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BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20220019-WU

Application for transfer of water  
facilities of Neighborhood Utilities,  
Inc., and water Certificate No. 430-W  
to CSWR-Florida Utility Operating  
Company, LLC, in Duval County.

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PROCEEDINGS:                    COMMISSION CONFERENCE AGENDA  
ITEM NO. 5

COMMISSIONERS  
PARTICIPATING:                CHAIRMAN ANDREW GILES FAY  
COMMISSIONER ART GRAHAM  
COMMISSIONER GARY CLARK  
COMMISSIONER MIKE LA ROSA  
COMMISSIONER GABRIELLA PASSIDOMO

DATE:                                Tuesday, August 2, 2022

PLACE:                               Betty Easley Conference Center  
Room 148  
4075 Esplanade Way  
Tallahassee, Florida

REPORTED BY:                    DANA W. REEVES  
Court Reporter and  
Notary Public in and for  
the State of Florida at Large

PREMIER REPORTING  
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## 1 P R O C E E D I N G S

2 CHAIRMAN FAY: We will move on to Item No. 5.  
3 We'll give Ms. Maloy a second to set up here.

4 All right. Item No. 5. Ms. Maloy, you're  
5 recognized to present the item.

6 MS. MALOY: Good morning, Commissioners. Item  
7 No. 5 is staff's recommendation for the transfer of  
8 Neighborhood Utilities, Inc.'s, water facilities  
9 CSWR Florida Utility Operating Company, LLC. The  
10 utility provides service to approximately 439  
11 residential customers and four general service  
12 customers in Duval County. Along with this  
13 transfer request, CSWR is also requesting a  
14 positive acquisition adjustment. Staff recommends  
15 the Commission approve the transfer effective the  
16 date that the sale becomes final. Staff also  
17 recommends that the Commission deny the request for  
18 a positive acquisition adjustment as CSWR did not  
19 demonstrate extraordinary circumstances.  
20 Representatives from Office of Public Council and  
21 CSWR would like to address the Commission. Staff  
22 is available to answer your question.

23 CHAIRMAN FAY: Okay. Great. I will work my  
24 way down this way. Mr. Crabb or Ms. Clark, you're  
25 recognized to address the Commission on this item.

1 MS. CLARK: Thank you, Mr. Chairman. I'm  
2 Susan Clark with the law firm -- with the Rady Law  
3 Firm. With me is also Tom Crabb, who is also with  
4 the law firm and Mr. Aaron Silas, who is the  
5 regulatory case manager for Central States Water  
6 Resources, which I'll refer to as Central States.  
7 We are pleased that your staff has recommended  
8 approval of the transfer and ask that you do  
9 approve it today. In this case, Central States did  
10 provide your staff with more information regarding  
11 the expected benefits to customers resulting from  
12 the transfer that was -- than was provided in  
13 previous Central State cases that you approved back  
14 in March.

15 However, as your staff has indicated, we still  
16 request that you defer any decision on the  
17 requested acquisition adjustment until the  
18 utility's first rate case. We realize you have  
19 addressed this request before, but we continue to  
20 believe it is appropriate for you to defer the  
21 decision on an acquisition adjustment. And we  
22 believe the three gas cases cited by your staff in  
23 their recommendation support our view on this.

24 These cases demonstrate that to get a fair  
25 picture of what benefits can be achieved as a

1 result of the transfer, the acquiring utility  
2 should have the opportunity to operate the system  
3 and identify the actual improvements that are  
4 feasible. In each of these gas cases, there was  
5 approximately 18 months to two years between the  
6 time of the transfer of ownership and the filing of  
7 a request for an adjustment. The information  
8 provided by the utility was not based on due  
9 diligence prior to the acquisition, but on 19  
10 months, two years of actually operating the  
11 utility.

12 This is exactly what Central States is asking  
13 for in its request for a deferral. Give Central  
14 States the opportunity to actually operate the  
15 system and identify feasible improvements.  
16 Contrary to your staff's statement on page -- in  
17 paragraph one on page nine, these cases do not  
18 demonstrate that an appropriate level of due  
19 diligence at the time of transfer will provide the  
20 purchasing utility with the necessary information  
21 to make the case for an adjustment. They  
22 demonstrate just the opposite. For an acquiring  
23 utility to develop the evidence and information  
24 that supports an adjustment, they need the  
25 opportunity to actually operate the system.

1           Commissioners you have previously stated that  
2           your rule establishes a high bar for granting  
3           acquisition adjustment. It is indeed a high bar,  
4           but it should not be made impossible to achieve by  
5           denying a utility the opportunity to develop the  
6           evidence and information needed to meet that bar.  
7           Providing that opportunity is consistent with your  
8           stated objective incentivizing utilities larger  
9           size in scale to take over smaller, inefficient or  
10          troubled utilities.

