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ANDREW L. MAUREY
DIRECTOR
(850) 413-6900

Public Service Commission

June 9, 2015

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COMMISSION
CLERK

John and Sue Kroll
13707 CR 109 B-2
Lady Lake, FL 32159

Re: Docket No. 140217-WU - Application for increase in water rates in Sumter County by Cedar Acres, Inc.

Dear Mr. and Mrs. Kroll:

Thank you for your letter expressing your concerns about the rate increase petition filed by Cedar Acres, Inc. (Cedar Acres or Utility). To ensure that the Commission staff and the Commissioners have knowledge of your concerns, your letter has been placed on the correspondence side of the docket file for all to review.

Included in your letter are a number of questions and concerns related to accounting, engineering, and rates issues. With respect to the accounting issues and comments regarding salaries expense allowed for this Utility in the Staff Report, we are gathering additional information to make a final determination regarding the appropriate salary for the Utility employees. Suggested in your letter was an appropriation of 25 percent of the existing salaries as a more accurate amount for salaries, similar to the methodology used to calculate rent expense based on percentage of office space used. The assessment of salaries will be based on duties and responsibilities along with time spent on Utility matters.

Other expenses that you express concerns about include miscellaneous expenses, property taxes and other taxes, regulatory commission expense, and general liability insurance expense. Support documentation used for the Staff Report was provided through the audit performed on the Utility's books and records. Unfortunately, the increases appear quite large as a result of the beginning balances being understated.

Thank you for sharing that the customer meeting notices were provided with your bills. We weren't aware that the Utility had sent the notices out with your bills until after the Staff Report had been completed. Staff will be removing the portion of regulatory commission expense associated with the postage and envelopes costs for the customer meeting notices. This amount will not be a large reduction, but it will indeed be a reduction.

Mr. and Mrs. Kroll

Page 2

June 9, 2015

For this case, regulatory commission expense includes the filing fee, the copying costs for the customer meeting notices, and the projected costs for copying and mailing the final notice. These costs are divided by four and that amount is included in the Utility's operating and maintenance expenses. This methodology allows the Utility to recover the amortized amount of rate case expense over the span of four years. After four years, the Utility's rates will be reduced to reflect removal of that amortized amount of rate case expense associated with this docket. The portion of staff's recommendation that deals with the four-year rate reduction and security is standard procedure.

Once the final recommendation is filed and then presented to the Commissioners, a vote must take place. Bear in mind, the Commissioners may approve, deny, or modify staff's recommendation. After their deliberation, discussion and ultimate vote, the Commission's decision will be memorialized in an Order. The Utility is legally bound by the Order. If the Utility does not comply with the Order, there are processes that staff will employ to ensure that the Order is being followed. So, to answer your question surrounding this concern, the four-year rate reduction will be implemented at the appropriate time, and the utility is bound to reduce rates as specified by the Order.

An additional expense that you mention in your letter is general liability insurance expense. At this time, we have not received supporting documentation from the Utility regarding general liability insurance. Our belief, however, is that this type of insurance policy is not only beneficial to the Utility, but also to the customers. Yet, if there is no information available from the Utility, then, as stated in the Staff Report, there will be no allowance for general liability insurance.

The miscellaneous expenses, property taxes, and other taxes have all increased due to the fact that in 2012 they were understated. In 2013, the bookkeeper was finally catching up with correcting the books to reflect a more accurate picture of total Utility expenses as opposed to only a partial representation of what expenses the Utility had incurred. Further, the auditors provided support documentation such as invoices, check stubs, etc. With the support documentation, staff is able to verify those numbers and determine whether or not they are prudent and appropriate.

Regarding questions about the general topic of capital structure, the Utility's capital structure is comprised of "related party debt." Especially for small utilities, this situation is something that we see quite often. For Cedar Acres, while there is an interest rate that has been assigned to this debt, no regular payments are being made by the Utility nor has any regular payment schedule been established. If such debt has no interest rate and no payment schedule, it is the Commission's practice that it be treated as common equity. Also, while our recommendation makes a determination regarding the return on investment, this return only applies to the Utility on a forward-going basis. The customers do not pay for past losses.

