

Eric Fryson

From: Ruth McHargue
Sent: Monday, February 20, 2012 2:52 PM
To: Eric Fryson
Cc: Matilda Sanders; Hong Wang
Subject: FW: To CLK Docket 110260
Attachments: FAX.TIF

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Customer correspondence

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From: Consumer Contact
Sent: Monday, February 20, 2012 9:04:21 AM
To: Ruth McHargue
Subject: To CLK Docket 110260

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From: Fax Server [<mailto:FaxAdmins@psc.state.fl.us>]
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TO: DIRECTOR, OFFICE OF COMMISSION CLERK
FLORIDA PUBLIC SERVICE COMMISSION
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TALLAHASSEE, FL 32399-0850

FAX NUMBER: 800-511-0809

FROM: BRIAN F MCCOLGAN, PRESIDENT
USEPPA ISLAND PROPERTY OWNERS ASSOCIATION, INC.
Tel: 239-283-0230
Email: brianmccolgan@yahoo.com

DATE: February 17, 2012

RE: DOCKET NO. 110260-WS, USEPPA ISLAND UTILITY, INC.

NO. OF PAGES: 13

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**FROM: BRIAN F MCCOLGAN, PRESIDENT
USEPPA ISLAND PROPERTY OWNERS ASSOCIATION, INC.
Tel: 239-283-0230
Email: brianmccolgan@yahoo.com**

DATE: February 17, 2012

RE: DOCKET NO. 110260-WS, USEPPA ISLAND UTILITY, INC.

**NO. OF PAGES: 8
(including cover sheet)**



February 17, 2012

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

RE: Docket No 110260-WS, Useppa Island Utility, Inc

Strictly private and confidential

Ladies and Gentlemen:

We write to you in the name of the Useppa Island Property Owners Association representing the general interests of the residential property owners on Useppa Island.

With respect to the proposed rate increases, we are attaching a document requesting clarification of a number of issues. At present we have only had a brief opportunity to study the Staff Report, but would consider that, in general, our issues are not answered by that report.

Our concerns fall into the following areas;

1. There are possible related party issues we believe need to be investigated and clarified. Useppa Island Utility Inc ("UIU") is owned by the Useppa Inn and Dock Company, which also has a number of commercial activities on the Island. There is common senior management of both.
2. We would ask for your determination as to whether the NARUC accounting rules have been properly followed in several instances. On the surface it would seem to us that UIU is interpreting them to minimise the amount of information available in the Annual Reports.
3. Further to point 2, we are requesting further information, particularly regarding a more detailed analysis of revenues, to enable us to understand whether the charging policy of water and wastewater metered and unmetered supplies, are fairly and reasonably charged over all the users on the Island – both the commercial activities of related parties and the home owners.

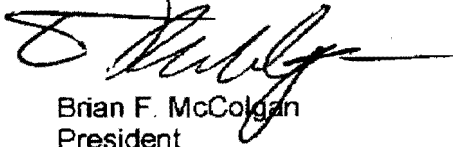
4. We do not understand the monthly pattern of water usage and the considerable difference between water pumped and waste water treated.
5. We have questions about various costs being charged against revenues.
6. We have some issues with the rate increase proposed, particularly the determination of the new injection well as wastewater plant rather than as water plant.
7. Finally we are concerned about the future direction and viability of UIU. We are not sure, for example, why a new injection well is being drilled without investigating the option of piping water from the mainland. We believe there should be a more open and interactive relationship between UIU and all of its customers.

We have sought a meeting to discuss the above with UIU senior management and have submitted a list of written questions to UIU. Their answer was that they will not respond to any questions we have.

At present we are only accumulating information to better understand the costs, revenues and expenses. There is no inference of mismanagement or orientation of revenues or costs to favour related parties.

We would ask you for your assistance in this regard.

