



Control Number: 48533



Item Number: 24

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DOCKET NO. 48533

**APPLICATION OF BAMMEL FOREST
UTILITY COMPANY AND QUADVEST,
L.P. FOR SALE, TRANSFER, OR
MERGER OF FACILITIES AND
CERTIFICATE RIGHTS IN HARRIS
COUNTY**

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PUBLIC UTILITY COMMISSION
OF TEXAS
FILING 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. 3, files this Staff's Recommendation on the Transaction. In support thereof, Staff shows the following:

I. BACKGROUND

On July 18, 2018, Bammel Forest Utility Company (Bammel Forest) and Quadvest, L.P. (Quadvest) (collectively, Applicants) filed an application for sale, transfer or merger of facilities and certificate rights in Harris County, Texas. Specifically, Quadvest, Certificate of Convenience and Necessity (CCN) No. 11612, seeks approval to acquire all facilities and to transfer all of the water service area and cancel Bammel Forest's water CCN No. 11597.

On September 12, 2018, the Administrative Law Judge (ALJ) issued Order No. 3, deeming Applicants' notice sufficient and requiring Staff to request a hearing or file a recommendation regarding approval of the transaction to proceed by October 24, 2018. Therefore, this pleading is timely filed.

II. RECOMMENDATION TO APPROVE THE TRANSACTION TO PROCEED

As detailed in the attached memorandum of Debbie Reyes 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 the Applicants be required to file documentation that all assets have been transferred to the acquiring entity.

III. CONCLUSION

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

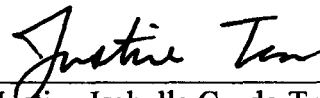
Dated: October 24, 2018

Respectfully Submitted,

PUBLIC UTILITY COMMISSION OF TEXAS LEGAL DIVISION

Margaret Uhlig Pemberton
Division Director

Stephen Mack
Managing Attorney

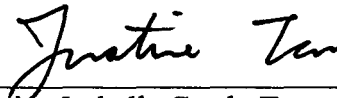


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CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on October 24, 2018, in accordance with 16 TAC § 22.74.



Justine Isabelle Caedo Tan

PUC Interoffice Memorandum

TO: Justine Tan, Attorney
Legal Division

THRU: Heidi Graham, Manager
Water Utility Regulation

FROM: Debbie Reyes, Program Specialist
Water Utility Regulation

DATE: October 22, 2018

SUBJECT: **Docket No. 48533**, *Application of Bammel Forest Utility Company and Quadvest, L.P. for Sale, Transfer, or Merger (STM) of Facilities and Certificate Rights in Harris County*

On July 18, 2018, the Bammel Forest Utility Company (Bammel or Seller) and Quadvest, LP, (Quadvest or Buyer), (Collectively, Applicants), filed an application for sale, transfer, or merger (STM) of facilities and certificate rights in Harris County, Texas, pursuant to Texas Water Code (TWC) § 13.301 and the 16 Texas Administrative Code (TAC) § 24.239, formerly § 24.109. Specifically, Quadvest, Certificate of Convenience and Necessity (CCN) No. 11612, seeks approval to acquire all facilities, to transfer all water service area and cancel Bammel's CCN No. 11597. The requested area includes approximately 324 total acres and 346 current customers. The transaction and transfer of the CCN includes the following subdivisions: Bammel Forest, Pecan Forest and Bammel Timbers.

The application was deemed sufficient on August 20, 2018. Proper notice was provided to customers, neighboring systems, and affected parties on August 24, 2018, in Harris County. The affidavit of notice was received by the Commission on August 31, 2018.

Pursuant to TWC § 13.301(e), before the expiration of the 120-day notification period, the Commission is required to notify all known parties to the transaction whether the Commission will hold a hearing to determine if the transaction will serve the public interest. The 30-day comment period ended September 24, 2018. The Commission did not receive any protests or requests for a hearing during the 30 day comment period. The 120-day notification period concludes on December 22, 2018.

