorney – Legal Division of the Public Utility Commission of Texas, certify that a copy of this document was served on all parties of record in this proceeding on July 21, 2016 in the following manner: via mail.



Matthew A. Arth

Public Utility Commission of Texas

Memorandum

To: Matthew Arth, Attorney
Legal Division

Through: Tammy Benter, Director
Water Utilities Division

From: Emily Sears, Financial Analyst
Kristy Nguyen, GIS Specialist
Water Utilities Division

Date: July 19, 2016

Subject: Docket No. 45942; *Application of Swea Gardens Estate Utility, Inc. and Municipal Operations, LLC for Sale, Transfer, or Merger of Facilities and Certificate Rights in Harris County*

Background

On May 9, 2016, Municipal Operations, LLC (Municipal Operations or Purchaser) filed an application to purchase facilities and transfer Certificate of Convenience and Necessity (CCN) No. 11872 of Swea Gardens Estate Utility, Inc. (Swea Gardens or Seller) (collectively Applicants), in Harris County, Texas. The Application was filed pursuant to Section 13.251 of the Tex. Water Code (TWC) and Title 16, Chapter 24 of the Tex. Admin. Code (TAC).

On June 8, 2016, Staff recommended that the application be found insufficient for filing and recommended that the Applicant provide additional information. Order No. 2 requested that Staff provide a supplemental recommendation regarding administrative completeness of this application by July 21, 2016. Municipal Operations filed supplemental information responding to Staff's recommendation on June 30, 2016. After reviewing this supplemental information, Staff determined that the Applicants sufficiently addressed three of the four identified deficiencies, including supplying the purchase agreement, a reconciliation of connections, and an answer for Sections A and C of Question 13 in the application. However, the issue of Municipal Operation's historical financial information has not been sufficiently addressed. Staff recommends that the application be deemed administratively incomplete and therefore not accepted for filing due to the deficiencies detailed below.

Application Content

In order to continue processing the application, the applicant must provide the following information:

1. Clarify which entity or entities own Municipal Operations, LLC and/or whether Municipal Operations, LLC has any affiliate companies which could provide financing to Municipal Operations, LLC if necessary.
2. Provide historical financial information for Municipal Operations, LLC's owner(s) or affiliate company. Such historical financial information may be filed confidentially.