

# Jumper Creek Utility Company

December 9, 2014

Office of Commission Clerk  
Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399

***Re: Docket No. 140147-WS - Application of Jumper Creek Utility Company for Staff Assisted Rate Case in Sumter County***

Dear Commission Clerk,

Jumper Creek Utility Company (Jumper Creek) submits additional information on its Outside Contractual Services in response to concerns brought forth by the Commission and the Office of Public Counsel. Several questions were expressed on comparative contracts with affiliated parties.

On the outset, it should be noted that this utility has never had a rate case processed before the Florida Public Service Commission. The existing rates were first established during the transfer process from the previously exempt owner.

Jumper Creek has researched past Commission decisions on similar contractual services and offers the following relative to the existing contract. A similar relationship currently exists with several regulated utilities in Marion County. However, these relationships are not exactly like the Jumper Creek contract. The following regulated water and wastewater utilities have similar services provided by a related party:

Tradewinds Utilities, Inc.  
Residential Water Systems, Inc.  
C.F.A.T. H2O, Inc.  
BFF Corp

These utilities have Outside Contractual Services with MIRA International, Inc. (MIRA). All of the above regulated utilities, as well as MIRA are owned by the same owners and have affiliated relations. MIRA provides the following services to the regulated utilities:

Billing/Computer Services  
Administrative Services  
Payroll  
Meter Reading  
Insurance  
Office Space  
Materials & Supplies  
Repair & Service Equipment  
Customer Relations  
Customer Services

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Annual PSC Reporting  
Hospitalization Benefits

Testing expenses and operation and maintenance expenses are covered under separate contracts discussed below.

In review of the 2013 Annual Reports, as well as past Commission orders on previous rate cases, these utilities also have utility Employee Salaries and Employee Pensions and Benefits. In Order No. PSC-11-0385-PAA-WS, issued September 13, 2011, the Commission approved a rate increase for Tradewinds Utilities, Inc. (Tradewinds). In review of the documentation in the Commission's docket file, the Commission approved Tradewinds' Outside Contractual Services with MIRA, an affiliated company. Specifically, in the Commission's audit – Audit Control No: 10-175-2-1 dated December 17, 2010, the Commission's auditor disclosed the following in Audit Finding 8:

The Utility's filing includes \$100,276 and \$131,475 of charges from MIRA International, Inc. (MIRA), an administrative Service Company, which is a related party. The charges are for employee and officer payroll, payroll tax expenses, employee benefits, office space and support for customer billing and collections, general maintenance materials and supplies, and other general administrative support operations as needed for utility operations. The Utility has no employees of its own and all administrative and general maintenance services are provided by MIRA.

The auditor recommended adjustments based on recommended amounts for affiliated charges as follows:

Tradewinds:	\$93,228 – water
	\$55,754 – wastewater
Residential:	\$146,849 – water
C.F.A.T.:	\$34,580 – water
	\$33,666 - wastewater
BFF Corp:	\$16,300 – wastewater

In addition, in reviewing Document No. 09572-10 in the docket file of Docket No. 100127-WS, Tradewinds also has an additional contract for operations with Pro-Tech for \$600/month, or \$7,200 annually. There were also additional expenses for Testing included in the operating expenses. The amount requested by Tradewinds in its MFRs for Pro-Tech was \$4,400 for water and \$5,250 for wastewater. In addition, there was additional testing in the amount of \$3,630 for wastewater for Aqua Pure Water.

In the Order No. PSC-11-0385-PAA-WS, the Commission approved Tradewind's Operation & Maintenance Expense with minor adjustments for Pro Forma Salary Increase and Bad Debt Expense. Tradewinds had requested O&M in the amount of \$125,421 for water and \$187,846 for wastewater. The Commission approved O&M in the amount of \$120,654 for water and \$176,895 for wastewater.

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Tradewind's MFRs also reflected plant in service amounts for Transportation; Office Furniture and Equipment; and Power Operated Equipment which were included in rate base. These items are included in the contract with USWSC with Jumper Creek and are not included in plant-in-service.

