

Control Number: 47922



Item Number: 15

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APPLICATION OF DAL-HIGH WATER LLC AND MONARCH UTILITIES I, L.P. FOR SALE, TRANSFER, OR MERGER OF FACILITIES AND CERTIFICATE RIGHTS IN HENDERSON COUNTY	§ § § § § §	PUBLIC UTILITY COMMISSION OF TEXAS	2018 JUN 13 AM 11:23 FILED CLERK
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### COMMISSION STAFF'S RECOMMENDATION ON THE TRANSACTION

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest, and files this Commission Staff's Recommendation on the Transaction. Staff recommends that the transaction be approved. In support thereof, Staff would show the following:

#### I. BACKGROUND

On January 3, 2018, Dal-High Water LLC and Monarch Utilities I, L.P. (collectively, Applicants) filed an application for approval of the sale, transfer, or merger of facilities and certificate rights in Henderson County. Specifically, Dal-High seeks approval to transfer all of its water service area under certificate of convenience and necessity No. 12830 to Monarch Utilities I, L.P. The total area being requested includes approximately 32 acres and services 46 current customers.

On May 1, 2018, the administrative law judge (ALJ) issued Order No. 4, requiring Staff to request a hearing or file a recommendation on approval of the sale by June 13, 2018. Therefore, this pleading is timely filed.

#### II. RECOMMENDATION TO APPROVE THE SALE TO PROCEED

As detailed in the attached memorandum of Fred Bednarski of the Commission's Water Utility Regulation Division, Staff recommends that the Applicants be approved to proceed with the transaction.

#### III. CONCLUSION

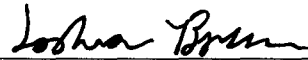
Staff respectfully requests that the ALJ issue an order consistent with the above recommendation.

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF  
TEXAS LEGAL DIVISION**

Margaret Uhlig Pemberton  
Division Director

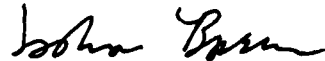
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**CERTIFICATE OF SERVICE**

I certify that a copy of this document will be served on all parties of record on June 13, 2018 in accordance with 16 TAC § 22.74.



Joshua Adam Barron

## PUC Interoffice Memorandum

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**To:** Joshua Barron, Attorney  
Legal Division

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

**From:** Fred Bednarski, Financial Examiner  
Water Utility Regulation Division

**Date:** June 13, 2018

**Subject:** **Docket No. 47922**, *Application of Dal-High Water LLC and Monarch Utilities I L.P. for Sale, Transfer, or Merger of Facilities and Certificate Rights in Henderson County*

On January 03, 2018, Monarch Utilities I, L.P. (Monarch or Purchaser) and Dal-High Water LLC (Dal-High or Seller) (collectively, Applicants) filed an application for sale, transfer, or merger (STM) of facilities and certificate rights in Henderson County, Texas, pursuant to Texas Water Code Ann. (TWC) § 13.301 and the 16 Tex. Admin Code (TAC) § 24.109. Specifically, the Purchaser seeks approval to acquire facilities and to transfer water service area from Seller under water Certificate of Convenience and Necessity (CCN) No. 12830. The requested area includes approximately 32 acres and 46 connections.

### **Background**

The Applicants are seeking to amend water CCN No. 12983 by transferring the service area of approximately 32 acres, facilities, and 46 existing customers from CCN No. 12830 to CCN No. 12983 and canceling CCN No. 12830.

### **Notice**

The comment period ended May 13, 2018, and no protests or opt-out requests 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.***

Dal-High has a Texas Commission on Environmental Quality (TCEQ) approved public water system (PWS) ID No. 1070159 and has access to an adequate supply of water. Dal-High's public water system also has no outstanding violations.

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

Because there are existing customers, there is a need for service.

***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 of the same kind already 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.***

Dal-High has a TCEQ approved public water system. The Dal-High's public water system does not have any violations listed in the TCEQ database. Additionally the Dal-High's public water system has access to an adequate supply of water and has the capacity to serve the requested area. Monarch employs TCEQ certified water operators and is in compliance with TCEQ rules.

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

Dal-High's public water system is currently serving the existing customers and has sufficient capacity, therefore, the feasibility of obtaining service from another adjacent retail public utility was not considered.

***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 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 requested utility service area. 16 TAC § 24.11(e) requires the Applicant to meet one out of five leverage tests. In this case, the Applicant meets the debt to equity test by having a ratio of 0.390 which is less than one. 16 TAC § 24.11(e)(2)(B) states the owner or operator must have a debt service coverage ratio of more than 1.25. Monarch has a debt service coverage ratio of 6.74, therefore Monarch meets the debt service criterion.

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 Applicants have not submitted projections in its application; however, based on Monarch's December 31, 2016 and 2015 audited financial statements, Monarch's operating income before depreciation and amortization exceeds Dal-High's annual cost of service by at least a factor of 100. Thus, any potential shortages for the Dal-High operations could be covered by Monarch's funds because the 2014 annual report for Dal-High indicates that the annual cost of service is less than \$8,000. Furthermore, Monarch's size and available capital can cover any improvements required in the Dal-High system.

***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 of the land will not be effected as no additional construction is needed to provide service to the requested area.

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

Monarch will continue to provide water service to the existing customers in the area with Dal-High public water system and charge the same rates.

The Applicants meet all of the statutory requirements of Texas Water Code Chapter 13 and the Commission's Chapter 24 rules and regulations. Approving this application to transfer and cancel water CCN No. 12830 to Monarch's CCN No. 12983 is necessary for the service, accommodation, convenience and safety of the public.

**Recommendation on approval of sale**

Pursuant to 16 TAC § 24.109(i), Staff recommends the Commission find that the transaction will serve the public interest and allow the Applicants to proceed with the proposed transaction. Staff notes there are deposits held by the Seller for the customers being served by Dal-High. Staff further recommends that a public hearing is not necessary. 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 Applicants request and receive an extension from the Commission, the approval is void and the Applicants must re-apply for the approval of the sale. In addition, the Applicants should be informed that the CCN will remain in the name of Dal-High until the transfer is complete and approved in accordance with the Commission's rules and regulations.