# LP Waterworks, Inc.

May 6, 2014

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

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

To Whom It May Concern:

Attached please find LP Waterworks, Inc.'s (LPW) response to the Office of Public Counsel's (OPC) Area of Concerns filed on May 1, 2014.

**Pro Forma Plant:**

**Response:** The systems acquired from LP Utilities did in fact meet all regulatory requirements at the time of acquisition as far as operating efficiencies (i.e. capacity parameter testing results, operational personnel). However, the Florida Department of Environmental Protection (FDEP) also has standards required for reliability and safety. The majority, if not all, of the pro forma plant items requested are directly related to reliability, efficiency enhancement, and safety issues. These efficiencies will enhance the operations due to more reliable equipment, electrical upgrades that meet standards, and pump and motor efficient operations. In the long term, these more reliable and efficient items will assist in increasing efficiencies and reducing costs.

For wastewater, the wastewater treatment plant FDEP Permit No. FLA014340 under General Conditions states, "The permittee shall at all times properly operate and maintain the facility and systems of treatment and control, and related appurtenances, that are installed and used by the permittee to achieve compliance with the conditions of this permit. This provision includes the operation of backup or auxiliary facilities or similar systems when necessary to maintain or achieve compliance with the conditions of permit. [62-620.610(7), FAC]"

For water, Rule 62-555.350, FAC applies. Specifically,

> (1) Suppliers of water shall operate and maintain their public water systems so as to comply with applicable standards in Chapter 62-550, F.A.C., and requirements in this chapter.
> (2) Suppliers of water shall keep all necessary public water system components in operation and shall maintain such components in good operating condition so the components function as intended…..

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A due diligence was completed prior to acquisition, and the specific items requested in the Pro Forma plat were a direct result of these inspections of the systems. The buyer was well aware of the issues with the water and wastewater plants and the expected cost of the plant upgrades and enhancement. These additional expected costs were taken into consideration prior to the final determination of purchase price and the agreement was entered into. This is a common part of any due diligence undertaken prior to any acquisition. The deficiencies were noted by both parties to the purchase agreement. Regardless, these items are specifically necessary in order to continue to meet reliability and safety standards by both FDEP and OSHA. These standards have previously been addressed in prior responses filed by LP with the Commission.

OPC has also raised the timing of the pro forma plant items. LP filed a five year capital needs plan with the Commission as part of its SARC. As previously mentioned above, this was part of the due diligence performed prior to acquisition. The total timeframe of the SARC process in this docket from the time the application is filed, the audit is performed, the customer meeting is held, and the Commission votes on the request is over one year. The application was filed on May 24, 2013 and the Commission's vote is scheduled for June 25, 2014. Additional time is then added on for the issuance of the PAA order and the protest period which ends on July 16, 2014. Therefore, the earliest date the actual rates can go into effect is mid July 2014. Take into consideration that the historical test year ends May 31, 2013. So, due to regulatory lag, the rates do not go into effect until nineteen (19) months after the test year. Several of the pro forma items have already been installed and the invoices have been provided. For this rate case, LP Utilities is only requesting the Pro Forma items for the years 2013 and 2014. The capital items for the periods 2015 through 2018 were not part of the requested items.

For the meter replacements, there appears to be an amount of confusion of what specifically is being requested. LP will be replacing the water meters throughout the system over a 5 year period. For the first year, LP will be replacing any water meter that has registered over 1 million gallons of consumption or will be over the 1 million gallon mark in 2014. Specifically, in the early part of 2014 there were 81 meters that had registered over 1 million gallons usage and there were 16 meters that registered over 900,000 gallons usage. This equates to 97 meters that need to be replaced as soon as possible. This utility has been in operations since 1988 (See Docket Nos. 881608 and 990374) and it is unknown whether the previous owner had replaced any water meter since initiation of the utility.

According to the AWWA Manual M6, "It may be more prudent to measure the life of a meter by total consumption rather than by time." Further, the M6 Manual states, "A planned meter replacement program can be implemented over a given number of years; for example 10 percent of the meters each year over 10 years or 20 percent per year over 5 years, so that all replaced meters in the system will be the more efficient, modern design." Thus, when meters start to wear out after high usage, they begin to read slower than actual usage. This causes at least three affects, (1) higher unaccounted for water; (2) lost revenues due to non-registering water use; and (3) less conservation due to the customers not accurately being billed for actual consumption.