In another related rate case in Docket No. 100126-WU for C.F.A.T. H2O, Inc. (CFAT), the Commission approved the utility's request for a rate increase. In reviewing the Commission audit in Audit Control No: 10-274-2-1 dated December 15, 2010, the Commission's auditor disclosed the following in Audit Finding 5:

The Utility's filing includes \$16,718 of charges to water O&M expenses from MIRA International, Inc. (MIRA), an administrative Service Company, which is a related party. The charges are for employee and officer payroll, payroll tax expenses, employee benefits, office space and support for customer billing and collections, general maintenance materials and supplies, and other general administrative support operations as needed for utility operations. CFAT has no employees of its own and all administrative and general maintenance services are provided MIRA. (sic)

The auditor recommended that "The Utility's O&M expense balance should be increased by \$17,862 for the 12-month period ending December 31, 2009." This would bring the MIRA recoverable amount to \$34,580 for water. In addition, Document No. 09566-10 in the docket file contained an operations contract for Pro-Tech in the amount of \$595 a month or \$7,140 annually. The amount included in the Utility's MFRs and requested O&M expense for Pro-Tech was \$8,197. These additional amounts were allowed by the Commission, for a total outside services amount of \$49,917 for water.

In Order No. PSC-11-0366-PAA-WU, issued August 31, 2011, the Commission made minor adjustments to CFAT's O&M expenses primarily for Pro Forma salaries and bad debt expenses. This rate case was only for CFAT's water utility and did not include its wastewater utility.

In another similar rate case, the Commission approved total outside services for K.W. Resort Utilities Corp in Order No. PSC-09-0057-FOF-WS, issued January 27, 2009. In that rate case, the utility had several Outside Contractual Services with several affiliated parties. The first was for operations services with Keys Environmental, Inc. (KEI), an affiliated party. The utility recorded expenses in the amount \$450,776 for KEI during the test year. The Commission reduced this amount by \$71,053 for an allowed amount of \$379,723. This represented the operations portion of the utility services. However, KEI employees utilizes the transportation equipment (vehicles) owned by the utility. In addition, KEI does not provide accounting services or initial customer contacts. These services are provided by Key West Golf Course (KWGC), another affiliate company. The utility paid KWGC an amount of \$8,000 a month or \$96,000 annually. The Commission reduced this amount by \$12,038 for a total allowed amount of \$83,962. Finally, the utility was charged \$60,000 annually for "management" of the utility paid to Green Fairways (an affiliated company). The Commission reduced this amount by \$30,000 and allowed the remaining \$30,000 annually. The total amount of these three contractual services was a total of \$493,683. This is a wastewater only utility providing service to 1,556 customers during the test year. The total amount of the Commission allowed affiliated transactions equates to \$317 per connection. In addition the utility also was allowed \$65,289 in ongoing engineering charges in Contractual Services – Engineering in the approved revenue requirement. It should be noted that the KEI contract provides that the contractor provide the chemicals and sludge hauling in the contract.

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It should also be noted, that in the rate cases cited above, the Commission approved rate case expense in its orders. In Jumper Creek's filing, there is very minimal rate case expense requested.

The Jumper Creek contract with U.S. Water Service Corporation (USWSC) include the following services:

- Water Operations – water treatment plant, filtration, etc.
- Wastewater Operations
- Meter Reading
- System Maintenance – water and wastewater
- Flushing – distribution system
- Lift station maintenance and operation
- Billing / Collection
- Customer Service
- Service Orders
- Regulatory - PSC, WMD, DEP
- Permits – DEP, DOH, WMD, etc.
- Testing – ***all*** required for water and wastewater
- DMRs, MORs - monthly reporting
- CCRs - annual
- PSC Annual Reports
- Accounting - ***all*** bookkeeping, record keeping, AR, AP, etc.
- Meter Replacements
- Line break repairs
- Minor repairs and/or replacements – up to \$400
- Locates
- Meter calibrations – water and wastewater
- Backflow preventor testing
- Turn Ons/ Turn Offs
- Disconnections
- Re-reads
- Generator Maintenance
- Tank inspections
- Vehicles
- Office (also equipment, phones, etc.)

Previously, these items were provided by Aqua Utilities Florida, Inc. and its parent company Aqua America, Inc. The previous owner had employees, vehicles, computers, offices, etc. HC does not have any employees, vehicles, computers, office, etc.

The USWSC contract dated March 29, 2013 is in the amount of \$10,569.61 for water and \$16,329.83 for wastewater. This equates to \$251.66 per customer for water and \$388.81 per customer for wastewater. Pursuant to the Contract Jumper Creek employed the services of USWSC in three distinct functions; the

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operation, maintenance and billing/collection (OM&BC) of the utility systems. This includes (a) Water System Operations; (b) Wastewater System Operations; (c) Maintenance; and (d) Customer Service. For a listing of serviced provided to Jumper Creek, see USWSC's Scope of Services – Base Contract Service, Section 2, as well as the cost responsibilities on Table 4 of the contract for both water and wastewater.

