

Lakeside Waterworks, Inc.

October 14, 2014

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

Re: Docket No. 130194-WS - Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.– Staff Sixth Data Request Response

Dear Commission Clerk:

Attached please find Lakeside Waterworks, Inc.'s (LWI) response to Staff's Sixth Data Request dated October 8, 2014.

1. For the purpose of this question, please refer to Table 4 – Cost Responsibilities, as shown in the Agreement For Services the Utility signed on November 16, 2012, with U.S. Water Service Corporation.
 - a. Referring to the Owner column (the right side of the table), Item # 16 states that the Owner is responsible for repairs totaling \$400 or more, per incident. Was the threshold of \$400 negotiated between the parties to this agreement? Please explain why \$400 is the threshold for cost responsibility between U.S. Water and the Owner.

Response: U.S. Water Services Corporation (US Water) has numerous operations and administrative contracts with numerous entities within the State of Florida. For the larger contracts, the typical threshold for repairs and/or replacements is \$7,500. This is due to the fact that these larger contracts are (a) for larger dollar amounts annually; (b) are with very large entities serving large customer bases; and (c) have considerable financial wherewithal for continued operations. Further, these larger contracts are typically with non PSC regulated entities such as cities, counties, federal government, and governmental agencies.

Pursuant to the National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA), the monetary threshold for capitalization of expenditures versus expensing is:

Class A	\$750
Class B	\$400
Class C	\$150

(See Accounting Instructions)

5320 Captains Court, New Port Richey, Florida 34652
Mailing: C/O 4939 Cross Bayou Boulevard, New Port Richey, Florida 34652
Tel: 727-848-8292

The majority of the private regulated shareholder utilities, including LWI, are Class C utilities. However, since some of these private utilities are Class B based on annual revenues, for consistency all of the regulatory accounting for these private utilities are recorded under the Class B accounting procedures pursuant to USOA. Since all of the private regulated shareholder utilities are classified under the Class B for accounting purposes, the \$400 monetary threshold was established under these individual contracts under the USOA instructions for capitalization versus expensing. This actually provides a benefit to both the utilities and the customers. Since all repairs and/or replacements under the \$400 threshold are included in the annual contract amount and not charged individually to the private utility, the recorded capital is kept to a minimum and the rate base also reflects lower amounts. If each repair/replacement under \$400 was recorded pursuant to the Class C USOA provisions, this would allow an additional return on these amounts in rates.

Thus, the owners of both US Water and the private utilities (including LWI) believe the \$400 monetary threshold provision in the USOA was appropriate for all the private regulated utilities since it provides a benefit to the customers of each utility. This is also consistent with how each regulated utility is being accounted for under the USOA. Each regulated utility is required to maintain their accounts and records under the USOA pursuant to Rule 25-30.115, Florida Administrative Code. Thus, this agreed upon monetary threshold is consistent with the Class B, USOA. Private regulated utilities are allowed to establish their accounting procedures and practices under a higher class (Class B or Class A) which are more stringent than the lower class, Class C.

By establishing a monetary threshold which is consistent with the NARUC USOA, the utility's customers are receiving an added benefit. Since any repair and/or replacement under \$400, as specified in the USOA for Class B utilities would be considered O&M expenses, these would qualify as prudent expenses and are recoverable on a dollar-for-dollar basis. Since these type repairs and replacements are covered under the operations and maintenance contract and not charged to the utility, the resulting rates do not include these items. Thus, U.S. Water is actually subsidizing the utility by covering these services in its contracted amount. There are no separate charges for these.

In addition, there are several other services provided to the private utilities which are not charged to the utilities through the contract amount. Examples are these are engineering and compliance. Although these services are included in the contract, there are no dollar amounts for personnel (employees) included in the contract amount. The engineering services include permitting for both FDEP and the WMDs. These services are provided under Section 2.19 of the U.S. Water contract, but there are no dollar amounts included in the monthly or annual fees. If the utility were to provide this function on a stand-alone basis, there would be additional operation costs associated with this which would be eligible to pass onto the customers as a prudent utility expense. Although the actual cost for permit renewals paid to the state agencies are included as an amortized amount (over the life of the permit), no employee salaries or hours are included. Engineering services would only be included as part of major capital projects if needed. The engineering services would be included in the event of an overall capital project,

such as a wastewater plant rehabilitation or replacement or a water treatment system rehabilitation and/or replacement which would be over the \$400 monetary threshold.

An additional service provided to the utilities which there are no associated costs is compliance services. Under Section 2.13 of the contract, U.S. Water provides for the compilation and filing of required monthly DMRs and MORs with FDEP. Additional services provided are required annual CCRs, boil water notices (if required), ground water reporting, and compliance sampling reporting. There are no associated costs or salaries included in the U.S. Water contract for these provided services. Again, if the utility were to provide this function on a stand-alone basis, there would be additional operation costs and salaries associated with this which would be eligible to pass onto the customers as a prudent utility expense.

