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DIVISION OF ENGINEERING
TOM BALLINGER
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Public Service Commission

January 29, 2014

STAFF'S FOURTH DATA REQUEST

Mr. Martin S. Friedman, Esquire
Sundstrom, Friedman & Fumero, LLP
766 N. Sun Drive, Suite 4030
Lake Mary, FL 32746

Re: Docket No. 130212-WS, Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

Dear Mr. Friedman:

By this letter Commission staff requests that Cypress Lakes Utilities, Inc. (Utility) provide responses to the following data requests:

Affiliate Audit

1. Staff's Audit Report of Utilities, Inc. was filed on January 10, 2014, (Document No. 00151-14). Please provide a statement detailing which audit finding(s) the Utility agrees with. For each finding the Utility disagrees with, please provide a detailed explanation of the disagreement as well as supporting documentation.
2. According to staff's Audit Work Paper 53-1, the Utility's 2012 taxable value was \$2,259,988 with \$33,885 reflected in property taxes according to MFR Schedule B-15. The same work paper establishes that the Utility's taxable value was \$931,950 in 2013 with estimated property taxes of \$14,083. Please explain the difference in taxable value between 2012 and 2013.

MFR's

3. Rule 25-30.437(3), Florida Administrative Code (F.A.C.) requires that each Class B utility applying for a rate increase shall provide the information required by Commission Form PSC/ECR 20 (11/93), entitled "Class B Water and/or Wastewater Utilities Financial, Rate and Engineering Minimum Filing Requirements." The following MFR schedules, as filed, do not comply with Rule 25-30.437, F.A.C.:

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Internet E-mail: contact@psc.state.fl.us

- a) The instructions for MFR Schedules B-7 and B-8 (Operation and Maintenance Expense Comparison), require the Utility to provide account balances approved by the Commission for its prior test year and to utilize the Consumer Price Index All Urban Consumers (CPI-U) table for all items published by the U.S. Department of Labor. Per these instructions, please make the following adjustments:
- (i) The CPI-U found on MFR Schedules B-7 and B-8 is incorrect for 2012. Please revise both schedules to reflect the correct index for each year.
 - (ii) In addition, the Utility is required to provide an explanation of all differences in excess of the benchmark factor for customer growth and inflation. When revising MFR Schedules B-7 and B-8, please provide an explanation for expenses in excess of the revised benchmark factor.

Please provide updated MFR schedules that correct all the schedules identified above.

Rate Case Expense

4. Please provide an update of actual and estimated rate case expense along with any necessary supporting documentation (i.e. invoices or receipts). In addition, please provide a detailed explanation and calculations to justify estimated expense to completion.
5. For each individual Water Services Corporation (WSC) In-House employee providing consulting services on this docket, provide an itemized description of work performed, hours or allocation of time associated with each activity, and supporting documentation (i.e. timesheets). In addition, please provide the same detail for estimated hours to completion of the case.
6. In response to the affiliate audit in Docket No. 120209-WS, Utilities Inc. of Florida asserted that revised salaries accounted for capitalized time through rate case expense as a reduction to salaries prior to any allocation. Has the Utility taken similar accounting measures to ensure that WSC In-House employee fees are not duplicative? If so, please provide supporting documentation to verify the allocated salaries reflected in the MFRs do not contain any capitalized time spent on the current rate case.

Rate Base

7. In response to the Utility's Audit Report, Finding 1, the Utility provided an unsigned quote from USA BlueBook for \$5,657. The Utility also provided an invoice for one of the items listed on the quote for \$4,634. Please provide an executed copy of the original quote and/or invoices to support the additional \$1,022.

