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**DOCKET NO. 48791**

**APPLICATION OF PENDLETON §  
HARBOR WATER SUPPLY §  
CORPORATION AND G-M WATER §  
SUPPLY CORPORATION FOR SALE, §  
TRANSFER, OR MERGER OF §  
FACILITIES AND CERTIFICATE §  
RIGHTS IN SABINE COUNTY §**

**PUBLIC UTILITY COMMISSION**

**OF TEXAS**

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**COMMISSION STAFF'S AMENDED FINAL RECOMMENDATION**

**COMES NOW** the Staff of the Public Utility Commission of Texas (Staff), representing the public interest and files this, Commission Staff's Amended Final Recommendation. In support thereof, Staff shows the following:

**I. BACKGROUND**

On August 9, 2019, Staff filed Commission Staff's Final Recommendation (Item No. 30 on the PUC Interchange). The supporting memorandum of Kathryn Eiland of the Commission was omitted. This filing serves as a correction, and accordingly attaches the full pleading, with attached memorandum.

**II. CONCLUSION**

Staff respectfully requests that the Administrative Law Judge allow the attached, amended full pleading to enter into the record accordingly.

Dated: September 11, 2019

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS  
LEGAL DIVISION**

Margaret Uhlig Pemberton  
Division Director

Karen S. Hubbard  
Managing Attorney



Steven M. Gonzalez  
State Bar No. 24109210  
1701 N. Congress Avenue  
P.O. Box 13326  
Austin, Texas 78711-3326  
(512) 936-7228  
(512) 936-7268 (facsimile)  
Steven.Gonzalez@puc.texas.gov

**DOCKET NO. 48791**

**CERTIFICATE OF SERVICE**

I certify that a copy of this document will be served on all parties of record on September 11, 2019 in accordance with 16 TAC § 22.74.



Steven M. Gonzalez

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<b>APPLICATION OF PENDLETON</b>	<b>§</b>	<b>PUBLIC UTILITY COMMISSION</b>
<b>HARBOR WATER SUPPLY</b>	<b>§</b>	
<b>CORPORATION AND G-M WATER</b>	<b>§</b>	<b>OF TEXAS</b>
<b>SUPPLY CORPORATION FOR SALE,</b>	<b>§</b>	
<b>TRANSFER, OR MERGER OF</b>	<b>§</b>	
<b>FACILITIES AND CERTIFICATE</b>	<b>§</b>	
<b>RIGHTS IN SABINE COUNTY</b>	<b>§</b>	

**COMMISSION STAFF’S AMENDED FINAL RECOMMENDATION**

**COMES NOW** the Commission Staff of the Public Utility Commission of Texas (Commission), representing the public interest, and in response to Order No. 7, files this Final Recommendation. Staff recommends that the transaction be allowed to proceed. In support thereof, Staff shows the following:

**I. BACKGROUND**

On October 17, 2018, G-M Water Supply Corporation (G-M or Purchaser) and the Pendleton Harbor Water Supply Corporation (Pendleton or Seller) (collectively, Applicants) filed an application for Sale, Transfer, or Merger (STM) of facilities and certificate rights in Sabine County, Texas, pursuant to Texas Water Code Ann. (TWC) § 13.301 and 16 Texas Administrative Code (TAC) § 24.239. Specifically, G-M seeks approval to acquire facilities and certificate rights, cancel Pendleton’s water Certificate of Convenience and Necessity (CCN) No. 10737 and amend G-M’s water CCN No. 11393. The requested area includes approximately 1,024 acres and 234 connections.

On July 1, 2019, Order No. 7 was issued, establishing a deadline of August 9, 2019, for Staff to request a hearing or file a recommendation on approval of the sale and on the CCN amendment. Therefore, this pleading is timely filed.

## **II. RECOMMENDATION**

As detailed in the attached memorandum from Kathryn Eiland in the Commission's Water Utility Regulation Division, Staff recommends approval of the proposed transaction. Staff's review concludes that the application satisfies Texas Water Code (TWC) §§ 13.246 and 13.301 and 16 Texas Administrative Code (TAC) §§ 24.11 and 24.239.

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 § 24.239(o), approval of the sale expires 180 days from the date of the Commission's written 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. Staff further recommends that a public hearing is not necessary.

