



## Filing Receipt

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**DOCKET NO. 52201**

<b>APPLICATION OF UTILITIES</b>	<b>§</b>	<b>PUBLIC UTILITY COMMISSION</b>
<b>INVESTMENT COMPANY, INC. AND</b>	<b>§</b>	
<b>UIC 13 LLC AND MONARCH</b>	<b>§</b>	<b>OF TEXAS</b>
<b>UTILITIES I L.P. FOR SALE,</b>	<b>§</b>	
<b>TRANSFER, OR MERGER OF</b>	<b>§</b>	
<b>FACILITIES AND CERTIFICATE</b>	<b>§</b>	
<b>RIGHTS IN HARRIS, LIBERTY, AND</b>	<b>§</b>	
<b>CHAMBERS COUNTIES</b>	<b>§</b>	

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

On June 1, 2021, Utilities Investment Company, Inc. (Utilities) and UIC 13 LLC (UIC 13) and Monarch Utilities I L.P. (Monarch) (collectively, Applicants) filed an application for approval of the sale, transfer, or merger of facilities and certificate rights in Harris, Liberty, and Chambers counties. The Applicants seek approval to sell and transfer all of Utilities and UIC 13's facilities and certificated service area under water certificate of convenience and necessity (CCN) numbers 12671 and 13242 and sewer CCN numbers 20765 and 21091 to Monarch Utilities water CCN number 12083 and sewer CCN number 20899, and the cancellation of Utilities and UIC 13's water and sewer CCNs.

On August 31, 2021, the administrative law judge filed Order No. 5, establishing a deadline of September 30, 2021, for 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 memorandum of Patricia Garcia, Infrastructure Division, Staff recommends and respectfully requests the entry of an order permitting the proposed transaction to proceed. Staff's review of the application indicates that the proposed transaction satisfies the relevant statutory and regulatory criteria, including those factors identified in Texas Water Code § 13.246(c). Additionally, Staff recommends that Monarch has demonstrated the financial, technical, and managerial capability to provide continuous and adequate service to the area subject to the proposed transaction and that a public hearing is not necessary. The approval of the sale expires six months from the date of the Commission's written approval of the sale. If the sale

is not effectuated within that period, and unless the Applicants request and receive an extension from the Commission, the approval is void and the Applicants must re-apply for approval of the sale.

Finally, Staff also recommends that Applicants be ordered to file documentation demonstrating that the transaction has been consummated and that the disposition of any remaining deposits have been addressed as required by 16 Texas Administrative Code § 24.109(m)-(n). The CCN remains in the name of Utilities and UIC 13 until the transfer is complete and approved in accordance with the Commission's rules and regulations.

## II. CONCLUSION

Staff respectfully requests that an order be issued permitting the proposed transaction to proceed.

Dated: September 30, 2021

Respectfully submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS  
LEGAL DIVISION**

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/s/ Kourtnee Jinks

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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 30, 2021, in accordance with the Order Suspending Rules, issued in Project No. 50664.

*/s/ Kourtnee Jinks*  
Kourtnee Jinks

# *Public Utility Commission of Texas*

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## **Memorandum**

**TO:** Kourtnee Jinks, Attorney  
Legal Division

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

**DATE:** September 30, 2021

**RE:** Docket No. 52201 – *Application of Utilities Investment Company, Inc. and UIC 13 LLC and Monarch Utilities I L.P. for Sale, Transfer, or Merger of Facilities and Certificate Rights in Harris, Liberty, and Chambers County*

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On June 1, 2020, UIC 13 LLC (UIC 13) and Monarch Utilities I L.P. (Monarch) filed an application for the sale, transfer, or merger of facilities and certificate rights in Harris, Liberty, and Chambers counties.

I recommend 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.

***Ability to serve: financial ability and stability (Texas Water Code (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 Texas Administrative Code (TAC) § 24.11. Monarch 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 confidential financial statements ending December 31, 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, 2020 and 2019.

Monarch's debt-to-equity ratio is 0.25 as calculated in Confidential Attachment FB-1. Because the ratio is less than 1.0, 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 and UIC 13's financial statements include operating income and cash flow information that indicate Monarch will have sufficient cash to cover projected shortages as included in Confidential Attachment FB-1. Monarch and UIC 13 generate sufficient operating income to pay for capital improvements needed to provide continuous and adequate service to the requested area as indicated in Confidential Attachment FB-1. Sufficient cash and net operating income available to cover possible future shortages provide an indication of financial stability and financial and managerial capability. Therefore, Monarch meets the operations test specified in 16 TAC § 24.11(e)(3).

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

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

***Fair market value and ratemaking rate base (TWC 13.305(i))***

Because Monarch has filed notice with the Commission of its intent to use a fair market value (FMV) process to determine the ratemaking rate base of UIC 13, the following provisions of TWC § 13.305 apply to this proceeding:

(f) For the purposes of the acquisition, the fair market value is the average of the three utility valuation expert appraisals conducted under Subsection (c).

