

PINE HARBOUR WATERWORKS, INC.

FILED 9/4/2018
DOCUMENT NO. 05778-2018
FPSC - COMMISSION CLERK

September 4, 2018

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

Re: Docket No. 20180022-WU – Application for staff-assisted rate case in Lake County by Pine Harbour Waterworks, Inc. – Response to Staff Questions – USWSC Contract

Dear Commission Clerk,

In response to FPSC Staff questions, Pine Harbour Waterworks, Inc. (Pine Harbour) hereby submits the following response.

The original Operations/Maintenance/Management Agreement with U.S. Water Service Corporation (USWSC) was entered into in 2016 at the time of acquisition. A review of the agreements with all of the investor owned regulated utilities was performed in 2017 to determine whether the contract amounts were covering the costs of operation, maintenance, and management of the utilities. In addition a complete more comprehensive review and audit was recently performed in 2018, which was based on the actual costs and personnel requirements over the past 24 month period. During these reviews and the most recent audit, it was discovered that the original agreement amount was not covering actual costs. As a result, the agreement was revised in October 2017. In the most recent analysis and audit it was further discovered that the 2017 revised amount is also not recovering actual costs. It is anticipated that all of the investor owned agreements will be revised within the next month based upon the most recent audit of actual costs and personnel requirements.

In October 2017 it was discovered that Pine Harbour was previously receiving subsidies in the amount of \$5,807.31 annually. As a result the contract was revised. This included removing the “Future 1,000 ERCs” from the Administrative portion of the calculation. It was also discovered that the testing costs included in the original contract amount did not cover all the required testing. In the original amount, there were no costs for TTHM/HAA5 testing and also there were not enough Lead & Copper tests included. There was only 1 test, when Pine Harbour is actually required to do 5 tests for L&C. (see attached)

During the most recent review and audit of the investor owned utilities, it was discovered that for the IOUs in “Region 6” of USWSC, the maintenance technicians’ actual work time equated to 2.8 FTEs (Full Time Equivalents). Therefore, the 2018 revisions will include 2.8 FTE for maintenance for these utilities. This includes the following utilities:

Black Bear Irrigation
Black Bear Waterworks

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Brendenwood Waterworks
 Brevard Waterworks
 Harbor Waterworks
 Jumper Creek Utility
 Lake Idlewild
 Lakeside Waterworks
 Merritt Island Utility
 Pine Harbour Waterworks
 Raintree Waterworks
 The Woods Utility

The maintenance technicians perform services such as:

- Turn On/Turn Offs
- Meter Installations
- Meter Reading
- Meter – rereads
- Minor repairs
- Minor leak repairs
- Water quality – flushing
- Locates

Below is a comparison of certain components that were or will be revised in the Pine Harbour agreements:

Pine Harbour Waterworks

	Original 2016	Revised 2017	Anticipated Revised 2018 (with 1,000 Future ERCs)	2018 without Future 1,000 ERCs
Maintenance Technician - FTE	0.0042	0.0447	0.0626	
Administrative per ERC	\$ 4.10	\$ 4.35	\$ 4.05	\$ 4.64
Meter Reading per bill	\$ 0.60	\$ 0.86	\$ 0.05	
Sampling per month	\$ 75.42	\$ 77.19	\$ 77.19	
Customer Service/Billing/Collection (per month)	\$ 85.76	\$ 89.05	\$ 120.92	

In addition, the meter reading cost per bill will be reduced to prep time, since the maintenance technicians are performing these readings. For the Customer Service, the revised amounts will be based upon the actual most recent 12-month costs paid to the outside contractor for each specific IOU. A final determination has not been made as to whether to continue including the "Future 1,000 ERC" or to remove them in the 2018 revisions. This determination will be based

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upon the financial impact to the IOU's customers. Based upon the most recent analysis, Pine Harbour is currently receiving an annual subsidy of approximately \$942.24 under the current contract. As previously stated, the administrative vehicle fuel and maintenance was also revised based upon the actual costs for 2016. This is consistent with recent Commission decisions in related utilities on the USWSC agreements.

