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STEVE CRISAFULLI
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May 27, 2016

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

Re: Docket 150181-WU; Application for staff-assisted rate case in Duval County by Neighborhood Utilities, Inc.

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 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, Smith) Neighborhood Utilities, Inc.
Division of Economics (Johnson, Daniel, Hudson) Larry O'Steen
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Quality of Service

1. In the last rate case, the Commission stated:

We find that Neighborhood's quality of product, operational condition of its water treatment plant and facilities, and its attempt to address customer satisfaction are marginal. The Utility's deferred maintenance to its water treatment plant and distribution system has caused sporadic substandard service to its customers. While the Utility may have deferred improvements due to the lack of funds, these problems are the management's responsibility to correct, rather than the customers' fault. However, implementing fines and penalties on this small utility would most likely be counterproductive.

In order to monitor the customers' concerns about the precautionary "boil water" notices as required by the DEP, the Utility shall provide us with a copy of both the initial and rescinding boil water notifications for a period of one year following the issuance of this order. In addition, the Utility is hereby put on notice that the customers shall have reasonable access to contact the Utility during normal business hours as well as a means of emergency, after-hours contact.¹

We believe that the utility continues to provide marginal quality of service. During the customer meeting, two customers testified to the poor customer service. The community manager at Chaffee Pines discussed that when you call the office, "you get a runaround"². Another customer testified to the poor customer service in that there is no improvement on the notification system and that customers are not provided notice of problems such as broken pipes. She further stated that even when you talk to someone in the office, there was no level of concern or caring expressed.³ In addition, a customer complaint provided in the utility's response to staff's data request indicates another customer complaint by e-mail that indicates the customer was unable to reach anyone in the office. The utility response indicates that the utility office closes on Friday afternoon. Two other customer concerns can be found in the Google reviews for the system⁴. The two most recent reviews address customer service. One from three weeks ago states that the water is off and the customer is unable to reach anyone. The second is from last year and also states that the water is off and cannot get through to the office and that there is no emergency number.

¹ See Order No. PSC-10-0024-PAA-WU, issued January 11, 2010, in Docket No. 090060-WU, In re: Application for staff-assisted rate case in Duval County by Neighborhood Utilities.

² Page 10 of Document No. 03205-16, Customer Meeting Transcript.

³ Pages 12-13 of Document No. 03205-16, Customer Meeting Transcript.

⁴ https://www.google.com/?gws_rd=ssl#q=neighborhood+utilities+jacksonville&lrd=0x88e5b868c6861589:0x95a62e1f1a463ad8,1,

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We are also concerned with the quality of the product. We believe that the utility is still deferring maintenance which is impacting the quality of service. In the last rate case, the Commission allowed \$5,255 as an expense to replace 40 meters per year. It appears that the utility spent \$6,295 in 2010 and \$1,081 in 2011. After that, there was no more than \$300 spent each year. The community manager at Chaffee Pines also testified regarding broken water meters and estimated bills. The staff report includes numerous pro forma plant and expense items which also appear to reflect neglected maintenance items. The report is allowing pro forma plant to replace 60 meters. In addition, the staff report includes \$6,925 amortized over 5 years to inspect the storage tanks. By letter dated July 29, 2014, the Florida Department of Environmental Protection (FDEP) listed the results of its sanitary survey inspection. In this letter, the FDEP listed five deficiencies. One deficiency was that the utility must inspect its tanks as required by Rule 62-555.350(2) which states that water storage tanks

shall be inspected for structural and coating integrity at least once every five years by personnel under the responsible charge of a professional engineer licensed in Florida.

It is not apparent when the last inspection was performed, but if the 2014 letter showed it as a deficiency and the inspection has still not been performed, we believe that this is an important deficiency.

Based on the above issues, we believe that the quality of service should continue to be deemed marginal. We recommend that the Commission require the utility to establish an emergency contact number for emergency situations and that it be available when the office is closed. Further, we recommend that the customers should be informed of the office hours for when they have questions or concerns and that the utility must make it a priority to provide customer service during those hours. Further, because the staff report did not recommend that the pro forma items be included in phased rates, we believe that the docket should be held open for at least a year to monitor the utility's progress in meeting these needs. The utility should be required to submit quarterly reports addressing the progress. And, if the utility has not completed the majority of these items after a year, the Commission should consider whether the utility's rates should be reduced.

Accumulated Amortization

2. It is not clear how the staff calculated the accumulated amortization for the plant capacity charges. The staff calculation results in 100% amortization of the plant capacity charges when the plant (excluding T&D) is only 70% depreciated. OPC believes that the accumulated amortization for the plant capacity charges should be less to reflect a similar relationship as between plant and accumulated depreciation

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Billing

3. The auditors asked the utility to provide documentation for the local (10%) and county (5%) charges included on the customer bills. The utility responded that the 10% tax is a public service tax and the 5% tax is a “right of way tax”. The company further provided a copy of a check written to the tax collector and the remittance for one monthly payment of the public service tax. The tax collector’s website indicates that the public service tax is also known as the municipal utility tax and is “levied on the purchase of public services by the ultimate consumer of the service. It is to be paid by, and collected from, the purchaser at the time of purchase.” The rate for water service is 10%.

