



Control Number: 51048



Item Number: 14

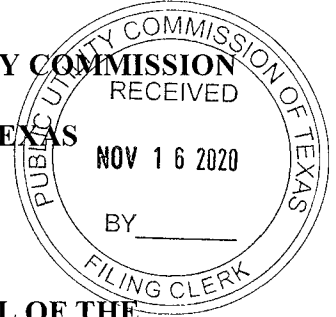
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**DOCKET NO. 51048**

**APPLICATION OF PERRIN WATER  
SYSTEMS, INC. AND PATTERSON  
WATER SUPPLY, LLC FOR SALE,  
TRANSFER, OR MERGER OF  
FACILITIES AND CERTIFICATE  
RIGHTS IN JACK COUNTY**

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**PUBLIC UTILITY COMMISSION  
RECEIVED  
OF TEXAS**



**COMMISSION STAFF'S RECOMMENDATION ON APPROVAL OF THE  
TRANSACTION TO PROCEED**

**COMES NOW** the Commission Staff (Staff) of the Public Utility Commission of Texas (Commission), representing the public interest, and files this Recommendation on Approval of the Transaction to Proceed. Staff recommends that the transaction be approved to proceed. In support thereof, Staff shows the following:

**I. BACKGROUND**

On July 14, 2020, Patterson Water Supply Corporation (Patterson) and Perrin Water Systems, Inc. (Perrin) (collectively, Applicants) filed an application for approval of the sale, transfer, or merger of facilities and certificate rights in Jack County. Patterson seeks approval to acquire facilities and to transfer all of Perrin's service area under Perrin's water Certificate of Convenience and Necessity (CCN) No. 12196 to Patterson's water CCN No. 13248. The requested area includes approximately 163 acres and 129 connections.

On October 16, 2020, the administrative law judge (ALJ) filed Order No. 4, establishing a deadline of November 16, 2020 for Staff to request a hearing or file a recommendation on approval of the sale and CCN amendment. Therefore, this pleading is timely filed.

**II. RECOMMENDATION ON THE TRANSACTION**

Staff has reviewed the application and, as supported by the attached memorandum of Jolie Mathis, Infrastructure Division, and Fred Bednarski, Rate Regulation Division, recommends that the proposed transaction be approved to proceed. Specifically, Staff recommends that the proposed transaction satisfies the relevant statutory and regulatory criteria, including the factors identified in Texas Water Code § 13.246(c) and 16 Texas Administrative Code (TAC) § 24.239, and that Patterson has demonstrated the financial, technical, and managerial capability necessary to provide continuous and adequate service to the requested area.

Accordingly, Staff recommends that the Applicants be ordered to file documentation demonstrating that the transaction has been consummated as required under 16 TAC § 24.239(I).

### **III. CONCLUSION**

Staff recommends that the proposed transaction be approved to proceed and that the Applicants be ordered to file documentation demonstrating that the transaction has been consummated as required under 16 TAC § 24.239(I). Staff respectfully requests that an order be issued consistent with the foregoing recommendations.

Dated: November 16, 2020

Respectfully submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS  
LEGAL DIVISION**

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/s/ Justin C. Adkins  
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**DOCKET NO. 51048**  
**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 November 16, 2020 in accordance with the Order Suspending Rules, issued in Project No. 50664.

/s/ Justin C. Adkins  
Justin C. Adkins

# *Public Utility Commission of Texas*

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## **Memorandum**

**TO:** Justin Adkins, Attorney  
Legal Division

**FROM:** Jolie Mathis, Utility Engineering Specialist  
Infrastructure Division

**DATE:** November 16, 2020

**RE:** **Docket No. 51048**, *Application of Perrin Water Systems, Inc. and Patterson Water Supply, LLC for Sale, Transfer, or Merger of Facilities and Certificate Rights in Jack County*

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### **1. Application**

On July 14, 2020, Patterson Water Supply Corporation (Patterson) and the Perrin Water Systems, Inc. (Perrin) (collectively, Applicants) filed an application for the approval of the sale, transfer, or merger (STM) of facilities and certificate rights in Jack County, Texas, in accordance with Texas Water Code (TWC) § 13.301 and 16 Texas Administrative Code (TAC) § 24.239.

Patterson seeks approval to acquire facilities and to transfer all of Perrin's water service area under Perrin's water Certificate of Convenience and Necessity (CCN) No. 12196 to Patterson's water CCN No. 13248. The requested area includes approximately 163 acres and 129 connections.

### **2. Notice**

Patterson provided notice consistent with 16 TAC § 24.239(c). The comment period ended September 17, 2020, and no protests or opt-out requests were received.

### **3. Factors Considered**

Under TWC §§ 13.241 and 13.246 and 16 TAC §§ 24.227 and 24.239, the Commission must consider certain factors when granting or amending a water or sewer CCN. Therefore, the following criteria were considered:

3.1. ***Consideration of the adequacy of service currently provided to the requested area (TWC § 13.246(c)(1), 13.301(e)(3)(A); 16 TAC § 24.227(a), (e)(1), 24.239(h)(3)(A),(h)(5)(I)).***

Perrin has a Texas Commission on Environmental Quality (TCEQ) approved public water systems (PWS) registered as Perrin Water System PWS. No. 1190005. Perrin Water System has several violations listed in the TCEQ database.

Perrin is currently in receivership and Patterson has made improvements to the system and will continue making the recommended investments to bring this system to standard. Line replacements are necessary to replace corroded metal lines that are subject to frequent leaks, and repair of a well that has been out of service is also necessary.

3.2. ***Consideration of the need for additional service in the requested area (TWC § 13.246(c)(2); 16 TAC § 24.227(e)(2), 24.239(h)(5)(B)).***

There are currently 129 existing customers in the requested area. Therefore, there is a need for service. No additional service is needed at this time.

