

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: July 28, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Galloway, Norris)
Office of Auditing and Performance Analysis (Hallenstein, Lehmann, Vinson)
Division of Economics (Johnson, Hudson)
Division of Engineering (Mtenga, Ellis)
Office of the General Counsel (Corbari)

Handwritten notes: CH, BJ, ALM, P10, P13, P14, P15, P16, P17, P18, P19, P20, P21, P22, P23, P24, P25, P26, P27, P28, P29, P30, P31, P32, P33, P34, P35, P36, P37, P38, P39, P40, P41, P42, P43, P44, P45, P46, P47, P48, P49, P50, P51, P52, P53, P54, P55, P56, P57, P58, P59, P60, P61, P62, P63, P64, P65, P66, P67, P68, P69, P70, P71, P72, P73, P74, P75, P76, P77, P78, P79, P80, P81, P82, P83, P84, P85, P86, P87, P88, P89, P90, P91, P92, P93, P94, P95, P96, P97, P98, P99, P100.

RE: Docket No. 140217-WU – Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.

AGENDA: 08/09/16 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 08/13/16 (60 days from Compliance Report Filing)

SPECIAL INSTRUCTIONS: None

Case Background

Cedar Acres, Inc. (Cedar Acres or Utility) is a Class C water utility serving approximately 319 customers in the Oakland Hills subdivision located in Sumter County. The area is in the Southwest Florida Water Management District (SWFWMD). Wastewater treatment is provided by septic tanks. The Utility was subject to Sumter County jurisdiction when the development was designed and the Utility was established. Sumter County turned over jurisdiction to the Florida Public Service Commission (Commission) in 1987. Unaware of the change in jurisdiction, Cedar Acres did not apply for an original certificate with the Commission until

2008. The Commission granted Cedar Acres an original certificate and approved the rates and charges in existence at the time it was certificated.¹

On November 17, 2014, the Commission received Cedar Acres' application for a staff-assisted rate case (SARC), and the instant docket was the Utility's first rate case. Prior to this docket, rate base had never been established for Cedar Acres. Likewise, prior to this docket, the Utility's rates had not been changed since its inception, almost 30 years ago. On May 14, 2015, staff conducted a customer meeting in Lady Lake, Florida. Approximately 38 customers attended the meeting and expressed concerns, primarily with the amount of the rate increase.

At the October 13, 2015, Commission Agenda Conference (Agenda Conference), staff presented its recommendation regarding the Utility's SARC. Several customers attended the Agenda Conference and addressed the Commission. These customers restated concerns that were expressed at the customer meeting. In addition to the amount of the rate increase, the customers conveyed frustration with billing issues, including meter and billing accuracy, and overall management practices of the Utility. The customers also conveyed concerns regarding a power outage incident that occurred in July 2015 which resulted in a water outage. The outage incident brought to light a major Department of Environmental Protection (DEP)/Department of Health (DOH) compliance issue with regard to boil water notices.

In its recommendation, staff recommended that the Commission find the Utility's overall quality of service unsatisfactory. Circumstances surrounding the July 2015 outage incident and improper issuance of boil water notices, along with the same violations cited in both the 2012 and 2015 DEP sanitary surveys, weighed heavily in staff making this recommendation.

Based on information contained in staff's recommendation, comments presented by customers and the Office of Public Counsel (OPC), and discussions at the Agenda Conference, the Commission approved a rate increase for Cedar Acres, but found the Utility's quality of service to be unsatisfactory.² As a result, the Commission ordered several measures be taken to improve the Utility's service to its customers.³ These measures included staff conducting a management audit of the Utility's billing and management practices. Additionally, the Utility was ordered to file a compliance report with the Commission at 6 and 12 month intervals from the date of the consummating order. In the compliance report, Cedar Acres was to include a billing analysis as well as state all corrective measures taken: to resolve its billing issues; to address customer concerns and complaints; and to comply with Commission, DEP, and DOH regulations, including boil water notices.

Commission staff initiated the management audit of Cedar Acres on October 26, 2015. The findings of the "Management Audit of Cedar Acres, Inc." (Management Audit) were published

¹ Order No. PSC-09-0541-FOF-WU, issued August 4, 2009, in Docket No. 080098-WU, *In re: Application for certificate to provide water service in Sumter County by Cedar Acres, Inc.*

² Order No. PSC-15-0535-PAA-WU, issued November 19, 2015, in Docket No. 140217-WU, *In re: Application for staff assisted rate case in Sumter County by Cedar Acres, Inc.*

³ *Id.*

in March 2016.⁴ The Management Audit focused on key management issues including owner involvement and accountability, adequacy of contractor performance, and effective relations with customers and regulators. Commission audit staff also reviewed in general, with the Utility, Commission rules in the Florida Administrative Code (F.A.C.) that govern water and wastewater utilities, and in particular the following rules:

