

Attachment AN-8

PUBLIC UTILITY COMMISSION OF TEXAS

Docket No. 47275

REQUEST NUMBER: QUESTION NO. STAFF 3-9

COMPANY NAME: Commons Water Supply, Inc.

DATE DUE: 11/28/17

INFORMATION REQUESTED:

STAFF 3-9 Reference Schedule 11-6, Line 2. Please provide receipts, invoices, employment contracts, and any other documentation supporting the \$60,000.00 expense for Office Salaries.

REQUESTED BY: Commission Staff

RESPONSE: See attachment 3-9.

SUPPORTING WITNESS:

Bret Fenner

The foregoing response to the above information request is accurate and complete, and contains no material misrepresentations or omissions based upon present facts known to the undersigned. The undersigned agrees to immediately inform the Requestor if any matters are discovered which would materially affect the accuracy or completeness of the information provided in response to the above information request.

Signature of Company Representative

/s/ Bret Fenner

Date Provided: 11/28/17

3-9

INVOICE #123120160S

The Signorelli Company

1400 Woodloch Forest Dr. Ste. 200
The Woodlands, TX 77380
713.452.1700

12/31/2016

BILL TO

The Commons of Lake Houston, Ltd.
1400 Woodloch Forest Dr. Ste. 200
The Woodlands, TX 77380
713.452.1700

FOR

Reimbursement of Management
Company Office Salaries

Details

AMOUNT

Q1 2016	\$15,000.00
Q2 2016	\$15,000.00
Q3 2013	\$15,000.00
Q4 2016	\$15,000.00
SUBTOTAL	\$60,000.00
TAX RATE	0.00%
OTHER	\$0.00
TOTAL	\$60,000.00

Make all checks payable to The Signorelli Company

If you have any questions concerning this invoice, use the following contact information:

Contact Name, Phone Number, Email

THANK YOU FOR YOUR BUSINESS!

PUBLIC UTILITY COMMISSION OF TEXAS

Docket No. 47275

REQUEST NUMBER: QUESTION NO. STAFF 3-10

COMPANY NAME: Commons Water Supply, Inc.

DATE DUE: 11/28/17

INFORMATION REQUESTED:

STAFF 3-10 Reference Schedule 11-6, Line 3. Please provide receipts, invoices, employment contacts, and any other documentation supporting the \$90,000.00 expense for Management Salaries.

REQUESTED BY: Commission Staff

RESPONSE: See attachment 3-10.

SUPPORTING WITNESS:

Bret Fenner

The foregoing response to the above information request is accurate and complete, and contains no material misrepresentations or omissions based upon present facts known to the undersigned. The undersigned agrees to immediately inform the Requestor if any matters are discovered which would materially affect the accuracy or completeness of the information provided in response to the above information request.

Signature of Company Representative

/s/ Bret Fenner

Date Provided: 11/28/17

3-10

INVOICE #12312016MS

The Signorelli Company

1400 Woodloch Forest Dr. Ste. 200
The Woodlands, TX 77380
713.452.1700

12/31/2016

BILL TO

The Commons of Lake Houston, Ltd.
1400 Woodloch Forest Dr. Ste. 200
The Woodlands, TX 77380
713.452.1700

FOR

Reimbursement of Management
Company Management Salaries

Details

AMOUNT

Q1 2016	\$22,500.00
Q2 2016	\$22,500.00
Q3 2013	\$22,500.00
Q4 2016	\$22,500.00

SUBTOTAL \$90,000.00

TAX RATE 0.00%

OTHER \$0.00

TOTAL \$90,000.00

Make all checks payable to The Signorelli Company

If you have any questions concerning this invoice, use the following contact information:

Contact Name, Phone Number, Email

THANK YOU FOR YOUR BUSINESS!

Attachment AN-9

PUBLIC UTILITY COMMISSION OF TEXAS

Docket No. 47275

REQUEST NUMBER: QUESTION NO. STAFF 5-3

COMPANY NAME: Commons Water Supply, Inc.

INFORMATION REQUESTED:

STAFF 5-3 Please provide a list of the specific duties related to the operations and maintenance of The Commons that are performed by any employee of The Signorelli Company grouped by employee.

