



Control Number: 49464



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2019/AUG 23 11:11:18

APPLICANT'S RESPONSE TO COMMISSION STAFF'S FIRST REQUEST FOR
INFORMATION TO DREW T. SPENCER D/B/A CYPRESSWOOD ESTATES AND
SOUTH COAST UTILITIES, LLC
QUESTION NOS. STAFF 1-1 THROUGH STAFF 1-8

Staff 1-1 Please provide updated numbers for application question #14 on page 7 of 20 based on the detailed list of assets provided for Cypresswood Estates provided in response to Order No. 2. Ensure the sum of total credit amounts (negative numbers) and debit amounts (positive numbers) equal zero. If the utility plant in service number or accumulated depreciation number changes due to the update, please provide and updated application page 6 of 20 response to question # 11. B.

Answer:

<u>Name of Account</u>	<u>Debit</u>	<u>Credit</u>
Utility Plant in service	\$ 101,909	
Accumulated depreciation		\$ 62,678
Utility Plant Purchased		\$ 30,000
Other Paid-In Capital (Customer Meters)		\$ 25,000
Acquisition Adjustment (Positive)	\$ 15,769	
Totals Debits/Credits	\$ 117,678	\$ 117,678

Enclosed in Attachments 1 is revised page 7 of 20 of the Application which was revised to reflected the above adjustments.

Witness: Bret W. Fenner, P.E., B & D Environmental, Inc.

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QUESTION NOS. STAFF 1-1 THROUGH STAFF 1-8**

Staff 1-2 Please provide updated financial statements on page 18 of 20 of the application based on the revised financial asset information provided on application page 7 of 20.

Answer: See Attachment 1 for a revised page 18 of 20 of the Application based on the revisions on page 7 of 20 of the Application

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Staff 1-3 For the 150 connections reported on application page 19 of 20, please provide the number of active connections charged using each separate tariff rate of \$10 flat fee and \$15 flat fee, respectively.

Answer: System #1 has 140 active connections and System #2 has 10 active connections.

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Staff 1-4 Please provide a breakdown of the amounts that make up each year of the revenue per meter amount and gross water revenue amount on application page 19 of 20.

Answer: The following is a breakdown of the revenue calculation per meter per year:
A-1 Year:
 $(\$15 \text{ Flat Rate} + \$ 23.36 \text{ SJRA Fee}) = \$38.36 \times 12 \text{ months} \times 150 \text{ connections} =$
 $\$ 69,048 \div 150 \text{ connections} = \$460.32 \text{ Revenue per Meter}$
A-2 Through A-5 Year:
 $(\$25 \text{ Monthly Fee} + \$ 23.36 \text{ SJRA Fee}) = \$48.36 \times 12 \text{ months} \times 150 \text{ connections}$
 $= \$ 87,048 \div 150 \text{ connections} = \$580.32 \text{ Revenue per Meter}$
Based on projected rate increase to \$25 per connection per month once customer meters are installed.

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Staff 1-5 If the projected expense detail changes because of the revenue calculations provided in the previous request, please provide a revised page 19 of 20.

Answer: See Projected Expenses Detail in revised Pages 19 of 20 of the Application in Attachment 1

Witness: Bret W. Fenner, P.E., B & D Environmental, Inc.

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Staff 1-6 Please provide the assumptions and calculations for the revenue amounts reported on application page 19 of 20.

Answer: Projected rate increase to \$25 per connection per month once customer meters are installed in year one.

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Staff 1-7 Please provide South Coast Utilities, LLC most recent three years of income statements and balance sheets, or if income statements and balance sheets are unavailable, provide South Coast Utilities, LLC's most recent federal tax return and the tax returns filed for the prior two year.

Answer: South Coast Utilities, LLC. does not have three years of financial statements nor federal tax returns. As provided in the Application, this utility was incorporated in 2017 and will not have any business activity until the purchase of Cypresswood Estates is completed.

Witness: Bret W. Fenner, P.E., B & D Environmental, Inc.

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Staff 1-8 Please provide proof South Coast Utilities, LLC has the funds to purchase Cypresswood Estates Water System for \$30,000 as listed on application page 6 of 20 and the capability of funding operations in the amount of \$25,000 as indicated on the per the projected financial statements application pages 9 and 19 of 20.

Answer: The president and director of South Coast Utilities, LLC also owns Flow-Tech. Flow-Tech currently operates over 40 systems in the area. It will also operate this utility once the purchase is complete. Attachment 2 is the Profit & Loss statement for Flow-Tech. Funds from this operation will be used to fund the purchase and initial operations amount as indicated in the Application.

Witness: Bret W. Fenner, P.E., B & D Environmental, Inc.