- 25-30.130, F.A.C. Record of Complaints
- 25-22.032, F.A.C. Customer Complaints
- 25-30.311, F.A.C. Customer Deposits
- 25-30.26, F.A.C. Meter Readings
- 25-30.125, F.A.C. System Maps and Records
- 25-30.335, F.A.C. Customer Billing
- 25-30.320, F.A.C. Refusal or Discontinuance of Service
- 25-30.460, F.A.C. Application for Miscellaneous Service Charge
- 25-30.433, F.A.C. Determination of Quality of Service.⁵

On June 14, 2016, Cedar Acres filed its 6-month Compliance Report (Compliance Report) pursuant to Order No. PSC-15-0535-PAA-WU.⁶ This recommendation addresses the Utility's progress and compliance with the Commission's Order. This Commission has jurisdiction pursuant to Chapter 367, Florida Statutes, (F.S.).

⁴Document No. 01612-16 "Management Audit of Cedar Acres, Inc.," filed in Docket No. 140217-WU; and <http://www.floridapsc.com/Files/PDF/Publications/Reports/General/Waterandwastewater/CedarAcres.pdf>.

⁵*Id.*, p. 1-2

⁶Document No. 04429-16 "Cedar Acres 6-Month Compliance Report," filed in Docket No. 140217-WU.

Discussion of Issues

Issue 1: Is Cedar Acres in substantial compliance with Order No. PSC-15-0535-PAA-WU; and, if not, should Cedar Acres be ordered to show cause why it is not in substantial compliance with Order No. PSC-15-0535-PAA-WU?

Recommendation: Yes, Cedar Acres is in substantial compliance with Order No. PSC-15-0535-PAA-WU, and should not be ordered to show cause. (Corbari, Galloway, Mtenga, Johnson)

Staff Analysis: By Order No. PSC-15-0535-PAA-WU, Cedar Acres was ordered to allow Commission staff to conduct a management audit of the Utility to ensure appropriate management controls and practices were being implemented and corrective actions were being performed to comply with Commission rules and regulations. Cedar Acres was also ordered to file a Compliance Report at 6 and 12-month intervals from the date of the Consummating Order, issued on December 14, 2015, outlining corrective measures it had taken to address regulatory compliance issues with DEP and DOH, customer concerns and complaints, and billing issues.

Commission staff initiated the management audit of Cedar Acres on October 26, 2015, and the findings were published in March 2016. Pursuant to Order No. PSC-15-05350PAA-WU, Cedar Acres timely submitted its 6-month Compliance Report but neglected to file its billing analysis with the Compliance Report. By letter dated June 27, 2016, staff informed Cedar Acres of the omission of the billing analysis, and instructed the Utility to file the billing analysis by July 8, 2016. Cedar Acres filed its billing analysis on July 8, 2016.

In its Compliance Report, Cedar Acres included a variety of corrective measures that have been taken, as directed by this Commission and suggested by Managerial Audit Staff. Presented below are the broad categories of concern cited by the Commission in its Order along with an update from the Utility as to how these concerns have been addressed.

Regulatory Compliance with DEP and DOH

The Commission found that the Utility's overall quality of service was unsatisfactory due to factors surrounding the July 2015 water outage incident and improper issuance of boil water notices, as well as repeat violations cited on both the 2012 and 2015 DEP sanitary surveys. Pursuant to Order No. PSC-15-0535-PAA-WU, Cedar Acres was required to report to the Commission what corrective actions it has taken to comply with DEP and DOH regulation, including boil water notices.

In its Compliance Report, Cedar Acres reported that it corrected all of the deficiencies noted in the July 2015 DEP Sanitary Survey Report. Staff verified with the DEP that all outstanding deficiencies including a signed and sealed tank inspection, an emergency preparedness plan, a cross connection control panel on file, the calibration of the finished drinking water flow meter, and the repair of a damaged well pedestal have been corrected as of March 2016.

Prior to the Commission's Order, the Utility had been issuing boil notices incorrectly. In its Compliance Report, the Utility reported that it has installed a "blast" messaging system which

notifies each customer directly via telephone of the implementation and rescission of boil water notices.

As of March 2016, in addition to the “blast” messaging system, the Utility installed, and ensured the proper operation of, a Sensaphone (auto-dialer) system. The Sensaphone system alerts the plant operator, Universal Waters, and the Utility of any operational problems. The Utility also reported that it conducted generator maintenance checks to ensure back-up power for power outages.

