



Control Number: 47190



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DOCKET NO. 47190

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APPLICATION OF FROGNOT
WATER SUPPLY CORPORATION
AND NORTH FARMERSVILLE
WATER SUPPLY CORPORATION
FOR SALE, TRANSFER, OR MERGER
OF FACILITIES AND CERTIFICATE
RIGHTS AND FOR DUAL
CERTIFICATION OF CERTAIN
AREAS IN COLLIN, HUNT AND
FANNIN COUNTIES

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PUBLIC UTILITY COMMISSION

OF TEXAS

FILED WITH PROCEEDING ON
NOV 17 2017

COMMISSION STAFF'S RECOMMENDATION ON PROCEEDING WITH SALE

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest and files this Recommendation on Proceeding with Sale.

I. BACKGROUND

On May 18, 2017, Frognot Water Supply Corporation (Frognot) applied amend its water certificate of convenience and necessity (CCN) No. 10164 in Collin, Hunt and Fannin Counties by transferring existing customers and facilities from the North Farmersville Water Supply Corporation to Frognot, and for dual certification in certain areas with North Farmersville WSC, Caddo Basin SUD, and, West Leonard WSC.

Order No. 2 restyled this matter as a Sale, Transfer, or Merger Application (Application) and included North Farmersville WSC (Farmersville) as a co-applicant. Order No. 4 deemed the Application sufficient. Order No. 5 instructed Staff to make a recommendation on the sale.

II. RECOMMENDATION ON SUFFICIENCY

As noted in the Attached memorandum of Emily Sears of the Water Utilities Division, Staff recommends that the Applicants proceed with the sale and file closing documents with the Commission. Staff further recommends that no hearing is necessary.

III. CONCLUSION

Staff respectfully requests the issuance of an order consistent with the above recommendations.

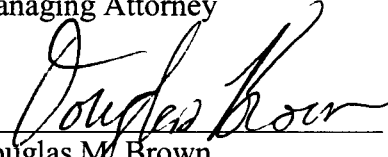
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Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

Margaret Uhlig Pemberton
Division Director

Stephen Mack
Managing Attorney

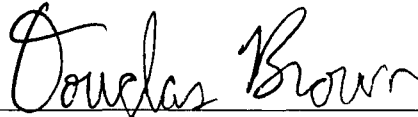
A handwritten signature in black ink, appearing to read "Douglas M. Brown", written over a horizontal line.

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CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on or before November 17, 2017, in accordance with 16 Tex. Admin. Code § 22.74.



Douglas M. Brown

PUC Interoffice Memorandum

To: Douglas Brown, Attorney
Legal Division

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

From: Emily Sears, Financial Analyst
Water Utility Regulation

Date: November 7, 2017

Subject: **Docket No. 47190;** *Application of Frognot Water Supply Corporation and North Farmersville Water Supply Corporation for Sale, Transfer, or Merger of Facilities and Certificate Rights and for dual Certification of Certain Areas in Collin, Hunt and Fannin Counties*

On May 18, 2017, Frognot Water Supply Corporation (Frognot or Applicant) applied to amend its water Certificate of Convenience and Necessity (CCN) No. 10164 in Collin, Hunt and Fannin Counties. The application was filed pursuant to Texas Water Code §§ 13.242-13.250, and 13.301 (TWC) and 16 Texas Administrative Code §§ 24.8, 24.101 - 24.107, and 24.109 (TAC).

Background

The Applicant has requested to transfer customers and facilities from North Farmersville Water Supply Corporation (North Farmersville) to the Applicant, to obtain dual certification with North Farmersville Water Supply Corporation, to obtain dual certification with Caddo Basin Special Utility District (Caddo Basin), and to obtain dual certification with West Leonard WSC (West Leonard). The total service area being requested includes approximately 1,331 acres and 41 current customers.

