



Control Number: 49074



Item Number: 19

Addendum StartPage: 0

DOCKET NO. 49074

APPLICATION OF GONZALES COUNTY WATER SUPPLY CORPORATION AND RIVERWOOD WATER SUPPLY CORPORATION FOR SALE, TRANSFER, OR MERGER OF FACILITIES AND CERTIFICATE RIGHTS IN GONZALES COUNTY

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PUBLIC UTILITY COMMISSION
OF TEXAS

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COMMISSION STAFF'S FINAL RECOMMENDATION

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest, and files this Final Recommendation in response to Order No. 6. In support thereof, Staff shows the following:

I. BACKGROUND

On January 4, 2019, Gonzales County Water Supply Corporation (Purchaser) and Riverwood Water Supply Corporation (Seller) (collectively, Applicants) filed with the Public Utility Commission of Texas (Commission) an application for Sale, Transfer, or Merger of facilities and certificate rights in Gonzales County, Texas pursuant to Texas Water Code Ann. (TWC) §§ 13.241, 13.246, and 13.301 and 16 Texas Administrative Code (TAC) §§ 24.227 and 24.239. Specifically, Purchaser, Certificate of Convenience and Necessity (CCN) No. 10704, seeks approval to acquire facilities and transfer all of Seller's water service area held under CCN No. 10711 and to cancel Seller's sewer CCN 20311.

On July 11, 2019, Order No. 6 was issued, establishing a deadline of August 19, 2019, for Staff to file a final recommendation on the application. This pleading is therefore timely filed.

II. RECOMMENDATION

As supported by the attached memorandum of Debbie Reyes of the Water Utility Regulation Division, Staff has reviewed the documents filed by Applicants and recommends the application be approved. A public hearing is not required in this matter.

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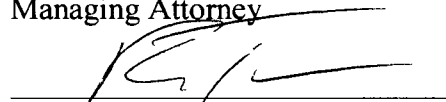
Dated: August 13, 2019

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

Margaret Uhlig Pemberton
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DOCKET NO. 49074

CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record August 13, 2019 in accordance with 16 TAC § 22.74.



Rustin Tawater

PUC Interoffice Memorandum

To: Rustin Tawater, Attorney
Legal Division

Thru: Heidi Graham, Manager
Water Utility Regulation Division

From: Debbie Reyes, Program Specialist
Water Utility Regulation Division

Date: August 13, 2019

Subject: **Docket 49074:** *Application of Gonzales County Water Supply Corporation and Riverwood Water Supply Corporation for Sale, Transfer, or Merger of Facilities and Certificate Rights in Gonzales County*

On January 4, 2019, Gonzales County Water Supply Corporation (Purchaser) and Riverwood Water Supply Corporation (Seller) (collectively, Applicants) filed with the Public Utility Commission of Texas (Commission) an application for Sale, Transfer, or Merger of facilities and certificate rights in Gonzales County, Texas pursuant to Texas Water Code Ann. (TWC) §§ 13.241, 13.246, and 13.301 and 16 Texas Administrative Code (TAC) §§ 24.227 and 24.239. Specifically, Purchaser, Certificate of Convenience and Necessity (CCN) No. 10704, seeks approval to acquire facilities and transfer all of Seller's water service area held under CCN No. 10711 and to cancel Seller's sewer CCN 20311.

Notice

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 deadline for intervention was July 20, 2019. The Commission did not receive any requests for a hearing during the 30 day comment period. The 120-day notification period concludes on October 18, 2019.

Criteria Considered

Staff reviewed the public interest factors and the financial, managerial, and technical capability of Gonzales County WSC pursuant to TWC § 13.246(c). Under this statute, the Commission shall consider the following nine criteria when amending a CCN:

TWC § 13.246(c)(1) and 16 TAC § 24.227(d)(1) require the Commission to consider the adequacy of service currently provided to the requested area. Seller is not currently providing water service to the requested area and is no longer interested in operating water supply to the requested area.

TWC § 13.246(c)(2) requires the Commission to consider the need for service in the requested area. The application seeks to transfer five existing customers in the requested area, which demonstrates a need for service.