11           With that, Commissioners, I'll close and ask  
12          to have the opportunity to respond to anything.  
13          Thank you.

14           CHAIRMAN FAY: Okay. Great. Thank you, Ms.  
15          Clark. Mr. Rehwinkel, you're recognized.

16           MR. REHWINKEL: Commissioner, I can keep this  
17          fairly brief because on March 1st, Item No. 6 in  
18          Docket No. 20210095, Public Counsel made extensive  
19          comments not only on acquisition adjustment issue,  
20          but on the deferral issue. Ms. Wessling made those  
21          remarks. I would just ask you to consider those in  
22          any decision you make today. I don't want to  
23          repeat them, but I strongly support your staff's  
24          recommendation in this case.

25           The same page that Ms. Clark cited, page nine,

1 right there in the middle is an important sentence  
2 to the Public Counsel. It says finally it is  
3 along -- it is a long-standing Commission practice  
4 to address the disposition of any positive or  
5 negative acquisition adjustment at the time of  
6 transfer. Pursuant to Section 12068(7)(e)(3),  
7 Florida Statutes, when agencies change or establish  
8 practice -- establish policies, practices and  
9 procedures, they must give an explanation for the  
10 deviation.

11 That's an appellate standard. It says that if  
12 you don't follow that, it's a basis for review --  
13 reversal by a reviewing court. We think that's  
14 important. We support the staff's interpretation  
15 of the gas cases, and we urge you to follow  
16 long-standing practice, make your determination  
17 now, and follow the practice that you recently  
18 established in the dockets on your decision on  
19 March 1st in the other Central States cases.

20 That's sum and substance of what we say. We  
21 strongly support staff, as I said earlier, and we  
22 urge that you grant the recommendation as the staff  
23 recommends on the issue of acquisition adjustment  
24 and deferral. We maintain no position on transfer  
25 itself, as we did in earlier cases.

1           CHAIRMAN FAY: Okay. Great. Thank you, Mr.  
2           Rehwinkel. Commissioners, I will take any  
3           questions or comments.

4           Commissioner Clark, you're recognized.

5           COMMISSIONER CLARK: Thank you, Mr. Chairman.  
6           A couple of questions. I was looking through the  
7           observation regarding long-standing practice. I  
8           just don't ever understand if that always makes it  
9           right, because we've done something the same way  
10          for a long period of time. I would kind of like to  
11          dive into this just a little bit to understand what  
12          the negative ramifications of postponing this  
13          decision would be. My understanding is that the  
14          rates, the rate revenue requirements would not  
15          change based on the acquisition adjustment. Is  
16          that correct, Ms. Clark? We would still have the  
17          same rates either way?

18          MS. CLARK: That is correct.

19          COMMISSIONER CLARK: And this particular --  
20          these particular rates, are they higher or lower  
21          than the residents are currently paying? In the  
22          acquisition, are you taking the exact same rates,  
23          or are the rates changing?

24          MS. CLARK: At the time of the transfer, we  
25          are keeping the same rates.

1 COMMISSIONER CLARK: So there would be --

2 MS. CLARK: -- rates, would have to be --

3 COMMISSIONER CLARK: There would be no  
4 adjustments in the rates, whether we established  
5 the transfer value or not?

6 MS. CLARK: Let me just caveat that. I think  
7 staff recommended some rates, classes of service,  
8 I'm not sure. But, no, it's not our intention,  
9 Central States' intention, to change the rates for  
10 service.

11 COMMISSIONER CLARK: If we were to defer this  
12 particular decision, understanding you have to come  
13 back with not just exceptions, but you have to have  
14 some extraordinary reasons as to why a positive  
15 acquisition adjustment could be given, I mean, in  
16 my assessment, those things go beyond, you know,  
17 adding a 24-hour emergency line. They're much  
18 deeper and bigger than that. What do you see that  
19 that -- what are the possibilities that you're  
20 going to find an operation of this system that you  
21 didn't evaluate before your purchase?

22 MS. CLARK: Commissioner, if I could allow Mr.  
23 Silas to answer that question.

24 COMMISSIONER CLARK: Thank you.

25 MR. SILAS: Yeah, I can -- I can definitely



1           answer that. Thank you for your time. I  
2           appreciate it. I think that there are a lot of  
3           operational efficiencies that can be found in the  
4           recommendation. Staff noted that we projected  
5           saving about \$20,000 a year on average in  
6           operational expenses. That is taking into account  
7           almost doubling -- or more than doubling the  
8           purchase power, and I think multiplying the  
9           chemical expense by four times. Once you get in  
10          and operate the system, you can find efficiencies  
11          to save those expenses even further. So I think  
12          that 20,000 could -- that \$20,000 of cost savings  
13          could actually be magnified once we get in and  
14          start owning and operating that system.

