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RICHARD CORCORAN
Speaker of the House of Representatives

August 14, 2017

Carlotta S. Stauffer, Director
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 20130265-WU; Application for staff-assisted rate case in Charlotte County by Little Gasparilla Water Utility, Inc.

Dear Ms. Stauffer:

Attached is a list of issues that the Office of Public Counsel has prepared to identify concerns we have with the information provided by the utility to support its Phase II rates. These concerns include the paucity and accuracy of the information provided by the utility to support its request for Phase II rates as well as what noticing the utility has provided, if any, to the customers about this subsequent rate increase. We are submitting this letter to provide the staff and utility with advance notice of these concerns as we believe that more information is needed to fully support the utility's request as well as resolve the noticing issue. If you should have any questions, please feel free to call or e-mail me, or Mr. Erik Sayler in our office about the noticing issue.

Respectfully submitted,

s/ Denise N. Vandiver

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Legislative Analyst

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OPC has reviewed the information provided in two submittals by the utility (Document No. 04515-2017 filed May 1, 2017 and Document No. 05004-2017 filed May 24, 2017) and provides these comments. As part of our analysis, OPC compared this information filed with the Commission with Order No. PSC-2014-0626-PAA-WU in this docket.¹

Document No. 04515-2017 filed May 1, 2017 purports to include the supporting documentation for Phase II project costs pursuant to Commission Order No. PSC-2014-0626-PAA-WU in this docket. This unnumbered PDF document is 197 pages and includes numerous invoices, quotes, check stubs, and e-mails. Page 2 of the document (attached) is a summary of all costs totaling \$446,859.71. OPC's comments are arranged by category as shown on Page 2 of Document No. 04515-2017. Since the document is unnumbered, the page numbers referenced in OPC's comments refer to the PDF page number in the document.

Document No. 05004-2017 filed May 24, 2017 is the utility's response to staff's fifth data request for additional information related to the number of current customers, number of new customer connections, payments made to Charlotte County when new customers interconnect to the system, and other questions related to the pro forma plant items. As a result of the utility's responses, OPC has a number of questions and concerns that should be addressed in staff's upcoming recommendation on Phase II rates.

On pages 22 and 23 of Order No. PSC-2014-0626-PAA-WU, the Commission discussed the timing of implementing Phase II rates. While Phase II rates were discussed in the order, none were approved. The Order required in part: "The Utility shall be required to submit a copy of the final invoices and cancelled checks for all Phase II pro forma plant items, and documentation to support establishment of the SEP. . . . Once the required information has been submitted by the Utility and evaluated by our staff, a recommendation regarding the appropriate amount of the Phase II revenue requirements and rates shall be considered by this Commission." The staff is scheduled to file a recommendation on Phase II rates on August 24, 2017; however, there are numerous problems with the utility's recently provided information which need to be addressed as well as an issue regarding noticing.

Noticing Requirements for Potential Phase II Rates

1. Since Order No. PSC-2014-0626-PAA-WU did not previously approve Phase II rates,² and the utility was granted two extensions of time to complete the pro forma items contemplated by the Order,³ OPC is concerned whether customers will have received proper notice of the pending potential Phase II rate increase. Moreover, since the last customer meeting was held on June 24, 2014, over three years ago, OPC is concerned whether there will be another customer meeting to address any current quality of service issues as well as the potential Phase II rate increase. These questions include:

¹ See Order No. PSC-2014-0626-PAA-WU, issued October 29, 2014, in Docket No. 20130265-WU, In re: Application for staff-assisted rate case in Charlotte County by Little Gasparilla Water Utility, Inc.

² Staff's September 22, 2014, Schedule No. 8, page 54, showed a comparison between proposed Phase I and Phase II rates. Phase II rates were not approved.

³ Order PSC-2016-0023-FOF-WU, issued January 12, 2016 and PSC-2016-0285-FOF-WU, issued July 25, 2016.

