

LUS & LUS Fiber Investigation & PSC Audit

Historical Financial Recap



LUS & LUS FIBER INVESTIGATION & PSC AUDIT

LUS Fiber Revenue & Expenses Annual Summary

	2008	2009	2010	2011	2012	2013
REVENUE	\$ 2,120,277	\$ 4,061,048	\$ 9,415,222	\$ 17,010,937	\$ 24,041,236	\$ 27,424,453
OPERATING EXPENSES	(4,539,268)	(9,572,770)	(18,133,890)	(27,531,905)	(29,330,826)	(29,893,674)
NON-OPERATING EXPENSES	(92,765)	146,017	(2,326,480)	(5,998,355)	(6,622,071)	(7,441,542)
NET INCOME / (LOSS)	\$ (2,511,756)	\$ (5,365,705)	\$ (11,045,148)	\$ (16,519,323)	\$ (11,911,661)	\$ (9,910,763)
	2014	2015	2016	2017	2018	Total
REVENUE	\$ 32,150,333	\$ 34,078,664	\$ 36,012,328	\$ 37,674,235	\$ 38,812,319	\$ 262,801,052
OPERATING EXPENSES	(29,632,641)	(29,592,382)	(27,290,407)	(27,772,794)	(28,819,423)	(262,109,980)
NON-OPERATING EXPENSES	(3,768,889)	(7,663,598)	(5,476,052)	(5,402,174)	(5,124,782)	(49,770,691)
NET INCOME / (LOSS)	\$ (1,251,197)	\$ (3,177,316)	\$ 3,245,869	\$ 4,499,267	\$ 4,868,114	\$ (49,079,619)



LUS & LUS FIBER INVESTIGATION & PSC AUDIT

LUS Fiber Revenue & Expenses Annual Summary Less Affiliate Revenue

	2008	2009	2010	2011	2012	2013
REVENUE	\$ 2,120,277	\$ 4,061,048	\$ 9,415,222	\$ 17,010,937	\$ 24,041,236	\$ 27,424,453
LESS: AFFILIATE REVENUES	(149,178)	(1,456,168)	(1,103,025)	(1,675,444)	(3,273,972)	(3,268,416)
OPERATING EXPENSES	(4,539,268)	(9,572,770)	(18,133,890)	(27,531,905)	(29,330,826)	(29,893,674)
NON-OPERATING EXPENSES	(92,765)	146,017	(2,326,480)	(5,998,355)	(6,622,071)	(7,441,542)
NET INCOME / (LOSS)	\$ (2,660,934)	\$ (6,821,873)	\$ (12,148,173)	\$ (18,194,767)	\$ (15,185,633)	\$ (13,179,179)
	2014	2015	2016	2017	2018	Total
REVENUE	\$ 32,150,333	\$ 34,078,664	\$ 36,012,328	\$ 37,674,235	\$ 38,812,319	\$ 262,801,052
LESS: AFFILIATE REVENUES	(5,090,510)	(4,190,996)	(3,228,161)	(5,316,873)	(5,922,043)	(34,674,786)
OPERATING EXPENSES	(29,632,641)	(29,592,382)	(27,290,407)	(27,772,794)	(28,819,423)	(262,109,980)
NON-OPERATING EXPENSES	(3,768,889)	(7,663,598)	(5,476,052)	(5,402,174)	(5,124,782)	(49,770,691)
NET INCOME / (LOSS)	\$ (6,341,707)	\$ (7,368,312)	\$ 17,708	\$ (817,606)	\$ (1,053,929)	\$ (83,754,405)