15                 MS. CLARK: Commissioners, there is an issue,  
16                 for the staff has recommended conforming the  
17                 miscellaneous service charges to a Commission rule.

18                 COMMISSIONER CLARK: That would be an  
19                 increase, is that correct?

20                 MS. BRUCE: Commission, this is Sonica Bruce.  
21                 It's not such an increase, it's just that the --

22                 COMMISSIONER CLARK: A new charge? It's just  
23                 a new charge?

24                 MS. BRUCE: Yes.

25                 COMMISSIONER CLARK: Okay.

1 MS. BRUCE: Well, it's not really a new  
2 charge. It's the -- well, I guess, for the premise  
3 visit, that's correct. Yes.

4 COMMISSIONER CLARK: Thank you. We're on the  
5 same page. Have you -- and I know this is a more  
6 complex question, but a positive acquisition  
7 adjustment -- if a positive acquisition adjustment  
8 were allowed, to the extent the utility would love  
9 to have, Ms. Bruce, have we done any analysis on  
10 what would happen to rates for these customers?

11 MS. BRUCE: No, we haven't.

12 COMMISSIONER CLARK: What would be the  
13 expected result of a positive acquisition  
14 adjustment on these rates?

15 MS. BRUCE: It wouldn't have an effect on it  
16 until the Commissioners talk about it --

17 COMMISSIONER CLARK: Assuming they came in for  
18 a rate increase.

19 MS. BRUCE: If they came in for a rate  
20 increase, then the rates would change.

21 COMMISSIONER CLARK: Do you want to answer  
22 this question?

23 MR. SEWARDS: Justin Sowards, Commission  
24 staff. Yeah, we ran a couple, you know, estimated  
25 calculations for the impact of a positive

1 acquisition adjustment. It would increase the  
2 revenue requirement by about 43 percent from the  
3 current rates if we were to grant the full positive  
4 acquisition judgment.

5 COMMISSIONER CLARK: Do you also do a  
6 calculation that would show a positive acquisition  
7 adjustment that have no effect on rates?

8 MR. SEWARDS: Correct. Yeah. So, like, if we  
9 were to grant -- if you were to grant a positive  
10 acquisition adjustment that would equal out those  
11 O&M's, the operation maintenance savings that they  
12 have presented would be about an \$81,000 positive  
13 acquisition adjustment, and that would be a  
14 revenue-neutral adjustment. We basically just  
15 account for those expenses as revenue.

16 COMMISSIONER CLARK: Does staff have an  
17 opinion on any reason we could not defer the  
18 acquisition adjustment decision? Is there a  
19 logical reason? Is there something pressing?  
20 Again, going back to Mr. Rehwinkel's long-standing  
21 practice, other than that, is there a reason that  
22 we can't make a deferral? Ms. Crawford.

23 MS. CRAWFORD: I would like to speak to -- the  
24 rule is actually silent. It doesn't say you cannot  
25 defer in the determination of an acquisition

1 adjustment, but there are several places in the  
2 rule that clearly seem to posit that the  
3 appropriate time to make the determination about an  
4 acquisition adjustment is at the time of transfer.  
5 And there's two places in particular, I'd like to  
6 point you to.

7 One is in subsection four, when it talks about  
8 the amortization of a positive acquisition begins  
9 on the date of issuance of the order approving the  
10 transfer of assets. And then also, in subsection  
11 five, it contemplates that a full or partial  
12 positive acquisition adjustment once made by the  
13 Commission, pursuant to this rule, can be  
14 subsequently modified if the extraordinary  
15 circumstances do not materialize or are eliminated  
16 within five years of the date of the issuance of  
17 the order.

18 So while the rule is silent on whether you can  
19 or can't defer, the implication of the rule seems  
20 to strongly suggest that the appropriate time to  
21 make an acquisition adjustment is at the time of  
22 the transfer. I do recommend that that is the most  
23 consistent approach with the rule. And that  
24 coupled with pretty good history of Commission  
25 practice, I think that is the better course for the

1 Commission to take.

2 MS. CLARK: Mr. Chairman, if I may.

3 CHAIRMAN FAY: Yeah, one second, Ms. Clark.  
4 Commissioner Clark.

5 COMMISSIONER CLARK: But realizing that's the  
6 direction, is there a negative ramification of  
7 deferring? The rule contemplate -- I get the rule  
8 contemplates that it should be made, but if it  
9 isn't, is there any downside to the Commission to  
10 the utility or the consumers for postponing the  
11 decision?

