



**P R O C E E D I N G S**

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2           **MS. HUDSON:** Commissioners, Shannon Hudson on  
3 behalf of staff.

4           Item 11 is an application for a rate increase  
5 for water and wastewater rates in Highlands County by HC  
6 Waterworks. HC Waterworks is also one of six remaining  
7 systems, a legacy Aqua system not acquired by FGUA, a  
8 municipality, or a HOA. HC Waterworks has 929 water  
9 customers, 297 wastewater customers. Their rates were  
10 last set when they were part of Aqua. Staff is  
11 recommending a 19 percent increase for water and a  
12 31 percent decrease for wastewater.

13           The same utility representatives are here to  
14 speak on this item as well. We also previously provided  
15 an oral modification which Mark Cicchetti will provide a  
16 summary.

17           **MR. CICCHETTI:** Good morning, Mr. Chairman and  
18 Commissioners. The oral modification addresses three  
19 items that the staff included in calculating the revenue  
20 requirement that after the recommendation was filed were  
21 found to be included in the company's revised MFRs. The  
22 issues affect pro forma plant, chemical expense, and  
23 property taxes, and staff is available for questions.

24           **CHAIRMAN GRAHAM:** Thank you, staff.

25           HC Water.

1           **MR. RENDELL:** Good morning, sir. Overall  
2 we're here to support staff's recommendation. I did  
3 receive the revised changes to the recommendation. The  
4 only two items that I saw were there was one pro forma  
5 item that was removed that was not in the MFRs. It's  
6 not a big dollar amount, so it's not a huge issue.

7           The one I am concerned about is the property  
8 tax. I looked at the staff work papers this morning,  
9 and it appears, and I could be wrong, but it appears  
10 they took out too much of the property tax. I submitted  
11 invoices last week for the 2014 property taxes which  
12 totaled 36,557, and it appears that the revised staff  
13 number is 35,877. So it's about \$680 short. But if  
14 they can clarify that -- I'm not sure.

15           **CHAIRMAN GRAHAM:** Staff.

16           **MR. CICCHETTI:** Commissioners, we went to the  
17 County's website and we verified that all of the  
18 property tax that the company paid is included in the  
19 revenue requirement.

20           **CHAIRMAN GRAHAM:** Okay. Thank you.

21           **MR. CICCHETTI:** We did tick off every, every  
22 item.

23           **CHAIRMAN GRAHAM:** Was that your only question  
24 or concern on the staff recommendation?

25           **MR. RENDELL:** Yes. Yes, sir. We're here to

1 support staff's recommendation.

2 **CHAIRMAN GRAHAM:** Okay. OPC?

3 **MR. TRUITT:** Thank you, Mr. Chairman,  
4 Commissioners. John Truitt, Office of Public Counsel.  
5 Also with me is Tricia Merchant.

6 I'd like to start -- thank staff for the oral  
7 modifications today. They corrected all the issues we,  
8 we had with the recommendation, so we're here to support  
9 it as well.

10 I did want to make a brief comment as kind of  
11 a going-forward looking. The main point today is to  
12 discuss the cost and expenses embodied in the service  
13 contract HC Waterworks has with U.S. Water, which is  
14 Issue 11 on pages 29 through 31 of the rec. Now, again,  
15 we're supporting the rec as it stands today with the  
16 oral modification, so I don't have an issue. And we  
17 understand service contracts can create efficiencies and  
18 cost savings for utilities of varying sizes. We also  
19 understand this rate case is the first rate case for  
20 HC Waterworks under the new ownership. Therefore, we  
21 don't have detailed historical data for services  
22 actually provided under the contract. What I mean by  
23 that is in this case the services contract is in its  
24 infancy during the test year.