Sincerely,



Brian F. McCoolgan
President

To; Bob Stevens –Useppa Island Property Owners Association Utility Committee

You requested that I should review the Annual Reports of Useppa Island Utility, Inc (“UIU”) as submitted to the State of Florida Public Service Commission (“PSC”) to achieve an understanding of the income and costs of UIU and in particular its related party transactions with its sole stockholder – the Useppa Inn and Dock Company (“UIDC”).

My list of the questions to be asked of the PSC follows

The document below has been discussed with and agreed by the entire committee, Messrs Michael Albert, Tony Colgan, Ray George, Jay Taylor, and Bob Stevens

Questions to be asked of the PSC;

We would request the forbearance of the PSC to the matters raised in this document. Firstly, that because UIU is classified as Class C Utility Company with no related party reporting, the PSC would have no reason to question transactions with related parties as regards revenue and costs. Secondly, for any misinterpretation of the 1996 National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts for Water and Wastewater Utilities (“NARUC Rules”)

The document below is laid out in various sections as follows;

1. Issues regarding the proposed rate increase
2. Issues regarding revenue of UIU
3. Issues regarding costs of UIU
4. The future direction of UIU
5. Other

Please note all figures shown below are in round thousand dollars for easier interpretation and relate to the Annual Report for the year to December 31 2010

1 Issues regarding the proposed rate increase

1.1 Status of UIU

We understood that UIU was a non profit organization. However Shannon Hudson has informed Ray George that part of the stage 1 increase is to earn a rate of return. This seems contrary to our understanding. Taken into account with the rest of this document we would hope that you would exclude this amount from any rate increase

1.2 Classification of the new injection well

By virtue of the stage 2 increase being all wastewater it would seem that the new injection well is going to be classified as wastewater plant. If that is the case, we do not consider this treatment to be correct. It is more properly classified on line 320 Water Treatment Equipment

The well has nothing to do with wastewater – it is disposing of the by product of the water purification process. The acid test is that the well would not be needed should water be pumped from the mainland and only wastewater was treated on the Island

We trust the PSC agrees with this conclusion

2. Issues regarding income of UIU

2.1 Customers

UIU has two types of customers;

Residential - homeowners who generally only spend part of the year on Useppa Island - typically December through March.

Commercial – a number of commercial enterprises on Useppa Island owned by UIDC. These consist of the Collier Inn containing a restaurant, bar and guest rooms, various cottages to rent, staff quarters and cottages solely used by staff, the main marina, Village docks, Collier docks, crquet court, tennis courts, the Tarpon Bar and various administrative and servicing facilities

The NARUC Rules are specific in that, for example, for water income unmetered revenue and metered revenue must be recorded for Residential and separately for Commercial in lines 460.1, 460.2, 461.1 and 461.2. A similar requirement applies to wastewater.

The Annual Report to the PSC does not distinguish between Commercial and Residential customers which we would contend is incorrect.

We trust the PSC agrees with this conclusion

Further we are not sure we understand the difference between the Residential Service and General Service customers as shown on Schedules W-3 and S-3 (water 144 and 12 respectively, wastewater 138 and 7). Could you please explain what type of customer should go into each category? Are the General Service customers actually the Commercial customers? If so this would seem to prove incorrect reporting

2.2 Analysis of Gross Revenue

Following on from the point above we believe that the PSC should request UIU to restate all Gross Revenue figures for the last ten years

This analysis will assist us in coming to an understanding of the reasonableness of billing procedures between residential third parties (the homeowners) and commercial related parties (USIDC and other related parties). In addition to the summary figures as shown on the Annual Report we would further request the subsidiary analysis required to be kept under NARUC Rules – as follows;

- Lines 460.1 and 460.2 Unmetered Revenue
- Lines 461.1 and 461.2 Metered Revenue
- Lines 462 Fire Protection Revenue
- Lines 521.1 and 521.2 Wastewater Flat Rate Revenues
- Lines 522.1 and 522.2 Wastewater Measured Revenues

So that we may have an opportunity to further study this information, and taking into account our further concerns about income and its derivation, we would be grateful if you could request that UIU supply this information to us within 7 days from the date of this document

2.3 Detailed analysis of water and wastewater bills

We wonder if the FSC, as part of their detailed audit, has done an analysis of a representative sample of Residential and Commercial customers separating out the four main types of revenue above

Has the FSC looked at, for example, the unmetered water charge and wastewater flat rate charges for a high volume user such as the Collier Inn compared with that charged to a low volume Residential?