Thus, due to the size of these small utilities and the potential impact on rates, U.S. Water does not charge the utilities for the inclusion of these government required services. Due to this subsidization by U.S. Water, the water and wastewater rates are kept at a minimum by not including these costs in the contract amount or in O&M expenses.

- b. In the most recent 12 month period, how many total repairs of \$400 or more has Lakeside Waterworks been responsible for? Provide a brief description of each repair and the associated repair amount.

Response: LWI has made numerous improvements to both the water and wastewater systems to improve efficiencies, as well as to improve the quality of service provided to its customers. This information was previously supplied in Document No. **00352-14**, filed on January 21, 2014. LWI has made improvements to the aeration treatment for the naturally occurring hydrogen sulfides in the water. This naturally occurring element can cause a “rotten egg” smell. As previously stated in Document No. 00352-14, these improvements were completed on January 19, 2013 and were necessary due to the existing air header was leaking air which prevented efficient water treatment for hydrogen sulfides at the aeration. The leaking air header was repaired since this also added to the treatment plant costs and exerted additional wear and tear on the blower system. Also, the old existing chlorine pump previously worked erratically causing inefficient disinfection needed to satisfy FDEP requirements. The diffusers and manifold were repaired due to a break in the return activated sludge pipe. The broken handrails at the wastewater treatment plant were welded to address safety issues. Invoices # 787750 and 773330 were previously provided.

Invoice # 787751 was also provided. These capital improvements were completed on December 17, 2012 and included the installation of two new outdoor mercoid switches were installed on the hydroneumatic storage tank to regulate the system pressure more efficiently. The addition of 4 new stemmer pumps was needed to maintain efficient chlorine residuals in the distribution system pursuant to FDEP requirements, as well as to provide more efficient treatment in the aeration process by oxidizing the natural hydrogen sulfides. A saddle tap was installed to feed the chlorine to the treated water prior to the ground storage tank to maintain chlorine residuals for disinfection and algae removal from the ground storage tank. A new conduit was installed from the high service pump to the electrical panel to provide reliability. Pressure switches were repaired to maintain proper pressure throughout the water distribution

system. In addition, a bad breaker was replaced; a new 4-way alternator was installed; the fence was repaired; brackets on the ground storage tank were replaced; and the panel was cleaned. These improvements also included repairs to pressure switches to improve the water pressure in the distribution system.

Attached, please find Invoice # 794567 for the invoice on the 4 additional stenner pumps. The cost of these pumps were previously not included in Invoice # 787751. This was to install additional chlorine pumps in order to (1) improve the removal of hydrogen sulfides by providing oxidization prior to aeration process; (2) improve chlorine residuals in the ground storage tank; (3) improve chlorine residuals throughout the distribution system; and, (4) discourage algae growth in the treatment system components. LWI requests that this improvement be included in the pro forma plant.

Invoice # 784970 was provided for improvements completed in October 2013. These improvements included an emergency call due to the high service pump short cycling. Someone had installed a jumper which was removed. The coils were rewired to run on a separate breaker for safety and reliability. The contactors on the starter had welded together and this was cleaned. All mercoids' pressure was reset.

Invoice # 776178 was provided for improvements completed on February 28, 2013. These improvements were necessary due to decant pumps were needed to remove the clear supernatant from the wastewater digester to allow for efficient residuals handling at the wastewater treatment plant.

Invoice # 780147 was provided for improvements completed on March 12, 2013 for a starter replacement at the lift station.

Invoice # 788662 was provided for improvements completed on December 9, 2012. This was an emergency repair for a 6" water main break.

In addition, please find attached Invoice No. 795369 for improvements made in May 2014. This was for a repair to a service line at 106 China Lane. A new saddle tap with corp for reconnection was installed. This repair was in the amount of \$1,779.71. LWI requests that this repair be included in the pro forma plant.

- c. In the most recent 12 month period, how many total repairs of \$399.99 or less has U.S. Water been responsible for? Provide a brief description of each repair and the associated repair amount.

Response: Typically any repair under \$400 is not tracked by U.S. Water. These may be day-to-day repairs or improvements that may be necessary during the normal operation of the water and wastewater plants. These normal daily operations, if required, are included under the general provisions of the contract and may include small items such as nuts, bolts, wiring, injectors, suction footers, etc. These are typically not tracked and/or recorded.

2. For the purpose of this question, please refer to pages 1 and 2 of LWI's October 2, 2014 letter (Document No. 0552-14). Under the heading "Quality of Service," LWI states that, immediately after the September 11, 2014 customer meeting, it met with customers and had U.S. Water Services' staff investigate each customer's complaints in the following days. Please provide the following information for each customer contacted after the customer meeting as referenced in LWI's letter.

<u>Customer Name</u>	<u>Telephone Number</u>	<u>Concern/Complaint</u>	<u>LWI Action</u>	<u>Status</u>
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Response: The U.S. Water Services technician went to the service area to investigate the water quality concerns brought up at the customer meeting. While conducting a system-wide flushing of the system, several customers approached the technician to discuss their water service. The technician didn't specifically record names and addresses since he was in the process of conducting the flushing. However, below is a listing of specific interactions as best recalled:

Brenda Kreeger (352) 396-2479 Water Quality LWI explained to Ms. Kreeger that the water meets all FDEP and EPA requirements and that all laboratory samples are taken to an independent laboratory certified by FDOH or DEP. She said she having the water tested and her doctor said it was the water do to the process of elimination. She would drink the water from the tap for two or three weeks and she would have problems with her bladder then switch to bottled water and everything would get better.

