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DOCKET NO. 52434

**PETITION OF CELINA PARTNERS, § PUBLIC UTILITY COMMISSION
LTD. TO AMEND MARILEE SPECIAL §
UTILITY DISTRICT'S CERTIFICATE § OF TEXAS
OF CONVENIENCE AND NECESSITY §
IN COLLIN COUNTY BY EXPEDITIED §
RELEASE §**

COMMISSION STAFF'S SUBMISSION OF APPRAISAL REPORT

The Staff (Staff) of the Public Utility Commission of Texas (Commission) respectfully submits the attached appraisal report of the Commission-appointed appraiser, pursuant to Texas Water Code § 13.2541(i) and 16 Texas Administrative Code § 25.245(i)(2)(B). Order No. 7 in this proceeding provided that this appraisal report was due to be filed within 100 days after the Commission approved the streamlined expedited release. The Commission approved the streamlined expedited release on April 4, 2022. Therefore, this pleading is timely filed.

Dated: July 13, 2022

Respectfully submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

Keith Rogas
Division Director

Sneha Patel
Managing Attorney

/s/ Scott Miles
Scott Miles
State Bar No. 24098103
Anthony Kanalas
State Bar No. 24125640
1701 N. Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326
(512) 936-7228
(512) 936-7268 (facsimile)
Scott.Miles@puc.texas.gov

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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 July 13, 2022, in accordance with the Order Suspending Rules, issued in Project No. 50664.

/s/ Scott Miles
Scott Miles

B & D ENVIRONMENTAL, INC.
200 HARBOR CIRCLE
GEORGETOWN, TEXAS 78633
PHONE NO: (512) 917-7541
FAX NO: (512) 692-1967

EMAIL: bretfenner@yahoo.com

July 12, 2022

Mr. Scott Miles
Attorney, Legal Division
Public Utility Commission of Texas
1701 N. Congress
P.O. Box 13326
Austin, Texas 78711-3326

Re: PUC Docket No. 55434: Petition by Celina Partners, LTD. for Expedited Release from Water Certificate of Convenience and Necessity (CCN) No, 10150 Held by Marilee Special Utility District in Collin County

Dear Mr. Miles:

Per your request B & D Environmental, Inc. is please to submit this report for the third-party engineering appraisal to determine a compensation value for the expediated release of a portion of Certificate of Convenience Necessity (CCN) No. 10150 per the Order in Public Utility Commission (PUC) Docket No. 52434.

BACKGROUND

Celina Partners, LTD. (Celina) requested and was granted per Commission Order in Docket No. 51973 a streamlined expedited release from the certificated service area of Marilee Special Utility District (Marilee SUD) for a tract of land located in Collin County. This third-party appraisal is to determine the total amount of just and adequate compensation to be paid to Marilee SUD for the loss of decertification of the tract of land in question from its CCN service area. This third-party appraisal was prepared per Texas Water Code §13.254 and 30 Tex. Admin. Code §24.245. This engineering appraisal is based on the requirements of Texas Water Code §13.254(g-1). The total value of compensation will be determined using the factors in Texas Water Code §13.254(g) and only those factors. No compensation was given to any recoverable cost requested that is outside of those listed in the determination of value based on these factors. This engineering appraisal was conduct only for the purpose of determining the value for the decertification of this tract of land from Marilee SUD's service areas and does not represent an appraisal of determined value for the sale of real property.

DOCUMENTS REVIEWED

Documents reviewed for the preparation of this valuation include, but are not limited to:

1. Dan V. Jackson, Vice President, Willdan Financial Services Compensation Determination for Area Subject to Petition of Celina Partners, LTD. to Amend Marilee Special Utility District's Certificate of Convenience and Necessity in Collin County by Expedited Release. Dated June 10, 2022
2. Chris Ekrut, Chief Financial Officer and Zak Wright, ASA, NewGen Strategies & Solutions, Compensation for Decertification of a Portion of Marilee Special Utility District's Certificate of Convenience and Necessity, Dated June 13, 2022
3. Filings with the Public Utility Commission of Texas in Docket No. 52434
4. Section 13.254 and 13.2541 of the Texas Water Code
5. 16 Texas Administrative Code §24.245

VALUATION DETERMINATION

This valuation to determine the just and adequate compensation to Marilee SUD for the decertification of the tract of land in question from its certified service area. This valuation was based on the factors provided in Texas Water Code §13.254(g) and 30 Tex. Admin. Code §24.245(j) and only those factors. Based on 30 Tex. Admin. Code §24.245(g)(4)(B) this determination cannot be less than the lower appraisal nor higher than the highest appraisal of the appraisers engaged by the former CCN holder and the petitioner. Both parties submitted appraisals for their calculation of just and adequate compensation. The value established for each factor in this determination is based on the values provided by each parties' appraisal.

