

State of Florida



FILED FEB 08, 2017
DOCUMENT NO. 01629-17
FPSC - COMMISSION CLERK

Public Service Commission

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

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

DATE: February 8, 2017

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Margo A. Leathers, Attorney, Office of the General Counsel *ML*

RE: Docket No. 160065-WU - Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc.

Please place the following email and its attachments in the above-referenced docket file.

From: Mike Riley [mailto:miker@westcoexpress.net]
Sent: Tuesday, February 07, 2017 4:48 PM
To: christensen.patty@leg.state.fl.us; 'Merchant, Tricia'; Margo Leathers
Subject: {BULK} Bocilla Utilities
Importance: Low

Attached please find concerns to be discussed at the informal meeting tomorrow morning. We will have a group in attendance of the meeting on the phone connection.

Thank you

Michael N. Riley
For Palm Island Estates Association, Inc.

Palm Island Estates Association, Inc.
PO Box 3151
Placida, FL 33946

February 5, 2017

To: OPC – for response to phone conference February 8, 2017

Several issues continue to need adjustment by staff:

1. The 36% allocation of Zone 9 common utility property and related recurring expenses to Knight Island Utilities (KIU). This percentage is based on ERU's (Equivalent Residential Unit) for each individual utility.
 - a. KIU is currently servicing 98% of its ERU's (no available authorized growth in water usage) while BUI is currently servicing only 56% of its approved ERU's (398/715). At the historical rate of growth (2004 BUI annual report states 330 customers, 2015 annual report states 398 customers) of 68 customers every 11 years, it will take 4.66 - 11 year periods or 51.3 years to build out the island to the BUI maximum ERU's. **Considering this timeframe, the current Zone 9 plant as well as the remainder of the distribution system will have to be completely replaced due to age and use. It is unfair to allocate the Zone 9 plant and expenses on approved ERU's.**
 - b. **KIU also operates commercial use facilities on the island that have not been included in the ERU calculations.** First, Palm Island Resort maintains offices for residential vacation type rentals (numerous management, security, and clerical employees, as well as a full staff for cleaning and maintaining the rental units). Second, Palm Island Resort maintains a real estate office for sale or resale of existing units. Third, and most important, Palm Island Resort operates Rum Bay Restaurant (seats in excess of 200 patrons), Coconuts, an island ice cream shop and grocery, Palm Island gift shop, and Coconuts golf cart repair facilities. **These commercial operations consume much more water than a typical residence and their respective water usage should be considered in the overall allocation.**
2. Per BUI 2015 budgets furnished in the rate case documents, BUI is currently using approximately 26,000M gallons of water while KIU is using approximately 22,000M gallons of water. An allocation based on current water usage by each utility is 46% usage by KIU and 54% by BUI. **Based on our arguments above, the allocation of Zone 9 plant and related recurring expenses should be around 40% to 42% (not 36%) based on current water usage and a reasonable historical proposed growth of BUI customers over the next 30 years.**

3. Copies of agreements between BUI and Englewood Water and KIU and Englewood Water covering the purchase of water **have never been furnished** to our group of consumers, even though requested several times.
4. Copies of the written agreement between BUI and KIU **has never been furnished** to our group of consumers, even though requested several times. We still question the \$1,000 per month payment by KIU to BUI and want it considered as additional revenue in the rate case.
5. Zone 9 actual expenses to construct. All documents submitted as public record show estimates to construct and not the actual construction cost. The estimates are based on unit cost with an estimate of actual units. We request copies of actual paid invoices showing the actual units built or constructed to verify the actual cost incurred by BUI. Staff has requested actual invoices in its questions, since this project was completed over a year ago, yet there is no answer from BUI releasing actual paid invoices
6. Rate case expense is unusually high for this size class B utility. Understanding that the expense to put together a rate increase case is costly, and should be recovered by the applicant, it should also be limited by the inefficiencies and incompetence of the applicant. In this case, BUI has failed to document, maintain, or keep adequate records to support this rate case – in accordance with reasonable, normal accounting standards, Charlotte County requirements (prior regulator), Internal Revenue Service requirements, and mostly PSC accounting requirements. They do not have records to support the cost of plant in service. They do not have adequate time keeping records to support allocations of non-BUI activities, or to even justify what appears to be an excessive labor cost for this size Class B distribution/re-seller of processed water. They do not have adequate records to support barge fees, rents, utility, and phone expense, even though it is being billed to the utility by a related party (commonly owned company). **Rate case expenses should therefore be limited because of all the additional work required by attorneys and experts to recreate records and estimates that should be a normal part of any accounting system.**
7. Also related to item 5 above, the Commission should require BUI to properly maintain its books and records in accordance with the Regulators Utility Commissioners (NARUC) Uniform System of Accounts (USOA), and verify within 90 days that they will comply. The Commission should also require BUI to properly maintain accurate time keeping records for all employees, including the President, to account for the actual labor needs of the utility as well as all non-BUI activities. All related party transactions should be disclosed to the Commission and properly documented and supported by 3rd party invoices and receipts to maintain transparency and legitimacy of these transactions for future rate request. **BUI needs to verify that they are complying within 90 days.**

Additional items to bring to the attention of staff in the informal meeting tomorrow morning.