The original contract equated to a monthly cost of \$217.43 per ERC. The 2017 revised amount is \$303.43 per ERC, and the anticipated 2018 revised amount is \$314.50 per ERC if the "Future ERCs" are included. The AWWA 2011 Benchmarking Performance Indicators study indicated that the average cost of operations, maintenance, and customer service for water ranged from \$269 to \$383 per ERC. Again, this was based on costs seven years ago in 2011. Pine Harbour does not have the new 2017 AWWA survey.

The current agreement amount is \$19,723 annually. Pine Harbour has researched past Commission decisions on similar contractual services and offers the following relative to the existing contract. A similar relationship currently exists with several regulated utilities in Marion County. However, these relationships are not exactly like the Pine Harbour contract. The following regulated water and wastewater utilities have similar services provided by a related party:

Tradewinds Utilities, Inc.
Residential Water Systems, Inc.
C.F.A.T. H2O, Inc.
BFF Corp

These utilities have Outside Contractual Services with MIRA International, Inc. (MIRA). All of the above regulated utilities, as well as MIRA are owned by the same owners and have affiliated relations. MIRA provides the following services to the regulated utilities:

Billing/Computer Services
Administrative Services
Payroll
Meter Reading
Insurance
Office Space
Materials & Supplies
Repair & Service Equipment
Customer Relations
Customer Services
Annual PSC Reporting
Hospitalization Benefits

Testing expenses and operation and maintenance expenses are covered under separate contracts discussed below.

In review of the Annual Reports, as well as past Commission orders on previous rate cases, these utilities also have utility Employee Salaries and Employee Pensions and Benefits. In Order No. PSC-11-0385-PAA-WS, issued September 13, 2011, the Commission approved a rate increase for Tradewinds Utilities, Inc. (Tradewinds). In review of the documentation in the Commission's docket file, the Commission approved Tradewinds' Outside Contractual Services with MIRA, an affiliated company. Specifically, in the Commission's audit – Audit Control No: 10-175-2-1 dated December 17, 2010, the Commission's auditor disclosed the following in Audit Finding 8:

The Utility's filing includes \$100,276 and \$131,475 of charges from MIRA International, Inc. (MIRA), an administrative Service Company, which is a related party. The charges are for employee and officer payroll, payroll tax expenses, employee benefits, office space and support for customer billing and collections, general maintenance materials and supplies, and other general administrative support operations as needed for utility operations. The Utility has no employees of its own and all administrative and general maintenance services are provided by MIRA.

The auditor recommended adjustments based on recommended amounts for affiliated charges as follows:

Tradewinds: \$93,228 – water
\$55,754 – wastewater

Residential: \$146,849 – water

C.F.A.T.: \$34,580 – water
\$33,666 - wastewater

BFF Corp: \$16,300 – wastewater

In addition, in reviewing Document No. 09572-10 in the docket file of Docket No. 100127-WS, Tradewinds also has an additional contract for operations with Pro-Tech for \$600/month, or \$7,200 annually. There were also additional expenses for Testing included in the operating expenses. The amount requested by Tradewinds in its MFRs for Pro-Tech was \$4,400 for water and \$5,250 for wastewater. In addition, there was additional testing in the amount of \$3,630 for wastewater for Aqua Pure Water.

In the Order No. PSC-11-0385-PAA-WS, the Commission approved Tradewind's Operation & Maintenance Expense with minor adjustments for Pro Forma Salary Increase and Bad Debt Expense. Tradewinds had requested O&M in the amount of \$125,421 for water and \$187,846 for wastewater. The Commission approved O&M in the amount of \$120,654 for water and \$176,895 for wastewater.

Tradewind's MFRs also reflected plant in service amounts for Transportation; Office Furniture and Equipment; and Power Operated Equipment which were included in rate base. These items are included in the contract with USWSC with Pine Harbour and are not included in plant-in-service.