25 So given the services contract as an affiliate

1 transaction, we understand why staff used the  
2 comparative ERC cost analysis where they looked at the  
3 market cost from industry surveys, et cetera, to see  
4 whether the cost of the contract was reasonable. And  
5 given the lack of actual historical operating data in  
6 this case, we can accept that method of analysis today  
7 and that's fine. We would respectfully request moving  
8 forward as more data becomes available, possibly in  
9 future rate cases when we have the actual data on actual  
10 time spent performing services under the contract,  
11 actual costs incurred, et cetera, the Commission would  
12 in the future review services contracts between HC  
13 Waterworks and U.S. Water like it's done in other water  
14 and wastewater cases by performing an affiliate audit as  
15 we've seen before in prior Commission practice.

16 We believe going forward as operational data  
17 becomes available, public interest is best served by  
18 examining actual services provided under the contract  
19 and using that information to base reasonableness  
20 decisions. So we believe essentially useful -- the use  
21 of utility-specific information when available is always  
22 preferable to the use of generalized market analysis.  
23 That was all I had, Mr. Chairman. We support the  
24 recommendation with the oral modifications. Thank you.

25 **CHAIRMAN GRAHAM:** Okay. I like that. The

1 utility and OPC both support staff recommendation.

2 So that brings us back here to the  
3 Commissioners. I -- all right. Commissioner Brown.

4 **COMMISSIONER BROWN:** Thank you. Two points I  
5 just want to make, and then a question, unless the  
6 Chairman wants to ask -- get into some questions.

7 First I want to commend the utility. You guys  
8 spent a lot of time, energy, resources in scrutinizing  
9 that U.S. Water management services contract. I know  
10 you heard my concerns. I know you acted. I know you're  
11 spreading the cost across a thousand ERCs to avoid the  
12 main rate impact among the subsidiaries that you  
13 operate. I can't tell you how appreciative I am.

14 And also the transparency and the disclosures  
15 that you've provided to staff has really given us a  
16 clear analysis that the costs, first of all, are cost  
17 based, but that they're reasonable and that they're,  
18 they're acceptable. And I do think that U.S. Water  
19 services does provide some great economies of scale for  
20 these companies just like Jumper Creek, you know. I  
21 know you -- we're deferring that, but I do have some  
22 thoughts on that, and I know that there's a benefit here  
23 to having these, all these affiliated contract companies  
24 under your, your umbrella. So thank you for listening  
25 to me and my concerns previously. I'm very appreciative

1 of that.

2 Mr. Deremer, I have a question for you  
3 regarding one of the issues under the Issue 1 for  
4 quality of service. It, it discusses for the Lake  
5 Josephine, Sebring Lakes -- Leisure Lakes, pardon me,  
6 report, it noted that the monthly operating reports by  
7 the DEP sanitary survey report, it said that the system  
8 is operating over the permitted design capacity. Then  
9 it goes on to say that the utility was instructed by DEP  
10 to apply for a permit to rerate, rerate or expand the  
11 water plant capacity. I know that's still ongoing and  
12 you're still in discussions. Can you tell me what would  
13 happen if the plant is, in fact, operating at over  
14 capacity, what kind of steps you can take to mitigate  
15 that?

16 **MR. DEREMER:** Certainly. Coincidentally we  
17 have a similar issue in the reverse in Jumper Creek  
18 where we're trying to rerate a capacity down so we  
19 reduce the fees. But in the case of Leisure Lakes,  
20 these capacity ratings that are -- that DEP  
21 recognizes -- and you can imagine we probably operate, I  
22 think we operate around 900 water plants, and they have  
23 very similar issues where capacities were really not  
24 nailed down scientifically over the years, and what's  
25 happened in the past is DEP has set up a fee process

1 based on the capacity of your system. So if your  
2 capacity rating is higher, you pay a higher fee.

3 In the case of Leisure Lakes, when we look at  
4 the physical assets of the plant, Aqua did actually a  
5 good job at designing sufficient capacity into the  
6 facility, that is physical capacity. But on a paper  
7 capacity, it, it seems to be not sufficient. So the  
8 good thing about that is that it's a matter of -- it's  
9 really a matter of rerating it through an engineer  
10 analysis that we'll do in-house at U.S. Water to up the  
11 capacity without having to add additional capital into  
12 the system.

