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DOCKET NO. 51904

APPLICATION OF MONARCH UTILITIES I L.P. TO AMEND ITS CERTIFICATES OF CONVENIENCE AND NECESSITY IN HARRIS AND LIBERTY COUNTIES	§	PUBLIC UTILITY COMMISSION
	§	
	§	OF TEXAS
	§	
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COMMISSION STAFF’S SUPPLEMENTAL RECOMMENDATION ON FINAL DISPOSITION

On March 16, 2021, Monarch Utilities I L.P. (Monarch) filed an application to amend its certificate of convenience and necessity (CCN) in Harris and Liberty Counties, Texas. Monarch holds water CCN No. 12893 and sewer CCN No. 20899. The requested service area consists of 121 acres and zero existing connections. Monarch filed supplemental information on May 13, 2021, July 28, 2021, February 14, 2022, March 4, 2022, May 10, 2022 , May25, 2022 and July 1, 2022.

On September 1, 2022, the administrative law judge (ALJ) filed Order No. 15, establishing a deadline of September 9, 2022 for Staff to file a supplemental recommendation addressing the financial factors addressed in Texas Water Code § 13.246(c) and 16 Texas Administrative Code §§ 24.11 and 24.227. Therefore, this pleading is timely filed.

I. FINAL SUPPLEMENTAL RECOMMENDATION ON THE APPLICATION

Staff has reviewed the application and supplemental information filed by Monarch and, as detailed in the attached memoranda of Jolie Mathis, Infrastructure Division, and Fred Bednarski III, Rate Regulation Division, recommends that it be approved. Staff’s review indicates that Monarch meets the applicable technical, managerial, and financial requirements of Chapter 13 of the Texas Water Code and Title 16, Chapter 24 of the Texas Administrative Code and therefore, is capable of providing continuous and adequate service. Additionally, Staff recommends that approval of the application is necessary for the service, accommodation, convenience, and safety of the public.

II. CONCLUSION

For the reasons discussed above, Staff respectfully requests that Monarch has met the financial factors outlined by the ALJ and that its application be approved.

Dated: September 9, 2022

Respectfully submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

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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 September 9, 2022, in accordance with the Order Suspending Rules, issued in Project No. 50664.

/s/ Forrest Smith
Forrest Smith

Public Utility Commission of Texas

Memorandum

TO: Forrest Smith, Attorney
Legal Division

FROM: Jolie Mathis, Utility Engineering Specialist
Infrastructure Division

DATE: September 9, 2022

RE: Docket No. 51904 – *Application of Monarch Utilities I L.P. to Amend its Certificates of Convenience and Necessity in Harris and Liberty Counties*

1. Application

On March 16, 2021, Monarch Utilities I L.P. (Monarch) filed with the Public Utility Commission of Texas (Commission) an application to amend its water certificate of convenience and necessity (CCN) No. 12983 and sewer CCN No. 20899 in Harris and Liberty counties, Texas under Texas Water Code (TWC) §§ 13.242 to 13.250 and 16 Texas Administrative Code (TAC) §§ 24.225 to 24.237.

Monarch is seeking to amend its water and sewer CCNs for the service area containing 0 current customers and approximately 121 acres of uncertificated area.

The result of the application will be the addition of approximately 121 acres to CCN Nos. 12983 and 20899.

2. Notice

The deadline to intervene was August 15, 2021; there were no motions to intervene, protests, or opt-out requests received.

3. Factors Considered

Under TWC §§ 13.241 and 13.246, and 16 TAC §§ 24.11(e) and 24.227, the Commission must consider certain factors when granting or amending a water or sewer CCN. Therefore, the following factors were considered.

- 3.1. *Consideration of the adequacy of service currently provided to the requested area and system compliance (TWC § 13.246(c)(1); 16 TAC § 24.227(a) and (e)(1)).*

There are no customers in the requested area.

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

A new development of single-family housing is planned for the requested area. Lots are sized so that retail public water wastewater service is required.

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 §§ 13.241(b) and 13.246(c)(3), 16 TAC § 24.227(e)(3)).*

Monarch will be the certificated entity for the requested area and will be required to provide adequate and continuous service to the requested area.

There are no other retail public utility servicing the proximate area. All retail public utilities in the proximate area were provided notice of the CCN amendment requested in this application and did not request to intervene.

3.4. *Consideration of the managerial and technical ability of the applicant to provide adequate service (TWC § 13.246(c)(4); 16 TAC § 24.227(a) and (e)(4)).*

Monarch is the second-largest investor-owned water and wastewater utility in Texas and has adequate financial, operational, and managerial expertise and capacity to serve the proposed development. Monarch currently provides service to over 30,000 customers in the state. Monarch has systems nearby and will provide daily operations out of a nearby regional service center.

