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DOCKET NO. 52797

APPLICATION OF CONROE RESORT UTILITIES, LLC AND UNDINE DEVELOPMENT, LLC FOR SALE, TRANSFER, OR MERGER OF FACILITIES AND CERTIFICATE RIGHTS IN MONTGOMERY COUNTY	§ § § § § §	PUBLIC UTILITY COMMISSION OF TEXAS
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COMMISSION STAFF’S FINAL RECOMMENDATION

On November 8, 2021, Conroe Resort Utilities, LLC (Conroe) and Undine Development, LLC (Undine) (jointly, Applicants) filed an application for approval of the sale, transfer, or merger of facilities and certificate of convenience and necessity (CCN) rights in Montgomery County. On August 25, 2022, the application was amended to replace Undine Development, LLC with Undine Texas, LLC (Undine Texas) and Undine Texas Environmental, LLC (Undine Texas Environmental) as the applicants.

On October 19, 2022, the administrative law judge (ALJ) filed Order No. 12 requiring the Staff (Staff) of the Public Utility Commission of Texas (Commission) to request a hearing or file a final recommendation on approval of the sale by October 21, 2022. Therefore, this pleading is timely filed.

I. RECOMMENDATION ON APPROVAL OF THE TRANSACTION

Staff has reviewed the application, as amended, and supplemental information and, as supported by the attached memoranda by Patricia Garcia of the Infrastructure Division and Ethan Blanchard of the Rate Regulation Division, recommends that the proposed transaction satisfies the relevant statutory and regulatory criteria, including those factors identified in Texas Water Code (TWC) Chapter 13 and 16 Texas Administrative Code Chapter 24. Additionally, based upon its review, Staff recommends that Undine has demonstrated it possesses the financial, technical, and managerial capability to provide continuous and adequate service to the area subject to the proposed transaction. Staff’s recommendation is contingent on the ALJ finding that phased-in rates are permissible under TWC § 13.3011 and can thus be used in this transaction. Assuming phased-in rates are found to be permissible, Staff respectfully requests that an order be issued allowing the proposed transaction to proceed.

II. REQUEST FOR EXTENSION

Under 16 Texas Administrative Code (TAC) § 22.4(b), Staff may request that the time allowed for filing any documents be extended for good cause. Staff's analysis of the application and subsequent recommendation on approval of the transaction is based on Undine's proposal to use phased-in rates. Should the ALJ rule that phased-in rates are not permissible under TWC § 13.3011, Staff will need to confer with the parties and potentially revisit its analysis of the application. Accordingly, should the ALJ rule that phased-in rates are not permissible under TWC § 13.3011, Staff respectfully requests that the deadline to request a hearing or file a final recommendation on approval of the sale be extended to November 21, 2022.

III. CONCLUSION

For the reasons detailed above, if the ALJ finds that phased-in rates are permissible under TWC § 13.3011, Staff respectfully requests the entry of an order permitting the proposed transaction to proceed. If the ALJ find that phased-in rates are not permissible under TWC § 13.3011, Staff respectfully requests that its deadline to request a hearing or file a final recommendation on approval of the sale be extended to November 21, 2022.

Dated: October 21, 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 October 21, 2022, in accordance with the Order Suspending Rules, issued in Project No. 50664.

/s/ Ian Groetsch
Ian Groetsch

Public Utility Commission of Texas

Memorandum

TO: Ian Groetsch, Attorney
Legal Division

FROM: Patricia Garcia, Infrastructure Analysis Section Director
Infrastructure Division

DATE: October 13, 2022

RE: Docket No. 52797 – *Application of Conroe Resort Utilities, LLC and Undine Development, LLC for Sale, Transfer, or Merger of Facilities and Certificate Rights in Montgomery County*

1. Introduction

On November 8, 2021, Undine Development, LLC (Undine Development) and Conroe Resort Utilities, LLC (Conroe Resort) filed an application for a public interest determination for a transaction to transfer facilities and certificate rights in Montgomery County, Texas, under Texas Water Code (TWC) § 13.301 and 16 Texas Administrative Code (TAC) § 24.239. The application will be amended to substitute Undine Texas, LLC (Undine Texas) and Undine Texas Environmental, LLC (Undine Texas Environmental) as the purchasing utilities. Collectively, I refer to Undine Texas, Undine Texas Environmental, and Conroe Resort as the Applicants.

Undine Texas, water certificate of convenience and necessity (CCN) No. 13260, seeks approval to acquire facilities and to transfer all of the water service area and customers from Conroe Resort under water CCN No. 11942.

Undine Texas Environmental, sewer CCN No. 20816, seeks approval to acquire facilities and to transfer all of the sewer service area and customers from Conroe Resort under sewer CCN No. 20638.

The area to be transferred is the entire certificated water and sewer service areas of Conroe Resort. Conroe Resort's certificated water and sewer service areas completely overlap; cover approximately 282 acres; and include approximately 294 water customer connections and 289 sewer customer connections.

2. Notice

Undine Development provided notice consistent with 16 TAC § 24.239(c).¹ The deadline to intervene was February 28, 2022; there were 27 protests received and one intervenor, the Office of Public Utility Counsel. Undine Texas and Undine Texas Environmental provided notice to customers on August 16, 2022. The deadline to intervene was September 16, 2022. There were 6 protests received. Notice was deemed sufficient by the administrative law judge on September 27, 2022.

3. Factors Considered

Under TWC § 13.301(e) and 16 TAC § 24.239(h), 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)).*

Conroe Resort has a Texas Commission on Environmental Quality (TCEQ) approved public water system (PWS) registered as Conroe Resort, PWS ID No. 1700416 and an approved wastewater treatment plant (WWTP) registered as Del Lago WWTP, Wastewater Discharge Permit No. WQ 0012493-001. The last TCEQ compliance investigation of the Conroe Resort system was on June 8, 2021. Two violations or concerns were noted as a result of that investigation and have since been resolved. The Commission's complaint records, which date back to 2017, show no complaints against Conroe Resort.

