



## **Filing Receipt**

**Filing Date - 2024-04-05 10:58:48 AM**

**Control Number - 55414**

**Item Number - 37**

**DOCKET NO. 55414**

<b>APPLICATION OF CSWR-TEXAS</b>	<b>§</b>	<b>PUBLIC UTILITY COMMISSION</b>
<b>UTILITY OPERATING COMPANY,</b>	<b>§</b>	
<b>LLC AND VINEYARD RIDGE WATER</b>	<b>§</b>	<b>OF TEXAS</b>
<b>SUPPLY, LLC FOR SALE, TRANSFER,</b>	<b>§</b>	
<b>OR MERGER OF FACILITIES AND</b>	<b>§</b>	
<b>CERTIFICATE RIGHTS IN GILLESPIE</b>	<b>§</b>	
<b>COUNTY</b>	<b>§</b>	

**COMMISSION STAFF’S RESPONSE TO ORDER NO. 7 AND MOTION TO ADMIT SUPPLEMENTAL EVIDENCE**

On August 29, 2023, CSWR-Texas Utility Operating Company, LLC (CSWR-Texas) and Vineyard Ridge Water Supply, LLC (Vineyard Ridge) (collectively, ‘Applicants’) filed an application for approval of the sale, transfer, or merger of facilities and certificate of convenience and necessity rights in Gillespie County under Texas Water Code § 13.301 and Texas Administrative Code § 24.239.

On March 28, 2024, the administrative law judge filed Order No. 7, requiring the Staff (Staff) of the Public Utility Commission of Texas to confirm or update its recommendation regarding CSWR-Texas’s cost of capital improvements by April 5, 2024. Therefore, this pleading is timely filed.

**I. RESPONSE TO ORDER NO. 7**

Staff has reviewed CSWR-Texas’s expected cost of capital improvements necessary to provide continuous and adequate service to existing customers of the water system CSWR-Texas is acquiring from Vineyard Ridge, and confirms that Staff’s originally stated recommendation regarding the cost of capital improvements was incorrectly calculated. As detailed in the attached memoranda from Patricia Garcia of the Infrastructure Division and Fred Bednarski III of the Rate Regulation Division, Staff recommends that the proposed capital improvements are not expected to exceed \$100,000. Therefore, Staff recommends that the proposed transaction be permitted to proceed without a public hearing.

**II. MOTION TO ADMIT SUPPLEMENTAL EVIDENCE**

Staff respectfully requests that this Response to Order No. 7, including attached memoranda, be admitted into the record as evidence in this proceeding.

### III. CONCLUSION

For the reasons detailed above, Staff recommends that the proposed capital improvements are not expected to exceed \$100,000. Staff respectfully requests that this Response to Order No. 7, including memoranda, be admitted into the record as evidence in this proceeding. Additionally, Staff respectfully requests the entry of an order allowing the proposed transaction to proceed.

Dated: April 5, 2024

Respectfully submitted,

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

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**DOCKET NO. 55414**

#### **CERTIFICATE OF SERVICE**

I certify that unless otherwise ordered by the presiding officer, notice of the filing of this document will be provided to all parties of record via electronic mail on April 5, 2024, in accordance with the Second Order Suspending Rules, filed in Project No. 50664.

/s/ Kelsey Daugherty  
Kelsey Daugherty

# *Public Utility Commission of Texas*

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## **Memorandum**

**TO:** Kelsey Daugherty, Attorney  
Legal Division

**FROM:** Patricia Garcia, Infrastructure Analysis Section Director  
Infrastructure Division

**DATE:** April 5, 2024

**RE:** Docket No. 55414 – *Application of CSWR-Texas Utility Operating Company, LLC and Vineyard Ridge Water Supply, LLC for Sale, Transfer, or Merger of Facilities and Certificate Rights in Gillespie County*

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### **1. Application**

On August 29, 2023, CSWR-Texas Utility Operating Company, LLC (CSWR-Texas) and the Vineyard Ridge Water Supply, LLC (Vineyard Ridge) (collectively Applicants) filed an application for sale, transfer, or merger (STM) of facilities and certificate rights in Gillespie County, Texas, under Texas Water Code (TWC) §§ 13.242 through 13.250 and § 13.301 and 16 Texas Administrative Code (TAC) §§ 24.225 to 24.237 and § 24.239.