Attachment 1

Projected Financial Information may be shown by providing any of the following:

1. Completed Appendix B;
2. Documentation that includes all of the information required in Appendix B in a concise format;
3. A detailed budget or capital improvement plan, which indicates sources and uses of funds required, including improvements to the system being transferred; or
4. A recent budget and capital improvements plan that includes information needed for analysis of the operations test (16 Tex. Admin. Code § 24.11(e)(3)) for the system being transferred and any operations combined with the system. This may be provided electronically by providing a uniform resource locator (URL) or a link to a website portal.

Part D: Proposed Transaction Details

11. A. Proposed Purchase Price: \$ 30,000.00

If the transferee Applicant is an investor owned utility (IOU) provide answers to B through D.

B. Transferee has a copy of an inventory list of assets to be transferred (*attach*):

☐ No ☒ Yes ☐ N/A

Total Original Cost of Plant in Service: \$ 101,909.00

Accumulated Depreciation: \$ 62,678.00

Net Book Value: \$ 39,231.00

C. **Customer contributions in aid of construction (CIAC):** Have the customers been billed for any surcharges approved by the Commission or TCEQ to fund any assets currently used and useful in providing utility service? Identify which assets were funded, or are being funded, by surcharges on the list of assets.

☒ No ☐ Yes

Total Customer CIAC: \$ 0.00

Accumulated Amortization: \$ 0.00

D. **Developer CIAC:** Did the transferor receive any developer contributions to pay for the assets proposed to be transferred in this application? If so, identify which assets were funded by developer contributions on the list of assets and provide any applicable developer agreements.

☒ No ☐ Yes

Total developer CIAC: \$ 0.00

Accumulated Amortization: \$ 0.00

12. A. Are any improvements or construction required to meet the minimum requirements of the TCEQ or Commission and to ensure continuous and adequate service to the requested area to be transferred plus any area currently certificated to the transferee Applicant? Attach supporting documentation and any necessary TCEQ approvals, if applicable.

☐ No ☒ Yes

B. If yes, describe the source and availability of funds and provide an estimated timeline for the construction of any planned or required improvements:

The Applicant ~~will~~ provide funds for require customer service meter instalation.

13. Provide any other information concerning the nature of the transaction you believe should be given consideration:

None

14. Complete the following proposed entries (listed below) as shown in the books of the Transferee (purchaser) after the acquisition. Debits (positive numbers) should equal credits (negative numbers) so that all line items added together equal zero. Additional entries may be made; the following are suggested only, and not intended to pose descriptive limitations:

Utility Plant in Service:	\$	101,909.00
Accumulated Depreciation of Plant:	\$	62,678.00
Cash:	\$	
Notes Payable:	\$	0.00
Mortgage Payable:	\$	0.00
(Proposed) Acquisition Adjustment*:	\$	15,769.00

*Acquisition Adjustments will be subject to review under 16 TAC § 24.31(d) and (e)

Other (NARUC account name & No.): Account No. 104 Utility Plant Purchased \$ 30,000

Other ~~(NARUC~~ account name & No.): Account No. 211 Other Paid-In Capital (Meters) \$25,000

15. A. Explain any proposed billing change (NOTE: If the acquiring entity is an IOU, the IOU may not change the rates charged to the customers through this STM application. Rates can only be changed through the approval of a rate change application.)

No customer's rates will be changed by this application. However, within 12 months of approval of this application, customer meters will be installed and the utility will request that the rates structure be change to metered rates.

B. If transferee is an IOU, state whether or not the transferee intends to file with the Commission, or an applicable municipal regulatory authority, an application to change rates for some or all of its customers as a result of the transaction within the next twelve months. If so, provide details below:

A change in rates will occur once customer meters are installed per PUC and TCEQ requirements.