REQUESTED BY: Commission Staff

RESPONSE: CEO – The CEO oversees all employees who handle anything for the Commons Water Supply. There are many regulatory and management reports and reviews that the CEO regularly is involved in. Due to the regulatory requirements of the operations and maintenance of a water facility the CEO generally spends more time.

Executive Vice President – The executive vice president deals directly with Gulf Utility at a management level to keep an eye on operations and maintenance costs as well as regularly visit facilities for reviews and inspections of plant operations and ensures regulatory requirements being met. The executive vice president also reviews and approves all work orders and invoices to ensure proper billing practices.

Development Manager – The development manager spends much of their time on-site reviewing work orders and maintenance and repairs of existing equipment. The development manager reports to the executive vice president and together they deal with keeping a low ceiling on O&M costs.

CFO – The CFO handles all financing for the CWS. This includes communication with the bank, regulatory requirements, reviewing of financial stability and reviewing of financial reporting to ensure proper cash management is in place. Due to the on-going operations of the business there is much more scrutiny of reporting than is the case with developing land to sell lots to builders.

Controller – The controller manages all internal process and controls for the handling of revenue, payments and general flow of managerial reporting. The controller also leads our general audit of financial information as it pertains to CWS. Due to the outsourcing of operations and management the controller has a

much more hands on job scrutinizing our 3rd party operators to ensure fraudulent activities are being prevented.

Project Accountant – The project account spends much time reconciling billing reports and bank statements. Also included in the project accountant's duties are the design of internal reports (i.e., cash flows, budgeting, etc.) for review by all parties. The project accountant

A/P Clerk – The A/P clerk provides payment services. Due to the higher than average invoice volume of the CWS operations the A/P clerk spends a great deal of time remitting payments and working with Gulf Utility to ensure proper invoices are being paid. The A/P clerk also posts journal entries as needed,

Receptionist – The receptionist handles the higher than average call volume as well as all incoming mail and inquiries.

PR Director – The PR director handles all customer interactions. The CWS has over 900 customers so interacting with customers and ensuring needs are met and complaints are fixed is a must for our company.

SUPPORTING WITNESS:

Will De La Rosa

The foregoing response to the above information request is accurate and complete, and contains no material misrepresentations or omissions based upon present facts known to the undersigned. The undersigned agrees to immediately inform the Requestor if any matters are discovered which would materially affect the accuracy or completeness of the information provided in response to the above information request.

Signature of Company Representative

Will De La Rosa

Attachment AN-10

PUBLIC UTILITY COMMISSION OF TEXAS

Docket No. 47275

REQUEST NUMBER: QUESTION NO. STAFF 3-12

COMPANY NAME: Commons Water Supply, Inc.

INFORMATION REQUESTED:

STAFF 3-12 Reference Schedule 11-16. Please provide receipts and invoices supporting the \$1,547.00 expense for insurance.

REQUESTED BY: Commission Staff

RESPONSE: See attachment 3-12.

SUPPORTING WITNESS:

Will De La Rosa

The foregoing response to the above information request is accurate and complete, and contains no material misrepresentations or omissions based upon present facts known to the undersigned. The undersigned agrees to immediately inform the Requestor if any matters are discovered which would materially affect the accuracy or completeness of the information provided in response to the above information request.

Signature of Company Representative

/s/ Will De La Rosa

3-12



Report Claims Immediately by Calling*
1-800-238-6225

*Speak directly with a claim professional
24 hours a day, 365 days a year*

***Unless Your Policy Requires Written Notice or Reporting**

COMMERCIAL INSURANCE

A Custom Insurance Policy Prepared for:

**THE SIGNORELLI COMPANY
1400 WOODLOCH FOREST DR., #200
THE WOODLANDS TX 77304**

Presented by: MARSH & MCLENNAN AGCY



One Tower Square, Hartford, Connecticut 06183

TRAVELERS CORP. TEL: 1-800-328-2189
OFFICES & STORES - ALL OTHER
COMMON POLICY DECLARATIONS
ISSUE DATE: 06/05/15
POLICY NUMBER: BAEE-BME1-0G721202-TCT-15