Specifically, CSWR-Texas, Certificate of Convenience and Necessity (CCN) No. 13290, seeks approval to acquire facilities and to transfer all of the water service area from Vineyard Ridge under water CCN No. 13265.

Based on the mapping review by Hank Journey, Infrastructure Division:

- The requested area includes 76 customer connections and approximately 660.7 acres of transferred area from Vineyard Ridge (CCN No. 13265) to CSWR-Texas (CCN No. 13290).
- The application proposes the subtraction of approximately 660.7 acres from CCN No. 13265 and the addition of approximately 660.7 acres to CCN No. 13290.

### **2. Capital Improvement Plan**

*An application for a certificate of public convenience and necessity or for an amendment to a certificate must contain: a capital improvements plan, including a budget and estimated timeline for construction of all facilities necessary to provide full service to the entire proposed service area (TWC § 13.244(d)(3)).*

CSWR-Texas submitted confidential information as Attachment J where it is proposing to make improvements to Vineyard Ridge's water system. The proposed capital improvements are not expected to exceed \$100,000.

**3. Recommendation**

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.

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 Vineyard Ridge for the customers being served by the Vineyard Ridge Water System. I further recommend that a public hearing is not necessary.

# *Public Utility Commission of Texas*

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## **Memorandum**

**TO:** Kelsey Daugherty, Attorney  
Legal Division

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

**DATE:** April 5, 2024

**RE:** Docket No. 55414 *Application of CSWR-Texas Utility Operating Company, LLC and Vineyard Ridge Water Supply, LLC for Sale, Transfer, or Merger of Facilities and Certificate Rights in Gillespie County*

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On August 29, 2023, CSWR-Texas Utility Operating Company (CSWR-Texas), CCN No. 13290, and Vineyard Ridge Water Supply, LLC (Vineyard Ridge) filed an application for the sale, transfer, or merger of facilities and certificate rights in Gillespie 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. CSWR-Texas 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***

CSWR-Texas filed an affidavit stating that CSWR, LLC is capable, available, and willing to cover any temporary cash shortages and operating expense shortfalls.<sup>1</sup>

My analysis is based on financial statements ending December 31, 2022. These financial statements contain an unqualified auditor's opinion from RSM US LLP stating that the financial

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<sup>1</sup> 55414 CSWR-Texas highly sensitive attachment G to application, interchange item no. 4, at pdf 7 (Aug. 29, 2023).

statements present fairly, in all material respects, the financial position of CSWR, LLC as of December 31, 2022.<sup>2</sup>

CSWR-Texas provided CSWR, LLC's financial statements, which demonstrates a debt-to-equity ratio of 0.16 as shown in confidential attachment FB-1.1. Because the ratio is less than one, I recommend a finding that CSWR, LLC meets the leverage test specified in 16 TAC § 24.11(e)(2)(A). Therefore, I recommend a finding that—through its affiliate—CSWR-Texas 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 CSWR, LLC demonstrates a written guarantee of coverage of temporary cash shortages from an affiliated interest. Additionally, CSWR-Texas projects no operating shortages.<sup>3</sup> Therefore, I recommend a finding that CSWR-Texas meets the operations test specified in 16 TAC § 24.11(e)(3).

### ***Planned Capital Improvements and Purchase Price***

An applicant proposing service to a new CCN area must provide documentation of adequate funding for the purchase of an existing system plus any improvements exceeding \$100,000 necessary to provide continuous and adequate service to the existing customers per 16 TAC § 24.11(e)(5)(A).

Pursuant to the supplemental recommendation provided by Patricia Garcia, Section Director, Infrastructure Analysis, required capital improvement do not exceed \$100,000. Therefore, I recommend a finding that CSWR-Texas should not be required to satisfy the requirements of 16 TAC § 24.11(e)(5)(A).

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<sup>2</sup> 55414 CSWR-Texas confidential attachment F to application, interchange item no. 3, at pdf 4 and 5 (Aug. 29, 2023).

<sup>3</sup> 55414 CSWR-Texas highly sensitive attachment G to application, interchange item no. 4, at pdf 2 and 3 (Aug. 29, 2023).

***Recommendation***

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

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