However, the only support that the utility provided to the auditor for the “right of way tax” is a blank form from a tax collector who has not been in office since 2003. The form has obvious alterations and the utility did not provide any proof of payment of a tax during the test year.

While these “taxes” are not included in the revenue requirement, we are very concerned if the utility is collecting a tax that is not submitted to the tax collector. We believe that the utility should be required to provide additional proof of the tax requirements and proof of payment. If these are not required taxes then the utility should be required to refund the collected tax to the ratepayers.

Purchased Power

4. The staff report includes \$1,705 for an estimated purchased power expense that may be incurred if the utility moves out of the building where it is currently located. Staff states that the arrangement is temporary and the utility must find another location. OPC does not see any evidence in the docket file that the utility is looking for a new location and what the timeframe or estimated costs might be.

Contractual Services - Other

5. The staff report includes \$20,922 to reflect documented expenses that were deemed reasonable. However, there is no description of these costs or explanation of how they were not reflected by the utility on its books. Also, the audit report and work papers do not include these costs in this account. OPC notes that the contract operator charges are already included in other accounts. The USWSC charge for meter reading and monthly turn-offs are included in Account No. 630 Contractual Services – Billing. The USWSC charges for sampling are included in Account 635 - Contractual Services – Testing. Miscellaneous Expense includes the following USWSC charges:

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Monthly Operations Charges	\$8,281
Repair Leak at Chaffee Pines Pool	579
Repair Water Leak Lot 107	186
Repair Leak October 2014	215
Repair Chlorine Leak at Plant	128
Repair Leak at Thornbrook Drive	186
Repair Main Break	561

OPC is unable to say that this expense is reasonable without an understanding of what staff has included in its \$20,922 adjustment to increase the expense. Our main concern is that this adjustment is double counting expenses that are already included in other accounts.

Rent

6. The audit report states that in 2010 the utility moved its office facilities from downtown to an office closer to the service area. The report further states that the building where the utility operates belongs to Menava Financial, an unrelated company and that there is no rent contract and no rent expense is paid. The staff report states that this situation is temporary and calculates an estimated rental expense of \$9,293. There is nothing in the docket file that indicates this is a temporary situation or that indicates a time frame for moving. The estimated expense may be reasonable, but only if the utility is planning to move in the near future. Otherwise, the customer will be paying for a non-existent expense.

Transportation

7. The staff report includes \$7,378 for transportation expense. The audit report states that the auditors reviewed the owner's credit card for all transportation expenses. We believe the following issues should be reviewed for this expense. In response to Staff Audit Request NUI 3, the utility stated that two vehicles are used or paid for by the utility from 2008 to June 2015: 1998 Honda Accord and 2001 Lexus SUV. The audit work papers state that the "utility considers the '98 Honda Accord as a company vehicle. The utility does not keep a log but also has a Lexus for standby availability in case the Honda isn't working." In response to an e-mail request from the auditor, the owner states that he considers "the Honda a company vehicle (it's always full of company tools and equipment)" Further, he does "not keep a log. Gas for the Lexus is compensation for standby availability for use when the Honda is not suitable or available for use." There is no follow up on how the costs are allocated.
 - a. First, there is no vehicle shown in utility plant in service. If this is a private vehicle, how did the auditor determine whether the expenses were for utility use instead of personal use? There are charges for fuel, brake pads, towing, tires and other miscellaneous charges. We believe that the amount should be analyzed to verify that these amounts were solely for utility use and not for personal use.

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- b. Second, there is a May 28, 2015 charge for \$2,411.58 paid to Olathe Subaru/Mitsubishi. There is no indication what this charge is for.
- c. Third, the expense included in the staff report results in approximately \$600 per month. This includes approximately \$255 per month for fuel. The contract operator provides the routine operations for the system, including a transportation charge. OPC is concerned whether these charges are solely for the operations of the water utility.

Insurance

8. The staff report includes \$5,508 for insurance expense. We believe the following two issues should be reviewed for this expense.
 - a. The staff report indicates \$3,346 for life insurance and states that the staff has verified that the utility is the beneficiary on the life insurance policy. However, pursuant to the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) for Class C Water Utilities, life insurance on officers and employees where the utility is beneficiary are non-utility expenses. These expenses should be recorded below the line as non-utility expenses in Account 426, Miscellaneous Non-utility Expenses⁵.
 - b. The staff report also includes \$993 for auto insurance. In the previous issue, we questioned whether the transportation expense was properly allocated between personal and utility use. We believe that same issue should be addressed regarding the auto insurance.

Generator's Lease

9. The staff report includes \$2,760 for generator lease expense. The audit work papers indicate the lease is with Mr. O'Steen and that there is a verbal agreement. We believe that anytime there is a related party transaction there should be additional scrutiny to determine the reasonableness of the cost. Is the lease based on usage, an allocation of the original cost split between personal and utility use?