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 Applicants have Texas Commission on Environmental Quality (TCEQ) approved public water systems (PWS) which are currently in compliance with TCEQ requirements for PWS's. Frognot operates PWS ID 0430035, and North Farmersville operates PWS ID 0430043. North Farmersville requested Frognot take over a portion of its existing distribution system to keep the total number of North Farmersville service connections less than 250, and therefore does not exceed their current capacity.

A development in the West Leonard CCN is unable to obtain adequate service and has requested service from Frognot due to similar capacity issues as North Farmersville.

TWC §13.246(c)(2) requires the commission to consider the need for service in the requested area.

North Farmersville requested the Applicant to take over a portion of its existing distribution system to keep the total number of North Farmersville connections to less than 250. North Farmersville is concerned about proposed growth in its service area. Frognot has installed a distribution line to serve these existing North Farmersville customers. In doing so, the installed line crossed approximately 700' of Caddo Basin's CCN, for which Frognot is requesting dual certification. Also, a development in the West Leonard CCN is unable to obtain adequate service from West Leonard, and has requested service from Frognot, for which Frognot is requesting dual certification.

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.

No additional retail public utilities will be affected.

TWC §13.246(c)(4) requires the commission to consider the ability of the Applicant to provide adequate service.

Frognot's plant capacity is currently at 45% of production, 32% of storage, 39% of pressure tank and 62% of service pump in accordance with TCEQ requirements. They are able to address the growth in the area that North Farmersville and West Leonard cannot. The addition of the 63 customers from North Farmersville does not significantly impact the capacity reserves.

TWC §13.246(c)(5) requires the commission to consider the feasibility of obtaining service from an adjacent retail public utility.

North Farmersville requested Frognot take over a portion of its existing distribution system to keep the total number of North Farmersville service connections less than 250, and therefore does not exceed their current capacity. Frognot is able to address the growth in the area that North Farmersville and West Leonard cannot.

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.

16 TAC § 24.11(e) lists the financial tests. The Applicant does not meet any of the financial leverage tests. However, Staff recommends that the Commission find good cause exists to require only the operations test, since the Applicant is able to cover its current financial obligation with no losses. Furthermore, at the end of 2016 the Applicant will have \$213,218 in outstanding loans (20% of total loans outstanding) maturing, with another \$20,485 in outstanding loans maturing in 2017. Also, since the infrastructure has already been installed, there will be no need for any further financial investment in construction.

16 TAC § 24.11(e)(3) refers to the operations test which requires 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. The Applicant has not submitted projections in its application; however, based on the Applicant's 2015 Audited Financial Statements the Applicant had \$91,837 in operating income. Thus, there are no shortages to cover.

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.

The environmental integrity and effect on the land was not considered since no construction is necessary to serve the requested area.

TWC § 13.246(8) requires the commission to consider the probable improvement in service or lowering of cost to consumers.

The amendment will allow North Farmersville to continue to be in compliance with the Texas Commission on Environmental Quality's rules and regulations within its CCN area. It will also allow the customers in the West Leonard area to obtain adequate service.

The Applicants meet all of the statutory requirements of TWC Chapter 13 and the Commission's Chapter 24 rules and regulations. Approving this application to transfer a portion of the customers and facilities of water CCN No. 12363 to the Applicant, to dually certify area with North Farmersville CCN No. 12363, to dually certify area with Caddo Basin CCN No. 10165, and to dually certify area with West Leonard CCN No. 10157 is necessary for the service, accommodation, convenience and safety of the public.

Recommendation on approval of sale

Staff recommends the Commission find that the transaction will serve the public interest, that good cause exists to require that the applicant meet only the operations test in accordance with §24.11(e)(1), and allow the Applicants to proceed with the proposed transaction.

Staff further recommends:

1. The Applicants be notified that a public hearing is not necessary; and
2. 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 transaction. If the transaction is not completed within that period, and unless Frognot, North Farmersville, Caddo Basin and West Leonard request and receive an extension from the Commission, the approval is void and they must reapply for the approval of the transaction. In addition, the CCNs will remain in the name of North Farmersville, Caddo Basin and West Leonard until the transfer is complete and approved in accordance with the Commission's rules and regulations.