

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2013-451-WS

In Re:)
)
Application of CUC, Incorporated)
for Adjustment of Rates and Charges)
)
)
)
)
_____)

Pre-filed Testimony
of Patrick W. Parkinson
on behalf of the
Callawassie Island Property Owner's Association

1 **Q.** Please state your name and address.

2 A. My name is Patrick W. Parkinson and my home address is 22 Sugar Mill Drive,
3 Callawassie Island, S.C. 29909.

4 **Q.** Are you presently employed?

5 A. No, I am retired.

6 **Q.** Would you please give your educational background?

7 A. I graduated from Newark College of Engineering in June, 1968 with a B.S. degree in
8 Electrical Engineering. I also received an M.S. degree from Newark College of
9 Engineering in June, 1971.

10 **Q.** Would you briefly describe your work background?

11 A. Prior to my retirement I was the Executive Director of the Township of Middletown
12 Sewage Authority for 15 years. The Township of Middletown Sewage Authority located
13 in Middletown, N.J. has approximately 25,000 customers servicing almost 100,000
14 residents. At the end of my tenure as Executive Director the Authority had an annual
15 budget of approximately \$8,000,000 and an annual capital budget of \$1,000,000. During
16 my time as Executive Director I was able to reduce staffing by 15% and implement
17 several million dollars of cost savings resulting in one of the lowest customer service
18 rates in New Jersey.

19 **Q.** Are you a customer of CUC?

20 A. Yes, I am a regular water customer, an irrigation customer and a sewer customer.

21 **Q.** Have you reviewed the testimony and exhibits of CUC, Inc. which were submitted in this
22 matter?

23 A. Yes.

1 **Q.** Do you have any comments concerning the company's 2013 test year revenues as shown
2 in Exhibit D of the application?

3 **A.** Yes. I believe that the revenues shown on Exhibit D significantly understate the revenues
4 that CUC will receive in the future. The test year revenues are much lower than what
5 CUC will likely receive in normal weather years. On behalf of CIPOA I made a request
6 to the Beaufort Jasper Water and Sewer Authority, CUC's wholesale water provider, for
7 its records showing the volume of water sold to CUC over the last several years. Those
8 records show that for the three years prior to the test year CUC averaged 105,943,000
9 gallons per year purchased from Beaufort Jasper Water and Sewer Authority. The test
10 year was considerable wetter than normal, reducing the demand for irrigation. As a result
11 only 79,844,000 gallons were purchased during the test year. In order to correct for the
12 abnormally low usage during the test year the Water Residential Irrigation revenue of
13 \$210,784.00 should be adjusted to \$303,696.00 based on the previous 3 year average of
14 105,943,000 gal/yr. purchased from Beaufort Jasper Water and Sewage Authority
15 (BJWSA) versus the 79,844,000 gal/yr. used in the 2013 test year.

16 **Q.** Do you have any comments concerning the company's 2013 test year expenses as shown
17 in Exhibit D of the application?

18 **A.** Yes. I would like to first state that CUC, Inc. does not have a revenue problem but has a
19 problem controlling its expenses. Since 2004 CUC, Inc. has allowed its expenses to grow
20 by 47%. By comparison the Authority I was responsible for had an increase of expenses
21 of less than 20% during this same time period. Specifically if you examine the salary and
22 benefits cost it was \$263,502.00 in 2004 versus \$499,024.00 in 2013. This is a growth of
23 +7%/yr. This is unheard of in properly managed companies either public or private.

1 I would like to recommend that the following reductions be made in the expenses that
2 CUC is allowed to recover from ratepayers in order that the residents of our community
3 do not have to pay excessively high rates for water and sewage services.

