

P R O C E E D I N G S

1
2 **CHAIRMAN GRAHAM:** All right. Let's go on to
3 Item Number 10.

4 **MR. VICKERY:** Good morning, Commissioners.
5 Paul Vickery with Commission staff.

6 Item 10 is staff's recommendation for Cypress
7 Lakes Utilities', Incorporated, application for a rate
8 increase. The Commission approved an interim rate
9 increase for the water system in December of 2013.

10 Staff has some oral modifications for Issues
11 9 -- excuse me -- Issues 6, 9, and 10. I'd like to go
12 over them at this time, if you desire.

13 **CHAIRMAN GRAHAM:** Sure.

14 **MR. VICKERY:** Issue 6, it involves the used
15 and useful percentages of the utility's water and
16 wastewater systems. Specifically under the subheading
17 "Excessive Unaccounted for Water" in the first
18 paragraph, staff wants to insert a sentence that reads,
19 immediately following the Rule 25-30.4325 sentence, we'd
20 like to insert the sentence "Unaccounted for water is
21 all water that is produced that is not sold, metered, or
22 accounted for in the records of the utility," and that
23 Footnote 16 would apply to this sentence.

24 We'd also like to strike the part of the
25 sentence that begins with "The Commission allows

1 10 percent of the unaccounted for water." We'd like to
2 strike the sentence that -- the part of the sentence
3 that says, "which includes but is not limited to, line
4 flushing, hydrant testing, street cleaning, and theft."
5 That includes the modification for Issue 6.

6 **MR. REILLY:** Could you repeat that one again,
7 the last change, to make sure we followed it?

8 **MR. VICKERY:** Can I give you a copy of it?

9 **MR. REILLY:** Okay.

10 **MR. SPRINGER:** Good morning, Commissioners and
11 Chairman. My name is Michael Springer on behalf of
12 Commission staff.

13 I'm going to request to make a modification to
14 Issues 9 and 10 in Schedule Number 2 of the staff
15 recommendation.

16 Staff requests permission to incorporate the
17 flow-through impacts administratively after the
18 Commission votes on this item.

19 On Issue 9, correcting this item, the ROE was
20 10.29 percent. It was raised to 10.45 percent, the
21 difference of 16 basis points. For water, the change on
22 that is approximately \$869 higher for the revised
23 recommended revenue increase. And for wastewater, the
24 decrease, the revenue, revised recommended revenue
25 decrease is lower by 2,122.

1 Issue 10, the change is for the appropriate
2 weighted average cost of capital. It goes from
3 8.18 percent to 8.25 percent, and that's also reflected
4 on the Schedule 2.

5 I'll turn it back over to Paul.

6 **MR. VICKERY:** Continuing with the
7 introduction. The recommended water revenue requirement
8 is an increase of \$61,650 or 19.68 percent. For
9 wastewater, staff is recommending a decrease of
10 \$6,012 or .9 percent. These recommended revenue
11 requirements will allow the utility the opportunity to
12 recover expenses and earn an 8.25 percent overall rate
13 of return. Representatives from the Office of Public
14 Counsel and the utility are present. Also, Dr. Robert
15 Halleen, representing the homeowners association, is
16 present to address the Commission. Staff is available
17 to answer any questions.

18 **CHAIRMAN GRAHAM:** OPC.

19 **MR. REILLY:** Good morning.

20 **CHAIRMAN GRAHAM:** Good morning.

21 **MR. REILLY:** Commissioner -- Chairman Graham,
22 Commissioners, Steve Reilly with the Office of Public
23 Counsel. Also appearing on behalf of the customers of
24 Cypress Lakes, also appearing, Tricia Merchant with our
25 office. And as has already been stated, we have a

1 customer that's traveled all the way from Lakeland to
2 share his comments with you.

3 Would you like to hear the points that we want
4 to address?

5 **CHAIRMAN GRAHAM:** However you want to handle
6 it.

7 **MR. REILLY:** All right. Well, the main thing
8 that we want to talk about, the Office of Public
9 Counsel, would be the problem of excess, excess flushing
10 and excessive unbilled water. And those, those problems
11 are discussed in Issue 1 concerning the quality of
12 service and Issue 6 under the used and useful issue.

13 We also would like to discuss the Issue 19
14 regarding the proposed \$5.25 late payment charge. So
15 those would be the two, two main things that we want to
16 bring to the Commission's attention at the appropriate
17 time.

18 And Dr. Halleen.

19 **CHAIRMAN GRAHAM:** Dr. Halleen, welcome.

20 **DR. HALLEEN:** Thank you. It's a pleasure to
21 be back here and at least see one former face that I saw
22 the last three times I've appeared here. I would like
23 to thank the Commission for the opportunity to comment
24 on aspects of the rate case. But first I'd like to
25 thank Cypress Lakes Utility for the continuing effort

1 that they make to put forth for the residents a
2 healthful supply of water and an excellent disposal of
3 the water waste. My remarks are directed towards the
4 problem that is a part of this rate case but not
5 addressed in the recommendations.

6 A situation exists at Cypress Lakes relative
7 to the water supply that was not generated by Cypress
8 Lakes Utilities. In the 2003/2004 time frame, the
9 management decided to expand significantly the
10 residential area of the community. Unfortunately, the
11 extension of the water system to accommodate this
12 expansion with a free chlorine type of disinfection
13 system created many unfavorable health situations:
14 Principally lack of chlorine residue and very high
15 levels of cancer-causing byproducts.

16 As a result of this, in 2010 Cypress Lakes
17 Utility was directed to, by the public health
18 department, to improve their flushing. In 2011, it
19 became apparent that this effort with the free chlorine
20 system was inadequate. And so the utility, with the
21 approval of the public health department, chose to
22 change from a chlorine-free system to a chloramine
23 system; chloramine being a combination of chlorine and
24 ammonia. It eliminated the byproduct from them.
25 They're, they're gone basically.

1 But to maintain the needed chlorine residual,
2 the flushing required increased dramatically. In fact,
3 in 2012, the test year, the rate was increased from
4 previous values by a factor of ten, from about 200,000
5 gallons of water per month to flush to over 2 million
6 gallons, actually 2.4 million gallons of water to flush
7 the systems to ensure that all parts had the proper
8 chlorine residue.

9 Now 2013 came and the public health department
10 made a check apparently and reported to them that they
11 were out of compliance with chlorine residue. To react
12 immediately to that situation, CLU doubled again the
13 amount of flushing, taking it from over 24 million to
14 over 50 million gallons of water that are used just,
15 just for flushing. In other words, they're through the
16 lines and they are dumped in surrounding ponds and
17 lakes.

18 The staff recommendation on this is simply to
19 accept the situation and adjust the rate accordingly.
20 But at this time, if you -- the management of the
21 community and the residents wish to say that this is
22 really a health and safety issue, not just a rate
23 increase. The reason being that typically at this time
24 of year our ponds and lakes which surround the entire
25 community and homes are basically at low level. We've

1 gone normally through several months of very low
2 rainfall. However, with the excess flushing, today the
3 ponds are completely full. And the management considers
4 it very clear that if we have any hurricane activity or
5 a rainfall just like Tampa was exposed to just two weeks
6 ago where they had almost eight inches of rain, there's
7 going to be severe flooding and damages to roads and
8 homes.

9 So we go further that if you look at it from
10 just the resident standpoint, their issue is two-fold.
11 First, they're being asked to pay more -- or a selected
12 part of the park -- to get healthful water. But,
13 secondly, they're very upset with the fact that there is
14 a severe, what they call, environmental waste. In other
15 words, they're faced with full county commissioners'
16 recommendation to go one day a week watering. And if
17 you look at the total water that the residents use for
18 everything, for their drinking, for their washing, for
19 all of it, it's less than they are actually flushing
20 into the ponds. It's somewhere between 50 million and
21 this is over 50 million.

22 So the options that they have to correct this
23 situation are very limited. They can't really force the
24 management or CLU to redesign the system because they
25 know what the problem is. The problem is a large number

1 of dead-end lines and loop lines that are not flushed
2 properly. That would cost money. Ultimately the money
3 would come back and they would be paying it one way or
4 the other, either in higher water rates or higher rent
5 rates from the management, whoever paid the situation.

6 The other option, and many of them have
7 suggested it -- in fact, one individual I would assume
8 has already made a contact with EPA, to get their
9 support that this is a significant waste of the valuable
10 Florida resource of water. But really if you go back to
11 the residents, the only real option that they have is to
12 go back and ask for directed action to significantly
13 modify the scheme, the flushing scheme, to both meet the
14 health requirements, but also eliminate the excessive
15 flushing in areas that currently would meet this with
16 reduced flushing. Now this could be accomplished by a
17 simple directive from the Public Service Commission for
18 the three elements involved -- the residents, the
19 management, and CLU -- to work with staff to develop
20 such a plan and implement it, making sure that when
21 they're done, the public health department says, yes, it
22 does meet the health requirements throughout the park.

23 It's, as I say, difficult to understand
24 there's not some alternate scheme because one section of
25 the park of the 4-point some million gallons that are

1 flushed, actually one location is flushed for
2 2.4 million. There's got to be other alternatives.

3 It's interesting and we understand as
4 residents that any recommendation would cost money and
5 we certainly would have to share it, but we think that
6 maybe part of the problem ought to go back to the
7 creator of the problem.

8 **CHAIRMAN GRAHAM:** Sir, if I can get you to
9 kind of wind it up.

10 **DR. HALLEEN:** Pardon?

11 **CHAIRMAN GRAHAM:** If I can get you to kind of
12 wind it up.

13 **DR. HALLEEN:** So my point is that such
14 directive action by the Commission is not without
15 precedent with regard to Cypress Lake's rate cases. One
16 of your current members, Ms. Edgar, was involved in the
17 2006 rate case where an order was given by the
18 Commission specifically directed for the parties to work
19 together to resolve a similar problem.

20 So I will thank you in advance for any action
21 you may take to resolve this what I call environmentally
22 unfriendly situation. My other aspects, your staff has
23 already addressed them with a preconference telephone
24 call two days ago.

25 **CHAIRMAN GRAHAM:** All right. Thank you very

1 much.

2 Mr. Reilly.

3 **MR. REILLY:** Thank you. I was listening
4 closely to Dr. Halleen's remarks because he did cover a
5 lot of the history that I was going to cover, so you'll
6 be pleased to know I flipped through those, those
7 remarks and really kind of picked up the history of the
8 key point.

9 The key point is when the company, you know,
10 met with -- and dealing with problems with the Polk
11 County Health Department, and they made that decision to
12 convert the disinfection system to the chloramine
13 disinfection, which was accomplished in July of 2011.
14 However, in order for the utility to maintain the
15 required combined chlorine residual at the farthest
16 point in the distribution system, a more extensive
17 flushing program was required and implemented. So
18 that's kind of the point in history that we really see
19 the problem beginning to be developed.

20 Flushing, which was previously estimated
21 between 1 and 3 million gallons a year for the years
22 2005 through 2010 jumped dramatically to approximately
23 24 million gallons for the 2011 year and the 2012 test
24 year.

25 During the 2012 test year, the utility's total

1 water treated was 74.5 million gallons. The company
2 sold 46.2 million gallons in the test year, flushed for
3 the approximately 24 million gallons, and had
4 4.3 million gallons of unaccounted for water.

5 In the 2012 test year the company flushed
6 24 million gallons in order to sell 46 million gallons.
7 In our judgment, this is a tremendous waste of an
8 increasingly scarce and valuable state resource. But
9 because the flushing was accounted for, the
10 recommendation before you today determined that the
11 remaining small amount of 5.85 percent unaccounted for
12 water was well within the 10 percent allowance
13 historically allowed by this Commission; therefore, no
14 adjustment.

15 The test year unbilled water was over
16 38 percent of all water pumped, which is worse than the
17 unbilled water problem we discussed in great length at
18 S.V. Utilities in our very last Agenda Conference. Of
19 course, the big difference between S.V. Utilities and
20 this situation is with S.V. we were very uncertain as to
21 what really accounted for all this lost water; whereas,
22 in this case the company is purportedly, you know,
23 representing that virtually all of this unbilled water
24 is flushed water and accounted for.

25 If the extent of the excessive flushing that

1 ended, ended with the 2012 numbers I've just mentioned,
2 one could argue that the cost of treating all this
3 unbilled water was still potentially less costly than
4 revisiting the whole problem and finding a better
5 treatment solution for Cypress Lakes' water quality.

6 We're bringing this problem to your attention
7 today because the problem does not end with the 2012
8 numbers. For reasons not explained, the excessive
9 flushing problem during the 2012 test year becomes
10 significantly worse in 2013. In 2013, the total annual
11 flushing more than doubled. In 2013, the company
12 reports that it had to flush on the ground almost
13 52 million gallons of treated water to sell
14 42.4 million gallons of water. In 2013, the utility had
15 55 percent unbilled water. We strongly argue that the
16 Commission should not vote out a PAA order that does not
17 adequately address this serious problem.

18 First and foremost, the company must be
19 required to study the problem again, find a reasonable
20 economic, economical treatment solution that does not
21 dump tens of millions of gallons of treated water onto
22 the ground. The customers stand ready to work with the
23 utility to see if a way can be found to improve the
24 treatment process and to greatly reduce the amount of
25 lost -- of water lost to flushing.

1 Given the magnitude of the problem, our office
2 reached out to Gary Williams, Executive Director of the
3 Florida Rural Water Association, and he graciously
4 agreed to provide free expert assistance to Cypress
5 Lakes Utilities to study the problem and to offer
6 solutions to improve the efficiency of the utility's
7 operations and to promote conservation of the state's
8 increasingly scarce water resources. And then he
9 repeated, he said, "This is in fact the mission of the
10 Florida Rural Water Association: Improve efficiency and
11 to protect and conserve our natural resources." So he
12 was excited about the chance to, to be reengaged and to
13 try to once again look at this utility.

14 We've looked back through the files. We've
15 seen letters in it where Cypress Lakes has previously
16 brought in the expertise of the Florida Rural Water
17 Association. And they've recommended certain things;
18 some of them have been followed, maybe some of them were
19 not followed. But I think that what we are
20 recommending, as we did in S.V., is to take advantage of
21 this free expert resource, and that's what they, that's
22 what they do. And if there ever was a need to study
23 unbilled water, this is probably about one of the worst
24 cases I've seen in the years that I've looked at the
25 water and wastewater cases.

1 In addition to this recommendation -- I'm
2 studying this further -- we also believe that
3 adjustment, an adjustment should be made in this
4 particular case to account for the extra costs borne by
5 ratepayers to treat a portion of the millions of gallons
6 of water used in the company's flushing program.

7 Ms. Merchant with our office studied the
8 flushing data provided by the utility and has prepared
9 some handouts to document OPC's recommendation
10 concerning an adjustment.

11 (Pause.)

12 There's, there's one handout you should
13 ignore. But the top page is one that we'll be talking
14 about when we get to the late fee, but the second
15 handout has to do with the excess water. If you'll set
16 the first one aside.

17 **MS. MERCHANT:** Good morning, Commissioners.
18 Tricia Merchant with the Office of Public Counsel.

19 This issue deals with Issue Number 6 and
20 possible implications to the O&M expenses. In the
21 handout that we just passed out to you, the first one
22 was one page on the late fee revenue, but the second one
23 was on the unaccounted for water. It's essentially my
24 compilation of responses that the company compiled for
25 Staff Data Request Number 3.1 and a response to Staff

1 Data Request Number 4. And I'm going to walk you
2 through these pages, if I can.

3 But if you turn to the first page of the
4 exhibit that I've handed out, this is -- well, not the
5 cover page, but page number one -- this is a schedule
6 that was provided first when the staff asked the company
7 to explain what the flushing program was. And if you
8 look at the far right column, which is slightly
9 shaded -- I tried to get this in color, but it didn't
10 work out -- I added this total in the very last column.
11 The rest of the information is the information provided
12 by the company. And I -- and if you'll note that the
13 total flushing, according to this protocol that they
14 gave staff in January, January 17th, was 10.6 million
15 gallons per year. So that was what we thought they said
16 they should need to do to flush adequately to get rid of
17 the chlorine or to make sure the chlorine residual was
18 adequate. So that was the first document that we got.