12 MS. CRAWFORD: As far as qualification rates,  
13 I'm going to have to defer to staff on that. I  
14 think the biggest risk if the Commission were to  
15 differ is the possibility of a challenge as Mr.  
16 Rehwinkel alluded.

17 CHAIRMAN FAY: Great. Ms. Clark, any  
18 follow-up? Okay.

19 MS. CLARK: Let me just address several  
20 things. I think we talked about the amortization,  
21 the last go-round in March. And even if you defer  
22 the acquisition adjustment, a decision, we agree  
23 that it goes back to the time of transfer, thus as  
24 it would go back to the time of transfer. Ms.  
25 Crawford has brought up the notion of whether or

1 not they materialize and what you can do from that  
2 point. In one of those gas cases, you concluded,  
3 the Commission concluded, that the benefits did not  
4 materialize and required the company to make the  
5 adjustments. So you do have remedies for that.

6 And if I may speak to 120.68, it doesn't  
7 prohibit you from making -- differing from your  
8 long-standing practice, as long as you explain it.  
9 And I would suggest to you there are two  
10 explanations. You have done it before when you've  
11 needed more information, and you have done it in  
12 the gas cases, giving them time to operate their  
13 utilities. I think that provides you with an  
14 adequate explanation to withstand any appeal.  
15 Thank you.

16 MS. CRAWFORD: May I just with one point?

17 CHAIRMAN FAY: Thank you.

18 MS. CRAWFORD: I certainly understand CSWR's  
19 interest in citing to and relying on those gas  
20 cases. I would just point out a distinction. The  
21 Commission is required to certificate water and  
22 wastewater companies. We specifically regulate the  
23 transfers of those systems. We do not regulate the  
24 purchase and sale of gas utilities. And so the  
25 circumstances are a little different there. For

1           example, in the first system mentioned in that  
2           footnotes -- get my glasses -- nine, regarding AGL,  
3           there were several years between the time they  
4           actually acquired the utility, and then they  
5           petitioned for recognition of acquisition  
6           adjustment. Subject to check, I don't believe  
7           there's a rule that discusses specifically  
8           acquisition adjustments for gas utilities. There  
9           certainly is with regard to water and wastewater in  
10          context of transfers.

11                   CHAIRMAN FAY: Thank you. Commissioner  
12          Graham, you're recognized.

13                   COMMISSIONER GRAHAM: Thank you, Mr. Chairman.  
14                   Ms. Crawford, you read two different parts of  
15          120. Can you read those two again?

16                   MS. CRAWFORD: You're talking about the rule?

17                   COMMISSIONER GRAHAM: Yes.

18                   MS. CRAWFORD: Yes. Okay. So it's 2530-0371.  
19          Subsection four talks about the amortization period  
20          running from the date of issuance of the order  
21          approving the transfer. Subsection five talks  
22          about any full or partial positive acquisition  
23          adjustment once made by the Commission pursuant to  
24          the transfer rule -- sorry -- the acquisition  
25          adjustment rule may be subsequently modified if the

1 extraordinary circumstances do not materialize or  
2 subsequently are eliminated or changed.

3 And, again, the whole thing is premised on the  
4 existence of extraordinary circumstances.

5 COMMISSIONER GRAHAM: So if we do not grant  
6 the positive acquisition adjustment transfer, is it  
7 possible for them to get it later, like during  
8 the -- go ahead.

9 MS. CRAWFORD: Yeah. I'm not aware of  
10 anything that would specifically contemplate that.  
11 The decision to deny an acquisition adjustment is  
12 proposed agency action. They, of course could  
13 protest the Commission's decision in that case,  
14 request a hearing on it.

15 CHAIRMAN FAY: Follow-up? Commissioner  
16 Passidomo, you're recognized.

17 COMMISSIONER PASSIDOMO: Thank you, Mr.  
18 Chairman.

19 So, Ms. Crawford, I see -- I appreciate that  
20 distinction that you made with the gas utilities.  
21 My -- I'm having a harder time analogizing in this  
22 case from, you know, differentiating this case from  
23 the cases that we saw in March. So, I mean, I  
24 might give you another opportunity to explain what  
25 distinguishes the presence of extraordinary



1           circumstances here with this, in this transfer  
2           versus back then.