Another example, has the FSC considered the fairness of charging Residential the same wastewater measured revenue rates as metered water even though there is no wastewater requirement necessary when using garden sprinklers?

2.4 Monthly pattern of water pumped and purchased

The figures below are taken from Schedule W-4 on the Annual Report and show the averages over the last 3 years in millions of gallons

Jan	1.10
Feb	1.05
Mar	1.40
Apl	1.35
May	1.44
Jun	1.36
Jul	1.17
Aug	1.06
Sep	1.07
Oct	1.21
Nov	1.27
Dec	1.14

Most homeowners (Residential customers) are on the Island for 2 to 6 months through the winter period with very few living on the Island throughout the year

You can see from the above that the water usage is fairly constant over the year. We really do not understand how this can be the case as there are few homeowners resident during the period May, when most homeowners have gone, through October, when homeowners begin to return. We would expect the period January to March to be the highest months – however, for example, February when most homeowners are resident is less than July in the middle of the wet season when very few homeowners are on the Island

It would be easy to draw the conclusion from these figures that over half of the water usage is attributable to Commercial entities on the Island

Obtaining the actual revenue figures as requested in paragraph 2.2 will assist in confirming whether this is the case or not

2.5 Unexplained water losses

We note the high unexplained water losses in the last two years – particularly in 2009 where over 2.2 million gallons or 14% of the total water pumped was lost (and if water meters are over-reading then these losses would even greater). With the need to conserve water this seems an unacceptably high loss

We wonder if you have investigated the cause of such large losses and discussed with UIU the preventative actions taken so they do not reoccur in future. In this regard it would also be interesting to see the figures for 2011. Conceivably, it might be explained by users being insufficiently billed or not billed at all. As part of your investigations have you satisfied yourself that controls are in place to ensure all users are properly charged?

2.6 Calibration of water meters

We note that the unexplained water losses vary substantially from year to year and in one year there was actually a higher billing than what was actually pumped. This could be explained by faulty water meters recording a higher throughput than the actual throughput. If the meters are not checked then the unexplained losses could be much greater.

We would request information on how often the meters are calibrated and what the historical readings have shown regarding over/under readings

2.7 Monthly wastewater treatment analysis

The average wastewater treated over the last 3 years is detailed below (mil gals) taken from Schedule S-5;

Jan	0.47
Feb	0.45
Mar	0.54
Apl	0.46
May	0.31
Jun	0.25
Jul	0.26
Aug	0.26
Sep	0.20
Oct	0.22
Nov	0.30
Dec	0.42

The figures above would accord much more to the expected patterns of seasonal usage than the monthly water pumped figures in paragraph 2.3, with much higher amounts being treated during the winter. This makes the water pumped figures even more difficult to understand

Based on the monthly waste treatment figures we would expect Commercial to be generating approximately 40% of the wastewater through their hotel, bar, staff and rented cottages

Again, we wait with interest the actual billing information analysed over the four revenue types and Residential and Commercial customers to determine whether our understanding above is correct or not

2.8 Global differences between water pumped and wastewater treated

We note very large difference between Water Pumped and Wastewater Treated. For the last three years these are (million gals);

	Water pumped and purchased	Wastewater treated
2008	14.3	3.9
2009	16.3	4.1
2010	13.3	4.3

There may be clear explanations of these differences – part of it is certainly the use of sprinklers – but the sprinkler usage (15 gals a minute) would have to be extremely large to account for the full amount

We have requested an explanation from UIU of this difference and they have refused to respond to our request

