



## Filing Receipt

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**DOCKET NO. 51928**

<b>APPLICATION OF BETTY J. DRAGOO</b>	<b>§</b>	<b>PUBLIC UTILITY COMMISSION</b>
<b>AND CSWR-TEXAS UTILITY</b>	<b>§</b>	
<b>OPERATING COMPANY, LLC FOR</b>	<b>§</b>	<b>OF TEXAS</b>
<b>SALE, TRANSFER, OR MERGER OF</b>	<b>§</b>	
<b>FACILITIES AND ASSOCIATED</b>	<b>§</b>	
<b>ACREAGE IN ERATH COUNTY</b>	<b>§</b>	

**COMMISSION STAFF’S RECOMMENDATION ON THE TRANSACTION**

On March 24, 2021, Betty J. Dragoo and CSWR-Texas Utility Operating Company, LLC (CSWR-Texas) (collectively, Applicants) filed an application for approval of a sale and transfer in Erath County. CSWR-Texas seeks approval to acquire the Thousand Oaks Subdivision public water system and to amend the associated service area, which is currently uncertificated, to its existing certificate of convenience and necessity (CCN) No. 13290. The requested area includes approximately 96 acres and 15 connections. CSWR-Texas filed supplemental information on May 5, 6, and 7, 2021.

On June 18, 2021, the administrative law judge filed Order No. 3, establishing a deadline of July 21, 2021 for the Staff (Staff) of the Public Utility Commission of Texas (Commission) to request a hearing or file a recommendation on approval of the sale and on the CCN amendment. Therefore, this pleading is timely filed.

**I. RECOMMENDATION TO ALLOW THE TRANSACTION TO PROCEED**

As detailed in the attached memoranda of Heidi Graham of the Commission’s Infrastructure Division, and Fred Bednarski of the Commission’s Rate Regulation Division, Staff’s review indicates that the proposed transaction satisfies the relevant statutory and regulatory criteria, including those factors identified in Texas Water Code Chapter 13 and 16 Texas Administrative Code Chapter 24. Additionally, based upon its review, Staff recommends that CSWR-Texas has demonstrated that it possesses the financial, technical, and managerial capability to provide continuous and adequate service to the area subject to the proposed transaction.

**II. CONCLUSION**

For the reasons discussed above, Staff respectfully requests that an order be issued allowing the proposed transaction to proceed.

Dated: July 21, 2021

Respectfully submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS  
LEGAL DIVISION**

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**DOCKET NO. 51928**

**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 on July 21, 2021 in accordance with the Order Suspending Rules filed in Project No. 50664.

/s/ Merritt Lander  
Merritt Lander

# *Public Utility Commission of Texas*

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## **Memorandum**

**TO:** Merritt Lander, Attorney  
Legal Division

**FROM:** Heidi Graham, Lead Engineering Specialist  
Infrastructure Division

**DATE:** July 21, 2021

**RE:** Docket No. 51928 – *Application of Betty J. Dragoo and CSWR-Texas Utility Operating Company, LLC for Sale, Transfer, or Merger of Facilities and Associated Acreage in Erath County*

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### **1. Application**

On March 24, 2021, CSWR-Texas Utility Operating Company, LLC (CSWR-Texas) and Betty J. Dragoo (Dragoo) (collectively, Applicants) filed an application for sale, transfer, or merger (STM) of facilities and associated acreage in Erath County, Texas, under Texas Water Code (TWC) §§ 13.242 to 13.250 and § 13.301 and 16 Texas Administrative Code (TAC) §§ 24.225 to 24.237 and § 24.239.

CSWR-Texas, certificate of convenience and necessity (CCN) No. 13290, seeks approval to acquire and transfer all facilities and customers from Dragoo. In addition, CSWR-Texas seeks to amend uncertificated area to CCN No. 13290. The requested area includes 15 current customers and approximately 96 acres, comprised of 96 acres of uncertificated area. The result of the application will be the addition of approximately 96 acres to CCN No. 13290.

The application indicates that the total acreage being requested is approximately 91.4 acres. Based on the mapping review by Tracy Montes, Infrastructure Division, of the digital mapping data filed on March 24, 2021, it was determined that the requested area is approximately 96 acres.