In June 2016, the “blast” messaging system and auto-dialer were put to the test when, during the course of Tropical Storm Colin, a transformer surged, causing the primary and secondary pumps to shut off. The generator turned on properly but a drop in water pressure still occurred, which resulted in a need for a boil water notice to the community. The “blast” messaging system functioned properly during this incident, and, in accordance with DEP regulations, notified the customers of the boil water notice. DEP has noted that Cedar Acres is in compliance with its policies with regard to both the Utility’s overall response to the outage, including issuing and rescinding the boil water notices, as well as the operation of the Utility after the incident.

Customer Concerns and Complaints

At the October 13, 2015 Agenda Conference, several customers conveyed their frustration with regard to overall management practices of the Utility. Specifically, some of these customers noted their repeated inability to reach Cedar Acres personnel when needed to resolve problems.

One of the first suggestions outlined in the Commission’s Management Audit was the need for Cedar Acres to develop and implement written procedures that would provide a record of customer complaints and inquiries in compliance with Rule 25-30.130, F.A.C. According to the Management Audit, in the past, Cedar Acres failed to promptly address customers’ concerns and to provide an adequate two-way channel for customers to funnel inquiries and complaints.

However, according to the Utility, Cedar Acres made it a practice to return all calls that are made to the Utility’s office. From the Management Audit, staff concluded that, on occasion, customers called the billing contractor if they were unable to reach someone at the Utility office. As a result, customer complaints were not logged in accurately, and thus, not returned. Cedar Acres agrees nonetheless that, in the past, it had not been keeping records of all incoming calls and its response to customer concerns.

In January 2016, the Utility began the practice of logging customer inquiries and complaints received by customers. The log currently contains records denoting customer names, contact date, the form of contact (i.e., email, telephone, written notice), nature of inquiry, and the status of the Utility’s response.

The Management Audit suggested that since Cedar Acres is ultimately responsible for maintaining a record of complaints, and monitoring and tracking complaints, customers should be provided with and informed to call the Hollywood office number for all customer billing and service inquiries. This measure should provide the Utility greater awareness of all customer issues and the performance of its contractors. For this reason, and due to a telephone company

routing issue, the Utility's officers arranged for a new telephone line to be installed. According to Cedar Acres' Compliance Report, landlines from the Oakland Hills subdivision were being routed in error to a hospital when customers were trying to call the Utility's Hollywood office. Staff believes with this new line change, customers should have a clear line of communication with the Utility. The Utility's new telephone number and new email address were included on the March 1, 2016 customer bills and subsequent bills. In its Compliance Report, the Utility wanted to note that many customers do not have answering machines; however, every attempt is made by the Utility to contact them, up to five attempted returned calls.

In an additional effort to improve communications with the customers, on January 16, 2016, the Utility's president held an informal meeting with customers and officers of the homeowners association. The owners of Artesian, the company providing billing and meter reading services for Cedar Acres, also attended this meeting. Besides making sure the customers have a clear understanding of how to reach the Utility, the Utility president wanted to hear and address customer's concerns and frustrations expressed at the October 13, 2015, Agenda Conference.

Prior to the January 16, 2016, informal meeting, customers expressed concerns that there was no vehicle signage or uniforms on meter readers. They were concerned with unidentified people on their property. Thus, the customers wanted the meter readers to be clearly identifiable. Understanding this concern, both the Utility and Artesian note that Artesian has had signage on their truck since 2010, and that Artesian personnel wear coral colored shirts that say "Meter Reading." Utility representatives shared this information with the customers at the informal meeting. According to the Utility, many customers told Artesian personnel attending the meeting that they have known the Artesian personnel for years. Based on this information, staff believes the meter reader identification matter has been resolved.

Since the Commission's Order and the January 16, 2016 informal customer meeting, the Commission received two customer complaints from two separate customers. One complaint regarded a billing address issue that will be discussed below. The other complaint regarded the June 2016 water outage incident that occurred due to the transformer surge, discussed above. In both instances, staff believes the Utility was appropriately responsive. In the latter instance, both the Utility and staff have had numerous telephone conversations and exchanged several emails with the customer explaining the cause of the outage. Staff believes the June 2016 outage complaint has been adequately addressed and resolved.

Billing Issues

In addition to frustration with management practices, customers expressed concern with the Utility's billing practices. Customers reported faulty meters, unusual bills, and an issue with mailing.

A primary source of the Utility's billing issues was directly related to the need to replace customer meters. Some of the billing abnormalities were due to inaccurate or inoperable meters which often led to estimated bills. Additionally, OPC expressed concern that the billing determinants relating to usage were not reliable for rate-setting purposes. To address this problem, the Commission ordered Cedar Acres to implement a meter replacement program. Further, the Utility was ordered to escrow \$2,350 every two months, \$14,110 annually, to be

used for this program. This amount equates to approximately 78 meters each year for a total of 320 meters.