- 4 1. Merge the President's position with the Secretary/Treasurer's position thereby
5 achieving a salary /benefits savings of \$126,000.00/yr. This is based on the
6 elimination of the existing President's salary of \$98,500, social security costs of
7 \$6,698 and annual health insurance costs of \$21,026. The Secretary/Treasurer
8 would continue to receive a salary of \$82,180 to perform the merged duties. The
9 basis for this is that this is such a small utility that the duties listed for each position
10 take less than 20 hours/ week to perform. Having been the Executive Director of a
11 large utility, I know from personal experience that these duties do not require two
12 people to perform them with six employees doing routine daily work.
- 13 2. Eliminate the Office Assistant position thereby achieving a salary/benefits savings of
14 \$23,000.00/yr. The estimated savings are based on a salary of \$15,000, social
15 security costs of \$1,020, and health insurance costs of \$6,980.
- 16 3. Eliminate the position of Maintenance Assistant achieving a salary savings of
17 \$22,000.00/yr. This position was recently added and has not been justified since the
18 facility has not changed in thirty years.
- 19 4. Require employees to contribute 25% towards their health insurance premiums
20 which will achieve a savings of \$25,000.00/yr. In my experience it is highly unusual
21 for companies to pay 100% of employee health insurance coverage – both single and
22 family coverage – in today's workplace. It is not necessary for the company to offer

1 this benefit to retain employees and it is unnecessarily generous to do so on the
2 backs of CUC ratepayers.

3 The total expense savings from above is equal to \$196,000.00/yr.

4 **Q.** What would the operating margin be if the above recommendations were implemented?

5 **A.** The following explains the projected operating margin:

6 Revised Revenue = \$1,012,000*

7 Revised Expenses = \$ 819,925**

8 *Note: Includes \$92,912 for increased irrigation revenue + \$31,840.00 for availability
9 revenue.

10 **Note: \$51,071.00 was added for increased water purchases and the above expense
11 reductions were included.

12 Operating Income = \$193,044

13 Operating Margin = 19.06%

14 **Q.** Have you reviewed the testimony of George Flegal and his recommendations regarding
15 CUC expenses?

16 **A.** Yes and I agree with Mr. Flegal's recommendations. He takes a somewhat different
17 approach from mine but he reached essentially the same conclusion: that CUC's expenses
18 are much higher than they should be.

19 **Q.** Do you feel a rate increase for CUC, Inc. is justified?

20 **A.** Absolutely not. The CUC proposal would require over a 60% rate increase on existing
21 rates which are currently much higher than the average rates in our area. If anything, a
22 rate rollback should be considered based on the above information.

1 **Q.** Do you have any comments concerning the CUC, Inc. proposal to eliminate availability
2 fees?

3 **A.** Yes. The availability fees should not be eliminated as proposed by CUC, Inc. This
4 revenue of \$31,840.00 if eliminated would have to be made up by the remaining
5 customers. This is not fair to them. Many of them paid the availability fee for many
6 years prior to building their home. CUC, Inc. proposed this due to their difficulty in
7 collecting some of these fees. This is a business issue which CUC, Inc. needs to
8 aggressively manage.

9 **Q.** Do you have any comments concerning the CUC, Inc. proposal to move to bi-monthly
10 billing?

11 **A.** Yes. I oppose this because of the burden it would place on our residents who live mostly
12 on fixed incomes. It would place an undue burden on them managing their monthly
13 expenses. In addition, CUC, Inc. has not reflected any savings in meter reading and
14 billing costs in their proposed budget.

15 **Q.** Do you have any other comments?

16 **A.** Yes. CUC, Inc. is owned by the President and the Secretary-Treasurer with each owning
17 50%. Under their proposal in addition to earning combined salary and benefits of
18 approximately \$250,000.00/yr.; they would receive the company profits of
19 \$221,663.00/yr. They would earn a total of \$471,663.00 from our residents who would
20 be required to pay \$1,456,587.00 in rates and fees. This means they would earn 32%
21 profit on this business funded by our residents who would be paying rates that are three
22 times what other residents in our area are paying.

