

HC Waterworks, Inc.

March 17, 2015

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

Re: Docket No. 140158-WS – Application for increase in water and wastewater rates in Highlands County by HC Waterworks, Inc. – Response to OPC’s Letter of Issues and Concerns

Dear Commission Clerk,

HC Waterworks, Inc. (HC Waterworks) hereby submits its response to the Office of Public Counsel’s (OPC) letter of Issues and Concerns dated March 13, 2015.

1. **Negative Accumulated Depreciation Balances Purchased from Aqua**

The Office of Public Counsel has stated that it believes the Commission decision on the determination of rate base in Order No. PSC-14-0314-PAA-WS, issued June 13, 2014 was erroneous concerning certain specific accounts. However the previous record and the case law do not support OPC’s recommended adjustments to Accumulated Depreciation for the HC Waterworks water and wastewater systems. Specifically, the OPC recommended removal of negative accumulated depreciation of certain plant accounts, Account Nos. 341.50; 343.50; and 382.40.

That recommendation essentially would have the Commission disavow the rate base of HC Waterworks that it previously established in Order No. PSC-14-0314-PAA-WS (the “Transfer Order”). This recommendation, if adopted, would violate principles of res judicata and result in confiscation of utility property. It should be rejected.

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HC Waterworks, Inc.
Response to OPC Letter of Concern

Commission practice is to honor and rely on past audits and rate base determinations in making subsequent rate base determinations. *See, e.g.*, Order No. PSC-03-1342-PAA-WS, 2003 Fla. PUC LEXIS 787. Consistent with that practice, staff auditors were given specific instructions in this instant rate case to audit rate base for the HC Waterworks systems beginning from the time that the Commission last established rate base. It is undisputed that the rate base for the HC Waterworks water and wastewater systems were last audited and established as of March 28, 2013, with the issuance of the Transfer Order. It is also undisputed that the Transfer Order established HC Waterworks' water rate base at \$2,727,527 and wastewater rate base at \$67,606. This rate base was established pursuant to a prior Commission audit, memorialized in the Transfer Order, and relied on by HC Waterworks when it subsequently purchased the system in 2013. Notwithstanding these facts, when OPC recommended this adjustment, it does not give HC Waterworks any credit for the UPIS plant balances previously established by the Commission in the Transfer Order.

There has been no showing by OPC that the Commission's prior determination of rate base for HC Waterworks system was erroneous. Thus, as a successor in interest to these systems, HC Waterworks should be protected by the doctrine of res judicata from efforts to recalculate (and eviscerate) the rate base values for HC Waterworks that were previously established in the Transfer Order. *See Metro. Dade County v. Rockmatt Corp.*, 231 So. 2d 41, 44 (Fla. 3d DCA 1970). ("[A] successor in interest to a party bound by the doctrine of res judicata is equally bound thereby as being in privity with the later.") There is no question that the doctrine res judicata applies to administrative proceedings. *See Thomson v. Dep't of Env'tl. Reg.*, 511 So. 2d 989, 911 (Fla. 1987); *Metro. Dade v. Rockmatt Corp.*, *supra*. Consequently, the Commission must honor the HC Waterworks rate base that it previously established in the Transfer Order.

The inclusion of rate base previously decided by the Commission has been addressed by this Commission in a recent decision in Order No. PSC-09-0385-FOF-WS, issued May 29, 2009. A similar situation was present in that decision and the Commission stated, “In consideration of the above, we find that the amounts for Lake Suzy included in Order No. PSC-97-0540-FOF-WS shall be recognized.”

Also in the Transfer Order, the Commission established a negative acquisition adjustment. This calculation was based upon the Commission’s approved rate base which included these items which OPC would now like to eliminate. Thus, if the Commission accepted OPC’s proposal to now disavow its previous decision, the issue of negative acquisition adjustment would also need to be addressed. The Transfer Order was issued as a Proposed Agency Action (PAA) which had a protest ending July 4, 2014. No party including the OPC protested the Transfer Order and Consummating Order No. PSC-14-0351-CO-WS, was issued on July 9, 2014 making the Transfer Order final.

