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WILL WEATHERFORD
SPEAKER OF THE HOUSE OF REPRESENTATIVES

April 22, 2014

Carlotta S. Stauffer, Director
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket 130243 -- Application for staff-assisted rate case in Highlands County by Lake Placid Utilities Inc.

Dear Ms. Stauffer:

Attached is a list of issues that the Office of Public Counsel has prepared to identify concerns we have with the information included in the staff report that addresses the preliminary review of the requested rate increase. We are submitting this letter in an effort to be up front with our concerns and allow the staff and utility sufficient time to review our concerns and ask for any additional information that might be needed. If you should have any questions, please feel free to call or e-mail me.

Respectfully submitted,

s/ Denise N. Vandiver

Denise N. Vandiver
Legislative Analyst

c: Division of Accounting & Finance (Prestwood, Mouring, Golden, Vogel)
Division of Economics (Hudson, Roberts)
Division of Engineering (Lewis, Watts)
Office of the General Counsel (Teitzman, Tan)
Office of Auditing and Performance Analysis (Deamer)

Friedman, Friedman & Long, P.A.
Martin S. Friedman

Lake Placid Utilities, Inc.
Patrick Flynn

Office of Public Counsel (Reilly)

OPC Issues and Concerns
Lake Placid Utilities, Inc.
Docket No. 130243-WS

Quality of Service

1. We listened to the recording of the customer meeting held by staff with the Lake Placid customers. We note that one or two customers were concerned that the water pressure in “Tower 1” and “Tower 2” is very low to non-existent at times during the day. We believe that staff should follow up on this issue and determine whether the utility is providing satisfactory pressure to customers in Tower 1 and Tower 2.

Used and Useful Plant

2. Wastewater Treatment Plant: The staff report determined that the wastewater treatment plant is 28.5% used and useful. The staff report then applied this percentage to the plant balance used in the last two rate case orders.

To address the history referenced in the staff report, Commission Order No. PSC-07-0287-PAA-WS made the following statement:

However, in a review of Schedule A-6 of the MFRs, we discovered that the utility appears to have transferred a large portion of the balance in Account 380 to Account 354. This transfer occurred during the test year. This transfer has the effect of decreasing the average balance in Account 380, Treatment and Disposal, while increasing the average balance in Account 354, Structures and Improvements [Treatment Plant]. In some situations, a transfer of this type would have no effect on rate base, but it does here. In this case, we applied a 69.54% non-used and useful adjustment to Account 380. No adjustment was approved in the last case for Account 354. Therefore, a transfer from Account 380 to Account 354 in December 2005 has the effect of increasing rate base and revenue requirement.

Further, Commission Order No. PSC-11-0015-PAA-WS made the following statement:

...consistent with our decision in the Utility's last rate case, this U&U percentage shall also be applied to \$170,670 of plant recorded in Account 354.

We do not believe that the Commission should continue applying the used and useful percentage to the old plant balance. We believe that the used and useful percentage should be applied to the current balance of wastewater treatment plant. By continuing to rely on the 2007 order, the Commission is ignoring all plant additions made since the 2005 test year used in that order. Based on the Commission audit work papers, it appears that at the end of the test year, there is \$237,175.93 in Structures & Improvement – Treatment Plant and \$54,606.69 in Treatment & Disposal Equipment – Treatment Plant. We believe that the used and useful adjustment should be applied to these balances instead of the 2005 test year balance.

Capital Structure

Deferred Income Taxes

3. Deferred Income Taxes are typically **credit** balances on the company balance sheet and the Florida Public Service Commission includes these in the capital structure as

OPC Issues and Concerns
Lake Placid Utilities, Inc.
Docket No. 130243-WS

a zero cost source of capital. In the last rate case, there was an average **credit** balance of \$16,276 for Deferred Income Taxes. The capital structure schedule in the current staff report included an average **debit** balance of \$19,412 for deferred taxes (\$22,175 is the year-end balance for the test year.) Staff has reflected this balance in rate base (allocated between water and wastewater.)

