

P R O C E E D I N G S

1
2 **CHAIRMAN GRAHAM:** Last but not least, Item
3 Number 4.

4 **MR. BALLINGER:** Good morning, Commissioners.
5 Item Number 4 is staff's recommendation for the
6 staff-assisted rate case for LP Utilities. This item
7 was originally scheduled to be discussed at the
8 April 10th Agenda Conference, but on April 9th the
9 utility requested a deferral of the item due to travel
10 constraints. During the interim period, the company and
11 OPC engaged in negotiations, and on June 2nd the
12 company, OPC, and the property owners association
13 entered into a settlement agreement that addresses all
14 issues in the case.

15 The settlement agreement accepted staff's
16 recommendation, which is before you today, with the
17 following changes. For contractual services others, the
18 signatories agreed on the dollar amounts contained in
19 staff recommendation for settlement purposes only. For
20 bad debt expenses the signatories agreed upon what the
21 company had recorded for water and wastewater, which is
22 approximately one-half of what staff had recommended.

23 The signatories also addressed several pro
24 forma plant additions which were not discussed in the
25 staff's recommendation. In an effort to moderate and

1 delay the financial impact of these rate increases, the
2 parties agreed to implement rates in two phases: Phase
3 1 going in place around September 2014 and Phase II in
4 September 2015. The utility also agreed to not file a
5 new rate case for one year after the second phase, which
6 would be about September 2016.

7 On June the 5th staff met with the company and
8 OPC to verify the revenue requirements that fell out of
9 the settlement agreement and the parties agreed to those
10 calculations. On June 6th, the OPC filed a settlement
11 agreement with the Commission Clerk.

12 And, lastly, on July 7th, OPC filed a joint
13 motion that requests the Commission to issue an order
14 which approves the terms of the March 27th staff
15 recommendation as amended by paragraphs 1 through 5 of
16 the settlement agreement.

17 Your offices have been provided copies of the
18 settlement agreement and the revenue requirements. And
19 I would also like to note a scrivener's error on the
20 recommendation. It lists Issues 10 and 11 as being
21 final. It should be Issues 9 and 11 are final in this
22 action.

23 The parties are here to answer any questions,
24 and staff is available for your questions as well.

25 **CHAIRMAN GRAHAM:** Commissioner Brown, did you

1 want to go before we hear from -- OPC.

2 **MR. REILLY:** Thank you, Chairman Graham,
3 Commissioners. For the record, I'm Steve Reilly with
4 the Office of Public Counsel appearing on behalf of the
5 customers of LP Utilities. Also appearing is Denise
6 Vandiver with our office.

7 I'd just make a few comments about how we are
8 at this point. When our office met with the
9 representatives of LP Utilities, Gary Deremer and Troy
10 Rendell, we understood that it had been over a decade
11 since rates had been set for this utility. We also
12 understood the utility was proposing to provide more
13 professional and a higher level of service than the
14 customers had previously received. However, this higher
15 level of service was also provided at a significant
16 increase in cost, costs principally driven by the
17 contract with its affiliated company U.S. Water Services
18 Corporation to basically provide close to turnkey
19 operation of the water and wastewater system.

20 At the customer meeting conducted by your
21 staff and in discussions with our office, the customers
22 expressed a strong desire to mitigate these costs by
23 providing some form of staggered or phased-in rates.

24 Although staff mentioned several of the
25 provisions of the settlement agreement, I'd like to just

1 hit just briefly some details about the agreement. It
2 basically provides five basic provisions. First it
3 provides for Phase I and Phase II rates, with Phase II
4 rates being implemented one year after implementation of
5 Phase I rates.

6 The Phase I rates are designed to recover only
7 recommended operation and maintenance expenses, property
8 taxes, and regulatory assessment fees. There is no
9 recovery for depreciation or return on rate base,
10 including the modified water and wastewater pro forma
11 plant additions. Phase I water and wastewater revenue
12 requirements are about one-third less than what's in
13 your recommendation, or it's basically two-thirds of the
14 revenue requirements in your recommendation before you
15 today.

16 The second provision requires the utility not
17 to file another rate case for at least one year after
18 implementation of the Phase II rates. When you take the
19 Phase I and Phase II rates together with the additional
20 year of the stay out provision, it will guarantee
21 customers close to three years to absorb the increased
22 cost that's associated with this docket.

23 The third provision reduces bad debt expense
24 provided in the recommendation by \$2,233, which does
25 basically cut that expense in half.

1 The fourth provision prioritizes and
2 eliminates some of the pro forma plant originally
3 proposed by the utility. Our office and the utility
4 went through each and every pro forma plant addition and
5 agreed to fund only the most important projects that
6 were necessary to address governmental requirements or
7 necessary to provide quality of service to the
8 customers. This prioritization of the pro forma plant
9 additions helped reduce pro forma plant construction by
10 \$52,657.

