



Control Number: 46451



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DOCKET NO. 46451

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PUBLIC UTILITY COMMISSION
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**APPLICATION OF THE CITY OF §
ROYSE CITY TO AMEND ITS WATER §
AND SEWER CERTIFICATES OF §
CONVENIENCE AND NECESSITY AND §
DECERTIFY A PORTION OF §
VERANDAH MUNICIPAL UTILITY §
DISTRICT'S SERVICE AREA IN HUNT §
AND ROCKWALL COUNTIES §**

PUBLIC UTILITY COMMISSION

OF TEXAS

COMMISSION STAFF'S FINAL RECOMMENDATION

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

I. BACKGROUND

On October 18, 2016, the City of Royse City filed an application to amend its water and sewer certificates of convenience and necessity (CCN) Nos. 12827 and 20813 and to decertify a portion of Verandah MUD's water and sewer CCNs in Hunt and Rockwall Counties. On February 10, 2017, Order No. 5 was issued, setting May 11, 2017 as the deadline for Staff to file its final recommendation, if no hearing was requested.

II. FINAL RECOMMENDATION

Staff recommends that the application be granted, as supported by the attached memorandum from Greg Charles, Engineering Specialist in the Water Utilities Division. Specifically, Staff recommends that Royse City meets all of the statutory requirements of Texas Water Code Chapter 13 and the Commission's Chapter 24 rules and regulations, is capable of providing continuous and adequate service, and has the financial, technical, and managerial capability to provide continuous and adequate service. If the application is granted, Staff also recommends that the Applicant file a copy of each CCN map along with a written description of the CCN service area in the county clerks' office pursuant to Texas Water Code § 13.257 (r) and (s).

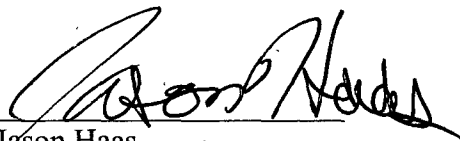
Dated: May 11, 2017

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

Margaret Uhlig Pemberton
Division Director

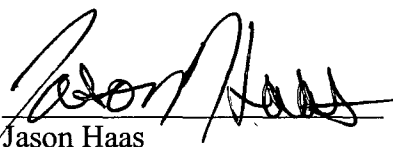
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CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on May 11, 2017 in accordance with 16 Tex. Admin. Code § 22.74.


Jason Haas

PUC Interoffice Memorandum

To: Jason Haas, Attorney
Legal Division

Thru: Heidi Graham, Manager
Lisa Fuentes, Manager
Water Utilities Division

From: Greg Charles, Engineering Specialist
Water Utilities Division

Date: May 9, 2017

Subject: **Docket No. 46451:** *Application of the City of Royse City to Amend its Water and Sewer Certificates of Convenience and Necessity (CCN) and Cancel Verandah Municipal Utility District's CCN in Hunt and Rockwall Counties*

On October 18, 2016, the City of Royse City (Royse City or Applicant) filed with the Public Utility Commission of Texas (Commission) an application to amend its water Certificate of Convenience and Necessity (CCN) No. 12827 and sewer CCN No. 20813, and to cancel Verandah Municipal Utility District's (Verandah MUD) CCN Nos. 13101 and 20958 in Hunt and Rockwall Counties. The application is being reviewed under Texas Water Code (TWC) §§13.242-.250 and 16 Tex. Admin Code §§ 24.101-.107 (TAC).

The application was accepted for filing on November 18, 2016. Notice to neighboring systems, landowners and cities was mailed on January 4, 2017. Proper notice was published on January 11, and January 18, 2017, in the *Royse City Herald Banner*, a newspaper having general circulation Hunt and Rockwall Counties. The affidavits of notice were filed with the Commission on January 30 and February 2, 2017. The comment period ended February 17, 2017, and no protests or requests to opt out were received.