As stated previously, LP intends to begin with the high usage meters in the first year, then replace the remaining meters over the other four years. The utility will evaluate the high usage meters for replacement during this time. By the time all meters are replaced, they will be in operations for 30 years. One should also keep in mind, in the current year 2014, these meters have been in operation for 24 years already. This becomes evident when the depreciated value is considered. In Order No. PSC-14-0130-PAA-WS, issued March 17, 2014, the Commission determined that the meters were 75% depreciated as of December 27, 2012. Although not relevant to the request in this SARC, for the years 2015 – 2018, LPW believes the amount of replacements will be approximately $4,000 a year.

In recognition of these concerns raised by the OPC, LP offers the following compromise on the Pro Forma plant items. This offer is made to minimize the upward pressure on rates.

Water:

1) For the replacement of the gas chlorine feed system in the amount of $10,000 – LPW proposes to split this project in half over the years 2014 and 2015. Therefore, LPW would request that ½ this amount, or $5,000, be considered in this SARC to bring the chlorine feed system up to safety codes. The remaining items will be replaced the following year.

Wastewater:

1) For the replacement of the non-potable well for wwtp washdown that is not located on utility property – LPW proposes to delay this until the year 2016, unless the current owner denies further access by the utility.
2) For the new digester tank – LPW proposes to delay this project until the year 2016.
3) For the replacement of the air header – LPW proposes to split this project in half over the years 2014 and 2015 – so the request of plant would be $3,800 in the case.
4) For the security fencing – LPW proposes to split this project in half over the years 2014 and 2015. This will allow the most needed repairs be made, then the following year the remaining corrosive areas can be replaced. This lowers the request by $650.
5) For the blowers at the wwtp – LPW proposes to split the project over 2014 and 2015 by replacing one blower at a cost of $6,000 in 2014, and delaying the upgrade to the remaining blower to 2015 at a cost of $4,000.
6) For the CAD mapping – LPW has previously indicated to the Commission staff that this should be considered a non-recurring O&M expense to be amortized over 5 years and not a pro forma capital item.

LPW believes this offer will allow the utility to replace and/or repair the needed items, but also minimize the resulting rate increase to its customers. This offer should assist in delaying the need to coming back into the Commission for a subsequent rate case.

**Contractual Services – Other:**

**Response:** The information provided by OPC in its letter contains a flawed analysis. The OPC analysis compares a combined water and wastewater per ERC cost to a single per ERC cost for a single service. This is incorrect. This erroneous comparison can generically be explained as follows. Consider a common shared costs, whether it be Utility Plant, Salary, or Contractual Service at an annual cost of $100,000 to keep the example simple. Assuming a customer base of 200 water customers (ERCs) and 100 wastewater customers (ERCs). For simplicity, the following table is offered:

| | Customers | % of total | Total cost | Cost Per Customer |
|---|---|---|---|---|
| Water | 200 | 66.67% | $ 66,666.67 | $ 333.33 |
| Wastewater | 100 | 33.33% | $ 33,333.33 | $ 333.33 |
| Total | 300 | 100.00% | $ 100,000 | $ 333.33 |
| | | | | |
| OPC's flawed analysis | | Customers | Calculation | |
| Water | $ 333.33 | | | |
| Wastewater | $ 333.33 | | | |
| | $ 666.67 | 300 | $ 200,000 | |

Thus, for a true comparison of apples to apples, you must either look at true average per ERC based on total cost and total ERCs (both water and wastewater) - or if you add the two amounts together for water and wastewater then you must multiply the cost per customer in OPC's analysis times 2 – for both water and wastewater. See further explanation below:

Using the table in OPC's letter, the average cost per customer (ERC) for LPW is actually $205.15 ($169,867 divided by 828 customers). This compares favorably to the average median AWWA benchmark of $342. If you use the comparison to the combined (water and wastewater) monthly cost of $409.13 that OPC alleges, then you would need to take the average AWWA cost of $342 and double it to $684 for a combined cost for water and wastewater. The same is true for OPC's comparison to the FGUA cost. Again, if you take the contract price for LP and take the actual average cost, it would equate to $164.10 ($135,876/828 cust). Again, this compares favorably to the FGUA average cost of $264. If you use the comparison to the combined (water and wastewater) monthly cost of $326.81 that OPC alleges, then you would need to take the average FGUA cost of $264 and double it to $528 for a combined cost for water and wastewater.