11 Fifth, in consideration of receiving the
12 benefits of the first four provisions, the customers
13 agreed to the base monthly cost of the U.S. Water
14 Service Corporation contract provided in staff's
15 recommendation without further discussion of that
16 contract.

17 If the settlement agreement is approved, all
18 the necessary fallout adjustments should be made and
19 included in the Commission's order. It's my
20 understanding that staff has calculated all these
21 fallout adjustments and prepared the necessary schedules
22 that could be put in an order if the Commission approves
23 the settlement agreement, and I believe those are
24 attached to staff's summary as Attachment 2 that's
25 before you.

1 That concludes my remarks. I think I'd yield
2 to Troy Rendell for a few brief comments about what he
3 believes are the benefits that the customers will
4 receive as a result of U.S. Water's, you know,
5 day-to-day operation of these two, the water and
6 wastewater systems.

7 **CHAIRMAN GRAHAM:** Mr. Reilly, so you're saying
8 as OPC that the settlement agreement, the changes that
9 are made from the staff recommendations are in the
10 public interest?

11 **MR. REILLY:** I believe they are.

12 **CHAIRMAN GRAHAM:** Okay. Utility?

13 **MR. RENDELL:** Commissioners, Troy Rendell on
14 behalf of LP Waterworks. I'll be brief.

15 Mr. Reilly did an excellent job of summarizing
16 the settlement agreement. After the recommendation was
17 filed in March, we did bring to the staff's attention
18 that there were some pro forma items that had also been
19 requested. We did have the opportunity to work with
20 Mr. Reilly and the Office of Public Counsel. In
21 recognition that this utility had not had a rate
22 increase for 11 years and there was a significant impact
23 to the customers, we wanted to minimize that impact. So
24 we agreed to do two things, as Mr. Reilly explained, is
25 to move some of the pro forma items that wasn't

1 necessarily had to be done immediately to future years,
2 and also implement a two-phase rate increase where
3 recovering the operating costs, which the utility
4 currently is not recovering the operating costs, and
5 also delaying the depreciation and the rate of return
6 for a future year. So we worked out the settlement. We
7 filed it with the Commission to bring forth. I believe
8 you worked with the customers.

9 This utility has had a past with some of the
10 management, which has been recognized by the Commission
11 in prior orders. So with the new management and with
12 the operating contract with U.S. Water, we bring
13 significant experience to the operation, daily
14 operation, the regulatory, working with the different
15 agencies to, to the utility, which previously was not
16 there. And with that, that concludes my comments.

17 **CHAIRMAN GRAHAM:** Thank you, sir.

18 Commissioner Brown.

19 **COMMISSIONER BROWN:** Thank you, Mr. Rendell.

20 It's nice to see you back here at the Commission. I
21 want to thank the parties for coming to us with a
22 compromise. I think there are a lot of attractive
23 sections in here that really benefit the customers --
24 most notably is the company's willingness to forgo its
25 return on equity.

1 There are just a few questions I have though
2 with that being said. It's an interesting settlement
3 agreement with the phases. You know, initially I
4 thought the phases would be done upon completion of the
5 pro forma, but that's not correct. The Phase I, it says
6 it's estimated to be in one year, which -- well, when
7 will that be implemented and how long will Phase I last?

8 **MR. RENDELL:** The Phase I rate starts in
9 September -- well, pending the issuance of the order and
10 approval of the tariffs -- but it's anticipated it will
11 begin in September and will last a year through the
12 following September, which is in 2015.

13 **COMMISSIONER BROWN:** Is that concrete? Is
14 that -- it says "implemented sometime in
15 September 2014," and then you have an estimate for Phase
16 II, which is an estimate for September 2015. Are those
17 concrete dates?

18 **MR. RENDELL:** It'll be -- the second phase
19 rates will be one year after the implementation of the
20 Phase I, and that's going to depend on when the order is
21 issued, the consummating order, and the approval of the
22 tariffs and the notice to customers, which, you know, we
23 can get that along pretty quick once the order is
24 finalized.

25 The pro forma plant that's anticipated to be

1 in Phase II rates, those are items that we're doing this
2 year in 2014, and they will be done at the end of '14.
3 Two of the items are directly in relation to
4 requirements of both the Water Management District and
5 DEP. We recently received an inspection letter from DEP
6 that addresses one of the specific pro forma items on
7 the gas chlorine, the alarms and the safety equipment
8 there. The replacement of the meters, which are, have
9 been in service since the late '90s, they have over a
10 million gallons on them, so we have a very high
11 unaccounted for water. We believe a lot of that has to
12 do with the meters. We met with the Water Management
13 District this past, in June and outlined our plan, which
14 part of it was the meters.

