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STEVE CRISAFULLI  
*Speaker of the House of Representatives*



June 10, 2015

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

Re: Docket No. 140220-WU – Application for staff-assisted rate case in Polk County by Sunrise Utilities, L.L.C.

Dear Ms. Stauffer:

Attached is a list of issues that the Office of Public Counsel (OPC) has prepared to identify our concerns 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 to allow the staff and the utility sufficient time to review it and to ask for any additional information that might be needed. If you should have any questions, please feel free to call or e-mail us.

Respectfully submitted,

*s/ Denise N. Vandiver*      *s/ Tarik Noriega*

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c: Division of Accounting & Finance (Golden, Vogel, T. Brown)  
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Quality of Service

1. The staff report indicates that there were 18 consumer complaints from January 1, 2010 through December 31, 2014. The Commission’s website indicates that 8 of these were service complaints and that the other 10 were billing complaints. In addition, we found 1 service complaint in 2015 and 3 billing complaints in 2015.

There were a total of 10 complaints filed from 2013–2015. We reviewed all of these complaints and found concerns with 7 of them, which are summarized in the table below. Our primary concern is that these complaints indicate a pattern of customers contacting the utility and not being able to reach utility representatives.

<u>Date</u>	<u>Request No.</u>	<u>Comment</u>
2/4/2013	1099980W	<ul style="list-style-type: none"> <li>• no emergency or current contact numbers located at plant site</li> <li>• company failed to respond timely to PSC (&gt;20 days)</li> </ul>
6/9/2014	1149352W	Same as next complaint
6/12/2014	1149764W	<ul style="list-style-type: none"> <li>• company wanted tenant to pay past due balance before connection</li> <li>• company failed to respond timely to PSC (&gt;140 days)</li> </ul>
9/11/2014	1159150W	<ul style="list-style-type: none"> <li>• customer attempted to contact company three times - no answer, no call backs</li> <li>• company failed to respond timely to PSC (40 days)</li> </ul>
11/21/2014	1166411W	<ul style="list-style-type: none"> <li>• customer attempted to contact company - no answer, no call backs</li> <li>• company failed to respond timely to PSC (&gt;20 days)</li> </ul>
1/30/2015	1172870W	<ul style="list-style-type: none"> <li>• customer attempted to contact company - no answer, no call backs</li> <li>• company failed to respond timely to PSC (&gt;80 days)</li> </ul>
3/6/2015	1176047W	<ul style="list-style-type: none"> <li>• company failed to respond timely to PSC (&gt;50 days)</li> </ul>

While the second and third complaints are related, they were filed by 2 different individuals (a landlord and a tenant). The prevailing concern that we would like to highlight is that not only do the customers find it difficult to reach the company to discuss an issue, but the Commission staff is also often unable to reach the company and does not receive timely responses. We recognize that the utility is small and we do not expect it to have full-time employees. However, when customers and the Commission leave messages, the utility should respond in a timely manner. In addition, we note that audit work paper 8, page 7, indicates that the staff audit manager also had difficulty working with the utility operator and was unable to pursue specific unanswered questions during the audit.

Particularly disturbing is that one customer (Request No. 1099980W) went to the plant site and found 3 phone numbers to call. One number was disconnected, another was for the former owner of the system, and the third was a voice mailbox that was full and did not allow her to leave a message. This complaint was filed in 2013, but we believe that staff should determine if the plant site has a current emergency number posted – whether it is for an answering service or for someone who can be readily available on behalf of the company.

2. We reviewed the transcript of the customer meeting that was held on May 20, 2015. Five (5) customers spoke at the meeting. Each of these customers was concerned regarding the quality of the water and the poor billing and collection practices of the utility. While we understand and agree that a utility must disconnect customers who

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have not paid, we believe that there may be an issue regarding accurate collection and recording of cash payments for utility services. We also believe that anytime a customer pays cash to the utility representative, a written receipt should be provided including the date, the amount paid, and the name of the person collecting the payment. This practice may help to alleviate some concerns. Also, as we discussed in paragraph No. 1 above, there appears to be very poor communication by the utility. Most of the speakers commented on the lack of phone numbers, the failure to return calls, and the very poor customer service provided by the utility.

During the customer meeting, a customer provided documentation (attached to the Customer Meeting transcript, DN 03282-15) indicating that the utility's Manager was currently on probation for the following charges: (1.) petit theft (greater than \$100, but less than \$300); and (2.) tampering with theft of utility or cable service. While OPC is not making a judgment about the utility Manager's ability to adequately handle the customers' money or the utility's business, these charges may have fostered a lack of trust from the customers' perspective, especially when cash payments are made and no receipt is provided.

Another customer at the meeting spoke about a man that was collecting money on behalf of the utility in the evening and demanding payment with the threat of cutting off the customer's water service. From the transcript, it is unclear if the man in question properly identified himself and/or was authorized to collect payments on behalf of the utility. Whatever the case, we urge staff to investigate if the utility's collection practices are appropriate and if there is good reason to threaten cutting off water service in some of these circumstances. Also, if it is determined that the collector is not from the utility, it would then be incumbent upon the utility to warn their customers about the possibility of fraud.

Overall, the company's response to the complaints filed with the Commission did not address any specifics and we believe that the Commission should require the company to address them. In addition, the company should propose how it plans to implement a system to improve the collection of cash payments.

