



Control Number: 47113



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APPLICATION OF BLACKLAND §
WATER SUPPLY CORPORATION §
AND CITY OF ROYSE CITY FOR §
SALE, TRANSFER, OR MERGER OF §
FACILITIES AND CERTIFICATE §
RIGHTS IN ROCKWALL COUNTY §

PUBLIC UTILITY COMMISSION
OF TEXAS

FILED IN THE PUBLIC UTILITY COMMISSION
FILE NO. 47113

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. 4 and would show the following:

I. BACKGROUND

On May 1, 2017, Blackland Water Supply Corporation (Blackland) and the City of Royse City (City) (collectively, Applicants) filed an application for sale, transfer, or merger of facilities and certificate rights in Rockwall County, Texas. Specifically, the City seeks to acquire a portion of Blackland's facilities and certificate rights under water certificate of convenience and necessity (CCN) No. 11305.

On August 21, 2017, Order No. 4 was issued, establishing a deadline of October 13, 2017, for Staff to request a hearing or file a recommendation on approval of the sale and on issuance of a certificate. This pleading is therefore timely filed.

II. RECOMMENDATION

As detailed in the attached memorandum from Debbie Reyes Tamayo 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

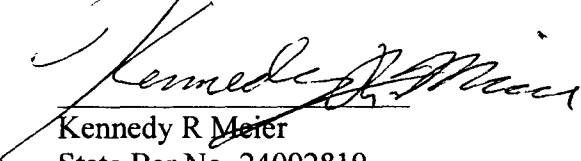
For the reasons stated above, Staff recommends that the Applicants be authorized to proceed with the transaction and that a deadline of seven days from the filing of proof of sale documentation be established for Staff to file a recommendation on the documentation and propose a procedural schedule.

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF
TEXAS LEGAL DIVISION**

Margaret Uhlig Pemberton
Division Director

Katherine Lengieza Gross
Managing Attorney

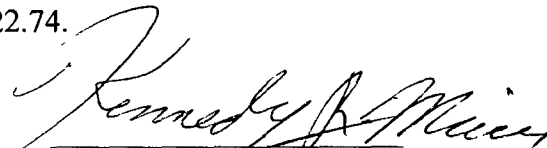


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DOCKET NO. 47113

CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on this the 13th of October, 2017 in accordance with 16 TAC § 22.74.


Kennedy R. Meier

PUC Interoffice Memorandum

To: Kennedy Meier, Attorney
Legal Division

Thru: Tammy Benter, Director
Heidi Graham, Manager
Water Utility Regulation Division

From: Debbie Reyes Tamayo, Program Specialist
Water Utility Regulation

Date: October 11, 2017

Subject: **Docket 47113**, *Application of Blackland Water Supply Corporation and City of Royse City for Sale, Transfer, or Merger of Facilities and Certificate Rights in Rockwall County*

On May 1, 2017, City of Royse City (City or Buyer), Certificate of Convenience and Necessity (CCN) No. 12827 and Blackland Water Supply Corporation (WSC or Seller), CCN No. 11305, (collectively, Applicants) filed an application with the Public Utility Commission of Texas (Commission) for the sale, transfer, or merger (STM) of a portion of the WSC's water service area in Rockwall County. The application is being reviewed under Texas Water Code Chapter § 13.301 (TWC) and 16 Tex. Admin. Code § 24.109 (TAC).

Background

The City is seeking approval to transfer approximately 70 acres and 0 current customers. The comment period ended September 7, 2017, and no protests were received.

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 WSC does not have any existing facilities or customers.

TWC § 13.246(c)(2) requires the Commission to consider the need for service in the requested area. An agreement to transfer the CCN area from the WSC to the City was filed with the application. Therefore, the need for service in the requested area was not considered.

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. There will be no effect on any retail public utility servicing the proximate area as there are no other water providers in the area.

TWC § 13.246(c)(4) requires the Commission to consider the ability of the Applicant to provide adequate service. The City has a TCEQ approved public water system (PWS) ID No. 1990002. The City does not have any current violations. The first two phases of the new development will be approximately 268 connections and are less than 10% of the City's overall distribution system. The Applicant filed a letter from a professional engineer that states the Applicant's construction project to serve the requested area does not qualify as a significant change under 30 TAC

§290.39(j)(i)(D) and therefore does not require the submission of engineering plans and specifications to the TCEQ.

TWC § 13.246(c)(5) requires the Commission to consider the feasibility of obtaining service from an adjacent retail public utility. Currently, there are no other water providers in the 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. Under 16 TAC § 24.11, criteria are established to evaluate whether 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 requested utility service area. The financial tests are listed in 16 TAC § 24.11(e).

Financial Test

The applicant must meet one of the leverage tests and the operations test.

- 1) **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 net operating income and the current portion of long term debt.** The City meets the leverage test according to the following:
 - i. Net Operating Income 2016= \$2,621,526
 - ii. Yearly debt service= \$548,858
 - iii. Ratio = \$2,621,526/\$548,848= 4.78
- 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.** The City projects no shortages in operations, and possesses sufficient cash and liquid assets to cover any potential shortages due to this transaction in the future.

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 will be minimally affected by construction when the distribution lines and collection lines are put into the ground to serve the future customers in this area.

TWC § 13.246(c)(8) requires the Commission to consider the probable improvement in service or lowering of cost to consumers. No rates are currently being charged to the requested area. The City will set appropriate rates for the requested area after the transaction is approved.

Based on a review of the application and information provided, the City has demonstrated adequate financial, managerial, and technical capabilities to provide service to the requested area

Recommendation

Staff has considered the City's ability to provide continuous and adequate service and recommends the following:

1. The Applicants be notified that a public hearing is not necessary;
2. The Commission find that the transaction will serve the public interest and allow the Applicants to proceed with the proposed transaction; and
3. The Applicants be ordered to file documentation as evidence that the transaction has closed and that the disposition of any remaining deposits have been addressed as soon as possible pursuant to 16 TAC § 24.109(m)-(n).

Lastly, 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 the City and the WSC request and receive an extension from the Commission, the approval is void and the City and the WSC must re-apply for the approval of the sale. In addition, the City and the WSC should be informed that the CCNs will remain in the name of Blackland Water Supply Corporation until the transfer is complete and approved in accordance with the Commission's rules and regulations.