

Lakeside Waterworks, Inc.

October 23, 2014

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

RECEIVED-FPSC
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COMMISSION
CLERK

Re: Docket No. 130194-WS - Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.– Second Response to OPC Issues and Concerns

Dear Commission Clerk:

Attached please find Lakeside Waterworks, Inc.'s (LWI) response to the Office of Public Counsel's (OPC) second letter of issues and concerns dated October 21, 2014

It is important to note that the request by OPC is actually to a non-regulated Florida Corporation, U. S. Water Services Corporation and not to the regulated utility LWI. It should be also noted that U.S. Water Services is not subject to the requirement to produce data under Section 367.121(1)(i), Florida Statutes.

However, in response to OPC's request, LWI. offers its response and the following analysis of its U.S. Water Service Corporation contract. As previously explained to OPC, there are **no** other Operations, Maintenance, Customer Service, and Administrative contracts that are similar and/or comparable to the contracts that exists with the "shareholder" private utilities. The scope of comprehensive services provided to these shareholder utilities is far more extensive than other contracts with non-related regulated utilities. I have analyzed existing contracts with these other regulated utilities and offer the following analysis.

First, these other non-related regulated utilities have their own employees, staffing, vehicles, accounting services, customer service, etc. These other regulated utilities also have other "Outside Other" expenses other than U.S. Water. The shareholder utilities do not have any employees, other than the officers. The following is a listing of services **not provided** in these other existing contracts:

Service Not Provided

Meter Reading
System Maintenance
Flushing
Billing / Collection
Customer Service

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

- Service Orders
- Regulatory - PSC, WMD, DEP
- Permits
- DMRs, MORs - monthly reporting
- CCRs - annual
- PSC Annual Reports
- Accounting - all bookkeeping, record keeping, AR, AP, etc.
- Meter Replacements
- Line break repairs
- Minor repairs and/or replacements
- Locates
- Meter calibrations
- Backflow preventor testing
- Turn Ons/ Turn Offs
- Disconnections
- Re-reads
- Generator Maintenance
- Tank inspections
- Vehicles
- Office (also equipment, phones, ect.)

In addition, several of these contracts do not include all-inclusive testing. If testing is provided, it is either minimal or is charged separately outside of the contract amount. The same is true with maintenance and/or service orders. If these services are performed, they are billed separately. Each contract with a related shareholder utility is determined independently on the specific needs and requirements of each. Obviously, there are required operations of similar utilities as specified by FDEP requirements, regardless of the size of the customer base.

Due to the confidential nature of these contracts, LWI is requesting confidential treatment of these competitive contracts since it would place U.S. Water at a competitive disadvantage in the non regulated operations industry. Since these are at-arms length transactions with private corporations, either national or state, they are competitively in nature and must remain confidential in nature. The request for confidential treatment is attached separately.

However, a general comparison is offered. The first contract analyzed is with a national corporation which owns a manufactured home community in Seminole County. The private utility is a PSC regulated entity providing water and wastewater. The date of the contract analyzed was as of January 2014.

For the water treatment plant only, U.S. Water provides for 7 visits a week. This is to perform the FDEP required water well and treatment facilities visits, which may be approximately 15 – 20 minutes per visit. The staffing portion of this contract amounts to approximately \$7,555, including a 15% margin. Again, this does not include any additional

services such as maintenance of either the treatment plant or distributions system, service orders, flushing, meter readings, etc. The only testing that is included in this contract is for monthly Total Coliform only at a cost of \$960 (\$1,129 with 15% margin). All other water tests are listed out separately as individual charges.

For the wastewater treatment plant, U.S. Water provides for 7 days/6 hours per day as required by FDEP, and 7 lift station check visits only. The total "staffing" costs under the contract amounts to \$93,676 (with 15% margin). The testing for the wastewater plant amounts to \$13,459. There are no other services provided under the base contract price to this utility.

The second contract analyzed was with another national corporation which also owns a manufactured home community in Lake County. The private utility is a PSC regulated entity providing water and wastewater. The date of the contract analyzed was as of March 2010.

For the water treatment plant only, U.S. Water provides for 2 hours per day - 5 days per week and a weekend visit. For the wastewater treatment plant and lift stations, U.S. Water provides for 1 hour per day - 5 days per week and a weekend visit. The contract calls for a daily visit to the facility lift stations and the operation of the Effluent Disposal System. The contract also provides for monthly compliance sampling for both water and wastewater. The lab activities are coordinated to establish sampling procedures and schedules. Only field-testing for chlorine residuals, pH and flow calculations are provided for the wastewater treatment plant. The contract does not include the costs of lab testing. The amount of this contract is for \$42,000 plus sampling costs. Again, there are no other services provided under the base contract price to this utility.

The third non-related contract with a PSC regulated utility was a Florida Corporation with a water only utility also in Lake County. The U.S. Water contract with this private entity provides basic service of site visits 5 days per week and 2 weekend visits for the water treatment facility only. This includes field tests such as routine chlorine residuals and flow for water; and, for wastewater consists of chlorine residual, PH, and flow. The contract does not provide for lab testing. The contract provides for the physical pulling of monthly, quarterly and annual samples and the coordination of testing by a lab. However, the cost of pulling the samples, supplies, and transporting the samples to the lab are not included in the contract amount. The annual contract for this staffing labor is in the amount of \$9,000. Again, no other services are provided except for the operation of the water treatment facility.

