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February 19, 2014

VIA FEDEX

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COMMISSION
CLERK

Carlotta S. Stauffer, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

RE: Docket No. 130212-WS; Application for an Increase in Water and Wastewater Rates in Polk County by Cypress Lakes Utilities, Inc.
Our File No.: 30057.212

Dear Ms. Stauffer:

The following are Cypress Lakes Utilities, Inc.'s ("CLU" or "Utility") responses to the Staff's Fifth Data Request dated February 6, 2014:

1. Please provide the frequency and costs of recurring engineering costs such as calibration of the flow meters, testing and reporting requirements, and system map updates. As part of the response, please provide the engineering costs booked to Account 631 and Account 731 from 2005 to 2012 and describe the need and expense levels for system map updates related to Phase 12 in 2012 and types of work and the expense levels in 2010 and 2011.

Response: Flow meters and associated instrumentation associated with the Cypress Lakes WTP must be calibrated at least every five years and more frequently if warranted by the performance of the equipment. In the event that this equipment requires repair or replacement, this must be accomplished relatively rapidly in order to remain compliant with the Cypress Lakes Water Use Permit's Exhibit B, Metering Instructions, as issued by the Southwest Florida Water Management District (attached). The metering and associated instrumentation equipment at the Cypress Lakes WWTP must be calibrated annually as described in the plant's Operating Permit No. FL0013123 issued by the Florida Department of Environmental Protection (provided in the MFR's). Repair costs may vary from year to year. Annual calibration and testing expense is less than \$1,000 per year for wastewater related activities, less than \$200 per year for water related testing activities.

As noted in the Utility's response to Item #11 below, system maps are required by FDEP regulation to be updated as needed in order to show the location and type of facilities in the water distribution and wastewater collection systems. In 2012 Cypress Lakes Utilities updated the system maps to reflect the construction of Phase 12 of the Cypress Lakes community following the expansion of its service area to incorporate Phase 12 into the Utility's system. Phase 12 consists of approximately 120 lots with water and wastewater infrastructure installed after the service area was expanded to serve all of the 120 lots. Map update activity can also be triggered by a need to correct errors or reflect changes to street

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addresses and numbers within the previously developed service area. In this way, the system maps can be utilized by operations staff in the operation, maintenance and repair of its facilities.

2. Please describe your company's compliance to the requirements of Order No. PSC-04-1275-AS-WS, issued December 23, 2004, in Docket No. 040316-WS regarding the addendum reports to the Monthly Operating Reports detailing other uses. As part of the response, please provide copies of these additional reports for 2011 and 2012 for Cypress Lakes Utilities.

Response: On the attached CD are monthly log sheets of Other Water Uses for the period of 2011-2013 at Cypress Lakes Utilities titled "Cypress Lakes 2011 Water Loss-Use Records.pdf", "Cypress Lakes 2012 Water Loss-Use Records.pdf", "Cypress Lakes 2013 Water Loss-Use Records.pdf", and "2011 - 2013 Water Loss Use Summary.pdf". Documentation from 2012 is scant due to a shortage of manpower during much of the year, employee turnover reflecting the retirement of the long-time Lead Operator, and the lack of record keeping by the former second operator throughout the year. Operations staff was replaced in 2013 and properly trained to document other water uses in a routine and timely manner as evidenced by the log sheets attached.

3. According to the revised MFR Schedule B-9, the water and wastewater systems are allocated Employment Finders Fees, \$351 and \$382 respectively, from the Regional Vice President/South and Water Services Corporation accounts. The following items relate to this expense.

a) Please provide a breakdown of the total fees paid per new position in 2012 and support documentation for the fees.

Response: Please see the attached documents titled "3 a - Employment Finder Fee Documents".

b) Please provide the total annual amount of Employment Finders Fees incurred in 2010, 2011, 2012, and 2013.

Response: The following amounts are totals at the corporate level and do reflect the amount allocated to CLU:

2010 - \$20,000
2011 - \$51,500
2012 - \$61,750
2013 - \$61,125

c) Please justify why it is reasonable to allocate these expenses down to the Utility as annually reoccurring expenses.