### **2. Notice**

CSWR-Texas provided notice consistent with 16 TAC § 24.239(c) and § 24.235. The deadline to intervene was June 21, 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), 24.227 and 24.239, the Commission must consider certain factors when granting or amending a water or sewer CCN.

These factors are addressed below.

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

Dragoo has a public water system (PWS) registered with the Texas Commission on Environmental Quality (TCEQ) under PWS ID No. 0720054. The last TCEQ compliance investigation of this system was on April 10, 2018. One violation, for failure to install flush valves on dead end mains, remains unresolved. Staff notes that a violation related to flush valves may not affect the adequacy of water service provided by Dragoo. In addition, the Commission's complaint records show no complaints against Dragoo.

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

The purpose of the transaction is to transfer the Thousand Oaks Subdivision's facilities and customers to CSWR-Texas. The customers are currently receiving water service from Dragoo's water system. There are currently 15 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)).***

CSWR-Texas 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 the landowners in the area or any retail public utility servicing the proximate area. There are no landowners of 25 acres or more in the requested area, and all retail public utilities in the proximate area were provided notice of the transaction proposed 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 §§ 13.241(a) and (b), 13.246(c)(4); and 13.301(b) and (e)(2); 16 TAC §§ 24.227(a) and (e)(4), and 24.239(f) and (h)(5)(D)).***

CSWR-Texas has the ability to provide adequate service in the requested area. CSWR-Texas has several public water systems and wastewater treatment plants registered with the Texas Commission on Environmental Quality (TCEQ). CSWR-Texas does not have any violations listed in the TCEQ database. In addition, the Commission's complaint records show only six complaints against CSWR-Texas. The complaints consist of four outages, one customer service, and one interruption of service.

TCEQ rule, 30 TAC § 290.46, Minimum Acceptable Operating Practices for Public Drinking Water Systems, requires the operation of a public water system by trained and licensed personnel. The production, treatment, and distribution facilities at the public water system must be operated at all times under the direct supervision of a water works operator who holds an applicable, valid license issued by the TCEQ executive director. The licensed operator of a public water system may be an employee, contractor, or volunteer. CSWR-

Texas plans to use a contract operator for plant operations, which would include one or more appropriately qualified and licensed operator(s). The contract operator(s) would be responsible for day-to-day inspections, checks, sampling, reporting, meter reading, and any necessary system repairs.

Based on orders filed in previous CSWR-Texas dockets, the Administrative Law Judge requested Staff take into consideration all prior CSWR-Texas STM dockets in which Staff recommends the transaction should be allowed to proceed. Staff reviewed the following dockets:

- In Docket No. 50251, JRM Water, LLC has its own public water system, Coletto Water, which adequately supplies potable water to its customers. Coletto Water is registered with TCEQ under PWS No. 2350036, has no outstanding violations, and no additional construction is required to provide service to its customers. For this docket, CSWR-Texas received approval to transfer approximately 438 acres and 211 connections in Victoria County.
- In Docket No. 50276, North Victoria Utilities, Inc. (North Victoria) has its own public water system, which adequately supplies potable water to its customers. However, the application states that North Victoria's public water system, registered with TCEQ under PWS No. 2350036, has numerous deficiencies that will require immediate capital investment to remedy. CSWR-Texas indicates that it has worked with an engineer to identify the shortcomings in the system and has outlined a plan to address these deficiencies to ensure that, after closing the sale, the full operation of the public water system can continue in accordance with Commission and TCEQ rules. For this docket, CSWR-Texas received approval to transfer approximately 307 acres and 77 connections in Victoria County.
- In Docket No. 50311, Copano Heights Water Company (Copano Heights) has its own public water system registered with TCEQ under PWS No. 0040017 and an existing water purchase agreement with the City of Rockport, which is adequate to supply potable water to its customers. Copano Heights public water system has no outstanding violations with TCEQ, and no additional construction is necessary for CSWR-Texas to serve the requested area in that docket. For this docket, CSWR-Texas received approval to transfer approximately 61 acres and 110 connections in Aransas County.
- In Docket No. 51065, Treetop Utilities, LLC has its own public water system, Treetop Estates, which adequately supplies potable water to its customers. Treetop Estates is registered with TCEQ under PWS No. 1840134, has no outstanding violations, and no additional construction is required to provide service to its customers. For this docket, CSWR-Texas received approval to transfer approximately 93 acres and 35 connections in Parker County.
- In Docket No. 51118, Shady Oaks has several TCEQ approved public water systems registered as Shady Oaks Water, PWS No. 2470017; Hickory Hill Water, PWS No. 2470018; Arrowhead Water, PWS No. 2470025; and C Willow Water, PWS No. 2470019. Shady Oaks does not have any violations listed in the TCEQ database. No additional construction is necessary to serve the requested area. For this docket, CSWR-Texas received approval to transfer approximately 1,828 acres and 560 connections in Wilson County.
- In Docket No. 51026, Tall Pines Utility, Inc. has its own public water system, Tall Pines, which adequately supplies potable water to its customers. Tall Pines is registered