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 transaction will transfer the PWS to Undine Texas and the WWTP to Undine Texas Environmental. Customers are currently receiving water service from Conroe Resort's PWS and WWTP in the requested areas. The application states that Conroe Resort did not have any pending requests for service in the requested areas.

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)).*

Undine Texas and Undine Texas Environmental will be the certificated entities for the requested areas and be required to provide continuous and adequate service to the requested area.

There will be no change to landowners in the affected areas because Undine Texas and Undine Texas Environmental will be acquiring Conroe Resort's existing systems serving those areas.

There will be no effect on any retail public utility servicing the proximate area.

¹ Order No. 7. Finding Notice Sufficient and Establishing Procedural Schedule (Mar. 25, 2022).

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)).*

TCEQ rule, 30 TAC § 290.46(e), Minimum Acceptable Operating Practices for Public Drinking Water Systems, requires the operation of a PWS by trained and licensed personnel. The production, treatment, and distribution facilities of a PWS 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. Undine Texas will have qualified TCEQ licensed operators licensed in water to run the acquired systems.

TCEQ rule, 30 TAC §30.331(b), Wastewater Operators and Operations Companies, requires the operators of a domestic wastewater treatment facility to have a valid license issued by the TCEQ executive director. Undine Texas Environmental will have qualified TCEQ licensed operators licensed in wastewater treatment to run the acquired systems.

Undine Texas and Undine Texas Environmental have the managerial and technical ability to provide adequate service in the requested area. Undine Texas has many TCEQ-approved PWS. Undine Texas Environmental has many TCEQ-approved WWTPs. The Commission's complaint records, which date back to 2017, show 100 informal complaints against Undine Texas and no informal complaints against Undine Texas Environmental. All the complaints have been closed by the Commission's Customer Protection Division.

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 Undine Texas and Undine Texas Environmental to serve the requested 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) and 24.239(h)(5)(E)).*

Conroe Resort 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 would 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.*

The Rate Regulation Division is addressing this factor in a separate memo and has concluded that Undine Texas and Undine Texas Environmental have the necessary financial ability.

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.

The Rate Regulation Division is addressing this factor in a separate memo and has concluded that a bond or other financial assurance is not needed.

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 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)).

If the transaction occurs, I expect that service will improve and costs to customers (consumers) will be lower compared to service and costs if the transaction does not occur. Undine Texas and Undine Texas Environmental are large utilities. This scale gives them the ability to operate their systems and comply with regulatory requirements more efficiently than smaller utilities.

As originally filed, the Conroe Resort systems and service areas proposed for acquisition would have become a part of Undine Development. Undine Development is a much smaller utility than Undine Texas and Undine Texas Environmental, has higher rates, and a pending application for approval of a system improvement charge that would substantially increase rates to customers of its currently owned system.

As shown in Attachment 1 of my memorandum, Undine's evaluation shows that the Conroe Resort systems needs extensive water and sewer capital upgrades. As a result, if Conroe Resort were not acquired, the current owner would need to make upgrades and those upgrades would support a substantial increase of Conroe Resort's rates. Attachment 2 of my memorandum shows Undine Texas' and Undine Texas Environmental's financial projections using Conroe Resort's rates and Undine Texas' and Undine Texas Environmental's phased-in rates that were approved by the Commission in their last comprehensive rate case, Docket No. 50200. Attachment 2 shows that with the upgrades, Conroe Resort would operate at a substantial loss without a rate increase; the "Historic Rates" column projects that Conroe Resort would have net income of negative \$654,603 per year and a negative 8.90% return on investment. Attachment 2 also shows projections for Undine Texas and Undine Texas Environmental using their phased-in rates; those projections show a negative 1.80% return on investment in year one and only a 2.05% return on investment after the rates are fully phased in. That rate of return of 2.05% compares to the authorized rate of return of 6.7%² approved in their last comprehensive rate case.

² Application of Undine Texas, LLC and Undine Texas Environmental, LLC for Authority to Change Rates, Docket No. 50200 (Nov. 5, 2020).

Attachment 3 of my memorandum are excerpts from the tariffs of Undine Texas and Undine Texas Environmental that were in force when the application in this docket was filed on November 8, 2021.³ Attachment 4 of my memorandum is a comparison of the rates of Conroe Resort, Undine Development, and Undine Texas and Undine Texas Environmental at the monthly comparison usage levels of 2,000, 5,000, and 10,000 gallons. This comparison shows that the charges of Undine Texas Environmental are below those of Undine Development for all phases for all levels of sewer usage which is a flat fee for all phases. Sewer usage is typically based on a winter's month average of water usage as it is not possible to meter sewer usage from each customer. Using a flat rate for sewer utility charges benefits customers who use more as they will end up paying less per gallon of usage. The charges of Undine Texas are below those of Undine Development for Phase 1 at all levels of water usage. At higher water usage, Phases 1 & 2 rates are lower for Undine Texas. The monthly charge for phase 3 water rates is \$3.45 more for 5,000 gallons than Undine Development's charge for that volume, but Undine Texas Environmental's charge for phase 3 sewer rates at that volume is \$55.00 lower than Undine Development's comparable charge. The sewer usage rates are less for Undine Texas Environmental. Attachment 5 of my memorandum shows usage characteristics of Conroe Resort customers, including average monthly usage of 6,408 gallons. Attachment 5 compares the monthly charge at a usage of 6,408 gallons for a customer with a 3/4" meter and shows lower charges for Undine Texas and Undine Texas Environmental than Undine Development. Because of the different rate designs, customers of Undine Texas and Undine Texas Environmental pay more than customers of Undine Development at low usage levels. Customers of the Conroe Resort system will benefit from a phase-in of rates with the acquisition of the systems by Undine Texas and Undine Environmental whereas the rates of Undine Development have no phase-in of rates.