13 I've looked at the plant myself. I've looked  
14 at the capacities there. Capacity does exist there. So  
15 the impact on the customers is negligible, nothing  
16 really. So we should be able to resolve that problem  
17 without any expense.

18 **COMMISSIONER BROWN:** And the other point I did  
19 want to make is thank you for not bringing attorneys.  
20 It's so nice to see everybody up here and have the  
21 folks -- we have less attorneys up here, and it's nice  
22 to see the owner and operator up here providing -- I  
23 know some of these systems nobody wanted and you all  
24 stepped up and purchased them, and for that your  
25 customers are probably very grateful. So those were the



1 only comments I had.

2 **MR. DEREMER:** Thank you.

3 **CHAIRMAN GRAHAM:** Okay. My concern, and I  
4 have talked to staff about this, and I guess I want to  
5 share it with the rest of the Commissioners, and I  
6 apologize if, if this is -- this is not picking on  
7 U.S. Water, but this is more our staff process of how we  
8 handle different things.

9 We had a, a piece of legislation that Senator  
10 Simpson passed not this past session but the session  
11 before, and one of the pieces in there is making sure  
12 that the water quality hits the primary and secondary  
13 water standards. And in this specific case, it says,  
14 and we're looking on page 6, that it did not meet the  
15 secondary water standards for iron.

16 Now staff assumes -- they put in the filters  
17 and we assume that those filters are going to fix the  
18 problem. But my concern is we don't have any empirical  
19 data that says that fixed the problem. And what I don't  
20 want to see is -- because every three years DEP does  
21 these tests again, I don't want to see -- and we're  
22 coming right up on it. I think they already pulled the  
23 samples. We just don't have that data back yet. My  
24 concern is I don't want to see that data come back and  
25 say that we did not hit those numbers, and then for me

1 to be called into one of the offices of the senators  
2 saying this legislation is in front of you, you knew  
3 this was a problem, but yet you let this go through.  
4 And so this is what I was talking to staff about. You  
5 know, how do we make sure that, for lack of a better  
6 term, there's some kind of a clawback? So, you know,  
7 it's fine moving forward that we think the problem is  
8 fixed, but we need to make sure that something like  
9 this -- and it's more for in the future because I think  
10 the filters probably did fix the problem. But my  
11 concern is in the future as problems like this come  
12 along, how do we make sure that this doesn't happen?  
13 And, yes, Ms. Watts.

14 **MS. WATTS:** Melinda Watts for staff. As you  
15 mentioned, the test results will be available soon and  
16 we'll be able to see. If they do not come back that  
17 they have corrected the problem, then the Commission can  
18 direct the company to pursue what else it can do to fix  
19 the problem, have meetings with customers, and provide  
20 the options and the costs to the customers and work with  
21 them to see what they would -- whether or not they would  
22 prefer them to do that and, you know, we could go from  
23 there.

24 **CHAIRMAN GRAHAM:** Now --

25 **MR. RENDELL:** Commissioner, I think

1 Mr. Dereemer has probably a simpler answer to that.

2 **MR. DEREMER:** Yeah. The, the issue with iron  
3 over the limit there, the system had really two problems  
4 when we got it, and there was a lot of customer  
5 complaints. I mean, you know, I met with DEP out  
6 onsite. I also met with them -- it's out of the Fort  
7 Myers district. I met with two homeowners associations.  
8 And the problem was when the system was built, it had  
9 recycled backwash water. Not to get too technical, that  
10 didn't work out so well, so we had to discontinue that.  
11 In addition to that, they had disinfection byproduct  
12 problems, which you'll see a chloramination system that  
13 had to be constructed in order to resolve those, which  
14 are more of a chronic issue having to do with a  
15 carcinogenic material in the water as a result of  
16 chlorine. So those issues were resolved right away.