3           MS. CLARK:   Are you asking me?

4           COMMISSIONER PASSIDOMO:  I think I'm asking  
5           you guys.

6           MS. CLARK:  Yeah.  Commissioner Passidomo, we  
7           realize that you made a decision on those cases.  
8           We continue to believe it's appropriate to defer  
9           the decision.  And we have cited to those gas cases  
10          because we think it does support our position as to  
11          the benefits of giving us the time to prove to you  
12          that these improvements can be made.  Staff can  
13          correct me if I'm wrong, but I think since this  
14          rule has been passed, you've never granted an  
15          acquisition adjustment for a water and wastewater  
16          utility.  And I think that's going counter to your  
17          desire of having these larger, more efficient  
18          companies of scale and size to take over those  
19          smaller utilities and actually make those  
20          improvements.

21          I don't see -- I understand that there is a  
22          difference in water and wastewater, that you get to  
23          approve the transfer, whereas in gas companies you  
24          don't.  I don't think that makes a difference.  
25          Just wait and give them the opportunity to operate

1 the system. And I would point out, when this  
2 statute was first enacted, it said, you shall do  
3 it. Two years later, they amended and said, you  
4 may. So I would suggest to you that it makes it  
5 your discretion in the right case to actually defer  
6 it and let us prove it to you. But I think there  
7 is no difference between the other cases. I don't  
8 see your other cases as precedent. And I think you  
9 should ask yourself, does it make sense to give the  
10 opportunity to actually operate the system and see  
11 what can happen?

12 MR. SILAS: And I'll add on to that just a  
13 little bit. In the last decision for the previous  
14 three systems, staff's recommendation said that we  
15 didn't provide enough data, enough numbers, and we  
16 tried to do that this time. So we provided  
17 comparison on expenses, showing cost savings to the  
18 customer, who provided more data on environmental  
19 quality actions. So consent decrees about water  
20 quality issues that the system has been facing and  
21 how we would remedy those. So we did provide more  
22 data this time to try and accommodate a staff  
23 recommendation with the last three cases.

24 MS. CRAWFORD: May I make one last comment?

25 CHAIRMAN FAY: Yeah, just one.

1           COMMISSIONER PASSIDOMO: Well, I think OPC  
2           should have an opportunity to respond to that --

3           CHAIRMAN FAY: Okay. Great. OPC. And then  
4           I'll come to you Ms. Crawford.

5           MS. CRAWFORD: It occurs to me that another  
6           benefit, potentially not --

7           CHAIRMAN FAY: Ms. Crawford. One second --

8           MS. CRAWFORD: I'm sorry. I apologize.

9           CHAIRMAN FAY: That's okay. That's okay. No  
10          problem. Mr. Rehwinkel, you're recognized.

11          MR. REHWINKEL: Thank you, Mr. Chairman. The  
12          second provision that was cited in the rule,  
13          pursuant to Commissioner Graham's request about you  
14          can go and if the things -- the benefits don't  
15          materialize, you can change it. That's more than  
16          an implication. I think there's a strong indicator  
17          that the intent of the rule was that this decision  
18          is made now, not down the road. Otherwise, you  
19          wouldn't need that provision because you're going  
20          to -- you're going to make your determination about  
21          what materializes down the road. Now's the time  
22          you're making your adjustment.

23          I want to state for the record that there has  
24          not been a rule waiver requested here. I think the  
25          factors that the staff cited, the two factors that

1           indicate that the decision is made now indicate  
2           that there's -- there's the rule -- just because  
3           you have a rule doesn't mean that the passage of  
4           time should indicate that you should have had some  
5           acquisition adjustments granted. Back on March  
6           1st, Mr. Fletcher made the most compelling argument  
7           I've ever made -- I've ever heard about this in the  
8           sense that the purpose behind acquisition  
9           adjustment policy and now the rule is to prevent  
10          churning of rate base and just ratcheting it up  
11          where customers just pay more. That's why the  
12          extraordinary circumstances barrier is a high one.  
13          And your policy is in place to keep that -- that  
14          barrier high. So we reiterate our remarks and I'm  
15          through. Thank you.

16                   CHAIRMAN FAY: Great. Thank you. Ms.  
17                   Crawford.

18                   MS. CRAWFORD: I appreciate that. I  
19                   apologize. It occurred to me one more reason that  
20                   it might be beneficial to make an acquisition  
21                   adjustment determination at the time of transfer --  
22                   and I'm not even saying with this specific case,  
23                   but hypothetically -- in this case, CSWR may be  
24                   perfectly happy to pay six and a half times the net  
25                   book value for this utility, regardless of whether

1 an acquisition adjustment is ultimately made or  
2 not. For other utilities, it might make a  
3 difference. If they are paying more than the net  
4 book value and they're coming to the Commission,  
5 they haven't yet executed the purchase. And,  
6 frankly, a part of their motivation in purchasing  
7 the system is the expectation they would get an  
8 acquisition adjustment. If that acquisition  
9 adjustment isn't approved until down the road,  
10 they've purchase the system, that could be  
11 complicated.

