

# RAINTREE WATERWORKS, INC.

FILED APR 26, 2016  
DOCUMENT NO. 02483-16  
FPSC - COMMISSION CLERK

April 26, 2016

Office of Commission Clerk  
Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399

**Re: Docket No. 150199-WU - Application of Raintree Waterworks, Inc. for Staff Assisted Rate Case in Lake County – Response to Staff Additional Questions**

Dear Commission Clerk,

Please find attached Raintree Waterworks, Inc.'s (Raintree) response to Staff's additional questions.

Raintree analyzed the U.S. Water contract taking into consideration the FPSC staff's questions. Based on this analysis the overtime for the Utility Manager was adjusted and excluded from the contract amount. However, the contract amount did not take into consideration the vehicle fuel and maintenance at that time. Raintree recalculated the Administrative portion of the Raintree contract amount taking into consideration these items and resulted in an amount of \$21,102 annually. Raintree also made comparisons based on staff's additional questions. Below are Raintree's responses to staff's questions:

1. Does the USWSC cost model still include an additional 1,000 ERCs?

**Response:** Yes. The Raintree contract did include the "additional 1,000 ERCs" for potential growth. If these were removed, the contract amount would have been calculated at \$22,469.

2. Does Raintree's USWSC contract cover the actual cost or is Raintree receiving a subsidy? If there is a subsidy, what is the annual amount?

**Response:** Yes. Raintree is receiving subsidies in two different ways. First, the above additional 1,000 ERCs that did not exist at the time. The contract amount without these ERCs would have been \$22,469 (this takes into account the adjustment for vehicles addressed above). The amount of subsidy for this inclusion is \$725 annually.

The second is the amount of margin for U.S. Water. The margin covers two items. The first is Overhead – which includes such items as all insurance, all taxes, etc. The second component is the profit. As previously explained in Docket No. 130194-WS, a typical 18% markup is derived at by using factors of 8% overhead and 10% profit. According to RS Means®, (1) the "Average Fixed Overhead for all services across the United States is 17.9%; (2) the Overhead varied from a low of 11% to a high of 16%; (3) while the Profit across all services was at 10%. Thus the Overall Overhead and Profit across all services across the United States varied from a low of 47.4% to a high of 80.4%. This 18% markup is also consistent with the FGUA contracts which were selected through the competitive bid process across the state.

5320 Captains Court, New Port Richey, Florida 34652  
Mailing: C/O 4939 Cross Bayou Boulevard, New Port Richey, Florida 34652  
Tel: 727-848-8292

However, due to the size of the customer base and the potential impact on resulting rates, the U.S. Water contract was derived at by using a markup of 14% and not 18%. This 14% markup for overhead and profit is well below the market percentage markups nationwide. The resulting amount of the U.S. Water contract using 18% markup would have been \$22,131. This includes the adjustments for the vehicles discussed above. The resulting subsidy for this difference in markup is \$387 annually.

If the additional ERCs were removed and a margin of 18% were included, the resulting amount of contract would have been \$23,565. The total amount of subsidies for both of these items results in \$1,821 annually.

3. The Jumper Creek, HC Waterworks, and Brevard cases all included adjustments to the USWSC contractual service fees to reduce salaries to remove overtime, to reduce fuel to reflect actual costs, and to reduce vehicle maintenance to reflect actual costs. It appears that Raintree's June 3, 2014 contract may have been prepared under that same cost model and may need the same types of adjustments that were made in the other cases.

**Response:** This is addressed in Raintree's response to No. 2 above. The overtime was removed, but the vehicle amounts were not revised. This resulted in an amount of \$21,102. However, as discussed below, this contract has been adjusted in 2015 for a CPI adjustment and will be adjusted again in 2016.

- a. Is Raintree still using the USWSC contract dated June 3, 2014 with an annual fee of \$21,744.12 and monthly fee of \$1,812.01, or has it been updated for the CPI or anything else?

**Response:** This amount was adjusted in 2015 to a current amount of \$22,092. Raintree is currently being invoiced at this \$22,092 amount. However, this amount will be adjusted again in 2016 for a CPI adjustment.

- b. If it has been updated, when was it updated and what is the new annual/monthly fee?

**Response:** Yes, this contract amount was updated in October 2015. The new annual amount is \$22,092. As stated above, this amount takes into account the additional ERCs and the lower margin amount for Raintree.

- c. Also, if it has been updated, did the update include removal of the salary overtime and any adjustments to fuel or vehicle maintenance based on actual costs?

**Response:** See above.

- d. If no adjustments have been made, will you please check to see how much of an adjustment needs to be made to remove the salary overtime, and if the fuel and vehicle maintenance costs need to be adjusted to remove any differences between the old model and the actual costs?

**Response:** As stated above, the amount for the test year would have been \$21,102. However, as also discussed above, this amount would have been increased for the CPI adjustment in 2015.

4. Officers' Salaries: The Lake Idlewild audit workpapers included a note that indicated that the officers' salaries are not allocated and are only paid if there are retained earnings.

a. Does this information apply to Raintree too?

**Response:** Yes this same information applies to Raintree. The owners only receive any type of compensation through disbursement of retained earnings if there are any net operating profits from operations that are not retained or utilized for continuing operations or capital improvements. Since the utility has been operating at a loss, no disbursements have been made.

b. How are the officers' salaries determined since they are not allocated (e.g., based on hours worked, etc.)?