19 On the second page, page 2, was a document --
20 staff sent out another data request in Staff Data
21 Request 4, and they said, "Reconcile that prior page to
22 what you put in your MFRs on Schedule F1."

23 And so the company submitted two pages related
24 to that, and they a gave us information for 2012, which
25 is page 2, and they gave us information for 2013, which

1 is page 3.

2 If you look in the far right of page 2, they
3 totaled it up to 23 million gallons -- 24 million
4 gallons per year. They totaled it in this column, on
5 this page. I've slightly highlighted four system -- you
6 can barely see it -- but it's the first three
7 non-metered systems, and one down at the bottom called
8 Spatterdock, the next-to-the-last one. But that's on
9 2012. Those, those four that I've highlighted are the
10 highest flushing points that they've provided on this
11 2012 schedule.

12 If you flip -- and I added, excuse me, I added
13 in the hours and the annual gallons flushed -- no, I
14 think the company added -- I added in the hours of daily
15 flush, just for information purposes, to the company's
16 total.

17 If you look at the 2013, it's the same
18 information, just updated for the next year.
19 Substantial increases, what Mr. Reilly just told you and
20 Mr. Halleen -- Dr. Halleen said.

21 If you go on to page 4, I've taken a snapshot
22 of those four sites that increased the most between
23 their original estimate, which we call the protocol
24 estimate, and I've, I've given you a line item
25 comparison for each of those four sites. So if you look

1 on page 4, you can see the -- let's, let's talk about
2 number three, which is Peavine Circle in the rear.
3 You've got the original estimate. If you take it over
4 to the far right, next-to-the-last column, it says that
5 they're going to flush for one-half hour a day, 365 days
6 a year, for a total of 1.4 million gallons a year. That
7 was what they gave staff first.

8 Then when they came in -- when staff said, you
9 know, reconcile this with your MFRs and what you
10 actually flushed in 2012 and 2013, they came in with
11 6.1 million gallons for that one, that one flushing
12 site. And in 2013, they flushed 28.5 million gallons
13 for that one site. Ten hours every single day is what
14 that ten million -- 28 million gallons in 2013 is.

15 So essentially we are really concerned with
16 the -- these are estimates. One thing I wanted to point
17 out too is the information in the original protocol
18 schedule that they gave us in January, it said that they
19 were metered sites. But then when the information came
20 in in February, it said, no, they weren't metered. They
21 put in these automatic flushing valves in 2010, they
22 didn't meter them yet. And most of them have not been
23 metered until maybe 2014.

24 So the majority of the information that
25 they've given us in 2012 and 2013 is still estimates of

1 what they think they flushed because they really don't
2 have solid records, or at least they haven't provided
3 information to the staff, of how they actually
4 calculated that other than backing into -- what I
5 believe is that they backed into these numbers. Because
6 in their annual report for 2012 it is a level 2 million
7 gallons every single month, and that's what they show in
8 their MFRs as well. And then you -- in 2011 you've got
9 varying amounts every month. So it's not
10 2 million gallons every month, it's 2.136 or whatever.
11 But in the test year, 2 million, 2 million, 2 million,
12 2 million. And then you can see in some months they
13 actually -- if you combine the water sold and the water
14 flushed, it's more than the water pumped for two months.
15 So there's -- obviously they've got a recordkeeping
16 problem with this flushing.

17 Okay. We -- Public Counsel believes that the
18 company has not adequately addressed why they have to
19 flush as much as they do. They say that they've got
20 this protocol, but then they've done a lot more than
21 what they have.

22 We believe that the company still has a lot of
23 excess unaccounted for water, and we need to send a
24 signal to the company that you've got to document your
25 other uses of water, which is what they agreed to in

1 2004 in a settlement with this Commission, and the
2 Commission approved an order that they would support all
3 of their other uses of water. And they basically --
4 they sent in their water, monthly water reports and
5 they're blank. Every single month it just has a
6 total -- it looks like somebody hand wrote the number of
7 flushing in it -- 2 million gallons, 2 million gallons.
8 So we've got a, we've got a recordkeeping problem there.

9 In conclusion, I think with this issue -- if
10 you look at the last page of my issue, I mean my handout
11 that I've got, I've got a calculation of what we
12 recommend an adjustment could be for excess unaccounted
13 for water. And this is essentially taking F-1, MFR F-1,
14 and taking the 10.6 million gallons of water that they
15 said in their original estimate that was, quote, their
16 protocol flushing requirements, and I plugged that into
17 column four as 10.64 for regular flushing, which is
18 substantial flushing still, even 10.6 million gallons,
19 and that would leave 17.8 million gallons of unaccounted
20 for water or a total of 23.82 percent of unaccounted for
21 water.

22 The Commission's practice is that you allow
23 10 percent of excess unaccounted for water, unaccounted
24 for water, so that would be a 13.82 percent reduction.
25 Using staff's numbers, the dollar amount per million

1 gallons is \$268. So the adjustment that OPC would
2 recommend for excess unaccounted for water would be
3 2,762. And while we recognize that that's not a very
4 material number, we do believe that that should be
5 sending a signal to the company to get the problem fixed
6 and to understand why they're using so much of our
7 state's precious resources to treat it and then just put
8 it out into a swamp. And it just doesn't make any sense
9 that you would have that quantity of water wasted into
10 the swamps for this problem. It seems to me that there
11 should be some solution that would be -- that would
12 rectify the situation.

13 We would also like the company to explain to
14 the Commission why it failed to comply with the
15 Commission's order that it agreed to in 2004 to every
16 month write down how you spend your, how you spend your
17 flushing. What do you do? What are your records? They
18 have a monthly operating report. It has -- it's already
19 a report that they have available to them and they're
20 just not doing it. And we would, we would recommend
21 that the Commission require the company to comply with
22 this. And I have other comments on the meter fee --
23 excuse me -- the late fee.

24 **CHAIRMAN GRAHAM:** Mr. Friedman, would you like
25 to address OPC's concerns?

1 **MR. FRIEDMAN:** Thank you, Chairman.

2 Commissioners, Marty Friedman here on behalf
3 of -- attorney for Cypress Lakes Utilities.

4 Most of the comments that, that were raised
5 are of a technical nature, and Mr. Patrick Flynn, who's
6 the Vice President of Florida companies, including
7 Cypress Lakes Utilities, will address those.

8 I'll just preface his comments by saying that
9 Public Counsel makes it sound like the utility, you
10 know, wants to go out and just flush water all day long,
11 you know, for no reason at all. And I would suggest to
12 you that their calculations are just kind of a back of
13 the envelope here's what we think it ought to be without
14 any real detailed analysis. And I don't think that that
15 meets the standard of, of proof that anybody, even at an
16 Agenda Conference, that you would have to show that,
17 that there was some justification for there being
18 unaccounted for water such that you would make an
19 adjustment to O&M expense for it.

20 I'm going to let Mr. Flynn address the more
21 technical aspects of this. Obviously this is something
22 that, that -- although we knew, we knew that the
23 flushing was going to be an issue to talk about today,
24 the amount of detail and the basis for it has not been
25 disclosed to us until today. So, you know, some of this

1 is unfortunately off the cuff. And had we had a more, a
2 more detailed position by Public Counsel of what they're
3 going to argue, we probably could have presented a more
4 detailed response to that. But I'm sure Mr. Flynn can
5 adequately address the, the rhetoric by Office of Public
6 Counsel.

7 **MR. FLYNN:** Thank you, Commissioners. Patrick
8 Flynn from Cypress Lakes Utilities. I'll try to cover
9 some of those points raised by Trish just a few minutes
10 ago. And also I want to mention the fact, Dr. Halleen's
11 comments were right on point, that our conversion to
12 chloramine disinfection results in a change in operating
13 scheme in order to maintain compliance with the total
14 coliform rule and the Disinfection Byproducts Rule.
15 Those two, those two different regulations are impacting
16 this whole discussion because we must maintain a certain
17 residual of chlorine in the water to ensure disinfection
18 occurs. The use of chloramine is a method to accomplish
19 that in a way that doesn't produce byproducts that are
20 deemed harmful by EPA and DEP.

21 So given the source water available at our two
22 wells, the water quality from the groundwater lends
23 itself to a solution of adding ammonia to the water in
24 addition to chlorine. In doing so, we have had adequate
25 disinfection occur, but only at the expense of having to

1 significantly increase our flushing efforts to maintain
2 the residual throughout the whole distribution network.

3 So the increase, the drastic increase in
4 flushing volume reflects that very thing. The change in
5 the disinfection process lends itself to a highly
6 inflated amount of flushing activity.

7 As far as recordkeeping goes, the 2011 and
8 prior years we were more diligent in identifying
9 disinfection -- I mean, flushing activities. We had
10 some change in personnel in 2012 that were not doing the
11 proper job of documenting on a daily basis what flushing
12 activities were undertaken. We changed personnel at the
13 end of 2012. And 2013 information is much more
14 definitive and explicit. We also used less reliance on
15 estimations. We had more discrete identification of
16 flushing volume by location and by event, and that lends
17 itself to a more reasonable understanding of what
18 flushing volume was used in 2013, all of which is past
19 the end of the test year.

20 The going forward position is we would
21 certainly entertain the idea of exploring alternatives
22 to the current disinfection process. There's no easy,
23 cheap way to modify our treatment process that's going
24 to result in both a reduction in cost and a reduction in
25 flushing. So we certainly would entertain any questions

1 the Commissioners may have.

2 **COMMISSIONER EDGAR:** Mr. Friedman, any other
3 comments before we move to questions?

4 **MR. FRIEDMAN:** None. Thank you.

5 **COMMISSIONER EDGAR:** Okay. Commissioners, do
6 you have any specific questions that you would like to
7 pose before we ask our staff to respond generally?

8 Commissioner Brown.

9 **COMMISSIONER BROWN:** Thank you, Madam Chair.

10 Getting to the utility, looking at -- and I'm
11 just going to ask a general question here, okay? You've
12 got -- you came in and you asked for, in your MFRs you
13 asked for 111,000 in rate case expenses and then an
14 increase of 126,000, but then you modified the rate case
15 expenses to 146,000. So -- ultimately in your MFRs.

16 So you were seeking -- when you came in -- I'm
17 trying to get to the crux of why you came in for a rate
18 case when it doesn't seem like there's any really
19 proforma improvements other than on the wastewater side.
20 It seems like the bulk of this is rate case expenses.

21 Before we get to -- before I get to the
22 question of the flushing and the discrepancy and the
23 lack of proper recordkeeping, in your test year I just
24 don't understand why you would file for a rate case
25 here.

1 **MR. FRIEDMAN:** I'm looking for the total
2 amount of revenue that the -- you know, it's -- as I
3 recall, more than, more than half of the increase was,
4 was unrelated to rate case expense. Now when I find the
5 number, I could be corrected on that. But when I looked
6 at this the first time -- and so the question becomes
7 what do you do when you're underearning? Do you, do you
8 have a certain threshold that you have to get to to ask
9 for more money? I mean, from a constitutional
10 standpoint, if you are underearning, you're
11 underearning. In theory, you could be underearning one
12 penny and be entitled to, to rate relief. Now obviously
13 that's an absurd position, but legally that's, that's
14 the position.

15 This company determined during the year that
16 it was deficient in its revenues, and I don't remember
17 how much more we asked in the actual MFRs and --

18 **COMMISSIONER BROWN:** 126.

19 **MR. FRIEDMAN:** How much?

20 **COMMISSIONER BROWN:** 126.

21 **MR. FRIEDMAN:** And so they believe that they
22 were entitled to \$126,000 in new revenue, and that's,
23 that's a material amount of money. And so they filed,
24 they filed for rate relief as they are entitled to do.

25 **COMMISSIONER BROWN:** Have you -- as a utility

1 since the limited proceeding and even from the last rate
2 case in 2006, have you explored with, with the
3 residents, with the HOA, have you explored alternatives
4 and the cost implications? Because even the staff
5 recommendation provides that there continue to be issues
6 with the flushing, as you can hear from Public Counsel.
7 But there is at least the perception of excessive
8 flushing and that the customers appear to not be
9 satisfied with that alternative that the utility is --
10 has deployed.

11 So have you, since the limited proceeding, had
12 those discussions with the customers about the options
13 and the costs associated, Mr. Flynn?

14 **MR. FLYNN:** We have, we have not had any
15 definitive discussions with the, with the customers in
16 that regard. We've met with them on other issues from
17 time to time. We, in fact, met with Dr. Halleen before
18 this rate filing occurred. He expressed some comments
19 along those lines, but we haven't really flushed out a
20 full discussion about that issue.

21 **COMMISSIONER BROWN:** What happened? This data
22 that -- I know you just had an opportunity to look at it
23 at first, first glimpse right here from -- that the
24 Office of Public Counsel prepared. But what happened
25 with the data that the utility prepared in its test year

1 and what actually occurred? Why the discrepancy in
2 flushing?

3 **MR. FLYNN:** Well, the MFRs reflect what was in
4 our records for flushing for the months during the test
5 year. The data request asked us to be more -- to look
6 into it deeper and find out whether we could be more
7 explicit with what we estimated actually occurred. So
8 in that regard, the response reflects an effort to
9 quantify what occurred absent the lack of documentation
10 from --

11 **COMMISSIONER BROWN:** The jump -- what happened
12 with the jump from 2012 to 2013 in terms of flushing?

13 **MR. FLYNN:** Well, in 2013, we were -- it
14 reflects the fact that we elevated the flushing as a
15 function of our daily operating information to maintain
16 residual throughout the distribution network.

17 **COMMISSIONER BROWN:** So you changed it to, I
18 guess, the general, across-the-board general flushing
19 throughout the system?

20 **MR. FLYNN:** We -- we -- for individual sites
21 that had been used for flushing in 2012, either we
22 changed the sites or we enhanced the use of those sites
23 with automatic flushing equipment. So we had less
24 manpower spent flushing and yet get the flushing work
25 done in order to generate an adequate residual

1 throughout the network.

2 **COMMISSIONER BROWN:** Patrick, do you think
3 that these flushing mechanisms, do you think they're --
4 the valves are actually working?

5 **MR. FLYNN:** Yes. Because our operators
6 observed the work of the, of the flushing valves, and in
7 some cases we put meters at those locations to verify
8 what line -- what the flow rate would be to kind of
9 cross-check against what's going on.

10 **COMMISSIONER BROWN:** Do you think the flushing
11 is excessive?

12 **MR. FLYNN:** I think it's, I think it's -- in
13 the context of the sheer percentage is awful, but it's
14 the remedy available at the current status for adequate
15 compliance with the regulation.

16 **COMMISSIONER BROWN:** What other remedies are
17 there though, other than getting a whole new system?

18 **MR. FLYNN:** Well, it's not the system that's
19 the problem; it's the water quality in the ground. So
20 it's a treatment upgrade of some type, which is going to
21 be an expensive proposition. It would be evident at the
22 water plant in order to modify the treatment process
23 sufficient to allow for a delivery of water meeting
24 current regulations without having to, to flush.

25 **COMMISSIONER BROWN:** Did Cypress Lakes though

1 explore those, those alternatives?

2 **MR. FLYNN:** We have not. And perhaps it's now
3 a ripe opportunity. But we're now at a point where we
4 have enough information to put in context the, the sheer
5 volume associated with this approach.

6 **COMMISSIONER BROWN:** Uh-huh.

7 **MR. FLYNN:** The approach works; other
8 approaches may also work. They may be more costly. It
9 may be an opportunity for us to evaluate them. And if
10 that's your direction, of course, that's what we will
11 do.

12 **COMMISSIONER BROWN:** More environmentally
13 friendly, too.

14 **MR. FLYNN:** I would say that not all water in
15 the state is created equal, as we know from other
16 discussions we've had -- you and I -- here. So there's
17 not pristine water across the state, and it impacts the
18 delivery of service to customers in terms of both
19 quality and quantity and cost.

