

1
2 BEFORE THE
3 FLORIDA PUBLIC SERVICE COMMISSION

4 In the Matter of:

DOCKET NO. 130171-WS

5 APPLICATION FOR APPROVAL
6 OF TRANSFER OF CERTAIN WATER
7 AND WASTEWATER FACILITIES AND
8 CERTIFICATE NOS. 507-W AND
9 441-S OF AQUA UTILITIES
10 FLORIDA, INC. TO THE WOODS
11 UTILITY COMPANY IN SUMTER
12 COUNTY.

13 _____/
14 In the Matter of:

DOCKET NO. 130176-WS

15 APPLICATION FOR APPROVAL OF
16 TRANSFER OF CERTAIN WATER
17 AND WASTEWATER FACILITIES AND
18 CERTIFICATE NOS. 507-W AND
19 441-S OF AQUA UTILITIES
20 FLORIDA, INC. TO JUMPER CREEK
21 UTILITY COMPANY IN SUMTER COUNTY.

22 _____/
23 In the Matter of:

DOCKET NO. 130172-WS

24 APPLICATION FOR APPROVAL OF
25 TRANSFER OF CERTAIN WATER
AND WASTEWATER FACILITIES AND
CERTIFICATE NOS. 501-W AND
435-S OF AQUA UTILITIES FLORIDA,
INC. TO SUNNY HILLS UTILITY
COMPANY IN WASHINGTON COUNTY.

_____/
In the Matter of:

DOCKET NO. 130173-WU

APPLICATION FOR APPROVAL OF
TRANSFER OF CERTAIN WATER
FACILITIES AND CERTIFICATE
NO. 053-W OF AQUA UTILITIES
FLORIDA, INC. TO LAKE OSBORNE
WATERWORKS, INC. IN PALM BEACH
COUNTY.

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In the Matter of:

DOCKET NO. 130174-WU

APPLICATION FOR APPROVAL OF
TRANSFER OF CERTAIN WATER
FACILITIES AND CERTIFICATE
NO. 002-W OF AQUA UTILITIES
FLORIDA, INC. TO BREVARD
WATERWORKS, INC. IN BREVARD
COUNTY.

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In the Matter of:

DOCKET NO. 130175-WS

APPLICATION FOR APPROVAL OF
TRANSFER OF CERTAIN WATER
AND WASTEWATER FACILITIES
AND CERTIFICATE NOS. 422-W
AND 359-S OF AQUA UTILITIES
FLORIDA, INC. TO HC WATERWORKS,
INC. IN HIGHLANDS COUNTY.

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PROCEEDINGS: COMMISSION CONFERENCE AGENDA
ITEMS NO. 9 THROUGH 14

COMMISSIONERS

PARTICIPATING: CHAIRMAN ART GRAHAM
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER RONALD A. BRISÉ
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Thursday, June 5, 2014

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: LINDA BOLES, CRR, RPR
Official FPSC Reporter
(850) 413-6734

P R O C E E D I N G S

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2 **CHAIRMAN GRAHAM:** Okay. Let's move on to Item
3 Number 9.

4 **MR. RIEGER:** Good morning, Commissioners.
5 With your indulgence, staff would like to have opening
6 comments in a combined fashion with -- between --
7 concerning Items 9 through 14 since they're so similar.

8 Very good. Items 9 through 14 deal with the
9 transfer of water and wastewater systems previously
10 owned by Aqua Utilities Florida, Inc. The nine water
11 systems and four wastewater systems located in five
12 different counties are being transferred to recently
13 created utilities that share common management and
14 ownership.

15 The systems being transferred are what remains
16 of Aqua's 62 water systems and 30 wastewater systems
17 that were all once under PSC jurisdiction. Recently
18 Aqua made a decision to cease operations in the state.
19 As a result, the majority of its systems were
20 transferred to non-jurisdictional entities, which
21 included the Florida Governmental Utility Authority,
22 DeSoto County, and YES Companies, LLC.

23 Representatives of Aqua and the utility who
24 filed the applications of transfer are here to answer
25 questions, if needed. Staff recommends that the

1 Commission approve the transfer applications, and we're
2 ready to answer questions at this time.

3 **CHAIRMAN GRAHAM:** Thank you, Mr. Rieger.

4 OPC.

5 **MR. REILLY:** We're just participating and
6 basically stating we certainly have no objections to
7 these transfers.

8 **CHAIRMAN GRAHAM:** Okay. Commissioners.
9 Commissioner Balbis.

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

11 I have a question that pertains to all of the
12 items, Items 9 through 14, and it really harkens back to
13 when we went through the Aqua Utilities rate case in
14 2011. And in that case, we separated or combined these
15 systems into four rate bands. And the utilities
16 associated with the certificates are in different rate
17 bands, but the majority of which are in Rate Band 4.

