

ROYAL WATERWORKS, INC.

February 17, 2020

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FPSC - COMMISSION CLERK

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

Re: Docket No. 20190170-WS - Application for transfer of facilities Certificate Nos. 259-W and 199-S in Broward County from Royal Utility Company to Royal Waterworks, Inc. – Response to Staff First Data Request

Dear Commission Clerk,

Royal Waterworks, Inc. (Royal) hereby submits its response to Staff's First Data Request dated February 14, 2020 in the above referenced docket.

1. In its application, the Utility stated that it has projected future Operation and Maintenance (O&M) expenses of \$486,435 for water and \$509,129 for wastewater. Please provide a breakdown of projected O&M expenses. Additionally, please compare and contrast the Utility's projected O&M expenses and the actual 2018 O&M expenses by primary expense account.

Response: See attached schedule. This shows the buyer's actual O&M for the period July through December 2019. The annualized amounts are these six month amounts times two. The actual on-going expenses may be even less since the changes in operational items occurred a couple of months after acquiring the utility. The 2018 and 2017 are from the Seller's Annual Reports. This shows an estimated savings in O&M of \$10,034 for water and \$51,019 for wastewater from the previous year. Again these may be even higher based on ongoing expenses incurred after these changes.

2. In its application, the Utility stated that through its contract with US Water Service Corporation, Royal has made significant operational changes that will improve quality of service and reduce overall operating expenses. Please quantify any reductions to operating expenses that have been achieved.

Response: As shown in Document **10815-2019** filed with the FPSC, there were numerous operational and capital improvements made at Royal. The major ones related to cost reductions were a change in the backwash procedure reducing approximately 1,000,000 gallons a month in savings. This has/will reduce purchased power and chemicals. For the wastewater, Royal replaced worn undersized pumps in the master lift station reducing the run times from 30 hours/day to 8 hours/day. This also reduced the purchase power expense.

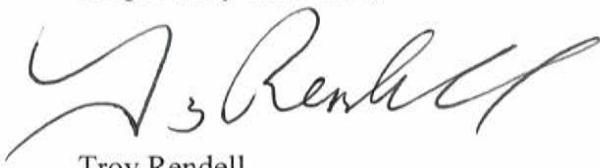
3. In its application, the Utility stated the previous owner's cost of service was high due to its lack of economies of scale. Please explain what work previously performed through outside contractors would be eliminated by Royal. Additionally, please quantify any savings the Utility has achieved as a result of economies of scale.

Response: Royal was informed by the selling utility that all maintenance and repairs were performed through outside vendors. There were existing arrangements/agreements for the lift station maintenance, security, exterminators, etc. All operations and maintenance are now being performed through the contract with U.S. Water Services Corporation (USWSC). The selling entity previously recorded all items in their O&M. They then relied on their outside accounting firm to provide them with adjusting entries to capitalize certain items above a certain amount. This procedure inflated the O&M amounts and minimized the plant in service. During its review, many inefficient and unnecessary items were discovered and eliminated by the Buyer (Royal).

4. In the past, the Buyer has obtained ownership of numerous utilities regulated by the Commission, and has implemented changes to operations to improve quality of service and reduce expenses without requesting a positive acquisition adjustment at the time of transfer of each utility. However, in the instant docket, the Buyer has requested a positive acquisition adjustment for Royal. In light of the Buyer's ability to improve and maintain other utilities without positive acquisition adjustments, please explain why an adjustment has been requested in this transfer.

Response: Royal believes that the net book value of the utility is grossly understated. Since the Seller recorded every transaction through O&M expenses, Royal (Buyer) believes there is a high probability that many items that should have been capitalized were instead reflected in O&M. This is further evidenced by the most recently completed Staff Audit whereby there were many items not supported. Due to the historically high O&M and poor water quality, Royal believes the request for a positive acquisition adjustment is appropriate in this docket. Royal has greatly improved the water quality to the customers and has maintained positive and productive customer relationships. Royal has also reduced the overall O&M of the utility. The majority of the past acquisitions were purchased at or below net book value. There are several with negative acquisition adjustments. Positive acquisition adjustments encourages acquisitions and ownership by well managed, well run utilities.

