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DOCKET NO. 53935

APPLICATION OF STONETOWN	§	PUBLIC UTILITY COMMISSION
ROYAL COACH UTILITIES, LLC AND	§	
TRINITY RCT GP LLC FOR SALE,	§	OF TEXAS
TRANSFER, OR MERGER OF	§	
FACILITIES AND CERTIFICATE	§	
RIGHTS IN HARRIS COUNTY	§	

COMMISSION STAFF’S RECOMMENDATON ON APPROVAL OF SALE

I. INTRODUCTION

On August 5, 2022, Stonetown Royal Coach Utilities, LLC (Stonetown) and Trinity RCT Group LLC (Trinity) (collectively, Applicants) filed an application for approval of the sale, transfer, or merger of facilities and certificate rights in Harris County. Specifically, Trinity seeks approval to acquire facilities and to transfer Stonetown’s water service area held under Certificate of Convenience and Necessity (CCN) No. 13241 and sewer service area held under CCN No. 21090. The Applicants filed supplemental information on August 31, 2022, September 22, 2022, September 26, 2022 and January 11, 2023.

On January 9, 2023, the administrative law judge (ALJ) filed Order No. 6, directing the Staff (Staff) of the Public Utility Commission of Texas (Commission) to file a recommendation on the approval of sale or request a hearing by January 13, 2023. Therefore, this pleading is timely filed.

II. RECOMMENDATION ON THE TRANSACTION

Staff has reviewed the application and supplemental information and, as supported by the attached memoranda of Jolie Mathis of the Infrastructure Division, and Fred Bednarski 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 Chapter 13 and under 16 Texas Administrative Code (TAC) Chapter 24. Additionally, based upon its review, Staff recommends that Stonetown has demonstrated that it possesses the financial, technical, and managerial capability to provide continuous and adequate service to the area subject to the proposed transaction. Therefore, Staff recommends that the transaction will serve the public interest and should be allowed to proceed without a public hearing. Staff notes that there are no

deposits held by Trinity RCT GP for the customers being served by Trinity Royal Coach Trails Mobile Home Park.

III. CONCLUSION

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

Dated: January 13, 2023

Respectfully submitted,

PUBLIC UTILITY COMMISSION OF TEXAS LEGAL DIVISION

Keith Rogas
Division Director

Sneha Patel
Managing Attorney

/s/ Bradley Reynolds
Bradley Reynolds
State Bar No. 24125839
1701 N. Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326
(512) 936-7307
(512) 936-7268 (facsimile)
Brad.Reynolds@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 January 13, 2023, in accordance with the Order Suspending Rules, issued in Project No. 50664.

/s/ Bradley Reynolds
Bradley Reynolds

Public Utility Commission of Texas

Memorandum

TO: Bradley Reynolds, Attorney
Legal Division

FROM: Jolie Mathis, Infrastructure Analyst
Infrastructure Division

DATE: January 6, 2023

RE: Docket No. 53935 – *Application of Stonetown Royal Coach Utilities, LLC and Trinity RCT GP LLC for Sale, Transfer, or Merger of Facilities and Certificate Rights in Harris County*

1. Application

On August 5, 2022, Stonetown Royal Coach Utilities, LLC (Stonetown Royal Coach) and Trinity RCT GP LLC (Trinity RCT GP) (collectively Applicants) filed an application for sale, transfer, or merger (STM) of facilities and certificate rights in Harris County, Texas, under Texas Water Code (TWC) § 13.301 and 16 Texas Administrative Code (TAC) § 24.239.

Specifically, Stonetown Royal Coach, seeks approval to acquire facilities and to transfer all of the water and sewer service area from Trinity RCT GP under water Certificate of Convenience and Necessity (CCN) No. 13241 and sewer CCN No. 21090. Stonetown Royal Coach also seeks to obtain CCN No. 13305 for water service and CCN No. 21133 for sewer utility service.

Based on the mapping review by Dave Babicki, Infrastructure Division:

- The requested area includes 118 customer connections and approximately 15 acres, comprised of transferred area from Trinity RCT GP LLC (CCN Nos. 13241 and 21090) to Stonetown Royal Coach (CCN Nos. 13305 and 21133).
- The application proposes the subtraction of approximately 15 acres from CCN Nos. 13241 & 21090 and the addition of approximately 15 acres to Stonetown Royal Coach (CCN Nos. 13305 and 21133).
- The application indicates that the total acreage being requested is approximately 16 acres, however, the mapping review determined the requested area is approximately 15 acres.