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1. What is the statutory authority to approve a Phase II rate increase approximately three years after the last rate increase?
2. Is the utility seeking additional cost recovery in Phase II rates which was not contemplated in the prior Order approving Phase I rates? If so, would that be a new rate increase proposal?
3. What aspects of quality of service will be addressed since it has been almost three years since the last Order?
4. Given the length of time since the last Order, would this proposed rate increase constitute a new filing?
5. What noticing, if any, has been provided to the customers of this pending Phase II rate increase?
6. What noticing is required prior to the issuance of Staff's recommendation and/or prior to any increase in rates? If none, why not?
7. Is a customer meeting required before the Commission considers Staff's upcoming recommendation on a Phase II rate increase? If none, why not?

Document No. 04515-2017 filed May 1, 2017

Pension

2. The Commission Order allowed an annual expense of \$11,672 for a Simplified Employee Pension Plan (SEP). The order required that the utility provide proof that the plan was established and that contributions to the fund had begun. The utility support shows that payments began in December 2014. The total expense paid for 2016 was \$8,936.32. OPC believes that the utility has met its burden to prove that the accounts were opened and the utility was paying contributions into the accounts. Therefore no further action needs to be taken. However, these costs do not need to be included in a Phase II rate increase as they were already included in Phase I rates.

Remote Read Expense

3. The Commission order found that the first year costs for the Utility's meter replacement program should be considered in Phase II rates. The utility provided an invoice for remote read equipment and software for 450 units. In addition, the utility provided a quote for 350 meters. However, the utility has not provided evidence that it has installed any of these meters that were discussed in the Commission order. The test year was the twelve months ending September 30, 2013. It is almost four years (48 months) after the fact which far exceeds the statutory 24 months. OPC does not believe that Phase II rates contemplated by Order No. PSC-2014-0626-PAA-WU should include any costs for the meter replacement program as the utility has not supported that it has made progress on this program in the almost 3 years since the order or the 4 years after the test year.

Easement Expenses

4. OPC does not believe that the utility building project and meter replacement program should require easement expenses. Phase II rates contemplated in Order No. PSC-2014-0626-PAA-WU make no mention of the need for easements. Page 2 of the information indicates \$26,063.89 for easement expenses. The documents attached appear to be incomplete as they do not include full documents or explanations as to what

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projects these easements were obtained for. The Commission order included \$86,200 for the north line extension and \$679,775 for the subaqueous interconnection, plus additional engineering, permitting, and legal fees. The Commission order did not address including additional expenses for these projects in Phase II rates. OPC does not believe that Phase II rates contemplated by Order No. PSC-2014-0626-PAA-WU should include any easement related costs because those costs are not expressly permitted by the Order. However, if these expenses are considered in this docket, OPC believes the following concerns should be addressed:

- Pages 13-16, 37-41 include partial pages from what appears to be four different easements, but they are incomplete documents with no signatures and attached exhibits. Further, there are no explanations identifying what projects these are for and how the easements apply to the meter replacement program or new utility building.
- Pages 17-32 are copies of check stubs and legal invoices that also do not address what project these easements relate to and how they are appropriate for Phase II rates.
- Pages 33-36 are copies of check stubs and invoices indicating an appraisal, recording fees and Deed Documents for easements. OPC has the same concern regarding these expenses.
- Page 42 is an invoice for \$1,200 that states it is for backhoe services on Coconut Lane with an added note that it is for easement clearing. OPC has the same concern regarding any easement work and how it relates to the Phase II rates described by the Commission order. In addition, the Commission order included \$30,878 for the utility to purchase a backhoe. The utility has not explained why it needs to pay for a backhoe when it recently purchased one. In addition, a resident of the island has indicated that this Coconut Lane is not a road that appears to be related to any of the projects that the utility has discussed in the PAA or Phase II rates.