**Response:** . The amount of Officers' Salary for Raintree is a nominal amount of \$3,000 for all responsibilities. The average amount of Officers' Salary for all the related regulated utilities is approximately \$27.07 per ERC for water; the average amount for Raintree per ERC is \$25.86, which is below this average.

The Florida Public Service Commission has recently approved Officer's Salaries for related utilities as follows:

<u>Utility Name</u>	<u>Order Number</u>	<u>Amount</u>
Lakeside Waterworks, Inc.	PSC-15-0013-PAA-WS	\$2,500/water - \$2,500/wastewater
LP Waterworks, Inc.	PSC-14-0413-PAA-WS	\$6,000/water - \$6,000/wastewater
Brevard Waterworks, Inc.	PSC-15-0329-PAA-WU	\$5,000/water
Jumper Creek Utility Company	PSC-15-0335-PAA-WS	\$750/water - \$750/wastewater
HC Waterworks, Inc.	PSC-15-0282-PAA-WS	\$9,120/water - \$2,880/wastewater

In addition, recently the PSC staff recommended, and the Commission approved the following amounts for Officer's Salaries in the following dockets:

<u>Docket No.</u>	<u>Order Number</u>	<u>Amount</u>
140175-WS	PSC-15-0592-PAA-WU	\$15,890
140177-WU	PSC-15-0588-PAA-WU	\$11,763

c. Is the President still the only officer receiving a salary or has Raintree begun paying a salary to the other two officers?

**Response:** As stated above, the owners only receive any type of compensation through disbursement of retained earnings if there are any net operating profits from operations that are not retained or utilized for continuing operations or capital improvements. Since the utility has been operating at a loss, no disbursements have been made.

5. Bad Debt:

- a. Did any of Raintree's test year bad debt write-offs include any bad debt from prior years or prior to the transfer?

**Response:** As stated in the transfer docket, no accounts receivables were transferred to Raintree during the transfer. Therefore, there were no write-offs to bad debt from any amount prior to the transfer. The only bad debt was incurred after the transfer occurred on May 30, 2014.

- b. Raintree's test year bad debt allowance was \$568, but the 2015 Annual Report reflected \$479 in bad debt. Do you believe the more recent \$479 figure is reflective of the bad debt Raintree is expected to have in the future?

**Response:** It is accurate that the total bad debt recorded for Raintree in 2015 was \$479 as shown on the 2015 Annual Report. Raintree is amenable to accepting this amount for the test year in this SARC.

- c. Does Raintree still believe a 2% increase in the bad debt allowance is needed? If yes, please describe why the adjustment is needed?

**Response:** Yes, Raintree believes an allowance should be made for the increase in the revenue requirement. Based on past experience of utilities, the bad debt typically increases after an increase in rates. Since the FPSC typically analyzes the percentage of bad debt to revenues, if revenues increase due to an increase in rates, the bad debt expense allowance should also be adjusted to take into consideration this increase.

6. Pro Forma:

- a. Do you have the original cost for the flow meter that was replaced on well #3? If not, the flow meter will be retired at 75% of the value of the new meter per Commission practice.

**Response:** Raintree did retire 75% of this meter replacement. As shown in the 2015 Annual Report, Raintree retired (\$697) related to this replacement.

- b. Are there any other pro forma projects that should be considered in this case?

**Response:** The only additional item that Raintree is aware of that is needed is the replacement of a valve on one of the filters. However, at this time Raintree does not have a quote for this replacement. This item will probably be replaced in the near future, but there is not an amount that is being requested in this SARC at this time.

7. What is the relationship between OPUS 21 and USWSC?

**Response:** Opus 21 is a national company that is the contractor for U.S. Water Services to provide all billing, collections, and customer service for its clients. Opus 21 provides all billing, collection, service

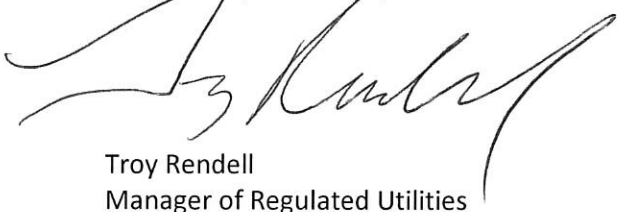
Raintree Waterworks, Inc.  
Response to Staff Additional Questions  
April 26, 2016

order generation, dispatch, and customer services for Raintree, as well as, for all the other regulated owned utility companies.

8. Regarding implementation of temporary rates in the event of a protest, we typically require security in the form of a bond, letter of credit, or escrow account. Raintree may be eligible to provide a corporate undertaking instead, but we would need to see three years of financial statements from the entity or person(s) who are going to guarantee the refund since we don't have three years of annual reports yet. If you're ok with the possibility of a bond, letter of credit, or escrow account, we don't need to do any other review for security.

**Response:** In the event of a protest and temporary rates, Raintree would provide security in the form of an escrow account with a bank. This would be the same form of security that was provided for Jumper Creek and Brevard Waterworks.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Troy Rendell', written over a horizontal line.

Troy Rendell  
Manager of Regulated Utilities  
*// for Raintree Waterworks, Inc.*