The staff report indicates that the audit staff reviewed the deferred tax records and determined that the **debit** balance for deferred taxes was appropriate. Our review of the audit work papers does not indicate any analysis of the entries recorded in the deferred tax accounts. The utility records deferred taxes by the type of account that creates the deferral. (For instance, timing differences in income tax payable created by a difference in the depreciation rate used for income tax purposes vs. PSC purposes are recorded in an account titled Def. Fed. Tax – Depreciation.)

We reviewed the entries to the deferred tax accounts and found that most of the balances increased and decreased in a manner that was expected. However, our review found two questionable adjustments in 2011 and 2012 that staff should review more closely. In 2011, the utility reduced (**debited**) the deferred federal taxes by \$34,993 and reduced (**debited**) the state taxes for depreciation by \$5,990. In 2012, the utility reduced (**debited**) the deferred federal and state taxes for Organization Expense by \$30,468 and \$5,215. These two sets of adjustments reduced the typical net **credit** balance of deferred taxes to an unusual **debit** balance for the net accounts.

Our review of the changes to plant balances did not indicate any significant additions or retirements that would impact the deferred taxes. We found adjustments to accumulated depreciation for what appeared to be Commission Ordered Adjustments (COAs). However, we believe that any adjustments made to accumulated depreciation to reconcile to prior commission orders are in essence a prior period adjustment and should not affect the balance of deferred taxes established by the commission for this system in the last rate case. Therefore, we believe that these **debit** adjustments should be removed from the balance of deferred taxes and the remaining net **credit** deferred taxes should be included in the capital structure as a zero cost component of the capital structure.

O&M Expenses
Salaries & Wages

4. The staff report included Salaries & Wages Expense of \$46,515 for the water system and \$54,614 for the wastewater system. Our review of the salaries included in these accounts also included a review of the expense for Contractual Services – Other

The staff report also includes Contractual Services – Other of \$29,290.91 (\$11,600 for the water system and \$17,691 for the wastewater system.) The majority of this account is for payments made to two outside vendors for the following services:

- Water and Wastewater Operations
- Turn-Ons and Turn-Offs

OPC Issues and Concerns
Lake Placid Utilities, Inc.
Docket No. 130243-WS

- Annual Sludge Analysis
- Monthly Testing
- Service Calls (repairs and maintenance)
- Flushing Lines
- Repair or Replace Lift Station Pumps
- Mowed Ponds and Sides of Road
- Calibrate Flow Meter
- Meter Reading

This account is 20% of the total revenue requirement and results in an impact of about \$20 a month on each customer bill. We are concerned because in addition to these contractual services – other expenses, which appear to cover most of the plant operations and maintenance, there are still salaries and other expenses on top of this, such that the total cost to customers is rather high.

The utility allocates \$12,000 in Salaries and Wages for Florida employees and approximately \$8,700 was for plant operators. We believe that these additional costs of \$8,700 should be examined to verify that the salaries that are allocated on ERCs do not duplicate services provided by the contractual services.

Chemicals

5. The staff report includes an audit adjustment to reallocate chemical expense and to add two invoices that were not included in the general ledger. Audit WP 43-8 shows a listing of expenses and the company document numbers. The two invoices that are added to the expense indicate Document #433970 for \$195 and Document #433971 for \$39. These two document numbers are already included in the list of all invoices that is in chronological order. Therefore, we believe that these two invoices do not need to be added to the test year expense.

Transportation Expense

6. The staff report includes Transportation Expense of \$2,101 (\$1,046 for the water system and \$1,055 for the wastewater system.) This amount appears to reflect the adjustment in the staff audit report. (Audit WP 48 and 48-6.1 include the calculations.) However, we believe that there are several errors in the audit calculation.

The table below shows the transportation expense that is allocated to Lake Placid, by each employee position. The first error appears to be that the audit total of \$2,101 does not include the \$433 at the top of the column.