Response: As is seen from the amounts paid the last several years, finders fees are a recurring expense, and it is appropriate to allocate them to all utilities, including CLU. The allocated finders fees reflect the an expense incurred in the process of recruiting qualified individuals who work at the corporate level and/or in Operations. Each year employee turnover occurs, and with each vacancy that is backfilled, there is an opportunity for an existing employee to recommend a qualified individual who may become a successful hire. Because vacancies occur each year, it is reasonable to expect finders fees will be expensed each year as well. The amount may vary from year to year. Therefore, it would be appropriate to utilize a three-year average in determining the recurring amount for rate making purposes. Finders fees act as an inducement for existing employees to aid in the recruitment process by bringing to the attention of management individuals who are already known to an employee and thus more likely to become hired and to be a productive employee. As a consequence, vacancies may be filled quicker resulting in adequate manpower in place to operate, maintain, manage and support the utility.

4. Please provide the amount, NARUC account, and support documentation for any deferred maintenance amortization expense included in the 2012 test year.

Response: There was a credit balance of \$367.45 in the Cypress Lake's deferred maintenance account (No. 6355) in 2012. This was reflected in NARUC accounts 620 and 720 in the filing. The credit balance was due to corrections to the two assets which were on the Company's deferred maintenance books. The attached documents titled "4 - 35386 and 152538" provide support for those assets. These assets were completely amortized at the end of 2012.

5. What was the annual amount of deferred maintenance amortization expense incurred in 2010, 2011, 2012, and 2013?

Response:

2010 - \$7,486.66
2011 - \$5,517.24
2012 - (\$367.45)
2013 - \$0.00

6. According to the Utility's 2006 Rate Case MFRs, Transportation expense totaled \$5,348 and did not include any allocations from the parent company. In the MFRs for the current case, Transportation expense totals \$20,490 with allocations from the parent company. The following items relate to this expense:

- a) Please explain and justify the decision to switch from a direct allocation method to a multi-level allocation system for this expense.

Response: There was no decision to switch from a direct allocation method to a multi-level allocation system for this expense. Previously there were no allocations from the parent company for this expense because the parent company had little to no transportation expenses that it incurred. The \$20,490 Transportation expense for the test year only has \$23 worth of allocation from WSC to CLU.

- b) Please provide work papers and calculations detailing this expense including direct costs and any allocations for 2009, 2010, 2011, and 2012.

Response: Please see the file titled "Transportation Expense 2009-2012.xlsx" on the enclosed CD for the details for this expense including direct costs and allocations for 2009, 2010, 2011, and 2012.

- c) Please explain how these costs are determined and provide a detailed justification of how this cost provides a direct benefit to the Cypress Lakes systems.

Response: The 2005 rate case did not reflect the allocated transportation expense associated with newly added positions. For instance, the decision to read meters with our own personnel resulted in an increase in transportation expense while there was an offsetting reduction in contract services. The obligation to develop and execute a cross connection control program as mandated by FDEP required the creation of a headcount that resulted in additional transportation expense. The need to manage the many obligations and frequent additions to regulations that impact our operation required the creation of a Regional Compliance and Safety Manager slot whose responsibilities include making site visits to our facilities including Cypress Lakes. The creation of a Regional VP slot was necessitated by the need for upper level management to support the executive team's obligation to run the operating companies in conformance with all regulatory and environmental requirements. The RVP's travel expense is allocated across six states' worth of customer base. These transportation costs are determined by the costs that are booked to the Fuel, Auto Repair/Tires, Auto Licenses and Other Trans Expenses general ledger accounts. The total of these 4 G/L accounts, which include direct costs and allocations, is what makes up the company's transportation expense. The costs provide a direct benefit to Cypress Lakes because these transportation costs are related to vehicles that are used to service the CLU systems.

d) Please expand on the reasons cited on MFR Schedules B7 and B8 to justify the significant increase in transportation expense since the last rate case. For purposes of this response, provide documentation to support the requested increase in transportation expense.

Response: The increase reflects the complete posting of all allocated transportation expense in this docket that wasn't necessarily the case in 2005. For instance, in 2005 there was no RVP or Regional Compliance and Safety Manager or 1.5 FTE's for meter readers or a Cross Connection Technician, all of which generate transportation expense that is prudent in the execution of their necessary duties. Further, MFR Schedules B7 and B8 state that the increase in transportation expense since the last rate case is also due to an increase in fuel cost, the cost of tires and the cost of vehicle repairs. The increase in fuel and tire costs is due to the fact that the company now has more vehicles in its fleet than it did in the previous rate case. Because there are now more vehicles, there is more fuel being used and tires being replaced. In addition, because the company has more vehicles there are more repairs being done on those vehicles. As the vehicle fleet ages the frequency and complication of the repairs also continue to increase. Please see the file titled "Allocated Transportation Expenses 2012.xlsx" on the enclosed CD for the requested support for the increase in transportation expense.