with TCEQ under PWS No. 1010220, has no outstanding violations, and no additional construction is required to provide service to its customers. For this docket, CSWR-Texas received approval to transfer approximately 42 acres and 73 connections in Harris County.

- In Docket No. 51031, Council Creek Village, Inc. dba Council Creek Village dba South Council Creek 2 has several TCEQ approved public water systems registered as Council Creek Village, PWS No. 0270014; South Council Creek 1, PWS No. 0270079; and South Council Creek 2, PWS No. 0270080. There are several violations for these water systems listed in the TCEQ database. CSWR-Texas indicated that it will address these deficiencies to ensure that, after closing the sale, the full operation of these public water systems can continue in accordance with Commission and TCEQ rules. For this docket, CSWR-Texas received approval to transfer approximately 275 acres and 176 connections in Burnet County.
- In Docket No. 51047, South Silver Creek has a public water system registered with the TCEQ under PWS No. 0270041. The application states that TCEQ identified past alleged violations that need to be addressed. CSWR-Texas indicates that it has worked with an engineer to identify the shortcomings in the system and will address these deficiencies to ensure that, after closing the sale, the full operation of the public water system can continue in accordance with Commission and TCEQ rules. For this docket, CSWR-Texas received approval to transfer approximately 169 acres and 103 connections in Travis County.
- In Docket No. 50989, Ranch Country of Texas Water Systems, Inc. has several TCEQ approved public water systems registered as Hillside Estates Water System, PWS No. 0080049; Settlers Meadows Water System, PWS No. 0080055; Settlers Estates Sec II, PWS No. 0080056; Meadowview Estates, PWS No. 0080051; Settlers Crossing Water System, PWS No. 0080058; Meadowview Estates II, PWS No. 0080059; and Settlers Crossing Water System 2, PWS No. 0080060. The application states that there are several violations for these water systems that will require immediate capital investment to remedy. CSWR-Texas indicates that it has worked with an engineer to identify the shortcomings in the systems and will address these deficiencies to ensure that, after closing the sale, the full operation of these public water systems can continue in accordance with Commission and TCEQ rules. For this docket, CSWR-Texas received approval to transfer approximately 638 acres and 316 connections in Austin County.
- In Docket No. 51130, there are three CCNs being transferred to CSWR-Texas, two water CCNs and one sewer CCN. The water CCN for Laguna Tres has a TCEQ approved public water system registered as Laguna Tres Subdivision, PWS No. 1110019. The water CCN for Laguna Vista has a TCEQ approved public water system registered as Laguna Vista Subdivision, PWS No. 1110095. There are several violations for the two water systems. CSWR-Texas indicated that it will address these deficiencies to ensure that, after closing the sale, the full operation of the public water systems can continue in accordance with Commission and TCEQ rules. The sewer CCN for Laguna Vista has a small lift station that pumps sewage to a septic spray field and does not have a water quality discharge permit with the TCEQ as it was put in before the current permitting requirements were implemented by the TCEQ. CSWR-Texas indicated that it will seek approval of all necessary permits for the lift station and associated spray field when the transfer is complete. For this docket, CSWR-Texas

received approval to transfer approximately 362 acres of water service area and 446 current water service customers and approximately 6 acres of sewer service acre and 5 current sewer service customers in Hood County.