18 And my question for staff is in the Aqua case
19 we established a maximum subsidization rate of \$12.50 so
20 that no one utility system would subsidize more than
21 that and alternatively none would receive more than
22 that.

23 For these systems, are most of these receiving
24 that subsidization?

25 **MR. SPRINGER:** Commissioner, when we look at

1 this, on Item 9 -- well, I would just say that, that
2 several of the systems are in a capped system, and those
3 capped systems are, they're capped at those
4 affordability limits, and those systems are grouped to
5 minimize subsidies.

6 So -- but those, those are high cost systems,
7 are subsidizing the lower cost systems in those cases.
8 So if I, if I may, do you want me to go through which
9 ones are in which band and how they are?

10 **COMMISSIONER BALBIS:** I know which ones are in
11 which band.

12 **MR. SPRINGER:** Certainly.

13 **COMMISSIONER BALBIS:** And I'm sure my fellow
14 Commissioners do as well.

15 My real question is if -- even though they're
16 within, like I say, Sunny Hills in Band 2, are they
17 receiving -- are they capped at the 12.50 subsidization
18 rate?

19 **MR. SPRINGER:** It's my understanding that only
20 Band 4 and Band 3 are capped.

21 **COMMISSIONER BALBIS:** Okay. Okay.

22 **MR. SPRINGER:** So that would, that would be,
23 that would be The Woods, which is -- their water system
24 is in a capped band; Brevard, which is Item 13, is in a
25 capped band; and Item 14 is in a Capped Band Number 4.

1 All the rest are either in no band or they're in a band
2 that's not capped.

3 **COMMISSIONER BALBIS:** Okay. And my concern is
4 that in the Aqua systems, you know, the high-cost
5 systems receiving the benefit of all of the other
6 systems within Aqua's territory, if you will, and by
7 removing those we're essentially making them standalone
8 systems. And so I want to, you know, make sure that the
9 company that's taking over understands that, and so I
10 have a few questions for Mr. Deremer on that.

11 And for full disclosure, Mr. Deremer and I
12 have known each other for a number of years. He
13 actually operate -- helped provide operators for the
14 City of West Palm Beach system, so I can certainly
15 attest to his ability to operate these, these systems in
16 a good manner.

17 So, Mr. Deremer, knowing -- obviously you know
18 what the revenues that are being received for each
19 individual system is. Do you have concerns about that,
20 knowing that the subsidization may not exist anymore?

21 **MR. DEREMER:** Yes, Commissioner. And by way
22 of background, it may, it may help the Commission to
23 give a brief overview of our involvement with the
24 overall transactions that involved all of the Aqua
25 systems. And, you know, we work with the City of

1 Sarasota and DeSoto County and we are the operator for
2 the systems that were acquired by the FGUA. These
3 systems, by their nature, were pulled out of the
4 acquisitions as a result of negative cash flow. So
5 when, when these systems are generally bought by other
6 municipalities, things like rate base and depreciation,
7 they really don't go into play as far as what the value
8 is that is assessed to these systems. So in the FGUA
9 model, systems were grouped generally by counties, and
10 the counties would have to stand alone.

11 So, in essence, if there were multiple systems
12 in Lake County that had cross-subsidization, those
13 systems remained with the same rates and those
14 subsidizations would continue to exist today.

15 This grouping of utilities had a very negative
16 cash position as a result of not only operating costs
17 but capital improvements. Another element that goes
18 into the thought process of acquisition by the
19 government is what is the five-year capital, because
20 they go out and bond these on the, on the, you know,
21 open market. So five-year capital plans were also a
22 driver in removing these systems from the potential for
23 acquisition by the governments.

24 I've been working on this transaction for a
25 couple of years now, so I have very intimate knowledge

1 of each system and the circumstances around each system.
2 One of our strategies was to try to get other
3 governments to take them for zero, at zero cost, but we
4 were unsuccessful in the system in Washington County and
5 the system known as Jumper Creek over in Sumter County.

6 So it brings us to where we're at today. The
7 systems are in various levels of distress either from
8 capital or from operations requirements, but we have
9 developed a strategy system by system that we, we met
10 with staff about a year ago and laid out a strategy in a
11 PowerPoint to deal with those, those systems -- we
12 actually gave that PowerPoint just recently to
13 Mr. Reilly's office -- so that we could let the staff
14 kind of know where we're at. We also performed
15 five-year pro formas on those that were submitted along
16 with the filing for transfer.

17 So each system has a various strategy that we
18 could get the Commission to see where they're at, but
19 I'll just give you a couple of examples so you'll kind
20 of know where we're coming from.

