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WILL WEATHERFORD
SPEAKER OF THE HOUSE OF REPRESENTATIVES

January 24, 2014

Carlotta S. Stauffer, Director
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 130153-WS; Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.

Dear Ms. Stauffer:

Attached is a list of issues that the Office of Public Counsel has prepared to identify concerns we have with the information included in the staff report that addresses the preliminary review of the requested rate increase. We are submitting this letter in an effort to be up front with our concerns and allow the staff and utility sufficient time to review our concerns and ask for any additional information that might be needed. If you should have any questions, please feel free to call or e-mail me.

Respectfully submitted,

s/ Denise N. Vandiver

Denise N. Vandiver
Legislative Analyst

c: Division of Accounting & Finance (Mouring, Barrett)	L. P. Utilities Corporation
Division of Economics (Thompson)	Mr. John Lovelette
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Quality of Service

1. Several customers at the Customer Meeting on January 16, 2013 discussed the water pressure. Customers complained that the pressure was too high and blew out the pipes under the house, blew the lines off the water heater, and blew the safety valve off. One customer stated that he bought a regulator with his own money and has not had any further problems. Another customer said he has had problems with low pressure. We believe that the company is not providing satisfactory service if its system is not delivering safe water pressure to its customers. Customers we have talked with indicate that there is an upper and lower level of the Camp Florida RV Park and that the water pressure delivered to each is very different.
2. We are concerned with the slow response time to problems that customers raised. One customer commented that during an electrical storm, there was a power surge and the pump station shut off. They called the utility that night but no one came out until 9 the next morning. The customer stated that this happened six times in the summer. We talked with a customer who told us that half of the park is on one pump and if a power surge shuts the pump off, it requires manual intervention to restart the pump. While the former owners were able to restart the pump within 30 minutes, the current owners take at least 2 hours or until the following work day.

Another customer had a problem with water pouring out of the pipe at the meter box. It was on the utility side of the meter and the customer called the utility on the weekend to inform them of the problem. The customer was told to call back on Monday morning. After calling back on Monday morning, it was not until Thursday when someone came out to fix the problem. The rates include significant costs for maintenance of the system. We believe that customers should be able to receive service in a more timely manner. We are also concerned with the impact that unaddressed water leaks has on the level of expense. We discuss this further in the Unaccounted for Water issue.

3. Also at the customer meeting, customers raised several billing issues that are a grave concern. Several customers commented that when they left the state for several months, they turned off their water meters but were still billed consumption. They said that when they called, the charges were removed. Customers also commented on late payment fees that were charged and removed when they called. The customers commented that their payments were submitted timely, but were not posted in a timely manner. If consumption is billed when no consumption has been used, it appears that meter readings are being estimated and not read. However, the cost of meter reading is included in rates. It appears that payments are not being posted timely and customers are billed late fees for the utility's poor cash management. These are issues that should be addressed by the Commission
4. Because billing issues were brought up by the customers, we looked at the billing records in the staff audit work papers. This review raised further questions whether the utility is billing the correct rates. The bills that we reviewed for December 2012

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appear to all include an additional \$11 and change. We do not know how these bills were calculated but the customers should be refunded all amounts that were over-billed.

5. The new professional services contract between LP Waterworks, Inc. and U.S. Water Services Corporation (USWSC) includes several provisions for fines and penalties. Section 10.2 includes the following provisions which could result in fines or penalties:
 - h. Failure to make deposits or timely manage fiduciary requirements.
 - i. Failure to correctly read meters within an accuracy rate of 99.5% or better.
 - q. Failure complete timely service orders in performance of Prudent Utility Practice.

Not only should the Commission hold a utility to meet certain standards in billing, collections, and maintenance, the utility's own contract includes provisions for fines and penalties. We believe it is doubtful that the utility will impose a fine on a contract with its related company. However, if the utility is not meeting its required standard of service, we believe the ratepayers should not be required to pay the full contract price and that expenses should be reduced for the utility's failure to meet these standards.

Used and Useful Plant

6. Wastewater Treatment Plant: The last PSC order determined that the wastewater treatment plant was 59% used and useful. The staff report indicated that the flow data reported by the utility was low and the utility determined that the flow meter was not correctly registering the flow. No comments were made in the staff report regarding how the staff would address the calculation without accurate flow data. Accurate flow data is necessary to determine a used and useful calculation for the wastewater treatment plant. if the utility is unable to provide competent evidence of the flow data, we do not believe that the customers should be penalized by a higher used and useful percentage for the wastewater treatment plant. It is the utility's burden to support its case and that burden should not be shifted to the customers.

Operating Revenues and Rates

7. In Docket No. 020010-WS, Commission Order No. PSC-02-1739-PAA-WS established a revenue requirement of \$62,226 for the water system and \$57,334 for the wastewater system. The test year revenues reported in the staff report are less than those established in the last case. However, the number of customers shown in the current staff report (Page 1) are more than double what was included in the last order (Page 2). The chart below illustrates the differences. We are concerned with how the revenues can be lower when the customer count has increased so dramatically. We believe the staff should verify whether the test year revenues are correct and why the rates are not generating higher revenues.