2.9 Monthly analysis of water not converted into wastewater

Below is the monthly analysis of water pumped and wastewater treated;

	Water Pumped	Wastewater Treated	Difference
Jan	1.10	0.47	0.63
Feb	1.05	0.45	0.60
Mar	1.40	0.54	0.86
Apl	1.35	0.46	0.89
May	1.44	0.31	1.13
Jun	1.36	0.25	1.11
Jul	1.17	0.26	0.91
Aug	1.06	0.26	0.80
Sep	1.07	0.20	0.87
Oct	1.21	0.22	0.99
Nov	1.27	0.30	0.97
Dec	1.14	0.42	0.72

This represents the same figures as in paragraphs 2.3 and 2.5 and brought together here to illustrate the monthly difference of water that has been pumped but which has not gone through the wastewater process

Could you please confirm that all costs within line 701 Salaries relate to employees who are directly employed by UIU.

Further, should any directly employed employees of UIU have part of their salaries allocated to other related parties we would request confirmation of the total salary including benefits and taxes and the amount so allocated.

There may well be an opportunity for the Residential users on the Island to participate in a cost reduction plan produced in conjunction with UIU. It could be, for example, that more subcontractors could be used at lower cost or a simpler billing system be implemented saving accounting costs

We note the concern of UIDC to the commercial sensitivity of this information and would be prepared to sign a confidentiality agreement, should you consider it necessary. In any event we consider this concern to be overstated since there is little that the salary information could be used for as the requestors are not in the utility business

3.3 Loan note to related party

We note that the loan note due to UIDC, is attracting an interest rate of 10%. It is shown as a current liability in the financial statements submitted with the application so presumably should reflect current interest rates. However in is shown as a Long Term Note in the Annual Report. Possibly the PSC could confirm both the status and interest rate of this loan note

We do not understand the commercial sensitivity of this loan note in particular why certain reporting should not be required by the PSC in consideration of the interest being disallowed when calculating any rate increases. It would seem to be a quite straight forward financing arrangement. However we consider the interest rate to be excessive, to the extent that we could assist in refinancing at much lower interest rates, if that was acceptable to UIU

Finally, we also do not understand the interest expense which, prima facie, seems to be at a lower rate than 10%. Could you please confirm that the correct interest has been charged against revenue

3.4 Depreciation

There has been only \$84,000 of net fixed asset purchases over the last 8 years. However we note an accelerating charge for depreciation from just over \$20,000 during the first three years up to \$45,000 in 2010. We cannot

understand why this should be the case given that there are prescribed depreciation rates

We are unsure as to which depreciation method has been used for the accounting – whether it is the straight line remaining life method or the straight line method. In addition the columns on Schedules S-2 and W-2 – Annual service life in years, Average salvage in percent and Depreciation rate applied, have not been completed so it is difficult to understand the bases on which depreciation has been calculated

We would ask why basic information requested under NARUS Rules is not being submitted and whether you have considered this as part of your investigations and consider this change of policy to be satisfactory

4 The future direction of UIU

4.1 Overall financial condition of UIU

UIU is in a perilous financial condition with substantial accumulated losses of \$528,000 to December 31 2010. Based on current performance this situation will progressively become worse in future, and could even reach the point where the majority of revenues are being eaten up solely by interest costs

Certain possibilities to correct this situation would seem to be precluded. The customer base cannot be increased substantially due to lack of building plots allowing the cost base to be spread over more customers. Secondly, UIU may be inclined to encourage increased water usage to increase revenues but this is unacceptable given the negative impact on conserving water resources and increasing salinity. Finally, ever increasing prices to customers will at some point render the Island as a whole, to be an uneconomic, and undesirable, proposition.

This may well be the point at which there should be a detailed examination of the costs of UIU to produce a cost reduction plan that is more in accordance with an acceptable future revenue stream and pricing strategy.