(g) For an acquisition of a selling utility, the ratemaking rate base of the selling utility is the lesser of the purchase price negotiated by the acquiring utility and the selling utility or the fair market value. The ratemaking rate base of the selling utility shall be incorporated into the rate base of the acquiring utility during the utility's next rate base case under Subchapter F.

(i) If the utility commission approves the application for acquisition under Section 13.301, the utility commission shall issue an order that includes:

- (1) the ratemaking rate base of the selling utility as determined under Subsection (g); and
- (2) any additional conditions for the acquisition the utility commission requires.

Consistent with the above statutory provisions, Confidential Attachment FB-1 shows the FMV appraisal amount reported by each of the utility valuation experts and the resulting average amount. Because the average of the three appraisals yields a FMV greater than the sales price, the ratemaking rate base for UIC 13 is the sales price included in Confidential Attachment FB-1 as prescribed by the provisions of TWC § 13.305(g).

# *Public Utility Commission of Texas*

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## **Memorandum**

**TO:** Kourtnee Jinks, Attorney  
Legal Division

**FROM:** Patricia Garcia, Senior Engineering Specialist  
Infrastructure Division

**DATE:** September 30, 2021

**RE:** Docket No. 52201 – *Application of Utilities Investment Company, Inc. and UIC 13 LLC and Monarch Utilities I, L.P. for Sale, Transfer, or Merger of Facilities and Certificate Rights in Harris, Liberty, and Chambers Counties*

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### **1. Application**

On June 1, 2021, Monarch Utilities I L.P. (Monarch Utilities) and Utilities Investment Company, Inc. (UIC) and UIC 13 LLC (UIC 13) (collectively Applicants) filed an application for sale, transfer, or merger (STM) of facilities and certificate rights in Harris, Liberty, and Chambers Counties, Texas, under Texas Water Code (TWC) § 13.301 and 16 Texas Administrative Code (TAC) § 24.239.

Specifically, Monarch Utilities, water certificate of convenience and necessity (CCN) No. 12983 and sewer CCN No. 20899, seeks approval to acquire facilities and to transfer a portion of the water and sewer certificated service areas from UIC under water CCN No. 12671 and sewer CCN No. 20765 and to acquire facilities and to transfer all of the of the water and sewer certificated service areas from UIC 13 under water CCN No. 13242 and sewer CCN No. 21091.

#### **Total Requested Area from UIC:**

- The *requested area for water* includes 678 total customer connections and approximately 1,246 total acres of transferred area from UIC CCN No. 12671. The application proposes the subtraction of approximately 1,246 total acres from UIC from CCN No. 12671 and the addition of approximately 1,246 total acres to Monarch Utilities' CCN No. 12983.
- The *requested area for sewer* includes 219 total customer connections and approximately 289 total acres of transferred area from UIC CCN No. 20765. The application proposes the subtraction of approximately 289 total acres from UIC's CCN No. 20765 and the addition of approximately 289 total acres to Monarch Utilities' CCN No. 20899.

## Total Requested Area from UIC 13:

- The *requested area for water* includes 439 total customer connections and approximately 248 total acres of transferred area from UIC 13's CCN No. 13242. The application proposes the subtraction of approximately 248 total acres from UIC 13's CCN No. 13242 and the addition of approximately 248 total acres to Monarch Utilities' CCN No. 12983.
- The *requested area for sewer* includes 318 total customer connections and approximately 110 total acres of transferred area from UIC 13's CCN No. 21091. The application proposes the subtraction of approximately 110 total acres from UIC 13's CCN No. 21091 and the addition of approximately 110 total acres to Monarch Utilities' CCN No. 20899.

## 2. Notice

Monarch provided notice consistent with 16 TAC § 24.239(c). The deadline to intervene was August 25, 2021. The Cypress Hill Homeowners Association submitted a motion to intervene. There were no 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)).*

UIC's water CCN No. 12671 has several Texas Commission on Environmental Quality (TCEQ) approved public water systems (PWS). The application proposes the transfer of the public water systems listed below from UIC's water CCN to Monarch Utilities.

System Name	ID No.
Greenbriar Estates	0360111
Orchard Crossing	1012450
Fairview Acres MHP	1010706
Glenwood Mobile Home Subdivision	1011492
Rollan Heights	1010640
Cedar Oaks	1011556
Homestead Oaks	1011734
Cedar Bayou Estates	1012174
Cedar Bayou Park	1010112
McGee Place	1012995
Spring Cypress Center	1013172
Target Center Water Plant	1013316



<b>System Name</b>	<b>ID No.</b>
Peterson Place	1460086

Of these public water systems, Glenwood Mobile Home Subdivision has active violations with the TCEQ. The Applicants provided proof that plans have been submitted to the TCEQ to install a new water plant to serve the Glenwood Mobile Home Subdivision to address the violations. The plans for the new water plant were approved by the TCEQ on January 20, 2020. The water plant is currently being built by UIC and will be completed before the sale is complete.