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Customer Counts				
Water				
		2002 Case	Current	Change
RV Park Resid		151	380	151.7%
Outside Resid		33	96	190.9%
RV Park G/S		2	2	0.0%
Outside G/S		4	4	0.0%
		<u>190</u>	<u>482</u>	<u>153.7%</u>
Customer Counts				
Wastewater				
		2002 Case	Current	Change
RV Park Resid		151	380	151.7%
RV Park G/S		2	2	0.0%
		<u>153</u>	<u>382</u>	<u>149.7%</u>

8. Based on a comment at the customer meeting as well as our discussions with customers, we are concerned with whether the staff analysis includes the correct number of customers in the current rate case. Page 16 of the staff report indicates that the utility provides water service to approximately 44 residential lots and a recreational vehicle (RV) Park with approximately 374 units, as well as general service customers. Our first concern is that these numbers do not agree with the numbers included on page one of the staff report. The numbers in the chart above include an additional 58 residential customers. This is a significant number and would have an impact on the development of rates.

In addition, the customers have repeatedly stated that there are 397 lots in the RV Park which differs from the 380 and 374 numbers in the staff report. We believe that staff should further investigate the number of customers to verify an accurate count for setting rates.

O&M Expenses

9. Several customers at the customer meeting expressed concern regarding the significant increase in expenses since the new owners have bought the system. The utility has filed a response to this concern and stated that many owners of private systems typically do not record all costs associated with running a utility nor do they conduct preventive maintenance or other measures associated with preventive maintenance measures in keeping with industry standards. We also share the customers' concerns that expenses have significantly increased. We agree that all reasonable and prudent expenses of the new owners should be included in determining a revenue requirement. However, we believe that in those expense areas where the expenses are significantly higher, Commission staff should carefully

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review the supporting documentation and review it for reasonableness and prudence. We will re-address this issue in each of the subsequent expenses where we believe that additional analysis should be performed.

Purchased Power

10. The Purchased Power expense for wastewater that was included in the staff report is almost three times the expense included in the last order. We have reviewed the staff audit work papers and believe the balance should be reviewed. The staff auditors prepared an Excel work sheet that lists the power bills and locations. Based on this work sheet it appears that there are three power meters for the water system (234 Shore Line Drive, 1535 US Highway 27 S Pump, and 160 County Rd 29 Pump) and two power meters for the wastewater system (178 Shore Line Drive and second one at 160 County Rd 29). Our review of the individual bill amounts indicates three possible adjustments to the amounts included in the wastewater expense.

- a. Nine of the bills identified for the 178 Shore Line Drive Lift Station average around the \$100 amount. The first bill listed is for \$1,285 dated 6/1/2012. This amount is almost as much as the other eleven months. We believe that staff should review this bill to determine if it includes past due charges or reflects some unusual event that should not be included in setting rates. Setting prospective rates should only include costs that are reasonably expected to be incurred to provide future service. Therefore, we believe that any unusual costs or anomalies should be removed.
- b. The remaining two bills for this location are for \$370.16 each and are dated 11/1/2012 and 12/1/2012. We would also suggest that these two bills be reviewed for reasonableness.
- c. In addition, the work sheet appears to include six of the power bills for the water system in the wastewater expense. We believe that \$97.55 should be moved from wastewater to water.

Contractual Services-Testing

11. The staff report includes contractual services – testing expense of \$12,130 for water and \$9,557 for wastewater. We believe that the staff should remove these amounts as it appears that the testing is included in the professional services contract between LP Waterworks, Inc. and U.S. Water Services Corporation (USWSC). (The costs that are included in the staff audit work papers were costs paid by the former owner before the new contract was signed.)

Contractual Services-Other

12. The staff report included \$42,023 and \$39,903 in water and wastewater contractual services – other. The \$42,023 for water includes \$9,488 for payment to Highlands Executive Labor Personnel and \$13,836 to reclassify amounts from Salaries and Wages. The wastewater expense includes \$7,762.50 for payment to Highlands Executive Labor Personnel and \$11,389 to reclassify amounts from Salaries and Wages. We believe that these amounts should be removed from this expense. The amounts paid to Highlands Executive Labor Personnel are based on an Agreement for Management Services that expired September 30, 2013. The Agreement was

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between the former owner and an affiliated company for services such as processing of accounts, billing, and collections, meter reading, and coordination with FDEP, SWFWMD, the PSC, and contractors. These are all duties that are included in the USWSC contract and should not be included.

We also believe that the reclassification of salaries and wages should be removed from expenses as these were salaries recorded by the former owners. And these duties will most likely be absorbed in the USWSC contract.

Miscellaneous Expense

13. The staff report included \$1,467 for water miscellaneous expense and \$374 for wastewater miscellaneous expense. These amounts include a payment of \$307.14 dated August 15, 2012 to Carraway Computer Systems LLC for billing cards. Because the new contract with USWSC includes billing services, this expense should be removed as it duplicates costs included in the contract.

Depreciation Expense

14. The staff report addresses the amortization of CIAC. Our review of the schedules attached to the staff report indicates that the amortization of CIAC was added to the expenses when amortization of CIAC should serve to reduce the net depreciation expense. We believe that the staff should adjust its schedules to reflect the amortization of CIAC as a negative expense for both water and wastewater.

Unaccounted For Water

15. The staff report does not address the issues of excessive unaccounted for water or excessive infiltration and inflow. Based on the billing analysis provided in the staff audit work papers, it appears that approximately 14,669,000 gallons were sold during the test year. Based on the Monthly Operating Reports provided in Document No. 04163-13, it appears that the utility pumped 17,932,800 gallons during the test year. This results in approximately 18% unaccounted for water. We believe that purchased power and chemical expense should be reduced to reflect the excessive amount of unaccounted for water. Based on customer testimony it appears that the utility is not always prompt at fixing line leaks or breaks and the customers should not bear the increased cost to treat water that is wasted.