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December 7, 2023

VIA: ELECTRONIC FILING

Adam Teitzman
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Docket No. 20230081-WS – In Re: Application for increase in water and wastewater rates in Broward County by Royal Waterworks, Inc.

Dear Mr. Teitzman:

The intent of this letter is to alert the Commission staff and Royal Waterworks, Inc. (Royal or Utility) of the Office of Public Counsel's (OPC) concerns regarding the composite rates to amortize CIAC, retirement adjustments, and the salary of the Utility's president.

Composite Rates to Amortize CIAC

On page 4 of the Commission Staff Audit Report, it reflects the following for Accumulated Amortization of CIAC objectives and procedures:

Objectives: The objectives were to determine whether: 1) Accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission Rule 25-30.140, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, 3) Adjustments to accumulated amortization of CIAC in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: We reconciled the accumulated depreciation accounts presented in the filing to the general ledger. We reconciled the beginning balances, including ordered adjustments, in the general ledger to the Order issued in the prior rate case. We verified whether the Utility included the Commission adjustments from the order. We scheduled utility accruals and retirements since the last rate proceeding to determine the accumulated depreciation balance as of May 23, 2023. We

calculated accumulated depreciation accruals from the Utility's CIAC schedule using the rates authorized in Rule 25-30.140 -Depreciation, F.A.C. and compared our balances to the balances in the Utility's CIAC schedule and the filing. No exceptions were noted.

(Underline Emphasis Added)

Rule 25-30.140(9)(c), F.A.C., states: “[a]ny composite rate used shall be recalculated each year based on the applicable plant balances and depreciation rates.” After reviewing the audit work papers, the composite rates used each year for the Utility’s water system were based on all plant accounts and their corresponding depreciation rates. OPC believes it is inappropriate to use all plant accounts and their corresponding depreciation rates because CIAC received by the Utility do not relate to and do not fund any intangible and general plant investments, and, as such, no intangible and general plant accounts and their respective depreciation rates should be utilized to amortize CIAC. Royal’s water CIAC balance is nearly fully amortized and its wastewater CIAC balance is fully amortized. Because of their level of CIAC, there is not a material impact on the water accumulated amortization of CIAC and CIAC amortization expense. However, the failure to exclude intangible and general plant accounts to determine the composite rates used each year to amortize CIAC could have a material impact for other water and/or wastewater utilities.

Retirement Adjustments

On MFR Schedule A-3, the refurbish WTP Control Panel in the amount of \$49,500 is being recorded in Account 320 - Water Treatment Equipment. Pursuant to Rule 25-30.140, F.A.C., the service life for Account 320 is 22 years.

In its response to 9.b. of Commission staff’s First Data Request, the Utility stated that the old “Red Lion” system was replaced by a new PLC. As such, retirement adjustments are necessary. In its response to OPC Interrogatory 2, Royal provided an invoice in the amount of \$46,779.80 for the new PLC, stated that it was unaware of the original cost of the original PLC, and stated it is unclear what portion of this new install is related to the “Red Lion” system replacement. Further, the Utility asserted it is not opposed to a retirement since it would result in a net effect of zero to rate base.

OPC agrees with Royal’s assertion that a retirement adjustment does not impact rate base; however, a corresponding retirement adjustment does affect depreciation expense. Given the lack of informational specifics regarding the “Red Lion” system replacement, OPC proposes the following: 1) reduce plant by \$37,125 ($\$49,500 \times 0.75$);¹ 2) reduce accumulated depreciation by \$37,125; and 3) reduce depreciation expense by \$817 ($\$37,125/22$).

¹ When the original cost is not known, or the year that retired plant was placed in service, it is Commission practice to determine the retirement cost by using 75 percent of the replacement cost. See Order Nos. PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge; PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida; PSC-09-0632-PAA-WU, issued September 17, 2009, in Docket No. 080353-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; and PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.

