

Control Number: 48060



Item Number: 16

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APPLICATION OF DJL VENTURES,  
INC. DBA KAP WATER SUPPLY AND  
SWWC UTILITIES, INC. DBA WATER  
SERVICES, INC. FOR THE TRANSFER  
OF CERTIFICATE RIGHTS IN COMAL  
COUNTY

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PUBLIC UTILITY COMMISSION  
OF TEXAS

**COMMISSION STAFF'S RECOMMENDATION ON APPROVAL OF TRANSACTION**

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest, and files this Recommendation on Approval of Transaction and in support thereof shows the following:

**I. BACKGROUND**

On February 13, 2018, DJL Ventures, Inc. d/b/a KAP Water Supply (KAP) and SWWC Utilities, Inc. d/b/a Water Services, Inc. (SWWC) (collectively, Applicants) filed an application for the transfer of service area rights in Comal County. Specifically, SWWC seeks approval to transfer all of KAP's water service area rights in Comal County to SWWC's Certificate of Convenience and Necessity (CCN) No. 11106 and to cancel KAP's Exempt Registration No. N0064. The total area being requested includes approximately 14 acres with zero current customers. Order No. 4, issued June 5, 2018, directed Staff to request a hearing or file a final recommendation on approval of the sale by June 18, 2018. Therefore, this pleading is timely filed.

**II. STAFF'S RECOMMENDATION**

As detailed in the attached memorandum of Patricia Garcia of the Commission's Water Utility Regulation Division, Staff recommends approval of the proposed transaction. Staff's review indicates that the application satisfies Texas Water Code (TWC) §§ 13.241, 13.246, and 13.301 and 16 Texas Administrative Code (TAC) §§ 24.102 and 24.109, and that a hearing is not necessary. If the proposed transaction is permitted to proceed, Staff further recommends that the Applicants be required to file evidence that the sale has been completed. Pursuant to 16 TAC § 24.109(o), approval of the sale expires six months from the date of the Commission's written

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approval allowing the sale to proceed. If the sale is not consummated within that period, the approval is void and the Applicants must re-apply for approval of the sale unless the Applicants request and receive an extension from the Commission.

### III. CONCLUSION

Staff respectfully requests the entry of an Order consistent with the above recommendations.

Dated: June 18, 2018

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS  
LEGAL DIVISION**

Margaret Uhlig Pemberton  
Division Director

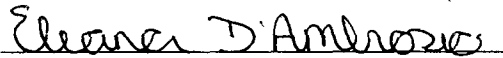
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**DOCKET NO. 48060**  
**CERTIFICATE OF SERVICE**

I certify that a copy of this document will be served on all parties of record on June 18, 2018, in accordance with 16 TAC § 22.74.

  
Eleanor D'Ambrosio

## PUC Interoffice Memorandum

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**To:** Eleanor D'Ambrosio  
Legal Division

**Thru:** Heidi Graham, Manager  
Water Utility Regulation Division

**From:** Patricia Garcia, Engineer Specialist  
Water Utility Regulation Division

**Date:** June 18, 2018

**Subject:** **Docket 48060**, *Application of DJL Ventures, Inc. dba KAP Water Supply and SWWC Utilities, Inc. dba Water Services, Inc. for the Transfer of Service Area Rights in Comal County*

On February 13, 2018, SWWC Utilities, Inc. dba Water Services, Inc., (SWWC or Buyer) and DJL Ventures, Inc. dba KAP Water Supply (Seller), (collectively, Applicants), filed an application for the transfer of service area rights in Comal County, Texas, pursuant to Texas Water Code Ann. (TWC) § 13.301 and 16 Texas Administrative Code (TAC) § 24.109. Specifically, SWWC seeks approval to transfer water service area to water Certificate of Convenience and Necessity (CCN) No. 11106 and cancel the exempt utility registration of the Seller, Exempt Registration No. N0064. The requested area includes approximately 14 acres and 0 connections.

### Notice

The comment period ended June 18, 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.***

The Seller does not have a public water system associated with the requested area.

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

The purpose of the transaction is to transfer the requested area to SWWC so that SWWC can provide service to the requested area.

***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 SWWC's certificated service area completely surrounds the requested area being transferred by this application.

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

SWWC has several Texas Commission on Environmental Quality (TCEQ) approved public water systems (PWS). SWWC will be providing service through PWS ID No. 0460221 Windmill Ranch

Subdivision. SWWC does not have any violations listed in the TCEQ database for this PWS. No additional capacity will be needed to serve the service area being transferred in this application.

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

SWWC is currently serving customers surrounding the requested area and has sufficient capacity to serve these customers and future customers within the requested area. Because SWWC's CCN completely surrounds the requested area being transferred by this application, obtaining service from an 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) lists the financial tests.

SWWC meets two out of five leverage tests. SWWC provided a confidential consolidated balance sheet for the year ending September 30, 2017 that shows a cash balance and total equity in excess of long-term liabilities resulting in a debt-to-equity ratio of less than one. In addition, it shows that SWWC has 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.

SWWC meets the operations test. 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. Cash shortages were not reflected in the financial statements for the year ending September 30, 2017, and the statements demonstrate there is sufficient cash available to cover any projected operations and maintenance shortages. Additionally, SWWC has the ability to use a variety of sources for funding including investors' equity, line of credit and internally generated funds to make any improvements necessary in the future to meet TCEQ and Commission requirements for continuous and adequate service.

Furthermore, the acquired area will be served by an existing system owned and operated by SWWC. In addition to experienced operators and customer service agents, SWWC's management staff includes engineers, accountants, and environmental safety and health staff. The four proposed connections will not have an impact on SWWC's financial stability to provide continuous and adequate service to the area.

***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 affected.

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

SWWC will provide water service to the customers in the requested area.

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 the requested area to SWWC's water CCN No. 11106 and cancel the exempt utility registration of the Seller, Exempt Registration No. N0064, 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 that the proposed transaction will serve the public interest and that the Applicants be allowed to proceed with the proposed transaction. Staff notes there are no deposits held by Seller as there are no customers being served by DJL Ventures, Inc. dba KAP Water Supply. Staff further recommends that a public hearing is not necessary.