It is important to note that the rates, including the rate design, for Undine Texas and Undine Texas Environmental were recently approved by the Commission in a comprehensive rate case, Docket No. 50200, on November 5, 2020, whereas the Undine Development system has not been subject to a comprehensive rate case at the Commission. In addition, Undine Development has a pending proposal for large system improvement charges of \$47.81 for water and \$85.23 for sewer for a 3/4" meter. These charges would not apply to customers served by the Conroe Resort systems but could potentially be included in consolidated rates in the future for all systems owned by Undine Development. A concern that I have is that Undine Development currently owns only one system, in Travis County (Austin area), serving approximately 223 connections that has much different cost characteristics than the Conroe Resort systems, which are in Montgomery County (Houston area). The Conroe Resort water and sewer systems are a better fit for Undine Texas and Undine Texas Environmental, which already own systems in the Houston area and have consolidated rates for a large number of systems with over 10,000 connections. This better fit will likely result in lower rates in the long run for customers of the acquired systems.

The Applicants meet all of the applicable statutory requirements of TWC Chapter 13 and the Commission's Chapter 24 rules. Approving this application is in the public interest and necessary for the service, accommodation, convenience and safety of the public.

³ Since the filing of the application in the current docket, Undine Texas filed an application for a pass-through rate change for three subdivisions it serves. *Application of Undine Texas, LLC for a Pass Through Rate Change*, Tariff Control No. 53209 (pending).

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 Conroe Resort for the customers being served by Conroe Resort Water and Sewer Systems. I further recommend that a public hearing is not necessary.

Public Utility Commission of Texas

Memorandum

TO: Ian Groetsch
Legal Division

FROM: Ethan Blanchard
Rate Regulation Division

DATE: June 24, 2022

RE: Docket No. 52797 – *Application of Conroe Resort Utilities, LLC and Undine Development, LLC for Sale, Transfer, or Merger of Facilities and Certificate Rights in Montgomery County*

1. Introduction

On November 8, 2021, Undine Development, LLC and Conroe Resort Utilities, LLC (Conroe) filed an application for the sale of facilities and certificate rights in Montgomery County under the provisions of Texas Water Code (TWC) § 13.301 and 16 Texas Administrative Code (TAC) § 24.239. The application will be amended to substitute Undine Texas, LLC as the applicant for the acquisition of the water facilities and water service certificate rights and Undine Texas Environmental, LLC as the applicant for the acquisition of the sewer facilities and sewer service certificate rights (acquiring entities). This substitution of Undine entities does not substantively affect my evaluation because the financial guarantee will remain as in the original application with the same ultimate parent, Undine Group, LLC.

TWC § 13.301(e)(2) and 16 TAC § 24.239(h)(2) require consideration of the financial capability of the acquiring entities to provide continuous and adequate service to the service area being acquired and to any areas currently certificated to the acquiring entities; TWC § 13.246(c)(6) requires consideration of the financial ability of the acquiring entities to pay for the facilities necessary to provide continuous and adequate service; and TWC § 13.246(c)(6) and 16 TAC § 24.239(h)(5)(F) require consideration of the financial stability of the acquiring entities, including, if applicable, the adequacy of the acquiring entities' debt-equity ratios. These issues are addressed by 16 TAC § 24.11, which states in subsection (a) that the section establishes criteria to demonstrate that an owner or operator of a retail public utility has the financial resources to operate

and manage the utility and to provide continuous and adequate service to the current and proposed utility service area. Subsection (b) states that the section applies to new and existing owners or operators of retail public utilities that are required to provide financial assurance under TAC Chapter 16. Furthermore, subsection (c) states that financial assurance must be demonstrated by compliance with subsection (d) or (e) of the section, with subsection (d) providing for an irrevocable stand-by letter of credit and subsection (e) providing a financial test.

The acquiring entities will submit information to demonstrate compliance with the financial test in 16 TAC § 24.11(e). Paragraph (1) states that an owner or operator may demonstrate financial assurance by satisfying the leverage and operations tests that conform to the requirements of the section, unless the commission finds good cause exists to require only one of these tests. Paragraph (4) requires as part of meeting these two tests that the owner or operator submit an affidavit meeting certain requirements and a copy of one of three types of financial information.

2. Leverage Test

The leverage test is in 16 TAC § 24.11(e)(2) and requires the owner or operator to meet one or more of four criteria and subparagraph (E) allows the owner or operator to meet one or more of those four criteria by demonstrating that an affiliated interest is capable, available, and willing to cover temporary cash shortages. The acquiring entities will meet subparagraph (E) by filing a guaranty agreement between Undine Texas, LLC and Undine Group, LLC and a guaranty agreement between Undine Texas Environmental, LLC and Undine Group, LLC, each of which state that Undine Group, LLC is capable, available, and willing to cover temporary cash shortages of the acquiring entities.

The acquiring entities will meet the criterion in 16 TAC § 24.11(e)(2)(A), which requires that the owner or operator must have a debt-to-equity ratio of less than one, using long-term debt and equity or net assets. Financial statements of Undine Group, LLC that comply with 16 TAC § 24.11(e)(4)(B)(i) have been filed in the docket.¹ These financial statements contain an unqualified auditor's opinion from Plante & Moran, PLLC stating that the financial statements present fairly, in all material respects, the financial position of Undine Group, LLC as of December 31, 2020.²

¹ Application, *Highly Sensitive Attachments to Response to RFI No. 1*, at bates 7 (Mar. 11, 2022).

² *Id.*

Based upon my review of the financial statements of Undine Group, LLC, I calculated the debt-to-equity ratio to be equal to 0.18.³ Because the ratio is less than one, Undine Group, LLC meets the leverage test specified in 16 TAC § 24.11(e)(2)(A). Therefore, the acquiring entities through their affiliate, Undine Group, LLC, meet the leverage test as specified in 16 TAC § 24.11(e)(2)(E).