Salary of the Utility's President

Under the accrual basis and the NARUC USOA, OPC acknowledges that an officer salary can be recorded as an O&M expense and any unpaid amount recorded in an accrued liability account. OPC agrees with the Utility that the Commission has approved an officers salary for the Royal's president in sister company cases over a dozen times in the past. However, OPC has great concern with the Utility president's salary level.

Based on its 2022 Annual Report, Royal's President received \$58,000 for 8% of time spent on the Utility. At 100% of time spent on the Utility, it would equate to an effective annual salary of \$725,000 (\$58,000/8%). In a 1999 formal hearing rate case with Commission staff testimony directly assisting the development of the record, the Commission used the effective annual salary if time spent were 100% to determine whether a salary level is excessive.²

Based on the 2022 Annual Report for Florida Community Water Systems, Inc.,³ the President received \$93,950 for 20% of time spent on this utility. At 100% time spent on the utility, it would equate to an effective annual salary of \$469,750 (\$93,950/20%). After the 2022 Annual Reports were filed separately for Okaloosa Water, Inc., Duval Waterworks, Inc., Lake Talquin Waterworks, Inc., Seminole Waterworks, Inc., Sunny Hills Utility Company, and Gator Waterworks, Inc., these sister companies were combined into North Florida Community Water Systems, Inc. Based on those annual reports, the President received a collective amount of \$58,900. Further, based on 2022 Annual Reports, the President received a collective amount of \$93,500 from sister companies - Royal Waterworks, Inc., HC Waterworks, Inc., Merritt Island Utility Company, Inc., LP Waterworks, Inc., and Country Walk Utilities, Inc.

For informational purposes, the total President salary received in 2022 was \$246,350 and the collective water and wastewater customers served are 6,837 and 1,986. Notably, Mr. Smallridge owns and is the President of 14 stand-alone utilities⁴ that serves 3,062 water customers and 1,084 wastewater customers. Mr. Smallridge spends 100% of his time on these 14 utilities. Pursuant to page 11 of Order No. PSC-2018-0439-PAA-WU, the Commission approved an \$80,000 salary for Mr. Smallridge as President. The \$80,000 amount is then allocated to the 14 utilities based on their respective number of customers. Unlike the methodology for the Smallridge-systems, Royal and its sister companies set a certain salary amount and percent of time spent. This methodology masks the excessive nature of the Utility President's salary. Please see Attachment A regarding an analysis of potential adjustments to the President's salary in this instant rate case.

² See Page 55 of Order No. PSC-01-0326-FOF-SU.

³ Based on a corporate reorganization, the following sister companies were combined into Florida Community Water Systems, Inc.; 1) Black Bear Waterworks, Inc.; 2) Brendenwood Waterworks, Inc.; 3) Brevard Waterworks, Inc.; 4) Harbor Waterworks, Inc.; 5) Jumper Creek Utility Company; 6) Lake Idlewild Utility Company; 7) Lakeside Waterworks, Inc.; 8) Pine Harbour Waterworks, Inc.; 9) Raintree Waterworks, Inc.; and 10) The Woods Utility Company.

⁴ This includes two non-jurisdictional systems in Columbia County.

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Alternatively and similarly to the way the Commission derived a salary for Mr. Smallridge, the Commission staff could utilize a more recent AWWA Compensation Survey to determine a total salary amount for the Utility's President and allocate that amount based on the number of customers of Royal and its sister companies.