17 The issue with the iron, we considered using  
18 another chemical to feed to the existing filtration  
19 system which we've had excellent results on. So if the  
20 iron test comes back and it's still over the limit  
21 elevated in any way, then we can switch to another  
22 chemical application, again using the existing  
23 infrastructure of the filters. So it's a low-cost  
24 alternative for the customers to take care of that  
25 issue. So we're completely on top of that issue as far

1 as how to resolve it, if it, if it's not already  
2 resolved now. And, again, we think it can be done at a  
3 very low cost to the customers.

4 **CHAIRMAN GRAHAM:** Well, my concern, and once  
5 again, I don't -- this is probably unfair to bring this  
6 up during your hearing, but my concern is the mechanics  
7 on how all this happens. There is no mechanism right  
8 now, and this goes back to our staff, that -- because we  
9 know that the last time it was tested it was out of  
10 compliance. And, you know, and maybe one of the things,  
11 as I talk to the Executive Director, is when their last  
12 test was out of compliance, when you file a new rate  
13 case, maybe there should be another set, new data so we  
14 know that we're not starting with something that's out  
15 of compliance. Now if everything was in compliance,  
16 there is no need for that, that new data. But if it was  
17 out of compliance, maybe that needs to happen when they  
18 file that, that rate case.

19 But specifically with yours, I think we need  
20 to make sure, and I talked to Mr. Ballinger yesterday  
21 about what sort of language we need to put in the order  
22 so that we make sure that there is a, there is a --  
23 there's a connection there that we don't, we don't grant  
24 this rate case and the disconnect happens. We want to  
25 make sure that staff is able to look and make sure and

1 everybody is comfortable that the iron problem is fixed  
2 or is going to be fixed.

3 **MR. BALLINGER:** Yes, sir. And I think what  
4 Ms. Watts said is what the correct language is. First,  
5 let me give you a little bit more information. I  
6 understand too that at the customer meeting there was  
7 really no complaints about brown water. The only  
8 discoloration was because of a sludge issue, a  
9 byproduct, not an iron. So it does appear that the  
10 filters are taking care of the problem with the iron.  
11 So I'm keeping my fingers crossed that that will work.

12 But going forward, if there is a concern like  
13 this, I think the fix is to direct the utility if there  
14 is this -- if they expect this, if they continue to stay  
15 out of compliance, to work with their customers, and  
16 also to inform staff and the OPC and have those involved  
17 in those discussions.

18 We've had talks like this before, generally  
19 getting utilities more involved with their customers to  
20 help bring them to the table to explain the situation  
21 and the options and see what could be worked out among  
22 them. It sounds like U.S. Water is doing that and being  
23 proactive with that.

24 So if you'd like to put language in this order  
25 to direct them, for example, if the tests come back,

1 have them be provided to staff. If they're still not  
2 meeting the maximum levels, to then direct them to meet  
3 with their customers. That's perfectly fine.

4 **CHAIRMAN GRAHAM:** I think we need to put  
5 language in this order. I mean, once again, I think  
6 it's going to be -- I don't, I don't think it's  
7 necessary, but I want to make sure if we are questioned  
8 about this a year from now or two years from now, we  
9 were doing our job according to that state statute that  
10 was passed.

