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P.U.C. DOCKET NO. 46452

APPLICATION OF ALTOGA WATER	§	PUBLIC UTILITY COMMISSION
SUPPLY CORPORATION AND	§	
NORTH COLLIN COUNTY SPECIAL	§	OF TEXAS
UTILITY DISTRICT FOR SALE,	§	
TRANSFER, OR MERGER OF	§	
FACILITIES AND CERTIFICATE	§	
RIGHTS IN COLLIN COUNTY	§	

COMMISSION STAFF'S MEMORANDUM IN SUPPORT OF FILING

The attached memorandum was inadvertently omitted from Staff's earlier filed Recommendation on Sale and Request for Additional Time.

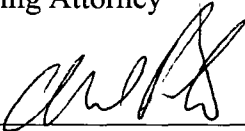
Dated: February 14, 2018

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF
TEXAS LEGAL DIVISION**

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**P.U.C. DOCKET NO. 46452
CERTIFICATE OF SERVICE**

I certify that a copy of this document will be served on all parties of record on February 14, 2018 in accordance with 16 TAC § 22.74.



Alexander Petak

PUC Interoffice Memorandum

To: Alexander Petak
Legal Division

Thru: Lisa Fuentes, Manager
Heidi Graham, Manager
Water Utility Regulation Division

From: Greg Charles, Engineer
Water Utility Regulation Division

Date: January 29, 2018

Subject: **Docket 46452**, *Application of Altoga Water Supply Corporation and North Collin Special Utility District, for sale, transfer, or merger (STM) of facilities and certificate rights in Collin County.*

On October 18, 2016, Altoga Water Supply Corporation (Altoga) and North Collin Special Utility District (North Collin) filed an application for the sale, transfer, or merger of facilities and certificate rights in Collin County. Specifically, North Collin seeks approval to acquire all of the water assets of Altoga held under water certificate of convenience and necessity (CCN) No. 12580. The total area being requested includes approximately 4,160 acres and 338 current customers. The application was reviewed pursuant to Texas Water Code §§ 13.241, 13.246, and 13.301 (TWC), and 16 Texas Administrative Code §§ 24.102 and 24.109 (TAC).

Pursuant to TWC § 13.301(e), before the expiration of the 120-day notification period, the Commission is required to notify all known parties to the transaction whether the Commission will hold a hearing to determine if the transaction will serve the public interest. The deadline for intervention was January 2, 2017. The Commission received requests for a hearing during the 30 day comment period from the City of Princeton. The application was referred to SOAH by order on January 11, 2017. A notice of settlement was filed on December 5, 2017, and the application was remanded to the Commission on January 26, 2018.

Staff reviewed the public interest factors and the financial, managerial, and technical capability of the North Collin pursuant to TWC § 13.246(c). Under this statute, the Commission shall consider the following nine criteria when amending a CCN:

- ***TWC § 13.241(b) and 16 TAC § 24.102(a) require the Commission to ensure that the applicant has a Texas Commission on Environmental Quality (TCEQ) approved system that is capable of providing drinking water that meets the requirements of Texas Health and Safety Code, Chapter 341 and TCEQ rules, and has access to an adequate supply of water.*** The Applicant has a TCEQ approved public water system with adequate water supply, since it purchases treated water from North Texas Municipal Water District.
- ***TWC § 13.246(c)(1) and 16 TAC § 24.102(d)(1) require the Commission to consider the adequacy of service currently provided to the requested area.*** North Collin is currently contracted to operate and maintain the Altoga's water system until all the assets are acquired.
- ***TWC § 13.246(c)(2) requires the Commission to consider the need for service in the requested area.*** Not applicable. The requested area is already being served by its water system.

- ***TWC § 13.246(c)(3) requires the Commission to consider the effect of granting of a certificate or of an amendment on the recipient and on any other retail water utility servicing the proximate area.*** The effect of the proposed transaction would provide Altoga's customers with a better managed and more financially stable system.
- ***TWC § 13.246(c)(4) and 16 TAC § 24.102(d)(4) require the Commission to consider the ability of the Buyer to provide adequate service.*** North Collin has the professional management and licensed operators to provide adequate service.
- ***TWC § 13.246(c)(5) requires the Commission to consider the feasibility of obtaining service from an adjacent retail public utility.*** This is not applicable since the transaction is occurring for managerial and financial reasons.
- ***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 and the financial stability of the applicant.*** 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 following discussion based on the projected financial statements provided shows that the applicant met the criteria:

1) 16 TAC § 24.11(e)(2) refers to the leverage test in which the applicant must meet one or more of four criteria as applicable to this application:

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.

- i. Annual net operating income before depreciation and non-cash expenses = \$926,696
- ii. Annual long-term debt payments = \$218,901

The North Collin meets the criterion because the debt to service coverage ratio is greater than 1.25

2) 16 TAC § 24.11(e)(3) refers to the operations test. This states 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.

Cash shortages were not reflected in the historical financial statements and demonstrate there is sufficient cash available to cover any projected operations and maintenance shortages, therefore the applicant meets this criterion.

Therefore, based on the review of the application and information provided, North Collin has demonstrated adequate financial and managerial capabilities to provide service to the areas being requested.

- ***TWC §§ 13.246(c)(7) and (9) require the Commission to consider the environmental integrity and the effect on the land to be included in the certificate.*** The environmental integrity of the

land included in the area to be acquired should not be affected by this transaction since the area is currently receiving service.

- ***TWC § 13.246(c)(8) requires the Commission to consider the probable improvement in service or lowering of cost to consumers.*** North Collin's rates are lower than Altoga's rates. There is a possibility that Altoga's customers will see a decrease in rates.

Staff has reviewed the above referenced application, and based on the information in the application and the applicable laws and rules, Staff has determined that North Collin is capable of providing continuous and adequate service to the requested area. Furthermore, Staff believes the transaction will serve the public interest. Therefore, Staff recommends that a public hearing is not necessary and the Applicants be allowed to proceed with the proposed transaction.

Staff further recommends that North Collin be ordered to file documentation as evidence that all assets have been transferred to the acquiring entity, and that the disposition of any remaining deposits have been addressed as soon as possible.

The approval of the sale expires six months from the date of the Commission's written approval of the sale. If the sale is not consummated within that period, and unless North Collin requests and receives an extension from the Commission, the approval is void and North Collin must re-apply for the approval of the transaction. In addition, the CCN will remain in the name of Altoga until the transfer is completed and approved in accordance with the Commission rules and regulations as required by 16 TAC § 24.109(o).