UIC, sewer CCN No. 20765 has several wastewater treatment plants (WWTP). The application proposes the transfer of Orchard Crossing WWTP, Texas Pollutant Discharge Elimination System (TPDES) Permit No. WQ0012863001, and Spring Cypress Shopping Center WWTP, TPDES Permit No. WQ0014172001 from UIC's sewer CCN to Monarch Utilities. UIC does not have any violations listed in the TCEQ database for these WWTPs. No additional construction is necessary for Monarch Utilities to serve the requested sewer CCN service areas.

The Commission's complaint records for both the water CCN No. 12671 and sewer CCN No. 20765, which go back to 2014, show 9 complaints investigated against UIC.

UIC 13's water CCN No. 13242 has three TCEQ approved public water systems proposed to be transferred from UIC 13's water CCN to Monarch Utilities. The public water systems are Azalea Estates, PWS ID No. 1011253, Cottonwood Park, PWS ID No. 1010283, and Cypress Hill, PWS ID No. 1011792.

UIC 13's sewer CCN No. 21091 has one WWTP proposed to be transferred from UIC 13 to Monarch Utilities. The WWTP proposed to be transferred in this application is registered as Aldine Village WWTP, TPDES Permit No. WQ0012863001.

UIC 13 does not have any violations listed in the TCEQ database for their water and sewer systems. No additional construction is necessary for Monarch Utilities to serve the requested water and sewer service area.

The Commission's complaint records for both the water CCN No. 13242 and sewer CCN No. 21091, which go back to 2014, show no complaints investigated against UIC 13.

**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 public water systems and wastewater treatment plants from two providers transferring a water and sewer utility, each. The customers are currently receiving water and sewer service from each of the utilities' public water systems and wastewater treatment plants.

The public water systems and subdivisions listed below are proposed to be transferred from UIC's water CCN to Monarch Utilities.

<b>System Name</b>	<b>PWS ID No.</b>	<b>Subdivisions</b>
Greenbriar Estates	0360111	Greenbriar Estates
Orchard Crossing	1012450	Orchard Crossing
Fairview Acres MHP	1010706	Fairacres Section 1
Glenwood Mobile Home Subdivision	1011492	Fairacres Section 2
Rollan Heights	1010640	Rollan Heights
Cedar Oaks	1011556	Cedar Oaks
Homestead Oaks	1011734	Homestead Oaks
Cedar Bayou Estates	1012174	Cedar Bayou Estates
Cedar Bayou Park	1010112	Cedar Bayou Park West
McGee Place	1012995	McGee Place
Spring Cypress Center	1013172	Spring Cypress Shopping Center
Target Center Water Plant	1013316	Spring Cypress Shopping Center
Peterson Place	1460086	Stilson-Hill

The WWTP and subdivisions listed below are proposed to be transferred from UIC's sewer CCN to Monarch Utilities.

<b>System Name</b>	<b>TPDES ID No.</b>	<b>Subdivisions</b>
Orchard Crossing WWTP	WQ0012863001	Orchard Crossing
Spring Cypress Shopping Center WWTP	WQ0014172001	Spring Cypress Shopping Center

The public water systems and subdivisions listed below are proposed to be transferred from UIC 13's water CCN to Monarch Utilities.

<b>System Name</b>	<b>PWS ID No.</b>	<b>Subdivisions</b>
Aldine Village Subdivision	1010931	Aldine Village
Azalea Estates	1011253	Azalea Estates
Cottonwood Park	1010283	Airline Link Addition
Cypress Hill	1011792	Cypress Hill

The WWTP and subdivision proposed to be transferred from UIC 13's sewer CCN to Monarch Utilities is the Aldine Village WWTP, TPDES Permit No. WQ0012863001, in the Aldine Village subdivision.

**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)).**

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

There will be no effect on landowners as the area is currently certificated.

There will be no effect on any retail public utility servicing the proximate area. All retail public utilities in the proximate area were provided notice of the transaction taking place 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)).*

Monarch Utilities has the ability to provide adequate service in the requested area. Monarch Utilities has 117 TCEQ approved public water systems and wastewater treatment plants with 11 approved TPDES permits serving approximately 29,733 connections. The Commission's complaint records, which go back to 2014, show 459 complaints against Monarch.

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 system is not necessary for Monarch Utilities 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)).*

The UIC and UIC 13 are currently serving customers in all of their water and sewer systems. 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) and 13.301(b); 16 TAC §§ 24.227(a) and (e)(6), 24.11(e), and 24.239(f) and (h)(5)(F)).*

**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)).*

**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 Monarch will not need to construct additional plant to provide service to the requested areas.

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)).*

Monarch Utilities will continue to provide water and sewer service to the existing customers in the requested areas. There will be no change in the quality or cost of service to customers.

The Applicants meet 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 areas and a portion of the water service areas of the water CCN No. 12671, transfer sewer facilities in the requested areas and a portion of the sewer service areas of the sewer CCN No. 20765, transfer water facilities in the requested areas and all of the water service areas of the water CCN No. 13242, and to transfer sewer facilities in the requested areas and all of the sewer service areas of the sewer CCN No. 21091 to Monarch Utilities and amending water CCN No. 12983 and sewer CCN No. 20899 of Monarch Utilities 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 deposits held by UIC and UIC 13 for some of the customers. I further recommend that a public hearing is not necessary.