Legal Fees

5. Page 2 of the information indicates \$3,861.13 for legal fees. These include finance charges in the amount of \$79.63 (pages 51 and 53), \$3,457.50 for legal fees related to the issue of mandatory connections, \$216 for legal fees to request an extension of time to provide documentation for Phase II rates, and \$108 for legal fees for miscellaneous correspondence. None of these invoices appear to be for expenses related to the Phase II rates contemplated by Order No. PSC-2014-0626-PAA-WU. In addition finance fees should not be included in the determination of Phase II rates.

Soft Cost

6. Page 2 of the information indicates \$35,464.66 for "soft costs". Pages 54-75 include check stubs, invoices, e-mails, and loan documents that include a variety of costs but no explanation of what costs are intended to be in the utility total and how these apply to the Phase II rate request. While the utility has not been clear regarding exactly what closing costs are included in the total "soft costs" listed, OPC does not believe closing costs should be included in Phase II rates contemplated by Order No. PSC-2014-0626-

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PAA-WU because closing costs are usually included as a component of the cost of debt. OPC has additional concerns as follows:

- Pages 54 and 55 are for \$2,000 which appear to be an amount to establish a draw account for construction. However, there is no description that indicates the purpose of this amount and how it relates to specific invoiced work performed.
- Pages 63-69 include check stubs and invoices to Thomas M. Ferraro, P.A. without any explanation what these services are for and how they apply to the Phase II rates. These invoices total \$2,000.
- Pages 70-75 are various financing documents which indicate various closing costs.
 - Page 70 is a breakdown of the costs on Line 1303 of Page 75 and should not be considered a separate cost.
 - Page 71 includes \$9,750 for the “balance of funds construction draws” which should be considered part of the construction contract and not a part of the loan costs.

Engineering Fees

7. Page 2 of the information does not list Engineering Fees as a separate amount. However, page 76 indicates \$27,256.18 for Engineering Fees. A review of pages 76-88 shows a total of \$28,075.18 for these fees. Page 77 is an invoice dated November 30, 2016 which includes a Task 7 Change Order in the amount of \$10,300. This amount is included in Line 11 of page 2 as a separate item. If these engineering fees are included in the total for Phase II rates, this double-counted amount should not be included in both places. OPC believes that it appears to be an appropriate charge to include in these expenses, but should be removed as a separate line item on Page 2, Line 11.

Hard Cost

8. Page 2 of the information indicates \$40,242.99 for “hard costs”. Pages 89-137 include check stubs, invoices, and e-mails that include a variety of costs. Our primary concern with many of these costs is that they appear to be replete with purchases of ordinary tools and supplies as well as for “demolition costs”. There is no explanation why demolition costs are needed when the contract includes \$25,000 for demolition (Line 9 page 186). Ordinary business expenses were included in Phase I rates and should not be included in Phase II rates. Some specific concerns are as follows:
 - Page 90 and 91 are for \$5,206 paid to Brian Bishop. This appears to be a payment toward the contract and should not be included here as that would be a duplication of a portion of the total contract.
 - Pages 94 and 95 are two check stubs for \$192 and \$288 (with a hand-written note that shows \$672). These are written to Griffin Moeller but there is no explanation of what these were for. They should not be included without evidence showing how they are related to Phase II rates.
 - Pages 98 and 115 are bills from Home Depot that includes several tools and other supplies that do not appear to be related to the notes indicating “equipment – tear down” or “building” (belt sander, drill press, electric sweeper, paint roller, washers, staples, rope, screws, poplar board, etc.) These should not be included in the hard

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costs if the utility has not justified how they relate to Phase II rates as discussed in Order No. PSC-2014-0626-PAA-WU.