3. Operations Test

16 TAC § 24.11(e)(3) requires an owner or operator to demonstrate sufficient cash is available to cover any projected operations and maintenance shortages in the first five years of operations and also provides that an affiliated interest may provide a written guarantee of coverage of temporary cash shortages.

4. Capital Improvement Plan

An applicant who is proposing service to a new CCN area requiring capital improvements in excess of \$100,000 must provide documents indicating funds are available for the purchase of an existing system plus any improvements, as required by 16 TAC § 24.11(e)(5)(A).

Undine provided a list of needed system improvements⁴ which will be withheld from the purchase price.⁵ Undine has provided loan approval documents demonstrating that funds are available for the purchase price.⁶ Therefore, I recommend a finding that Undine meets the requirements specified in 16 TAC § 24.11(e)(5)(A).

5. Additional Financial Assurance

TWC § 13.301(d) allows the Commission to require an applicant for a CCN or CCN amendment 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. Because the acquiring entities will meet the financial test in 16 TAC § 24.11(e), I do not recommend that the acquiring entities be required to provide additional financial assurance.

³ *Id.*, at 8. The calculations for which can be found in confidential Attachment EB-1.

⁴ Application, *Highly Sensitive Applicant's Supplement Information – Attachment A*, item no. 68, at bates 5 (Jun. 14, 2022).

⁵ Application, *Confidential Undine Response to OPUC's First RFI (Exhibit A)*, item no. 72, at bates 2 (Jun. 29, 2022).

⁶ The calculations for which can be found in confidential Attachment EB-1.

6. Conclusion

After the filing of the financial guarantees between Undine Group, LLC and the acquiring entities and the filing of the affidavit required by 16 TAC § 24.11(e)(4)(A) signed by the acquiring entities attesting to the accuracy of the information provided, I recommend a finding that the acquiring entities demonstrate the financial capability needed to provide continuous and adequate service to the area subject to this application. My determinations are based on information for Undine Group, LLC as of the date specified above and therefore does not reflect any changes after that date.

ATTACHMENT 1

Conroe Resort Utilities, Inc.

Issues with system: The utility is in need of an upgraded well and water treatment plant at the Balboa site to add 390 new connections and provide immediate essential fire flow for the resort. Undine will demolish the existing water plant and reconstruct a new one in its place.

Needed infrastructure upgrades and other changes that would increase costs:

Water Plant #1

Back up Generator	\$ 116,167
Coating of Hydropneumatics Tank (HPT)	\$ 23,748
Well #1 and Well #3 Single Power Source	\$ 25,443
Replace Well and Booster Pump Control Panels	\$ 121,904
New Air Compression	\$ 13,668
Drill New Well	\$ 405,000
Larger Boosters Pumps	\$ 70,000
Relocation of 5,000-gal HPT tank from Plant #2	\$ 30,000
Protective Coatings on all ground storage tanks	\$ 25,000
New 100,000-gal ground storage tank	\$ 235,000
Chlorine modifications for new well	\$ 25,000
Site work - gradings, drainage, seeding,, fencing	\$ 30,000
Fire lane to Resort from Plant #2	<u>\$ 40,140</u>
Water Plant #1 Subtotal	<u>\$ 1,161,070</u>

Wastewater Plant

Lift Pumps & (STA-CON Control Panel)	\$ 136,440
Clarifier Panel Rehab	<u>\$ 8,316</u>
Wastewater Subtotal	<u>\$ 144,756</u>

Offsite Lift Station

New/Rebuilt Pumps	\$ 26,080
New Control Panel	\$ 33,157
New Discharge Piping	<u>\$ 24,408</u>
Offsite Lift Station Subtotal	<u>\$ 83,645</u>

Additional Costs

Generator WP #1	\$ 100,000
Water Meters	\$ 75,000
Contingency	\$ 100,000
Engineering	\$ 152,000
TCEQ Permits	\$ 15,000
Construction Permits	\$ 10,000
Capacity Adjustment	<u>\$ (79,000)</u>
GRAND PROJECT TOTALS	<u>\$ 1,762,471</u>

Other reasons supporting acquisition:

Undine has substantial experience operating water and wastewater utilities in the state of Texas. They have acquired several other utilities in the area and can offer economies of scale for mediating costs of operations. Undine provides centralized customer service that exceeds AWWA best practices as well as TCEQ and PUC standards.

Undine contracts its O&M endeavors with H2O Innovation, winner of the prestigious Water Company of the Year award at the 2020 Global Water Awards. H2O serves more than 60,000 connections in Texas each month. They have more than 100 water professionals in the greater Houston area, with 40 of their operators certified by the TCEQ.



Terra Southwest

Issues with system: Both Ponder, and Hilltown systems have surpassed capacity limits and are in violation of TCEQ guidelines. Upgrades to two of the plants are necessary to return to compliance.

Needed infrastructure upgrades and other changes that would increase costs:

From engineering report 4/2020

East Ponder WTP

Drill New Well	\$ 285,000
Larger Boosters Pumps	\$ 3,000
New 3,000-gal HPT tank	\$ 32,000
Chlorine modifications for new well	\$ 2,500
Miscellaneous Cost	\$ 5,000
East Ponder WTP Subtotal	\$ 327,500

Hilltown - Greenwood WTP

New 3,000-gal HPT tank	\$ 32,000
New 34,000-gal ground storage tank	\$ 120,000
Chlorine modifications for new well	\$ 7,500
Hilltown - Greenwood Subtotal	\$ 159,500
Engineering/Contingency	\$ 97,400
GRAND PROJECT TOTALS	\$ 584,400

Other reasons supporting acquisition:

Seller is ready to retire. Repairs and upgrades to the plants are needed and seller does not currently have the ability to complete them in a timely manner.

Texas Water Systems, Inc.

Issues with system: Several of Texas Water Systems utilities need upgrades to keep up with TCEQ capacity requirements due to growth in the area.