The Transfer Order required the utility to update its general ledger and provide proof of compliance. Thus, the Ordering paragraph of the Transfer Order required HC Waterworks to adjust its books to reflect the rate base approved by the Commission. (page 9)

In the alternative, OPC alluded to the auditor’s notes that the amounts could either be (1) written off to the current operating year, or (2) amortizing the amount over a prescribed future period. HC Waterworks would not be opposed to amortizing these amounts as long as the amortized amounts are included as depreciation expense in the current rate case and included in the resulting rates. To do otherwise would be confiscatory and violate principles of res judicata.

2. Acquisition Adjustment Amortization

OPC also offered comments concerning the amortization of negative acquisition adjustment. HC Waterworks proposed pro forma adjustments to both accumulated amortization and amortization expense for the inclusion of a full year of amortization of its negative acquisition adjustment in the submitted Minimum Filing Requirements (MFRs) in this instant docket. Therefore, HC Waterworks agrees that amortization of acquisition adjustment should be reflected in prospective rates.

3. Bad Debt Expense

While it is correctly stated that HC Waterworks' previous practice was to accrue two percent (2%) of revenues as Bad Debt Expense and to true up the accrued amount to its Aged Accounts Receivables over 60-days on a semi-annual basis, this procedure has been refined. HC Waterworks now records Bad Debt Expense monthly based on its actual Aged Accounts Receivable report for balances over 60-days. The majority of the amount of Bad Debt for HC Waterworks are inactive accounts which had previously been disconnected with balances over 60 days. All inactive accounts have been written off and submitted to a collection agency for potential recovery. The amount of bad debt accounts written off as of December 2013 and submitted to the collection agency was \$9,755.36. To date, no amount has been recovered through the collection agency for these inactive accounts.

Further, HC Waterworks refined procedures now classifies each disconnected account over 60 days as inactive and submits these accounts to its collection agency. The bad debt expense is reconciled and recorded each month based on its Aged Accounts Receivable report with accounts over 60 days.

OPC states that all aged accounts over 60 days should be shut off. HC Waterworks procedures do require shut off of service for all accounts over 60 days over the threshold of \$50

HC Waterworks, Inc.
Response to OPC Letter of Concern

balances. Thus the amounts recorded in the utility's bad debt expense are inactive accounts which have been turned off. In addition, HC Waterworks has a Commission approved late payment charge of \$5.00 to encourage timely payment of bills. In addition, if a customer has a customer deposit with the utility, this amount is applied to the outstanding balance prior to submission to the collection agency. Therefore, the amount of actual bad debt is the net balance of each outstanding account.

OPC alludes to the procedures to collect customer bills and infers that the utility should be more "aggressive." HC Waterworks takes exception to this statement. HC Waterworks follows all Commission rules and regulations in relation to customer service. HC Waterworks charges late payments for untimely payments. HC Waterworks follows through with disconnection of services for outstanding accounts. HC Waterworks also charges additional customer deposits for customers who have previously had service disconnected for nonpayment. Finally, HC Waterworks has obtained the services of a collection agency for disconnected accounts over 60 days. HC Waterworks is proud of its customer service and works with customers who may have financial difficulties in making payments by offering payment plans.

Below is a summary of HC Waterworks Aged Accounts Receivable Report as of January 31, 2015:

<u>Current</u>	<u>30 Days</u>	<u>60 Days</u>	<u>90 Days</u>	<u>120 Days</u>	<u>Total</u>
\$ 7,672.97	\$ 3,298.73	\$ 2,074.59	\$ 1,030.33	\$ 7,410.66	\$ 21,487.28

It should be noted that in the last rate case involving these systems, the Commission approved a bad debt expense of 1.67%. This percentage was calculated by taking the approved total bad debt expense divided by the total approved revenue requirement. See Order No. PSC-12-0102-FOF-WS, issued March 5, 2012. In this order the Commission also stated:

HC Waterworks, Inc.
Response to OPC Letter of Concern

First, OPC witness Dismukes conceded that she could not quantify how AUF's alleged billing, customer service or meter-reading practices impacted the Utility's level of bad debt expense. Second, we recognize that utilities without uniform rates are likely to have higher bad debt expenses. Third, an overall economic downturn will have a pronounced impact on bad debt expense regardless of increased collection efforts.

HC Waterworks' bad debt for its first full year of operation ending December 31, 2014 was 1.69%.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "T. Rendell".

Troy Rendell
Manager of Regulated Utilities
// for HC Waterworks, Inc.