- In Docket No. 51146, Abraxas has a TCEQ approved public water system registered as Abraxas Utilities, PWS No. 1840034 and an approved Water Treatment Facility, Wastewater Discharge Permit No. WQ 00150-10001. There are several violations listed in the TCEQ database. A preliminary engineering report commissioned by CSWR-Texas identified many issues with the water and wastewater system. More specifically, the report recommends relining and replacing manholes, rehabilitation of lift stations, replacement of equipment, and various other tasks. If authorized to acquire the system, CSWR-Texas intends to invest the capital required to make the upgrades, renovations, and repairs necessary to bring the water system into compliance with TCEQ regulations and ensure customers receive safe and reliable service. For this docket, CSWR-Texas received approval to transfer approximately 721 acres, 220 water connections, and 217 sewer connections in Parker County.
- In Docket No. 51036, Woodlands West has a non-public water system registered with the TCEQ as Woodlands West, PWS No. 0260043. Woodlands West has one monitoring violation listed in the TCEQ database. CSWR-Texas indicated that it will address this deficiency to ensure that, after closing the sale, the full operation of the public water system can continue in accordance with Commission and TCEQ rules. For this docket, CSWR-Texas is seeking to transfer approximately 61 acres and 18 connections in Burleson County.
- In Docket No. 51003, the CCN for Oak Hills Ranch Estates Water Company (Oak Hills) is being transferred to CSWR-Texas. The water CCN has a TCEQ approved public water system registered as Oak Hills Ranch Water, PWS No. 0940085. Oak Hills has several violations and additional issues that need to be addressed that include reworking water wells, replacing the ground storage tank, and installing additional pumps. CSWR-Texas stated they intend to invest the capital required to make the upgrades, renovations, and repairs necessary to bring the water systems into compliance with TCEQ regulations and to ensure customers receive safe and reliable service. The needed improvements will begin when the systems are officially transferred to CSWR-Texas. Once the water systems are compliant with TCEQ regulations, the service provided to the requested area will be adequate. For this docket, the area to be added to CSWR-Texas' CCN, including uncertificated area, is approximately 1,769 acres and 196 connections in Guadalupe and Wilson counties.
- In Docket No. 51089, there are two CCNs being transferred from Donald E. Wilson dba Quiet Village II dba QV Utility (QV Utility) to CSWR-Texas, one water CCN and one sewer CCN. The water CCN has a TCEQ approved public water system registered as Quiet Village II, PWS No. 1080221. QV Utility purchases wastewater treatment from the City of Donna. There are several violations listed in the TCEQ database for the water system. CSWR-Texas indicated that it will address these deficiencies to ensure that, after closing the sale, the full operation of the public water system can continue in accordance with Commission and TCEQ rules. For this docket, CSWR-Texas is seeking to transfer approximately 18.5 acres and 165 connections in Hidalgo County.
- In Docket No. 51222, Estate of Patetreen Petty McCoy dba Big Wood Springs Water Company (Big Wood Springs) has a public water system registered with the TCEQ as



Big Wood Springs Water System, PWS No. 2500019. Big Wood Springs does not have any open violations in the TCEQ database. For this docket, CSWR-Texas is seeking to transfer approximately 643 acres and 76 connections in Wood County.

- In Docket No. 51642, James L. Nelson dba Waterco (Waterco) has a public water system registered with the TCEQ as Waterco, PWS No. 1690028. The application states that there are several violations for this water system that will require immediate capital investment to remedy. CSWR-Texas indicates that it has worked with an engineer to identify the shortcomings in the systems and will address these deficiencies to ensure that, after closing the sale, the full operation of this public water system can continue in accordance with Commission and TCEQ rules. For this docket, CSWR-Texas is seeking to transfer approximately 25 acres and 13 connections in Montague County.
- In Docket No. 51126, Aero Valley Water Service (Aero Valley) has a public water system registered with the TCEQ as Aero Valley Water Service, PWS No. 0610243. There are several violations listed in the TCEQ database. CSWR-Texas will address the violations and deficiencies to ensure that, after closing the sale, the full operation of the public water system can continue in accordance with Commission and TCEQ rules. For this docket, CSWR-Texas is seeking to transfer approximately 46.5 acres, which consists of 32.5 acres of single certification and 14 acres of dual certification with Town of Northlake's CCN No. 12915, with 42 connections in Denton County.

