

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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13 FEB - 6 PM 2:58

RECEIVED-FPSC

COMMISSION
CLERK

ALA

DATE: February 6, 2013
TO: Ann Cole, Commission Clerk, Office of Commission Clerk
FROM: Avy Smith, ^{AS} Public Utility Analyst II, Division of Accounting & Finance
RE: Docket No. 120172-WS – Application for staff-assisted rate case in Highlands County by Country Club Utilities, Inc.

Please incorporate the attached Audit Response into the docket file.



DOCUMENT NUMBER-DATE

00738 FEB-6 2013

FPSC-COMMISSION CLERK

Avy Smith

From: Andrew Maurey
Sent: Wednesday, February 06, 2013 2:27 PM
To: Lynn Deamer; Avy Smith; Patti Daniel
Cc: Cheryl Bulecza-Banks; Bart Fletcher
Subject: FW: FPSC Audit Response
Attachments: PSC Report-response RAR.docx

I'm preparing a memo to have this document added to the docket file. I would like to schedule a conference call with the Utility to discuss the staff audit report and the Utility's response after staff has had an opportunity to review this filing.

From: Greg Harris [mailto:rgregharris@gmail.com]
Sent: Tuesday, February 05, 2013 4:54 PM
To: Andrew Maurey
Subject: FPSC Audit Response

Mr. Maurey:

Attached, please find our response to the FPSC Audit of my utility.

The comments are direct and sincere and are not intended to show any disrespect for the commission.

Twenty-nine years of my life are invested in this utility and I tend to take it personally, at times.

Thanks for your consideration,

Greg

--

R. Greg Harris, President
Country Club Utilities, Inc
3035 Wynstone Drive
Sebring, FL 33875
863-385-6330 office 863-381-8201 Cell
www.countryclubutilities.com

DOCUMENT NUMBER-DATE
00738 FEB-6 2013
FPSC-COMMISSION CLERK

Ms. Lyn Deamer, Chief of Auditing
Office of Auditing and Performance Analysis
State of Florida
Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Subject: Country Club Utilities, Inc. ("CCSU")

Dear Ms. Deamer,

Please be advised that CCSU disputes the audit findings set forth in Docket No. 120172-WS. Further, nothing herein should be construed as our acceptance of any of the findings or as our final response. We intend to seek other counsel in this matter and therefore, we fully reserve any and all of our rights with respect to this matter.

We believe that staff failed to accurately present the facts and circumstances which resulted in inaccurate audit findings and unwarranted reductions in rate base and operating expenses. For instance, several times in the audit report it was stated that rate base has not been previously established by the Commission. While the rate base may not have been established, the rate that was established was established by the commission in 1992 and we have relied on that rate for over 20 years. In fact, when originally establishing the rates, several items were actually increased in value, by the commission, over what we calculated the value to be. CCSU and its predecessor, The Country Club of Sebring, Inc. ("CCS") prepared their annual reports for each of the years 1992 through 2011 in reliance upon the values determined in this initial rate case. It is unfortunate that the Commission is, after over 20 years of filed reports, now turning a blind eye to its own determined values.

Further, all of the assets of CCS were sold in 2001, except for the assets of the Utility, which were transferred to CCSU through a sale between family member/stockholders in 2005. Three large hurricanes over a six week period inflicted great damage upon the Utility in this year and all of the records of CCS were lost. Staff failed to report the impact of these tragic events anywhere in its findings. Failure by the Commission to recognize a realistic value for the cost of utility plant in service ("UPIS") incurred by the Utility is an obvious attempt by staff to undermine the Utility's ability to fully recover its costs. Staff should have recognized that the UPIS for a water and wastewater operation serving several hundred water and wastewater customers over 481 acres would be far greater than the laughable \$141 thousand determined by staff. At the very least, the staff should have allocated the purchase price when CCS transferred the Utility to CCSU in 2005 to the known UPIS at that time, and then increased UPIS by the costs incurred and documented by CCSU subsequent to the transfer.

Also, the land cost allocation determined by the staff is not accurate. The original Utility granted a Certificate was The Country Club of Sebring, Inc., not Prairie Oaks Company. Staff deliberately used a very low land cost value from a transaction that occurred years before the Utility became in existence. The purchase price of the property by the original Utility was \$2.6 million, much greater than the \$1.5 million "audited" by staff. Staff exacerbated this error by reducing the land area associated with the water plant to a miniscule area, rather than identify the entire amount as dedicated to Utility operations. The property is fully committed to Utility business (storage sheds, access/ingress, etc) is not

materially used in any other manner, is listed in the zoning and land use maps in Highlands County for Utility use only, and therefore, the entire parcel of land should be allocated to the Utility.

Additionally, staff presented audit adjustments that resulted in accumulated depreciation and accumulated amortization in excess of the amount of basis. We require detailed amortizations schedules that support these entries by year.

We also noted that staff imputed CIAC values from the number of customers and authorized tariff charges. It is interesting to note that CIAC represents income, and therefore, staff was able to impute values here, but unable to do so to impute values relative to utility plant in service.

Also, please note in Finding 10, staff determined that Utility revenues were understated by \$6,617, which increased Regulatory Assessment Fees due the Commission by \$298, but failed to describe how and why they determined the Utility underreported revenue. It is odd that these details are forthcoming in other areas of the audit, but in this element, where RAF fees are due the Commission, staff failed to describe the reasons.

Operating expenses of the Utility for the test period were denied by staff and such amounts totaled over \$130,000. Staff imputed operating expenses based upon faulty assumptions and ignored required spending incurred by the Utility to carry on its operations. This is not acceptable and staff failed to reconcile the Utility's operating expenses with staff imputed values.

The Utility could not operate without appropriate management staffing. Operation of the Utility requires daily customer service, financial accounting, billing, banking, and operations. Staff ignored the time accounting reports from the Utility with a simple statement that "We could not determine an arms-length amount for the services being performed". Obviously, staff was not interested in determining an accurate cost accounting for operating the Utility, but more interested in developing findings for their audit report.

In conclusion, we respectfully reject the findings and request an independent review with specificity to:

1. Rate base as established by the Commission in 1992.
2. Land cost based upon the acquisition of the property by CCS.
3. Schedule of rate base and associated accumulated depreciation / amortization.
4. Schedule of CIAC by year including amortization.
5. Detail of revenue adjustment proposed for 2011.
6. Reconciliation of operating expenses for test year ending 6/30/2012 for:

WATER:

Materials
Contractual Fees
Transportation Expense
Insurance
Miscellaneous

WASTEWATER:

Chemicals
Materials

Miscellaneous Expenses

7. Acknowledgement that management fees are appropriate and the extent thereof.
8. Property taxes allocable to water plant operations.

It is our hope that these issues can be resolved without costly and unnecessary administrative action. We are ready willing and able to cooperate in this matter.

Very truly yours,

Greg Harris, Owner
Country Club Utilities, Inc.