2. Notice

Stonetown Royal Coach provided notice consistent with 16 TAC § 24.239(c). The deadline to intervene was November 22, 2022; there were no motions to intervene, protests, or opt-out requests received.

3. Factors Considered

Under TWC §§ 13.241, 13.246, and 13.301 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)).*

Trinity RCT GP has a Texas Commission on Environmental Quality (TCEQ) approved public water system (PWS) and a wastewater treatment plant (WWTP) each registered as Trinity Royal Coach Trails Mobile Home Park, under PWS ID No. 1010339 and Wastewater Discharge Permit No. WQ-0012450001, respectively. The last TCEQ compliance investigation of the Trinity RTC GP PWS system was on July 31, 2019 and the investigation of the Trinity RTC GP WWTP was on April 30, 2022. Trinity RTC GP has violations listed in the TCEQ database for the water system, that have since been addressed. The Commission's complaint records, which date back to 2017, show no complaints against Trinity RTC GP.

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 118 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)).*

Stonetown Royal Coach will be the certificated entity for the requested area and be required to provide continuous and adequate 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)).*

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

Stonetown Royal Coach will have licensed operators to run the system operations. A Class C operator will be the responsible operator for the system.

- 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 Stonetown Royal Coach 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)).***

Trinity RCT GP 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)).*

The customers' rates will not change from the current rates for the Trinity RCT GP. Reliability and quality of water service is expected to improve under Stonetown Royal Coach's management.

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.

4. Recommendation

Based on the above information, I recommend that the Commission find that the transaction will serve the public interest and that the Applicants be allowed to proceed with the proposed transaction. There are no deposits held by Trinity RCT GP for the customers being served by Trinity Royal Coach Trails Mobile Home Park. I further recommend that a public hearing is not necessary.

Public Utility Commission of Texas

Memorandum

TO: Brad Reynolds
Legal Division

FROM: Fred Bednarski III
Rate Regulation Division

DATE: January 13, 2023

RE: Docket No. 53935 – *Application of Stonetown Royal Coach Utilities, LLC and Trinity RCT GP LLC for Sale, Transfer, or Merger of Facilities and Certificate Rights in Harris County*

On August 5, 2022, Stonetown Royal Coach Utilities, LLC (Royal Coach) and Trinity RCT Group LLC (Trinity) filed an application for the sale and transfer of facilities and certificate rights in Harris County under the provisions of Texas Water Code § 13.301 and 16 Texas Administrative Code § 24.239.

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. Royal Coach 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

Royal Coach filed an affidavit stating that Stonetown MRE Texas, LLC (MRE Texas), Royal Coach's affiliate, is capable, available, and willing to cover any temporary cash shortages and operating expense shortfalls.¹

My analysis is based on MRE Texas' financial statements ending September 30, 2022. Based on my review of MRE Texas' financial statements, I calculate a debt service coverage ratio of 2.60 as provide in confidential attachment FB-1. Because the ratio is greater than 1.25, I

¹ Confidential Attachments to Third Supplement at pfd 12 and 13 (Jan. 11, 2023).

recommend a finding that MRE Texas meets the leverage test specified in 16 TAC § 24.11(e)(2)(B). Therefore, I recommend a finding that—through its affiliate—Royal Coach meets the leverage test as specified in 16 TAC § 24.11(e)(2)(E).

Operations Test

An owner or operator must demonstrate sufficient available cash to cover projected cash shortages for operations and maintenance expense during the first five years of operations; or an affiliated interest may provide a written guaranty of coverage of temporary cash shortages if the affiliated interest also satisfies the leverage test, as required by 16 TAC § 24.11(e)(3).

The affidavit provided by MRE Texas demonstrates a written guarantee of coverage of temporary cash shortages from an affiliated interest.² MRE Texas also provided documentation demonstrating adequate cash funding of the purchase price for this application as well as affiliate applications 53936 and 53937.³ Royal Coach projects no operating income shortages.⁴ Therefore, I recommend a finding that—through its affiliate—Royal Coach meets the operations test specified in 16 TAC § 24.11(e)(3). No capital improvements are required to provide continuous and adequate service to existing customers.

Recommendation

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

Consequently, I recommend a finding that Royal Coach 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 Royal Coach before the date of this memorandum and may not reflect any changes in Royal Coach's status after this review.

² *Id.*

³ Confidential Attachment FB-1 (Jan. 13, 2023).

⁴ *Id.*