ANDY GARDINER
President of the Senate

J.R. Kelly
Public Counsel

STATE OF FLORIDA
OFFICE OF PUBLIC COUNSEL

C/O THE FLORIDA LEGISLATURE
111 WEST MADISON ST.
ROOM 812
TALLAHASSEE, FLORIDA 32399-1400
1-800-342-0222

EMAIL: OPC_WEBSITE@LEG.STATE.FL.US
WWW.FLORIDAOPC.GOV

STEVE CRISAFULLI
Speaker of the House of Representatives

April 22, 2015

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

Re: Docket 140147 -- Application for staff-assisted rate case in Sumter County by Jumper Creek Utility Company

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, Cicchetti, Vogel)
Division of Economics (Thompson, Hudson)
Division of Engineering (King, Watts)
Office of the General Counsel (Tan)
Office of Auditing and Performance Analysis (Deamer)

Jumper Creek Utility Company
Gary Deremer / Troy Rendell
4939 Cross Bayou Blvd.
New Port Richey, FL 34652-3434

Office of Public Counsel (Reilly)

OPC Issues and Concerns
Jumper Creek Utility Company
Docket No. 140147-WS

Operation & Maintenance (O&M) Expenses

Chemicals

1. The staff report increases the test year Chemical expense for water by $358 to $404. Our review of the invoices included in the audit work papers, as well as the utility response to staff's data request, indicates that the staff adjustment duplicates invoices that are included in the wastewater expense. Our analysis below details the duplicated invoices. We believe that the staff adjustment of $358 should not be made. If those invoices are for water expenses, the adjustment should be made but the same adjustment should be made to reduce the wastewater expense.

Test Year: July 1, 2013 through June 30, 2014				
Date	**Num**	**Name**	**Memo**	**Debit**
618 · Water Chemicals				
07/17/2013	284880	Dumont	Qty. 15 UN1791 Hypochlorite Solution	19.50
11/22/2013	296125	Dumont	Qty 14 - Hypochlorite Solution	18.20
02/14/2014	302482	Dumont	Qty. 7 UN1791 Hypochlorite Solution	9.10
Balance per Utility				46.80
09/03/2013	288991	Dumont	Qty. 75 - Hypo Chlorite Sol	97.50
11/22/2013	296126	Dumont	Qty. 100 - Hypochlorite Solution	130.00
02/14/2014	302483	Dumont	100 Gallons Hypo Solution	130.00
Additions by Staff				357.50
Staff Report Balance				404.30
718 · Wastewater Chemicals				
09/03/2013	288991	Dumont	Qty. 75 - Hypo Chlorite Sol	97.50
11/22/2013	296126	Dumont	Qty. 100 - Hypochlorite Solution	130.00
02/14/2014	302483	Dumont	100 Gallons Hypo Solution	130.00
04/14/2014	307058	Dumont	75 gal Hypo Solution	97.50
Balance per Utility, Accepted by Staff Report				455.00

Contractual Services-Other

2. The staff report included $10,728 for Contractual Services – Other for water and $16,575 for wastewater. These amounts reflect the annual expense for the management services agreement with USWSC. The contract represents monthly charges of $894 for water operations and $1,381 for wastewater operations (approximately $21 and $32 monthly for each customer). The Office of Public Counsel remains very concerned about the level of charges included in the utility contract with USWSC. The utility states (Page 5, Document No. 01603-15) that "common sense would dictate that no utility could cover all of the services required for these amounts." However, we would argue that "common sense" would dictate a more reasonable approach to providing service for these small systems. The

individual amounts all appear small and reasonable; however, one must remember that this is a system with 43 customers. We believe that "common sense" would dictate that a small system such as Jumper Creek would hire staff as needed with local operators and maintenance contractors.