In comparison to the Lakeside Waterworks contract, the field staffing at the water utility, including all maintenance, customer service, work orders, etc. is in the amount of \$13,097; while the field staffing for the entire wastewater utility including maintenance, customer service, work orders, etc. is in the amount of \$13,097. For testing, the water amount is \$1,860 and wastewater is \$1,128 which includes all required testing and laboratory expenses unlike the contracts above. The included margin on Lakeside is 15% for water and 14% for wastewater due to the size of the utilities and the low number of customers.

The remaining amounts are for the additional services as listed below:

Meter Reading
System Maintenance
Flushing
Billing / Collection
Customer Service
Service Orders
Regulatory - PSC, WMD, DEP
Permits
DMRs, MORs - monthly reporting
CCRs - annual
PSC Annual Reports
Accounting - all bookkeeping, record keeping, AR, AP,
etc.
Meter Replacements
Line break repairs
Minor repairs and/or replacements
Locates
Meter calibrations
Backflow preventor testing
Turn Ons/ Turn Offs
Disconnections
Re-reads
Generator Maintenance
Tank inspections
Vehicles
Office (also equipment, phones, etc.)

It should be noted that the Commission has previously considered this approach by OPC at analyzing affiliated transactions of related parties (which has been attempted twice before by OPC) and stated the following in Order No. PSC-12-0102-FOF-WS, issued March 5, 2012:

In evaluating whether and how much affiliate costs should be included in rates, we are aware of the relevant statutes and cases on rates and affiliate transactions. Section 367.081(2)(a)1., F.S., sets forth our responsibility in rate setting, and specifically states:

The commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and quality of the service and the cost of providing the service, which shall include, but not be limited to, debt interest; the requirements of the utility for working capital; maintenance, depreciation, tax, and operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service. . . .

As reflected in the statute cited above, we are required to set reasonable rates, but we must also set rates that are compensatory. The provisions in the statute require that we consider the cost of providing service, which includes operating expenses incurred in the operation of all property used and useful in the public service, as well as a fair return on the investment of the Utility in property used and useful in the public service. In conducting our analysis of the appropriate operating expenses to be included, we are mindful of two Florida Supreme Court cases. In the case of Keystone Water Co v. Bevis, 278 So. 2d 606 (Fla. 1973), the Court held that a utility is entitled to a fair rate of return on property used or useful in public service. In Keystone, the Court further found that rates which do not yield a fair rate of return are unjust, unreasonable, and confiscatory and their enforcement deprives a utility of due process.¹ Additionally, in GTE v. Deason, 642 So. 2d 545 (Fla. 1994), the Florida Supreme Court laid out the standard of review for affiliate transactions, stating:

The mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more. Charles F. Phillips, Jr., *The Regulation of Public Utilities* 254-55 (1988). We believe the standard must be whether the transactions exceed the going market rate or are otherwise inherently unfair. . . . If the answer is “no,” then the PSC may not reject the utility’s position.

GTE v. Deason, 645 So. 2d at 547-548. We have reviewed the record evidence and applied the holdings in Keystone v. Bevis and GTE v. Deason as appropriate. (pages 99 – 100)

The Commission, in arriving at its final decision stated:

While we agree with OPC witness Dismukes that AUF’s Market Based Study does not offer a realistic comparison of market based rates, we also agree with AUF witness Szyzgiel that the peer group analysis presented by witness Dismukes does not provide an adequate comparison. We note that in AUF’s 2008 rate case we also disagreed with witness Dismukes’ previous recommendation to use a comparison of Commission-regulated utilities to AUF in evaluating affiliate-provided services. In the Utility’s 2008 rate case, we specifically found “[t]hat the comparison analysis proposed by witness Dismukes does not provide an appropriate basis to warrant an adjustment being made.”² As acknowledged by witness Dismukes, there are complexities associated with determining the reasonableness of affiliate transactions. **To that point, we find that witness Dismukes’ peer group comparison does not adequately compare the duties, activities, and responsibilities for the Utility’s affiliate-provided services.**

(Emphasis added)

¹ See Keystone Water Co. v. Bevis, 278 So. 2d 606, 609 (Fla. 1973).

² See Order No. PSC-09-0385-FOF-WS, p. 78.

The Commission further stated:

Moreover, just because the costs to operate a utility are high, this does not necessarily mean that a utility is operating inefficiently. Other factors may influence the costs to provide service to customers. Therefore, we believe a review of this particular Utility's history is helpful in understanding the costs associated with providing service.

LWI respectfully submits that the comparison of these non-related contracts, although useful and informational, should not be the sole basis of any disallowance of prudently incurred operating expenses. Again, this is not a like-for-like comparison due to the fact that these contracts are only for a limited amount of staffing services and are not all-inclusive of all utility services. If LWI was required to establish a stand-alone utility with personnel for maintenance, customer service, accounting, regulatory compliance, etc. the costs would far exceed the amount in the current U.S. Water contract. These all-inclusive services were previously not being provided by the previous owner of the utility.

As previously stated, the Commission staff has thoroughly reviewed the information provided in the above documents and has independently verified that these costs are below the national amounts provided by the third party independent association, AWWA for regulated utilities throughout the United States. In addition, LWI has provided information from another third party independent party hired by one of U.S. Water clients to also verify ongoing costs and compare them to nationwide standards. This was a Governmental Authority who hired the independent third party to analyze the market bases contractual rates of U.S. Water Services. Both of these studies provide third party independent verification that the U.S. Water operation and maintenance costs are well below the market rate.

Respectfully Submitted,



Gary Deremer
President

Attachments

Cc: Victoria Penick
Troy Rendell