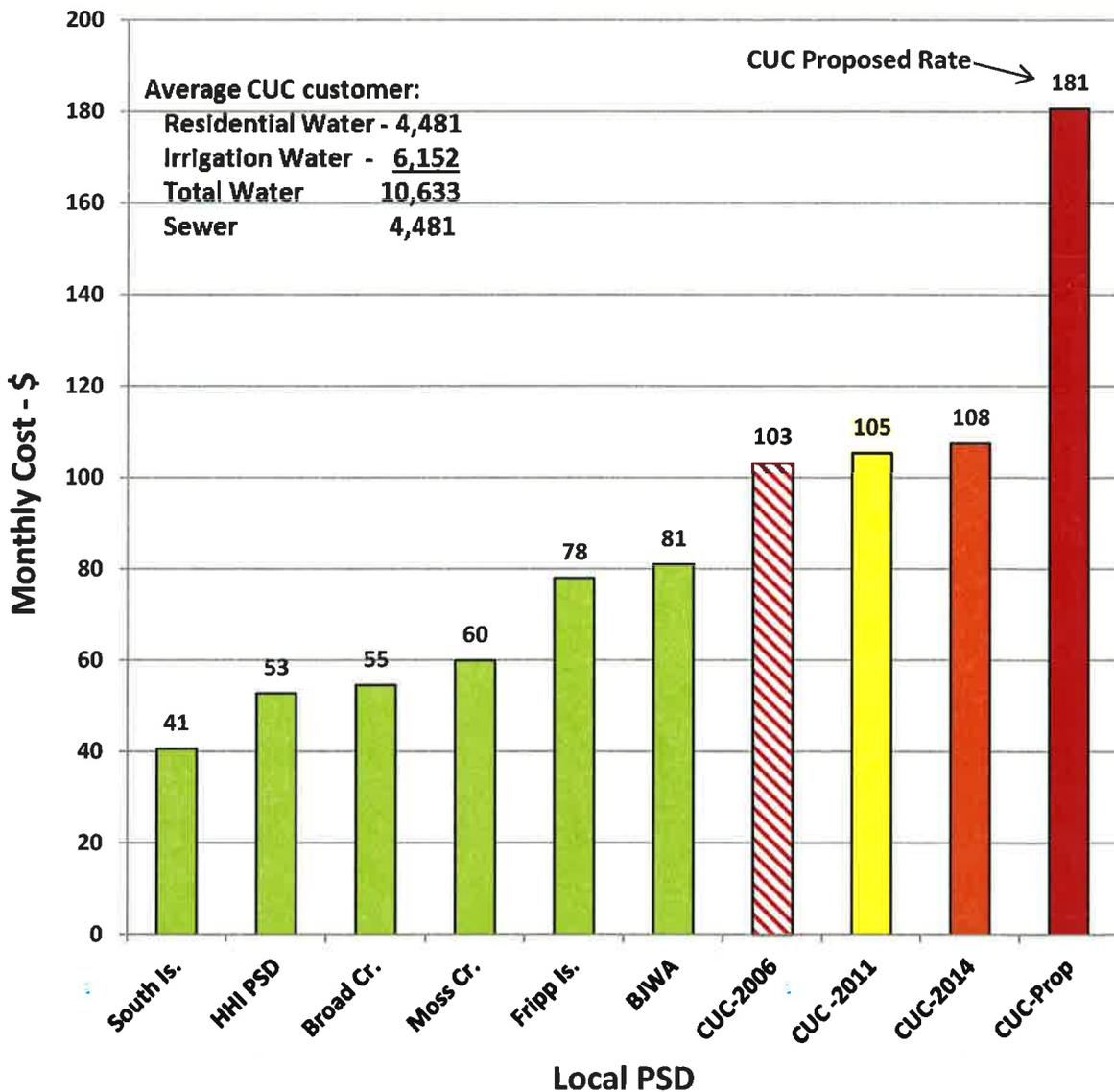
23 **Q.** Have you researched other water/rates being charged to communities in our area?

1 A. Yes. I requested rate information from South Island Public Service District (Hilton
2 Head), Hilton Head Public Service District (Hilton Head), Broad Creek Public Service
3 District (Hilton Head), Fripp Island Public Service District and Beaufort Jasper Water
4 and Sewer Authority. I prepared a rate comparison of the CUC rates with the rates of
5 these companies by using the CUC average monthly usage figures. Exhibits A and B
6 present the rate comparison information that I developed from the information that I
7 received from these area companies. These exhibits clearly show that CUC, Inc. is
8 currently charging our residents almost 60% more than the average rates in our area. If
9 their proposed increase is granted this would jump to 264% more than the average area
10 rates. While I understand that this Commission does not set rates by comparison with the
11 rates of other utilities, this rate comparison confirms the validity of the criticisms that we
12 are making in this case.

13 **Q.** Does this conclude your testimony?

14 A. Yes, it does.

Monthly Water and Sewer Cost for Average CUC Customer



Monthly Water & Sewer Cost Compared to Local PSDs