20 **COMMISSIONER BROWN:** I have several other
21 questions, Madam Chair or Mr. Chairman, but I'll defer
22 to the other Commissioners.

23 **CHAIRMAN GRAHAM:** Okay. Commissioner Balbis.

24 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.
25 And I, I have questions on specific issues,

1 but Commissioner Brown brought up an interesting point.
2 I know, Mr. Friedman, you didn't have the numbers, but
3 from what staff is recommending in this case, a revenue
4 increase for water of about \$61,000 and a decrease for
5 wastewater about \$8,000, or about a \$52,000 revenue
6 increase, and yet the customers are going to have to pay
7 \$120,000 in rate case expense just for you to get the
8 \$52,000.

9 So do you ever -- you know, back to her
10 question on why did you come in -- did you feel that it
11 was appropriate to spend \$120,000 to collect just half
12 of that in the revenues that you need?

13 **MR. FRIEDMAN:** Well, I don't make that
14 evaluation because I'm not the one that determines
15 whether or not to file a rate case. But unfortunately
16 there's a cost of filing a rate case, and it's going to
17 be -- and I guess if you looked consistently, at least
18 in my mind it looks like from the part of the rate case
19 expense that's related to what I do, it seems to stay
20 the same or, you know, within, withing bounds in every
21 rate case. And that's whether or not it's a
22 staff-assisted rate case, it's a little bit less. But,
23 you know, there's a lot of effort that you have to put
24 into the case no matter what.

25 I don't know how that -- who makes the

1 determination as to whether a rate case is entitled to.
2 As I mentioned to Commissioner Brown, you know, a
3 utility, when it's underearning -- and they file indexes
4 every year -- and I assume that Cypress Lakes did as
5 well. So they're doing what they can do to try to keep
6 up with inflation, but unfortunately sometimes the costs
7 rise higher than, than the indexing allows you to
8 recover, and the utility at that point is, is, is
9 entitled to come in and seek rate relief.

10 And they, obviously they didn't get the amount
11 that they thought they were going to get, and maybe in
12 hindsight, if they would have said, oh, yeah, we -- you
13 know, if they had a crystal ball and said -- oh, we're
14 not going to get what we asked for, then maybe they
15 wouldn't have filed it.

16 But, you know, y'all are looking at this thing
17 from, from hindsight, not from, from the financial
18 evaluation that somebody made at the very beginning, and
19 you're going to get a very different result.

20 **MR. FLYNN:** Commissioner, if I could answer.
21 Also it comes -- it brings up the fact that if we had
22 filed and requested an increase in water rates only, it
23 still would have cost substantially a lot of money for
24 the rate case expense to prosecute the docket, and yet
25 we still have the reality that we hadn't filed for a

1 rate increase in water since the 2005 test year. So we
2 were essentially going with rate base from way back when
3 that didn't reflect accepted placements and improvements
4 and so on.

5 So, you know, if we had filed and requested
6 only an increase in water rates, it still would have
7 been a very expensive proposition just because rate case
8 expenses reflect the process itself, regulatory burden
9 to ask for the money.

10 **COMMISSIONER BALBIS:** Okay. And then,
11 Mr. Chairman, just one or two more general questions
12 before we dive into the issues.

13 In looking at, since 2005, the gallons pumped
14 versus billed, there appears to be a significant
15 reduction in the amount of water billed. In fact,
16 looking at 2013 numbers, a 33 percent decrease in the
17 amount billed. Why are you billing so much less?

18 **MR. FLYNN:** If there's, if there's water
19 less -- if there's less water billed, it reflects less
20 water used by customers.

21 **COMMISSIONER BALBIS:** Okay. Are you having a
22 decrease in your customer size, are people moving out,
23 are they using less gallons per month?

24 **MR. FLYNN:** There's a general trend of less
25 gallons per day per customer over time. That's an

1 industry trend. And, secondly, it's, it's a community
2 of plus-55 residents, many of which are residents only
3 part-time of the year. So to the extent a given year
4 may have a higher vacancy rate or a lower vacancy rate
5 impacts the total consumption numbers for the year.

6 **COMMISSIONER BALBIS:** Okay. And the reason
7 why I'm asking is, you know, now that we have data for
8 2013, it appears to be another reduction of about
9 15 percent from what the test year was on the amount
10 billed. So have you looked at that? Are you
11 anticipating another significant reduction in billing?

12 **MR. REILLY:** I, I anticipate the general trend
13 to continue in the sense that I can't predict accurately
14 what's going to happen. But in terms of purposes of a
15 rate case, we use the same methodology as we always do
16 to quantify what the expectation would be on a
17 going-forward basis. There are -- there is some
18 customer growth that's occurring there, which is new
19 after the last few years of the economy downturn there
20 wasn't any. There has been some growth in the current
21 year. It's not that far away from billed out, however.
22 There's not going to be a huge increase over time to the
23 customer base to offset other increases in cost.

24 **COMMISSIONER BALBIS:** Okay.

25 **CHAIRMAN GRAHAM:** All right. Mr. Reilly,

1 let's go back to -- you said you had another issue,
2 which was 19?

3 **MR. REILLY:** That's correct. Concerning Issue
4 19, we propose that you amend staff's recommendation.
5 Rather than authorizing the company to incur the expense
6 of preparing and mailing separate late penalty notices
7 to customers who do not pay their bills by the due date,
8 we recommend the Commission to authorize the utility to
9 clearly disclose on each bill already mailed to each
10 customer that if the payment is not received on or
11 before the due date, the customer is obligated to pay
12 the company a \$5.25 late fee, which late fee would be
13 due and payable by the due date of the next monthly
14 bill. This is a much more cost-effective and efficient
15 way to encourage customers to pay on time and to collect
16 a late fee because of a failure to pay on time. We
17 believe that implementing the collection of late fee in
18 this manner will conservatively generate an additional
19 \$9,000 to \$14,000 a year of net revenue, and at the same
20 time significantly reduce the amount of bills being paid
21 late.

22 Implementing the late fee as part of the
23 normal billing cycle will not only improve the
24 timeliness of customers paying their bills, but it will
25 also conservatively generate this 9,000 to \$14,000 worth

1 of additional miscellaneous revenues paid for by
2 delinquent customers, thereby benefiting the entire
3 customer base with 9,000 to \$14,000 of reduction in the
4 revenue requirement for the base and gallonage rates for
5 this water and wastewater service.

6 I'd like to yield to Ms. Merchant to explain
7 how we arrived at our 9,000 to \$14,000 net revenue.

8 **CHAIRMAN GRAHAM:** Okay. Ms. Merchant.

9 **MS. MERCHANT:** Commissioners, this is the
10 other piece of paper that we handed out. It's a
11 one-page document that's entitled "OPC Estimation of
12 Projected Late Fee Revenue."

13 And it's -- I identified it as Issues 11, 17,
14 and 19, and 11 is test year revenue. So 19 is the issue
15 where the topic is raised by staff in the rate section
16 of the recommendation. But the company, in support of
17 this late fee charge -- and we do recommend the charges
18 are reasonable and should be approved -- but we -- the
19 company said, in their support of this charge, that
20 42 percent company-wide every month customers pay late.
21 So if that is the situation, that's a significant
22 number. But we also understand that they have this
23 Project Phoenix computer program that is electronic, and
24 they're probably not going to send out a bill every time
25 somebody is late. I mean, I can't think that that would

1 even be reasonable to do that. It would drastically
2 increase their costs. So what we are suggesting is
3 their cost is not as high on a per bill basis as what
4 they said.

5 Now while we agree that the charge is
6 reasonable, we think there's going to be a one-time
7 charge to change the computer program to if this bill is
8 late, boom, it generates a charge. And it's electronic.
9 It's going to be fast. It'll put the language on the
10 bill. If they have -- if they're recognizing that this
11 is a problem company-wide, they may have already even
12 changed the, the billing program at the parent company
13 level.

14 But we recognize that 42 percent is not going
15 to be an ongoing level of late fees. Because if you get
16 a late fee, hopefully it's a disincentive to pay your
17 next bill late. And if you don't pay the late fee and
18 you pay everything else, they'll probably get
19 disconnected. So that's a major disincentive.

20 But we're recommending that since we don't
21 believe the cost is as high as \$5.25 per customer per
22 bill, that some of that is going to be revenue received
23 by the company with that corresponding cost. It's not a
24 wash, a dollar-for-dollar wash for every late fee they
25 collect.

1 So what we would suggest -- and on this
2 schedule I've given you the calculation that I've
3 recommended and I gave you two options: A 10 percent
4 recommended level of late fees that might be received or
5 a 15 percent customer late fee. And I've basically
6 broken it down between water and wastewater and
7 allocated the late fee. And for a 10 percent allocation
8 of late fees, the revenues would be \$9,406 for the test
9 year estimated, and at the 15 -- which is the
10 next-to-last column, and at 15 percent would be the
11 14,109. And then you can see the numbers between water
12 and wastewater. And those are the numbers that we
13 recommend just to make sure that you're, you're giving
14 the company an immediate increase in their revenues. We
15 just want to make sure that it's -- the rest of the body
16 of ratepayers are not paying extra for that service. So
17 that's why it would be, we believe it would be
18 appropriate to impute those revenues for the next period
19 on an ongoing basis. Thank you.

20 **CHAIRMAN GRAHAM:** Commissioner Brisé.

21 **COMMISSIONER BRISÉ:** Thank you, Mr. Chairman.

22 Just a quick question. You mentioned that you
23 didn't think that the company would send out a late
24 notice when a customer automatically becomes late.
25 What, what brings you to that conclusion?

1 **MS. MERCHANT:** Well, in staff's recommendation
2 on page 39, the company says that its parent company
3 will spend two hours per day for three days to process
4 late payment notices.

5 **COMMISSIONER BRISÉ:** Right.

6 **MS. MERCHANT:** So I can't imagine that a
7 company would send out late payment notices. Because a
8 credit card company doesn't send out a late payment
9 notice, they send out your next statement and it has a
10 late fee.

11 So -- and you don't really -- I mean, if you
12 know you paid it late, you can look online. But, you
13 know, otherwise you'll find it out in the next -- so
14 they don't send out another notice. And that would be
15 extremely expensive if 42 percent of their customer base
16 is paying late. So we don't believe that that's
17 necessary. So we think that it would be an easy thing
18 to add onto the bill to put it -- so, so the incremental
19 cost to the company is probably changing the billing
20 system. And then that's a one-time charge and it's an
21 automatic thing every time somebody is late. So if they
22 pay the right amount on time, then it doesn't generate
23 the code on their bill.

24 **COMMISSIONER BRISÉ:** So let me hear from the
25 company as to what you actually do.

1 **MR. FRIEDMAN:** I don't think that makes sense
2 at all. The bill is going to say if you don't pay your
3 bill on time, there's a late payment fee. And, you
4 know, this is the first this company has got one, but
5 y'all have approved a lot of them for a lot of
6 utilities. A lot of them are my clients. They put that
7 on the bill; if you don't pay by the due date, it's a
8 late payment fee.

9 Then what happens if they don't pay by the
10 late -- by the date? You send out a five-day notice
11 that says if you don't pay in five days, we're going to
12 shut your utilities off, and you owe the \$5.25 late
13 payment fee. That's what the notice they're talking
14 about is. It's the notice to these people telling them
15 you're going to pay -- you owe -- it's not, it's not a
16 separate notice. We're not going to send on day 21 a
17 notice that says "You're late; send us \$5.25 in addition
18 to your bill," and then turn around and send them
19 another notice that says, "Oh, by the way, you didn't
20 pay, so here's your five-day disconnect notice." I
21 mean, I don't think any, any utility is going to do
22 that. There's not a separate notice for a late payment
23 fee.

24 **MS. GILCHER:** Mr. Chairman, if I may. Rule
25 25-30.320, the notice that Marty is referring to, it

1 says that such notice shall be separate and apart from
2 bill for service.

3 **MR. REILLY:** That's for disconnect. We're
4 just talking about -- we didn't think the company was
5 going to send out a notice to cut a person off because
6 they were late with their payment.

7 **CHAIRMAN GRAHAM:** Well, it sounds like the
8 payment hasn't been received.

9 **MS. MERCHANT:** We're not -- I don't believe
10 the company is talking about a nonpayment. I think
11 they're talking about it's three days late or it's five
12 days late. They paid it in between -- so they paid it
13 in between the time that the next bill came in. I mean,
14 and that's quite common. A lot of companies do have
15 late fee payments. If you don't pay it within the
16 amount of time required by the rule, then that notice
17 that staff is talking about kicks in that you have so
18 many -- and there's -- I don't believe that there's a
19 specific rule, PSC rule that deals with late fees.
20 There's disconnect fees and things like that. But this
21 is rather new policy, and I don't think there's a rule
22 that addresses late fees and any notice requirements.

23 **CHAIRMAN GRAHAM:** Hold on one second.

24 **MR. FRIEDMAN:** But, you know, y'all have been
25 doing these late --

1 **CHAIRMAN GRAHAM:** Hold on. Hold on. Now the
2 rule that you read, is that just late fees or is that
3 disconnects?

4 **MS. GILCHER:** It's refusal or discontinuance
5 of service. But it talks about if the customer does not
6 comply with their responsibility to pay their bill, they
7 have to have a five-day notice, and that notice must be
8 separate from their bill.

9 **CHAIRMAN GRAHAM:** Okay? Commissioner Brisé.

10 **COMMISSIONER BRISÉ:** Yeah. Just for my
11 clarity. So if I'm understanding Mr. Friedman, Customer
12 X on day 21, they haven't paid their bill. Obviously
13 the computer system will generate something that says
14 that Customer X has not paid their bill. The company is
15 not necessarily going to send that, mail out a notice
16 until five days later, right, when the person has not
17 paid within that timeframe and now you're seeking to
18 disconnect. Basically telling them five days from, from
19 day 25 or 26, that on day 31 you're going to disconnect,
20 or day 30 you're going to disconnect. That's the second
21 notice that we're talking about.

22 Now I think the Office of Public Counsel is
23 saying that in essence the \$5.25 is inclusive of both of
24 those and sort of making those two cases in one, rather
25 than just dealing with the actual notice being sent out

1 and that expense being -- or allocation for that expense
2 being there.

3 **MR. FRIEDMAN:** You know, to be able to tell
4 you exactly how it's done, I'd need to have the woman
5 who handles the billing here, and she's not because this
6 issue is not raised. But I have never seen this issue
7 addressed. I mean, y'all have been calculating late
8 payment fees for at least the last eight or nine years,
9 and, you know, nobody has ever raised the issue about,
10 oh, you know, we're giving you the notice, we're giving
11 you the labor and printing costs and postage costs --
12 and y'all did one at 7.50 or 7.25 recently -- and it's,
13 and it's there for a purpose. And so this is the first
14 time anybody has ever said, "Oh, by the way" -- to
15 follow Public Counsel's theory, you shouldn't have any
16 of this in there then. You shouldn't have a late
17 payment fee that's got any labor, printing, or postage
18 in it. It should just show up on the bill. But then
19 how do you calculate what the amount ought to be? Then
20 it, then it would be -- the amount would be zero because
21 the company can't justify any additional expense for the
22 late payment fee.

23 So you're kind of caught in a catch-22. If
24 you want a late payment fee, you've got to justify it.
25 And you can't justify it because you're going to put it

1 on the bill and you're not going to have any additional
2 expense. That's what Public Counsel said: It's no
3 additional expense; put it on a bill. Then how do you
4 justify a late payment fee?

5 **CHAIRMAN GRAHAM:** Commissioner Brisé.

6 **COMMISSIONER BRISÉ:** Thank you.

7 And just to clarify, Mr. Friedman, I think
8 since I've been on the Commission we've talked about
9 late fees a few times. And so to say that for eight or
10 nine years, you know, we just sort of -- (motioning) --
11 and let it go through, I think it is an issue and an
12 area that, that there is opportunity to, to pad the
13 books or pad, you know. Because, you know, it is what
14 it is and it's justifiable in many people's minds
15 because these people are paying late. But the reality
16 is that we want to make sure that the right allocation
17 of cost is assigned. And if there is a better way of
18 doing it, a more efficient way of collecting that late
19 fee or appropriating the -- to the appropriate person
20 and the person needs to pay that, I have no issue with
21 that. But we just need to make sure that we get it
22 right.

