



Control Number: 46806



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APPLICATION OF MELVIN BLOCK §
AND CITY OF BRIDGE CITY FOR §
SALE, TRANSFER, OR MERGER OF §
FACILITIES AND CERTIFICATE §
RIGHTS IN ORANGE COUNTY §

PUBLIC UTILITY COMMISSION

OF TEXAS
PUBLIC UTILITY COMMISSION
FILING CLERK

COMMISSION STAFF'S RECOMMENDATION ON SALE

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest, and files this Recommendation on Sale in response to Order No. 3 and would show the following:

I. BACKGROUND

On January 26, 2017, Melvin Block and the City of Bridge City (collectively, Applicants) filed an application for sale, transfer, or merger of facilities and certificate rights in Orange County, Texas. Specifically, Bridge City seeks to acquire a portion of Melvin Block's facilities and service area under water Certificate of Convenience and Necessity (CCN) No. 11438 and add the acquired facilities and service area to Bridge City's CCN No. 12802.

On March 16, 2017, Order No. 3 was issued, establishing a deadline of May 5, 2017 for Staff to request a hearing or file a recommendation on approval of the sale. This pleading is therefore timely filed.

II. RECOMMENDATION

As detailed in the attached memorandum from Janie Kohl in the Commission's Water Utility Regulation Division, Staff has reviewed the application and recommends that the Applicants be authorized to proceed with the sale. Specifically, Staff's review indicates that the transaction would satisfy the relevant statutory and regulatory criteria, including the factors contained in Texas Water Code (TWC) § 13.246(c) and the relevant financial, managerial, and technical criteria. Staff therefore recommends that the Applicants be authorized to proceed with the transaction, and that a deadline of seven days from the filing of closing documents and documentation regarding the disposition of customer deposits, if any, be established for Staff to

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file a recommendation on the sufficiency of the documentation and propose a procedural schedule for further processing of the application.

III. CONCLUSION

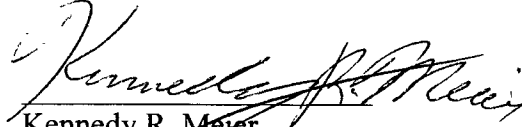
For the reasons stated above, Staff recommends that the Applicants be authorized to proceed with the transaction and that a deadline of seven days from the filing of proof of sale documentation be established for Staff to file a recommendation on the documentation and propose a procedural schedule.

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF
TEXAS LEGAL DIVISION**

Margaret Uhlig Pemberton
Division Director

Katherine Lengieza Gross
Managing Attorney

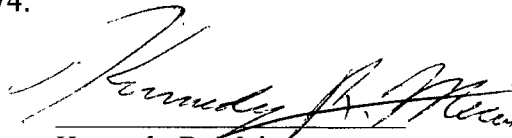


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DOCKET NO. 46806

CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on this the 4th of May, 2017 in accordance with 16 TAC § 22.74.


Kennedy R. Meier

PUC Interoffice Memorandum

To: Kennedy Meier
Legal Division

From: Janie Kohl, Financial Analyst
Water Utility Regulation

Through: Heidi Graham
Water Utility Regulation

Date: May 3, 2017

Subject: *Docket 46806, Application of Melvin Block and City of Bridge City for Sale, Transfer, or Merger of Certificate of Convenience and Necessity in Orange County*

On January 26, 2017, Melvin Block (Community Water Systems or Seller) and the City of Bridge City (Bridge City or Purchaser), (Collectively, the Applicants) filed an application for sale, transfer, or merger of facilities and certificate of convenience and necessity rights in Orange County, Texas, pursuant to 16 Tex. Admin. Code §§ 24.101 - .109 (TAC), Tex. Water Code §§ 13.241 - .245, 13.257, and 13.301 (TWC). Specifically, Bridge City seeks approval to acquire a portion of the water system assets of Community Water Systems held under Water Certificate of Convenience and Necessity No. 11438. The total area requested includes approximately 23 acres and serves 31 customers.

In my opinion, Bridge City has demonstrated adequate financial and managerial capability to provide continuous and adequate service to the area subject to this application. These conclusions are based on information provided by the Applicants prior to this date and may not reflect any changes in the Applicants' status subsequent to this review.

Background

Bridge City is proposing to amend its water CCN No. 12802 in Orange County to expand its service area to include the Cherry Hill Subdivision, which is currently included in the CCN of Community Water Systems CCN No. 11438. The Cherry Hill Subdivision purchases water from Bridge City. Upon finalization of this application Cherry Hill Subdivision main line will be upgraded from a 2" line to a 6" line and will be incorporated into Bridge City's overall water distribution system to be upgraded in the next 5 years. The proposed service area is generally located approximately 2.41 miles west of downtown City of Bridge City, Texas, and is generally bounded on the North by Willoughby Street, on the East by Nelson Street, on the South by F.M Highway 1442, and on the West by Spooner Street.

The application was accepted for filing by the Commission on March 3, 2017. Proper public notice was provided on March 6, 2017, to neighboring systems, cities and affected parties in Orange County in accordance with the requirements of TWC § 13.246(a) and 16 TAC § 24.106. The Applicants filed affidavits of notice on March 8, 2017. The comment period ended on April 5, 2017. The Commission received no protests, intervention requests, or requests for hearing.