LPW Waterworks, Inc. (LPW) respectfully submits that it is imperative a clarification be made in order to dispel a misunderstanding on the part of the Office of Public Council. To be clear, the cost per account for PWW is actually **below** the cost for the FGUA South systems – **not above.** The cost per water account is $182.04 annually compared to $263.58 for South and $263.51 for West. Similarly the cost per wastewater account is $158.64 annually compared to $263.58 for South and $263.51 for West. For the FGUA systems, if they were water and wastewater the combined cost per ERC would be $527.16 annually for South and $527.02 annually for West; this compares favorably to the less combined cost charged to LWW of

$340.68. When taken in total, the average overall cost for LWW is $171.14 which is well below the charges to FGUA. See below:

| LPW Waterworks | | | | FGUA Benchmarking | | |
|---|---|---|---|---|---|---|
| | Annual | Cust. | Cost/acct | - | South | West |
| | | | | Customer | | |
| Water | $77,187 | 424 | $182.04 | Service | $50.58 | $38.51 |
| Wastewater | $58,696 | 370 | $158.64 | O&M | $213.00 | $225.00 |
| **Total** | $135,883 | 794 | **$171.14** | Total/acct | $263.58 | $263.51 |

Upon further analysis of the WetCon benchmarking study, there was a flaw in their data table. The underlying data for the "South" was obtained from the AWWA 2011 Benchmarking Performance Indicators. Upon further analysis, it was discovered that the costs in WetCon's table were an average of the two water and wastewater costs. Below is the actual costs contained in the AWWA 2011 Benchmarking Analysis:

| AWWA: | Top | Medium | Bottom |
|---|---|---|---|
| O&M cost per customer | | | |
| Water - O&M | $233 | $257 | $331 |
| Wastewater O&M | $259 | $345 | $426 |
| Total O&M | $492 | $602 | $757 |
| 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: | $295.43 | $386.16 | $478.38 |
| Total | $564.86 | $684.32 | $861.76 |
| | | | |
| Compared to LPW: | | | |
| Water | $182.04 | | |
| Wastewater | $158.64 | | |
| Total | $340.68 | | |
| Average | **$171.14** | | |

Also, in the AWWA, 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 | $399 | $473 | $ 573 |
| Total O&M | $650 | $797 | $1,029 |
| Customer Service Cost | Top | Medium | Bottom |
| Average | $66.31 | $82.26 | $101.19 |

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. Also whether the contractor provides the cost of the sludge hauling, chemicals, power, offices, 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. As explained in the response to staff's data request in Docket No. 130153-WS – LP Utilities, the contractual monthly charges for these utilities include the operations, accounting, and operation management positions. For the "Administrative Management" 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 expenses for all the regulated utilities, both present and future. The only portion of the monthly contract amount that is directly related to salaries is as follows:

**USW – Administrative/Management Expenses for ALL regulated utilities**

| Employee: | Annual Salary | Time/Week | FTE |
|---|---|---|---|
| Utility Regional Manager | $ 75,005 | 40 hrs | 1 |
| Accountant | $ 60,008 | 40 hrs | 1 |
| Total Cost | | | $135,013 |

| | |
|---|---|
| Divided by: | |
| Current ERCs | 5,245 plus 1,000 ERCs future growth/acquisitions = 6,245<br>(This is for current regulated utilities as well as future) |

This equates to $22.41 **annually per ERC** or $1.87 a month. This does not include any owners' salaries.

Operational Expenses for LPW:

Water:

| Employee: | Annual Salary | Time/Week | FTE |
|---|---|---|---|
| Operator | $ 40,082 | 6 hr | .15 |
| Maintenance Mechanic (UT)<br>(UT based on ERCs) | $ 36,816 | 9.2 hrs | .23 |
| | | | |
| Total Salary Cost | | $21.95 | |

Wastewater:

| Employee: | Annual Salary | Time/Week | FTE |
|---|---|---|---|
| Operator | $ 40,082 | 6 hr | .15 |
| Maintenance Mechanic (UT)<br>(UT based on ERCs) | $ 36,816 | 5.6 hrs | .14 |
| | | | |
| Total Salary Cost | | $11,166 | |

For meter reading, billing and customer service, the costs to the regulated utilities is $2.58 per month per customer or $30.90 annually for water; and $30.90 annually for wastewater.

Further, the WetCon Benchmarking report states, "It is virtually impossible to find any two water utilities that are comparable, given their unique treatment systems, customer bases, permit requirements, operational procedures, capital needs and rate structures. This is particularly true when comparing other systems to FGUA, with its' geographic spread, diverse customer base and broad range of treatment technologies."

**Salary and Wages – Officers:**

As majority shareholder, Gary Deremer ultimately has sole discretion over all financial, legal, operational, and regulatory matters. However, the minority shareholders also have an equity stake and ownership in the utility. As CEO and majority shareholder, Mr. Deremer has a fiduciary responsibility to make reasonable and necessary decisions to protect the interest of the minority shareholders, as well as the customers of the utility.

Mr. Deremer provides 26 years of utility experience in operation and ownership of water and wastewater utilities.