23 **MR. FRIEDMAN:** All right. And this
24 Commission's practice, and up until the last one you did
25 for Aquarina, before that it was a whole different

1 process that y'all had. It was more, it was a more
2 defined, here's what each one costs. Then when y'all
3 did the Aquarina one, you came up with this process that
4 just made it, you know, rocket science instead of being
5 something very simplistic.

6 But that said, the, the point is, is that the
7 late payment fee is based upon a cost that the utility
8 has to incur because of the late payment. If we take
9 what Public Counsel says and all you're going to do is
10 put that "You've got to pay a late payment fee" on your
11 bill, then there's no justification for it. You can't
12 have it both ways. You can't put it on a bill and say
13 you get \$5 but you don't have to justify it, unless you
14 want to change your policy.

15 I mean, in the past you've always had to
16 justify it, either the old way or the new way you
17 started with Aquarina. Maybe you ought to just adopt a
18 policy that says every utility can charge \$5.25 or \$6 or
19 whatever you decide. Everybody, every utility in the
20 state can charge it, put it on your bill. You don't
21 have to justify anything to anybody. You know, that
22 would be a departure from what you've done in the past.
23 I think that's the way you ought to do it. You've got
24 standard fees for other things. I think you ought to do
25 a standard fee for, for a late payment fee.

1 **CHAIRMAN GRAHAM:** Okay.

2 **MR. FRIEDMAN:** But y'all haven't taken my
3 advice on that before, so I don't think you're gonna in
4 the future. So --

5 **CHAIRMAN GRAHAM:** Commissioner Balbis.

6 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.
7 Just very quickly.

8 Mr. Flynn, will your company be generating
9 late payment notices for customers that do not pay on
10 time?

11 **MR. FLYNN:** I'm not really prepared to answer
12 that. I'm not an expert on that question unfortunately.
13 But I would say in general the idea is to establish the
14 rate, late payment fee in order to be a price point for
15 customers to pay on time and optimally not have any
16 revenue stream from it. But if there is a process to go
17 through, we incur some allocation of resources to
18 accomplish that message for those individuals who aren't
19 paying on time. And that's an effort to balance the
20 revenue increase reflecting the effort associated with
21 that activity.

22 **COMMISSIONER BALBIS:** And I know we have a
23 representative homeowner within the community. Do you
24 know if late payment notices are generated?

25 **DR. HALLEEN:** No. Late payment notices, for

1 example, on the rent that the customers would pay to the
2 management is billed right on the notice. In other
3 words, it says your pay is \$700.00, your tax is \$2.70,
4 your garbage collection is \$.75, total is \$725. If paid
5 after such and such a date, the payment must be \$745.00.

6 **COMMISSIONER BALBIS:** I understand. But as
7 far as the utility bill.

8 **DR. HALLEEN:** Huh?

9 **COMMISSIONER BALBIS:** The utility bill, the
10 water and sewer bill.

11 **DR. HALLEEN:** Well, they come from these
12 people.

13 **COMMISSIONER BALBIS:** Right. When you --

14 **DR. HALLEEN:** But there's no, there is no
15 notice of late fees on the bill today.

16 **COMMISSIONER BALBIS:** Okay. Is there --

17 **MR. FRIEDMAN:** We're not authorized to charge
18 a late fee, Commissioner, so we wouldn't put it on the
19 bill.

20 **DR. HALLEEN:** There wouldn't be anything on
21 the bill.

22 **COMMISSIONER BALBIS:** Okay. Let me -- I guess
23 I'm not -- let me ask this again. Have you ever
24 received a late payment notice or do you know of anyone
25 in the community that's received a separate late payment

1 notice for not paying their utility bill on time?

2 **DR. HALLEEN:** No. The only persons that I've
3 ever heard from are those that got disconnect notices.
4 But I have not heard of anybody getting a late payment
5 notice, just distinctly pay, you know, X dollars.
6 Because, as was pointed out, there is no indication
7 they're going to get stuck with it. That's the problem.

8 In other words, if you pay late, all you're,
9 all you're doing is forcing, after X number of days if
10 you haven't paid it, for them to issue a disconnect
11 notice right now.

12 **COMMISSIONER BALBIS:** And does the utility --
13 Mr. Flynn or Mr. Friedman, you charge a separate
14 disconnection fee; correct?

15 **MR. FLYNN:** Yes, Commissioner. There's a
16 separate miscellaneous fee in the rate tariff for that
17 purpose.

18 **COMMISSIONER BALBIS:** Okay. And I agree with
19 Commissioner Brisé, and we have spent a lot of time on
20 making sure that these charges and other charges are
21 cost based. So I'm just trying to get to the point of
22 if you're generating a late payment notice, then these
23 costs are justified. But if you're not, then that's a
24 separate policy issue that I'm not sure we've, we've
25 addressed.

1 **CHAIRMAN GRAHAM:** Commissioner Brown.

2 **COMMISSIONER BROWN:** Thank you. And not to
3 muddy the water here on this issue, but obviously we
4 strive to be consistent in how we approach utilities,
5 and Patty Daniel is kind of the expert in this little
6 area. So Patty, Ms. Daniel, I'd be interested in
7 hearing your thoughts on the discussion here.

8 **MS. DANIEL:** Let me just back this up a little
9 bit. So a utility renders a bill and a customer has
10 20 days in which to pay that bill. If -- our rule says
11 if they don't pay that bill within the 20 days, that the
12 company has to give them a notice separate and apart
13 from its regular bill that they will be discontinued.
14 That is the notice that this charge is designed to
15 recover. It's characterized as a late payment fee, but
16 the costs involved are the discontinuance of service
17 notice. Now the customer won't be discontinued if they
18 pay it following that notice within the prescribed time
19 frame, and no additional costs will be incurred by the
20 company and the customer won't pay anything other than
21 the late payment fee.

22 If the customer doesn't pay within the
23 prescribed time, then the company is going to go out,
24 discontinue service, and that would be the point at
25 which that discontinuance of service charge would be

1 imposed. So it's -- that's the process.

2 **CHAIRMAN GRAHAM:** Okay.

3 **MS. DANIEL:** If I could also, when you're
4 ready, speak to the dollar amount that the company --
5 that OPC is suggesting is at risk here.

6 **CHAIRMAN GRAHAM:** I think it's the perfect
7 time for that.

8 **MS. DANIEL:** You're ready for that. Okay. Do
9 you want to give it a shot? Let me, let me let
10 Ms. Thompson give that a shot, if I may.

11 **MS. THOMPSON:** Hi. I'm Kelly Thompson with
12 Commission staff.

13 Based on the information that the company
14 provided us as cause justification for this charge,
15 there are approximately 405 disconnect letters issued
16 per year for this particular utility. That relates to
17 approximately \$2,100 a year. That, that also amounts to
18 about 2 percent of the Cypress Lakes customers that are
19 late each year.

20 **CHAIRMAN GRAHAM:** Okay. Thank you. All
21 right.

22 OPC, Issues 1, 6, and 19 were the three issues
23 that you had?

24 **MR. REILLY:** Yes, Chairman.

25 **CHAIRMAN GRAHAM:** Okay. Mr. Friedman, let's

1 start with your, let's start with your issues.

2 **MR. FRIEDMAN:** We don't have any other. I'm
3 glad -- you'll be glad to hear this, but we don't have
4 any additional issues to raise.

5 **CHAIRMAN GRAHAM:** All right.

6 **MR. FRIEDMAN:** But certainly I'll answer any
7 additional questions you may have about the other
8 issues.

9 **CHAIRMAN GRAHAM:** Commissioners, actually
10 before we starting digging into that, we're about two
11 hours into this. Let's give our court reporter about a
12 five-minute break, and we'll come back.

13 (Recess taken.)

14 **CHAIRMAN GRAHAM:** Okay. I think we can
15 reconvene.

16 All right. Commissioner Balbis, you have the
17 floor.

18 **COMMISSIONER BALBIS:** (Inaudible; microphone
19 off.)

20 **CHAIRMAN GRAHAM:** I thought you had
21 questions. Okay.

22 Commissioners, any further questions or
23 comments? Commissioner Brown.

24 **COMMISSIONER BROWN:** Mr. Chairman, I was going
25 to go to Issue 1, and kind of -- the utility seemed

1 inclined to meeting with the customers and staff to
2 address, maybe, alternatives. And I was just wanting
3 some confirmation there, if we could get that sealed up
4 under this issue.

5 **CHAIRMAN GRAHAM:** Sure.

6 **COMMISSIONER BROWN:** Okay. Mr. Flynn, is that
7 correct?

8 **MR. FLYNN:** Yes, ma'am. We're pleased to have
9 that direction and converse with the customers on that
10 topic.

11 **COMMISSIONER BROWN:** I think that will be very
12 fruitful, and also include the costs associated with the
13 different alternatives. And also involve staff, as
14 well.

15 **MR. FLYNN:** There will most likely be some
16 engineering assistance generated in order to accomplish
17 that analysis, which is going to be some costs that will
18 show up down the road.

19 **MR. REILLY:** Would the company consider free
20 help from the Florida Rural Water Association?

21 **COMMISSIONER BROWN:** Don't ask Mr. Friedman;
22 ask Mr. Flynn.

23 **MR. REILLY:** Mr. Flynn.

24 **MR. FRIEDMAN:** Wait until you hear, when we
25 bring you back, come back on the last one y'all did that

1 on.

2 **COMMISSIONER BROWN:** Mr. Flynn, would you?

3 **MR. FLYNN:** The expertise of Florida Rural
4 Water is appreciated, but is most likely not sufficient.

5 **COMMISSIONER BROWN:** Okay. That's fair
6 enough.

7 Mr. Chairman, I'm comfortable with Issue 1,
8 that's as staff drafted with the amendment to include
9 the discussion here between the utility, Office of
10 Public Counsel, customers, and the staff. I don't know
11 on terms of regularity, so I'm open to suggestions, but
12 I think that that discussion needs to occur.

13 **CHAIRMAN GRAHAM:** Okay. Commissioner Balbis.

14 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.
15 I just have one or two questions on this issue.

16 And I agree with Commissioner Brown on having
17 the utility meet with the customers. And that is in
18 February of 2013, there was a chlorine residual that was
19 below, I believe, two parts per million. I think it was
20 at 0.6. I couldn't find anywhere in the docket any more
21 recent chlorine residual tests at the remote parts of
22 the distribution system. Are you above the minimum
23 requirement now?

24 **MR. FLYNN:** Yes, sir. I asked my staff after
25 our conversation on the phone call the other day to look

1 at our monthly operating reports for 2013 to see if, in
2 fact, we had any particular days where we went below the
3 minimum. I'm not aware of any. They didn't identify
4 any.

5 The requirement in the case of -- for chlorine
6 residual in the case of this system is 0.6 parts per
7 million of total chlorine, not 2. And it is my
8 understanding that we have routinely been able to
9 accomplish that. And I'm not aware of any notification
10 come across my desk about any issues with chlorine
11 residual in the last 12 months.

12 **COMMISSIONER BALBIS:** Okay. And in the
13 monthly operating reports, that included sample results
14 that were in the distribution system and not just
15 leaving the plant site?

16 **MR. FLYNN:** The chlorine residual is measured
17 at the distribution network.

18 **COMMISSIONER BALBIS:** Correct. But in the
19 monthly operating report, normally you measure at both
20 places. I want to make sure that the distribution
21 system has -- that you are maintaining adequate chlorine
22 residual.

23 **MR. FLYNN:** Yes. And the flushing program is
24 a great measure tool to accomplish that very fact.

25 **COMMISSIONER BALBIS:** Okay. And then if I

1 could request that when you discuss the different
2 options with the customers, and I'm sure you were going
3 to do this, but just to specify the different
4 engineering options of looking at, you know, the
5 treatment system on perhaps removing the precursors. I
6 don't know if there's any opportunity to interconnect
7 with any other utilities surrounding the area or not. I
8 know the maps that were included weren't really clear,
9 but if that's a viable alternative to look at that, as
10 well.

11 **MR. FLYNN:** We could certainly explore it. My
12 knowledge of the system is that we are located some
13 distance from the nearest other alternative water supply
14 that was of sufficient size to supply the system.

15 **COMMISSIONER BALBIS:** Okay.

16 **CHAIRMAN GRAHAM:** Commissioner Brown.

17 **COMMISSIONER BROWN:** Before I make the motion,
18 I'd like to ask -- Mr. Reilly, since it was your
19 suggestion for the utility to meet with Public Counsel
20 and staff and the neighborhood association, what would
21 the frequency or what would the terms be?

22 **MR. REILLY:** We would be pleased to be part of
23 that process in representing the customers. The time
24 frames, you know, it would be an estimate on my part. I
25 would hope that we could look at this and look at

1 alternatives hopefully within a six-month period.

2 **COMMISSIONER BROWN:** Staff, do you have any
3 suggestions for purposes of the motion?

4 **MR. VICKERY:** Paul Vickery, Commission staff.
5 We'd be amenable to meet with the utility and OPC and
6 the customers within six months. Or telephonically, you
7 know, we don't have to be physically present, but just
8 kind of an update status-wise on what's the ongoing
9 process.

10 **COMMISSIONER BROWN:** All right. Thank you.

11 Mr. Flynn, is that acceptable?

12 **MR. FLYNN:** Yes, ma'am.

13 **COMMISSIONER BROWN:** All right.

14 Mr. Chairman, I would move staff
15 recommendation on Issue 1 with the modification that all
16 of the parties that we have just discussed meet within
17 the next six months to discuss alternatives to the
18 flushing situation going on, along with the cost
19 ramifications.

20 **CHAIRMAN GRAHAM:** Okay. The Brown amendment
21 has been moved and -- I'm sorry, the Brown amendment has
22 been moved and seconded. Any further discussion on
23 Issue Number 1?

24 Seeing none, all in favor say aye.

25 (Vote taken.)

1 **CHAIRMAN GRAHAM:** Any opposed?

2 By your action you have approved Issue
3 Number 1.

4 Commissioners, any other issues? Let's start
5 from the top and work our way down that anybody has got
6 any questions or concerns about.

7 Nothing in 1 through 5? I see no lights
8 coming on; 6 through 10?

9 **MS. GILCHER:** Mr. Chairman, if I may, before
10 you vote on Issues 9 and 10 --

11 **CHAIRMAN GRAHAM:** We're not voting on anything
12 yet.

13 **MS. GILCHER:** Oh, I'm sorry.

14 **CHAIRMAN GRAHAM:** That's okay. Eleven through
15 15, any issues, Commissioners?

16 Commissioner Brown.

17 **COMMISSIONER BROWN:** Thank you. Issues 13 and
18 14, I have issues with.

19 **COMMISSIONER BALBIS:** And I have Issue 14, as
20 well, Mr. Chairman.

21 **CHAIRMAN GRAHAM:** Okay. Commissioner Brown.

22 **COMMISSIONER BROWN:** Thank you. On Issue 13,
23 this may be a question more appropriate for staff. I
24 wasn't really satisfied with the analysis, the staff
25 analysis supporting the recommendations. Could you go

1 into a more thorough review here for all of us to how
2 you derived your recommendation. And my understanding
3 is that the utility employees, its parent's employees,
4 it used to employ contract employees, but could you
5 further elaborate so that we have a better understanding
6 here.

7 **MS. KELLY:** Certainly. Good morning,
8 Commissioner. JoEllen Kelly, Commission staff.

9 Starting in approximately 2010, the company
10 switched over from utilizing contract meter readers to
11 using in-house meter readers at 1.5 FTEs. Additionally,
12 in 2012, the company began to employ, per DEP
13 regulation, one cross-connection technician. So none of
14 these were included within salary expense in the
15 2006 rate case.