Needed infrastructure upgrades and other changes that would increase costs:

Seller provided estimates as of 11/2021. Buyer in process of conducting physical site operational due diligence.

Mount Sylvania WTP

Drill New Well	\$ 150,000
All weather road improvement	\$ 50,000
Sealing block on well	\$ 300
Replace HPT	\$ 20,000
Mapping	\$ 1,000
Mount Sylvania WTP Subtotal	\$ 221,300

Country Club WTP

New 1,000-gal HPT tank	\$ 15,000
New ground storage tank	\$ 20,000
Country Club WTP Subtotal	\$ 35,000

Friendship WTP

Capacity improvements	\$ 6,000
All weather road improvement	\$ 15,000
Friendship WTP Subtotal	\$ 21,000

Rosewood WTP

New ground storage tank	\$ 35,000
Engineering	\$ 5,000
Add/Upgrade distribution lines	\$ 14,000
Rosewood WTP Subtotal	\$ 54,000

Stallion Lake WTP

Ground storage tank improvements	\$ 1,500
Engineering	\$ 5,000
Possible replace HPT	\$ 15,000
Stallion Lake WTP Subtotal	\$ 21,500

Garden Valley WTP

Ground storage tank improvements	\$ 300
Engineering	\$ 5,000
Upgrade HPT	\$ 15,000
Garden Valley WTP Subtotal	\$ 20,300

Garden Acres WTP

Electric Upgrade	\$ 150
Epoxy HPT	\$ 5,000
Garden Acres WTP Subtotal	\$ 5,150

Camp Joy WTP

New ground storage tank	\$ 25,000
Calibrate well meter	\$ 800
Complete building for Chlorine	\$ 1,500
Upgrade distribution lines	\$ 25,000
Extend well casing	\$ 500
Electric Upgrade	\$ 4,000
Replace pumps and redo plumbing	\$ 7,000
Camp Joy WTP Subtotal	\$ 63,800
GRAND PROJECT TOTALS	\$ 442,050

Other reasons supporting acquisition:

Seller is ready to retire from the water business.

ATTACHMENT 2

CONFIDENTIAL SETTLEMENT COMMUNICATION PER TRE 408

Conroe Resort Utilities

Rate Phase-In Analysis (4-YR Development Rates)

	Historic Rates	RATE PHASE-IN			
	YR 1	YR 1	YR 2	YR 3	YR 4
Customers (ERCs)					
Water	707	707	707	707	707
Wastewater	696	696	696	696	696
Total Customers (ERCs)	1,403	1,403	1,403	1,403	1,403
AVG Bill (per ERC)					
Water	\$ 27.91	\$ 38.05	\$ 48.18	\$ 58.32	\$ 68.45
Sewer	\$ 36.28	\$ 48.35	\$ 60.41	\$ 72.48	\$ 84.54
Income Statement					
Revenue					
Service Revenue					
Water	\$ 236,788	\$ 322,774	\$ 408,759	\$ 494,744	\$ 580,730
Wastewater	303,011	403,777	504,544	605,311	706,078
Total Service Revenue	\$ 539,799	\$ 726,551	\$ 913,303	\$ 1,100,056	\$ 1,286,808
Total Revenue	\$ 539,799	\$ 726,551	\$ 913,303	\$ 1,100,056	\$ 1,286,808
Operating Expenses					
O&M					
Contract Operations	\$ 321,086	\$ 321,086	\$ 324,308	\$ 327,564	\$ 330,852
Postage & Mailing	2,810	2,810	2,838	2,867	2,896
Total O&M	\$ 323,896	\$ 323,896	\$ 327,147	\$ 330,431	\$ 333,747
Variable					
Bad Debt Expense	\$ 12,868	\$ 12,868	\$ 12,868	\$ 12,868	\$ 12,868
Conservation District Pumpage Fee	19,304	19,304	19,304	19,304	19,304
Fixed					
Sludge Removal Expense	\$ 10,038	\$ 10,038	\$ 10,138	\$ 10,240	\$ 10,343
Purchased Power	47,678	47,678	48,157	48,640	49,129
Chemicals	13,350	13,350	13,484	13,619	13,756
Repairs & Maintenance	188,706	188,706	190,600	192,513	194,446
Materials & Supplies	6,223	6,223	6,286	6,349	6,413
Testing	14,053	14,053	14,194	14,336	14,480
General & Administrative	257,691	257,691	260,268	262,871	265,499
Bank Fees	100	100	101	102	103
Insurance - General Liab	11,644	11,644	11,760	11,878	11,998
Property Taxes	8,632	8,632	8,719	8,806	8,895
Permitting & Other Regulatory	1,205	1,205	1,217	1,229	1,241
Other Operating Expenses	806	806	822	839	856
Total Operating Expenses	\$ 916,194	\$ 916,194	\$ 925,065	\$ 934,026	\$ 943,078
Utility EBITDA	\$ (376,395)	\$ (189,642)	\$ (11,762)	\$ 166,029	\$ 343,730
EBITDA Margin	-69.73%	-26.10%	-1.29%	15.09%	26.71%
Depreciation	\$ 112,626	\$ 112,626	\$ 153,539	\$ 159,028	\$ 164,703
Interest Expense	165,582	165,582	167,412	171,133	174,979
Earnings before Taxes	\$ (654,603)	\$ (467,851)	\$ (332,713)	\$ (164,132)	\$ 4,048
Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ 850
Net Income	\$ (654,603)	\$ (467,851)	\$ (332,713)	\$ (164,132)	\$ 3,198
Rate Base					
Beginning Balance	\$ 500,095	\$ 500,095	\$ 2,246,687	\$ 2,255,779	\$ 2,264,871
Add: Capex	1,859,218	1,859,218	162,631	168,120	173,795
Less: Depreciation	(112,626)	(112,626)	(153,539)	(159,028)	(164,703)
Ending Balance	\$ 2,246,687	\$ 2,246,687	\$ 2,255,779	\$ 2,264,871	\$ 2,273,963
Return on Rate Base	-29.14%	-20.82%	-14.75%	-7.25%	0.14%
Investment					
Purchase Price	\$ 5,500,000	\$ 5,500,000	\$ 5,500,000	\$ 5,500,000	\$ 5,500,000
Cumulative Capex	1,859,218	1,859,218	2,021,849	2,189,969	2,363,764
Total Investment	\$ 7,359,218	\$ 7,359,218	\$ 7,521,849	\$ 7,689,969	\$ 7,863,764
Return on Investment	-8.90%	-6.36%	-4.42%	-2.13%	0.04%

