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STEVE CRISAFULLI
*Speaker of the House of
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August 18, 2016

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

Re: Docket 150269 -- Application for limited proceeding water rate increase in Marion, Pasco, and Seminole Counties, by Utilities, Inc. of Florida (UIF)

Dear Ms. Stauffer:

Our office has reviewed the utility's filings in the above referenced docket and attended the three customer meetings held by the Commission staff in Pasco and Marion County. We believe that the Commission should carefully review the requested rate increase for Pasco County based on the issues raised in our first letter filed in this docket. However, after the customer meetings, our review of the letters included in the docket file, and further review of the Utility filing, we believe the requested increase should be deferred until the quality of service issues are fully resolved.

We would like to first point out that the 2015 Annual Report appears to indicate possible overearnings in the Pasco County systems for 2015. We reviewed Schedule W-2 and discovered the utility increased its rate base for an "acquisition adjustment;" however, no adjustment was included or approved in the last rate case. We compared the adjusted rate base to the Net Operating Income (NOI) reported and the capital structure shown on F-5¹. Our analysis indicates that the Pasco county systems may be earning over 13% return on equity². The current docket

¹ We were unable to determine actual customer deposits and accumulated deferred taxes; therefore, we made a simple pro rata reconciliation for all items.

² The last approved return on equity was 9.68% for the Summertree system and 10.38% for the Orangewood system. (See Commission Order No. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, in re:

does not address how the 2015 overearnings position has changed for 2016; thus, this issue should be examined by staff.

Second, we believe that any proposed increase should be reduced by expected funding from the Southwest Florida Water Management District (SWFMD). In many meetings between the customers, the utility, the Office of Public Counsel (OPC), and government officials, the utility stated that SWFMD offers up to \$6,000 toward the cost of abandoning each well. This was not taken into account in the utility's filing.

Another point we raised in our last letter, which bears mentioning again since staff did not address it in their recommendation for Marion and Seminole Counties, is the fact that the utility has recently consolidated all of its Florida operations under the umbrella of Utilities, Inc. of Florida. However, there is no consideration included in this request to identify cost savings achieved from the reorganization, the efficiencies gained, and the economies of scale achieved from the consolidation of its Florida operations to offset the rate increase being requested for Pasco County.

The issue of cost reductions was raised at the customer meetings. One customer specifically recommended that the Commission require the utility to present specific cost reduction plans on an annual basis. We agree and echo these concerns. We believe that any consolidation should result in cost savings and not any additional costs. We believe that staff should require the utility to document these costs savings before any additional rate increase is approved. We further believe that annually the utility should identify all cost reductions the utility has investigated and all actions taken to reduce costs. These cost reduction plans should be submitted to the Commission either as an addendum to the utility's Annual Report or as a unique filing.

With UIF's decision to seek a consolidated rate with \$30 million in pro forma plant additions in Docket No. 160101-WS, we believe that no rate increase should be approved in this proceeding for Pasco County. The Commission has been presented with more than enough information and reasons to deny the proposed rate increase for the Pasco County systems not to mention the severe quality of service issues faced by many of Pasco County customers.

The Pasco County systems have received substantial rate increases in its last three rate cases. UIF received a 33% increase in 2007³, a 28% increase in 2010,⁴ and an 18% increase in

Application for increase in water and wastewater rates in Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.)

³ See Commission Order No. PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 0060253-WS, in re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.

⁴ See Commission Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, in re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.

2014.⁵ In each of these cases, the Commission determined the quality of water to be less than satisfactory, and twice found the water quality to be unsatisfactory. As the letters and customer testimony received during the April 12, 2016 customer meetings in this docket indicate, these customers have been living with poor secondary water quality for many years. Despite the fact that the water quality issue has been raised in each of these three prior cases and found to be less than satisfactory, the utility has still been granted a rate increase. Moreover, the utility has continued to fail to improve the secondary quality of the water. As one customer commented,

“another rate increase for UIF is unconscionable. Where is the accountability? No business should be guaranteed a profit of any amount just for existing. Earn it by producing a quality product at a reasonable price.”⁶

From the perspective of Pasco County customers in general, and the Summertree customers in particular, another increase in rates appears to be rewarding the utility for its total failure to resolve its inferior water quality. As stated by one customer in a letter to the Commission, if a restaurant serves bad food, it will ultimately go out of business as customers will choose to go elsewhere.⁷ However, these customers cannot choose to go elsewhere for their water. This is a monopoly service and the Florida Public Service Commission serves as a substitute for competition by determining adequate rates and ensuring that the utility provides satisfactory service, a quality product, and is responsive to consumer needs.

Quality water service is not a luxury, it is a necessity of life. Yet, as was made abundantly clear by the 142 customers who spoke at the April 12, 2016 customer meeting, Pasco County residents live with water that has bad taste, strong odors, dreadful color issues, and obvious sediment problems. The customers all testified that they must buy bottled water for drinking, cooking, and feeding their pets. This creates additional costs for the customers as well as a burden for senior citizens who must find a way to haul bottled water home every week. Many customers also testified that they have invested substantial sums to buy home water filtration systems and water softeners. The utility’s unsatisfactory water product ruins appliances, water faucets, clothes, and has even caused some customers to experience skin problems and rashes.