INSURING COMPANY:
THE TRAVELERS INDEMNITY COMPANY OF CONNECTICUT

1. NAMED INSURED AND MAILING ADDRESS:
THE SIGNORELLI COMPANY (AS PER IL T8 00)
1400 WOODLOCH FOREST DR., #200
THE WOODLANDS, TX 77304

2. POLICY PERIOD: From 07/01/15 to 12/31/16 12:01 A.M. Standard Time at
your mailing address.

3. LOCATIONS
Premises Bldg.
Loc. No. No. Occupancy Address
SEE IL TO 03

4. COVERAGE PARTS FORMING PART OF THIS POLICY AND INSURING COMPANIES:
EQUIPMENT BREAKDOWN PROTECTION DECLARATIONS EB TO 00 08 08 TCT

5. NUMBERS OF FORMS AND ENDORSEMENTS
FORMING A PART OF THIS POLICY: SEE IL T8 01 10 93

6. SUPPLEMENTAL POLICIES: Each of the following is a separate policy
containing its complete provisions:
Policy Policy No. Insuring Company

7. PREMIUM SUMMARY:
Provisional Premium \$ 1,547
Due at Inception \$ 1,547
Due at Each \$

NAME AND ADDRESS OF AGENT OR BROKER:
MARSH & MCLENNAN AGCY (HK830)
2500 CITY WEST BLVD STE 2400
HOUSTON, TX 77042

COUNTERSIGNED BY:

Authorized Representative

DATE: _____

IL TO 02 11 89(REV. 09-07) PAGE 1 OF 1
OFFICE: HOUSTON

Attachment AN-11

Educational Articles

STOCKS

Industry Overview: Water Utility

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The Water Utility Industry is made up of domestic companies responsible for the safe and timely distribution of water and other related services, such as wastewater treatment. Most water systems are local or regional, but some of the companies under our review have operations across many states.

Since water is an essential resource, it would be easy to assume that the stocks of these companies would be high fliers. Demand from the industrial, agricultural and residential markets is expanding and the supply of potable water is shrinking. Big earnings and share-price gains have not been the case, here, however. The industry is subject to regulation, which can raise service costs, while limiting rates and return on investment.

This sector is mature and capital intensive. Water utility stocks are not growth issues, but they do usually offer solid yields and regular dividend increases. Too, they are good holdings for capital preservation. Heavy infrastructure outlays have led to highly levered balance sheets, and the companies have had to carefully manage significant operating costs and interest expense to maintain attractive dividend payout ratios. This group of equities often gains popularity when economic times are especially harsh and the broader stock market is in a downturn. Operations are seasonal, with demand highest during the summer months. Periods of excessively dry or wet weather can cause near-term share-price volatility, but such swings are generally not dramatic.

Regulation

Water utilities are tightly regulated. They fall under federal, state and municipal jurisdiction. The Food and Drug Administration tries to maintain the safety of drinking water and the federal legislature and courts work to ensure fair distribution of supplies among the states. State and local authorities also endeavor to assure water quality and protect consumer rights. Periodically, water utilities, seeking to earn a fair return on assets, submit general rate cases to state regulators. Rate hikes are sought to cover the cost of expanding and/or improving service. Also, hikes may be required to make system repairs, sometimes after unusual events cause damage. Regulators typically review the prevailing cost of borrowing, when determining allowed rates of return.

Utility authorities are generally inclined to grant reasonable returns; they don't want to be blamed for any service problems. They will allow variations in determining rates, including price caps and weather normalization formulas, for example, as long as customer bills do not become overly burdensome. It's important to note that in tough times, when state budgets are under pressure, the tax component of utility bills may rise, which could limit the profitability of a utility if it can't implement an offsetting rate increase. At times, heightened concerns about water safety, due to threats from aging systems, natural contamination and possibly terrorism, prompt authorities to beef up returns to keep water companies' operations and finances healthy. We emphasize, it's important that investors be aware of the regulatory climate within which a utility operates.

Capital Spending

Like other domestic infrastructures, the nation's water system has suffered from a long period of underfunding. Many systems are over a hundred years old and require substantial upgrades, if not complete reconstruction. The FDA estimates that over the next couple of decades hundreds of millions of dollars will need to be invested to bring our water systems up to standard. Good working relationships with regulators are essential to secure adequate returns on required funding.