11 **MS. CRAWFORD:** And, Chairman, if I may. I  
12 think you're right as far as the fact pattern goes.  
13 This probably isn't the utility we're going to be  
14 worried about. It's going to be the next one. There's  
15 always going to be a certain amount of lag time between  
16 processing a rate case and when those tests take place  
17 and when we get the results and when we are able to  
18 identify for certain whether a problem exists or not.  
19 And one thing that does give me some comfort is the  
20 language in the new statute, 367.0812, does contemplate  
21 further process, and it doesn't tie it to the timing of  
22 the rate case. I think it does contemplate that these  
23 steps can take place even after rates are set into  
24 motion that would require the utility to have that  
25 dialogue with its customers and to come up with

1 appropriate solutions and what those costs would be.  
2 And it also gives the Commission the authority to  
3 prescribe penalties. If an adequate solution cannot be  
4 found, the Commission does have the authority to do show  
5 cause type penalties under 367.161 or even reduce return  
6 on equity up to 100 basis points. So those tools are  
7 always in the Commission's quiver, for lack of a better  
8 description, on a forward-going basis. Always that's  
9 the continuing regulatory authority that the Commission  
10 does have.

11 **CHAIRMAN GRAHAM:** But, once again, for this  
12 one specifically, we're going to put something in the  
13 order just saying that we noted on the last test we did  
14 not hit iron, but we will make sure that it is --

15 **MS. CRAWFORD:** Absolutely.

16 **CHAIRMAN GRAHAM:** Okay. Do you need any sort  
17 of motion from us, or that's just good enough?

18 **MS. CRAWFORD:** I think we've noted that  
19 discussion from the bench. And as long as the  
20 Commissioners are in agreement, we can move forward  
21 with, with that discussion.

22 **CHAIRMAN GRAHAM:** Okay. Commissioners,  
23 anything else on this item, Item 11?

24 Commissioner Brown.

25 **COMMISSIONER BROWN:** Mr. Chairman, I

1 appreciate the discussion, and I think that's very  
2 helpful. I didn't even think about that when I read  
3 that. And I think the whole discussion is very helpful  
4 for us to keep considering that when we get these rate  
5 cases and the effects of the new legislation. And I  
6 support your proposal to put it in the order, so if  
7 you'd like to make the motion.

8 **CHAIRMAN GRAHAM:** I'm ready for a motion.

9 **COMMISSIONER BROWN:** Move to approve the --  
10 are there -- there are oral modifications on this  
11 particular item?

12 **COMMISSIONER EDGAR:** Yes.

13 **COMMISSIONER BROWN:** Move to approve staff  
14 recommendation on all items with oral modifications,  
15 giving staff administrative authority to make any  
16 changes on fallout issues. Also with the modification  
17 proposed by Chairman Graham here under Issue 1.

18 **COMMISSIONER PATRONIS:** Second.

19 **CHAIRMAN GRAHAM:** It's been moved and  
20 seconded. Any further discussion? Seeing none, all in  
21 favor, say aye.

22 (Vote taken.)

23 Any opposed? By your actions, you've approved  
24 Item No. 11.

25 We are going to have IA here or there?



1           **MR. BAEZ:** We can go over there. But if you'd  
2 just indulge me for a moment, Commissioners, before  
3 everybody leaves.

4           **CHAIRMAN GRAHAM:** Sure.

5           **MR. BAEZ:** Today is two-fer day, and we say  
6 goodbye to Jim Dean, who is our Director of the Division  
7 of Economics. Now, you know that I think the world of  
8 all of our directors; I think they do a bang up job for  
9 you all. And I think the world no more of anyone than I  
10 do of Jim Dean. And from a personal standpoint, I  
11 think, you know, convincing him some way to, to come  
12 back to the Commission for these last three years was  
13 one of the smartest things I think I've ever done. And  
14 I just want to thank him here in front of everybody for  
15 his service to us, to the Commission for all the help  
16 he's given me and all the good counsel, and wish him  
17 well. And I may cry, so no more words from me. Thank  
18 you, Commissioners.

19           **CHAIRMAN GRAHAM:** Jim, thank you for your  
20 service.

21           (Applause.)

22           (Agenda item concluded.)

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

3  
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  
9 stenographically reported the said proceedings; that the  
10 same has been transcribed under my direct supervision;  
11 and that this transcript constitutes a true  
12 transcription of my notes of said proceedings.

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

18 DATED THIS 25th day of June, 2015.

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