LUS & LUS FIBER INVESTIGATION & PSC AUDIT

LUS Fiber Revenue & Expenses Annual Summary Less Affiliate Revenue

	Net Loss With Affiliate Revenue	Net Loss Without Affiliate Revenue	Difference
2008	(2,511,756)	(2,660,934)	(149,178)
2009	(5,365,705)	(6,821,873)	(1,456,168)
2010	(11,045,148)	(12,148,173)	(1,103,025)
2011	(16,519,323)	(18,194,767)	(1,675,444)
2012	(11,911,661)	(15,185,633)	(3,273,972)
2013	(9,910,763)	(13,179,179)	(3,268,416)
2014	(1,251,197)	(6,341,707)	(5,090,510)
2015	(3,177,316)	(7,368,312)	(4,190,996)
2016	3,245,869	17,708	(3,228,161)
2017	4,499,267	(817,606)	(5,316,873)
2018	4,868,114	(1,053,929)	(5,922,043)
Total	\$(49,079,619.00)	\$(83,754,405.00)	\$(34,674,786.00)



LUS & LUS FIBER INVESTIGATION & PSC AUDIT

LUS / LUS Fiber Loans

Loans from LUS to LUS Fiber	
Start Up Costs	3,500,891
Fiber Network	12,472,187
Operational Shortfall	5,836,390
Imputed Taxes (2009 & 2010)	3,139,464
Imputed Taxes (2011)	1,571,967
Imputed Taxes (2012)	1,202,261
	\$ 27,723,160



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LUS & LUS FIBER INVESTIGATION & PSC AUDIT

JUNE 2019

PSC Audit Memo

Table 12
Communications System
Fiscal Year 2017 Billings to
Higher Revenue LCG and LUS Accounts

<u>Account</u>	<u>2017 FY Billings</u>
LCG IS&T Hosted Voice	\$99,400
LUS Electric	710,314
LUS AMI Gatekeeper	615,543
LUS Water Operations	136,901
Lafayette Utilities System (SCADA)	47,910
LUS Wastewater	205,445
Lafayette Utilities System (Power Outage Monitoring)	1,013,400
LCG Traffic Control	149,363
Lafayette Police Department	152,643
LCPCG - Wholesale	415,764
LUS Telecom - Wholesale	1,467,624



LUS & LUS FIBER INVESTIGATION & PSC AUDIT

Table 12 Working Spreadsheet

	Account	Service	Contract in 2017 #	Units	Unit Price
1	LCG IS&T Hosted Voice	Voice	~60%	5-year	Market Price
2	LUS Electric	VPLS 30	No	168	\$420
3	LUS AMI Gatekeeper	VPLS 100	No	77	\$680
4	LUS Water	VPLS 30	No	20	\$420
		VPLS 100	No	3	\$680
		Cable TV & Voice	No		Market Price
5	LUS SCADA	VPLS 100 Main Site	No	3	\$820
		Cable TV, Voice, Inte	No, 5-year, No		Market Price
6	LUS Wastewater	VPLS 30	No	102	\$420
		VPLS 100	No	1	\$680
		Cable TV & Internet	5-year, No		Market Price
7	LUS POMS	Power Outage Monitoring Service			Not addressed i
8	LCG Traffic Control	VPLS 10	5-year	191	\$67
9	Lafayette Police Dpt.	VPLS 20	5-year	56	\$200
		VPLS 100	5-year	2	\$405
		VPLS 150	5-year	1	\$450
		VPLS 1 Gbps	6-year	1	\$1,440
		Internet	6-year		Market Price
10	LCPCG – Wholesale	MAN 10	3-year	1	\$135
		SP 10	3-year	1	\$175
		MAN 100	No	1	\$420
		MAN MPLS 100	No	1	\$895
		MAN MPLS 100	5-year	1	\$850
		MAN MPLS 100	No except 2 x 3-	11	\$895
		MAN MPLS 1 Gbps	No	5	\$3,680
		Direct Internet 500	No	1	\$1,782
		Point to Point 50	5-year	1	\$437
		Rack space	5-year, Expired	1	\$2,323
Sonet port	No	1	\$280		
11	LUS Telecom – Wholesale	SP 1.5	5-year	2	\$210
		SP 10	5-year, Expired	35	\$337
		SP 10 QoS	5-year	1	\$299
		SP 100 QoS	5-year	1	\$723
		SP 100	5-year	20	\$436
		SP 100	5-year	7	\$680
		SP 100 Main Site	5-year, Expired	6	\$800
		MAN MPLS 100	1-year	1	\$895
		MAN MPLS 100	1-year	13	\$1,000
		MAN MPLS 1 Gbps	5-year	4	\$3,680
		MAN MPLS 1 Gbps	1-year	4	\$3,930
		Direct Internet 45	3-year, Expired	1	\$4,865
		Direct Internet 100	5-year	1	\$790
		Dark Fiber Lease	5-year	1	\$68
		TI connection	5-year	18	\$170
Sonet port	5-year	1	\$50		