Market Value

While we recognize that it is difficult to determine a market price to compare to this contract, we do not believe that some of the specific rate cases that the utility has referenced are reasonable to use to compare to Jumper Creek. Our concern regarding the utility's comparison is two-fold. First, we believe that an analysis should look at total O&M expenses, while the utility analysis only looks at specific accounts that it equates with the USWSC contract. Because the contract includes a certain level of repairs, materials and supplies, and miscellaneous expenses, we believe that the utility's comparison to certain accounts is incomplete. Therefore, we believe a comparison would best consider total O&M expenses.

In Document No. 01305-15, the utility attempts to compare similar costs approved in Commission Order No. PSC-14-0626-PAA-WS, issued October 29, 2014, for Little Gasparilla Water Utility, Inc. The approved expenses include the imbedded costs for a stand alone reverse osmosis water system that is converting to an interconnect with the county via a subaqueous pipeline approximately 3,000 feet. The system is on an island with no bridge to the mainland. This system has every reason to have higher expenses than Jumper Creek.

The utility further attempts to compare its contract to the expenses incurred by K W Resort Utilities Corp. (KW) and Tradewinds Utilities, Inc. (Tradewinds).[1] We believe that these two utilities are also significantly different from Jumper Creek. First, KW is a wastewater system in an environmentally sensitive area that complies with Advanced Wastewater Treatment Standards and serves over 6 times the number of customers as Jumper Creek. With that said, the total expenses approved on a per customer basis for KW equate to $681 per customer compared to the $583 per wastewater customer for Jumper Creek. Tradewinds has a water system which includes a water treatment plant (WTP) composed of three wells, a hypochlorination system for disinfection, two hydropneumatic/flow tanks, and one elevated storage tank. The total expenses approved on a per customer basis for Tradewinds equate to $241 per water customer, significantly less than the Jumper Creek cost per customer of $440. The Tradewinds wastewater system includes an extended aeration facility which consists of flow equalization, aeration, secondary clarification, chlorination, and aerobic digestion of residuals. Its treated effluent is sent to a holding pond with a 2.34 acre spray field used for irrigation. With that said, the total expenses approved on a per customer basis for Tradewinds equate to $606 per wastewater customer, which is higher than the Jumper Creek cost per customer of $583, but there is significantly greater treatment demands for the Tradewinds system.

[1] Document No. 06670-14

There are very few utilities specifically in Sumter County to compare to Jumper Creek. But the chart below shows the average O&M cost per customer for these few utilities.

Utility Code	Utility Name	Source for O&M	Water O&M per Customer	Sewer O&M per Customer
WS897	Central Sumter Utility Company, LLC	2013 Annual Report	101.99	108.06
WS606	Continental Utility, Inc.	2014 Annual Report	194.51	172.10
WS912	Orange Blossom Utilities, Inc.	PSC-08-0255-PAA-WS	238.92	211.61
WS969	Jumper Creek Utility Company	Staff Report	440.09	583.21

Basis for the Costs

The utility also submitted a breakdown of the costs that support the contract cost. Our review of these components raises several questions that we believe staff should consider.

In Document No. 01603-15, page 5, the utility describes one cost component of the contract titled "US Water Engineering Support Activities". The utility supports this component by describing the duties for the Operator and Maintenance Technician. The last sentence on the page states that the duties for the Maintenance Technician includes "meter reading, turn ons, turn offs, leak repairs, meter repairs and/or replacements, re-reads, line locates, plant maintenance (both water and wastewater), customer service including premise visits concerning billing questions or water quality issues." However, on page 7, the utility supports a separate cost component of the contract titled "Field Services" by describing the duties related to the Maintenance Technician which includes "meter reading, turn ons, turn offs, leak repairs, meter repairs and/or replacements, maintenance, line locates, customer service including premise visits concerning billing questions or water quality issues." It appears that USWSC is receiving compensation twice for providing the same service by the same person.

In our letter filed with the Commission March 13, 2015, we identified several specific issues regarding overtime, fuel and gasoline, and vehicle maintenance. The utility response indicates estimates that are in excess of actual costs. These discrepancies may not be material on an individual basis, but for a small system with only 43 customers, we believe that all over-estimates begin to accumulate. We also point out that the contract includes a margin/profit on top of the specific expenses that are detailed. All of this raises concerns about the amount of excess overhead that is being charged to such a small system that does not have a customer base that can absorb any additional costs.