12 I seem to remember, and I may be misstating,  
13 that in one of the prior CSWR dockets, the  
14 acquisition adjustment requested -- was it 13 times  
15 higher?

16 MR. FLETCHER: Twenty-three times.

17 MS. CRAWFORD: Sorry. Thank you. The net  
18 book value. To the extent that that can make a  
19 difference in whether somebody actually goes  
20 forward with the sale as contemplated at the  
21 contemplated sale price, that might be another  
22 benefit to making the determination of an  
23 acquisition adjustment at the time. I'm not saying  
24 that makes a difference for CSWR there. That's  
25 just presented as a hypothetical for your

1 consideration.

2 CHAIRMAN FAY: Okay. Great. And, Mr.  
3 Fletcher, if you'd like to add some context to  
4 this, and then I have two Commissioners that have  
5 follow-ups.

6 MR. FLETCHER: Yes. And to follow up on  
7 Commissioner Passidomo's question, the difference  
8 between the other three cases the Commission's  
9 already decided and this one regarding the  
10 extraordinary circumstances, extraordinary  
11 circumstances, Ms. Clark is correct that since  
12 2002, when the rule was implemented, there hasn't  
13 been approval by the Commission of a positive  
14 acquisition. There has been no granting of that.  
15 So we'd look back further. In '89 -- there's an  
16 '89 order, '93 order that goes in and explains what  
17 is extraordinary. Extraordinary is when you have a  
18 system that's on the verge of, you know, major  
19 primary, you know, public health and safety  
20 concerns, where a larger system came and took over  
21 that to address those primary where it had a public  
22 health and safety concern. Memorialize in '89 and  
23 '93 order that I did some research on, that  
24 explains what the extraordinary circumstance is.  
25 In those three, the Commission's already decided.

1           And here, I don't see that being the case of rising  
2           to extraordinary circumstance. And there's nothing  
3           between now and the next rate case. I don't think  
4           the circumstances are changing based on their  
5           compliance with DEP and the condition of the system  
6           now. I don't see the extraordinary level.

7                   And then just one other comment is savings  
8           alone and economies of scale, that -- there's no --  
9           and that goes with regard to the estimated \$19,000  
10          in O&M expense savings that we got through a data  
11          request.

12                   CHAIRMAN FAY: Great. Thank you. Just a  
13          quick follow-up. Did you also look at the timing  
14          of those decisions? So you're speaking to the  
15          threshold to satisfy extraordinary circumstances,  
16          but as far as when that decision's made --

17                   MR. FLETCHER: I think Jacksonville Suburban  
18          was made prior to them owning the system. It was a  
19          '93 case. So they didn't operate it. Had time to  
20          operate it and to get those savings. They knew it  
21          off the bat that they were able to offer their  
22          rates going ahead. And their rate versus the  
23          existing rates of the utility that had major need  
24          of repair for public health and safety concerns was  
25          far lower, and that met the extraordinary

1           circumstances at the Commission at that time.

2           CHAIRMAN FAY:   Okay.   Great.   Thank you.

3           Commissioner La Rosa, you're recognized.

4           COMMISSIONER LA ROSA:   Thank you, Chairman.

5           And, frankly, I think this is a great discussion on  
6           an important item.   You know, looking back, this is  
7           a small system, you know, just under 500, you know,  
8           customers overall, \$183,000, you know, operating  
9           budget.   But there are lot of class C water  
10          utilities, hundreds of them in the state, and I  
11          think that's something needs to be kind of  
12          addressed as far as how they operate in the future  
13          as they -- as days go by they're continuing to age.

14          You know, I've got a lot of questions.   Staff  
15          did a great job with me yesterday, kind of digging  
16          into the details, trying to understand where that  
17          threshold is, you know, how this case, you know,  
18          maybe differs from others, so that I can ultimately  
19          make my comparisons, make my decisions.   But,  
20          again, great discussion so far.   I guess my  
21          question is maybe to the company relating to  
22          roughly \$20,000 of operating and maintenance, you  
23          know, savings.   Is there any other due diligence?  
24          I know you've mentioned a little bit, you know,  
25          talking to Commissioner's Clark questions.   I



1           assume that you don't just approach this purchase  
2           as saying, hey, something's for sale, let me buy  
3           it, let me operate it, then let me see ultimately  
4           what the benefits are. Is there more than just  
5           that? I just kind of feel like there should be  
6           more substance.