7. Please clarify if any of the WSC employee capitalized time spent on the rate case was classified as overtime pay and provide a breakdown of the amount by employee.

Response: No employee time spent on the rate case was recorded as overtime.

8. What is the parent company's policy regarding personal usage of company issued cell phones? Are employees required to pay the parent company for personal usage? If so, how is this amount monitored?

Response: Please see the attached document titled "8 - Cell Phone Policy".

9. Please provide a breakdown by vendor, amount, and allocation of expenses recorded in the following general ledger accounts, including support documentation. In addition, please explain why the level of expense is a reasonable allocation to the Utility.

Response: This information will be provided as a supplemental response as soon as possible.

- a) Account No. 5945 - Office Telecom
- b) Account No. 6205 - Travel Entertainment
- c) Account No. 6207 - Travel Other

- d) Account No. 5875 – Kitchen Supplies
- e) Account No. 5797 – Contributions
- f) Account No. 6390 – Weather/Hurricane Costs
- g) Account No. 5870 – Holiday Events/Picnics

10. For each account listed in Question 9 above, please explain why the costs incurred in each category is necessary for the provision of regulated water and wastewater service in Florida.

Response: Each of the accounts listed above are necessary expenses which the Company incurs while providing service to its customers. For Office Telecom, the Company's employees could not adequately complete their tasks without being able to contact other people inside and outside the organization. For Travel Entertainment, individuals within the organization may be required to travel often and/or for long periods of time. Those individuals would not be able to access their usual entertainment. For Travel Other, occasionally there will be a travel related item that doesn't fit into any of the existing accounts. For Kitchen Supplies, these are basic items used by employees throughout the day. There were no Contributions during the test year. Weather/Hurricane costs are expenses incurred as a result of a meteorological event. The expenses are incurred to maintain facilities in operational condition. Holiday Events/Picnics are moral boosting activities which insure that the Company is able to attract and retain capable individuals.

11. According to the Utility's response to staff's first data request, the Utility updated its water and wastewater system maps in May 2012. In the breakdown of WSC capitalized time spent on the Utility's rate case, Susan DiPasquale's capitalized time in August 2012 and September 2012 is classified as "Cypress Lakes Maps." Please explain and justify the amount of Ms. DiPasquale's time spent working on maps in light of the previous expense for updating system maps.

Response: The system map update effort was initiated in May 2012 and completed in September 2012. Ms. DiPasquale's capitalized time reflects the effort expended in May when the map updating effort was initiated followed by the additional time spent in August and September to complete the work. The map update reflects the modifications, additions and improvements made to the water and sewer system since the previous map update including the addition of Phase 12 infrastructure, the consolidation of multiple maps and plans into a single-sheet system map, and the correction of errors or changes to street addresses and house numbers.

12. According to the affiliate audit conducted for Utilities Inc. of Florida in its 2012 rate case, audit staff noted expenses totaling \$25,559 in Account 6185 – Travel/Lodging related to a leadership meeting held at the Rosen Center Hotel. Based on the sampling of affiliate travel expense reports from the Utility's current 2012 test year, expenses totaled at least \$29,978 with a majority of the Rosen Center expense booked in Account No. 6205 – Travel Entertainment.

a) Please provide a breakdown by vendor, amount, and allocation of the total expenses associated with this meeting.

Response: WSC does not have a tracking instrument related to this expense. Individual employees submitted their costs related to this event on expense reports. However, WSC was able to identify a majority of the cost. Please see the attached document titled "12 a – Leadership Meeting Invoices".

b) Please explain the details of the meeting, including, but not limited to its purpose, who at Utilities, Inc. attends, and how often it has been held annually. In addition, please explain why the level of expense is a reasonable allocation to the Utility

Response: The purpose of the annual leadership meeting is to provide a forum for cross-functional senior leadership to meet, collaborate, share and learn. They can share knowledge, discuss innovative ideas and stay current on industry regulations, trends and technologies. The agenda also includes "state of the Company" presentations from various departments as well as in-depth planning sessions where Company goals and performance metrics are formulated. Company and industry best practices are shared and discussed. The annual leadership meeting has been held since 2008. The location was chosen because of its cost effective nature. Low travel expense and the ability to negotiate for lowest rates assures best value at the lowest expense possible.

If you or the Staff have any questions, please feel free to contact me.

Very truly yours,



MARTIN S. FRIEDMAN
For the Firm

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Florida Public Service Commission
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cc: Jason Barrett (via e-mail w/o attachments)
Patrick Flynn (via e-mail w/o attachments)
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Erik Sayler, Esquire (via US Mail)