15 So, but any of the recovery of the pro forma
16 we're doing this year actually won't be recovered until
17 the end of '15 and through '16. So any of the recovery
18 of the depreciation rate of return on that plant that
19 we're doing this year is going to not be recovered for
20 almost two years.

21 **COMMISSIONER BROWN:** Great. Thank you for
22 that clarification.

23 I noticed that there is just one homeowners
24 association that is a signatory to the agreement. Are
25 there other homeowners associations in the jurisdiction?

1 **MR. REILLY:** No other homeowners associations
2 that we're aware of. They are the lion's share of this
3 service territory; it's 370 connections. There are a
4 few water only customers residential outside that, that
5 community and I think two general service customers.
6 That was really the only organized group that we could
7 interact with.

8 **COMMISSIONER BROWN:** Again, I want to thank
9 you for coming to us with this nice compromise.

10 Staff, Mr. Ballinger, can you go over some of
11 those pro forma additions that were not originally in
12 the staff recommendation and provide a brief analysis of
13 them?

14 **MR. BALLINGER:** It would have been all of
15 them. The original recommendation filed in March did
16 not have any pro forma items included at all. So all of
17 the ones that are in the modified ones are actually less
18 than what they requested. Does that answer your
19 question?

20 **COMMISSIONER BROWN:** Yes.

21 **MR. BALLINGER:** Okay.

22 **CHAIRMAN GRAHAM:** Is that it, Commissioner?

23 **COMMISSIONER BROWN:** Yes.

24 **CHAIRMAN GRAHAM:** Was there a motion attached
25 to that?

1 **COMMISSIONER BROWN:** I'm a little confused on
2 what we're approving since the -- we have before us a
3 motion for a, to approve a settlement agreement which
4 incorporates the staff recommendation. So would we be
5 approving the motion?

6 **MR. BALLINGER:** I think you're correct,
7 Commissioner. And, Charlie, correct me, what you have
8 before you is a motion from OPC, a joint motion from the
9 parties to issue an order which approves the terms of
10 the March 27th recommendation, which is Item 4, as
11 amended by paragraphs one through five of the settlement
12 agreement. So staff -- if you approve that motion,
13 staff would have to modify or create an order that melds
14 those two together.

15 **COMMISSIONER BROWN:** Okay. So I, Mr.
16 Chairman, I would approve -- I would move to approve the
17 joint motion requesting Commission approval of the
18 settlement agreement as amended herein.

19 **CHAIRMAN GRAHAM:** That's been moved and
20 seconded.

21 Mary Anne, is that adequate?

22 **MS. HELTON:** I think so. I think it's clear
23 what Mr. Murphy will do with, with your approval of the
24 settlement.

25 **MR. MURPHY:** And when you say "as amended,"

1 you're including that Items 9 and 11 are final as
2 opposed to PAA.

3 **COMMISSIONER BROWN:** Yes.

4 **MR. MURPHY:** Yes. Thank you.

5 **CHAIRMAN GRAHAM:** Commissioner Balbis.

6 **COMMISSIONER BALBIS:** Staff just clarified the
7 questions I had. But, yeah, I too want to thank OPC and
8 the utility for working together and coming up with a
9 good resolution that's good for all parties.

10 **CHAIRMAN GRAHAM:** Okay. Motion on the floor
11 and duly seconded.

12 All in favor, say aye.

13 (Vote taken.)

14 Any opposed? By your action, you have
15 approved the motion.

16 I want to thank everybody very much.
17 Specifically I want to thank staff; you guys did a great
18 job. And, OPC, thank you for all you did. And that all
19 being said, everybody travel safe. We are adjourned.

20 (Agenda conference adjourned at 11:21 a.m.)
21
22
23
24
25

1 STATE OF FLORIDA)
2 COUNTY OF LEON) : CERTIFICATE OF REPORTER

3
4 I, LINDA BOLES, CRR, RPR, Official Commission
5 Reporter, do hereby certify that the foregoing
6 proceeding was heard at the time and place herein
7 stated.

8 IT IS FURTHER CERTIFIED that I stenographically
9 reported the said proceedings; that the same has been
10 transcribed under my direct supervision; and that this
11 transcript constitutes a true transcription of my notes
12 of said proceedings.

13 I FURTHER CERTIFY that I am not a relative, employee,
14 attorney or counsel of any of the parties, nor am I a
15 relative or employee of any of the parties' attorney or
16 counsel connected with the action, nor am I financially
17 interested in the action.

18 DATED THIS 17th day of July, 2014.

19
20
21
22
23
24
25


LINDA BOLES, CRR, RPR
FPSC Official Commission Reporters
(850) 413-6734