- Page 99 includes two check stubs for \$168.00 and \$96 paid to Chad Weeks. However, there is no explanation or invoice to indicate how these amounts apply to the office building or meter replacement program. Thus, these costs should be removed.
- Pages 102 and 103 are invoices from Island Dreams North, Inc. (a related company) for \$3,250 to “relocate 1,500 gallon propane tank including concrete slab, relocate gas lines” and \$4,800 for “Site work & Concrete Removal”. The utility has not (1) indicated where the propane tank was relocated from and where it relocated to; (2) how relocation of the propane tank relates to the pro forma plant; and (3) how these invoices relate to the pro forma plant.
- Page 106 is an invoice for \$250.20 from Gulf Coast Tru Value. The majority of the invoice is for PVC pipe. There is no explanation for how and whether this pipe is needed for the meter replacement program or the new utility building.
- Page 111 is a check stub for \$221.62 to Home Depot, but there is no invoice or explanation for why this amount should be included.
- Page 112 is a check stub and invoice for \$4,000 to Down to Earth Handyman Services, but the explanation is incomplete and OPC is unable to discern how this is a cost of the new building.
- Pages 116 and 117 are a check stub and e-mail regarding 75 hours spent in July 2016 for various tasks. The hand-written note indicates 7 hours for the new building and 23 hours for the North Line extension. The 7 hours for the new building appear to be related to the Phase II rates; however, the remaining hours do not.
- Page 118 is for 24 hours of work in April 2016. This e-mail is less clear how it applies to the construction of the new building and should not be included.
- Page 119 is an invoice from Home Depot for \$593.46. The majority of the amount is not included in the copy provided. None of the receipt appears to be related to the building of the new plant.
- Pages 123, 124, 134, 135, and 136 are various copies of the same rental agreement and charges for a rental of a gas concrete saw. The utility has not explained if this is for the new building and how this work is not included in the contract. But, if this is a reasonable cost, only the total invoice of \$178.91 should be included a single time. (Page 134 is a copy of a credit card bill. There is a note that indicates \$849.77 for LGW, but does not appear to indicate any more than the \$178.99 for the new building.)
- Pages 105 and 128 are duplicates of the same invoice
- Page 137 is an invoice from Consolidated Electrical Distributors, Inc. The amount and the description is completely illegible. (There is a hand-written note that indicates the total is \$40.45.) This should not be included without support for why it is part of the pro for a plant project.
- Just as a comment, there are several instances where the invoices include personal items. The chart below includes several of these.

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Page 97	2/27/15	Home Depot	Trellis	79.90
Page 98	3/1/15	Home Depot	Planter, M&Ms	27.54
Page 115	2/13/15	Home Depot	Starter Log Firestarter	10.97
Page 119	2/23/16	Home Depot	Plants, Door mats	82.12
Page 122	4/3/16	Home Depot	Plants	19.94

Based upon the information provided, OPC does not believe these costs should be included in Phase II rates contemplated by Order No. PSC-2014-0626-PAA-WU.

Barging Fee

9. Page 2 of the information includes \$9,710.40 for barging fees. Pages 138-159 include check stubs and invoices that appear to total \$12,277.25. However, if the dockage charges and snacks/flowers charges are removed (as indicated in the chart below) the total is \$9,725.40, which is approximately what the utility indicated. These invoices include a variety of charges that should be examined closely for whether they are costs necessary to build the new building, ordinary costs of running the utility, or personal costs. The receipts detail the general charges such as parking, garbage removal, and other charges. However, there is no evidence to document whether these charges are for construction workers, construction, utility operations or personal uses. OPC believes that only those charges that are supported as related to the pro forma plant should be included.