Miscellaneous Expense

10. The staff report includes \$29,559 for miscellaneous expense. This is more than 5 times the expense included in the last rate case. A large part of the increase is due to the use of US Water for monthly operations. The annual expense included in the test year for US Water is \$10,137. OPC is unable to fully reconcile this amount to the amounts reflected in the audit work papers. The following items are based on the expenses reflected in the audit work papers and OPC believes that they should be further investigated by staff.
 - a. The audit work papers include the four charges listed below that appear to be non-utility. The first charge should be recorded below the line as a non-utility

⁵ Order No. PSC-99-1912-FOF-SU, issued September 27, 1999, in Docket No. 971065-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc. and Order No. PSC-04-0356-PAA-WU, issued April 5, 2004, in Docket No. 030423-WU, In re: Investigation into 2002 earnings of Residential Water Systems, Inc. in Marion County

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expense in Account 426, Miscellaneous Non-utility Expenses. The second and third charges appear to relate to the owner's real estate license. And, the last charge initially appears as a duplicate payment to the Sunbiz Division of Corporations. However, upon further review, it appears that one charge is for the utility and the second charge is for Colt Development Company. Therefore, miscellaneous expense should be reduced by \$470.95 to remove the non-utility items listed below.

11/12/14	Alumni Directory University of Fla Charity	219.00
9/29/14	Florida Dept. Business Regulation (Real Estate Broker License)	77.00
9/16/14	Florida Real Estate (Personal Book)	24.95
3/2/15	Sunbiz Division of Corporations (Colt Development Company)	150.00
TOTAL		470.95

- b. The audit work papers include nine charges (\$1,041.32) to AT&T/Bellsouth for telephone service. But the audit note next to these charges is that the service was cancelled and switched to Comcast. The audit work papers indicate seven charges (\$991.23) to Comcast Digital Phone. The charges for both totals are listed below. It appears that the monthly charge to Comcast is approximately \$95 per month. We believe that the expense for telephone should be reduced to reflect an annualized expense at the new rate. Using the \$95 per month equals an annual expense of \$1,140. The two expenses reflected on the books total \$2,032 (1,041 + 991). Therefore, miscellaneous expense should be reduced by \$892 to reflect the annualized expense (\$1,140 - \$2,032 = \$892).

7/17/14	AT&T / BellSouth	33.86
7/29/14	AT&T / BellSouth	272.51
8/12/14	AT&T / BellSouth	33.86
8/12/14	AT&T / BellSouth	83.17
10/01/14	AT&T / BellSouth	274.27
10/20/14	AT&T / BellSouth	24.47
11/7/14	AT&T / BellSouth	50.08
11/7/14	AT&T / BellSouth	129.10
1/21/15	AT&T / BellSouth	140.00
TOTAL		1,041.32

12/16/14	Comcast Digital Phone	214.29
12/18/14	Comcast Digital Phone	199.93
1/21/15	Comcast Digital Phone	94.54
2/20/15	Comcast Digital Phone	94.54
3/18/15	Comcast Digital Phone	94.54
5/11/15	Comcast Digital Phone	198.76
6/18/15	Comcast Digital Phone	94.63
TOTAL		991.23

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- c. The audit work papers include three credit card payments that do not indicate any utility purpose. These charges are listed below. We believe that these charges should be justified before they are included as utility expense. Therefore, miscellaneous expense should be reduced by \$1,442 pending the utility's justification of these charges.

2/12/15	Bank of America Credit Card	491.00
2/18/15	Bank of America Credit Card	491.00
2/19/15	Citibank Credit Card	460.00
TOTAL		1,442.00

- d. The audit work papers include four charges for memberships and are listed below. We believe staff should first verify the correct membership fee for these organizations. (The Florida Rural Water Association (FRWA) lists a membership fee on its website as \$125 per year.) Second, we believe that it appears that the test year includes two annual payments to each of these organizations. We believe that the expense should be reduced by the duplicate payment. Therefore, we believe miscellaneous expense should be reduced by at least \$399 to remove the 2014 payments and to reduce the 2015 FRWA fee to \$125.

7/25/14	Florida Retail Federation	110.00
7/11/15	Florida Retail Federation	154.00
7/24/15	Florida Rural Water Association	160.00
12/27/14	Florida Rural Water Association	253.70

- e. The audit work papers include total charges to Geer Services for web services of \$376. This total includes two charges of \$105.68. The audit notes state that one of the charges is for back payment from previous months. Therefore, we believe miscellaneous expense should be reduced by \$105.68 to remove the prior period charges.

7/18/14	Geer Services, Inc. (Back Pay from previous months)	105.68
7/16/14	Geer Services, Inc. (Registration Renewal)	105.68

Amortization Expense

11. The staff report includes \$13,635 for amortization expense. OPC believes that this is understated and the amount should be reviewed. The audit work papers appear to indicate different calculations for the accumulated amortization of CIAC. However, audit work papers 23 and 23-2 support the numbers included in the rate base and net operating income schedules included in the audit report. Work paper 23-2 indicates an amortization expense of \$14,043 for the six month period ended June 30, 2015. Therefore, we believe this amount should be added to one-half of the \$28,007 expense for 2014 to calculate a test year amortization expense of \$28,046.