7           MR. SILAS: Yeah. That's a great question.  
8           Thank you. We do a pretty extensive amount of due  
9           diligence. So we hire third-party engineering  
10          contractors to go out and do site visits and take a  
11          look at the assets, recommend some improvements  
12          based on compliance history and the state of the  
13          assets at the time of the site visit. In the  
14          background, we do a lot of title work, as well.  
15          And then we -- we do due diligence on operations  
16          expenses. We project as well we can, based on the  
17          recommended improvements from that third-party  
18          engineering memo, and just operational expertise  
19          across the 10 states that we operate in. We do  
20          projections based on -- based on all that data.

21          COMMISSIONER LA ROSA: So is there a game plan  
22          that comes into effect when day one of operations  
23          start in which you guys feel that you're going to  
24          do things better and maybe what -- what exists to  
25          maximize your investment?

1           MR. SILAS: Yeah. We have -- we have a game  
2           plan from day one. So what that looks like is  
3           we -- we see the world in two separate stages,  
4           initial improvements to make sure the system stays  
5           in compliance, reinvesting in infrastructure,  
6           setting up backup generators, fixing kind of  
7           immediate things. And then our secondary  
8           improvements are, obviously after day one,  
9           generally about three to six months after we take  
10          over operations and we understand how the system  
11          runs a little bit better, to improve the lifespan  
12          of the system and improve the water quality.

13                 So if in that first three to six months, we  
14          find operational efficiencies where larger ticket  
15          items are necessary, then we can kind of rethink  
16          things. But generally what we see is even with  
17          third-party engineering firms going out on site and  
18          seeing how things run, until you're actually there  
19          operating the system multiple times a week, you  
20          can't fully understand the efficiencies that you  
21          can create.

22                 COMMISSIONER LA ROSA: Thank you.

23                 CHAIRMAN FAY: Commissioner Clark, you're  
24          recognized.

25                 COMMISSIONER CLARK: I'm going to probably

1           just defer my comments. I just feel like we don't  
2           need to disincentivize utility companies from  
3           looking at these type of acquisitions, especially  
4           in the water and wastewater side. We have seen the  
5           struggles, the small class C's, and when we can  
6           have an opportunity for a company to come in and  
7           create some economies of scale, whether you  
8           consider that to be an extraordinary circumstance  
9           or not, it certainly has a long-term benefit to the  
10          customer. And if you look at these utilities from  
11          a customer perspective, in most cases, I'm not  
12          saying all, but in most cases, there is going to be  
13          a significant efficiency with a larger operator  
14          that has the capital ability to be able to come in  
15          and make infrastructure improvements. I don't  
16          believe any of these larger utilities go into an  
17          acquisition, assuming that they're going to come  
18          before this Commission and get a positive  
19          acquisition adjustment. This acquisition has  
20          already been made based on the numbers that were  
21          given. They know what they've got. They've  
22          already bought the system. This is the price that  
23          it is. Anything that goes beyond that adds the  
24          ability for utilities to be able to do extensive  
25          capital improvements that are going to be

1           necessary.

2                       So I don't think there shouldn't be a  
3           disincentive that is placed on the utility  
4           companies for looking at, okay, what are our other  
5           options, how can we enhance revenues as well. This  
6           thing has to work for both parties and we have to  
7           be in the position of balancing that out and saying  
8           what's good for the customer, what's good for the  
9           utility. Both of these -- both of these things  
10          have to work together in order for this thing to be  
11          successful, and I just don't like blocking us out  
12          and saying, you know, we can't do this because it's  
13          never been done before, we can't do this because of  
14          this, this or this. Unless it is specifically  
15          prohibited by the rule, I think that anything that  
16          we can do to give a company a chance, be able to  
17          prove their case, we certainly have the right to  
18          give them that chance. If they can't prove it when  
19          they come back in for their rate base -- or their  
20          rate increase, then it's not allowed, but I don't  
21          see a negative downside to say, okay, you've got --  
22          you've got 12 months to figure this thing out and  
23          bring it back to us and we'll make our decision at  
24          that point. I don't see a downside and I don't see  
25          a prohibition against waiting this short period of

1 time. Just my thoughts, Mr. Chairman.

2 CHAIRMAN FAY: Great. Thank you.

3 Commissioner Graham, you're recognized.

4 COMMISSIONER GRAHAM: Thank you, Mr. Chairman.  
5 You know, it's a rarity when I disagree with my  
6 colleagues, because you and I see a lot of things a  
7 lot alike. I guess my concern is, I think at the  
8 end of the day when you make that purchase, you  
9 need to have the facts on the table. And the facts  
10 on the table right now was the burden's upon them  
11 today to come before us with the extraordinary  
12 circumstance. What those circumstances are, be  
13 very specific. And at that point, we can determine  
14 if there's a positive -- positive acquisition  
15 adjustment or not. Right now, in front of us  
16 today, we do not have that extraordinary  
17 circumstance before us.