In another related rate case in Docket No. 100126-WU for C.F.A.T. H2O, Inc. (CFAT), the Commission approved the utility's request for a rate increase. In reviewing the Commission audit in Audit Control No: 10-274-2-1 dated December 15, 2010, the Commission's auditor disclosed the following in Audit Finding 5:

The Utility's filing includes \$16,718 of charges to water O&M expenses from MIRA International, Inc. (MIRA), an administrative Service Company, which is a related party. The charges are for employee and officer payroll, payroll tax expenses, employee benefits, office space and support for customer billing and collections, general maintenance materials and supplies, and other general administrative support operations as needed for utility operations. CFAT has no employees of its own and all administrative and general maintenance services are provided MIRA. (sic)

The auditor recommended that "The Utility's O&M expense balance should be increased by \$17,862 for the 12-month period ending December 31, 2009." This would bring the MIRA recoverable amount to \$34,580 for water. In addition, Document No. 09566-10 in the docket file contained an operations contract for Pro-Tech in the amount of \$595 a month or \$7,140 annually. The amount included in the Utility's MFRs and requested O&M expense for Pro-Tech was \$8,197. These additional amounts were allowed by the Commission, for a total outside services amount of \$49,917 for water.

In Order No. PSC-11-0366-PAA-WU, issued August 31, 2011, the Commission made minor adjustments to CFAT's O&M expenses primarily for Pro Forma salaries and bad debt expenses. This rate case was only for CFAT's water utility and did not include its wastewater utility.

In another similar rate case, the Commission approved total outside services for K.W. Resort Utilities Corp in Order No. PSC-09-0057-FOF-WS, issued January 27, 2009. In that rate case, the utility had several Outside Contractual Services with several affiliated parties. The first was for operations services with Keys Environmental, Inc. (KEI), an affiliated party. The utility recorded expenses in the amount \$450,776 for KEI during the test year. The Commission reduced this amount by \$71,053 for an allowed amount of \$379,723. This represented the operations portion of the utility services. However, KEI employees utilizes the transportation equipment (vehicles) owned by the utility. In addition, KEI does not provide accounting services or initial customer contacts. These services are provided by Key West Golf Course (KWGC), another affiliate company. The utility paid KWGC an amount of \$8,000 a month or \$96,000 annually. The Commission reduced this amount by \$12,038 for a total allowed amount of \$83,962. Finally, the utility was charged \$60,000 annually for "management" of the utility paid to Green Fairways (an affiliated company). The Commission reduced this amount by \$30,000 and allowed the remaining \$30,000 annually. The total amount of these three contractual

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services was a total of \$493,683. This is a wastewater only utility providing service to 1,556 customers during the test year. The total amount of the Commission allowed affiliated transactions equates to \$317 per connection. In addition the utility also was allowed \$65,289 in ongoing engineering charges in Contractual Services – Engineering in the approved revenue requirement. It should be noted that the KEI contract provides that the contractor provide the chemicals and sludge hauling in the contract.

It should also be noted, that in the rate cases cited above, the Commission approved rate case expense in its orders. In Pine Harbour's filing, there is very minimal rate case expense requested.

The Pine Harbour agreement with U.S. Water Service Corporation (USWSC) include the following services:

- Water Operations – water treatment plant, filtration, etc.
- Meter Reading
- System Maintenance
- Flushing – distribution system
- Billing / Collection
- Customer Service
- Service Orders
- Regulatory - PSC, WMD, DEP
- Permits – DEP, DOH, WMD, etc.
- Testing
- DMRs, MORs - monthly reporting
- CCRs - annual
- PSC Annual Reports
- Accounting - all bookkeeping, record keeping, AR, AP, etc.
- Meter Replacements – up to 10% of total customers
- Line break repairs – up to \$400
- Minor repairs and/or replacements – up to \$400
- Locates
- Meter calibrations
- Backflow preventor testing
- Turn Ons/ Turn Offs
- Disconnections
- Re-reads
- Generator Maintenance
- Tank inspections
- Vehicles
- Office (also equipment, phones, etc.)

If Pine Harbour was required to establish a stand-alone utility with personnel for maintenance, customer service, accounting, regulatory compliance, etc. the costs would far exceed the amount in the current USWSC agreement.

