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PAUL RENNER
Speaker of the House of Representatives

December 21, 2023

VIA: ELECTRONIC FILING

Adam Teitzman
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Docket No. 20230081-WS – In Re: Application for increase in water and wastewater rates in Broward County by Royal Waterworks, Inc.

Dear Mr. Teitzman:

The Office of Public Counsel's (OPC) submits its response to Royal Waterworks, Inc.'s (Royal or Utility) letter dated December 20, 2023 concerning several areas related to the salary of the Utility's president.

Attachment A of December 7, 2023 Letter

The OPC is well aware that, in *Sunshine Utilities of Central Florida v. Florida Public Service Commission*, 624 So. 2d 306 (Fla. 1st DCA 1993). The Court found: "[i] n determining whether an executive's salary is reasonable compared to salaries paid to other company executives, the comparison must, at the minimum, be based on a showing of similar duties, activities, and responsibilities in the person receiving the salary."

Because this case is currently in a PAA posture and in the spirit of the case law mentioned above, the OPC proffered an analysis for the Commission staff's consideration in its recommendation. First, the use of the prior President salary to evaluate the reasonableness of the current President's salary is conservative because it's dealing with the same company in which the prior President had more direct oversight without the benefit of the business, administrative, and operational activities performed extensively through contractual services by others. Second, as indicated previously by the OPC, the indexed-salary level of Mr. Smallridge was utilized as a proxy because he, like Royal's President, owns and is President of several utilities in multiple counties. Mr. Smallridge spends 100% of his time in that capacity.

In its letter, the Utility's stated that "[i]t is unclear of Mr. Smallridge's credentials." As the OPC reflected in Attachment A of its December 7, 2023 letter, Mr. Smallridge owns and is the President of 14 stand-alone utilities, including two in the non-jurisdictional Columbia County, that serves 3,062 water customers and 1,084 wastewater customers. For further transparency purposes, on Page 3 of Order No. PSC-16-0043-PAA-WU, the Commission's order states the following:

As referenced in the application and specified in previous dockets, Mr. Smallridge was appointed to the Citrus County Water and Wastewater Authority, the local regulatory body for Citrus County, where he served for seven years. Mr. Smallridge also served as the "Class C" representative for the Governor's Study Committee for Investor Owned Water and Wastewater Utility Systems in 2013. Mr. Smallridge maintains a regular yearly schedule of training classes through the Florida Rural Water Association and completed the NARUC Utility Rate School in 2001.

Time Spent on Investor-Owned Utilities

The OPC has concerns with the President's total time spent on all of his jurisdictional and non-jurisdictional investor-owned utilities/systems. Based on the 2022 Annual Report for Florida Community Water Systems, Inc.,¹ the President received \$93,950 for 20% of time spent on this utility. Class A/B Annual Reports require the percentage of time spent on the utility by officers; however, Class C Annual Reports do not require the reporting of time spent on the utility. As such, prior to the corporate reorganization, it is unclear the separate and specific percent of time spent for the 10 stand-alone utilities.

After the 2022 Annual Reports were filed separately for Okaloosa Water, Inc., Duval Waterworks, Inc., Lake Talquin Waterworks, Inc., Seminole Waterworks, Inc., Sunny Hills Utility Company, and Gator Waterworks, Inc., these sister companies were combined into North Florida Community Water Systems, Inc. Based on the 2022 Annual Report for Sunny Hills Utility Company, the President received \$12,700 for 8% of time spent on this utility.² Based on the 2022 Annual Report for Seminole Waterworks, Inc., the President received \$20,000 for 8% of time spent on this utility.³ Because the others were Class C utilities, it is unclear the separate and specific percent of time spent for Okaloosa Water, Inc., Duval Waterworks, Inc., Lake Talquin Waterworks, Inc., and Gator Waterworks, Inc.

Based on the 2022 Annual Report for Royal Waterworks, Inc., the President received \$58,000 for 8% of time spent on this utility.⁴ Based on the 2020 and 2021 Annual Reports for Royal Waterworks, Inc., the President received \$58,000 for 5% of time spent on this utility. At 100% time spent on the utility, it would equate to an effective annual salary of \$1,160,000 (\$58,000/5%). For illuminating purposes, the effective annual salary of \$1,160,000 is \$221,372

¹ Based on a corporate reorganization, the following sister companies were combined into Florida Community Water Systems, Inc.; 1) Black Bear Waterworks, Inc.; 2) Brendenwood Waterworks, Inc.; 3) Brevard Waterworks, Inc.; 4) Harbor Waterworks, Inc.; 5) Jumper Creek Utility Company; 6) Lake Idlewild Utility Company; 7) Lakeside Waterworks, Inc.; 8) Pine Harbour Waterworks, Inc.; 9) Raintree Waterworks, Inc.; and 10) The Woods Utility Company.

² At 100% time spent on the utility, it would equate to an effective annual salary of \$158,750 (\$12,700/8%).

³ At 100% time spent on the utility, it would equate to an effective annual salary of \$250,000 (\$20,000/8%).

⁴ At 100% time spent on the utility, it would equate to an effective annual salary of \$725,000 (\$58,000/8%).

over that of the 2022 salary of \$938,628 for the Chairman/President/CEO of Essential Utilities Inc.⁵

Based on the 2022 Annual Report for HC Waterworks, Inc., the President received \$21,200 for 8% of time spent on this utility.⁶ Because Merritt Island Utility Company, Inc., LP Waterworks, Inc., and Country Walk Utilities, Inc. are Class C utilities, it is unclear the separate and specific percent of time spent by the President for them.