Our review of the work papers supporting this allocation also found an apparent error for the percentages used to calculate the transportation expense. It appears that the Excel schedule does not reference the correct ERC allocation percentages. The cells referenced in the excel schedule appear to be incorrect. We used the employee allocation factors as shown in the WP 45-6 series and applied these factors to the total cost per vehicle that was calculated to be \$5,577.50 on audit work

OPC Issues and Concerns
 Lake Placid Utilities, Inc.
 Docket No. 130243-WS

paper 48-6.1. This results in an allocated transportation expense of \$1,519 (\$582 less than the staff report.)

Lake Placid Utilities, Inc.						
Transportation Expense (650/750)						
					<u>Correct</u>	
	<u>Position</u>	<u>Trans Cost</u>	<u>Erroneous Audit</u> <u>Report %</u>	<u>Transportation</u> <u>Exp Per Audit</u>	<u>Allocation %</u> <u>45-6 or 44.2</u>	<u>OPC</u> <u>Allocation</u>
G BRUCE	OPERATOR I	5,577.50	7.77%	433.40	6.25%	348.59
R CHARD	CROSS CONNECTION TEC	5,577.50	13.57%	756.79	1.39%	77.53
R DURHAM	REGIONAL VICE PRESID	5,577.50	1.52%	84.63	0.16%	8.92
P FLYNN	REGIONAL DIRECTOR	5,577.50	2.56%	142.80	0.26%	14.50
D HAMILTON	OPERATOR I	5,577.50	2.91%	162.12	16.72%	932.56
S HAWS	REGIONAL COMPLIANCE	5,577.50	2.64%	147.20	0.16%	8.92
M WILSON	LEAD WATER-WASTEWATE	5,577.50	13.57%	756.79	1.39%	77.53
	ADD. VEHICLE	5,577.50		50.43		50.43
				<u>2,100.76</u>		<u>1,518.99</u>
					Adjustment	(581.77)

- In addition to the allocation adjustment, we are also concerned with why there are charges of \$348.59 and \$932.56 for two plant operators for this small Class C system. The utility pays Pugh Utilities Service for plant operations and we do not believe that the ratepayers should incur additional costs for operators at other Florida systems.

Rate Case Expense

- The staff report includes Rate Case Expense of \$9,251 for the water system and \$11,366 for the wastewater system. This includes \$10,036 for the amortization of rate case expense in the prior rate case and \$10,577 for the amortization of the \$42,308 in rate case expense for the current rate case. This \$42,308 in current rate case expense is almost double the amount of the recommended increase of \$16,739 for the water system and \$4,481 for the wastewater system. We have several concerns regarding this level of rate case expense in the current rate case. First, we believe that it is unreasonable and imprudent to include rate case expense that is higher than the amount of the revenue increase. It is not reasonable to expect a company to pay more than the amount they expect to receive in a rate increase. We believe that indicates an imprudent business decision on the part of the utility management.
- Second, the staff report includes the current filing fee and costs for noticing and mailing. In addition, the staff report included consulting fees and attorney fees (using amounts approved in the last rate case as a basis). However, these amounts used

OPC Issues and Concerns
Lake Placid Utilities, Inc.
Docket No. 130243-WS

already include the filing fee and the noticing and mailing expense. We believe that this is a duplication of costs and should be removed.

10. Third, the staff report included engineering fees of \$3,200 based on the amount included in the last rate case. The invoices submitted in the last case were for the preparation of Used and useful schedules by M&R Consultants. We have not seen any similar work in this case and these expenses should be removed.
11. Fourth, as indicated above, the staff report included legal fees based on the amounts approved in the last rate case. However, in the last rate case, the legal fees included nine months of costs that the utility incurred while OPC and the utility discussed a settlement of the case or the ultimate decision to allow a staff-assisted rate case instead of a file and suspend case with MFR's. These costs were substantial and totaled approximately \$14,000 for both in-house labor and legal fees. There were no such settlement negotiations with resulting in-house labor and legal fees in the current rate case.
12. Last, we have not seen any invoices or cost reports indicating what the utility has actually spent in this case. We would encourage staff to carefully review all costs as one of the purposes of a staff-assisted rate case is to keep rate case expenses low as they have such a significant impact on small companies such as Lake Placid.