16 **COMMISSIONER BROWN:** Okay. What I'm trying to
17 get to, from the last rate case, I guess the full rate
18 case was 2006, but test year 2005, since it's a
19 different scenario, have those salaries and wages gone
20 up?

21 **MS. KELLY:** Yes, Commissioner, they have.

22 **COMMISSIONER BROWN:** Can you elaborate?

23 **MS. KELLY:** We did an analysis to look at the
24 2006 salaries and benefits information, and we took that
25 information and we grossed it up for growth. And we've

1 compared that to where we are at, Commission or staff
2 recommended salaries for 2012 test year. If you include
3 the 1.5 FTEs for meter readers and that new
4 cross-connection technician, the salaries the Commission
5 is recommending for wastewater are actually lower than
6 the grossed-up amount, and the salaries for the water
7 side are right on par.

8 **COMMISSIONER BROWN:** Great. Thank you.

9 **MS. KELLY:** You're welcome.

10 **COMMISSIONER BROWN:** That's all for that
11 issue.

12 **CHAIRMAN GRAHAM:** That was 13 or 14?

13 Commissioner Balbis.

14 **COMMISSIONER BALBIS:** Yes. I have a few
15 questions for staff, and then a few for the utility on
16 rate case expense. And this goes to my opening comments
17 on, you know, really looking at the magnitude of rate
18 case expense as compared to the requested and/or
19 recommended revenue increase. And for staff, what
20 appears to be the driver for the high rate case expense
21 in this case?

22 **MS. KELLY:** Commissioner, the driver on this
23 case is that the water sold has been falling since the
24 prior rate case while water pumped has been increasing.
25 The amount, therefore, of operating expenses per gallon

1 sold has been driven upward and the --

2 **COMMISSIONER BALBIS:** No, my question is on
3 rate case expense --

4 **MS. KELLY:** I'm sorry.

5 **COMMISSIONER BALBIS:** -- specifically for this
6 issue. What would appear to be the main driver for the
7 rate case expense?

8 **MR. MAUREY:** Andrew Maurey, Commission staff.
9 The main drivers in rate case expense in this case were
10 WSC employees responding to data requests, legal time
11 from Friedman, Friedman, and Long, and the M&R
12 Consultants for the engineering work.

13 **COMMISSIONER BALBIS:** Okay. And I looked
14 through all the staff data requests, and it was clear
15 that some of the data requests were correcting errors in
16 what they originally filed at the request of staff. And
17 I believe, Ms. Kelly, I asked you during the briefing if
18 you felt or you saw any indications that they spent time
19 correcting their mistakes, and you indicated yes.

20 **MS. KELLY:** Based upon the answers provided,
21 they were elaborating on certain answers that they had
22 provided. But based upon the salary data provided, we
23 cannot break out specifically any kind of data
24 pertaining to reanswering a question.

25 **COMMISSIONER BALBIS:** Okay. And then maybe

1 from the utility's standpoint --

2 **MR. FRIEDMAN:** Commissioner Balbis?

3 **COMMISSIONER BALBIS:** Yes.

4 **MR. FRIEDMAN:** Marty Friedman. You know, it
5 is typical, and we do that, I know, in the legal part of
6 the rate case expense, that if it's expenses -- time
7 that we incurred and the staff incurred or the other
8 consultants incurred to correct deficiencies, that
9 that's eliminated from rate case expense. You have been
10 doing that as long as I can remember and probably will
11 continue to do that, and it's a good practice, good
12 policy. In this case, there was no deficiency notice
13 sent, so there really were no legal deficiencies in the
14 application.

15 **COMMISSIONER BALBIS:** Okay. Well, I mean, I
16 can go through them. But just looking at eight of the
17 ones that I found, you had one where you were required
18 to revise three schedules because they failed to comply
19 with the rule. The next one was typographical error
20 from in-house staff hours. The next one is a \$23,000
21 reversal in error that should have been capitalized.
22 Again, this required additional work from either you and
23 your staff or the utility's consultants. The next one,
24 two schedules filed that did not correct Consumer Price
25 Index. The same with issue number five. The same with

1 issue number six when not booking golf carts under plant
2 in service. Another issue on the seventh one, respond
3 to first data request listed equipment purchases under
4 miscellaneous expenses. And eight, et cetera. So I
5 assume that you making those corrections took some
6 amount of time, correct?

7 **MR. FRIEDMAN:** Yes, certainly it took time.
8 But what the difference is, is that at least as far as I
9 have seen, this Commission has never looked at post
10 deficiency responses and gone through and looked at data
11 requests and said they wouldn't have had to ask this
12 data request if you would have done something
13 differently.

14 Now, y'all have never done that before. And
15 the problem with starting that now is that there isn't
16 sufficient documentation to determine what that expense
17 is. If it was in the deficiencies like we always do,
18 each of the consultants know to keep their time separate
19 for that and identify that time separate for that. So
20 while it's typically done in the deficiency process,
21 there is no mechanism in place to identify the rate case
22 expense attributable to those things, even if you
23 thought that those should have been adjustments that
24 were made. There is no documentation to do that. And
25 any adjustment that you make is just going to be

1 arbitrary.

2 **COMMISSIONER BALBIS:** And that might go to a
3 previous point I made in other cases where where does
4 the burden of proof lie. And you always argue that
5 someone has to prove that we did something wrong rather
6 than the utility has to meet the burden of proof, and
7 all of their costs are justified.

8 **MR. FRIEDMAN:** That's not what I said.

9 **COMMISSIONER BALBIS:** But that's for another
10 day.

11 I guess for staff, at least in the eight
12 instances that I saw, there seems to be documentation
13 that they were correcting some deficiency. Was there
14 any -- do you have any estimates as to how much time
15 that would take? Because I know you frequently look at
16 time spent on certain tasks and determine if it's
17 reasonable or not. Is there a way to do that in this
18 case?

19 **MR. MAUREY:** Unfortunately not. Ms. Kelly was
20 correct, we can identify with specificity what
21 percentage of the data requests went out to deal with
22 deficiencies. We cannot with any specificity determine
23 from the company's side how much time was spent
24 addressing those questions.

25 **COMMISSIONER BALBIS:** Do you have that data

1 now and the percentage?

2 **MR. MAUREY:** Yes. Approximately 14 percent of
3 the data requests that went out dealt with curing MFRs'
4 deficiencies.

5 **COMMISSIONER BALBIS:** Okay. That's all I have
6 for right now. I might have some follow-up questions.

7 **CHAIRMAN GRAHAM:** Commissioner Brown.

8 **COMMISSIONER BROWN:** Thank you, Mr. Chairman.
9 And I just want to point out, Mr. Maurey, when we had
10 our briefing we talked about the staff recommendation
11 under this issue. And, unfortunately, the M&R
12 Consultants were not included in the analysis, as is
13 typical. And when we do issue the order, I think it
14 would be prudent to have some language in there to the
15 effect of staff's justification that the costs were
16 reasonable, et cetera, typically found justifying all of
17 these rate case expenses. And I know we talked about
18 that, so I just wanted to point that out to the other
19 Commissioners, as well.

20 **MR. MAUREY:** Yes. We'll work with legal for
21 that, for the order.

22 **COMMISSIONER BROWN:** Thank you. And I just
23 have some comments. I know we don't have statutory
24 authority necessarily to -- we have discretion when it
25 comes to rate case expenses. But in my term, since I

1 have been here, I have never seen a rate case where
2 the -- I've heard about them with these water utilities,
3 but where the rate case expenses exceed the overall
4 revenue increase.

5 This is the first one I've seen, and it wasn't
6 just a little, it was double. And it really struck me
7 as being excessive. And then I had staff go back and
8 look at the past few rate cases of Utilities, Inc., as
9 well as Cypress Lakes, the limited proceeding, and what
10 was found to be reasonable, both in the limited
11 proceeding and the 2006 rate case, both of which were
12 significantly less than what the -- the limited
13 proceeding was 78,000 total rate case, and the
14 full-blown PAA rate case was 84,000.

15 So looking at what is being recommended at
16 118,000, they are getting a 60,000 revenue increase, I
17 can't support that. I don't find that to be reasonable
18 or prudent. It seems to be excessive. And so,
19 unfortunately, I'm not going to be able to support the
20 staff recommendation.

21 **CHAIRMAN GRAHAM:** Well, I guess my question
22 is, and I guess we'll start with the easier side, is
23 there part of the rate case expense that you think
24 doesn't deserve to be in the rate case? I mean, is
25 there a cost that's there that you think that is not

1 there, or shouldn't be there, or shouldn't be allowed?

2 **COMMISSIONER BROWN:** You know, Mr. Chairman, I
3 worked with staff on this. We looked at this, and the
4 utility provided the invoices of the work that they
5 performed, and staff thought that that was reasonable
6 and justified. In my opinion, based on the totality of
7 circumstances here, I think the overall rate case
8 expense is excessive in light of the facts here.

9 So I can't really point out -- I wish I could.
10 I wish I could give -- even come up with an alternative.
11 That's why I looked at the past rate cases to find
12 something that would be justifiable and defensible, but
13 I don't think what they are recommending is reasonable.

14 **CHAIRMAN GRAHAM:** Okay. Commissioner Balbis.

15 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.

16 And I agree with a lot of the points
17 Commissioner Brown said. And a question for staff, and
18 then I'd also like to point out some other instances
19 where I don't feel that the costs that were asked to be
20 recovered were justified. But what options do we have
21 with determining rate case expense or expenditures
22 within the overall expense are imprudent and should be
23 disallowed?

24 **MS. GILCHER:** Can you clarify your question?

25 **COMMISSIONER BALBIS:** Sure. If we were to

1 disallow all or a portion of rate case expense, what
2 justification do we need to have to do so, either by
3 rule or by statute?

4 **MS. GILCHER:** Under statute the standard, I
5 guess, is reasonableness. So the Commission has
6 discretion to determine the unreasonableness or
7 reasonableness of the rate case expense, and that's as
8 far as the statute goes.

9 **COMMISSIONER BALBIS:** Okay. That seems fairly
10 broad to me.

11 **MS. GILCHER:** It has been Commission practice
12 to allow rate case expense that is deemed reasonable,
13 that is accounted for, that's reasonable.

14 **COMMISSIONER BALBIS:** Ms. Helton, I see you
15 furiously turning pages, so I just want to make sure
16 that you concur.

17 **MS. HELTON:** I was just looking at the statute
18 to make sure that I agreed with Ms. Gilcher's statement,
19 and I do.

20 **COMMISSIONER BALBIS:** Do we have any
21 additional options? I mean, I think the reasonableness
22 test is fairly broad. Is there anywhere else that it's
23 specified?

24 **MS. HELTON:** It specifies in 367.081 that the
25 Commission shall determine the reasonableness of rate

1 case expenses and shall disallow all rate case expenses
2 determined to be unreasonable.

3 (Laughter.)

4 **MS. HELTON:** That's a lot of clarity there.

5 No rate case expense determined to be
6 unreasonable shall be paid by a consumer. In
7 determining the reasonable level of rate case expense,
8 the Commission shall consider the extent to which a
9 utility has utilized or failed to utilize, basically,
10 the pass-through or index provisions of the statute.

11 I do feel like I do need to -- we have been
12 looking at this rate case question because staff also is
13 concerned about the level of rate case expense versus
14 the amount of recovery, or I guess additional recovery
15 that the staff is recommending here. And there have
16 been several court decisions that talk about rate case
17 expense, and this is not the first time the Commission
18 has been faced with a situation where rate case expense
19 is more than what we are recommending get approved as an
20 additional amount for the company to recover.

21 And back in a 1973 case, so this is law that
22 has been around there for awhile, it wasn't the
23 Commission, it was one of the county boards that looks
24 at rate cases for counties where you don't have
25 jurisdiction. The county board had disallowed rate case

1 expense for a utility because the utility -- in the end
2 of the day, the utility didn't get any increase. And
3 the court said you can't do that just for that reason,
4 that alone is not a sufficient reason to disallow rate
5 case expense.

6 The court said, "It is equally well settled
7 that whether a rate increase is granted is not the sole
8 criteria on which that discretion rests," meaning the
9 discretion that you have with determining the
10 reasonableness. So that's, I know, not much help here.
11 But the court has spoken to that, and the court has said
12 that that can't be the only reason.

13 **COMMISSIONER BALBIS:** And I don't think that
14 pertains to this situation. You know, so -- okay. And
15 I have a couple of questions for the utility. In
16 looking at Table 14-2, Page 31, and ignoring the issue
17 that the MFR estimated was 111,000, which was still, you
18 know, twice of what -- the recommended revenue increase,
19 but when the utility provided actual and estimated, it
20 looked as if pretty much all of the other components of
21 rate case expense were within the MFR estimated, and
22 only Water Services Corporation, or WSC, basically over
23 doubled what they put in the MFR.

24 Mr. Flynn, how can you explain that difference
25 from what you estimated and what the revised actual and

1 estimated were?

2 **MR. FRIEDMAN:** I mean, it's an estimate. And,
3 maybe they're just not as good about estimating what
4 their fees are as the rest of the consultants are. You
5 know, this amount of reasonableness, and y'all brought
6 up this issue, and I think that case that Ms. Helton
7 mentioned is right on point, is that when the
8 legislature speaks in terms of reasonableness, you do
9 like the analysis that you're making now. You go down
10 and look at each consultant and you make sure that the
11 time and effort and energy and the charge that they made
12 to the utility is reasonable. It has got nothing to do
13 with the amount of the rate increase.

14 I know there was some legislation that had
15 been proposed, I don't know if it was this last session,
16 I know it was in session before, that the Public Counsel
17 supported that said you can't get more rate case expense
18 than the amount of your increase. But in absence of
19 that statute passing, and it hasn't, your discretion is
20 to do the analysis that Commissioner Balbis is doing
21 now, which is look at each thing, and if you think that
22 each thing is reasonable or not is a separate analysis
23 and you can base that on your past judgment.

24 But how much of the rate case expense, as Ms.
25 Helton mentioned, really doesn't come into play. It's

1 unfortunate sometimes that it may turn out that way, but
2 that's not an issue in the question of reasonableness.
3 The question is what are these consultants doing and did
4 they do the -- did they provide a benefit to the rate
5 case.

6 I can't tell you -- I didn't do the estimate.
7 Whoever did that estimate is not one of us two people
8 sitting here, and this was -- it's an estimate.

9 **COMMISSIONER BALBIS:** Well, again, and I
10 appreciate you pointing out going through this analysis
11 is important. And in doing so, again, I'm trying to put
12 my hand on why Water Services Corporation, which, Mr.
13 Flynn, that's you, correct? So it is one of you two
14 that are here that worked on WSC.

15 So I pulled all of the time sheets that were
16 in the docket that were in support of the MFR
17 information. And as opposed to Mr. Friedman's time
18 sheets, which is very specific, listing phone calls,
19 topics discussed, everything that, you know, a client
20 would use to justify the expenses to themselves and/or
21 their customers, as opposed to that, it is simply a
22 listing of the date and the number of hours and that it
23 was on rate case expense. So I cannot find anything
24 that justifies having that additional expense. So, Mr.
25 Flynn, why were you over twice the amount that was

1 estimated, and why couldn't you provide supporting
2 documentation?

3 **MR. FLYNN:** Commissioner, the documentation
4 reflects our standard information we provide for any
5 rate case. This particular rate case is not any
6 different than how we document our capitalized time
7 associated with the rate case effort. It may be the
8 case that we estimated low not cognizant of the fact
9 that the number of questions and issues raised in the
10 rate case would require that much time and effort to
11 answer and prepare responses.

12 **COMMISSIONER BALBIS:** But I assume, Mr.--
13 well, I just don't understand why your company is the
14 only one that missed the mark, and you are the one that
15 only doubled their fees, and why you didn't have the
16 level of detail in your time sheets in your
17 justification to warrant that expense.

18 **MR. FRIEDMAN:** Commissioner, they did it the
19 way they have always done it, and until this Commission
20 gives some direction to the contrary, you know, every
21 regulated utility needs to know the rules before they
22 play the game. And if you're going to change the rule,
23 change the way that this has been done for the last
24 number of years, then the utility just needs to know in
25 advance.