For the development of rates, the Commission is required to set rates that are just, reasonable, compensatory, and not unfairly discriminatory. To determine the appropriate rates for service, the Commission uses a rate of return methodology as set forth in Chapter 367, Florida Statutes (F.S.).

Under the rate of return methodology, a utility is allowed an opportunity to earn a reasonable return on its prudently invested property that is used and useful in serving the public, less accrued depreciation plus an allowance for operating capital. This ratemaking process is used for all water and wastewater companies and is also used in the electric and gas industry. It is the same approach used throughout the country by various state and federal utility regulatory bodies.

Mr. and Mrs. Kroll

Page 3

June 9, 2015

There are many factors that affect the cost of providing service. Some factors affecting the cost of providing service include: the size and age of the utility system; the quality of the water at its source; the number of customers; and the geographic spread of the service area. During a rate case, the Commission's accountants, engineers, and economists examine the financial and engineering information filed by the Utility as part of its rate increase application. The Commission's auditors also examine this information and publish the results of their findings in an audit report. All costs found to be imprudent or unreasonable are disallowed.

Your letter included questions regarding engineering issues. With respect to the engineering portion of your letter, the roles of Kelvin Edun and Artesian Waters are separate, but of equal importance. Universal Waters is owned by Kelvin Edun and provides all the day-to-day water service maintenance and service operations which include the servicing of the wells, as well as emergency service such as responding to water main breaks. Artesian Waters provides the service of meter reading and billing for the Utility.

The 2012 Department of Environmental Protection (DEP) Sanitary Survey identified deficiencies and the old/malfunctioning meters are problems that the Utility is currently aware of and working towards rectifying. The Utility has indicated that it plans on implementing a meter replacement program in the near future. As far as your request to review DEP maintenance records and testing conducted, those requests will have to be coordinated through the DEP.

There are no fire hydrants in Oakland Hills because the system simply is not large enough to handle the fire flow which is the nature of a small system. As such, fire hydrants cannot be installed at this time.

The last category of questions included in your letter had to do with rates and issues surrounding their calculation, etc. In response to your concerns regarding the percentage increases at various consumption levels and the anticipated reduction in consumption, staff's recommended rates and rate structures are developed with conservation efforts in mind. Although it may appear that the revenue increases at various consumption levels are greater than the overall revenue increase, the sum total of the revenue increases at the respective consumption levels are still only equal to the recommended revenue requirement.

According to Rule 25-30.335, Florida Administrative Code (F.A.C.), the Utility shall render bills to customers at regular intervals and cannot consider a customer delinquent in paying the bill until the 21st day after the Utility has mailed or presented the bill for payment.

As stated on page 22 of the Staff Report, the recommended initial customer deposit would be effective for connections made on or after the approval date of the tariff.

Rates are increased relative to a utility's revenue requirement and are designed in order to allow the utility the opportunity to recover its reasonable and prudent costs for providing service and a reasonable rate of return on its investment in facilities necessary to provide such water service.

Mr. and Mrs. Kroll

Page 4

June 9, 2015

We appreciate your letter and understand your concerns regarding the Utility's proposed rate increase. I hope the above information has been helpful. If you have any additional questions, or require further assistance, please call me at (850) 413-6922 or e-mail me at cgalloway@psc.state.fl.us.

Sincerely,

A handwritten signature in cursive script that reads "Cecilia Galloway".

Cecilia Galloway
Public Utility Analyst

cc: Division of Accounting and Finance (Norris, Fletcher, Smith)
Division of Engineering (Mtenga, Rieger, Vickery)
Division of Economics (Thompson, Hudson)
Office of Commission Clerk (Docket No. 140217-WU)