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PUBLIC UTILITY COMMISSION  
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APPLICATION OF THE COMMONS  
WATER SUPPLY, INC. FOR  
AUTHORITY TO CHANGE RATES

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§

BEFORE THE STATE OFFICE  
OF  
ADMINISTRATIVE  
HEARINGS



REDACTED SUPPLEMENTAL DIRECT TESTIMONY OF  
ANDREW NOVAK  
WATER UTILITY REGULATION  
PUBLIC UTILITY COMMISSION OF TEXAS  
FEBRUARY 26, 2018

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Attachment AN-16 – Analysis of Assets Under Management & Revenues (confidential)

**I. INTRODUCTION OF WITNESS****Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. Andrew C. Novak, Public Utility Commission of Texas, 1701 N. Congress Avenue, Austin, Texas.

**Q. BY WHOM ARE YOU CURRENTLY EMPLOYED AND IN WHAT CAPACITY?**

A. I am currently employed by the Public Utility Commission of Texas (PUC or Commission). I have been employed by the Commission since October 1, 2015 as a financial analyst.

**II. PURPOSE AND SCOPE OF TESTIMONY****Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

A. The purpose of this testimony is to supplement my previous testimony regarding the recommendation for the office salaries expense and management salaries expense for The Commons Water Supply Inc., (The Commons or Applicant). This supplemental testimony is based on information that was produced in response to SOAH Order No. 5 granting Staff's motion to compel a response to Staff RFI 5-8, which was filed after the filing of my previous testimony.

**III. AFFILIATE COSTS****Q. WHAT NEW INFORMATION IS YOUR SUPPLEMENTAL TESTIMONY BASED ON?**

A. The Commons' response to Staff RFI 5-8 includes unaudited balance sheets and income statements for 2016 for each of the fourteen companies owned by Signorelli Holdings, LTD. (Signorelli LTD.) and managed by The Signorelli Company. The total revenues and assets

1 under management of all companies owned by Signorelli LTD., including The Commons, are  
2 \$[REDACTED] and \$[REDACTED] respectively.

3 **Q. DOES THIS NEW INFORMATION CHANGE YOUR ASSESSMENT REGARDING**  
4 **WHETHER THE COMMONS HAS MET THE STANDARD FOR AFFILIATE**  
5 **COSTS? PLEASE EXPLAIN.**

6 A. No. I still do not believe that The Commons has met the standard for affiliate costs because  
7 the new information provided further shows the unreasonableness of the allocations regarding  
8 time spent on The Commons by the employees of The Signorelli Company. Using the  
9 unaudited balance sheets and income statements, Staff's analysis<sup>1</sup> shows that The Commons  
10 amounts to 2% of Signorelli LTD.'s assets under management and 1% of Signorelli LTD.'s  
11 revenues. These percentages were calculated by taking The Commons' revenues (\$[REDACTED])<sup>2</sup>  
12 then dividing that amount by the total revenues of Signorelli LTD. (\$[REDACTED]). The same  
13 calculation was done for Signorelli LTD.'s assets under management. Had staff based its  
14 recommended adjustments to the office and management salaries expenses requested by The  
15 Commons on this analysis, Staff would have multiplied the salaries of the employees of The  
16 Signorelli Company, by 1% or 2%, resulting in a much higher reduction to the office and  
17 management salaries expenses.

18 **Q. PLEASE EXPLAIN WHY YOU ARE NOT CHANGING YOUR RECOMMENDED**  
19 **ADJUSTMENTS TO THE OFFICE AND MANAGEMENT SALARIES EXPENSES.**

20 A. The Commons has stated that the office and management salaries expenses are based on the  
21 amount of time each employee of The Signorelli Company spends working on tasks related to

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<sup>1</sup> Attachment AN-16; Workpapers to the Supplemental Direct Testimony of Andrew Novak.

<sup>2</sup> AN Workpapers 25-27.

1 The Commons. The allocation methodology described above does not factor in employee time,  
2 but it does undercut the reasonableness of the percentages of time the Signorelli Company's  
3 employees are spending on The Commons especially because those percentages are  
4 unsupported by documents like time sheets. For example, The CFO is spending 25% of his  
5 time on tasks related to a company that comprises only 2% of the assets under management,  
6 which is not an efficient use of time. Using the methodology above would also result in less  
7 than \$5,000 for affiliate expenses. Weighing all of these considerations along with those  
8 discussed in Staff's original testimony, Staff believes its original adjustments are more than  
9 reasonable.

10 **Q. BESIDES WHAT YOU HAVE LISTED IN THIS TESTIMONY, DO ALL OF YOUR**  
11 **RECOMMENDATIONS IN YOUR PREVIOUS TESTIMONY STILL STAND?**

12 A. Yes.

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 A. Yes. However, I reserve the right to supplement this testimony during the course of the  
15 proceeding as new evidence is presented.

**Attachment AN-16**  
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