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 Purchaser and the Seller have an agreement to transfer the requested area to the Purchaser and cancel the Seller's CCN. Therefore, there is no effect on any other retail water utility servicing the proximate area.

TWC §13.246(c)(4) and 16 TAC § 24.227(d)(4) requires the Commission to consider the ability of the Buyer to provide adequate service, including meeting the standards of the Commission, taking into consideration the current and projected density and land use of the area.

Purchaser has experience in providing water service and is committed to compliance with TCEQ's rules and regulations and to provide continuous and adequate service to the requested area. No additional construction is necessary for Purchaser to serve the requested area. Purchaser has a public water system (PWS) registered with the Texas Commission on Environmental Quality (TCEQ) under PWS ID No. 089006. A review of TCEQ's Central Registry Database indicates that the Purchaser has some minor unresolved TCEQ violations. However, in response to Order No. 2, Purchaser filed the clarification through M & S Engineering and Harkness Engineering and Consulting, LLC's detailed response. With this response, Staff concludes that Purchaser is already taking actions to address the alleged violations through the engineering consulting firms. In addition, Staff recommends that the violations do not affect the ability of the Purchaser 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. Seller is not currently providing water service to the requested area and is not interested in operating a water system for the requested area. Purchaser has multiple water production, distribution and storage facilities that can deliver water to the requested area.

TWC §13.246(c)(6) and 16 TAC § 24.11(e) requires the Commission to consider the financial ability of the Buyer to pay for facilities necessary to provide continuous and adequate service.

The criteria and tests are listed in 16 TAC § 24.11 including leverage tests and an operations test.

The following analysis is taken from Purchaser's audited financial statements which contained an unqualified auditor's opinion from Allen G. Bayer which stated that the financial statements present fairly, in all material respects, the financial position of the Applicant as of December 31, 2017 and 2016. The audit and the related opinion indicate the transparency of Purchaser, and speak to the Purchaser's management capabilities.

Purchaser meets two out of the five leverage tests. An applicant is only required to meet one. The first test is met with a debt to equity ratio calculated as follows: long term debt of \$1,448,286.41² divided by equity or net position of \$9,203,264.37³ equals 0.157 which is less than one. Purchaser also has a debt service coverage ratio of 3.76 which is greater than 1.25. The debt service coverage ratio is calculated as follows: annual debt service of \$197,308.73 (Interest Expense of \$62,977.66⁴ + Payments on Long-Term Debt of \$134,331.07⁵) divided by Cash Available for Debt Service of \$742,721.23 (net operating income of \$283,826.50⁶ + depreciation/amortization of \$458,894.73⁷).

Purchaser 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. Purchaser has not/has submitted projections in its application as it is not acquiring new utility, or building a separate system; however, based on the financial statements Purchaser had \$283,826.50⁸ in operating income. Thus, there are no shortages to cover.

¹ Supplemental Information for CCN Amendment, filed March 7, 2019, pages 29-42.

² *Id.* at page 33.

³ *Id.*

⁴ *Id.* at page 40.

⁵ *Id.*

⁶ *Id.* at page 34.

⁷ *Id.*

⁸ *Id.*

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 may be minimally affected as the requested area is developed.

TWC § 13.246(c)(8) requires the Commission to consider the probable improvement in service or lowering of cost to consumers. The customers in the requested area were being served by a private well that was no longer recommended for human consumption. Water service from a TCEQ approved water supply will provide an improvement in service to the 5 existing customers in the requested and future customers as the requested area is developed. The existing customers' rates will remain the same upon approval of the application.

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 water CCN No. 10704 and facilities to Purchaser and to cancel sewer CCN 20311 in Gonzales County 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 that the transaction will serve the public interest and the Applicants be allowed to proceed with the proposed transaction. Staff also recommends that Purchaser be ordered to file documentation as evidence that all assets have been transferred from Seller and that the disposition of any remaining deposits have been addressed as soon as possible pursuant to 16 TAC § 24.109(g).