21 You mentioned Washington County. One of the
22 things that, that we're looking at is we did not pay
23 rate base for these systems. So we've, we've kind of
24 helped the customers to some extent by already not
25 overpaying for the systems. We paid \$10,000 on

1 \$2 million plus rate base. So the customers will
2 receive that benefit.

3 But in the case of Washington County, there's
4 a very high amount of ad valorem and tangible taxes,
5 about \$68,000 a year, which is very significant for 700
6 customers. So we've petitioned the county and hired a
7 local attorney to try to drive those taxes down for
8 those customers.

9 So that along with some capital improvements
10 that are going to have to be, we're hoping to get a
11 combination of grant and low interest loan funding
12 through SRF, should be able to keep that system out of
13 rates. That's one strategy for that system.

14 The system that's in Palm Beach County, which
15 is a consecutive system called Lake Osborne, purchases
16 its water from the City of Lake Worth. We believe that
17 Lake Worth is charging that system in a discriminatory
18 fashion, and we've retained counsel there to try to
19 lower the rates and charges that would keep that out of
20 rates. But there are some systems that will have to
21 come in for rates, and they are outlined in that
22 presentation that we've, we've given staff already.

23 So it's -- we're certainly keen to what's best
24 for the customers, and we're certainly keen to not
25 wanting the reputation of having extraordinarily high

1 rates on these small systems. So we've, we've
2 developed, I think, a very sound strategy to deal with
3 that, and over the next couple of years I think you'll,
4 you'll see that.

5 **COMMISSIONER BALBIS:** Okay. Mr. Chairman,
6 just one quick follow-up.

7 And thank you for that summary. I think it
8 clarifies a lot of the concerns that I have. But going
9 back to Palm Beach County and Lake Osborne Estates, you
10 indicated that you feel that they're being charged
11 discriminatory rates. How much more than a customer
12 within the city limits are the customers in Lake Osborne
13 Estates paying?

14 **MR. DEREMER:** I don't have that number
15 readily, but what we're -- the comparison that we're
16 making, Commissioner, is the customer category that is
17 being used to, to charge the system is incorrect, and we
18 believe that that customer base should be at least
19 treated the same as the bulk customer, which is known as
20 Lake Clarke Shores.

21 So Aqua had made some progress on that earlier
22 on, and then with the acquisition it kind of died off.
23 And we've kind of picked that ball back up and are
24 trying to force the city's hand to treat those customers
25 fairly in a nondiscriminatory manner. Currently the

1 system has a negative cash flow as a result of that.
2 And if we are able successfully to convince the City of
3 Lake Worth, then that will result in no need for a rate
4 increase -- possibly a rate decrease over years. But
5 we're early on in that stage. We have counsel retained.
6 There was a meeting with the city, I believe, last week
7 and, you know, we're proceeding on. Obviously we're,
8 we're the ones that are taking that negative cash flow,
9 so we're trying to proceed as quickly as we can to get a
10 decision out of the City of Lake Worth.

11 **COMMISSIONER BALBIS:** Okay. Thank you. And
12 that's something that we brought up four years ago when
13 we went through the Aqua case, and it's something that
14 concerns me because it is another example of a utility
15 being outside of the jurisdictional city limits, so it's
16 kind of this gray area where they do not have
17 representation and, in some cases, do not have Public
18 Service Commission jurisdiction. So that's, continues
19 to be a concern of mine, and I appreciate your efforts
20 to make it more equitable.

21 But those are the only questions and concerns
22 I have. And, Mr. Chairman, I'm ready to make a motion.
23 So I move approval of staff's recommendation on all
24 issues on Items 9 through 14.

25 **CHAIRMAN GRAHAM:** It's been moved and

1 seconded, staff recommendation on all issues on Items
2 9 through 14.

3 Any further discussion? Seeing none, all in
4 favor, say aye.

5 (Vote taken.)

6 Any opposed? By your action, you have
7 approved the staff recommendation.

8 (Agenda item concluded.)

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1 STATE OF FLORIDA)
 : CERTIFICATE OF REPORTER
2 COUNTY OF LEON)

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4 I, LINDA BOLES, CRR, RPR, Official Commission
5 Reporter, do hereby certify that the foregoing
6 proceeding was heard at the time and place herein
7 stated.

8 IT IS FURTHER CERTIFIED that I stenographically
9 reported the said proceedings; that the same has been
10 transcribed under my direct supervision; and that this
11 transcript constitutes a true transcription of my notes
12 of said proceedings.

13 I FURTHER CERTIFY that I am not a relative, employee,
14 attorney or counsel of any of the parties, nor am I a
15 relative or employee of any of the parties' attorney or
16 counsel connected with the action, nor am I financially
17 interested in the action.

18 DATED THIS 10th day of June, 2014.

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