Based on the AWWA 2011 Benchmarking Performance Indicators, the water cost per customer falls below the Medium quartile of the water utilities throughout the United States; while the wastewater cost per customer falls within the Medium and Bottom quartiles of wastewater utilities within the United States. Below is the actual costs contained in the AWWA 2011 Benchmarking Analysis:

<u>AWWA:</u>	Top	Medium	Bottom
O&M cost per customer			
Water - O&M	\$233	\$257	\$331
Wastewater O&M	<u>\$259</u>	<u>\$345</u>	<u>\$426</u>
Total O&M	<u>\$492</u>	<u>\$602</u>	<u>\$757</u>
Average	\$246	\$301	\$379

Customer Service Cost	Top	Medium	Bottom
Average	\$36.43	\$41.16	\$52.38

Total Cost:			
Water:	\$269.43	\$298.16	\$383.38
Wastewater:	<u>\$295.43</u>	<u>\$386.16</u>	<u>\$478.38</u>
Total	<u>\$564.86</u>	<u>\$684.32</u>	<u>\$861.76</u>

<u>Compared to Jumper Creek:</u>	
Water	\$251.66
Wastewater	<u>\$388.81</u>
Total	<u>\$640.46</u>
Average	<b>\$320.23</b>

Also in the AWWA study, there was a further analysis based on company size. When compared to utilities in this study for Population from 0 -10,000 customers, the contrast is much more striking. Below are the numbers from the AWWA study:

Population 0 – 10,000:

O&M cost per customer			
Water - O&M	\$251	\$324	\$ 456
Wastewater O&M	<u>\$399</u>	<u>\$473</u>	<u>\$ 573</u>
Total O&M	<u>\$650</u>	<u>\$797</u>	<u>\$1,029</u>
Customer Service Cost	Top	Medium	Bottom
Average	\$ 66.31	\$ 82.26	\$ 101.19

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Total Cost per customer:	\$716.31	\$879.26	\$1,130.19
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The AWWA study provides a third party independent verification that the U.S. Water operation and maintenance costs are well below the market rate. The “market” comparison is drawn on by the AWWA study previously provided to both the Commission and OPC for nation-wide utility. This market comparison is paramount in providing finality to Jumper Creek’s unrefuted evidence that these costs are well below market, and not above as required by the Florida Supreme Court as discussed below.

Each of the Operation, Maintenance, and Customer Service contract that USWC enters into with a party are different and are priced differently depending on numerous factors. This includes the number of utility operation employees needed (Facility Operators and Maintenance Mechanic) and the number of hours required per system for operation. The operations of the utility portion is required, regardless of the number of customers. Also whether the contractor provides the cost of the sludge hauling, chemicals, power, offices, vehicles, etc. or if those costs are borne by the owner. Also for the regulated utilities, the Utility Manager and Accountant are spread over all ERCs of the regulated utilities plus anticipated growth. The contractual monthly charges for these utilities include the operations, accounting, and operation management positions. For the “Administrative Services” portion, this is derived at by using all currently owned or purchased private regulated utilities and dividing these amounts by the existing ERCs and future potential ERCs through growth and potential acquisitions. Thus these costs are lower than actual costs since there is a growth factor built in for potential acquisitions in the future that have not taken place. These amounts are to cover the monthly operational and administrative expenses for all the regulated utilities, both present and future.

Below is a table reflecting the salaries of the operations and maintenance personnel allotted to Jumper Creek.

Operational Expenses for Jumper Creek

Water:

Employee:

Operator	\$ 150 / month
Maintenance Mechanic (UT)	\$ 180/month

Wastewater:

Employee:

Operator	\$ 400 / month
Maintenance Mechanic (UT)	\$ 180 / month

Jumper Creek respectfully submits that the comparison of these non-related contracts, although useful and informational, should not be the sole basis of any disallowance of prudently incurred operating expenses. If Jumper Creek was required to establish a stand-alone utility with personnel for maintenance, customer service, accounting, regulatory compliance, etc. the costs would far exceed the amount in the current USWSC contract.

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It should be noted that the Commission has previously considered this approach at analyzing affiliated transactions of related parties and stated the following in Order No. PSC-12-0102-FOF-WS, issued March 5, 2012:

In evaluating whether and how much affiliate costs should be included in rates, we are aware of the relevant statutes and cases on rates and affiliate transactions. Section 367.081(2)(a)1., F.S., sets forth our responsibility in rate setting, and specifically states:

The commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and quality of the service and the cost of providing the service, which shall include, but not be limited to, debt interest; the requirements of the utility for working capital; maintenance, depreciation, tax, and operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service. . . .