In each of the following applications, 50251, 50276, 50311, 51065, 51118, 51026, 51031, 51047, 50989, 51130, 51146, 51036, 51003, 51089, 51222, 51642, and 51126 CSWR-Texas has stated that it intends to contract with an operations company.

**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)).***

The construction of a physically separate water system is not necessary for CSWR-Texas to serve the requested area. 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) and 24.239(h)(5)(E)).***

Dragoo 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 a 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) and 13.301(b); 16 TAC §§ 24.227(a) and (e)(6), 24.11(e), and 24.239(f) and (h)(5)(F)).***

Fred Bednarski of 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), 13.301(c); 16 TAC §§ 24.227(f), 24.239(f)).*

Fred Bednarski of 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) and 24.239(h)(5)(G)).*

The environmental integrity of the land will not be affected as no additional construction is needed 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), 24.239(h)(5)(H)).*

CSWR-Texas will continue to provide water service to the existing customers in the requested area. There will be no change in the quality or cost of service to customers.

The existing rates currently being charged to the existing customers by Dragoo will not change as a result of the transaction.

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 facilities in the requested area to CSWR-Texas and amending water CCN No. 13290 held by CSWR-Texas 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 that the Applicants be allowed to proceed with the proposed transaction. There are no deposits held by Dragoo for the customers being served in the Thousand Oaks Subdivision. I further recommend that a public hearing is not necessary.

# *Public Utility Commission of Texas*

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## **Memorandum**

**TO:** Merritt Lander, Attorney  
Legal Division

**FROM:** Fred Bednarski III, Financial Analyst  
Rate Regulation Division

**DATE:** July 21, 2021

**RE:** Docket No. 51928 - *Application of Betty J. Dragoo and CSWR-Texas Utility Operating Company, LLC for Sale, Transfer, or Merger of Facilities and Associated Acreage in Erath County*

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On March 24, 2021, Betty J. Dragoo and CSWR-Texas Utility Operating Company, LLC (CSWR-Texas) filed an application for approval of the sale, transfer, or merger of facilities and to amend the associated service area, which is currently uncertificated, to CSWR-Texas' existing certificate of convenience and necessity (CCN) No. 13290.

I recommend that CSWR-Texas 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 CSWR-Texas before the date of this memorandum and may not reflect any changes in CSWR-Texas' status after this review.

***Ability to serve: financial ability and stability (TWC §§ 13.241(a) and 13.246(c)(6))***

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 TAC § 24.11. CSWR-Texas 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 CSWR-Texas' affiliate, CSWR, LLC and Subsidiaries' (CSWR), financial statements ending December 31, 2020. These financial statements contain an unqualified auditor's opinion from RSM US LLP stating that the financial statements present fairly, in all material respects, the financial position of CSWR as of December 31, 2020 and 2019.

CSWR's financial statement reports a debt-to-equity ratio of 0.16 as provided in confidential Attachment FB-1. Because the ratio is less than 1.0, CSWR meets the test specified in 16 TAC § 24.11(e)(2)(A). CSWR is also capable, available, and willing to cover temporary cash shortages. Therefore, CSWR-Texas meets the test specified in 16 TAC § 24.11(e)(2)(E).

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).

CSWR-Texas' financial projections show that there are projected shortages to cover, as provided in confidential Attachment FB-1. However, CSWR's financial statements and recent cash balance, which are provided in confidential Attachment FB-1, indicate CSWR possesses sufficient cash and financial ability to pay for capital improvements and necessary equity investments for this application, as well as in other recently approved or pending applications. Additionally, CSWR-Texas provided an affidavit indicating CSWR's commitment to providing funds necessary for cash required to purchase Betty J. Drago's system, as well as the other water and wastewater systems included in CSWR-Texas' other recently approved and pending applications. Sufficient cash and net operating income available to cover possible future shortages provide an indication of financial stability and financial and managerial capability. Therefore, CSWR-Texas meets the operations test specified in 16 TAC § 24.11(e)(3).

***Financial assurance (TWC § 13.246(d))***

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