Pursuant to TWC § 13.301(e) and 16 TAC § 24.109(j), 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. Based on Staff's review of the information in the application and the criteria listed below, we conclude that a hearing is not recommended because the transaction would serve the public interest. Staff also concluded that Bridge City demonstrated adequate managerial and technical capability to provide service to the requested service area.

Analysis

To review whether the transaction is in the public interest and the financial capability of the Purchaser, the Commission shall consider if the Purchaser is capable of providing continuous and adequate service to the proposed area based on the following nine criteria, as listed in TWC § 13.246(c) and 16 TAC §§ 24.11 and 24.102(d):

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. The Cherry Hill Subdivision has a TCEQ approved water system, public water system No. 1810018. The City of Bridge City has a TCEQ approved water system, public water system No. 1810001. The Applicants also provided the results of the most recent Comprehensive Compliance Investigation (CCI) from the TCEQ for both public water systems. Both systems have TTHM violations, the City indicated that well number 3 was removed from service to correct issues with the well that were related to the TTHM violations. The most recent test results from the well are not exceeding TTHM levels.

TWC § 13.246(c)(2) and 16 TAC § 24.102(d)(2), require the Commission to consider the need for service in the requested area, including whether any landowners, prospective landowners, tenants, or residents have requested service. The fact that there are existing customers in the requested area demonstrates the need for service. The purpose of this transaction is for Bridge City to acquire a portion of Community Water System's service area through a sale, transfer, or merger.

TWC § 13.246(c)(3) and 16 TAC § 24.102(d)(3), require the Commission to consider the effect of granting or amending a certificate on the recipient and on any other retail water utility servicing the proximate area. Only the Purchaser's and Seller's current customers and CCNs will be affected by this transaction, of which the Commission received no protests. As a result of the proposed transaction, the Commission will transfer a portion of Community Water System's water service area and facilities to Bridge City. Utilities located within the area were notified of the transaction and no protests from other interested utilities were noted.

TWC § 13.246(c)(4) and 16 TAC § 24.102 (d)(4) require the Commission to consider the ability of the Purchaser to provide adequate service, including meeting the standards of the Commission and taking into consideration the current and projected density and land use of the area. Bridge City has five licensed operators, one class A operator, one class B operator, and three class C operators, to manage the proposed service area. Service is provided through an approved water system, public water system No. 1810001 which has no unresolved violations with the Texas Commission on Environmental Quality (TCEQ) as of March 9, 2017.

TWC § 13.246(c)(5) and 16 TAC § 24.102(d)(5) require the Commission to consider the feasibility of obtaining service from an adjacent retail public utility. These provisions are not applicable in this case because the area already contains facilities and Community Water Systems has selected a nearby retail public utility, the City of Bridge City, to manage the facilities and daily operations.

Texas Water Code § 13.246(c)(6) and 24.102(d)(6) require 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 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 the Purchaser meets three of the five leverage tests, of which the Purchaser is only required to meet one in order to demonstrate financial capability. Staff also noted that the Purchaser met the operations test when cash balances were taken into consideration. The operations test 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.

Total equity reported for Bridge City ranged from \$15.4 million and \$20.8 million for the years 2010-2011 and 2014-2015. Long term debt ranged from \$1.6 million to \$6.7 million during the same time period, which resulted in debt ratios ranging from 0.10 to 0.37. A ratio of less than one to one is preferred for analysis of financial/managerial capabilities. A ratio of less than one to one, such as Bridge City's ratio, shows that Bridge City's operations and capital expenses are funded with more equity than debt.

Operating income before depreciation and non-cash expenses ranged between \$1.9 million and \$5.2 million for the following years: 2010-2011, 2012-2013, 2013-2014, and 2014-2015. Annual long-term debt payments ranged between \$995.8 thousand and \$1.2 million resulting in ratios of 1.59, 2.67, 2.98, and 5.23, respectively. A ratio of at least 1.25 to 1 is preferred when reviewing financial capability to ensure that reserve funds for debt payment, repairs, and maintenance are built up and maintained. Bridge City's operating income trend clearly demonstrates that it has the financial capability to cover any necessary debt payments, repairs, and maintenance.

Adequate cash on hand to cover two years debt service payments was also demonstrated for five consecutive years. Total cash available 2010-2011 through 2014-2015 ranged from \$3.2 million to \$8.2 million with two years' debt service payments for the same time period ranging from \$1.9 million to \$2.4 million. Bridge City has demonstrated sufficient cash balances to cover any projected operations costs or maintenance shortages over the next five years of operations.

TWC §§ 13.246(c)(7) & (c)(9) and 16 TAC §§ 24.102(d)(7) & (d)(9) require the Commission to consider the environmental integrity and the effect on the land to be included in the certificate. Within the next five years, Bridge City plans to upgrade the main line for the Cherry Hill Subdivision from a 2" line to a 6" line which will have minimal impact on the environment and land since there are existing lines and facilities in place.

TWC § 13.246(c)(8) and 16 TAC § 24.102(d)(8) require the Commission to consider the probable improvement in service or lowering of cost to customers. The customers' water rates will change to match the rates of the City of Bridge City's customers.

Recommendation

Staff has considered Bridge City's financial, managerial, and technical capabilities to provide continuous and adequate service pursuant to the CCN criteria outlined in 16 TAC § 24.102(d). Pursuant to 16 TAC § 24.109(k), Staff recommends that the Applicants be approved to go forward with the sale and transfer.