Issues to be Self-Reported to the PSC



LUS & LUS FIBER INVESTIGATION & PSC AUDIT

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LUS & LUS FIBER INVESTIGATION & PSC AUDIT

LCPCG – Wholesale

Service	Contract in 2017	# Units	Unit Price
MAN 10	3-year	1	\$135
SP 10	3-year	1	\$175
MAN 100	No	1	\$420
MAN MPLS 100	No	1	\$895
MAN MPLS 100	5-year	1	\$850
MAN MPLS 100	No except 2 x 3-yr	11	\$895
MAN MPLS 1 Gbps	No	5	\$3,680
Direct Internet 500	No	1	\$1,782
Point to Point 50	5-year	1	\$437
Rack space	5-year, Expired	1	\$2,323
Sonet port	No	1	\$280



LCPCG – Wholesale Rack Space

- \$2,323 monthly charge to LCG was nearly double the price charged to a non-affiliate
- Charge exceeded market price
- Therefore, charge may violate PSC Rules



LCPCG – Wholesale Sonet Port

- Service not provided to non-affiliates – no market price for reference – full cost accounting required
- No cost analysis performed
- Charge may exceed LUS Fiber's cost to provide service
- If so, charge may violate PSC Rules



LUS & LUS FIBER INVESTIGATION & PSC AUDIT

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LUS & LUS FIBER INVESTIGATION & PSC AUDIT

LUS Telecom – Wholesale

Service	Contract in 2017	# Units	Unit Price
SP 1.5	5-year	2	\$210
SP 10	5-year, Expired	35	\$337
SP 10 QoS	5-year	1	\$299
SP 100 QoS	5-year	1	\$723
SP 100	5-year	20	\$436
SP 100	5-year	7	\$680
SP 100 Main Site	5-year, Expired	6	\$800
MAN MPLS 100	1-year	1	\$895
MAN MPLS 100	1-year	13	\$1,000
MAN MPLS 1 Gbps	5-year	4	\$3,680
MAN MPLS 1 Gbps	1-year	4	\$3,930
Direct Internet 45	3-year, Expired	1	\$4,865
Direct Internet 100	5-year	1	\$790
Dark Fiber Lease	5-year	1	\$68
TI connection	5-year	18	\$170
Sonet port	5-year	1	\$50



LUS Telecom – Wholesale Direct Internet 45

- \$4,865 monthly charge to LUS was more than 4 times non-affiliate pricing
- Charge significantly exceeds market price
- Therefore, charge may violate PSC Rules



LUS Telecom – Wholesale Sonet Port

- Service not provided to non-affiliates – no market price for reference – full cost accounting required
- No cost analysis performed
- Charge may exceed LUS Fiber's cost to provide
- If so, charge may violate PSC Rules



LUS & LUS FIBER INVESTIGATION & PSC AUDIT

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Direct Internet 100	5-year	1	\$700
Dark Fiber Lease	5-year	1	\$68
IT Connection	5-year	18	\$170
Sonet port	5-year	1	\$50



LUS Telecom – Wholesale Dark Fiber Lease

- Dark fiber service is provided to a non-affiliate, therefore a market price is established
- The original cost method used to determine pricing was double the price paid by a non-affiliate
- The original cost method used to determine pricing was double standard pricing by a comparable municipal telecom for similar service