8. In response to staff's first data request, Item 10, the Utility provided a capital project report for the pro forma improvements. Under the section labeled "Comments," there is a note that states "I have an additional \$15,779.00 dollars for the cleaning of the surge tank prior to blasting and coating. This will need to be accomplished by Arthur Price Vactor Services. This amount was not part of any of the 3 contracts and must be completed prior to coating process." There are no invoices included from this company. Please clarify which invoices account for this additional service.
9. Are all pro forma improvements complete? If not, please provide an explanation of any outstanding projects and a revised estimated completion date.
10. Please provide updated invoices for pro forma plant improvements and the estimated or actual salvage value of the corroded steel and scrap materials removed during the project.
11. In response to staff's second data request, Item 1, the Utility stated that the \$23,660 invoice from TBE Group should be capitalized to the water treatment account. Please clarify whether or not this invoice was recorded in another account after the entry was reversed in error.

O&M Expenses

12. According to the Utility's response to staff's first data request, Item 11, the Cross Connection Technician was hired in 2007 for the purposes of complying with Florida Department of Environmental Protection (FDEP) regulations regarding a cross connection control program. Please provide supporting documentation from the FDEP regarding this requirement.
13. According to the Utility's response to staff's first data request, Items 14 and 23, Contractual Services – Engineering expense increased substantially in May 2012 for both systems due to the cost associated with updated water and wastewater system maps. How often have these maps been updated?
14. According to the Utility's response to staff's first data request, Items 16 and 25, Contractual Services – Other expense increased substantially in October 2012 and November 2012 due to the use of a contract operator. The following items relate to this expense.
 - a) Was the former employee the recipient of any post-employment compensation?
 - b) What were the exact dates of the contract operator's employment? Please include all invoices for the duration of the contract operator's employment.
 - c) If the contract operator is still being utilized by the Utility, please provide a comparison of the total compensation of the former employee and the total cost associated with the contract operator. If the total compensation is higher for the contract operator, please provide justification for the increased expense.

- d) If the Utility is no longer using the contract operator to operate both systems, please provide the total compensation or salary for the new employee.
 - e) In response to staff's first data request, the Utility provided a November invoice for the contract operator in the amount of \$522. However, in the file titled "Item 16 - Contractual Services Other," the journal entry highlighted for "contract ops for 9/12" is \$1,817. Please explain the discrepancy in these amounts and provide any additional supporting documentation, if necessary.
15. According to the Utility's response to staff's first data request, Items 18 and 27, diesel fuel was purchased for the emergency generator and was recorded in Miscellaneous expense. The following items relate to this expense.
- a) Please explain why this fuel purchase was not classified within Fuel for Purchased Power expense.
 - b) Is this a routine expense or did a specific event necessitate this fuel purchase?
16. According to the Utility's response to staff's first data request, Item 18, two replacement golf carts were purchased in September 2012 and classified within Miscellaneous expense. The following items relate to this expense.
- a) Please explain why the file titled "Misc Expenses" within folder "DR 18" does not include an entry for the purchase of any golf carts.
 - b) The Utility did not include any invoices for golf carts within folder "DR 18." However, an invoice for one golf cart was included in response to Item 22 regarding Material and Supplies expense for the wastewater system. Please explain this discrepancy and provide supporting documentation for both golf carts.
 - c) Please explain why the golf carts aren't classified as Utility Plant in Service (UPIS) under Transportation Equipment.
 - d) Were the golf carts that were being replaced ever classified as depreciable UPIS?
 - e) Are the golf carts used solely for the Utility's meter readers? If not, please explain.
17. According to the Utility's response to staff's first data request, Item 22, Materials & Supplies expense increased substantially in April 2012 and September 2012 due to annual preventative maintenance on the emergency generator. The invoices included in its response support this expense in April but not September. The Utility's supporting documentation explains the September increase was due to the purchase of a golf cart expensed to the wastewater system. The following items relate to that expense.