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If you have any questions, please do not hesitate to contact me at (727) 848-8292, ext. 245.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Troy Rendell', written in a cursive style.

Troy Rendell
Vice President
Investor Owned Utilities
// for Pine Harbour Waterworks, Inc.

Lead and Copper Tap Sample Analysis And Result Ranking Report

Reporting Format 62-550.730(4)(a)

System Name: Pine Harbour
 PWS-ID: 3354644
 Laboratory Name: Advanced Environmental Laboratories, Inc.
 Laboratory Contact: Brandon O'Hara
 Lab Phone Number: (407)937-1594

Date Submitted to Lab: 06/26/2018 15:06
 Report Date: July 23, 2018
 Lead or Copper: Lead
 90th Percentile Value: 0.0015

A	RANK	LOCATION		CLIENT SAMPLE		LAB SAMPLE ID	DATE SITE	LEAD (mg/L)	QUAL.	MDL (mg/L)	METHOD	ANALYSIS DATE	LAB ID
		NO	TIER	ID	SITE								
	1			2	12345 N Putney Ct	A1804842002	06/21/2018	0.0015	U	0.0015	SM 3113B	07/18/2018	E82535
	2			5	12446 South Putney Ct	A1804842004	06/21/2018	0.0015	U	0.0015	SM 3113B	07/18/2018	E82535
	3			6	12425 Pine Glen Dr	A1804842005	06/21/2018	0.0015	U	0.0015	SM 3113B	07/18/2018	E82535
	4			4	12417 Pine Glen Dr	A1804842003	06/21/2018	0.0015	U	0.0015	SM 3113B	07/18/2018	E82535
	5			1	12341 Pine Glen Dr	A1804842001	06/21/2018	0.0015	U	0.0015	SM 3113B	07/18/2018	E82535

CERTIFICATION. The tap samples used for lead and copper analyses were submitted by the above PWS. Each sample container had one liter of solution (+/- 100mL). All samples were taken properly by the above system and analyzed in accordance with the requirements in Chapter 10D-41, F.A.C. The sampling dates were reported for each sample received. I hereby certify that all data submitted are correct.

SIGNATURE OF AUTHORIZED LABORATORY REPRESENTATIVE:

NAME: Brandon O'Hara
 TITLE and DATE: Client Services Manager

Brandon O'Hara
 7/23/2018

REVIEWED

Lead and Copper Tap Sample Analysis And Result Ranking Report

Reporting Format 62-550.730(4)(a)

System Name: Pine Harbour
 PWS-ID: 3354644
 Laboratory Name: Advanced Environmental Laboratories, Inc.
 Laboratory Contact: Brandon O'Hara
 Lab Phone Number: (407)937-1594

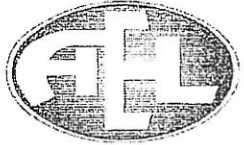
Date Submitted to Lab: 06/26/2018 15:06
 Report Date: July 23, 2018
 Lead or Copper: Copper
 90th Percentile Value: 0.092

A	RANK	LOCATION		CLIENT SAMPLE		LAB SAMPLE ID	DATE SITE	COPPER (mg/L)	QUAL.	MDL (mg/L)	METHOD	ANALYSIS DATE	LAB ID
		NO	TIER	ID	SITE								
	1			5	12446 South Putney Ct	A1804842004	06/21/2018	0.0028	I	0.0027	SM 3113B	07/17/2018	E82535
	2			1	12341 Pine Glen Dr	A1804842001	06/21/2018	0.021		0.0027	SM 3113B	07/17/2018	E82535
	3			2	12345 N Putney Ct	A1804842002	06/21/2018	0.023		0.0027	SM 3113B	07/17/2018	E82535
	4			6	12425 Pine Glen Dr	A1804842005	06/21/2018	0.054		0.0027	SM 3113B	07/17/2018	E82535
	5			4	12417 Pine Glen Dr	A1804842003	06/21/2018	0.13		0.0027	SM 3113B	07/17/2018	E82535

CERTIFICATION. The tap samples used for lead and copper analyses were submitted by the above PWS. Each sample container had one liter of solution (+/- 100mL). All samples were taken properly by the above system and analyzed in accordance with the requirements in Chapter 10D-41, F.A.C. The sampling dates were reported for each sample received. I hereby certify that all data submitted are correct.