As reflected in the statute cited above, we are required to set reasonable rates, but we must also set rates that are compensatory. The provisions in the statute require that we consider the cost of providing service, which includes operating expenses incurred in the operation of all property used and useful in the public service, as well as a fair return on the investment of the Utility in property used and useful in the public service. In conducting our analysis of the appropriate operating expenses to be included, we are mindful of two Florida Supreme Court cases. In the case of **Keystone Water Co v. Bevis**, 278 So. 2d 606 (Fla. 1973), the Court held that a utility is entitled to a fair rate of return on property used or useful in public service. In **Keystone**, the Court further found that rates which do not yield a fair rate of return are unjust, unreasonable, and confiscatory and their enforcement deprives a utility of due process.<sup>1</sup> Additionally, in **GTE v. Deason**, 642 So. 2d 545 (Fla. 1994), the Florida Supreme Court laid out the standard of review for affiliate transactions, stating:

The mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more. Charles F. Phillips, Jr., *The Regulation of Public Utilities* 254-55 (1988). We believe the standard must be whether the transactions exceed the going market rate or are otherwise inherently unfair. . . . If the answer is “no,” then the PSC may not reject the utility’s position.

**GTE v. Deason**, 645 So. 2d at 547-548. We have reviewed the record evidence and applied the holdings in **Keystone v. Bevis** and **GTE v. Deason** as appropriate. (pages 99 – 100)

The Commission, in arriving at its final decision stated:

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<sup>1</sup> See **Keystone Water Co. v. Bevis**, 278 So. 2d 606, 609 (Fla. 1973).

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While we agree with OPC witness Dismukes that AUF's Market Based Study does not offer a realistic comparison of market based rates, we also agree with AUF witness Szyzgiel that the peer group analysis presented by witness Dismukes does not provide an adequate comparison. We note that in AUF's 2008 rate case we also disagreed with witness Dismukes' previous recommendation to use a comparison of Commission-regulated utilities to AUF in evaluating affiliate-provided services. In the Utility's 2008 rate case, we specifically found "[t]hat the comparison analysis proposed by witness Dismukes does not provide an appropriate basis to warrant an adjustment being made."<sup>2</sup> As acknowledged by witness Dismukes, there are complexities associated with determining the reasonableness of affiliate transactions. To that point, we find that witness Dismukes' peer group comparison does not adequately compare the duties, activities, and responsibilities for the Utility's affiliate-provided services.

The Commission further stated:

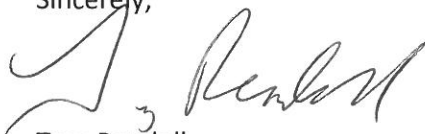
Moreover, just because the costs to operate a utility are high, this does not necessarily mean that a utility is operating inefficiently. Other factors may influence the costs to provide service to customers. Therefore, we believe a review of this particular Utility's history is helpful in understanding the costs associated with providing service.

Jumper Creek will be providing the USWC cost model used to arrive at the appropriate charges for the contracted services. These costing models will be provided under separate cover letter requesting confidential treatment due to "proprietary confidential business information." These models are being provided for (a) HC Waterworks, Inc.; (b) Brevard Waterworks, Inc.; (c) Jumper Creek Utilities; and, (d) Lakeside Waterworks, Inc. The additional cost model also used for these four cost models is for the Administrative portion of the contracts which all amount to \$3.23 per ERC per month. The Administrative portion of the contract covers the accounting and utility oversight, including office space and equipment.

The above utilities, including Jumper Creek, offers to meet with both the Commission staff, as well as the OPC staff to review how the models were used to determine the appropriate charges. Jumper Creek also offers that in the alternative certain utility expenses may be excluded from the contract amount with the mutual understanding that these expenses will still be incurred but recorded in other expense accounts. The amounts of these prudently incurred expenses, such as testing, would also need to be included in overall approved revenue requirement.

If you have any additional questions or concerns, please do not hesitate to contact me at (727) 848-8292, ext. 245.

Sincerely,



Troy Rendell  
Manager of Regulated Utilities

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<sup>2</sup> See Order No. PSC-09-0385-FOF-WS, p. 78.



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*// for Jumper Creek Utility Company*

Cc: Office of Public Counsel