- a) Please explain why the golf cart is not classified as UPIS under Transportation Equipment.
 - b) Is the golf cart that was being replaced ever classified as depreciable UPIS?
 - c) Is the golf cart used solely for the Utility's wastewater system? If not, please explain.
18. According to the Utility's response to staff's first data request, Item 27, Miscellaneous expense increased substantially in September 2012 and October 2012 due to the purchase of backwash pumps, air filters, and a mud well pump. The following items relate to these expenses.
- a) The supporting documentation included with the response does not contain any invoices for these items. Please submit the invoices for these expenses.
 - b) Did any of the pumps purchased materially add to the value of the property or prolong its life? If yes, please explain.
19. According to MFR Schedules A-3 and B-3, roll forward adjustments were made to Accumulated Depreciation and Depreciation expense for items which depreciation has not been taken since the last rate case. Please provide a detailed explanation and supporting documentation including, but not limited to, work papers and calculations, to justify these adjustments.
20. According to MFR Schedule B-7 and B-8, Employee Pensions and Benefits expense increased by approximately 42 and 34 percent for water and wastewater respectively. When accounts 601 and 701 are separated from accounts 603 and 703, the increase in Employee Salaries and Wages expense is approximately 28 percent for water and 21 percent for wastewater. The following items relate to this expense.
- a) Please provide a detailed explanation to account for the increase in Employee Pensions and Benefits expenses for each system.
 - b) Please explain why the increase in Employee Pensions and Benefits expense is disproportionate to the increase in Employee Salaries and Wages.
21. According to MFR Schedule B-7 and B-8, Insurance-Other expense increased by approximately 124 percent and 23 percent, respectively. With respect to the water system, the response stated that the increase was due to a substantial rise in the annual cost for the same level of coverage. Please explain why the increase in Insurance expense was so much greater for the water system than for the wastewater system.
22. According to MFR Schedule B-7 and B-8, Miscellaneous expense increased by approximately 150 and 370 percent for water and wastewater, respectively. Outside of

expenses related to employment, Miscellaneous expense accounts for approximately 32 percent and 26 percent of the O&M expenses for water and wastewater, respectively. The following items relate to this expense.

- a) In the Utility's explanation of this increase, it included expenses that appear to belong in other accounts such as "vendors that test-equipment/chemical and contracted operations worker costs" and "office and supply expenses." What criteria does the Utility use when classifying expenses to the Miscellaneous expense account?
 - b) Please provide supporting documentation for Miscellaneous expense items over \$250 for the test year.
23. In reference to MFR Schedule B-9, Lines 10, 11, and 12, please clarify under which NARUC accounts these expenses are classified in the MFRs.
24. According to MFR Schedule B-12, Lines 8, 23, and 47, the parent company is allocating separate interest expense to its subsidiaries. Since the overall rate of return reflected in MFR Schedule D-1 includes recovery of interest expense, please explain this separate line item for interest expense.
25. Please provide work papers and supporting documentation (i.e. invoices) for Sludge Removal expense in May 2012.

Taxes Other Than Income

26. According to MFR Schedule B-15, the Utility recorded a property tax adjustment of \$704 to water for pro forma changes in net plant. According to staff's Audit Work Paper 53-1, the 2013 Polk County millage rate used for the Utility is 15.5281. Using this millage rate, the property tax adjustment to water reflects a \$45,337 pro forma plant net increase. However, the Utility did not include a pro forma adjustment to net plant in MFR Schedule A-3. Please provide a detailed explanation and any calculations or work papers to support this adjustment.

Others

27. Please reconcile the difference between the gallons used for flushing shown in the schedule titled, "List of manual and automatic flushing locations" as part of the Utility's response to staff's third set of data request and the gallons for Other Uses shown in MFR Schedule F-1, Column (4).

Mr. Martin S. Friedman, Esquire
Staff's Fourth Data Request
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Please submit the requested information by **February 12, 2014**. When filing the response, please be sure to refer to the docket number and direct the response to:

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

If you should have any questions, please contact me by phone at (850) 413-6836 or by e-mail at dqlee@psc.state.fl.us.

Sincerely,



Daniel Lee
Engineering Specialist
Division of Engineering

cc: Division of Engineering (Vickery, Lewis, Lee)
Office of the General Counsel (Gilcher)
Division of Accounting & Finance (Fletcher, Kelly, Norris)
Division of Economics (Thompson)
Office of Commission Clerk (Docket No. 130212-WS)
Office of the Public Counsel (J. R. Kelly, Stephen Reilly)
Mr. Martin S. Friedman (mfriedman@sfflaw.com)