Appendix B. Projected Information

HISTORICAL BALANCE SHEETS (ENTER DATE OF YEAR END)	CURRENT(A) (4 -30 -19)	A-1 YEAR (2 -31 - 19)	A-2 YEAR (12 -31- 20)	A-3 YEAR (12 -31- 21)	A-4 YEAR (2 -31- 22)	A-5 YEAR (12 -31- 23)
CURRENT ASSETS						
Cash	\$ 30,000.00	\$ 25,000.00	-\$ 4,597.00	\$ 10,903.00	\$ 10,903.00	\$ 10,903.00
Accounts Receivable		5,745.00	7,254.00	7,254.00	7,254.00	7,254.00
Inventories						
Income Tax Receivable						
Other						
A. Total Current Assets	\$ 30,000.00	\$ 30,745.00	\$ 2,657.00	\$ 18,157.00	\$ 18,157.00	\$ 18,157.00
FIXED ASSETS						
Land						
Collection/Distribution System	0.00	47,794.00	47,794.00	47,794.00	47,794.00	47,794.00
Buildings						
Equipment		54,115.00	54,115.00	54,115.00	54,115.00	54,115.00
Other			25,000.00	25,000.00	25,000.00	25,000.00
Less: Accum. Depreciation or Reserves		62,678.00	64,914.00	68,917.00	72,720.00	76,623.00
B. Total Fixed Assets	\$ 0.00	\$ 39,231.00	\$ 62,035.00	\$ 58,032.00	\$ 54,229.00	\$ 50,326.00
C. TOTAL Assets (A + B)	\$ 30,000.00	\$ 64,231.00	\$ 80,192.00	\$ 76,189.00	\$ 72,386.00	\$ 68,483.00
CURRENT LIABILITIES						
Accounts Payable						
Notes Payable, Current						
Accrued Expenses						
Meters Other						
D. Total Current Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
LONG TERM LIABILITIES						
Notes Payable, Long-term						
Other						
E. Total Long Term Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
F. TOTAL LIABILITIES (D + E)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
OWNER'S EQUITY						
Paid in Capital	\$ 30,000.00	\$ 30,000.00	\$ 30,000.00	\$ 30,000.00	\$ 30,000.00	\$ 30,000.00
Retained Equity	0.00	13,828.00	14,289.00	10,286.00	6,483.00	2,580.00
Other		25,000.00	25,000.00	25,000.00	25,000.00	25,000.00
Current Period Profit or Loss	0.00	-4,597.00	10,903.00	10,903.00	10,903.00	10,903.00
G. TOTAL OWNER'S EQUITY	\$ 30,000.00	\$ 64,231.00	\$ 80,192.00	\$ 76,189.00	\$ 72,386.00	\$ 68,483.00
TOTAL LIABILITIES+EQUITY (F + G) = C	\$ 30,000.00	\$ 64,231.00	\$ 80,192.00	\$ 76,189.00	\$ 72,386.00	\$ 68,483.00
WORKING CAPITAL (A - D)	\$ 30,000.00	\$ 30,745.00	\$ 2,657.00	\$ 18,157.00	\$ 18,157.00	\$ 18,157.00
CURRENT RATIO (A / D)						
DEBT TO EQUITY RATIO (F / G)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

PROJECTED NET INCOME INFORMATION						
(ENTER DATE OF YEAR END)	CURRENT(A) (12-31-18)	A-1 YEAR (12-31-19)	A-2 YEAR (12-31-20)	A-3 YEAR (12-31-21)	A-4 YEAR (12-31-22)	A-5 YEAR (12-31-23)
METER NUMBER						
Existing Number of Taps	150	150	150	150	150	150
New Taps Per Year	0	0	0	0	0	0
Total Meters at Year End	150	150	150	150	150	150
METER REVENUE						
Revenue per Meter (use for projections)	\$ 0.00	\$ 460.32	\$ 580.32	\$ 580.32	\$ 580.32	\$ 580.32
Expense per Meter (use for projections)	0.00	490.97	507.63	507.63	507.63	507.63
Operating Revenue Per Meter	\$ 0.00	-\$ 30.65	\$ 72.69	\$ 72.69	\$ 72.69	\$ 72.69
GROSS WATER REVENUE						
Revenues- Base Rate & Gallonage Fees		\$ 69,048.00	\$ 87,048.00	\$ 87,048.00	\$ 87,048.00	\$ 87,048.00
Other (Tap, reconnect, transfer fees, etc)	0.00	0.00	0.00	0.00	0.00	0.00
Gross Income	\$ 0.00	\$ 69,048.00	\$ 87,048.00	\$ 87,048.00	\$ 87,048.00	\$ 87,048.00
EXPENSES						
General & Administrative (see schedule)	\$ 0.00	\$ 1,545.00	\$ 1,545.00	\$ 1,545.00	\$ 1,545.00	\$ 1,545.00
Operating (see schedule)	0.00	72,100.00	74,600.00	74,600.00	74,600.00	74,600.00
Interest						
Other (list)						
NET INCOME	\$ 0.00	-\$ 4,597.00	\$ 10,903.00	\$ 10,903.00	\$ 10,903.00	\$ 10,903.00

