



Control Number: 48505



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DOCKET NO. 48505

**APPLICATION OF SHELCON SERVICES §
AND CREST WATER COMPANY FOR §
SALE, TRANSFER, OR MERGER OF §
FACILITIES AND CERTIFICATE §
RIGHTS IN TARRANT COUNTY §**

PUBLIC UTILITY COMMISSION
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PUBLIC UTILITY COMMISSION
OF TEXAS
PUBLIC UTILITY COMMISSION
FILED CLERK

COMMISSION STAFF’S RECOMMENDATION ON THE TRANSACTION

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

I. BACKGROUND

On July 2, 2018, Shelcon Services (Shelcon) and Crest Water Company (Crest) (collectively, Applicants) filed an application for approval of a sale, transfer, or merger (STM) of facilities and Certificate of Convenience and Necessity (CCN) rights in Tarrant County, Texas. Specifically, Applicants entered into an agreement for the purchase of Mustang Creek Estates public water system (PWS). If approved, Shelcon will deed to Crest the Mustang Creek Estates PWS facilities and water service area under CCN No. 13055. The total area being requested includes approximately 358 acres and 79 current customers. On July 24, 2018, Crest filed a supplement to its application in response to Order No. 1. Crest supplemented its application again on September 28, 2018 and October 8, 2018. On October 2, 2018, Crest filed a Motion for Waiver of Oath for Transferor.

On October 15, 2018, the Administrative Law Judge (ALJ) issued Order No. 4, granting Crest’s good-cause waiver of the oath for transferor because Crest has been unable to obtain Shelcon’s signature despite multiple attempts. The ALJ further acknowledged Crest’s statement that Crest has been acting as owner and operator of the water system at issue since December 2016.

On December 6, 2018, the ALJ issued Order No. 5, finding Crest’s notice sufficient and requiring Staff to request a hearing or file a recommendation regarding approval of the sale to proceed by January 9, 2019. Therefore, this pleading is timely filed.

II. RECOMMENDATION ON THE TRANSACTION TO PROCEED

As detailed in the attached memorandum of Kathryn Eiland of the Commission's Water Utility Regulation Division, Staff recommends that the Applicants be approved to proceed with the transaction. Specifically, Staff's review indicates that the transaction would satisfy the relevant statutory and regulatory criteria, including the factors contained in Texas Water Code § 13.246(c) and the relevant financial, managerial, and technical criteria. If the transaction is permitted to proceed, Staff further requests that Crest be ordered to file documentation that the transaction has been consummated, or, if Crest is unable to contact Shelcon, to refer to the ALJ's waiver of oath in Order No. 4 and file an affidavit explaining the steps Crest took to contact Shelcon or its representative, Michelle Shackelford.

III. CONCLUSION

Staff respectfully recommends the entry of an order permitting the proposed transaction to proceed.

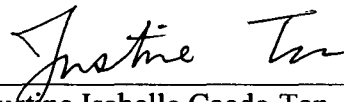
Dated: January 9, 2019

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

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CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record January 9, 2019,
in accordance with 16 TAC § 22.74.



Justine Isabelle Caedo Tan

PUC Interoffice Memorandum

To: Justine Tan, Attorney
Legal Division

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

From: Kathryn Eiland, Financial Analyst
Water Utility Regulation Division

Date: January 9, 2019

Subject: **Docket 48505** *Application of Shelcon Services and Crest Water Company for Sale, Transfer, or Merger of Facilities and Certificate Rights in Tarrant County*

On July 2, 2018, Crest Water Company (Purchaser or Crest) and the Shelcon Services (Seller or Shelcon) (collectively, Applicants) filed an application for Sale, Transfer, or Merger (STM) of facilities and certificate rights in Tarrant County, Texas, pursuant to Texas Water Code (TWC) § 13.301 and the 16 Texas Administrative Code (TAC) § 24.239, formerly 16 TAC § 24.109. Specifically, the Buyer seeks approval to acquire facilities and to transfer water service area from Shelcon certificated under water Certificate of Convenience and Necessity (CCN) No. 13055. The requested area includes approximately 358 acres and 79 connections.

Notice

The comment period ended December 10, 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 requested area has numerous compliance violations, and is under enforcement by the Texas Commission on Environmental Quality (TCEQ). Crest has a plan to address the enforcement issues and make the necessary capital improvements to the water system in order to provide adequate service to 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 and merge the requested area water system with Crest's water system. The customers are currently receiving water from the existing water system in 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 since the requested area has an existing water system.

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

Crest has sixteen public water systems registered with the TCEQ which serve approximately 1,184 water connections. Crest currently has four licensed groundwater operators, two Class B operators and two Class C operators, which is compliant with 16 TAC § 290.46. Therefore, the Crest has the experience and capability to provide adequate service to the requested area.

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

Crest has taken responsibility for the daily operations of the existing water system in the requested area. 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) lists the financial tests.

16 TAC § 24.11(e)(2) refers to the leverage test. Crest meets two out of the five leverage tests with a debt to equity ratio of 0.41, which is less than one and a debt service coverage ratio of 3.65, which is greater than 1.25.

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. Crest submitted projections in its application, which show that net income from continuing operations is projected to be positive for the next five years. 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 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.

Crest will provide adequate water service to the existing customers in the requested area.

Crest meets all of the statutory requirements of TWC Chapter 13 and the Commission's Chapter 24 rules and regulations. Approving this application to transfer the water CCN No. 13055 to Crest and amending water CCN No. 12037 is necessary for the service, accommodation, convenience and safety of the public.

Recommendation on approval of sale

Based on the information in the application and the applicable laws and rules, Staff recommends that Crest has the capability of providing continuous and adequate service to the requested area and that the transaction will serve the public interest. Staff contacted Crest regarding deposits. Crest confirmed that there are no deposits held by Shelcon. Staff recommends that the Commission allow the Applicants to proceed with the proposed transaction. 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 Shelcon Services until the transfer is completed and approved in accordance with the Commission's rules and regulations as required by 16 TAC § 24.239.