Monarch has several Texas Commission on Environmental Quality (TCEQ) approved public water systems (PWS) and wastewater treatment plants (WWTP). The TCEQ registered PWS that will provide service to this area is Los Pinos Water System, PWS ID: 1013733. The WWTP that will be providing sewer service to this area is registered as Los Pinos Wastewater Treatment Facility, Wastewater Discharge Permit No. WQ0015830001.

3.5. *The applicants' 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); 16 TAC § 24.227(b)).*

TCEQ has approved plans for Monarch to build facilities in the requested areas to serve future customers and will have sufficient capacity to serve the areas. Therefore, concerns of regionalization or consolidation do not apply.

3.6. *Consideration of the feasibility of obtaining service from an adjacent retail public utility (TWC § 13.246(c)(5); 16 TAC § 24.227(e)(5)).*

Currently, there are no other water and sewer providers in the area.

- 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); 16 TAC §§ 24.227(a) and (e)(6), 24.11(e)).*

The Rate Regulation Division will be addressing this criterion in a separate memo.

- 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); 16 TAC § 24.227(f)).*

The Rate Regulation Division will be addressing this criterion in a separate memo.

- 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) and (9)).*

The environmental integrity of the land will be minimally affected as facilities are constructed to provide service to the requested area.

- 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)).*

Future residents of the planned development will have water and sewer service available.

4. Recommendation

Based on the mapping review by Tracy Montes, Infrastructure Division, and my technical and managerial review, I recommend that Monarch meets all of the statutory requirements of Texas Water Code Chapter 13 and the Commission's Chapter 24 rules and regulations, is capable of providing continuous and adequate service. I further recommend that approving this application to amend its water and sewer CCN No. 12983 and sewer CCN No. 20899 is necessary for the service, accommodation, convenience, and safety of the public.

Monarch consented to the attached maps, tariffs, and certificates on July 1, 2022.

Public Utility Commission of Texas

Memorandum

TO: Forest Smith
Legal Division

FROM: Fred Bednarski III
Rate Regulation Division

DATE: September 9, 2022

RE: Docket No. 51904 – *Application of Monarch Utilities I L.P. to Amend its Certificates of Convenience and Necessity in Harris and Liberty Counties*

On March 16, 2021, Monarch Utilities I L.P. (Monarch) filed an application to amend its water and sewer Certificates of Convenience and Necessity (CCN), Nos. 12893 and 20899, in Harris and Liberty Counties under Subchapter G of Texas Water Code Chapter 13.

An owner or operator of a retail public utility must have the financial resources to operate and manage the utility and to provide continuous and adequate service to the current and requested utility service areas, as established by 16 Texas Administrative Code (TAC) § 24.11. CRWC must demonstrate that it meets one of the five leverage tests under 16 TAC § 24.11(e)(2) as well as the operations test under 16 TAC § 24.11(e)(3).

Leverage Test

My analysis is based on Monarch’s audited financial statements ending December 31, 2021, and 2020. These financial statements contain an unqualified auditor’s opinion from PricewaterHouseCoopers LLP stating that the financial statements present fairly, in all material respects, the financial position of Monarch as of December 31, 2021, and 2020. as required by 16 TAC § 24.11(e)(4)(B)(i).¹

¹ Supplemental and updated financial information at pdf pages 1 thru 21 (Sept. 02, 2022).

Based upon my review of Monarch's financial statements, I calculate debt-to-equity ratio to be 0.22 as calculated in confidential attachment FB-1. Because the ratio is less than one, I recommend a finding that Monarch meets the leverage test specified in 16 TAC § 24.11(e)(2)(A).

Operations Test

An owner or operator must demonstrate sufficient available cash to cover projected cash shortages for operations and maintenance expense during the first five years of operations, as required by 16 TAC § 24.11(e)(3).

Monarch's financial statements and projections, provided in confidential Attachment FB-1, include operating income and cash flow information that indicate Monarch will have sufficient cash to cover projected shortages. Therefore, I recommend a finding that Monarch meets the operations test specified in 16 TAC § 24.11(e)(3).

Capital Improvement Plan

Monarch entered into an agreement with the developer to expand Monarch CCN into a new development in Harris and Liberty Counties.² Capital improvements needed to provide continuous and adequate service to the requested area will be paid for by the developer and with Monarch's operating income as provided in confidential Attachment FB-1. Therefore, I recommend a finding that Monarch meets the requirements specified in 16 TAC § 24.11(e)(5).

Recommendation

Because Monarch meets the financial tests, I do not recommend that the Commission require additional financial assurance.

Consequently, I recommend a finding that Monarch demonstrates the financial and managerial capability needed to provide continuous and adequate service to the area subject to this application. My conclusions are based on information provided by Monarch before the date of this memorandum and may not reflect any changes in Monarch's status after this review.

² Confidential responses to certain application questions at pdf pages 2 thru 18 (Mar. 17, 2021).