



## Filing Receipt

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**DOCKET NO. 52494**

<b>APPLICATION OF R &amp; N</b>	<b>§</b>	<b>PUBLIC UTILITY COMMISSION</b>
<b>ENTERPRISES AND MONARCH</b>	<b>§</b>	
<b>UTILITIES I L.P. FOR SALE,</b>	<b>§</b>	<b>OF TEXAS</b>
<b>TRANSFER, OR MERGER OF</b>	<b>§</b>	
<b>FACILITIES AND CERTIFICATE</b>	<b>§</b>	
<b>RIGHTS IN COOKE COUNTY</b>	<b>§</b>	

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

On September 1, 2021, Karen Reeves dba R & N Enterprises (R & N) and Monarch Utilities I L.P. (Monarch) (collectively, the Applicants) filed an application for approval of the sale, transfer, or merger (STM) of facilities and certificate rights in Cooke County. Specifically, Monarch, certificate of convenience and necessity (CCN) No. 12983, seeks approval to acquire facilities and to transfer all of the water service area from R&N held under water certificate of convenience and necessity (CCN) No. 11644.

On December 3, 2021, the administrative law judge filed Order No. 4, directing 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 by January 18, 2022. Therefore, this pleading is timely filed.

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

As detailed in the attached memorandum of Jolie Mathis, Infrastructure Division, and Fred Bednarski, Rate Regulation 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 § 24.239(m)-(n). The CCN remains in the name of R & N 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: January 18, 2022

Respectfully Submitted,

### **PUBLIC UTILITY COMMISSION OF TEXAS LEGAL DIVISION**

Rachelle Nicolette Robles  
Division Director

*/s/ Kourtnee Jinks*

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Kourtnee Jinks  
State Bar No. 24097146  
1701 N. Congress Avenue  
P.O. Box 13326  
Austin, Texas 78711-3326  
(512) 936-7265  
(512) 936-7268 (facsimile)  
[kourtnee.jinks@puc.texas.gov](mailto:kourtnee.jinks@puc.texas.gov)

**DOCKET NO. 52494**  
**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 January 18, 2022, 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:** Jolie Mathis, Utility Engineering Specialist  
Infrastructure Division

**DATE:** January 12, 2022

**RE:** Docket No. 52494 – *Application of R&N Enterprises and Monarch Utilities I L.P. for Sale, Transfer, or Merger of Facilities and Certificate Rights in Cooke County*

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### **1. Application**

Monarch Utilities I L.P. (Monarch Utilities) and the R&N Enterprises (R&N) (collectively Applicants) filed an application for sale, transfer, or merger (STM) of facilities and certificate rights in Cooke County, Texas, under Texas Water Code (TWC) § 13.301 and 16 Texas Administrative Code (TAC) § 24.239.

Monarch Utilities, certificate of convenience and necessity (CCN) No. 12983, seeks approval to acquire facilities and to transfer all of the water service area from R&N under water certificate of convenience and necessity (CCN) No. 11644.

#### ***Pleasant Ridge Addition:***

The requested area includes 68 current customers and approximately 476 acres, comprised of transferred area from Karen Reeves dba R & N Enterprises (CCN No. 11644).

#### ***Timber Creek Addition:***

The requested area includes 41 current customers and approximately 155 acres, comprised of transferred area from Karen Reeves dba R & N Enterprises (CCN No. 11644).

**The application proposes the total requested area includes 109 current customers and approximately 631 acres, comprised of transferred area from Karen Reeves dba R & N Enterprises (CCN No. 11644) to Monarch Utilities I LP (CCN No. 12983).**

The application indicates that the total acreage being requested is approximately 474.3 for the *Pleasant Ridge Addition* and approximately 156.4 acres for the *Timber Creek Addition*. Based on the mapping review by Tracy Montes, Infrastructure Division, it was determined the

requested area is approximately 476 acres for the *Pleasant Ridge Addition* and approximately 155 acres for the *Timber Creek Addition*.

## **2. Notice**

Monarch provided notice consistent with 16 TAC § 24.239(c). The deadline to intervene was December 6, 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)).***

R&N Enterprises has several Texas Commission on Environmental Quality (TCEQ) approved public water system(s) (PWS) registered as Timber Creek Addition, PWS ID No. 0490030, and Pleasant Ridge Addition, PWS ID No. 0490041. The last TCEQ compliance investigation of the R&N Enterprises system was on May 22, 2019. Several violations or concerns were noted as a result of that investigation and have since been resolved. In addition, the Commission's complaint records, which date back to 2017, show 17 complaints against R&N Enterprises.

No additional construction is necessary for the Monarch Utilities to serve 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) and 24.239(h)(5)(B)).***

There are currently 109 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)).***

Monarch Utilities 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 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 several Texas Commission on Environmental Quality (TCEQ) approved public water systems. The Commission's complaint records, which date back to 2014, show no complaints against. No additional construction is necessary for Monarch Utilities to serve the requested area.

SouthWest, the parent company of Monarch, has the necessary financial, managerial, and technical resources to continue providing quality services to the systems and customers to be transferred. SouthWest, through its subsidiaries, has been successfully operating in Texas for over 50 years. Besides Monarch Utilities I LP (a Class A utility), SouthWest's subsidiaries in Texas also include SWWC Utilities, Inc. and Midway Water Utilities, Inc. In addition to experienced, licensed operators, SouthWest's management and operations staff includes engineers, environmental health and safety managers, financial managers, and experienced customer service agents.

**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)).***

Monarch Utilities 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) 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 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)).*

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

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, and all of the water service area of the water CCN No. 11644 to Monarch Utilities and amending water CCN No. 12983 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 R&N Enterprises for the customers being served by Timber Creek and Pleasant Ridge. I further recommend that a public hearing is not necessary.



# *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:** January 18, 2022

**RE:** Docket No. 52494 - *Application of R & N Enterprises and Monarch Utilities I, LP for Sale, Transfer, or Merger of Facilities and Certificate Rights in Cooke County*

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On September 1, 2021, Karen Reeves dba R & N Enterprises and Monarch Utilities I, L.P. (Monarch) filed an application for of the sale, transfer, or merger of facilities and certificate rights in Cooke County.

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 Monarch's 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.

Based on Monarch's financial statements, provided in confidential Attachment FB-1, I calculate a debt-to-equity ratio equal to 0.25. 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 financial statements, provided in confidential Attachment FB-1, include operating income and cash flow information that indicate Monarch will have sufficient cash to cover projected shortages.

Capital improvements needed to provide continuous and adequate service to the requested area will be paid for with Monarch's cash reserves and operating income as provided 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.