1 If you tell me in advance what you've done in
2 the past and we thought was okay and we blessed is no
3 longer the way we want it in the future, then we know,
4 we know what the rules are, and we play by those rules
5 going forward. But to take a rule that has been in
6 effect and say we are going to apply it retroactively to
7 you just isn't good regulatory ratemaking.

8 **COMMISSIONER BALBIS:** Mr. Friedman, and I
9 appreciate that, but you just finished saying that going
10 through this analysis is the proper way to do it. And
11 that's what I'm doing to determine if it's reasonable.
12 And I cannot find any justification for these additional
13 expenses, and I'm finding it very hard to determine that
14 these costs are reasonable, so that's where I am.

15 **MR. FRIEDMAN:** And I understand that. But
16 don't you think if you're going to change the rule the
17 way that you make that analysis of what is reasonable
18 that the company should know that in advance? They did
19 it exactly the way they've done it in the last half a
20 dozen rate cases. And nobody ever said, hey, you're
21 doing it wrong, maybe you ought to do it differently.
22 And so it's only fair that if you're going to change the
23 rule that you change the rule prospectively and not
24 retroactively.

25 **COMMISSIONER BALBIS:** I don't believe anyone

1 is proposing to change the rule. The rule is that rate
2 case expense -- that we are to determine if it is
3 reasonable or not, period, and that's what I'm doing.
4 There are no rules being changed.

5 **MR. FRIEDMAN:** Well, you are certainly
6 changing the way you interpret the rule --

7 **CHAIRMAN GRAHAM:** Okay.

8 **MR. FRIEDMAN:** -- if you're going to change
9 the amount of documentation that needs to be provided in
10 response to a rate case expense.

11 **CHAIRMAN GRAHAM:** Ms. Merchant.

12 **MS. MERCHANT:** Thank you. I just wanted to
13 put in a couple of my two cents on this, and I agree
14 precisely with you, Commissioner Balbis. We have been
15 concerned with the way that the company reports their
16 WSC hours in every rate case, it's just -- this
17 employee, at this salary, this number of hours, with a
18 very generic explanation. But more particularly in this
19 case, and in a lot of the Utilities, Inc. cases, we are
20 seeing a lot of adjustments to the books and records.
21 So the staff auditors are spending a tremendous amount
22 of time trying to figure out what the books and records
23 are. And if you look at the staff audits in this case,
24 staff had worked very hard to get the rate base and to
25 get the O&M expenses right. And so what happens when

1 staff audit has to come in and they have to ask
2 questions of the utility to why did you do this, why did
3 you do that?

4 So you are not only looking at the staff data
5 request, but you're looking at the staff audit request.
6 And the fact that the company doesn't justify its hours
7 and explain what those hours are spent on, because staff
8 in their data request will say spend -- what did you
9 spend this on doing what job, and the company will come
10 back and give you their kind of vague response.

11 But we would love for the company, WSC
12 employees to do precisely what Mr. Friedman does, what
13 Mr. Seidman does, and what other outside consultants do
14 regularly for all rate cases. And, you know, we've
15 complained in the past, but it's just -- it's time to,
16 you know, make them justify that request. If they spent
17 it and they can support it, then that's reasonable. But
18 there are a lot of books and records issues in this
19 case, as you have pointed out. Thank you very much.

20 **CHAIRMAN GRAHAM:** Commissioner Brown.

21 **COMMISSIONER BROWN:** Just a quick follow-up
22 question that just came to mind for Office of Public
23 Counsel. So the utility filed in their MFRs for a
24 \$126,000 rate increase, and then ultimately they filed
25 111,000 rate case, but was subsequently modified to

1 146,000. So therein, just based on the MFRs, looking at
2 those numbers, 146,000 rate case, 126,000 increase, I
3 mean -- and I've read the cases, there are also other
4 jurisdictions that have found that to be excessive and
5 unreasonable. So, I mean, the fact pattern that we have
6 here is that, and just your take on that.

7 **MS. MERCHANT:** Well, one of the things I have
8 noticed, Marty was saying that WSC was an estimate, but
9 if you look on Page 28, they are claiming that 52,000 is
10 actual, and the estimate is only \$5,000. So the company
11 had the opportunity to justify that. But in all my
12 years of experience with water and wastewater utilities,
13 we have had lots of companies come forward. The
14 majority of the cases where the companies are coming
15 forward, they are giving you consultant time to analyze
16 the MFRs. Sometimes -- you've got to look at it from
17 the issue that is being litigated. Is it a reasonable
18 issue to litigate? Was it something in the company's
19 control, outside the company's control? And I think
20 certainly books and records is clearly within this
21 company's control. So I do think you have a wide range
22 of what is reasonable and prudent, and I do believe the
23 Commission has disallowed for lack of justification in
24 many instances, not just of late. So I hope that
25 answers your question.

1 **COMMISSIONER BROWN:** It's steering us a little
2 bit better. Thank you.

3 **CHAIRMAN GRAHAM:** Okay. Let's move on.
4 Issues 16 through 20, questions or concerns?

5 Commissioner Balbis.

6 **COMMISSIONER BALBIS:** Yes, Mr. Chairman. I
7 think on Issue 19 on the late payment fee, and I think I
8 personally received some clarification from staff on
9 that, and I just want confirmation that there is a
10 termination notice that may be mislabeled in the staff
11 recommendation as a late payment notice, but that there
12 is a notice generated and that these costs are
13 justified.

14 **MS. THOMPSON:** Kelly Thompson, Commission
15 staff. Yes, we did receive cost justification for the
16 late payment charge, and the notice that we were
17 referring to is the notice that is issued for the
18 disconnect of service. It's the cost associated with
19 issuing that notice.

20 **COMMISSIONER BALBIS:** Okay. And, again, to
21 Commissioner Brisé's point, we have always paid close
22 attention to any miscellaneous service charges and other
23 fees and made sure they were cost-based. So with this
24 issue I'm comfortable that the utility provided the
25 justification and would move staff's approval on this.

1 Are we at that point, or are we just going to discuss --

2 **CHAIRMAN GRAHAM:** We'll come back to that.

3 **COMMISSIONER BALBIS:** Okay.

4 **CHAIRMAN GRAHAM:** Any other questions or
5 concerns on 16 through 20?

6 All right. 21 to the end, any other questions
7 or concerns?

8 Commissioner Edgar.

9 **COMMISSIONER EDGAR:** Thank you, Mr. Chairman.

10 I just want to reiterate briefly some of what
11 I've heard today on the point of our staff needing to
12 spend additional time making adjustments to the MFRs for
13 this utility, but also for other Utilities, Inc.
14 providers here in the State of Florida. And my
15 understanding is that the -- I don't know if it's,
16 Mr. Friedman, with you or with the company, but that
17 there have been some conversations with our staff on
18 that point. If there haven't been, I hope there will
19 be. I think there is improvement that can be made there
20 generally, and I would like to encourage that.

21 **CHAIRMAN GRAHAM:** All right. Staff, you said
22 that you had some concerns or something you want to say
23 on Issues 9 and 10.

24 **MS. GILCHER:** Yes. I just wanted to note that
25 staff is requesting administrative authority to correct

1 all fallout calculations in their oral modification to
2 Issues 9 and 10.

3 **CHAIRMAN GRAHAM:** Yes. Actually, I think when
4 we finally make the motion, that will go for all issues.

5 Okay. So we have been through it all. The
6 sticking point seems to be Issue 14 and 15. So let's
7 address that part, and then we'll come back and approve
8 the rate case.

9 Commissioner Edgar.

10 **COMMISSIONER EDGAR:** Thank you, Mr. Chairman.

11 I'm struggling to put out a recommendation,
12 and I don't have one. I also, as has been expressed
13 here clearly and appropriately and at length, have
14 concerns about the overall amount of the rate case
15 expense in relation to some of the other issues
16 contained with the case. It's difficult to go through
17 individually, and I note that our staff has made some
18 recommended disallowances to the rate case expense that
19 was requested, and as an indication of their
20 thoroughness and having gone through all of the
21 background information.

22 So I would say to my colleagues, if any of you
23 have a suggestion that you think is in keeping with the
24 language of the statute and the court cases that guide
25 us as we try to implement these and related statutes, I

1 am certainly open to hearing them. I'm having a hard
2 time, though, from the information that we have coming
3 up with what would be a more justifiable and accurate
4 amount.

5 **CHAIRMAN GRAHAM:** You see when I get to a
6 sticking point I reach out to the old wise one,
7 Mr. Kiser.

8 (Laughter.)

9 **MR. KISER:** Thank you, Mr. Chairman.

10 This whole issue on Issue 14, if you look at
11 the way the statutes and court decisions have come down,
12 obviously they continually underline that you have a
13 great amount of discretion in this area. And I would
14 suggest to the Commission that the questions that have
15 been raised by several of the Commissioners about why
16 certain numbers are the way they are, and they don't
17 line up with the estimated amount, if they feel like the
18 answers they got back don't meet the test of being
19 reasonable responses, then that lays the groundwork to
20 use your discretion to set the amount you think should
21 be appropriate.

22 And I think that the broad discretion granted
23 goes up and it goes down. So if when the questions were
24 asked about why doesn't the total amount line up more
25 because it did for everybody else, other participants in

1 this process, but this company, they really missed the
2 mark. And if the explanations given don't satisfy the
3 Commissioners, then I think that's where discretion can
4 be exercised.

5 **CHAIRMAN GRAHAM:** Thank you, Curt.

6 Commissioner Brisé.

7 **COMMISSIONER BRISÉ:** Thank you, Mr. Chairman.

8 So on the issue of the Water Services Corp,
9 and this is for staff, in terms of when there was a
10 review of the invoices, what was the total amount that
11 was billed?

12 **MR. MAUREY:** 50,702.

13 **COMMISSIONER BRISÉ:** Okay. And how much of
14 that, based upon the invoices, is reasonably justified?

15 **MR. MAUREY:** Staff went through the exercise
16 of reviewing the time sheets, the time spent, and made
17 adjustments when it did not look like work was being
18 performed at that time. We made adjustments based on
19 salary differentials that didn't support, that weren't
20 supported by the data. However, there were quite a few
21 data requests served in this case. The WSC charges were
22 in line with other UI cases at this time; that's the
23 basis for staff's recommendation.

24 **COMMISSIONER BRISÉ:** So with that your
25 recommendation is 50,000 and what?

1 **MR. MAUREY:** Approximately 51,000.

2 **COMMISSIONER BRISÉ:** 51,000.

3 **MR. MAUREY:** 50,855.

4 **COMMISSIONER BRISÉ:** 50,855. So there is no
5 other adjustment at this point that you all could
6 suggest, based upon the invoices that you received?

7 **MR. MAUREY:** Not sitting before you today.

8 **COMMISSIONER BRISÉ:** Okay. So whatever other
9 adjustments that should be made, should be made based
10 upon our consideration whether it's actually reasonable
11 from our perspective?

12 **MR. MAUREY:** Absolutely.

13 **COMMISSIONER BRISÉ:** Okay.

14 **CHAIRMAN GRAHAM:** Commissioner Balbis.

15 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.

16 And thank you, Mr. Kiser, for that clarification. I
17 mean, when I looked at this, you know, as we approach
18 every cost that's passed on to the customers,
19 potentially passed on, we have to make sure that it's
20 reasonable and prudent. And in this case, looking at
21 the WSC actual and estimated being so far out of line
22 with what the MFR was estimated, not looking at the
23 total dollar amount, not looking at the revenue
24 increase, but just looking at are those additional costs
25 justified, and looking back at the time sheets, I could

1 not find adequate justification that those costs were
2 reasonable.

3 And I think, as Mr. Kiser pointed out, you
4 know, one of the options we do have is the additional
5 \$32,187, which is the difference between the actual and
6 estimated and the MFR estimated, I don't believe there
7 was enough justification for that to determine those
8 costs are reasonable, so I believe that's one option we
9 have.

10 **CHAIRMAN GRAHAM:** So your suggestion is, or I
11 guess I'm trying to get to -- so you want to disallow
12 the difference between the estimated and what the actual
13 cost was?

14 **COMMISSIONER BALBIS:** Correct.

15 **CHAIRMAN GRAHAM:** Which is?

16 **COMMISSIONER BALBIS:** By subtracting the two
17 numbers on Page 31, I got \$32,187.

18 **CHAIRMAN GRAHAM:** So you're not going with the
19 staff recommendation, you're going from what the --

20 **COMMISSIONER BALBIS:** No, in addition to
21 staff's recommendation. So from the 118,428 subtract
22 another 32,187.

23 **CHAIRMAN GRAHAM:** So explain to me where
24 32,187 came from?

25 **COMMISSIONER BALBIS:** I just subtracted the

1 57,702 from 25,515. And it might be more appropriate to
2 subtract the fifty-eight five five.

3 **CHAIRMAN GRAHAM:** I was going to say, because
4 you are double-counting the 6,000 staff --

5 (Inaudible; simultaneous conversation.)

6 **COMMISSIONER BALBIS:** Right, right.

7 **CHAIRMAN GRAHAM:** So it's more of a \$25,000
8 difference rather than twenty-six --

9 **COMMISSIONER BALBIS:** Correct. That is
10 correct.

11 **CHAIRMAN GRAHAM:** Okay. Commissioner Brown.

12 **COMMISSIONER BROWN:** Thank you. And the
13 reason why I went back to this handout that staff
14 prepared comparing the last rate cases of Cypress Lakes
15 was because it was hard to itemize each one. I mean, I
16 looked at the Friedman, Friedman, and Long, and those
17 actually were under what the last -- the limited
18 proceeding in the rate case, and those were really the
19 only ones that seemed reasonable based on -- seriously.
20 (Laughter.) The only ones to me that I thought were
21 reasonable. The filing fee, the customer notices, the
22 postage, the FedEx, and Advanced Environmental Labs,
23 those were the only ones that I thought were reasonable
24 and justifiable. And it kind of puts you on par with
25 what we have approved for Cypress Lakes in the last rate

1 case.

2 But, I mean, I understand what Commissioner
3 Balbis is saying, the lack of support, that's completely
4 justified. But we are also dealing with the issue of
5 excessive rate case fees here. So, I mean, I'm
6 comfortable even looking back at what we have approved
7 and maybe tying that into what Commissioner Balbis is
8 saying about those costs that aren't supported. But I
9 think if you just take out -- go back to what you are
10 recommending, Commissioner Balbis, I still feel that
11 that's excessive.

12 **CHAIRMAN GRAHAM:** My concern from what we are
13 looking at right now, because if the argument is there
14 is not enough documentation here, then this just being a
15 PAA, the alternative is it becomes a full-blown rate
16 case. And what's already -- what you're classifying as
17 a ridiculous amount of rate case expense gets to be even
18 that much more. And so it seems like it's a snowball
19 rolling down the hill.

20 Now, granted you can make your recommendation
21 and it could be acceptable and everybody moves on, but
22 the alternative is it comes back for a full-blown rate
23 case. And the difference between what we're allowing
24 them and the rate case expense, what you see now is
25 2-to-1 may end up being 4-to-1.

1 I mean, I think we all have a problem -- have
2 a little bit of indigestion with the fact that the rate
3 case expense is what it is, but I can't point my finger
4 to where it's wrong. And that's the issue that I come
5 to. And I understand what Commissioner Balbis is
6 saying. It's like, well, this is not justified enough
7 to me, which is fine. I'm just telling you what my
8 concern is.

9 Now, if there's a motion on the floor, I'd
10 like to hear it.

11 Commissioner Balbis.

12 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.

13 Based on the reasoning that I stated before, I
14 would move that we further reduce staff's recommendation
15 for rate case expense from 118,428 and subtract 25,340,
16 which is the 50,855 minus the 25,515.

17 **CHAIRMAN GRAHAM:** What does that number come
18 out to?