Customer testimony at the two New Port Richey customer meetings revealed that the utility is not responsive to customers. In Orangewood, the lift station alarm goes off on weekends and when the customers call the service number, no one comes. Several times, the alarm has been on all weekend⁸. A Summertree resident complained that the utility changed its website bill information and no longer maintains historical bills. This customer has relied on this service and now has no history.⁹

⁵ See Commission Order No. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, in re: Application for increase in water and wastewater rates in Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.

⁶ Document No. 02485-16, filed April 26, 2016 in Docket No. 150269-WS, page 73.

⁷ Document No. 02078-16, filed April 14, 2016 in Docket No. 150269-WS.

⁸ Document No. 02493-16, filed April 26, 2016 in Docket No. 150269-W, page 17.

⁹ Document No. 02485-16, filed April 26, 2016 in Docket No. 150269-WS, page 90.

Commissioner Jack Mariano further pointed out the utility mailed an unsolicited letter at the same time the Summertree Water Alliance sent out the Summertree Water Survey Ballot that addressed issues in the survey. He commented that UIF is a

“utility that continually seems to try to sabotage . . . confuse everybody in here about what was really going on. . . . I hope you really take a look at it as far as customer service goes. What they tried to do is actually muddy the waters for what everyone was thinking about in what should have been a really clear cut, laid out situation that never should have happened. So, please, pay attention to that, how they do business.”¹⁰

Notwithstanding UIF’s unsolicited letter, the customers nevertheless voted overwhelmingly in favor of interconnecting with the Pasco County utility water system; however, it is unclear when that interconnection will take place.

Section 367.081(2)(a)1, Florida Statutes, states that when setting rates, the Commission shall consider **the value and quality of the service**. We believe the record is abundantly clear that the utility has not provided quality service in Pasco County. Further, the last three rate cases from 2007 – 2014 have documented that the utility has consistently provided unsatisfactory quality of water for many years. One customer indicated in his letter to the Commission that he worked for the New York Public Service Commission (NYPSC). He commented that the NYPSC enforced a service quality program with financial penalties, or restricted dividend payments to shareholders until service quality resumed to acceptable levels.¹¹

While we acknowledge that a solution for the secondary water quality issues appears to be finally moving forward, we submit that no rate increase should be granted in Pasco County until after UIF permanently resolves the secondary water quality issues. UIF’s track record demonstrates that UIF will likely take little action to permanently resolve water quality issues in Summertree, or in its other water systems with similar issues, until there are financial consequences (i.e., no rate increases) for inaction.

Because the utility has continued to request rate increases without resolving the quality of service issues, we further submit that actions should be taken by the Commission to hold the utility accountable. Our review of the past rate requests filed by the utility in most of its systems indicate that the utility files almost every three years. In each case, the utility typically requests material rate increases.

Based on the issues we have raised in this letter and our previous letters, we believe that no Phase II rate increase should be granted until staff has verified:

1. the actual amounts of the retirements net of the SWFMD grants (which are not included in the filing);

¹⁰ Document No. 02485-16, filed April 26, 2016 in Docket No. 150269-WS, pages 4-5.

¹¹ Document No. 02035-16, filed April 13, 2016 in Docket No. 150269-WS.

August 18, 2016

Page 5

2. whether the utility is actually earning outside its authorized return on equity range and even needs an increase;
3. whether the utility has experienced cost efficiencies due to the utility merger; and most importantly,
4. whether the issues with the quality of water service have been resolved.

Because the utility has waited so long to attempt to address the water quality issues dating back to 1991, no increase should be implemented until the Commission has verified with the customers that the interconnection with Pasco County has indeed resolved the issues with the water (i.e., taste, smell, color, slime, sediment, etc.), and that there are no other infrastructure issues contributing to the water quality issues. This process of addressing the water quality issues has been going on for too long and any rate increase before the issue is settled to the customers' satisfaction would be counter-productive. Furthermore, the return on equity (ROE) should remain impaired until the quality of service has been confirmed to be improved to a sufficient level.

Please consider our comments and the substantial customer remarks regarding the requested water increase for the Pasco County systems, and defer the decision to consider any rate increases until (1) the Commission has evaluated whether the utility is earning within its authorized return on equity range; (2) a determination of the customer savings that purportedly should result from the consolidation of the UIF systems into one statewide water and wastewater system; and (3) the quality of water service issues have been adequately addressed and resolved.

If you should have any questions, please feel free to call or e-mail me.

Respectfully submitted,

s/ Denise N. Vandiver

Denise N. Vandiver
Legislative Analyst

cc: Division of Accounting & Finance (Mouring, Utilities, Inc. of Florida
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