18 I think one of the problems we run into is, I  
19 think if you start to open this can of worms,  
20 you're going to find out there's going to be more  
21 companies coming in paying more than a system is  
22 worth trying to think, okay, well, hopefully we can  
23 get this done. And you've got to remember, this is  
24 not the free market. There is no choice. If you  
25 have your water system provided by this company,

1           somebody else comes in pays five times as much, you  
2           have no choice to go somewhere else to get your  
3           water. Your water stuck there. And so it's upon  
4           us to decide what the book value is. And if that  
5           company wants to pay five times the book value,  
6           it's on that company if they want to pay that, but  
7           it's not on our ratepayers to have to subsidize  
8           that. And it's -- the burden is upon them right  
9           now, today, to prove that they did not pay too much  
10          for the system, that the system is worth this, and  
11          this is why, and we have not seen that today. And  
12          until we do, I think we're making a mistake. And  
13          even if you kick the can down the road, and say,  
14          okay, we're going to look at this later, I think  
15          that's a mistake. I think when you close --  
16          because as Mr. Bart -- Mr. Fletcher said earlier,  
17          you'll have somebody come in there and get in over  
18          their head, thinking, okay, well, we're going to  
19          make this happen, we're going to prove this. And  
20          come to find out, okay, I guess we haven't proved  
21          it and we're not going to be able to do this, and  
22          now we're upside down and now we have even more  
23          problems than when we started.

24                        So I agree with the staff recommendation. I  
25                        think they had the burden. If they want to come

1 back later with that same burden, more than happy.  
2 Let us know what it is that's extraordinary and  
3 provide it before, and we'll make that  
4 determination at that time.

5 CHAIRMAN FAY: Great. Thank you, Commissioner  
6 Graham. And I do feel like I'm appropriately  
7 positioned between Commissioner Clark and  
8 Commissioner Graham on this one. I mean, some of  
9 what the rule talks about when Ms. Crawford  
10 mentioned, it does seem to maybe portray this  
11 intent that it's done at the same time. On the  
12 other hand, I have to agree with Commissioner  
13 Clark. We see these systems in a lot of different  
14 ways and acquisition and scale might be one of the  
15 only things that potentially improves the situation  
16 for a lot of these customers, and that's something  
17 that's just a reality of the current structure.  
18 And so I appreciate where he's coming from on that,  
19 because we're just so limited as to what we put in  
20 front of us to make those adjustments.

21 So with that, Commissioners, I'd be happy to  
22 take a motion on this item. If not, we can defer  
23 the item.

24 Commissioner Graham, you're recognized.

25 COMMISSIONER GRAHAM: I will move staff

1 recommendation on this item, all issues.

2 CHAIRMAN FAY: We have a motion to move staff  
3 recommendation on all issues. Do we have a second?

4 COMMISSIONER PASSIDOMO: Second.

5 CHAIRMAN FAY: We have a second. Commissioner  
6 Passidomo.

7 All those that support that say, aye.

8 Opposed?

9 With that, the motion fails.

10 Commissioners, my recommendation may be at  
11 this time would be to defer this item, but I am  
12 happy to take up if anybody else has a motion.

13 Yep. With that, Commissioner La Rosa.

14 COMMISSIONER LA ROSA: Chairman, I certainly  
15 will go with you on that. I do believe that we  
16 should defer the item.

17 CHAIRMAN FAY: Okay. With that, we will show  
18 the item deferred.

19 So just to be clear for the parties: So the  
20 item has been approved for deferral. When it comes  
21 back up on a potential future agenda is something  
22 that I will look at, as Chair, for that discussion.  
23 And, of course, as the -- if the potential docket  
24 proceeds, all this ex-parte and everything would  
25 still be intact at that time.



1           So with that, we will move from Item No. 5 as  
2           a deferral to Item No. 6. I'll give everybody a  
3           few minutes to set up.

4           MS. CLARK: Thank you, Mr. Chairman.

5           CHAIRMAN FAY: Yep. Thank you.

6           (Agenda item concluded.)

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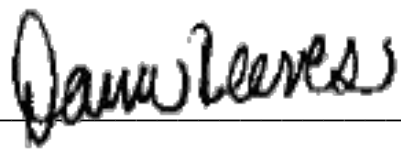
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