3.3. ***Consideration of 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 (TWC § 13.246(c)(3); 16 TAC § 24.227(e)(3), 24.239(h)(5)(c)).***

Patterson will be the certificated entity for the requested area and be required to provide adequate and continuous service to the requested area. There will be no effect on any retail public utilities servicing the proximate area, as there are no other CCN holders or neighboring utilities within two miles of the boundaries of Perrin. There will be no effect on landowners, as the area is currently certificated.

3.4. ***Consideration of the ability of the applicant to provide adequate service (TWC §§ 13.241(a),(b), 13.246(c)(4), 13.301(b),(e)(2); and 16 TAC §§ 24.227(a),(e)(4), 24.239(f),(h)(5)(D)).***

Perrin has a TCEQ approved PWS registered as Perrin Water System, PWS No. 1190005. Perrin has several violations listed in the TCEQ database.

Perrin is currently in receivership and Patterson has made improvements to the system and will continue making the recommended investments to bring the system to standard. Line replacements to replace corroded metal lines that are subject to frequent leaks and repair of a well that has been out of service are necessary.

3.5. ***The applicant's demonstration 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. (TWC § 13.241(d) and 16 TAC § 24.227(b)).***

No additional construction is necessary for Patterson to serve the requested area. Therefore, concerns of regionalization or consolidation do not apply. Patterson has made improvements to the current system and will continue making the recommended investments to bring the system to standard.

**3.6 *Consideration of the feasibility of obtaining service from an adjacent retail public utility (TWC § 13.246(c)(5) and 16 TAC §§ 24.227(e)(5), 24.239(h)(5)9E)).***

Patterson has been in operations for more than ten years, is currently serving customers, and has sufficient capacity. Obtaining service from an adjacent retail public utility would likely increase costs to customers, because new facilities will need to be constructed. At the minimum, an interconnect would need to be installed in order to connect to a neighboring retail public utility. Therefore, it is not feasible to obtain service from an adjacent retail public utility.

**3.7. *Consideration of the financial ability of the applicant to pay for facilities necessary to provide continuous and adequate service (TWC §§ 13.246(c)(6), 13.301(b) and 16 TAC §§ 24.227(e)(6), 24.11(e), 24.239(f),(h)(5)(F)).***

Fred Bednarski III, Financial Analyst, Rate Regulation Division, provides the following analysis for the Commission's review and decisions.

The provisions of 16 TAC § 24.11 establish 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. The financial tests include a leverage test and an operations test. The Commission rules identify five leverage tests.<sup>1</sup> Patterson must demonstrate that it meets one of the five tests.<sup>2</sup> Mr. Bednarski's analysis is based on financial statements ending June 5, 2020.

Patterson meets the first test under 16 TAC § 24.11(e)(2)(A). The financial statements indicate a debt-to-equity ratio less than one calculated as follows: long term debt of \$120,780<sup>3</sup> divided by equity of \$538,520<sup>4</sup> equals 0.22. A debt-to-equity ratio of less than one is an indicator of financial stability and financial and managerial capability.

16 TAC § 24.11(e)(3) refers to the operations test, which requires that the owner or operator demonstrate sufficient available cash to cover any projected operations and maintenance shortages during the first five years of operations. Patterson submitted projected financial statements in its application, which indicate no shortages to cover.<sup>5</sup> Improvements are needed to provide continuous and adequate service to the requested area.<sup>6</sup> Patterson will pay for improvements<sup>7</sup> with its revenues and equity infusion.<sup>8</sup> Therefore, Patterson meets the operations test. Sufficient cash and net income available to cover possible future shortages indicates financial stability and financial and managerial capability.

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<sup>1</sup> See 16 TAC § 24.11(e)(2).

<sup>2</sup> *Id.*

<sup>3</sup> Application at 114 (Jul. 14, 2020).

<sup>4</sup> *Id.*

<sup>5</sup> *Id.* at 112, 116.

<sup>6</sup> *Id.* at 117.

<sup>7</sup> Applicant's Response to Staff's First Request for Information to Patterson Water Supply Corporation at 2 (Sep. 16, 2020).

<sup>8</sup> Application at 103-104.

- 3.8. *Requirement of the 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 (TWC §§ 13.246(d), 13.301(c) and 16 TAC §§ 24.227(f), 24.239(f)).*

Patterson and Perrin meet the financial tests; therefore, no additional financial assurance is needed.

- 3.9. *Consideration of the environmental integrity and the effect on the land to be included in the certificated area (TWC §§ 13.246(c)(7) and (9) and 16 TAC §§ 24.227(e)(7),(9), 24.239(h)(5)(G)).*

There will be no impact to the environmental integrity of the land as a result of the proposed transactions.

- 3.10. *Consideration of the probable improvement in service or lowering of cost to consumers (TWC § 13.246(c)(8), 16 TAC §§ 24.227(e)(8), 24.239(h)(5)(H)).*

Patterson Water will continue to provide water service to the existing customers in the area. There will be no change in the quality or cost of service to customers.

Patterson and Perrin meet all of the requirements of TWC §§ 13.241 and 13.246 and 16 TAC §§ 24.227 and 24.239. Approving this application to transfer water facilities in the requested area, and all of the water service area of the water CCN No. 12196 to Patterson, and amending water CCN No. 13248 is necessary for the service, accommodation, convenience and safety of the public.

#### **4. Recommendation**

Based on the above information, I recommend that the Commission find that the transaction will serve the public interest and allow Patterson and Perrin to proceed with the proposed transaction. No deposits are held by Perrin for the customers being served.