



Control Number: 49312



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DOCKET NO. 49312

APPLICATION OF QUADVEST, L.P. §
TO AMEND CERTIFICATES OF §
CONVENIENCE AND NECESSITY IN §
MONTGOMERY COUNTY §

PUBLIC UTILITY COMMISSION BY
OF TEXAS



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. Staff recommends that the application be approved. In support thereof, Staff would show the following:

I. BACKGROUND

On March 11, 2019, Quadvest, L.P. (Quadvest) filed an application to amend its water Certificate of Convenience and Necessity (CCN) No. 11612 in Montgomery County, Texas pursuant to Texas Water Code (TWC) §§ 13.242-.250 and 16 Texas Administrative Code (TAC) §§ 24.225-.237. The application also seeks to decertify a portion of the City of Cut and Shoot's CCN No. 11615. Quadvest seeks to incorporate an area comprised of approximately 92 acres and no existing customers

On March 9, 2020, Order No. 11 was issued, directing Staff to file a final recommendation by April 3, 2020. This pleading, therefore, is timely filed.

II. FINAL RECOMMENDATION

After review, and consistent with the attached memorandum of Roshan Pokhrel of the Commission's Infrastructure Division, Staff recommends that the application be approved. Based on Staff's review, Quadvest meets all of the applicable technical, managerial, and financial requirements to demonstrate the capacity to provide continuous and adequate service. Additionally, it is Staff's position that approving this application to amend its water CCN No. 11612 is necessary for the service, accommodation, convenience, and safety of the public.

The final map, certificate, and tariff were emailed to Quadvest and the City of Cut and Shoot on January 6, 2020. Those items were consented to by Quadvest on January 14, 2020 and by the City of Cut and Shoot on March 30, 2020. Staff and Quadvest will jointly file detailed, legally sufficient findings of fact and conclusion of law on or before April 17, 2020.

III. CONCLUSION

Staff respectfully requests the issuance of an order consistent with the foregoing recommendation.

Date: April 3, 2020

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

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/s/ Creighton R. McMurray

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CERTIFICATE OF SERVICE

I certify that, unless otherwise ordered by the presiding officer, notice of the filing of this document was provided to all parties of record via electronic mail on April 3, 2020, in accordance with the Order Suspending Rules, issued in Project No. 50664.

/s/ Creighton R. McMurray

Creighton R. McMurray

PUC Interoffice Memorandum

To: Creighton McMurray, Attorney
Legal Division

From: Roshan Pokhrel, Engineering Specialist
Infrastructure Division

Date: April 3, 2020

Subject: **Docket No. 49312, *Application of Quadvest, L.P. to Amend a Water Certificate of Convenience and Necessity in Montgomery County***

On March 11, 2019, Quadvest, L.P. (Applicant or Quadvest) filed an application with the Public Utility Commission of Texas (Commission) to amend its water Certificate of Convenience and Necessity (CCN) No. 11612 in Montgomery County, Texas under Texas Water Code (TWC) §§ 13.242 to 13.250 and 16 Texas Administrative Code (TAC) §§ 24.225 to 24.237. The application would also decertify a portion of the City of Cut and Shoot's CCN No. 11615. Quadvest seeks to amend their water CCN to include approximately 92 acres for the provision of retail water utility service to a planned new residential development.

Notice

The comment period ended on July 19, 2019, and no protests or opt-out requests were received.

Criteria Considered

TWC, Chapter 13, and TAC, Chapter 24 require the Commission to consider nine criteria when granting or amending a water or sewer 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.

There is currently no water service provided to the requested area. Therefore, this criteria was not considered.

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

There is a need for service as there are 70 potential new customers in the requested area.

TWC § 13.246(c)(3) requires the Commission to consider the effect of granting an amendment on the recipient of the certificate or amendment, on the landowners in the area, and on any other retail public utility of the same kind already servicing the proximate area.

The landowners will benefit because they won't have to drill individual wells. A portion of the City of Cut and Shoot's CCN No. 11615 is to be decertified, according to the agreement filed in the docket.

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

The Applicant has several existing public water system (PWS) registered with the Texas Commission on Environmental Quality (TCEQ). The Applicant is capable of providing drinking water that meets the requirements of Chapter 341, Health and Safety Code, and has access to an adequate supply of water. The Applicant does not have any violations listed in the TCEQ database. Additional construction is necessary for the Applicant to serve the requested area. The Applicant

has filed the construction approval letter from TCEQ for an additional public water system in this docket.

TWC § 13.241(d) requires the applicant to demonstrate to the Commission that regionalization or consolidation with another retail public utility is not economically feasible when construction of a physically separate water or sewer system is required to provide service to the requested area.

Currently, there are no other water providers in the adjacent area which could serve the requested area.

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

Currently, there are no other water providers in the adjacent area which could serve the requested area.

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 the 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 include a leverage test and operations test.

This analysis is based on financial statements containing an unqualified auditor's opinion from Haynie & Company which stated that the financial statements present fairly, in all material respects, the financial position of the Applicant as of December 31, 2018. The audit and the related opinion indicate the transparency of the Applicant and indicate sound management capabilities.

The Commission rules identify five leverage tests. The Applicant must demonstrate that it meets one of the five tests. The Applicant meets the first test with a debt to equity ratio less than one calculated as follows: long term debt of [REDACTED]¹ divided by equity of [REDACTED]² equals 0.83 which is less than one. The Applicant also meets the second test with a debt service coverage ratio calculated as follows: net operating income of [REDACTED]³ divided by annual debt service of [REDACTED]⁴ equals 1.65, 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. The Applicant has provided projected financials that include a description of the costs of the new developments. The Applicant estimates the additional costs associated with the additional developments will be [REDACTED], of which the developer will reimburse the Applicant [REDACTED].⁵ The Applicant has sufficient cash to cover any operation shortages in the first five years of operation. Therefore, the Applicant meets the operations test.

TWC § 13.246(d) allows the Commission to require an applicant to provide a bond or other financial assurance in a form and amount specified by the Commission to ensure that continuous and adequate utility service is provided.

¹ Confidential – Financials Bate Stamp – 1 to 25 at 18.

² *Id* at 5.

³ *Id* at 6.

⁴ *Id* at 5 and 6.

⁵ *Id* at 25.

Staff does not recommend that the Applicant be required to provide a bond or other financial assurance to ensure continuous and adequate service.

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 developer has done extensive due diligence before purchasing the land. Future construction may have minimal effect on the environment.

TWC § 13.246(8) requires the Commission to consider the probable improvement in service or lowering of cost to consumers.

No service exists today in the requested area therefore these criteria were not considered.

Staff recommends that the Applicant meets all of the statutory requirements of TWC Chapter 13 and the Commission's Chapter 24 rules and regulations and is capable of providing continuous and adequate service, and that approving this application to amend water CCN Nos. 11612 and 11615 is necessary for the service, accommodation, convenience and safety of the public.

The Applicant consented to the attached map, tariff and certificate on January 14, 2020. The City of Cut and Shoot consented to the attached map and certificate on March 30, 2020.

Recommendation

Based on the above information, Staff recommends the Commission approve the application.