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Public Service Commission

January 4, 2011

Christian Marcelli
Rose, Sundstrom & Bentley, LLP
766 North Sun Drive, Suite 4030
Lake Mary, FL 32746

Re: Docket No. Docket No. 100426-WS - Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

Dear Mr. Marcelli:

Staff needs the following information to complete our review of the application filed by Lake Utility Services, Inc. (LUSI or Utility).

1. The following items relate to the pro forma projects for the US 27 main relocation, the Oranges to Vistas raw water main installation, and the treatment equipment at Lake Groves WWTP Headworks projects reflected in adjustment (A)(d), on lines 26 through 33 of MFR Schedule A-3, page 1 of 3.

For each addition, provide the following:

- (a) a detail statement why each addition is necessary;
- (b) a copy of all invoices and other support documentation if the plant addition has been completed or in process;
- (c) a copy of the signed contract or any bids, if the plant addition has not been completed;
- (d) a status of the engineering and permitting efforts, if the plant addition has not been through the bidding processing;
- (e) the projected in-service date for each outstanding plant addition; and
- (f) all documentation (i.e. invoices) for the original cost of any corresponding retirements.

2. For all other adjustments reflected in MFR Schedule A-3, please provide all of the Utility's calculations, bases, workpapers, and documentation supporting these adjustments.

3. The following items relate to the pro forma expenses for salary & wages increases and amortization of deferred costs reflected in adjustments (B)(6) and (7), on lines 17 through 32 of MFR Schedule B-3, page 2 of 5.

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With the exception of deferred rate case expense, provide the following:

- (a) a copy of all invoices and other support documentation for each pro forma adjustment;
- (b) a copy of all correspondence related to the issuance of LUSI water use permit;
- (c) a list of expenses incurred by LUSI associated with its last 3 preceding WUP renewals;
- (e) a detail statement of why the "deferred maintenance expenses" are necessary; and
- (f) all documentation (i.e. invoices) for the original cost of any corresponding retirements.

4. For all other adjustments with the exception of deferred rate case expense reflected in MFR Schedule B-3, please provide all of the Utility's calculations, bases, workpapers, and documentation supporting these adjustments.

5. The following items relate to O&M expenses on MFR Schedule B-7.

(a) Please provide the monthly amount for each O&M expense, by account name and primary account number, for the months ending May 2010 through December 2010.

(b) Given the Utility's explanation on Line 9, Column 8, for engineering expenses, provide a detailed statement of why there was little activity in past years, the cause of the increase activity in the test year, and the need for the test year activity to continue in the future.

(c) Given the Utility's explanation on Line 25, Column 8, for bad debt expense, provide a detailed statement explaining the Utility's "revised write-off method" and explain all differences between the proposed method and the Utility's existing write-off method.

(d) With regard to miscellaneous expenses, provide a copy of all invoices with an invoice amount of \$1,000 or greater.

(e) With regard to the Water Conservation Coordinator position mentioned on Lines 16-18, page 2 of 2, provide the annual salary for this position, state whether the position has been filled yet, state whether the position is solely for LUSI, and, if this position relates to any affiliates of the Utility provide the allocation method with all calculations for this position salary and related expenses (i.e. benefits and payroll tax).

6. The following items relate to O&M expenses on MFR Schedule B-8.

(a) With regard to miscellaneous expenses, provide a copy all invoices with an invoice amount of \$1,000 or greater.

(b) With regard to the additional WW operator position related to the new reuse plant, provide a detailed statement of when the new operator started and when the reuse plant was placed into service.

7. The following item relates to excessive unaccounted for water (UFW).

(a) By Order No. PSC-09-0101-PAA-WS, pp. 26-28 and 39, the Commission reduced O&M expenses for excessive UFW. On MFR Schedule F-1, LUSI reflects excessive UFW. However, the Utility did not reflect any reductions to O&M expenses on MFR Schedule B-3. Based on the above, please provide a detailed statement explaining why LUSI did

not reduce its O&M expenses for excessive UFW and whether it would be opposed to such an adjustment to O&M expenses.

8. The following items relate to the Utility's requested rate case expense.
 - (a) For each individual person, in each firm providing consulting services to the applicant pertaining to this docket, provide the billing rate, and an itemized description of work performed. Please provide detail of hours worked associated with each activity. Also provide a description and associated cost for all expenses incurred to date.
 - (b) For each firm or consultant providing services for the applicant in this docket, please provide copies of all invoices for services provided to date.
 - (c) If rate consultant invoices are not broken down by hour, please provide reports that detail by hour, a description of actual duties performed, and amount incurred to date.
 - (d) Please provide an estimate of costs to complete the case by hour for each consultant or employee, including a description of estimated work to be performed, and detail of the estimated remaining expense to be incurred through the PAA process.
 - (e) Please provide an itemized list of all other costs estimated to be incurred through the PAA process.
 - (f) In the Utility's last rate case, the staff auditors had to audit rate base from January 1, 2003 to June 30, 2007, which represented a four and a half year period. In the instant case, the staff auditors will be auditing rate base from July 1, 2007 to June 30, 2010, or a period of three years. In the LUSI's last rate case, the projected test year ended June 30, 2009 was utilized for MFR purposes and eventually rate setting purposes. In the instant case, the Utility has the historical test year ended June 30, 2010, with pro forma adjustments. Staff realizes that the Utility has requested an increase in its service availability charges in this instant case which was not done so in the last case. However, due to the significant time involved in carrying forward all the projections from a historical year of June 30, 2007 to a projected year of June 30, 2009, staff believes the total hours to prepare the MFRs for a projected test year would be greater than the time required to prepare MFRs for a historical test year even with a request to increase service availability charges. Moreover, by letter dated May 7, 2009, from Mr. Marcelli, the Utility filed its actual rate case expense incurred for Docket No. 070693-WS. This letter reflected total hours of 3,282.6 hours (Millian, Swain & Associates = 1,495.25 hours; Rose, Sundstrom & Bentley = 172.8 hours; M&R Consultants = 24.55 hours; and WSC employees = 1,590 hours). On MFR Schedule B-10, the Utility reflected total hours for this instant case of 3,952 (Millian, Swain & Associates = 1,762 hours; Rose, Sundstrom & Bentley = 210 hours; M&R Consultants = 120 hours; and WSC employees = 1,860 hours). This represents an increase of 669.4 hours or 20.39 percent over the total hours in the Utility's last rate case. Staff notes that the increase in total hours over the last case is 266.75 hours or 17.84 percent greater for Millian, Swain & Associates, 37.2 hours or 21.53 percent greater for Rose, Sundstrom & Bentley, 95.45 hours or 388.80 percent greater for M&R Consultants, and 270 hours or 16.98 percent greater for WSC employees compared to the last case. Based on all the above, please provide a statement

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explaining why the requested hours for Millian, Swain & Associates, Rose, Sundstrom & Bentley, M&R Consultants, and WSC employees in the instant case are significantly greater than the actual hours spent on the Utility's last rate case.

Please submit the above information to the Office of Commission Clerk by February 4, 2011. If you have any questions, please contact me by phone at (850) 413-6536 or by e-mail at dale.buys@psc.state.fl.us.

Sincerely,

A handwritten signature in black ink that reads "Dale Buys". The signature is written in a cursive style with a large, prominent "D" and "B".

Dale Buys

Regulatory Analyst IV

cc: Division of Economic Regulation (Maurey, Daniel, Fletcher, Lingo, Stallcup, Williams)
Office of the General Counsel (Sayler)
Office of Commission Clerk
Office of Public Counsel