It may be that UIU should approach the POA and with the UIDC have a detailed dialogue as to the future strategy of UIU. Within this, one assumes that all the customers will be fully aware of the cost/service equation – that being on an island will increase costs to an extent and that should the customers require high levels of service this will come at a higher price

5 Other

Again we would like to understand these figures. If the difference is due to sprinklers then one would expect this to be higher in the December – February period when most homeowners are present and it is generally dry so sprinkler use would be disproportionately high. That is clearly not the case

3. Issues regarding the costs of UIU

3.1 Related party transactions

There is a close relationship between UIU and UIDC with both being under the same management and ownership. The question of related party transactions therefore becomes important. At present UIU is classified category C although that classification may well change in the near future, when Schedules E-7 and E-10 will require completion.

In view of the relationship we would request that, in general, UIU and UIDC demonstrate that UIU is being allocated a fair and reasonable proportion of costs, and specifically, the following;

- An analysis as to what are third party costs and what are related party and/or allocated costs. Examples could include Purchased Power, Transportation Expenses and Insurance
- The nature of the rent arrangement where \$16,000 is being charged as Rent and a further \$13,000 in Property Taxes

3.2 Salary costs - line 701

We note in the Annual Report that \$127,000 costs for salaries and associated costs have been charged, representing some 50% of the total operation expenses (when Payroll Taxes are added back).. This would appear to be a high amount compared to the number of users as well as being generally higher as a percentage than other private water companies (although we cannot be sure of their operational structures)

In accordance with the NARUC Rules salaries should comprise employees directly employed by UIU. If they are in the nature of allocated or contractual services they should be included elsewhere as Contractual Services of Various Types. If this was the case they would be subject to detailed analysis of amounts over \$500 on Schedule F7 - Payments for Services Rendered by other than Employees

We have again requested purely the information as to whether there are any employees (not who they are or their salary information) and have been refused this information.

5.1 CIAC

Has UIU discussed with you the possibility of obtaining grants or other contributions to the new injection well? If they have not, would any financial assistance, in your view, be available?

Richard Gane, BSc, FCA
For the Useppa Island POA Utility Committee

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February 6, 2012

Attention: Ann Cole, Marguerite McLean, Commission Deputy Clerk II, Office of the Commission Clerk.

The undersigned represent a Committee appointed by the Useppa Island Property Owners Association to represent the Useppa Island Property Owners at the PSC hearing on February 29, 2012.

The Committee objects to the Request for Confidential Classification in relation to documents submitted in connection with the Useppa Utilities responses to staff audit in connection with Docket No. 110260 WS.


Since direct compensation costs represent 36.7% of the revenues of the combined water and sewer revenues with out said confidential information it will be impossible to determine if cost savings can be achieved by the Utility.

Under item 6 of request dated January 19, 2012 by Thomas E Moorey Attorney, if the Committee can not have access to audited Useppa Utility financial reports provided to the PSC then the committee can not represent to the Useppa Island Property Owners that we have completed our due diligence regarding a rate increase. Thus the PSC will be denying the Useppa Property Owners the opportunity to fulfill their obligation to said property owners.

Finally under item 7 of the same request this Committee needs loan and department information to fulfill its mandate to fully understand the need for a rate increase and the amount. Failure to grant the Committee access to such information will unfairly affect the Useppa Property Owners.

Therefore the committee respectfully requests that the PSC deny the request for Confidential treatment of the Useppa Island Utilities Co.

Mike Albert
Tony Colgan
Richard Gane
Ray George
Robert Stevens
Jay Taylor

 co-chair For the Committee



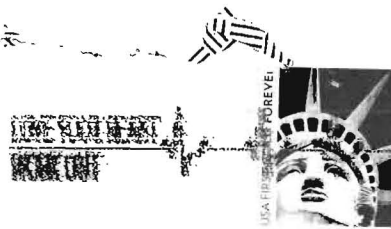
Raymond L. George

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Feb 6, 2012

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 CO-CHAIR -
For the Committee

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ATT Ann Cole - OFFICE of COMM. Clerk