Factor 1: The value of real property per the standards set forth in chapter 21 of the Texas Property Code:

The compensation appraisal for the petitioner stated that no real property was being transferred nor rendered useless or permanently under-utilized as a result of this expedited release and assigned no value for this factor. The compensation appraisal of Marilee SUD agreed that no real property was changing hands as results of this decertification. Thus, no value should be applied for this factor.

The value for this Factor: \$0.

Factor 2: The amount of retail public utility's debt allocable for service in the area in question:

The compensation appraisal for the petitioner determined no compensation should be granted for this factor. It based this determination of the specifics that Marilee SUD has no facilities and/or customers within the decertified area in question. Nor has Marilee SUD performed acts or supplied any service in the area. However, this analysis does not take in to account that the area in question might have been included in consideration for the servicing of debt of facilities previous planned for service to the decertified area. Marilee SUD in its compensation appraisal did state that the tract in question had been included in consideration of debt funding for planning, design and construction of facilities to serve the area in which the decertified tract is located. Marilee SUD's Appraisal does include a calculation of the amount of

compensation it should receive for this debt factor. Marilee SUD should receive justifiable and adequate compensation for this factor but basing that compensation on future projected growth is not reasonable.

A revised determination for this compensation factor has been calculated based on current factors not projected growth patterns. This determination is based on the current debt service (2022) of the district to provide service to its certificated area which includes the tract being decertified. In 2022, the district required \$227,570 in debt servicing to its certificated service area in which the decertified tract is located as determined in Calculation No. 1.¹

Calculation No. 1: Existing Debt Service

$$\begin{aligned} 2022 \text{ Note Payable - GTUA} + 2022 \text{ Revenue Note - Series 2013} &= \text{Total Existing Debt Service} \\ \$53,859 + \$173,711 &= \$227,570 \end{aligned}$$

The facilities near the decertified area can currently serve 629 connections. The annual number of connections that could be built in the decertified area was assumed to be 188.² Therefore, the percentage of potential connections in the decertified area that could currently support the district's debt servicing is .2998 or 30%. See Calculation No. 2.

Calculation No. 2: Debt Service Connection Ratio

$$\begin{aligned} \text{Assumed Annual Connections in Decertified Area} \div \text{Connections in Facilities in Nearby Decertified Area} \\ = \text{Potential Connection Ratio} \\ 188 \text{ Connections} \div 629 \text{ Connection} &= 0.299 \text{ or } 30\% \end{aligned}$$

A reasonable amount of debt coverage that could currently be expected from the connections in the decertified tract as determined in Calculation No. 3 is \$67,841

Calculation No. 3: Debt Coverage - Decertified Area

$$\begin{aligned} \text{Total Existing Debt Service} \times \text{Potential Connection Ratio} &= \text{Debt Service - Decertified Area} \\ \$227,570 \times 0.30 &= \$68,271 \end{aligned}$$

Projection estimates of customer growth are necessary and reasonable in the projection of future needed service facilities. But given the current economic conditions, using projecting customer growth to determine compensation is too inaccurate and would require too many assumptions of customer growth patterns and capital debt funding to be reasonable. It is justifiable that Marilee SUD be compensated for the current existing amount of utility debt allocable to the decertified area. Based on this analysis the currently compensation for this factor should be \$68,271.

The value for this Factor: \$68,271.

Factor 3: The value of service facilities of the retail public utility located within the area in question:

Even though Marilee SUD has a six-inch distribution line in the area being decertified, that water line will not be transferred as result of the decertification nor provided service to the decertified area, the compensation appraisal for the Marilee SUD assigned no value for this factor. The compensation appraisal for Celina concurred with these findings and agreed that no value should be assigned for this compensation factor. Thus, no value should be allowed for this factor.

¹ Table 2: Existing Debt Service, Chris Ekrut, Chief Financial Officer and Zak Wright, ASA, NewGen Strategies & Solutions, Compensation for Decertification of a Portion of Marilee Special Utility District's Certificate of Convenience and Necessity, Dated June 13, 2022, Page 17.