TWC § 13.246(c) requires the Commission to consider nine criteria when granting or amending a CCN. As a result of this application, the Seller will transfer a portion of its certificated water service area to the Buyer. Staff considered the following nine criteria:

TWC §13. 246(c)(1) and 16 TAC § 24.227, formerly § 24.102, requires the Commission to consider the adequacy of service currently provided to the requested area. The public water systems (PWS) being transferred by this application, PWS ID No. 1010096, with 346 current connections, is mainly a distribution system that purchases treated water from Ponderosa Forest Utility District, PWS ID No. 1010384. The amount of water purchased per an Interlocal Agreement by and between North Harris County Regional Water Authority, Ponderosa Forest Utility District,

and Bammel is 300 gallons per minute or 432,000 gallons per day (gpd). The PWS currently meets the Texas Commission on Environmental Quality's (TCEQ) drinking water standards as required by 16 TAC § 24.227(a)(1). Given the TCEQ criterion of 360 gpd per connection, the water system can provide service for up to 1,200 connections, which is adequate for the requested area. Bammel's system is required to employ at least one "Class B" drinking water operator for its facilities, since it serves less than 1,000 connections, pursuant to 16 TAC § 290.46. The system currently employs one (1) "Class A" operator and one "Class B" operator.

TWC § 13.246(c)(2) requires the Commission to consider the need for service in the requested area. As stated above, the requested area already has adequate service, therefore the need for service was not considered.

TWC § 13.246(c)(3) requires the Commission to consider the effect of granting of a certificate or of an amendment on the recipient and on any other retail water utility servicing the proximate area. The effect of the proposed transaction is that the water assets of Bammel will be transferred to Quadvest and Quadvest will amend its CCN to include the requested area.

TWC § 13.246(c)(4) and 16 TAC § 24.227(d)(4), formerly § 24.102(d)(4), require the Commission to consider the ability of the Buyer to provide adequate service. Quadvest intends to integrate the acquired system into its overall system, and intends to improve customer service.

TWC § 13.246(c)(5) requires the Commission to consider the feasibility of obtaining service from an adjacent retail public utility. This is not applicable. The Applicants agreed to an acquisition of all of Bammel's water systems.

TWC § 13.246(c)(6) requires the Public Utility Commission of Texas (Commission) to consider the financial ability of Quadvest to pay for facilities necessary to provide continuous and adequate service and the financial stability of Quadvest. 16 Texas Admin. Code § 24.11 (TAC) 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 proposed utility service area. 16 TAC § 24.11(e) lists the financial tests. The applicant must meet one of the leverage tests and the operations test. The below information is taken from a copy of audited financial statements for the fiscal year ending December 31, 2016, and December 31, 2017. Staff notes that the following discussion shows that the applicant does meet the required criteria:

- 1) **16 TAC § 24.11(e)(2) refers to the leverage test:**
 - a. Ratio = $\$13,207,888 / \$16,168,562 = 0.82$
 - b. Net Position = $\$16,168,562$
 - c. Long-term Notes payable 2017 = $\$13,207,888$

The applicant meets this ratio criterion.

- b. **16 TAC § 24.11(e)(2)(B) states the owner or operator must have 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.**
 - a. Annual Net Operating Income before depreciation and non-cash expenses = $\$2,975,688$
 - b. Annual Long-term debt payments = $\$1,555,138$

c. Ratio = \$2,975,688 / \$1,555,138 = 1.91

The Applicant meets this ratio criterion.

- 2) **16 TAC § 24.11(e)(3) refers to the operations test. This states that the owner or operator must demonstrate that sufficient cash is available to cover any projected operations and maintenance shortages in the first five years of operations.**
- a. Quadvest has not projected any losses and Staff believes that Quadvest has enough liquid cash to offset any losses should they occur.

Based on the above discussion, Staff believes Quadvest possesses adequate financial and managerial ability.

TWC §§13.246(c)(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 included in the areas to be acquired should not be affected by this transaction since the area currently has service.

TWC § 13.246(c)(8) requires the Commission to consider the probable improvement in service or lowering of cost to consumers. The customers of Bammel should enjoy stable water service from a system that is professionally operated and maintained. The rates will not change as a result of the transaction. The system currently employs one (1) "Class A" operator and one "Class B" operator which satisfies the permit requirement. The PWS currently meets the Texas Commission on Environmental Quality's (TCEQ) drinking water standards as required by 16 TAC § 24.227(a)(1), formerly § 24.102(a)(1).

Staff has reviewed the above referenced application, and based on the information in the application and the applicable laws and rules, Staff has determined that Quadvest is capable of providing continuous and adequate service to the requested areas. Furthermore, Staff believes the transaction will serve the public interest. Therefore, Staff recommends that a public hearing is not necessary and the Applicants be allowed to proceed with the proposed transaction.

Staff further recommends that the Applicants be ordered to file documentation as evidence that all assets have been transferred to the acquiring entity, and that the disposition of any remaining deposits have been addressed as soon as possible.

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 CCN will remain in the name of the Seller until the transfer is completed and approved in accordance with the Commission rules and regulations as required by 16 TAC § 24.239(o), formerly § 24.109(o).