Based on 2022 Annual Reports, it is clear that the President’s collective salary was \$205,850 (\$93,950+\$12,700+\$20,000+\$58,000+\$21,200) in 2022 for 52% of time spent on Florida Community Water Systems, Inc., Sunny Hills Utility Company, Seminole Waterworks, Inc., Royal Waterworks, Inc., and HC Waterworks, Inc. At 100% time spent on these utilities, it would equate to an effective annual salary of \$395,865 (\$205,850/52%).

Assuming 10% time spent for the 12 remaining jurisdictional and non-jurisdictional utilities/systems, it would equate to a 38% remainder availability of time for the President to devote to US Water Services Corporation (USWSC) and other companies. Based on a search on the Florida Department of State’s website, the Utility’s President also holds the following positions in active companies.

Company Name	Year Incorporated	Position
BLACKBURN CONTROLS, INC.	1990	CFO
U.S. WATER/WADE TRIM, LLC	2005	MGRM via US Water Services Corp
UNIVERSAL CONTROLS INSTRUMENT SERVICES, INC.	2020	CEO, P
BLACK HORSE MOTORS, LLC	2009	General Manager
ELECTRICAL & MECHANICAL MAINTENANCE, INC.	2023	CEO
AMEN AIR, INC	1990	CFO
WOODY TUCKER PLUMBING & AIR CONDITIONING, INC.	2020	CEO
WATER TREATMENT & CONTROLS TECHNOLOGY, INC.	2016	D, President
GDI HOLDING COMPANY	2021	P

⁵ Essential Utilities is one of the largest publicly traded water, wastewater and natural gas providers in the nation.

⁶ At 100% time spent on the utility, it would equate to an effective annual salary of \$265,000 (\$20,200/8%).

Based on its website, USWSC “works with governments, communities, businesses, and organizations all over the United States to deliver the most advanced clean water and wastewater utility treatment solutions.” It employs 700-plus utility professionals, manages 600-plus fleet utility vehicles & equipment, operates 1,200-plus water and wastewater plants nationally, and serves over one million customers. The Utility President is also the Chief Executive Officer of USWSC.

Based on Tenkiller Waterworks, Inc.’s 2022 Annual Report filed with Oklahoma Corporation Commission, the OPC would note that the President is also received a salary of \$5,000.04 but it does not reflect the time spent on the utility. As stated in its December 20, 2023 letter, the OPC suggests that the Commission staff should investigate the stated time spent of the Utility’s president for Royal and all of its sister jurisdictional and non-jurisdictional companies/systems, as well as the salary amount received from each non-jurisdictional utility/system. In addition, the Commission staff should request any record keeping documentation of the Utility President’s time spend on all regulated and non-regulated activities. The Commission has previously made officer salary reductions due to understatements of time spent on non-utility activities.⁷

Allocation Based on Customers or Equivalent Residential Connections (ERCs)

In its letter dated December 20, 2023, Royal asserted it believes it is appropriate to consider the President’s salary allocation be based ERCs. The OPC agrees the allocation based on ERCs is appropriate. In our letter dated the same day, the OPC suggested the allocation of the President Salary once determined be based on the number of customers or ERCs of Royal and its sister jurisdictional and non-jurisdictional companies.

Utility’s Comparison with Little Gasparilla Water Utility, Inc.(Gasparilla)

The OPC believes the citation to the Commission’s decision in the 2013 SARC for Gasparilla for supporting the salary level of Royal’s President is akin to an apples-to-oranges comparison and is inappropriate. First, like the prior President of Royal, the officers of Gasparilla also had more direct oversight without the benefit of the business, administrative, and operational activities performed extensively through contractual services by others. Second, for informational purposes, the O&M expense per customer for Garparilla was \$565.06, as opposes to Royal’s requested O&M expense per customer of \$616.29 (\$568,839/923) for water and \$1,380.62 (\$719,302/521) for wastewater.

Costs Excluded From President’s Salary

By their very nature, related party transactions require closer scrutiny. Although a transaction between related parties is not per se unreasonable, it is the utility’s burden to prove costs are reasonable.⁸ This burden is even greater when the transaction is between related parties.

⁷ See Order No. PSC-17-0209-PAA-WU, p. 19, issued May 30, 2017, in Docket No. 160065-WU, In re: Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc. (“Further, we find that the Utility’s 10 percent allocation of officer’s salary for non-utility activities does not reasonably reflect the officer’s time spent on KIU business.”)

⁸ Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

Royal has asserted that the Utility President's salary excludes certain expenses. Without the benefit of discovery to effectively evaluate this assertion, the OPC does have some first impression comments. Royal utilized the "Glassdoor" website to estimate a Utility Director base salary of \$150,000 but failed to provide any specific parameters, e.g. location in Florida, entered on the website to derive this estimated amount. The Utility did not provide the Commission staff with the specific job duties of a Utility Director. It also appears that the proposition of a Utility Director would be duplicative of services already provided and being paid for by customers through the Utility's service agreement with USWSC.

Respectfully submitted,

Bart Fletcher

Bart Fletcher

Legislative Analyst

CC: Parties of Record