19 Is that your motion, Commissioner Balbis? Was
20 that a motion?

21 **COMMISSIONER BALBIS:** Yes.

22 **CHAIRMAN GRAHAM:** Is there a second?

23 **COMMISSIONER BRISÉ:** I'll second it for
24 purposes of discussion.

25 **CHAIRMAN GRAHAM:** It has been moved and

1 seconded to decrease the rate case expense from 118,428
2 to \$93,088. Further discussion?

3 Commissioner Edgar.

4 **COMMISSIONER EDGAR:** Thank you.

5 And just hopefully for a little additional
6 clarity for me, would the basis for that recommended
7 adjustment of approximately \$25,000 be based upon the
8 lack of supporting documentation, or something else in
9 addition?

10 **COMMISSIONER BALBIS:** Yes, for lack of
11 supporting documentation that justifies that additional
12 expense.

13 **COMMISSIONER EDGAR:** Thank you.

14 **CHAIRMAN GRAHAM:** I guess this question is to
15 Mary Anne. Statutorily, is this something we have to
16 act on today, or can we act on this -- can we push this
17 back?

18 The reason why I ask the question is if it's
19 just further documentation that we're looking for, you
20 know, if we can allow for them to provide that
21 documentation, that will make Commissioner Balbis happy,
22 then we can move forward from this point and not have to
23 go through another rate case.

24 **MS. HELTON:** Well, there's a five-month clock
25 for PAA rate cases. And it's my understanding, based on

1 the first page of the recommendation, that that
2 five-month clock has been waived through today. So we
3 would need an additional waiver from Mr. Friedman.

4 But if I could, you know, step back a minute,
5 the company has the burden of proof. And if you believe
6 that the company has not met that burden and has not
7 fully supported that additional amount of expense for
8 the group within the company that prepares these cases,
9 then I think you have the information you need today to
10 make that decision, if you believe that they have not
11 met the burden of proof.

12 If you give them an additional time to do
13 that, then you're allowing them -- you're kind of --
14 it's like for my son when he doesn't turn his paper in
15 on time and the teacher doesn't, you know, take anything
16 away from him, and being able to make the grade he would
17 have originally made if he had not turned the paper in
18 on time. I think we're a little bit there.

19 **CHAIRMAN GRAHAM:** And let's go back to my
20 comment earlier, this being a PAA and they decide that
21 they want to come back for a full-blown rate case. So
22 now they can still achieve that burden of proof that we
23 are talking about now, but yet adding more to the rate
24 case expense on top of where we currently are.

25 I mean, especially if the decision, if the

1 decision were made is based on -- and you have got to
2 listen to what the motion was. The decision we made is
3 based on the fact that there is no documentation or not
4 enough specific documentation on this \$25,000. So we
5 have another rate case expense. All they have to do is
6 come back with more documentation on that \$25,000, and
7 so all of a sudden it's 118 plus whatever added rate
8 case expense they had, it's evolved into another rate
9 case, if that's specifically what's objected to.

10 **MS. HELTON:** I'm not sure if that exact
11 question has been addressed. But it seems to me that
12 when they made their initial filing that they were under
13 some requirement to be able to justify the case
14 originally. I'm not sure where that would all play out,
15 but it seems to me that that's a reasonable expectation
16 on your part.

17 **CHAIRMAN GRAHAM:** So now if there is a
18 challenge, the challenge can be that pinpointed
19 specific, that the challenge is specifically this
20 \$25,000?

21 **MS. HELTON:** Yes.

22 **CHAIRMAN GRAHAM:** Okay.

23 **MS. HELTON:** I mean, we asked them in the
24 process, and the process contemplates that they have to
25 identify their points of contention with your decision.

1 And any other parts of the decision that they don't take
2 issue with or OPC doesn't take issue with, then those
3 are deemed stipulated during the course of the hearing.

4 **CHAIRMAN GRAHAM:** Okay. Well, we have a
5 motion on the floor, and it has been moved and seconded.
6 Is there any further discussion on the motion?

7 Commissioner Balbis.

8 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.
9 If I can make a comment on the discussion that
10 was just had with Ms. Helton on resulting in additional
11 rate case expense. My motion specifically addressed
12 this item within their total rate case expense. The
13 overall determination of reasonableness and the
14 discussion we had previously where we have the ability
15 to look at the rate case expense and we just make a
16 simple determination of reasonable or not, I'm not
17 addressing with my motion. So that's not to say that if
18 this motion carries and we move forward and they protest
19 and move forward with another process that we still
20 don't have that ability.

21 So I don't know if I agree with the argument
22 that it's just going to result in additional rate case
23 expense which then we have to pass on. And you never
24 said that, but I just want to be clear that this motion
25 doesn't dispel or eliminate our responsibility to

1 determine if it's reasonable or not, the overall expense
2 specifically towards this item.

3 **CHAIRMAN GRAHAM:** Okay. Any further
4 discussion?

5 **COMMISSIONER BRISÉ:** Let me make my statement
6 with respect to this motion. I agree with the motion in
7 principle, and I'm just trying to wrap my head around
8 the gap that exists for me in terms of staff going
9 through the invoices and finding justification for up to
10 \$50,000, and so that's where my issue is right now. And
11 I'm trying to wrap myself around that. Because in
12 principle I agree that we definitely need to deal with
13 the WSC, and I don't know if staff can help me out
14 there.

15 **MR. MAUREY:** What staff accepted as
16 justification in this case may not be sufficient for the
17 Commissioners on this point.

18 **CHAIRMAN GRAHAM:** Commissioner Edgar.

19 **COMMISSIONER EDGAR:** Thank you, Mr. Chairman.
20 A question and then perhaps a request. I have a
21 concern -- and maybe I'm hearing wrong -- I have a
22 concern, though, about not wanting to unintentionally
23 put in an incentive on future rate cases for
24 overestimating the cost that would be required as a case
25 moves forward, and that's why I wanted to know clearly

1 what the basis is. Obviously to see numbers that are
2 twice as much as what is estimated by a professional
3 company that does this type of work on a regular basis
4 is somewhat unusual. However, an estimate is an
5 estimate, and often in cases issues arise that were not
6 initially foreseen.

7 So if we are looking at not believing that an
8 issue or a cost has been proven up, basically, that
9 makes sense to me. If it's an amount that is based on
10 actual cost versus an estimated cost, that gives me some
11 concern.

12 So, Mr. Chairman, this may be a little out of
13 order, but could I ask for a five-minute break to just
14 think this through for a moment?

15 **CHAIRMAN GRAHAM:** Sure.

16 **COMMISSIONER EDGAR:** Or five.

17 **CHAIRMAN GRAHAM:** I don't have a problem with
18 that. Right now I have 26 after, let's come back at 35,
19 so 12:35.

20 **COMMISSIONER EDGAR:** Thank you.

21 (Recess.)

22 **CHAIRMAN GRAHAM:** Okay. I think we're ready
23 to reconvene.

24 Commissioner Edgar, you have the floor.

25 **COMMISSIONER EDGAR:** I thank you,

1 Mr. Chairman, for the break. I appreciate it. I needed
2 it for a couple of reasons. It was good to stretch and
3 move around for a minute, but also to have time to think
4 away from the microphone.

5 Commissioner Balbis, I really appreciate you
6 putting forward a motion as we were all struggling with
7 this and trying to make the right call, or the best call
8 anyway.

9 As I said earlier, I do believe that the
10 amount of rate case expense overall is troubling and is
11 of concern. I also think that rate case expense has
12 been a topic that we have discussed as a Commission for
13 at least the last few years, in particular, struggling
14 with the number of these water cases, in particular the
15 small companies.

16 The number, the basis for the number, though,
17 that you have suggested -- and, again, I appreciate the
18 suggestion -- just gives me pause. As I said, I don't
19 want to inadvertently incent -- padding of estimates is
20 what I'm trying -- I didn't want to use the word
21 padding, but out of a concern that if an actual amount
22 were to exceed an estimate, that then we have put forth
23 the possibility that that would be justification there
24 for a disallowance.

25 So I'm going to approach it from a little

1 different direction. And with all of that said, if we
2 are coming to a vote, I'm going to vote no on the
3 motion. But then, Mr. Chairman, if it's okay I'd like
4 to ask the staff a few more questions.

5 **CHAIRMAN GRAHAM:** Okay. Any other discussion
6 on the Balbis amendment?

7 Commissioner Balbis.

8 **COMMISSIONER BALBIS:** Thank you. And I'm not
9 going to belabor the point anymore, but, you know, I,
10 too, find that the rate case expense is unreasonable and
11 that the costs were not justified and that is the reason
12 for my motion.

13 **CHAIRMAN GRAHAM:** Okay. We are on the Balbis
14 amendment to Issue Number 14. All in favor say aye.

15 **COMMISSIONER BALBIS:** Aye.

16 **CHAIRMAN GRAHAM:** All opposed?

17 **COMMISSIONER BROWN:** Nay.

18 **COMMISSIONER BRISÉ:** Nay.

19 **CHAIRMAN GRAHAM:** Nay. Okay.

20 **COMMISSIONER EDGAR:** I was supposed to say
21 nay. I'm sorry.

22 **CHAIRMAN GRAHAM:** The motion fails.

23 Commissioner Edgar.

24 **COMMISSIONER EDGAR:** As I have said here
25 repeatedly over the years, my formal education was in

1 English and Political Science. I am not a math expert
2 or whiz, so I'm going to look to my staff to help me
3 with some math.

4 If we were to take the overall recommended
5 amount of approximately 118,000, and you have the exact
6 numbers in front of you, can you tell me what would be,
7 say, a 15 percent, a 20 percent, and a 25 percent
8 reduction?

9 And I'm asking this with the hesitancy that I
10 don't know what that answer is, nor do I want to mess it
11 up by doing it in my head. Everybody has their
12 calculators out is why I'm smiling, and I appreciate
13 that. I do not have one in front of me.

14 **MR. MAUREY:** It's a foreign calculator.
15 Foreign to me, it could be built anywhere, but -- at a
16 25 percent discount, the rate case expense would be
17 88,815; at a 15 percent, 100,664; and at 10 percent,
18 106,585.

19 **COMMISSIONER EDGAR:** Okay. Then,
20 Mr. Chairman, for discussion, if you all are interested
21 in it, I'll make a motion that we reduce the total
22 recommended rate case expense by 25 percent, based upon
23 our concern that the total amount is unreasonable.

24 **COMMISSIONER BROWN:** I'm going to second that
25 motion.

1 **CHAIRMAN GRAHAM:** It has been moved and
2 seconded that we're going to decrease the total amount
3 of allowable rate case expense. We're going to decrease
4 from the staff recommendation 25 percent, so we're going
5 to move it down to 88,813, if that was what I heard
6 correctly. And it has been seconded.

7 Commissioner Brown.

8 **COMMISSIONER BROWN:** Thank you, Mr. Chairman.

9 And I appreciate Commissioner Edgar coming up
10 with at least another alternative to consider. I mean,
11 I was going back, you know, we all know this is
12 excessive and unreasonable, but how do we get to that
13 point here. And, you know, I'm frustrated. I think we
14 are all a little frustrated with the process. Because
15 the statute says that we have the authority to disallow
16 rate case that is deemed unreasonable, you know, but we
17 don't really have a clear path of our options when we
18 determine that.

19 So, you know, in the future I think it would
20 be nice to direct legal staff to come up with some of
21 our other alternatives when this Commission finds rate
22 case expenses to be unreasonable and what our various
23 options are. I think Commissioner Edgar has a fair
24 solution of reducing it by 25 percent. It kind of puts
25 it on par a little bit above what the 2006 rate case

1 was, which was 84, which is why I'm supporting it. I
2 think it's much more reasonable and in line with what is
3 justifiable, although overall I still believe it is
4 excessive.

5 **CHAIRMAN GRAHAM:** Commissioner Brisé.

6 **COMMISSIONER BRISÉ:** Thank you, Mr. Chairman.
7 And I will support the motion. And my rationale is that
8 it looks at rate case expense as a whole in this motion
9 rather than one particular line, which I think it's more
10 difficult for us to get to that point. So with looking
11 at it as a total group, it catches the sentiment that I
12 think is expressed here this morning, or this afternoon
13 now.

14 **CHAIRMAN GRAHAM:** Commissioner Balbis.

15 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.
16 And thank you, Commissioner Edgar. I'll just say that I
17 wasn't aware that that was an option, but with that, I
18 will support the motion as I, too, feel that the rate
19 case expense is unreasonable.

20 **CHAIRMAN GRAHAM:** Okay. Any other discussion?

21 Seeing none, we are on the Edgar amendment to
22 Issue Number 14. It has been moved and second. All in
23 favor say aye.

24 (Vote taken.)

25 **CHAIRMAN GRAHAM:** Any opposed?

1 Nay.

2 The ayes have got it. So we've passed that
3 amendment. So far we have done Issue Number 1 and Issue
4 Number 14. I think we addressed all the other issues
5 and concerns throughout that. So if somebody can make a
6 staff recommendation motion, or something along those
7 lines for the rest of them, and handle the fallout.

8 Commissioner Edgar.

9 **COMMISSIONER EDGAR:** Thank you, Mr. Chairman.
10 If I may, a comment and then a motion.

11 Clearly to our staff, and I know they have
12 struggled with these issues as we have struggled with
13 both for this case and others in the past, I would like
14 to ask you, you know, to take a close look at our
15 requirements as far as justification for calculation and
16 recommendation of rate case expense on a go-forward
17 basis. And just please give that a look. And then if
18 there is a rule change, or a procedural change or
19 something that you would recommend, bring that forward
20 to us as is appropriate, or as would be appropriate.

21 Mr. Chairman, I would recommend approval of
22 the staff recommendation on all remaining items on this
23 issue before us, on this docket before us, with the
24 addition, of course, of reflecting the modifications
25 that we have made and any fallout calculations that

1 would need to be addressed, and also including the oral
2 modifications that were made by staff.

3 **CHAIRMAN GRAHAM:** It has been moved and
4 seconded that we approve the remaining of Item 10. All
5 in favor signify by saying aye.

6 (Vote taken.)

7 **CHAIRMAN GRAHAM:** Any opposed?

8 By your action you have approved Item
9 Number 10.

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STATE OF FLORIDA)

:

CERTIFICATE OF REPORTERS

COUNTY OF LEON)

WE, JANE FAUROT, RPR, and LINDA BOLES, RPR, CRR, Official Commission Reporters, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.


IT IS FURTHER CERTIFIED that we stenographically reported the said proceedings; that the same has been transcribed under our direct supervision; and that this transcript constitutes a true transcription of our notes of said proceedings.

WE FURTHER CERTIFY that we are not a relative, employee, attorney or counsel of any of the parties, nor are we a relative or employee of any of the parties' attorneys or counsel connected with the action, nor are we financially interested in the action.

DATED THIS 16th DAY OF MAY, 2014.



JANE FAUROT, RPR



LINDA BOLES, CRR, RPR

FPSC Official Commission Reporters
850-413-6732/6734

REMARKS to the PUBLIC SERVICE COMMISSION MAY 9, 2014

I thank the Public Service Commission for the opportunity to comment on several aspects of this rate case. First, I would like to thank the Cypress Lakes Utilities for the continuing effort that they put forth to provide the residents of Cypress Lakes with a healthful supply of water and the excellent disposal system for water waste. My remarks are primarily directed toward a problem that is part of this rate case, but not addressed in the Recommendations.

A situation exists in Cypress Lakes relative to the water supply that was not generated by Cypress Lakes Utilities, but did result from their action to correct a health problem . In the 2003-4 time frame, the management of Cypress Lakes decided to significantly expand the residential area of the community. Unfortunately, the extension of the water supply to accommodate this expansion with their free chlorine disinfection system resulted in many unfavorable health-related issues for CLU - principally related to the level of free chlorine residual and the cancer-causing byproducts of this disinfection process throughout sections of the community. In 2010, CLU was directed by the Polk County Public Health Department to improve its flushing efforts to eliminate the problem. However, in 2011, it became apparent that these efforts were insufficient to resolve the problem and CLU, with the approval of PCHD, changed its disinfection process from free chlorine to chloramine - an ammonia-chlorine based product.