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Little Gasparilla Water Utility								
Barging Detail								
Inv Date	Dockage	Garbage	Parking	Flowers/ Snacks	Boat Slip	Load Out	Placida Hauling	Total Invoice
2/3/2016	176.55	2.50						179.05
5/7/2016	176.55	2.50	24.00					203.05
6/7/2016	176.55	2.50	12.00					191.05
12/7/2016	176.55	5.00	36.00			26.75		244.30
7/10/2016	176.55	10.00	24.00	19.26				229.81
8/6/2016	176.55		18.00	2.14	235.40	26.75		458.84
9/8/2016	176.55	5.00		21.40				202.95
11/7/2016	176.55	5.00	24.00					205.55
9/13/2016	176.55	7.50						184.05
1/7/2017	176.55	15.00	96.00	37.35				324.90
2/9/2017	176.55	12.50	200.00			53.50		442.55
8/1/2016							300.00	300.00
2/1/2017							1,200.00	1,200.00
10/11/2016							300.00	300.00
1/3/2017							600.00	600.00
11/30/2016							1,200.00	1,200.00
6/2/2016							875.00	875.00
4/1/2016							1,800.00	1,800.00
4/5/2016	176.55	10.00	12.00					198.55
3/7/2016	176.55	12.50	48.00					237.05
3/8/2017	176.55		24.00					200.55
3/2/2017							1,800.00	1,800.00
4/3/2017							700.00	700.00
	2,471.70	90.00	518.00	80.15	235.40	107.00	8,775.00	12,277.25

Line Extension Costs

10. Pages 160-174 include check stubs, invoices, and e-mails that total this amount. These invoices include a variety of charges that should be examined closely. OPC continues to believe that the costs related to the North Line extension have been addressed in the Commission Order No. PSC-2014-0626-PAA-WU and should not be included again in Phase II rates.
- Pages 163 and 164 are duplicates of pages 116 and 117 to indicate charges for the North Line extension.

Construction Agreement

11. Page 2 of the information includes \$259,500 for the general contractor construction contract. The utility did not provide a clear copy of the breakdown of costs. Page 186 is partially unreadable and a clear copy should have been provided. In addition, the utility did not provide copies of the contract draw down payments indicating completed work and payments. As discussed previously, the contract appears to include costs for many

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items that are also included in the previous costs. The utility should provide copies of the percentage of completion payment requests to verify whether all the work listed was completed or was performed by someone else. Some of our specific concerns are listed below.

- Line 9 indicates \$25,000 for demolition but numerous costs above were included that were described as demolition.
- Line 20 includes \$4,000 for landscaping but several previous invoices included plants and planters.
- Line 24 includes approximately \$25,000 for contingency. Was this an amount that was needed or billed?

Change Order

12. Page 2 of the information includes \$10,300 for a change order. As discussed previously, this is already included in the engineering expenses (page 77) and should not be included twice.

In conclusion, the utility did not meet its burden of proof to include all of these expenses in Phase II rates contemplated by Order No. PSC-2014-0626-PAA-WU. In addition, some of the costs were not contemplated by the Order approving Phase I rates. Therefore, the Commission must carefully scrutinize and remove all the unnecessary, unsupported, and/or duplicative expenses and remove all the expenses not expressly related to Phase II rates contemplated by Order No. PSC-2014-0626-PAA-WU.

Document No. 05004-2017 filed May 24, 2017

13. Our review of Document No. 05004-2017 indicates that the utility has provided a list of customers that the utility charged \$2,407 for the Charlotte County Interconnection, as required by Order No. PSC-2014-0626-PAA-WU. The utility's list of new customers should match the number of customers where payment has been submitted to Charlotte County for the Charlotte County Interconnection. However, the utility has not provided evidence that it has submitted these collections to Charlotte County or that its list matches the County's list. OPC believes that the utility should provide proof in the form of cancelled checks, wire transfers, or other proofs that these collections have been remitted to the County, or a letter from the County showing it has received payment for all the new customers shown on the utility's list.

Attached please find the following expenses for the LGWU , Phase II

1. Pension Fund required by State total to date \$18,636.51
2. Remote Read expense required 25,000: Total spent to date \$34,101.91
3. Easement expenses to date: \$26,063.89
4. Legal fees: \$3,861.13
5. Soft Cost: \$35,464.66
6. Hard Cost: 2 reports total to date \$40,242.99
7. Barging fee \$9,710.40
8. Line Extension costs \$8,978.22
9. Construction Loan Stonegate Bank
10. Construction Agreement/General Contractor \$259,500.00
11. DMK Change Order \$10,300.00 for extra foundation expenses

Total to Date: \$446,859.71