Respectfully submitted,

Bart Fletcher

Bart Fletcher

Legislative Analyst

CC: Parties of Record

Analysis of President Salary Amount - Docket No. 2023081-WS					
Line No.	Description	Year	Salary Amount	Percent of Time Spent on Utility	Effective Annual Salary if Time Spent were 100% (1)
1	Jock McCartney - Royal Utility Company	2018	\$43,000	65%	\$66,154
2	Gary Deremer - Royal Waterworks, Inc.	2019	\$20,833	5%	\$416,660
3	Gary Deremer - Royal Waterworks, Inc.	2020	\$58,000	5%	\$1,160,000
4	Gary Deremer - Royal Waterworks, Inc.	2021	\$58,000	5%	\$1,160,000
5	Gary Deremer - Royal Waterworks, Inc.	2022	\$58,000	8%	\$725,000
6					
7	<u>Previous President Approach</u>	<u>Calculation</u>	<u>Calculation(2)</u>		
8	Effective Annual Salary of Prior President	\$66,154	\$66,154		
9	Composite 2019-2023 Price Indices Factor (3)	<u>1.1798</u>	<u>1.1798</u>		
10	Resulting 2022 Indexed Amount	\$78,046	\$78,046		
11	2022 Percent of Time Spent on Utility	<u>8.00%</u>	5.00%		
12	Appropriate Level of President Salary	<u>\$6,244</u>	<u>\$3,902</u>		
13					
14		<u>Water</u>	<u>Wastewater</u>	<u>Total</u>	
15	Utility Officer Salary Allocation Amounts	\$30,000	\$28,000	\$58,000	
16	Salary Level @ 8%	<u>\$3,229</u>	<u>\$3,014</u>	<u>\$6,244</u>	
17	Potential Adjustments @ 8%	<u>(\$26,771)</u>	<u>(\$24,986)</u>	<u>(\$51,756)</u>	
18					
19	Salary Level @ 5%	<u>\$2,018</u>	<u>\$1,884</u>	<u>\$3,902</u>	
20	Potential Adjustments @ 5%	<u>(\$27,982)</u>	<u>(\$26,116)</u>	<u>(\$54,098)</u>	
21					
22					
23	<u>Smallridge Approach(4)</u>	<u>Calculation</u>	<u>Calculation(2)</u>		
24	Page 11 Order No. PSC-2018-0439-PAA-WU	\$80,000	<u>\$80,000</u>		
25	Composite 2019-2023 Price Indices Factor	<u>1.1798</u>	<u>1.1798</u>		
26	Resulting 2022 Indexed Amount	<u>\$94,381</u>	<u>\$94,381</u>		
27	2022 Percent of Time Spent on Utility	<u>8.00%</u>	5.00%		
28	Appropriate Level of President Salary	<u>\$7,551</u>	<u>\$4,719</u>		
29					
30		<u>Water</u>	<u>Wastewater</u>	<u>Total</u>	
31	Utility Officer Salary Allocation Amounts	\$30,000	\$28,000	\$58,000	
32	Potential Salary Levels	<u>\$3,905</u>	<u>\$3,645</u>	<u>\$7,551</u>	
33	Potential Adjustments @ 8%	<u>(\$26,095)</u>	<u>(\$24,355)</u>	<u>(\$50,449)</u>	
34					
35	Salary Level @ 5%	<u>\$2,441</u>	<u>\$2,278</u>	<u>\$4,719</u>	
36	Potential Adjustments @ 5%	<u>(\$27,559)</u>	<u>(\$25,722)</u>	<u>(\$53,281)</u>	
37					
38	Notes:				
39	(1) The Commission has used the effective annual if time spent were 100% approach to determine whether a salary level				
40	is excessive. See Page 55 of Order No. PSC-01-0326-FOF-SU.				
41	(2) The Utility has failed to justify why the percent of time spent incrementally increased by 3% from 5% to 8%.				
42	(3) Royal was granted a 2023 price index increase on June 3, 2023.				
43	(4) Mr. Smallridge owns and is the President of 14 stand-alone utilities, including two in the non-jurisdictional .				
44	Columbia County, that serves 3,062 water customers and 1,084 wastewater customers. Mr. Smallridge spends 100%				
45	of his time on these 14 utilities. Whereas, before the two recent corporate reorganizations, Mr. Deremer owns				
46	and was President of 21 utilities that serves 6,837 water customers and 1,986 wastewater customers.				