Respectfully submitted,



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

Royal Waterworks - July - December 2019

	<u>July - Dec</u>	<u>Annualized</u>		
	<u>Actual</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
601 - Salaries - Employees			\$ 172,075.00	\$ 150,659.00
603 · Salaries - Officers, Directors	\$ 10,416.65	\$ 20,833.30	\$ 44,000.00	\$ 21,500.00
604 - Pension & Benefits			\$ 6,840.00	\$ 5,644.00
610 - Purchased Water				\$ 1,375.00
615 · Purchased Power	\$ 21,966.81	\$ 43,933.62	\$ 50,093.00	\$ 50,400.00
618 · Chemicals	\$ 19,617.46	\$ 39,234.92	\$ 48,104.00	\$ 50,394.00
620 - Material & Supplies			\$ 4,118.00	\$ 24,740.00
630 · Professional Fees				
631 - Engineering			\$ 10,631.00	\$ 13,540.00
632 · Accounting Fees	\$ 100.02	\$ 200.04	\$ 10,395.00	\$ 10,395.00
633 · Legal Fees	\$ 304.02	\$ 608.04	\$ 10,575.00	\$ 2,616.00
635 - Testing			\$ 9,203.00	\$ 16,097.00
636 · Contractual Services				
636.1 · Operating & Billing Services	\$ 171,858.00	\$ 343,716.00	\$ 42,001.00	\$ 54,397.00
650 - Transportation			\$ 6,508.00	\$ 4,451.00
656 - Insurance - Vehicle			\$ 3,363.00	\$ 3,363.00
657 · Insurance - Gen Liability	\$ 2,138.04	\$ 4,276.08	\$ 16,688.00	\$ 17,981.00
658 - Insurance - Workers' Comp			\$ 5,582.00	\$ 3,576.00
659 - Insurance Other			\$ 11,755.00	\$ 11,755.00
660 - Advertising			\$ 789.00	\$ 788.00
670 · Bad Debt Expense	\$ 703.14	\$ 1,406.28		
675 · Miscellaneous Expense	\$ 13,698.63	\$ 27,397.26	\$ 38,920.00	\$ 49,086.00
WATER SYSTEM O&M	<u>\$ 240,802.77</u>	<u>\$ 481,605.54</u>	<u>\$ 491,640.00</u>	<u>\$ 492,757.00</u>
701 - Wages - Employees			\$ 91,785.00	\$ 80,889.00
703 · Wages Officers Directors	\$ 10,416.65	\$ 20,833.30	\$ 44,000.00	\$ 21,500.00
704 - Pension & Benefits			\$ 6,840.00	\$ 5,644.00
710 · Purchased Wastewater Treatment	\$ 146,455.25	\$ 292,910.50	\$ 241,385.00	\$ 224,453.00
715 · WW Purchased Power	\$ 3,400.84	\$ 6,801.68	\$ 9,782.00	\$ 12,260.00
720 - Materials & Supplies			\$ 53,085.00	\$ 72,754.00
731 - Contract Services - Engineering			\$ 10,631.00	\$ 9,600.00
732 · Contract Services - Accounting	\$ 100.02	\$ 200.04	\$ 10,395.00	\$ 10,395.00
733 · Contractual Services - Legal	\$ 304.02	\$ 608.04	\$ 10,575.00	\$ 2,616.00
735 - Testing			\$ 1,359.00	\$ 1,683.00
736 · Contractual Services - Other	\$ 92,475.24	\$ 184,950.48	\$ 25,030.00	\$ 22,648.00
750 - Transportation			\$ 6,508.00	\$ 4,451.00
756 - Insurance - Vehicles			\$ 1,975.00	\$ 1,975.00
757 · Insurance- General Liability	\$ 2,138.04	\$ 4,276.08	\$ 10,789.00	\$ 10,988.00
758 - Insurance - Wokmens Comp			\$ 3,592.00	\$ 3,554.00
759 - Insurance Other			\$ 6,330.00	\$ 6,330.00
770 · Bad Debt Expense	\$ -	\$ -		
775 · WW Misc Expense	\$ 776.41	\$ 1,552.82	\$ 29,191.00	\$ 21,456.00
WASTEWATER SYSTEM O&M	<u>\$ 256,066.47</u>	<u>\$ 512,132.94</u>	<u>\$ 563,252.00</u>	<u>\$ 513,196.00</u>