Financial Test

TWC § 13.246(c)(6) requires the Public Utility Commission of Texas (Commission) to consider the financial ability of Royse City to pay for facilities necessary to provide continuous and adequate service and the financial stability of Royse City. 16 TAC § 24.11 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. The applicant must meet one of the leverage tests and the operations test. Royse City provided a copy of audited financial statements for the fiscal year ending December 31, 2014 and 2015. Based on the following discussion, Staff recommends that Royse City showed that it meets the required criteria:

- 1) 16 TAC § 24.11(e)(2)(B) requires that 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.**
 - i. Annual Net Operating Income before depreciation and non-cash expenses = \$1,910,237
 - ii. Annual Long-term debt payments = \$227,335,
 - iii. Ratio = \$1,910,237/\$227,335= 8.40

Royse City meets this ratio criterion.

- 2) **16 TAC § 24.11(e)(3) refers to the operations test. This section requires that the owner or operator must demonstrate that sufficient cash is available to cover any projected operations and maintenance shortages in the first five years of operations.**
 - a. There are no projected operations and maintenance shortages. Therefore, Royse City meets this test.

Based on the above discussion, Staff recommends that Royse City possesses adequate financial ability to provide continuous and adequate service.

Criteria Considered

TWC § 13.246(c) requires the Commission to consider nine criteria when granting or amending a CCN. Therefore, the following criteria were considered:

TWC §13.246(c)(1) requires the commission to consider the adequacy of service currently provided to the requested area. The Applicant currently purchases treated water for its distribution system from North Texas Municipal Water District (NTMWD). A review of TCEQ's Central Registry shows that the system currently has no drinking water violations. The Applicant water systems currently serve about 16,462 connections, and proposed to serve an additional 500 connections for a total of 16,962 connections. They are required to retain two operators with a minimum of a "Class C" operator's licenses. The Applicant has three "Class C" licenses and two "Class D" licenses.

TWC §13.246(c)(2) requires the commission to consider the need for service in the requested area. The land will be developed under the provisions of a Development Agreement as a planned residential community, therefore there is need for service within the proposed area.

TWC §13.246(c)(3) requires the commission to consider the effect of granting an amendment on the recipient and on any other retail public utility servicing the proximate area. Granting the application will have no effect on Royse City's ability to provide adequate water and sewer service, and will have no effect on any other retail public utility serving the proximate area.

TWC §13.246(c)(4) requires the commission to consider the ability of the Applicant to provide adequate service. Based on the information in the application, granting the application will not affect Royse City's ability to provide adequate water and sewer services.

TWC §13.246(c)(5) requires the commission to consider the feasibility of obtaining service from an adjacent retail public utility. The Applicant, as a municipality, annexed the proposed area, and plans to provide water and sewer services to the area. Therefore, the feasibility of obtaining service from an adjacent retail public utility was not evaluated.

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. Based on the review of the application and information provided, the Applicant has demonstrated adequate financial capability to provide service to the area being requested.

TWC §§13.246(7) and (9) require the commission to consider the environmental integrity and the effect on the land to be included in the certificate. There will be no effect on the environmental integrity of the land since the Applicant is currently purchasing 100% of treated water from NTMWD.

TWC § 13.246(8) requires the commission to consider the probable improvement in service or lowering of cost to consumers. The Applicant is currently providing adequate service to its existing customers. There will be no change in the cost or level of service for the proposed area, because the area is new.

The Applicant meets all of the statutory requirements of Texas Water Code Chapter 13 and the Commission's Chapter 24 rules and regulations. Approval of this application will result the amendment of the Applicant's CCN Nos. 12827 and 20813, and the cancellation of Verandah MUD's CCN Nos. 13101 and 20958 in Hunt and Rockwall Counties.

The Applicant is capable of providing continuous and adequate service. Staff recommends that Royse City has demonstrated adequate financial, managerial, and capability to provide service to the area subject to this application, and recommends approval of the application.

Based on the above information, Staff recommends the Commission issue an order approving the application and provide the attached map and certificate to the Applicant.