Attachment G

We also have an issue with Attachment G to the contract. We note that every time the utility provides a copy of the contract to staff, it neglects to include this attachment which is referenced in the contract. In this case, the auditors received a copy of the contract without the referenced attachment and can be found in WP 43-2. The utility responded to staff's engineering request and with an Attachment D which included a copy of the contract without the attachment. To this date, we do not believe that the utility has filed a copy of the Attachment G to the contract for Jumper Creek. In past related cases, we have been provided copies but they do not reference the utility to which the attachment applies. The attachment that we have reviewed in the past includes a provision that "materials and reimbursable expenses will be billed at actual cost plus: 18%" and "Operations Supplies provided will be billed at actual cost plus 18%".

We believe that the utility appears to recover USWSC overhead through the ERC allocations used to develop the contract costs. If USWSC recovers its overhead through the ERC charges and then adds on overhead through the 18%, we believe this allows a double recovery of these costs.

We further believe that the utility should be required in every case to include a copy of Attachment G attached to the contract and that the attachment must include reference to the utility that it applies to, instead of a generic form that does not reference the utility.

Bad Debt Expense

3. The staff report adjusts bad debt expense to $830 for water and $1,283 for wastewater based on the "appropriate amount" reflected in the staff audit report. However, the staff audit report adjusts bad debt expense to "reflect the proper amount" with no explanation or justification. The audit amounts equal 6% of the test year revenues. The only actual bad debt that appears in the general ledger is one amount for $41.09 in December 2013. The amount allowed in the staff report is 4% of the proposed revenue.

   The purpose of a bad debt expense is to accrue a sufficient level in the allowance for uncollectible accounts to cover the accounts that will be written off throughout the year. Audit work paper 12 indicates that the accumulated provision for uncollectible accounts is $1,274, which is 25% of the year end accounts receivable of $5,157.

   We believe that the bad debt expense is significantly overstated. We believe that the utility should document its historical accounts that have been written off and provide current aging reports to indicate accounts that are currently delinquent. Staff should consider whether any historical write offs are due to the failure of prior owners to pursue collection of accounts and to shut off service for failure to pay. If the historical write offs are due to the failure of past owners, the expense should not be continued on a going forward basis. The expense should represent what the current owners are expected to incur.

If the utility indicates that it is continuing to write off such a significant amount, it should indicate what it is doing to reduce this expense. Is the utility requiring deposits from customers? Is the utility cutting off service to eliminate the continued accumulation of uncollectible amounts?

Bad Debt Expense is not included in the USWSC contract. However USWSC provides the meter reading, billing and collecting services. While Jumper Creek and USWSC are related entities, we believe that there is no incentive for USWSC to minimize bad debt expense as any losses are not passed through to USWSC.

We have reviewed the bad debt expense granted by the Commission in staff assisted rate cases for the period January 2010 through June 2014. The average bad debt expense as a percentage of revenues was less than one percent (.72%) or $2.33 per customer on an annual basis. This is substantially less than the 6% of revenues in the staff report (or $19 and $30 per customer on an annual basis.) We recommend that because the utility has not met its burden to support a 4% bad debt expense, the staff should at a minimum, reduce the bad debt expense to no more than the historic average of .72% of the revenues on an annual basis.

Miscellaneous Expense

4. The staff report increases the water miscellaneous expense by $400 to include the amortization of the DEP Operating license. However, the test year expense already includes this item at the full amount of $2,000. Therefore, no further adjustment is needed. But, it appears that the fee paid is based on a much larger system. We believe that DEP Rule 62-4.053, Florida Administrative Code, indicates that the operating license fee for a utility this size is $500. There are DEP guidelines that could further reduce this permit cost to $100. Staff should carefully review the appropriateness of this expense on a going forward basis.