SIGNATURE OF AUTHORIZED LABORATORY REPRESENTATIVE:

NAME: Brandon O'Hara *Brandon O'Hara*
 TITLE and DATE: Client Services Manager 7/23/2018



Advanced
Environmental Laboratories, Inc.

- Altamonte Springs: 528 S. Northlake Blvd., Ste. 1016 • Altamonte Springs, FL 32701 • 407.937.1594 • Fax 407.937.1597
- Gainesville: 4965 SW 41st Blvd. • Gainesville, FL 32608 • 352.377.2349 • Fax 352.395.6639
- Jacksonville: 6681 Southpoint Pkwy. • Jacksonville, FL 32216 • 904.363.9350 • Fax 904.363.9354
- Miramar: 10200 USA Today Way • Miramar, FL 33025 • 954.889.2288 • Fax 954.889.2281
- Tallahassee: 2639 North Monroe Street, Suite D • Tallahassee, FL 32303 • 850.219.6274 • Fax 850.219.6275
- Tampa: 9610 Princess Palm Ave. • Tampa, FL 33619 • 813.630.9616 • Fax 813.630.4327

Client Name: US Water Svcs Corporation		Project Name: Pine Harbour		BOTTLE SIZE & TYPE	ANALYSIS REQUIRED	Lead	Copper	A1804842	LABORATORY I.D. NUMBER
Address: 4939 Cross Bayou Boulevard		P.O. Number or Project Number:							
New Port Richey, FL 34652		FDEP Facility No: 335-4644							
Phone: 866-753-8292		Project Address:							
FAX: 727-849-4219									
Contact: Melisa		Special Instructions:							
Sampled By: Residents									
Turn Around Time: <input checked="" type="radio"/> Standard <input type="radio"/> RUSH									
Page: ___ of ___		<input type="checkbox"/> ADaPT <input type="checkbox"/> EQUIS <input type="checkbox"/> Other							

SAMPLE ID	SAMPLE DESCRIPTION	Grab Comp	SAMPLING		MATRIX	NO. COUNT	PRESER-VATION											LABORATORY I.D. NUMBER						
			DATE	TIME																				
1	12341 Pine Glen Drive	G	06/21/18	1:39 PM	DW	1		X	X													1		
2	12345 North Putney Court	G	06/21/18	1:46 PM	DW	1		X	X														2	
4	12417 Pine Glen Drive	G	06/21/18	1:40 PM	DW	1		X	X														3	
5	12446 South Putney Court	G	06/21/18	1:44 PM	DW	1		X	X														4	
6	12425 Pine Glen Drive	G	06/21/18	1:42 PM	DW	1		X	X														5	

Matrix Code: WW = wastewater SW = surface water GW = ground water DW = drinking water O = oil A = air SO = soil SL = sludge Preservation Code: I = ice H=(HCl) S = (H2SO4) N = (HNO3) T = (Sodium Thiosulfate)

Received on Ice Yes No Temp taken from sample Temp from blank Where required, pH checked Temperature when received 4 (in degrees celcius)

DCN: AD-051 Form last revised 08/18/2014 Device used for measuring Temp by unique identifier (circle IR temp gun used) J: 9A G: LT-1 LT-2 T: 10A A: 3A M: 3A S: 1V

	Relinquished by:	Date	Time	Received by:	Date	Time
1	Nathan Foster	6/22/2018	9:30	<i>Alex M...</i>	6/22/18	1525
2	<i>Alex M...</i>	6/22/18	1535	<i>Alex M...</i>	6/22/18	1535
3						
4						

FOR DRINKING WATER USE:

PWS ID: _____

Contact Person: _____ Phone: _____

Supplier of Water: _____

Site-Address: _____