#### Utility Plant in Service

##### Pro Forma Plant

3. The staff report recommends a Phase II increase for 3 pro forma plant items and 1 pro forma expense increase. Two (2) of the plant items were included in the last rate case order, but were never completed. OPC believes that Phase II rates should absolutely not be implemented until these current pro forma items are completed and verified by staff.

We would also note that the prior order allowed a pro forma expense to replace 23 meters per year for a 10-year period.<sup>1</sup> However, in response to staff's second data

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<sup>1</sup> See Order No. PSC-12-0533-PAA-WU, issued October 9, 2012, in Docket No. 110238-WU, In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, L.L.C., page 19.

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request, Question 4, the utility indicated that it replaced approximately 24 meters in 2013 and 9 meters in 2014.

Operating Revenues

4. Our review of the audit work papers found that the operators appear to occasionally collect cash payments when on-site at a customer's location.<sup>2</sup> The auditors were only provided some of these schedules (for the months from January–May 2014) maintained by the operator, so it is not possible to determine how many cash payments have been received to date. Specifically, we are concerned about whether or not the cash payments are being properly recorded against accounts receivable, whether or not the cash collections of miscellaneous service charges are being recorded and included in test year revenues, and whether or not the accounts receivable aging reports accurately reflect these collections. We believe that staff should determine whether or not the utility has controls in place to properly account for these cash collections and, if not, staff should encourage the utility to develop adequate safeguards.

O&M Expenses

Wages and Salaries – Officers

5. The staff report includes \$12,000 for the primary officer based on the amount approved in the last rate case. The last rate case stated<sup>3</sup> that the

Utility president is responsible for reviewing the monthly meter reading reports, reviewing monthly bank statements, preparing the Annual Report, and compiling financial data for the accountant to prepare federal tax form. He is also responsible for interfacing with the Utility manager on the day-to-day operations.

In a later issue, the staff report mentions that the accounting records are substantially deficient. Based on these severe deficiencies and the fact that the staff report recommends additional expense for a bookkeeper, this officer's salary should be re-evaluated.

Contractual Services – Other

6. The staff report includes \$1,359 for a continuation of a meter replacement program approved in the last Commission order. The staff report further states that the utility requested an increase to \$3,500. The audit work papers indicate that the utility spent \$4,036.91 in 2013 and \$401.63 in 2014, or an average of \$2,219.27 for those 2 years. The staff report appears reasonable in continuing the prior amount, which allows for the replacement of 23 meters per year for a 10-year period. But, staff mentions that the utility estimate does not include a breakdown of costs or an explanation for the increase. OPC believes that the utility should justify any increase in the former expense level.

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<sup>2</sup> See audit work paper 43-16/4-1; pages 5, 6, and 15 appear to be customer payments.

<sup>3</sup> Ibid. Order No. PSC-12-0533-PAA-WU, page 7.

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7. The staff report includes \$2,400 for bookkeeping services. The utility has not spent this money in the past, but staff recommends that this expense would be appropriate based on the poor quality of accounting records. This amount may be reasonable if the utility were to provide some assurance or proof that the amount will actually be spent on accounting services.

Bad Debt Expense

8. The staff report includes \$4,509 for bad debt expense. Staff explains that this is based on a 3-year average. The recommended amount is 5% of the recommended revenue requirement. It appears that the average is based on the 3 amounts in the 2012–2014 Annual Reports. However, OPC believes that this expense is excessive. The Annual Reports are not audited and the amount for 2014 includes 1 larger-than-average write-off with no explanation. We believe that staff should review the utility’s aging reports and request additional information regarding the large write-off to determine whether or not this is indicative of the expense in future years. Also, we do not believe that this should be included if it is an extraordinary write-off. Overall, the utility should fully support the actual amounts for 2012–2014 before staff accepts an average as high as 5% of the recommended revenue requirement.

As mentioned in paragraph No. 4, the operators appear to occasionally collect cash payments when on-site at a customer’s location.<sup>4</sup> We question whether or not these cash payments are ever recorded against accounts receivable and whether or not this is contributing to the high level of aged accounts receivable used to set the bad debt expense.

Miscellaneous Expense

9. The staff report includes miscellaneous expense of \$4,955. The chart below shows a breakdown of the amounts included based on our review of the audit work papers and the staff report. We do not believe that the \$463 for Operator Services – Other should be included in expenses. Our review of the audit work papers found that for July, August, and September 2014, the operator invoices included a line item for “Additional Responsibilities”. The audit note on these invoices indicates that these charges were “one-time for office manager change over”. Based on our review, we understand that the utility experienced a change in the office manager position in June 2014. However, we do not believe that the \$463 is a recurring expense and it should not be included in setting future rates.

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<sup>4</sup> Ibid. Audit work papers.

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<b><u>Description</u></b>	<b><u>Amount</u></b>
Polk County Drinking Water Permit	\$ 700
Secretary of State Corporation Filing	145
SWFMD Water Permit	50
Operator Services Cell Phone June - Dec	492
Annualization of cell phone	284
Operator Services - Other	463
Postage & Supplies from invoices	1,291
Annualization of postage and supplies	1,274
Audit work paper 43-19	\$ 4,699
Pro Forma business license	58
Pro Forma FRWA membership	198
Total Staff Report - Miscellaneous Expense	<b>\$ 4,955</b>