1. Issue 5 – 4 year meter replacement program. **A 4 year replacement period is too short and should be at least 8, if not a 10 year program.** As example, the meters replaced in 2015 – 97 in total, or approximately 1/4th of the meters in service. These 2015 replaced meters were originally installed between 1982 (33 years old) and 2013 (2 years old), based on the January 27, 2017 email to PSC from BUI. The average age of the replaced meters is 24 years old. Understanding that the island is a harsh environment, a short 4 year replacement is a waste of time and money, and a significant cost to the consumer – for what BUI claims is volume measurement inaccuracy in older meters. **The meters obviously operate 10-20 years without problems.**
2. Issue 6 – We question the amounts represented as flushing of the system. The system currently has bleeders in various places to ensure continuous flow of water, however, BUI claims that the system is flushed monthly on the 15th of every month and 6,000 gallons is flushed. This is an incorrect statement because it is not always on the 15th of the month, and in observation of the flushing, the fire hydrants are opened and flushed without any form of measurement other than a guesstimate. Since numerous arears are flushed it is impossible for BUI to state that exactly 6,000 gallons is flushed on the 15th or each month. **If the flushing amounts are inaccurate or estimated then the 100% Used and Useful determination is flawed.**
3. Issue 11 – Without a copy of the agreement between KIU and BUI it is impossible to determine if the \$1,000 per month fee paid by KIU to BUI is or should be included in Service Revenues.
4. Issue 12 – Chloramine Feed System Chemicals – the cost and use of chemicals used in the Chloramine Feed System **should be allocated** partially to KIU as it has the same nitrification and bio-film issues and benefits from the addition of chemicals.
5. Issue 12 - Fire Hydrant Maintenance and Exercise program – Again, BUI wants to do all fire hydrants on a 2 year program. They have done very little on maintenance for the last 10 years (without significant deterioration). **This program should be on a 5 year cycle.** There is ample time in the full time schedule of the full time employee and the officer to handle these minor duties on a 5 year cycle without additional cost to the consumer. Fire Flow continues to be a concern on the island. BUI continues to refuse to release any data on fire flows as required by the Charlotte County Fire Dept.

6. Issue 13 – Staffs analysis of employee salaries and wages is comprehensive and complete, however, the officer’s salaries is still overstated based on a utility with only one full time employee, a part time meter reader and clerical position. The officer routinely takes vacations for weeks or months at a time and is not limited to a set vacation schedule. In objection to the additional duties of the part time meter reader, offered by Ray Flischel, the fire department has responsibility for many fire hydrant duties listed as done by BUI. See attached letter from the Charlotte County Fire Marshall. In addition, we have observed the full time employee as well as the part time employee working on Mr. Noden’s personal residence, boats, other activities, etc. The adjustment made by staff to salaries is reasonable based on this personal use noted. Director’s fees are unreasonable for a utility of this size. Per annual reports filed with the PSC for years 2012 thru 2015, directors were not paid at all until 2014 and they only met 4 times a year. In filed correspondence to the PSC, Mr. Friedman stated that in 2015 the Board met weekly for an hour per meeting and used the number of hours to justify the compensation – however, there are no minutes from any of these board meetings. **All compensation for Directors should be disqualified.**
7. Issue 14 – Transportation expense, Rents, Miscellaneous – this expense primarily covers barge fees to go to the island. Even though it is reasonable to assume some use of the barge, the billing for this expense was generated by and paid to a related party – Islander Management Company which is owned by Craig Noden. BUI did not supply any 3rd party documentation in support, like barge tickets. In reviewing the annual reports filed with the PSC, Charlotte County, etc. BUI has never disclosed any affiliates. In fact they have inaccurately and inappropriately answered “NO” to the specific Annual Report section covering subsidiaries and affiliates. For years, Mr. Noden’s non-disclosed affiliated company has been billing BUI (and using this in the rate base expenses) for barging and phones. In addition, the office expense at 7025A Placida Road is used by both of his companies, yet BUI pays the full share of the rent and utilities. **Staff has not addressed the related party issue and in such the rent, utilities, barging, and phone expense should be reduced by half or dismissed entirely based on failure to disclose on a regulatory report.**
8. Englewood Management, LLC is another related party, Ray Flischel, a director of the utility. BUI failed to disclose this affiliation in any annual reports. In actuality, this business is not even registered with the Florida Secretary of State to do business in Florida. Travel expenses and work related to this rate increase are high because it includes barging to Don Pedro Island, air fare from out of state, when the offices are located on the mainland and as a director, meets once a week per Mr. Friedman. **Expenses in his request for rate care expenses should be reduced to account for this.**



----- Forwarded message -----

From: "Taylor, Marianne"
<Marianne.Taylor@charlottecountyfl.gov>
Date: Apr 15, 2015 2:56 PM
Subject: RE: Don Pedro Knight Island Palm Island
To: "Sally B Johnson" <sbjohnson3@gmail.com>

Good Afternoon Sally,

I very much enjoyed the time spent with the members of PIE.

Please find below answers to your most recent questions.

1. It would be a good idea to have a fire flow test completed since you have change utilities. Typically the utility company does this. However, I will send two of our Fire Prevention personnel out to complete the testing next week. I will let you know the outcome of the testing.
2. Flushing of the hydrants is the responsibility of the utility company according to Charlotte County Florida-Code of Ordinances, Part III – Land Development and Growth Management. I do not know what schedule they may have your hydrants on. We are responsible for maintaining vegetation around the hydrants.

Thank you for your questions. Please do not hesitate to contact me with any additional questions or concerns.

Regards,

Marianne Taylor
Director, Public Safety

Charlotte County
office: 941-833-5601 cell: 941-628-5248 fax: 941-833-
5630 marianne.taylor@charlottefl.com

"To Exceed Expectations in the Delivery of Public Services"

Sent from my iPad