Specifically, in Order No. PSC-14-0130-PAA-WS, issued on March 17, 2014, the Commission stated:

> According to the application, LPWWI has considerable Florida-specific expertise in private utility ownership within the State. The directors of LPWWI have been in the water and wastewater utility management, operations, and maintenance industry for many years, providing service to more than 550 Florida facilities throughout their careers. Further, the application indicates that the President and Vice President of LPWWI have 28 and 36 years, respectively, of operation or ownership of utilities, including a number of utilities that we have previously regulated. ..
>
> … In addition, the President of U.S. Water is also a part owner of other systems which we currently regulate, including Harbor Waterworks, Inc., Lakeside Waterworks, Inc., and several of the systems previously owned by Aqua Utilities Florida (Aqua). (**pg. 3**)
>
> In light of the recognized utility technical experience, the Commission found, "Based on the above, LPWWI has demonstrated the technical and financial ability to provide service to the existing service territory." (pg 4)
>
> See also, Order No. . PSC-12-0587-PAA-WU, issued October 29, 2012.

In this utilities' last rate case, the Commission approved a total of $13,060 ($7,094 for water; $5,923 for wastewater) for the officers of the previous parent company of The Woodlands of Lake Placid – which was Highvest Corporation. Specifically, in Order No. PSC-02-1739-WS-PAA, issued December 10, 2002, the Commission states:

> The Woodlands of Lake Placid, L.P., is a registered limited partnership in the State of Florida. The database of the Florida Department of State, Division of Corporations, as well as the utility's 2001 Annual Report, indicate that the General Partner of Woodlands is Camper Corral, Inc. Further, the SARC application and annual report indicate that the other partner and manager is Mr. Anthony Cozier, with Mr. John Lovelette as the General Manager. The database of the Florida Department of State, Division of Corporations also indicates that the President of Camper Corral, Inc. is Anthony Cozier. Finally, this database indicates that President and Director of Highvest Corporation is Anthony Cozier. The Vice President of Highvest Corporation is John Lovelette. Mrs. Theresa Lovelette is also listed as the secretary of Highvest Corporation and is also the secretary/bookkeeper of Woodlands. …..

- we are approving salaries for both the Vice President and Secretary of Highvest Corporation **(pgs 5-6)**

The requested annual Officer's Salary is just and reasonable considering the past history of management and ownership of this utility. As discussed in Order No. PSC-04-1162-FOF-WS, issued November 22, 2004, the previous managers of this utility allowed the utility to go into foreclosure and when the owner's corporation foreclosed on it. Order No. PSC-04-1162-FOF-WS is replete with numerous concerns that the Commission expressed on the previous owners and management of the utility. Specifically, the Commission stated, "Woodlands, LPUC, Highvest, Camper Corral, Inc., Anbeth, and the Association are all related entities and Mr. Cozier's and Mr. Lovelette's past business practices have shown that they do not always put the utility and its customers first in making business decisions." (p. 14) Equally important were the customers' concerns over the ownership and the continuing operations of the utility. Specifically, the order states:

> The overwhelming customer testimony at the service hearing was that the customers oppose the proposed transfers and do not trust Mr. Cozier, the utility owner, or Mr. Lovelette, the utility manager. Several customers specifically referred to the fact that Mr. Cozier, through his corporation, Highvest, has foreclosed on other entities he controls as a reason to question his trustworthiness. There were no complaints regarding quality of service.

Finally, Officer Salaries has historically been recognized as a beneficial operating expense for regulated utilities, and particularly for Class C utilities. This is also true for utilities that have also had contractual agreements with US Water Services. One example is for Pasco Utilities, Inc. In Order No. PSC-07-0425-PAA-WU, issued May 15, 2007, the Commission approved an officer's salary of $24,000 for a water only utility with 674 customers, while also approving Outside Services for an agreement with U.S. Water Services Corporation (USWSC) for operations, maintenance, and customer service of the utility system. In this order, the Commission approved the monthly fee totaling $70,772 annually. Again, this was for a water only utility. (see pgs. 7 – 8).

There is zero amount (no portion) of the monthly contractual services charge that includes compensation for any owner of the utility. These contractual monthly charges include the operations, accounting, and operation management positions. For the "Administrative Management" 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. These amounts are to cover only the monthly operational expenses for the regulated utilities. Again, there are no salaries for any owner included in the contractual services expense.

**Bad Debt Expense:**

Although LPW has requested and still believes that its bad debt expense should be 2 percent of revenues, for the sole purpose of compromising with OPC and to minimize the impact on rates to its customers, LPW would agree to the actual amounts recorded of $1,123 for water and $907 for wastewater. This in no way should be precedent setting in any future rate case proceeding before the Commission.

Respectfully Submitted,

Gary Deremer
President

Cc: Victoria Penick
Troy Rendell