²Table 1: Assumptions, Chris Ekrut, Chief Financial Officer and Zak Wright, ASA, NewGen Strategies & Solutions, Compensation for Decertification of a Portion of Marilee Special Utility District's Certificate of Convenience and Necessity, Dated June 13, 2022, Page 16.

The value for this Factor: \$0.

Factor 4: The amount of any expenditure for planning, design, or construction of service facilities that are allocable to service to the area in question:

Both the petitioner's compensation appraisal and the appraisal for Marilee SUD did not identify any expenses related to this factor. Since both compensation appraisals agreed that no value be assigned to this factor, no value was allocated for this factor.

The value for this Factor: \$0.

Factor 5: The amount of the retail public utility's contractual obligations allocable to the area in question:

Marilee SUD stated that it had no existing customer receiving service in the affected tract being decertified. Therefore, could not provide any evidence of increase cost from the loss of this service area to its remaining customers. Celina's appraisal compensation analysis also agreed that Marilee SUD did serve any current customers in the area in question. The appraisal compensation for Celina argued it would be unreasonable to allocate any existing contractual obligations ton the decertified tract in question. Based on these two recommendations, no value should be allocated for this factor.

The value for this Factor: \$0.

Factor 6: Any demonstrated impairment of service or increased of cost to consumers of the retail public utility remaining after the decertification:

Marilee SUD did not find any impairment of service nor potential increase cost to its remaining customers for this compensation factor. Celina's appraisal compensation also found no evidence of impairment of service and/or increase to Marilee SUD's remaining customers from the release of the are in question from the Marilee SUS's service area. Based on the agreed conclusions of both party's appraisals, no value should be assigned for this factor.

The value for this Factor: \$0.

Factor 7: The impact on future revenues lost from existing customers:

Both the compensation appraisal for the petitioner and the CCN holder agree that the tract in question contend no existing customer and no loss of future revenues would be experienced. Therefore, no value should be assigned for this factor.

The value for this Factor: \$0.

Factor 8: Necessary and reasonable legal expenses and professional fees

Celina filed notice of its intent to an expedited release of this tract of land from the CCN service area of Marilee SUD. Marilee SUD did not initiate the decertification request and certainly should be compensated for its legal expense and professional fees associated with this decertification. Marilee SUD in its compensation appraisal stated that it will incur \$21,462 of legal expense and professional fees in connection

with this decertification request. The compensation appraisal for the petitioner agreed that Marilee SUD was entitled to recover any necessary and reasonable legal and professional fees related to this expedited release of a portion of its service area. Therefore, the compensation attributed to this factor should be \$21,462. If Marilee SUD can show that it has incurred any additional necessary and reasonable fee associated with the expedited release of this tract from its service area then the value for this factor should be increased to include those expenses.

The value for this Factor: \$21,462.

Factor 9: Other relevant factors:

Celina’s compensation appraisal did not find any other relevant factor for compensation. Marilee SUD was also unaware of any other relevant factors in its appraisal compensation. Therefore, no value should be allocated for this factor.

The value for this Factor: \$0.

CONCLUSION

Per 30 Tex. Admin. Code §24.245(g) (4)(B), this third-party appraisal determination cannot be less than the lower appraisal nor higher than the highest appraisal of the appraisers engaged by the former CCN holder and the petitioner for expedited release of the tract in question. Based on the value for each factor determined in this third-party engineering appraisal, the recommended just and adequate compensation Marilee SUD should receive for the decertification of this tract from its CCN service area should be \$89,733 as summarized in Table 1.

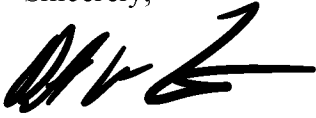
Table 1: Value per Determining Factor

Factor 1:	\$	0
Factor 2:		68,721
Factor 3:		0
Factor 4:		0
Factor 5:		0
Factor 6:		0
Factor 7:		0
Factor 8:		21,462
Factor 9:	\$	<u>0</u>
Total Value:	\$	89,733

If Marilee SUD can provide proof of any additional necessary and reasonable legal expenses and/or professional fees associated with the decertification of this tract from its CCN service area, then it would be recommended that these fees be approved as a part of its compensation.

Should you have any further questions concerning this evaluation, please do not hesitate to contact us at (512) 917-7541.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bret W. Fenner', with a stylized flourish at the end.

Bret W. Fenner, P.E.
B & D Environmental, Inc.