



Control Number: 48111



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DOCKET NO. 48111

RECEIVED

**APPLICATION OF H2O WATER §
SYSTEMS PLUS/COLETO WATER §
SYSTEM AND JRM WATER, LLC §
DBA JRM TO TRANSFER §
FACILITIES AND CERTIFICATE §
RIGHTS IN VICTORIA COUNTY §**

PUBLIC UTILITY COMMISSION

2018 JUN 29 AM 10:26

OF TEXAS
PUBLIC UTILITY COMMISSION
FILING CLERK

COMMISSION STAFF'S RECOMMENDATION ON APPROVAL

COMES NOW the Staff (Staff) of the Public Utility Commission of Texas (Commission), representing the public interest, and files this recommendation on approval of the transfer in response to Order No. 5. In support thereof, Staff shows the following:

I. BACKGROUND

On February 27, 2018 H2O Systems Plus/Coleto Water System (H2O) and JRM Water, LLC dba JRM (JRM) (collectively, Applicants) filed an application for sale, transfer, or merger of facilities and certificate rights in Victoria County, Texas. Specifically, JRM seeks approval to acquire facilities and to transfer all water service area from H2O Systems Plus under water Certificate of Convenience and Necessity (CCN) No. 11548. The requested area includes approximately 437 acres and 211 connections.

On June 4, 2018, Order No. 5 was issued, establishing a deadline of June 29, 2018, for Staff to request a hearing or file a recommendation on approval. Therefore, this pleading is timely filed.

II. RECOMMENDATION

Staff has reviewed the criteria set forth in the Texas Water Code §§ 13.246 and 13.301 and 16 TAC § 24.109 and has determined that the proposed transaction meets the relevant statutory and regulatory requirements. Therefore, as detailed in the attached memorandum of Kathryn Eiland of the Commission's Water Utility Regulation Division, Staff recommends that the Applicants be allowed to proceed with the proposed transaction.

III. CONCLUSION

Staff respectfully requests the entry of an order consistent with the above recommendation.

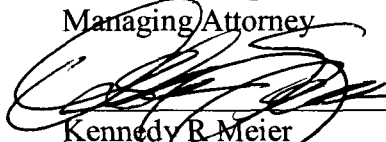
Dated: June 29, 2018

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

Margaret Uhlig Pemberton
Division Director

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Managing Attorney


 WITH PERMISSION

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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 29, 2018 in accordance with 16 TAC § 22.74.

 WITH PERMISSION

PUC Interoffice Memorandum

To: Oshea Spencer, Attorney
Legal Division

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

From: Kathryn Eiland, Financial Analyst
Water Utility Regulation Division

Date: June 27, 2018

Subject: **Docket No. 48111, *Application of H2O Systems Plus/Coletto Water System and JRM Water, LLC dba JRM to Transfer Facilities and Certificate Rights in Victoria County***

On February 27, 2018, *JRM Water, LLC dba JRM* (Purchaser or JRM) and the H2O Systems Plus/Coletto Water System (Seller or H2O) (collectively, Applicants) filed an application for Sale, Transfer, or Merger (STM) of facilities and certificate rights in Victoria County, Texas, pursuant to Texas Water Code Ann. (TWC) § 13.301 and the 16 Tex. Admin Code (TAC) § 24.109. Specifically, the Buyer seeks approval to acquire facilities and to transfer water service area from H2O under water Certificate of Convenience and Necessity (CCN) No. 11548. The requested area includes approximately 437 acres and 211 connections.

Notice

The comment period ended April 30, 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 public water system (PWS) being transferred by this application is Coletto Water, registered under Texas Commission on Environmental Quality (TCEQ) ID No. 2350036. Coletto Water meets the TCEQ's drinking water standards as required by 16 TAC § 24.102(a)(1).

JRM has been operating H2O since its owner passed away. A review of TCEQ's records indicates that the public water system has several violations for capacity and reporting violations. JRM is exploring funding to make capacity improvements to the public water system to resolve the violations. Approving the requested transaction will allow JRM to address the violations as required.

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

Because there are existing customers in the requested area, 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.

JRM has been operating H2O since its owner passed away. A review of TCEQ's records indicates that the public water system has several violations for capacity and reporting violations. JRM is exploring funding to make capacity improvements to the public water system to resolve the violations. Approving the requested transaction will allow JRM to address the violations as required.

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

JRM is currently serving existing customers with an existing public water system, therefore, this criterion 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.

The Applicant meets one out of five leverage tests with a debt to equity ratio of less than one because they have no long term debt.

The Applicant 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. The Applicant has submitted projected financial statements in its application, which show positive cash flow from operations for the first five years of continuing operations. Thus, there are no shortages to cover. Additionally, the Applicant inherited the utility after the owner died. The Applicant has been operating and managing the system since that time, carrying out functions such as billing, complying with the law by applying for a STM of the utility and applying for funds needed to make improvements to meet TCEQ minimum standards. It is not known at this time whether or not funds will be available to make such improvements. The Applicant has taken responsibility for operating the system with no compensation to provide water to the customers and to apply for funding even though ownership is not yet transferred. Even though funding has not yet been secured for the necessary improvements, Staff recommends that it is in the public interest to make the transfer to the Applicant so that progress can be made toward compliance.

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.

The Applicant will continue to provide water service to the existing customers in the requested area. The customers will have the same water rates that were approved in H2O's tariff.

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 all of the water CCN No. 11548 to JRM and issuing CCN No. 11548 to JRM 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 H2O for the customers being served by Coletto Water. 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 CCNs will remain in the name of H2O until the transfer is complete and approved in accordance with the Commission's rules and regulations.