PROJECTED EXPENSE DETAIL	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
GENERAL/ADMINISTRATIVE EXPENSES						
Salaries						
Office	500.00	500.00	500.00	500.00	500.00	
Computer						
Auto						
Insurance						
Telephone						
Utilities						
Depreciation						
Property Taxes	1,045.00	1,045.00	1,045.00	1,045.00	1,045.00	
Professional Fees						
Interest						
Other						
Total	\$ 1,545.00	\$ 1,545.00	\$ 1,545.00	\$ 1,545.00	\$ 1,545.00	
% Increase Per projected Year	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
OPERATIONAL EXPENSES						
Salaries	\$ 27,000.00	\$ 27,000.00	\$ 27,000.00	\$ 27,000.00	\$ 27,000.00	
Auto						
Utilities	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	
Depreciation	600.00	3,100.00	3,100.00	3,100.00	3,100.00	
Repair & Maintenance	2,500.00	2,500.00	2,500.00	2,500.00	2,500.00	
Supplies						
Interest						
SJRA Pass thru Other	39,000.00	39,000.00	39,000.00	39,000.00	39,000.00	
Total	\$ 72,100.00	\$ 74,600.00	\$ 74,600.00	\$ 74,600.00	\$ 74,600.00	

PROJECTED SOURCES AND USES OF CASH STATEMENTS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
SOURCES OF CASH						
Net Income	-\$ 4,597.00	\$ 10,903.00	\$ 10,903.00	\$ 10,903.00	\$ 10,903.00	
Depreciation (If funded by revenues of system)						
Loan Proceeds						
Other	25,000.00					
Total Sources	\$ 20,403.00	\$ 10,903.00	\$ 10,903.00	\$ 10,903.00	\$ 10,903.00	
USES OF CASH						
Net Loss						
Principle Portion of Pmts.						
Fixed Asset Purchase	25,000.00					
Reserve						
Other						
Total Uses	25,000.00	0.00	0.00	0.00	0.00	
NET CASH FLOW	-\$ 4,597.00	\$ 10,903.00	\$ 10,903.00	\$ 10,903.00	\$ 10,903.00	
DEBT SERVICE COVERAGE						
Cash Available for Debt Service (CADS)						
A: Net Income (Loss)	\$ 0.00	\$ 10,903.00	\$ 10,903.00	\$ 10,903.00	\$ 10,903.00	
B: Depreciation, or Reserve Interest						
C: Total CADS (A + B = C)	\$ 0.00	\$ 10,903.00	\$ 10,903.00	\$ 10,903.00	\$ 10,903.00	
D: DEBT SERVICE (DS)						
Principle Plus Interest	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	
E: DEBT SERVICE COVERAGE RATIO						
CADS Divided by DS (E = C / D)						

Attachment 2

10:03 AM
02/07/18
Cash Basis

FLOW-TECH
Profit & Loss
January through December 2017

	Jan - Dec 17
Ordinary Income/Expense	
Income	
Sales	605,014.73
Uncategorized Income	954.96
Total Income	605,969.69
Cost of Goods Sold	
Cost of Goods Sold	-245.00
Total COGS	-245.00
Gross Profit	606,214.69
Expense	
ATTORNEY FEES	1,500.00
BACKFLOW TESTING	125.00
Bank Service Charges	757.25
Bill materials	9,079.97
Bleach	7,270.96
Boots	120.83
CELL PHONE	3,786.77
chemicals	6,954.32
CLOTHING	1,352.35
COMMERCIAL INSURANCE	1,340.20
CONTRACT LABOR	7,053.95
DATA SERVICES	4,817.13
DONATION	700.00
ELECTRICITY	53.59
EZ TAG	2,132.69
Fuel	9,187.24
HEALTH and safety	99.00
HEALTH CARE	150.00
HOURLY CHARGE	156.25
Insurance Expense	3,287.00
Lab fees	29,530.00
Licensing	747.43
MATERIALS	13,604.89
Meals and Entertainment	1,536.97
MOWING	4,500.00
Office repairs	25.90
Office Supplies	2,362.19
Payroll Expenses	84,713.11
PHOSPHATE	2,502.16
Postage	1,414.65
Professional Fees	3,720.00
Repairs and Maintenance	63,579.72
Safety	56.03
sales tax	203.47
SLUDGE HAUL	16,819.66
Supplies	4,688.93
TAX PREPERATION	450.00
TCEQ	315.00
Telephone Expense	3,040.64
TIRES	840.97
Tools	594.27
TRAINING	574.00
Travel Expense	917.39
TWC TAX	1,263.91
Utilities	1,269.30
Vehicle MAINT	2,779.10

10:03 AM
02/07/18
Cash Basis

FLOW-TECH
Profit & Loss
January through December 2017

	Jan - Dec 17
Vehicle Repairs	1,016.00
Well Production Fee	8,658.34
Total Expense	311,648.53
Net Ordinary Income	294,566.16
Net Income	294,566.16