LUS Telecom – Wholesale Dark Fiber Lease

- In 2014, pricing was increased to \$68 per mile, per fiber strand, per month
- **\$68 x 65 miles x 10 Fiber strands - \$44,987 per month**
- **\$44,087 monthly charge to LUS is now 3 times the price paid**
- **This higher rate cost LUS rate payers more than \$360,000 per year and more than \$2,000,000 in total**



LUS Telecom – Wholesale Dark Fiber Lease

- The Fair Competition Act & PSC Rules require market pricing for services
- In the absence of market pricing, the rules require that full cost accounting – “cost to provide the service” – be used for pricing
- Although there is a market to non-affiliates, LUS / LUS Fiber’s leadership chose to use a cost method which significantly exceeds market price
- Charge may violate PSC Rules



Issues not included in Self-Report to the PSC



LUS & LUS FIBER INVESTIGATION & PSC AUDIT

LUS Fiber Services Provided to Affiliates

Account	Service	Contract in 2017	# Units	Unit Price
LCG IS&T Hosted Voice	Voice	~60% 5-year		Market Price
LUS Electric	VPLS 30	No	168	\$420
LUS AMI Gatekeeper	VPLS 100	No	77	\$680
LUS Water	VPLS 30	No	20	\$420
	VPLS 100	No	3	\$680
	Cable TV & Voice	No		Market Price
LUS SCADA	VPLS 100 Main Site	No	3	\$820
	Cable TV, Voice, Intern	No, 5-year, No		Market Price
LUS Wastewater	VPLS 30	No	102	\$420
	VPLS 100	No	1	\$680
	Cable TV & Internet	5-year, No		Market Price
LUS POMS	Power Outage Monitoring Service			Reported
LCG Traffic Control	VPLS 10	5-year	191	\$67
Lafayette Police Dpt.	VPLS 20	5-year	56	\$200
	VPLS 100	5-year	2	\$405
	VPLS 150	5-year	1	\$450
	VPLS 1 Gbps	6-year	1	\$1,440
	Internet	6-year		Market Price



LUS Fiber Services Provided to Affiliates VPLS 30 Comparisons

- LUS Electric 168 Units at \$420 per unit
- LUS Water 20 Units at \$420 per unit
- LUS Wastewater 102 Units at \$420 per unit

- Non-affiliate Various Units at \$317 per unit

- Difference cost LUS an **additional \$29,870 per month**



LUS & LUS FIBER INVESTIGATION & PSC AUDIT

LUS Fiber Services Provided to Affiliates VPLS 100 Comparisons

- LUS AMI Gatekeeper 77 Units at \$680 per unit
- LUS Water 3 Units at \$680 per unit
- LUS Wastewater 1 Unit at \$680 per unit

- Lafayette Police Department 2 Units at \$405 per unit

- Difference cost LUS an **additional \$22,275 per month**



LUS Fiber Services Provided to Affiliates VPLS 30 / 100 Comparisons

- $\$29,870 \times 12 = \$358,440$ annually
- $\$22,275 \times 12 = \$267,300$ annually

Total = \$625,740 annually

- By way of example, every 5 years,
this issue alone cost LUS rate payers more than
\$3,000,000



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	VPLS 1 Gbps	6-year	1	\$1,440
	Internet	6-year	Market Price	



LUS Fiber Services Provided Not Under Contract

- PSC Audit Report points out there are many instances where services are provided without a contract
- If these services were under contract and priced the services at contracted rates, the savings would have exceeded \$5,000,000



LUS Fiber Services Provided

- The statements do not contemplate whether or not these services were needed, but show the difference between month-to-month rates versus contracted rates



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LUS Fiber Services Provided / Needed???



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IT Connection	5-year	18	\$170
Sonet port	5-year	1	\$50



Questions?