It eliminated the byproduct problem; but to maintain the needed chlorine residual, the flushing required in 2012, the Test Year for this rate case, was increased by a factor of ten – from approximately the level of 200,000 gallons per month for the pre-chloramine period to 2.4 million gallons per month with chloramine as the disinfectant. Then, in 2013 , the PCHD again reported inadequate chlorine residual within a section of the community. To correct this condition, CLU responded by doubling the flushing rate to over 4.0 million gallons per month with 2.4 million gallons per month directed at one troublesome section. Hydrants were used in part to accomplish the correction with water in the streets to the dismay of the residents. AFVs have been installed on most of the system to control and direct the flushing flow to surrounding ponds and lakes, but at the same high rate throughout 2013.

The Staff Recommendations treat the problem as simply a matter of approving an increased water rate while maintaining that the system is “satisfactory”: however, to the residents and management of the community, it is a Health and Safety Issue.

Parties/Staff Handout
Internal Affairs/Agenda
on 5/9/14
Item No. 10

Normally, at this time of the year, pond and lakes are at their lowest levels; however, this year the ponds and lakes are full. The management is very concerned as any hurricane activity or excess summer rainfall can lead to serious flooding and damage to roads and homes. There is no reserve for increased rainfall!

Further, the issue for the residents is two-fold. First, they are being asked to pay for the excessive use of flushing water - which at the current flushing rate exceeds the total usage by the residents for all their water-related uses; and second, they are appalled by the Environmental Waste of this precious resource of the State of Florida. Their reaction is simply: "We are asked to limit our use of this precious resource for lawn & garden watering, car and house washing, etc... but the Utility is allowed to squander tremendous amounts of this resource without any recourse. DO Something !!!"

But the options available to the residents are limited. They can't force management or CLU to change the design of the system to eliminate the significant number of "dead-end" sections of piping causing the problem without agreeing to pay for it. They can complain to EPA or SWWMD - which will probably result in fines that ultimately the residents will pay for through either higher rents or higher water rates.

The only real option available to them is to seek **directed action to significantly modify the flushing scheme to meet health requirements but that eliminates the current excessive flushing in areas that met health standards with previously limited flushing done by CLU.** This could be accomplished by a simple directive from the PSC for the three elements, CLHA, CLU and Community Management, to work with the PSC Staff to implement a revised flushing schedule that demonstrates to the PCHD that adequate health standards are met throughout the community. To do this, data are needed which shows which flushing locations are very acceptable on a health standard basis and could maintain acceptability with reduced flushing; there must be some as CLU has dropped two "original" locations - original meaning initiated during the problems of the 2005-2006 era. It is difficult to understand that there is not an alternate scheme to drastically reduce the 2.4 million gallons per month to satisfy the EPA and PCHD requirements. It will not be an "overnight solution" like the Staff Recommendations suggest; it will probably take money for hardware to revise the valve control scheme. The cost might not have to "fall" on the residents; maybe a more appropriate provider of material reduce the problem would be the "Creator" of the problem.

The current Staff Recommendations have not addressed this problem other than to recommend the appropriate rate increase to cover the cost of the additional flushing. That is not an appropriate solution; therefore, we are bringing this matter to you, the Commissioners, for your attention in this manner.

Such directive action by the PSC Commissioners would not be without precedent with regard to Cypress Lakes rate cases. One of your current members, Mrs. Edgars was involved in the 2006 rate case, Docket NO. 060257-WS, where the PSC ORDER NO. PSC-07-0199PAA-WS specifically directed the parties to work together to resolve a similar problem.

I will thank you in advance for any action that you may take to resolve this Environmentally Unfriendly situation.

Relative to the other requests I have submitted for consideration at this Hearing, I appreciate that the Staff already initiated action with a pre-Hearing conference call to provide appropriate responses when available so that no more of your valuable time is taken. Thank you again.

Cypress Lakes Utilities, Inc.

Docket No. 130212-WS

OPC's Schedules for
Excess Flushing and
Unaccounted For Water

Issue 6 – Used and Useful

Parties/Staff Handout
Internal Affairs/Agenda
on 5/9/14
Item No. 10

Cypress Lakes Utilities, Inc.
 Docket No. 130212-WS
 Staff Data Request 3.1
 List of manual and automatic flushing locations
 January 17, 2014

Protocol Flushing First Provided by CLUI
 File: SDR 3.1 List of Flushing Points.xlsx

Location	Date of Meter Installation	Outlet Size (in)	Flow Rate (gpm)	Frequency (cycles/day)	Nominal Duration (min/cycle)	Monthly Flushing Amounts	Annual Flushing Amounts
Manual, unmetered flush points							
2317 Mulligan Dr.	TBD	2	125	1	30	114,375	1,368,750
2546 Red Bird Lane	TBD	2	125	1	30	114,375	1,368,750
Maidencane Court cul-de-sac	TBD	2	125	1	30	114,375	1,368,750
Non-metered Hydro Guard automatic flushing valves							
2347 Snowy Plover Drive in the rear	06/10/10	2	125	1	30	114,375	1,368,750
2376 Peavine Circle in the rear	06/10/10	2	125	1	30	114,375	1,368,750
1782 Big Cypress Blvd.	06/10/10	2	125	1	30	114,375	1,368,750
Metered automatic flushing valves using timers							
Spatterdock Ct. cul-de-sac	06/20/12	0.75	20	1	30	18,300	219,000
Moorhen Dr. cul-de-sac	06/20/12	0.75	20	1	30	18,300	219,000
2302 Putt Lane	10/15/12	0.75	20	1	30	18,300	219,000
Purple Martin Dr. cul-de-sac	10/15/12	0.75	20	1	30	18,300	219,000
Sand Crane Trail cul-de-sac	09/12/13	0.75	20	1	30	18,300	219,000
Spike Rush Ct. cul-de-sac	09/13/13	0.75	20	1	30	18,300	219,000
2324 Little Cypress Drive in the rear	10/15/13	0.75	20	1	30	18,300	219,000
Moorhen Ct. cul-de-sac	10/15/13	0.75	20	1	30	18,300	219,000
Ultra Drive cul-de-sac	11/06/13	0.75	20	1	30	18,300	219,000
Big Cypress Blvd. at bridge near Lift Station #6	11/23/13	0.75	20	1	30	18,300	219,000
Sunbird Ct. cul-de-sac	12/06/13	0.75	20	1	30	18,300	219,000
Annual Estimated Flushing						887,550	10,621,500

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Provided in Response to Staff's 4th Data Request
 Whole Year Non-metered, Estimated
 February 12, 2014

2012 Flushing schedule by location

Location	Date of Installation of AFV's	Date of Meter Installation	Outlet Size (in)	Flow Rate (gpm)	Duration (min/day)	Volume (gpd)	Volume (g/mo)	Daily Hours Flushed	Annual Gallons Flushed
Non-metered Hydro Guard automatic flushing valves									
2347 Snowy Plover Drive in the rear	06/10/10	None	1.00	35	240	8,400	256,200	4	3,074,400
2376 Peavine Circle in the rear	06/10/10	None	1.00	35	480	16,800	512,400	8	6,148,800
1782 Big Cypress Blvd. at Lift Station #4	06/10/10	None	2.00	130	30	3,900	118,950	0.5	1,427,400
Big Cypress Blvd. at bridge near Lift Station #6	11/23/13	None	2.00	130	60	7,800	237,900	1	2,854,800
Manual, unmetered flush points									
Maidencane Court cul-de-sac	Before 2010	None	2.00	130	24	3,120	95,160	0.4	1,141,920
2546 Redbird Lane	Before 2010	None	2.00	130	15	1,950	59,475	0.25	713,700
Hydrant @ 2317 Mulligan Dr.	Before 2010	None	2.50	250	5	1,250	38,125	0.08	457,500
Hydrant @ Peavine Trail	Before 2010	None	2.50	250	5	1,250	38,125	0.08	457,500
Purple Martin Dr. cul-de-sac	10/15/12	None	0.75	30	30	900	27,450	0.5	329,400
2302 Putt Lane	10/15/12	None	2.00	30	10	300	9,150	0.17	109,800
Sand Crane Trail cul-de-sac	09/12/13	None	2.00	130	15	1,950	59,475	0.25	713,700
Spike Rush Ct. cul-de-sac	09/13/13	None	2.00	130	15	1,950	59,475	0.25	713,700
Peavine Trail service line at empty lot	10/15/13	None	0.75	30	15	450	13,725	0.25	164,700
Ultra Drive cul-de-sac	11/06/13	None	2.00	130	15	1,950	59,475	0.25	713,700
Sunbird Ct. cul-de-sac	12/06/13	None	2.00	130	15	1,950	59,475	0.25	713,700
Metered automatic flushing valves using timers									
Spatterdock Ct. cul-de-sac	06/20/12	None	0.75	30	360	10,800	329,400	6	3,952,800
Moorhen Dr. cul-de-sac	06/20/12	None	0.75	30	24	720	21,960	0.4	263,520
Total							1,995,920		23,951,040

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Provided in Response to Staff's 4th Data Request
 Majority of Year Non-metered, Estimated
 February 12, 2014

2013 Flushing schedule by location

Location	Date of Installation of AFV's	Date of Meter Installation	Outlet Size (in)	Flow Rate (gpm)	Duration (min/day)	Volume (gpd)	Volume (g/mo)	Daily Hours Flushed	Annual Gallons Flushed
Manual, unmetered flush points									
2317 Mulligan Dr.	Before 2010	N/A	2.0	130	5	650	19,825	0.08	237,900
2546 Redbird Lane	Before 2010	N/A	2.0	130	5	650	19,825	0.08	237,900
Maidencane Court cul-de-sac	Before 2010	N/A	2.0	130	5	650	19,825	0.08	237,900
Non-metered Hydro Guard automatic flushing valves									
2347 Snowy Plover Drive in the rear	06/10/10	In 2014	1.0	130	180	23,400	713,700	3.00	8,564,400
2376 Peavine Circle in the rear	06/10/10	In 2014	1.0	130	600	78,000	2,379,000	10.00	28,548,000
1782 Big Cypress Blvd. at Lift Station #4	06/10/10	In 2014	2.0	130	80	10,400	317,200	1.33	3,806,400
Metered automatic flushing valves using timers									
Spatterdock Ct. cul-de-sac	06/20/12	10/15/13	0.75	30	450	13,500	411,750	7.50	4,941,000
Moorhen Dr. cul-de-sac	06/20/12	10/15/13	0.75	30	45	1,350	41,175	0.75	494,100
2302 Putt Lane	10/15/12	10/15/13	0.75	30	20	600	18,300	0.33	219,600
Purple Martin Dr. cul-de-sac	10/15/12	10/15/13	0.75	30	45	1,350	41,175	0.75	494,100
Sand Crane Trail cul-de-sac	09/12/13	09/12/13	0.75	30	15	450	13,725	0.25	164,700
Spike Rush Ct. cul-de-sac	09/13/13	09/13/13	0.75	30	90	2,700	82,350	1.50	988,200
2324 Little Cypress Drive in the rear	10/15/13	10/15/13	0.75	30	60	1,800	54,900	1.00	658,800
Moorhen Ct. cul-de-sac	10/15/13	10/15/13	0.75	30	40	1,200	36,600	0.67	439,200
Ultra Drive cul-de-sac	11/06/13	11/06/13	0.75	30	5	150	4,575	0.08	54,900
Big Cypress Blvd. at bridge near Lift Station #6	11/23/13	11/23/13	0.75	30	20	600	18,300	0.33	219,600
Sunbird Ct. cul-de-sac	12/06/13	12/06/13	0.75	30	5	150	4,575	0.08	54,900
Total							4,196,800		50,361,600

OPC Comparison of Company's Original Estimate and Updated Responses
 Regarding Flushing of Water at the Four Flushing Locations
 With the Highest Daily Flushing Levels

Flushing Locations	Data From Different Flushing Reports	Date of Meter Installation	Outlet Size (in)	Flow Rate (gpm)	Duration (min/day)	Volume (gpd)	Volume (g/mo)	Hours Per Day	Annual Flushing Amounts
1. Spatterdock Ct. cul-de-sac	Original Estimate		0.75	20	30	600	18,300	0.5	219,000
	2012		0.75	30	360	10,800	329,400	6	3,952,800
	2013	10/15/13	0.75	30	450	13,500	411,750	7.50	4,941,000
2. 2347 Snowy Plover Drive in the rear	Original Estimate		2.00	125	30	3,750	114,375	1	1,368,750
	2012		1.00	35	240	8,400	256,200	4	3,074,400
	2013	In 2014	1.00	130	180	23,400	713,700	3.00	8,564,400
3. 2376 Peavine Circle in the rear	Original Estimate		2.00	125	30	3,750	114,375	0.5	1,368,750
	2012		1.00	35	480	16,800	512,400	8	6,148,800
	2013	In 2014	1.00	130	600	78,000	2,379,000	10.00	28,548,000
4. 1782 Big Cypress Blvd. at Lift Station #4	Original Estimate		2.00	125	30	3,750	114,375	0.5	1,368,750
	2012		2.00	130	30	3,900	118,950	0.5	1,427,400
	2013	In 2014	2.00	130	80	10,400	317,200	1.33	3,806,400

OPC Recommended Adjustment for
Gallons of Water Pumped, Sold and Unaccounted For

Florida Public Service Commission

Company: Cypress Lakes Utilities, Inc.
Docket No.: 130212-WS
Test Year Ended: December 31, 2012
In Millions of Gallons

Schedule F-1

Page 1 of 1

Preparer: CLUI:Seidman, F./OPC: Merchant

Month/ Year	(1) Per Company Total Gallons Pumped	(2) Gallons Purchased	(3) Per Company Gallons Sold	(4) Per OPC Other Uses	(5) Unaccounted For Water (1)+(2)-(3)-(4)	(6) % Unaccounted For Water
January, 2012	7.038		4.328	0.88	1.827	25.95%
February, 2012	7.045		4.867	0.88	1.295	18.38%
March, 2012	7.991		4.325	0.88	2.783	34.82%
April, 2012	7.919		4.498	0.88	2.538	32.05%
May, 2012	6.752		4.642	0.88	1.227	18.17%
June, 2012	5.094		1.916	0.88	2.295	45.05%
July, 2012	5.371		5.374	0.88	(0.886)	-16.50%
August, 2012	4.833		3.711	0.88	0.239	4.94%
September, 2012	4.607		2.602	0.88	1.122	24.35%
October, 2012	5.358		2.691	0.88	1.784	33.29%
November, 2012	6.324		3.048	0.88	2.393	37.83%
December, 2012	6.242		4.209	0.88	1.150	18.42%
Total	74.574	-	46.211	10.600 (1)	17.763	23.82%
				Excess Unaccounted % For Water		13.82%
				Excess Unaccounted Water- Million Gallons		10.31
				Cost of Chemicals & Purchased Power/Mgal		\$268.00
				Reduction in O&M Expense		\$2,762.04

Note: Flushing Mgals From CLUI Original Response to Staff 3rd Data Request File: "SDR 3.1 List of Flushing Points.xlsx"

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Cypress Lakes Utilities Inc.
 OPC Estimation of Projected Late Fee Revenue
 Issue 11, 17 & 19

	Total <u>Bills</u>	W & WW <u>% to Total</u>	Recomm <u>Late Fee</u>	Allocated Late <u>Fee/System</u>	10% Customer <u>Bills Late</u>	15% Customer <u>Bills Late</u>
Water	18,504	52%	5.25	\$2.71	\$5,023	\$7,534
Wastewater	<u>17,286</u>	<u>48%</u>	5.25	<u>\$2.54</u>	<u>\$4,383</u>	<u>\$6,575</u>
Total	35,790	100%		\$5.25	\$9,406	\$14,109

Company filing states that 42% of the company-wide customer base is consistently delinquent in rendering payment each month.

Partica/Staff Handout
Internal Affairs/Agenda
 on 5/9/14
 Item No. 10