

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: January 26, 2017

TO: Office of Commission Clerk (Stauffer)

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

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

AGENDA: 02/07/17 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Handwritten notes and initials: OS, BE, CUB, ALM, SAL, CW, etc.

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 Conference (Conference), staff presented its recommendation regarding the Utility's SARC. Several customers attended the 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 Department of Environmental Protection (DEP)/Department of Health (DOH) compliance issue with regard to boil water notices.

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 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 a 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 the Utility's compliance with 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.⁶ By Order No. PSC-16-0351-FOF-WU, issued on August 23, 2016, the Commission acknowledged the Utility's management controls and practices were being implemented and corrective actions were being performed to comply with Commission rules and regulations. This Order also found the Utility to be in substantial compliance with Order No. PSC-15-0535-PAA-WU. On December 14, 2016, the Utility filed its 12-month Compliance Report. This recommendation addresses the Utility's 12-month Compliance Report. 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: On December 14, 2016, Cedar Acres timely submitted its 12-month Compliance Report along with the required billing analysis. In the Compliance Report, Cedar Acres included a variety of corrective measures that are continuing to be taken, as directed by this Commission and suggested by staff in its Managerial Audit. Presented below are the broad categories of concern cited by the Commission in Order No. PSC-15-0535-PAA-WU, along with an update from the Utility as to how these concerns have been addressed.

Quality of Service Concerns

Cedar Acres has continued to implement the corrective measures that were recommended by staff in its Management Audit. The Utility implemented a system to record customer complaints, but has received no complaints since its six-month compliance report. In addition, the Commission's Consumer Activity Tracking System (CATS) has registered zero complaints in the last six months. DEP has not recorded any violations or complaints for the Utility in the last six months. Staff believes the Utility has taken adequate measures to address customer concerns and complaints and to comply with DEP requirements and Commission rules.

Billing Issues

During the October 13, 2015, Commission Conference, customers expressed concern with the Utility's billing practices. Customers reported faulty meters, unusual bills, and a mailing issue dispute between an owner of the property receiving water and the tenant of the property. Staff addressed these issues in its October 1, 2015 recommendation, recognizing that 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 over the course of a four year period.

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 12-month Compliance Report, the Utility indicated that meters are audited with each reading and prioritized for meter replacement. According to the Utility's 12-month Compliance Report and staff's discussions with the Utility,

50 meters have been replaced. The Utility has ordered 12 additional meters that are scheduled to be installed when they arrive based on the installer's schedule. 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. Due to unanticipated expenses, the Utility hasn't always been able to make regular escrow deposits. However, the Utility has been replacing an acceptable number of meters on a consistent basis. While the Utility is not in full compliance with the Commission's Order regarding the escrow deposits, the Utility is diligently working with staff to keep the Commission updated with actual replacement of meters. Thus, Staff believes the Utility is following the spirit of the Commission's Order by going forward with the actual replacement of meters even when funds have not been timely deposited into the established escrow account.

Based on the reasons outlined above, staff believes that Cedar Acres is making a substantial effort to comply with Order No. PSC-15-0535-PAA-WU by implementing corrective measures and improvements regarding the Utility's service to its customers. Staff also believes that Cedar Acres continues to incorporate 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 Cedar Acres is 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. Staff will continue to monitor the Utility's progress and the status of the escrow account, along with the meter replacement program.

Issue 2: Should the Utility be required to file an additional billing analysis?

Recommendation: Yes. Cedar Acres should be required to file an additional billing analysis, which reflects the period of November 1, 2016 to June 30, 2017, by July 31, 2017. (Hudson)

Staff Analysis: In accordance with Order No. PSC-15-0535-PAA-WU, Cedar Acres filed a billing analysis for the 12-month compliance review period. The billing analysis data represented the 10-month period from January 2016 to October 2016. Based on the billing analysis data, staff annualized revenues and water demand for the 10-month period and compared those amounts with the revenue requirement approved in Order No. PSC-15-0535-PAA-WU.

**Table 2-1
Revenue and Demand**

	Revenue	Demand
Commission Approved	\$115,111	15,716,600 gallons*
Billing Analysis - Actual	\$60,635	5,303,461 gallons
Billing Analysis - Annualized	\$72,763	6,364,134 gallons
*Approximate post-repression gallons		

Source: Order No. PSC-15-0535-PAA-WU, Utility data, and staff's calculations

In its 12-month Compliance Report, the Utility indicated 50 meters have been replaced, with 12 more on order. The Utility further indicated that the last 24 meters were replaced subsequent to its October 2016 billing. Staff determined that the monthly operating reports for the corresponding period of January 2016 to October 2016, reflect approximately 18 million gallons pumped versus the 5.3 million gallons sold. Although Cedar Acres is replacing all of the meters, there were 44 meters (or 16 percent) identified as partially readable or unreadable in the Commission's Management Audit. Therefore, staff has concern with the disparity between the gallons pumped and gallons sold. Since the billing analysis does not reflect any actual readings from the most recent meter replacements and there is a large disparity between water gallons pumped and sold, staff believes an additional billing analysis should be provided by the Utility in order to more fully evaluate the customer demand. In addition, staff encourages the Utility to reach out to the Florida Rural Water Association to help determine the discrepancies between gallons pumped and gallons sold.

Based on the above, staff recommends that the Utility be required to file an additional billing analysis, which reflects the period of November 1, 2016 to June 30, 2017, by July 31, 2017.

Issue 3: Should this docket be closed?

Recommendation: No. This docket should remain open to allow staff to continue to monitor Cedar Acres' meter replacement program, and administration of escrow account funds. Additionally, this docket should remain open to allow staff to analyze the Utility's billing analysis due on or before July 31, 2017. (Corbari)

Staff Analysis: This docket should remain open to allow staff to continue to monitor Cedar Acres' meter replacement program, and administration of escrow account funds. Additionally, this docket should remain open to allow staff to analyze the Utility's billing analysis due on or before July 31, 2017. Therefore, this docket should remain open.