A point of investor interest in water utilities is an account called Allowance for Funds Used During Construction, or AFUDC. It is a non-cash credit, similar to capitalized interest, found on the income statement. It is based on the current cost of financing. Over time, this cost is recovered from ratepayers as depreciation rises. AFUDC % to Net Profit on the Value Line page enables investors to gauge the level of a company's investment in its system. A high percentage of AFUDC is commensurate with heavy capital outlays. During periods of elevated spending, it's common for outlays to temporarily exceed cash flow.

The Value Line page also presents investors with a water company's Long-Term Debt Ratio and Common Equity Ratio. This measure provides an indication of the financial health of a utility. Managements usually aim for about a 50/50 weighting of debt and equity. Regulators base rate-of-return ranges on the proportion of common equity.

Growth Opportunities

Water utilities seek to enlarge operations either by way of merger and acquisition activity or by venturing into non-regulated markets. Large companies have the financial wherewithal to target for takeover the many small private or municipal entities scattered around the U.S. They benefit from greater economies of scale. Over the years, non-regulated businesses, such as telemarketing, construction management, public works and military services, and utility billing, have had mixed success. Many money-losing ventures had to be shuttered or divested. Managements have found that it's best to stay close to activities that are very similar to core operations. Still, profitable unregulated assets can lift actual returns on investment above those specified by utility authorities.

All said, water utility stocks are conservative holdings, providing a measure of stability and income, with modest risk, to investor portfolios.

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eNewsletters	Library Services	Copyright & Trademark	Twitter	Contact
Help	Free Trial Sign Up		Google+	
Mobile	Contact Institutional Services		RSS	

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Attachment AN-12

Dividend Yields of Eight Company Peer Group

	Average	American States Water Co	American Water Works	Aqua America	California Water Service Group	Connecticut Water Service	Middlesex Water	SJW Corp	York Water
Symbol		AWR	AWK	WTR	CWT	CTWS	MSEX	SJW	YORW
Div		1 05	1 76	0 85	0 75	1 24	0 87	0 93	0 70
52 wk low		38 21	69 41	28 03	30 05	49 23	32 23	45 39	29 10
52 wk high		56 31	90 22	36 27	43 75	64 15	46 39	66 45	39 86
Spot Price		53 62	87 21	35 43	42 45	62 17	43 14	60 01	33 40
Spot Div Yield	1 97%	1 96	2 02	2 40	1 77	1 99	2 02	1 55	2 10
52 wk Div Yield	2 15%	2 22	2 21	2 64	2 03	2 19	2 21	1 66	2 03
Average	<u>2 06%</u>								
Source	Barrons	November 2 2017							
	Value Line	November 2 2017							

Attachment AN-13

Five Year Growth Estimate Forecast for Eight Company Barometer Group

Company	Symbol	Yahoo	Clear Station	Morning star Source	Value Line	Average
American States Water Co	AWR	4.90%	5.00%	n/a	6.50%	5.47%
American Water Works	AWK	7.30%	7.60%	6.70%	8.50%	7.53%
Aqua America	WTR	5.60%	6.30%	n/a	7.00%	6.30%
California Water Service Group	CWT	9.80%	5.50%	n/a	9.00%	8.10%
Connecticut Water Service	CTWS	6.00%	6.00%	N/A	4.50%	5.50%
Middlesex Water	MSEX	2.70%	N/A	N/A	8.50%	5.60%
SJW Corp.	SJW	14.00%	N/A	n/a	4.50%	9.25%
York Water	YORW	4.90%	N/A	N/A	7.00%	5.95%
						6.71%

Source:

Internet

November 2 2017

Attachment AN-14

Expected Market Cost Rate of Equity
Using Data for the Barometer Group of Eight Water Companies
5 Year Forecasted Growth Rates

	Time Period	Adjusted Dividend Yield(1) (1)	Growth Rate (2)	Expected Rate of Return (3=1+2)
(1)	52 Week Average Ending: November 2, 2017	2.15%	6.71%	8.86%
(2)	Spot Price Ending: November 2, 2017	1.97%	6.71%	8.69%
(3)	Average:	<u>2.06%</u>	<u>6.71%</u>	<u>8.77%</u>