Taxes Other Than Income

5. The staff report includes $4,349 for test year taxes other than income and $3,878 for the wastewater taxes. The test year expense includes $3,731 for water ad valorem taxes and $2,947 for wastewater ad valorem taxes. These amounts are based on the discounted 2013 tax bills for real estate and tangible property. The millage rates and overall assessed values decreased in 2014. Based on the 2014 discounted tax bills, water expense should be reduced by $1,113 and wastewater should be reduced by $843.

Operating Ratio

6. This case presents a unique situation where there is a substantial acquisition adjustment as well as a substantial used and useful adjustment. Because the staff has calculated a negative rate base, staff recommends that the operating margin be used instead of a rate of return on rate base. We understand the need for the utility to be granted a revenue requirement sufficient to cover its O&M Expenses plus taxes; however, we do not believe that the Commission should negate the customers' positive benefits from the approved negative acquisition adjustment. This

calculation erases the negative amortization expense for the acquisition adjustment. In this case, we believe that the negative acquisition adjustment that was approved by the Commission, based on a legally promulgated rule (25-30.0371, Florida Administrative Code) should not be superseded by a non-rule policy that allows an operating ratio. We have two specific issues regarding this situation.

7. First, the staff report calculates an adjustment for non-used and useful wastewater plant in the amount of $45,127. Our review of the calculation appears to indicate that the 10.5% used and useful is applied to net treatment plant (plant, accumulated depreciation, CIAC, and accumulated amortization). However, we believe that to be more accurate, the used and useful percentage should also be applied to the portion of the acquisition adjustment that applies to the treatment facilities that are considered in the non-used and useful calculation. Theoretically, this is no different than the policy regarding the used and useful consideration for fully contributed plant. If the utility has no investment in plant, there is no plant to which the used and useful adjustment should be applied. We do not believe that the acquisition adjustment and used and useful calculation should be applied in a manner that reduces the net rate base below zero. We further do not believe that the amortization of the acquisition adjustment should be greater than net depreciation expense. Therefore, the calculation of the non-used and useful plant and depreciation expense should be calculated to include an allocated portion of the acquisition adjustment.

8. Second, staff discuses that the operating ratio is applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses. We note that the utility already has multiple opportunities to be protected against potential variances in revenues and expenses. The contract between Jumper Creek and USWSC represents 56% of the total O&M Expenses and Taxes Other Than Income (O&M/TOTI). This contract already includes a margin[2] which should cover variability in costs included in that expense. In addition, the recommended expenses for purchased power, chemicals, and taxes total about 24% of the O&M/TOTI. Increases in these expenses can be recovered through pass-through applications. Plus the utility can also file each year for a price index to recover increases in the remaining 20% of the O&M/TOTI expenses. We recommend that no operating ratio be approved.

   We further urge the Commission to carefully consider that Jumper Creek is a utility system with 43 customers that is operated by a national firm that has common owners with the utility and that:
   - provides potable water to over 1,000,000 customers daily,
   - provides Operations & Maintenance Services to over 850 Utility Systems in three states (Florida, Iowa, and Texas),

[2] The specific margin amount is included in the confidential schedules provided in Document No. 06732-14.

- operates in 60 of the 67 Counties in Florida,
- has over 180 licensed utility operators serving Florida, and
- has over 450 O&M Staff throughout Florida.

This is not a small company without resources to cover its day to day operations. We believe that in this particular case, it is not reasonable to allow an additional operating ratio. Staff itself points out that the first consideration whether the utility has sufficient revenue to cover its interest expense is not an issue to consider as Jumper Creek currently has no interest expense. However, staff does not point out the potential for growth in that there are houses on less than half of the lots in the development. In addition, the utility is operated by an affiliated company, with a built in operating margin, and with significant resources available. The utility has repeatedly touted its vast experience, resources, and expertise as the benefits received by the utility customers resulting from the contract with USWSC. We believe that these benefits can be more tangibly realized by removing the operating ratio.