Marie Taylor (352) 589-0176 Water Quality Sent technician to check water and to flush lines. No comment from her specifically on her status. However, while conducting flushing, numerous customers commented to the technician that the water quality was good. No specific names were written down just walk by interaction with 4 – 5 customers. On October 13, 2014, technician did a follow-up visit with Ms. Marie Taylor at 249 Taipei. She had no problem with the water on 10/13/14 and said that she had low pressure at one time in the past. Technician found no issues with the water.

Gary Pupucci Water Testing results for annual report. LWI explained to Mr. Pupucci that the CCR is sent out annual after FDEP reviews the report. The testing was based on three year samples required by FDEP and the new sampling results will not show until 2015. The customer was ok with the answer. The other issue brought up was about charging for irrigation usage. Explained that the and usage charge only would be billed. This was previously addressed by the Commission in Order No. PSC-00-0259-PAA-WS.

Marie Straughan (352) 357-7179 Water testing Explained the Annual report to her regarding the same results as last year. As explained in LWI's previous letter, this is a result of the tri-annual test results being reported consistently between the three year tests.

In addition, LWI discussed the customer meeting with the Homeowners Association (HOA) immediately following the customer meeting and offered to come back down to the service area and discuss the utility with the homeowners. The HOA was not satisfied with the FPSC customer meeting and felt they had not received answers to their questions. Mr. Rendell provided his contact information to the representatives of the HOA and indicated that he could

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be reached to set up the meeting with the customers and the utility. LWI intended to conduct a follow up meeting at the HOA's request and invite Senator Hay's office, as well as, the Office of Public Counsel. The HOA indicated that they would be in touch to schedule the meeting. However, there has been no contact from the HOA on this request.

Respectfully Submitted,



Gary Deremer
President

Attachments

Cc: Victoria Penick
Troy Rendell

U.S. Water[®]

Servicos Corporation

4939 Cross Bayou Blvd.
New Port Richey, FL 34652

Invoice

Invoice #	795369
Date	5/31/2014
Due Date	6/30/2014
Account #	2535
P.O. No.	

Bill To
Lakeside Waterworks, Inc. Attn: Joe Gabay 4939 Cross Bayou Boulevard New Port Richey, FL 34652

All service pricing anticipates payment by Check or ACH. Due to additional costs incurred, services paid by credit card will require an additional "pass through" 3% processing fee in order to be accepted.

Project
2535-30 Repair leak @ 106 China Ln

Date	Description	Qty or Hrs	Unit	Rate	Amount
1/31/2014	Emergency call. Repair resident leak at 106 Chine Ln. Hand excavated a 8'x4'x4' deep hole with heavy roots to expose a 4"x1" broken service tee. Removed roots by hand with loppers and saws to expose main for repair. Cut main and made repair with MJ sleeves and mega lugs. Installed a new 4"x1" saddle with corp for reconnection of existing service.				
	Tradesman	8	Hours	57.91	463.28
	Maintenance Technician	8	Hours	52.01	416.08
	Maintenance Technician	8	Hours	52.01	416.08
2/4/2014	Installed grass seed, raked and cleaned up after leak repair.	1	Hour	57.91	57.91
	Tradesman Materials to Complete Scope of Service	1	LS	426.36	426.36

OK @
COA # 331.11
6-10-14

Please remit payment to the above address. We appreciate your business!

Phone #	Fax #
727-848-8292	727-848-7701

Total	\$1,779.71
Payments/Credits	\$0.00
Balance Due	\$1,779.71

U.S. Water[®]

Services Corporation

4939 Cross Bayou Blvd.
New Port Richey, FL 34652

Invoice

Invoice #	794567
Date	5/28/2014
Due Date	6/27/2014
Account #	2535
P.O. No.	

Bill To
Lakeside Waterworks, Inc. Attn: Joe Gabay 4939 Cross Bayou Boulevard New Port Richey, FL 34652

All service pricing anticipates payment by Check or ACH. Due to additional costs incurred, services paid by credit card will require an additional "pass through" 3% processing fee in order to be accepted.

Project
2535-35 install chlorine pumps at WTP

Date	Description	Qty or Hrs	Unit	Rate	Amount
12/17/2012	Installed (4) chlorine pumps at WTP. Materials and Labor to Complete Scope of Service	1	LS	1,766.22	1,766.22

OK @
COA # 320.2
Lakeside WW
@

Entered: _____
COA Code: _____
Approved: _____
Paid: ck# 1197
Date: 6/20/14

Please remit payment to the above address. Thank you for allowing us to be of service.

Phone #	Fax #
727-848-8292	727-848-7701

Total	\$1,766.22
Payments/Credits	\$0.00
Balance Due	\$1,766.22