CONFIDENTIAL SETTLEMENT COMMUNICATION PER TRE 408

Conroe Resort Utilities

Rate Phase-In Analysis (3-YR Development Rates)

	Historic Rates	RATE PHASE-IN		
	YR 1	YR 1	YR 2	YR 3
Customers (ERCs)				
Water	707	707	707	707
Wastewater	696	696	696	696
Total Customers (ERCs)	1,403	1,403	1,403	1,403
AVG Bill (per ERC)				
Water	\$ 27.91	\$ 41.42	\$ 54.94	\$ 68.45
Sewer	\$ 36.28	\$ 52.37	\$ 68.45	\$ 84.54
Income Statement				
Revenue				
Service Revenue				
Water	\$ 236,788	\$ 351,436	\$ 466,083	\$ 580,730
Wastewater	303,011	437,366	571,722	706,078
Total Service Revenue	\$ 539,799	\$ 788,802	\$ 1,037,805	\$ 1,286,808
Total Revenue	\$ 539,799	\$ 788,802	\$ 1,037,805	\$ 1,286,808
Operating Expenses				
O&M				
Contract Operations	\$ 321,086	\$ 321,086	\$ 324,308	\$ 327,564
Postage & Mailing	2,810	2,810	2,838	2,867
Total O&M	\$ 323,896	\$ 323,896	\$ 327,147	\$ 330,431
Variable				
Bad Debt Expense	\$ 12,868	\$ 12,868	\$ 12,868	\$ 12,868
Conservation District Pumpage Fee	19,304	19,304	19,304	19,304
Fixed				
Sludge Removal Expense	\$ 10,038	\$ 10,038	\$ 10,138	\$ 10,240
Purchased Power	47,678	47,678	48,157	48,640
Chemicals	13,350	13,350	13,484	13,619
Repairs & Maintenance	188,706	188,706	190,600	192,513
Materials & Supplies	6,223	6,223	6,286	6,349
Testing	14,053	14,053	14,194	14,336
General & Administrative	257,691	257,691	260,268	262,871
Bank Fees	100	100	101	102
Insurance - General Liab	11,644	11,644	11,760	11,878
Property Taxes	8,632	8,632	8,719	8,806
Permitting & Other Regulatory	1,205	1,205	1,217	1,229
Other Operating Expenses	806	806	822	839
Total Operating Expenses	\$ 916,194	\$ 916,194	\$ 925,065	\$ 934,026
Utility EBITDA	\$ (376,395)	\$ (127,392)	\$ 112,739	\$ 352,781
EBITDA Margin	-69.73%	-16.15%	10.86%	27.42%
Depreciation	\$ 112,626	\$ 112,626	\$ 153,539	\$ 159,028
Interest Expense	165,582	165,582	167,412	171,133
Earnings before Taxes	\$ (654,603)	\$ (405,600)	\$ (208,212)	\$ 22,620
Income Taxes	\$ -	\$ -	\$ -	\$ 4,750
Net Income	\$ (654,603)	\$ (405,600)	\$ (208,212)	\$ 17,870
Rate Base				
Beginning Balance	\$ 500,095	\$ 500,095	\$ 2,246,687	\$ 2,255,779
Add: Capex	1,859,218	1,859,218	162,631	168,120
Less: Depreciation	(112,626)	(112,626)	(153,539)	(159,028)
Ending Balance	\$ 2,246,687	\$ 2,246,687	\$ 2,255,779	\$ 2,264,871
Return on Rate Base	-29.14%	-18.05%	-9.23%	0.79%
Investment				
Purchase Price	\$ 5,500,000	\$ 5,500,000	\$ 5,500,000	\$ 5,500,000
Cumulative Capex	1,859,218	1,859,218	2,021,849	2,189,969
Total Investment	\$ 7,359,218	\$ 7,359,218	\$ 7,521,849	\$ 7,689,969
Return on Investment	-8.90%	-5.51%	-2.77%	0.23%

CONFIDENTIAL SETTLEMENT COMMUNICATION PER TRE 408

Conroe Resort Utilities

Rate Phase-In Analysis (3-YR Undine TX LLC Rates)