In an effort to help the Utility efficiently achieve the goal of replacing meters, the Management Audit suggested that the Utility perform an audit of every residential meter to identify its condition in order to prioritize meter replacements. In its Compliance Report, the Utility indicated that meters are audited with each reading and prioritized for meter replacement. According to the Compliance Report and discussions with the Utility, 14 meters have been replaced. The Utility has ordered 12 additional meters that are scheduled to be installed by the end of July. Taking into consideration that the bills reflecting the new rates were not sent until March 2016, for the January/February billing cycle, staff believes that Cedar Acres is making good progress with the meter replacement program. Staff will continue to monitor the progress of the meter replacement program.

In line with the meter replacement program and pursuant to Order No. PSC-15-0535-PAA-WU, Cedar Acres established an escrow account and filed the escrow agreement with the Commission on April 14, 2016. According to the Utility, the ordered amount of funds have not yet been escrowed even though meters have been replaced. The Utility explained that unexpected costs to replace a pump motor and starter were paid in March 2016. These costs were necessary for the proper operation of the utility plant and were in the amount of \$4,587. The Utility advised staff that, due to the motor replacement expenditure, the ordered funds were not available to be placed into escrow. Staff believes this is an extraordinary situation. While the Utility is not in full compliance with the Commission's Order, staff believes the Utility is following the spirit of the Order by going forward with the actual replacement of meters. Staff also believes that the Utility will be in a position to follow the escrow procedure, as ordered, by September 2016, once receiving the July/August billing cycle revenues.

In order to address some of the concerns regarding incorrectly estimated bills, the Management Audit suggested that Cedar Acres modify its bill calculation process and institute a review of each bill for inaccuracies prior to being mailed to customers. According to the Management Audit, the Utility's review process should include cross-checking the meter readings log input to customer bills. In its Compliance Report, Cedar Acres states that bills are reviewed by the Finance Manager for anomalies. The Utility also stated that a spreadsheet is maintained to compare the recent billing with the prior billing period. While a number of meters remain inoperable or unreadable, Cedar Acres indicated in its Compliance Report that those customers are only billed the base facility charge.

Since the Cedar Acres is unable to determine usage for these customers, staff believes the billing analysis provided by Cedar Acres is not reliable for determining customer usage for the six month billing period included in the report. As the Utility continues to replace meters, it will be able to gather more accurate billing data. The billing analysis Cedar Acres must file at the end of 12 months should provide a better representation of customer usage.

The final billing concern staff evaluated had to do with mailing and address issues. Staff is aware of two separate billing address issues. One billing address issue was discussed at the Agenda Conference. It involved a customer's bill being mailed to an incorrect address, and his

unsuccessful repeated attempts at getting the issue resolved. After the Agenda Conference, the matter was resolved.

Additionally, as mentioned earlier, there was a complaint filed with the Commission on May 11, 2016 involving a homeowner receiving a copy of the tenant's bill. According to the homeowner, she had expressed on several occasions that she did not wish to receive a copy of her tenant's bill. While the tenant was receiving the bill through email, the Utility was under the impression the homeowner also wanted a copy of the bill. The issue is now resolved. Staff believes this complaint took place during a time when Cedar Acres was in the process of implementing its new policies and procedures pertaining to customer complaints and/or inquires. It appears that improvements have been made. However, staff believes any improvement in this regard should be evaluated at the end of the 12-month compliance period.

Based on the above, staff believes that Cedar Acres is making a substantial effort to comply with Order No. PSC-15-0535-PAA-WU by implementing corrective actions and improvements regarding the Utility's service to its customers. Staff also believes that Cedar Acres has incorporated many of the suggestions made in the Management Audit. Further, staff believes that Cedar Acres has taken positive steps toward improving its billing issues, and complying with regulatory matters. Because staff believes Cedar Acres to be making a substantial effort to comply with the Commission's Order, staff does not believe the Utility should be ordered to show cause for non-compliance.

The Utility's next Compliance Report is due on December 14, 2016. Staff will continue to monitor the Utility's progress and the status of the escrow account, along with the meter replacement program. Staff is scheduled to report back to the Commission after Cedar Acres files its next Compliance Report.

Issue 2: Should this docket be closed?

Recommendation: No. This docket should remain open to allow staff to continue to monitor Cedar Acres' compliance with Commission Order No. PSC-15-0535-PAA-WU, the meter replacement program, and escrow account. (Corbari)

Staff Analysis: This docket should remain open to allow staff to continue to monitor Cedar Acres' compliance with Commission Order No. PSC-15-0535-PAA-WU, the meter replacement program and the escrow account. Additionally, pursuant to Order No. PSC-15-0535-PAA-WU, Cedar Acres is required to file a 12-month Compliance Report on December 14, 2016. Staff will report back to the Commissioners regarding Cedar Acres' compliance status after reviewing the Utility's next Compliance Report. Therefore, this docket should remain open.