Sources: Value Line November 2, 2017
Barrons November 2, 2017

Attachment AN-15

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

February 24, 2017

RE: Rates of Return and Rates of Margin for Class C and Class D Water Utilities

TO: COMMISSION

By this memorandum, the Water Division (WD) updates its recommended Rates of Return and Rates of Margin for Class C and D water utilities. These updates have been calculated in accordance with Resolution W-4524, which revised the Standard Practice that addresses how the rate of return and rate of margin are calculated for Class C and D water utilities.

WD considered a number of factors in determining the rates of return. WD assessed the movement in actual and forecasted interest rates, operational risks faced by Class C and Class D water utilities, and the constant level of authorized rates of return for Class A water utilities averaging 8.51%.

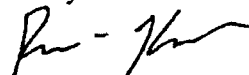

In determining the rates of margin for Class C and D water utilities, WD considered the Class B water utilities most recent authorized average rates of return of 10.07%, their most recent authorized equivalent average rate of margin of 21.86%, and the recommended rates of return for Class C and D water utilities, as calculated.

For 2017, WD recommends that the following rates of return and rates of margin be used for Class C and Class D water utilities' informal general rate cases (supporting documentation is attached):

Utility Type	Rate of Return (ROR)	Rate of Margin (ROM)
Class C	10.00% to 11.00%	22.78%
Class D	10.50% to 11.50%	23.87%

If you have any questions regard the Rates of Return or Rates of Margin recommendations, please contact Ramon Go of the Water Division at (415) 703-1350, or rhg@cpuc.ca.gov.

Sincerely,


Rami Kahlon, Director
Water Division
Bruce DeBerry, Manager
Water Division

Attachment

CALCULATION OF CLASS C & D WATER COMPANY¹ RATES OF RETURN (ROR) & RATES OF MARGIN (ROM)²

- Rates are calculated using both return-on-ratebase and rate of margin methods.
- The method that produces the higher result is used.
- ROR is set at a level above or below the recommended ranges, if warranted.
- Where little or no rate base exists, the ROM is used.
- The ROM is applied to Operating Expenses to determine the estimated dollar return, which is then compared with the average dollar ROR on rate base.
- Calculations are based on the assumption that there is a comparable relationship between authorized Class B ROR and ROM and Class C and D ROR and ROM.
- Class C and D water operations, finances, and risks are more similar to those of the Class B water utilities, than with Class A water utilities.

Data Used in Determining the Rates of Return and Rates of Margin For Class C and Class D Water Utilities

Year	Recommended ROR Range		Actual Interest Rates from the Federal Reserve			
			U.S. Treasuries			
	Class C Water	Class D Water	90-Day	1-Year	5-Year	30-Year
2014	10.20% - 11.20%	10.80% - 11.80%	0.03%	0.12%	1.64%	3.34%
2015	10.20% - 11.20%	10.80% - 11.80%	0.05%	0.32%	1.53%	2.84%
2016	9.60% - 10.60%	10.20% - 11.20%	0.32%	0.61%	1.33%	2.59%
2017 (As of 01/2017)	10.00% - 11.00%	10.50% - 11.50%	0.52%	0.83%	1.92%	3.02%
			Forecast Interest Rates from IHS Global Insight			
Forecast for 2018 (As of 02/2017)			1.68%	2.06%	2.55%	3.78%

Calculation of Rate of Margin ("ROM")	Inputs	ROM	
		Class C	Class D
Average Class B Rate of Margin ("ROM")	21.86%		
Average Class B Rate of Return ("ROR")	10.07%		
Average Class C ROR	10.50%		
Average Class D ROR	11.00%		
Average Class C ROM = Average Class B ROM * (Average Class C ROR/Average Class B ROR)		22.78%	
Average Class D ROM = Average Class B ROM * (Average Class D ROR/Average Class B ROR)			23.87%

¹ Class C water utilities have 501 to 2,000 customers; Class D water utilities have 500 or less customers.

² Pursuant to D.92-03-093, Ordering Paragraph 8 and Resolution W-4524.