	Historic Rates	RATE PHASE-IN		
	YR 1	YR 1	YR 2	YR 3
Customers (ERCs)				
Water	707	707	707	707
Wastewater	696	696	696	696
Total Customers (ERCs)	1,403	1,403	1,403	1,403
AVG Bill (per ERC)				
Water	\$ 27.91	\$ 51.32	\$ 57.73	\$ 64.19
Sewer	\$ 36.28	\$ 75.00	\$ 92.50	\$ 110.00
Income Statement				
Revenue				
Service Revenue				
Water	\$ 236,788	\$ 435,399	\$ 489,781	\$ 544,588
Wastewater	303,011	626,400	772,560	918,720
Total Service Revenue	\$ 539,799	\$ 1,061,799	\$ 1,262,341	\$ 1,463,308
Total Revenue	\$ 539,799	\$ 1,061,799	\$ 1,262,341	\$ 1,463,308
Operating Expenses				
O&M				
Contract Operations	\$ 321,086	\$ 321,086	\$ 324,308	\$ 327,564
Postage & Mailing	2,810	2,810	2,838	2,867
Total O&M	\$ 323,896	\$ 323,896	\$ 327,147	\$ 330,431
Variable				
Bad Debt Expense	\$ 12,868	\$ 12,868	\$ 12,868	\$ 12,868
Conservation District Pumpage Fee	19,304	19,304	19,304	19,304
Fixed				
Sludge Removal Expense	\$ 10,038	\$ 10,038	\$ 10,138	\$ 10,240
Purchased Power	47,678	47,678	48,157	48,640
Chemicals	13,350	13,350	13,484	13,619
Repairs & Maintenance	188,706	188,706	190,600	192,513
Materials & Supplies	6,223	6,223	6,286	6,349
Testing	14,053	14,053	14,194	14,336
General & Administrative	257,691	257,691	260,268	262,871
Bank Fees	100	100	101	102
Insurance - General Liab	11,644	11,644	11,760	11,878
Property Taxes	8,632	8,632	8,719	8,806
Permitting & Other Regulatory	1,205	1,205	1,217	1,229
Other Operating Expenses	806	806	822	839
Total Operating Expenses	\$ 916,194	\$ 916,194	\$ 925,065	\$ 934,026
Utility EBITDA	\$ (376,395)	\$ 145,605	\$ 337,276	\$ 529,281
EBITDA Margin	-69.73%	13.71%	26.72%	36.17%
Depreciation	\$ 112,626	\$ 112,626	\$ 153,539	\$ 159,028
Interest Expense	165,582	165,582	167,412	171,133
Earnings before Taxes	\$ (654,603)	\$ (132,603)	\$ 16,325	\$ 199,121
Income Taxes	\$ -	\$ -	\$ 3,428	\$ 41,815
Net Income	\$ (654,603)	\$ (132,603)	\$ 12,897	\$ 157,305
Rate Base				
Beginning Balance	\$ 500,095	\$ 500,095	\$ 2,246,687	\$ 2,255,779
Add: Capex	1,859,218	1,859,218	162,631	168,120
Less: Depreciation	(112,626)	(112,626)	(153,539)	(159,028)
Ending Balance	\$ 2,246,687	\$ 2,246,687	\$ 2,255,779	\$ 2,264,871
Return on Rate Base	-29.14%	-5.90%	0.57%	6.95%
Investment				
Purchase Price	\$ 5,500,000	\$ 5,500,000	\$ 5,500,000	\$ 5,500,000
Cumulative Capex	1,859,218	1,859,218	2,021,849	2,189,969
Total Investment	\$ 7,359,218	\$ 7,359,218	\$ 7,521,849	\$ 7,689,969
Return on Investment	-8.90%	-1.80%	0.17%	2.05%

ATTACHMENT 3



WATER UTILITY TARIFF
Docket No. 51788

Undine Texas, LLC
(Utility Name)

17681 Telge Rd.
(Business Address)

Cypress, Texas 77429
(City, State, Zip Code)

(713) 574-5953
(Area Code/Telephone)

This tariff is effective for utility operations under the following Certificate of Convenience and Necessity:

13260

This tariff is effective in the following counties:

Brazoria, Fort Bend, Harris, Johnson, Matagorda, Montgomery, and Tarrant

This utility provides service in the following cities or unincorporated towns (if any):

City of Manvel (Brandi Estates),

City of Iowa Colony (Magnolia Bend formerly Kucera Farms, Spring Crossing, and 288 Business Park)

“The rates set or approved by the cities for the systems within its corporate boundary are not presented in this tariff. Those rates are not under the original jurisdiction of the Public Utility Commission of Texas and will have to be obtained from the city or utility.”

This tariff is effective in the following subdivisions and public water systems:

See attached list

TABLE OF CONTENTS

The above utility lists the following sections of its tariff (if additional pages are needed for a section, all pages should be numbered consecutively):

SECTION 1.0 – RATE SCHEDULE.....	7
SECTION 2.0 – SERVICE RULES AND POLICIES.....	24
SECTION 3.0 – EXTENSION POLICY	30

APPENDIX A – DROUGHT CONTINGENCY PLAN

APPENDIX B – SAMPLE SERVICE AGREEMENT

APPENDIX C – APPLICATION FOR SERVICE

SECTION 1.0 -- RATE SCHEDULE

Section 1.01 – Rates

Rate Year 1

Effective Date: August 1, 2020

<u>Meter Size</u>	<u>Monthly Base Rate</u>	<u>Gallage Charge</u>
5/8"	<u>\$37.81</u> (Includes 0 gallons)	<u>\$2.02</u> per 1000 gallons from 0 to 6,000 gallons
3/4"	<u>\$56.72</u>	<u>\$2.94</u> per 1,000 gallons from 6,001 to 15,000 gallons
1"	<u>\$94.53</u>	<u>\$5.25</u> per 1,000 gallons from 15,001 gallons to 25,000 gallons
1 1/2"	<u>\$189.05</u>	<u>\$7.79</u> per 1,000 gallons from 25,001+ gallons
2"	<u>\$302.48</u>	
3"	<u>\$567.15</u>	
4"	<u>\$983.06</u>	
Other (Unmetered)	<u>\$60.50</u>	

Rate Year 2

Effective Date: August 1, 2021

<u>Meter Size</u>	<u>Monthly Base Rate</u>	<u>Gallage Charge</u>
5/8"	<u>\$44.37</u> (Includes 0 gallons)	<u>\$2.21</u> per 1000 gallons from 0 to 6,000 gallons
3/4"	<u>\$66.56</u>	<u>\$3.13</u> per 1,000 gallons from 6,001 to 15,000 gallons
1"	<u>\$110.93</u>	<u>\$5.44</u> per 1,000 gallons from 15,001 gallons to 25,000 gallons
1 1/2"	<u>\$221.85</u>	<u>\$7.98</u> per 1,000 gallons from 25,001+ gallons
2"	<u>\$354.96</u>	
3"	<u>\$665.55</u>	
4"	<u>\$1,153.62</u>	
Other (Unmetered)	<u>\$70.99</u>	