## **III. CONCLUSION**

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

Respectfully submitted,

### **PUBLIC UTILITY COMMISSION OF TEXAS LEGAL DIVISION**

Margaret Uhlig Pemberton  
Division Director

Karen S. Hubbard  
Managing Attorney



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Steven M. Gonzalez  
State Bar No. 24109210  
1701 N. Congress Avenue  
P.O. Box 13326  
Austin, Texas 78711-3326  
(512) 936-7228  
(512) 936-7268 (facsimile)  
Steven.Gonzalez@puc.texas.gov

## PUC Interoffice Memorandum

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**To:** Steven Gonzalez, Attorney  
Legal Division

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

**From:** Kathryn Eiland, Financial Analyst  
Water Utility Regulation Division

**Date:** August 9, 2019

**Subject:** **Docket No. 48791, *Application of Pendleton Harbor Water Supply Corporation and G-M Water Supply Corporation for Sale, Transfer, or Merger of Facilities and Certificate Rights in Sabine County***

On October 17, 2018, G-M Water Supply Corporation (G-M or Purchaser) and the Pendleton Harbor Water Supply Corporation (Pendleton or Seller) (collectively, Applicants) filed an application for Sale, Transfer, or Merger (STM) of facilities and certificate rights in Sabine County, Texas, pursuant to Texas Water Code Ann. (TWC) § 13.301 and 16 Texas Administrative Code (TAC) § 24.239. Specifically, G-M seeks approval to acquire facilities and cancel Pendleton's water Certificate of Convenience and Necessity (CCN) No. 10737 and amend G-M's water CCN No. 11393. The requested area includes approximately 1,024 acres and 234 connections.

### **Background**

The Applicants are seeking to amend a water CCN for the service area containing approximately 1024 acres and 234 existing customers.

### **Notice**

The comment period ended July 10, 2019 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.***

G-M has a public water system (PWS) registered with the Texas Commission on Environmental Quality (TCEQ) under PWS ID No. 2020067 that is capable of providing drinking water that meets the requirements of Texas Health and Safety Code, Chapter 341 and TCEQ rules and has access to an adequate supply of water. Additionally, G-M Water Supply Corp. does not have outstanding violations. No additional construction is necessary for G-M to serve the requested area.

Pendleton has a public water system registered with the TCEQ under PWS ID No. 2020020 that is capable of providing drinking water that meets the requirements of Texas Health and Safety Code, Chapter 341 and TCEQ rules and has access to an adequate supply of water. Pendleton also has no outstanding violations.

***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 Pendleton to G-M. The affected customers are currently receiving water from Pendleton's water system.

***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.***

G-M has six licensed operators, one Class A operator, two Class B operators, and three Class C operators, to manage the requested area.

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

In this case, the requested area already contains facilities and is currently being served by the Seller. Utilities within a two mile radius were noticed and no protests or requests for hearing were received regarding the proposed transaction. Therefore, it is not feasible to obtain service from an adjacent retail public utility.

***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 following analysis is based on the Applicant's audited financial statements which contained an unqualified auditor's opinion from Tiller and Company which stated that the financial statements present fairly, in all material respects, the financial position of the Applicant as of December 31, 2018 in accordance with the modified cash basis of accounting. The audit and the related opinion indicate the transparency of the Applicant, and indicate sound management capabilities.<sup>1</sup>

The Applicant meets the leverage test. The Applicant has cash and cash equivalents of \$1,431,839<sup>2</sup> as a cushion for two years debt service of \$674,742.<sup>3</sup>

The Applicant meets the operations test. The Applicant did not submit projections in its application; however, based on their 2018 audited financial statements, the Applicant had a positive change in unrestricted net assets from operations (net operating income) before depreciation of \$311,725.<sup>4</sup> Additionally, the Applicant will be utilizing existing infrastructure to serve the requested area and no additional facilities need to be constructed. Thus, there are no shortages to cover.

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<sup>1</sup> Response to request for information Staff RFI 1-1, item 18, at 5.

<sup>2</sup> *Id* at 6, \$1,018,047 in cash plus \$413,792 in certificates of deposit.

<sup>3</sup> *Id* at 12, \$333,857 plus \$340,885.

<sup>4</sup> *Id* at 18, (\$98,349) plus \$150,082 plus \$212,114.

***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.***

G-M plans improvements to infrastructure over time that will improve water pressure in the requested area. Additionally, the rates of all transferred customers will be lowered to match G-M's rates.

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 facilities and requested area under water CCN No. 10737 to GM and amend the water CCN No. 11393 of GM is necessary for the service, accommodation, convenience and safety of the public.

**Recommendation on approval of sale**

Pursuant to 16 TAC § 24.239(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 no deposits held by Pendleton for the customers being served by Pendleton. Staff further recommends that a public hearing is not necessary.