Rate Year 3

Effective Date: August 1, 2022

<u>Meter Size</u>	<u>Monthly Base Rate</u>	<u>Gallage Charge</u>
5/8"	<u>\$50.93</u> (Includes 0 gallons)	<u>\$2.41</u> per 1000 gallons from 0 to 6,000 gallons
3/4"	<u>\$76.40</u>	<u>\$3.33</u> per 1,000 gallons from 6,001 to 15,000 gallons
1"	<u>\$127.33</u>	<u>\$5.64</u> per 1,000 gallons from 15,001 gallons to 25,000 gallons
1 1/2"	<u>\$254.65</u>	<u>\$8.18</u> per 1,000 gallons from 25,001+ gallons
2"	<u>\$407.44</u>	
3"	<u>\$763.95</u>	
4"	<u>\$1,324.18</u>	
Other (Unmetered)	<u>\$81.49</u>	

Rate Case Expenses

Monthly Rate Case Expense Surcharge\$1.12 per month
 Effective Date: August 1, 2020. The rate case expense surcharge will be collected for 36 months or until the full \$244,178.13 of rate case expenses related to Docket No. 50200 is collected, whichever occurs first.



**SEWER UTILITY TARIFF
Docket No. 50200**

Undine Texas Environmental, LLC
(Utility Name)

Cypress, TX 77429
(City, State, Zip Code)

17681 Telge Road
(Business Address)

(713) 574-5953
(Area Code/Telephone)

This tariff is effective for utility operations under the following Certificates of Convenience and Necessity:

20816, 20832, 21019, 21026, 21106

This tariff is effective in the following counties:

Brazoria, Tarrant, Parker, Johnson, Chambers, Galveston

This tariff is effective in the following cities or unincorporated towns (if any):

Iowa Colony (Spring Crossing and 288 Business Park), Town of Dennis (Sugartree)

THE RATES SET OR APPROVED BY THE CITY FOR THE SYSTEMS ENTIRELY WITHIN ITS CORPORATE BOUNDARY ARE NOT PRESENTED IN THIS TARIFF. THOSE RATES ARE NOT UNDER THE ORIGINAL JURISDICTION OF THE PUBLIC UTILITY COMMISSION OF TEXAS AND WILL HAVE TO BE OBTAINED FROM THE CITY OR UTILITY

This tariff is effective in the following subdivisions and public sewer systems:

See attached list

TABLE OF CONTENTS

The above utility lists the following sections of its tariff (if additional pages are needed for a section, all pages should be numbered consecutively):

SECTION 1.0 – RATE SCHEDULE	3
SECTION 2.0 – SERVICE RULES AND POLICIES	5
SECTION 3.0 – EXTENSION POLICY	10

APPENDIX A – SAMPLE SERVICE AGREEMENT

SECTION 1.0 - RATE SCHEDULE

Section 1.01--Rates

<u>Rate Year 1</u>	<u>Effective Date: August 1, 2020</u>
<u>Meter Size:</u>	<u>Monthly Minimum Charge</u>
All Meters	<u>\$75.00 Flat Rate</u>

<u>Rate Year 2</u>	<u>Effective Date: August 1, 2021</u>
<u>Meter Size:</u>	<u>Monthly Minimum Charge</u>
All Meters	<u>\$92.50 Flat Rate</u>

<u>Rate Year 3</u>	<u>Effective Date: August 1, 2022</u>
<u>Meter Size:</u>	<u>Monthly Minimum Charge</u>
All Meters	<u>\$110.00 Flat Rate</u>

Volume charges are determined based on average consumption for winter period which includes the following months: N.A.

RATE CASE EXPENSES\$1.12 per month
Effective Date: August 1, 2020. The rate case expense surcharge will be collected for 36 months or until the full \$85,289.03 of rate case expenses related to Docket No. 50200 is collected, whichever occurs first.

FORM OF PAYMENT: The utility will accept the following forms of payment:
Cash X , Check X , Money Order X , Credit Card X , Other (specify Online Payment or Automatic Bank Draft)

THE UTILITY MAY REQUIRE EXACT CHANGE FOR PAYMENTS AND MAY REFUSE TO ACCEPT PAYMENTS MADE USING MORE THAN \$1.00 IN SMALL COINS. A WRITTEN RECEIPT WILL BE GIVEN FOR CASH PAYMENTS.

UNAFFILIATED THIRD PARTIES WHO ACCEPT AND PROCESS CREDIT CARD AND ELECTRONIC PAYMENTS FOR UTILITY BILLS MAY REQUIRE PAYMENT OF AN ADDITIONAL CONVENIENCE CHARGE FOR THIS SERVICE.

REGULATORY ASSESSMENT1.0%
PUBLIC UTILITY COMMISSION (COMMISSION) RULES REQUIRE THE UTILITY TO COLLECT AND REMIT TO THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY A FEE OF ONE PERCENT OF THE RETAIL MONTHLY BILL.

Section 1.02 - Miscellaneous Fees

TAP FEE\$865.00
TAP FEE COVERS THE UTILITY'S COSTS FOR MATERIALS AND LABOR TO INSTALL A STANDARD RESIDENTIAL CONNECTION. AN ADDITIONAL FEE TO COVER UNIQUE COSTS IS PERMITTED IF LISTED ON THIS TARIFF, INCLUDING COSTS RELATED TO ROAD BORES, ROCK CUTS, AND UNUSUALLY LONG TAPS.

ATTACHMENT 4

ATTACHMENT 5

The following files are not convertible:

Attachment 5 - Avg usage 6408- Undine
Comparison of Rates Conroe Resorts.xlsx

Please see the ZIP file for this Filing on the PUC Interchange in order to access these files.

Contact centralrecords@puc.texas.gov if you have any questions.