ANDY GARDINER
President of the Senate

J.R. Kelly
Public Counsel

STATE OF FLORIDA
OFFICE OF PUBLIC COUNSEL

C/O THE FLORIDA LEGISLATURE
111 WEST MADISON ST.
ROOM 812
TALLAHASSEE, FLORIDA 32399-1400
1-800-342-0222

EMAIL: OPC_WEBSITE@LEG.STATE.FL.US
WWW.FLORIDAOPC.GOV

STEVE CRISAFULLI
Speaker of the House of Representatives

February 18, 2015

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

Re: Docket 140060-WS -- Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation

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 docket file regarding the Sanlando rate case. 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 (Norris, Buys, Rigol, Frank, Monroe, Vogel, T. Brown, Maurey, Bulecza-Banks, Cicchetti, springer, Fletcher)
Division of Economics (Thompson)
Division of Engineering (Hill, King, Graves, Rieger)
Office of the General Counsel (Young)
Office of Auditing and Performance Analysis (Deamer)

Office of Public Counsel (Truitt)

Sanlando Utilities Corporation
Mr. Patrick C. Flynn
200 Weathersfield Avenue
Altamonte Springs, FL 32714-4027

Friedman Law Firm
Martin S. Friedman
766 North Sun Drive, Suite 4030
Lake Mary, FL 32746

Commission Ordered Adjustments

1. The PSC should penalize the utility for continuing to mishandle the adjustments to its books and records based on prior Commission orders. We believe that one option is to delay or dismiss the rate case until the utility can prove that its books are in compliance with prior Commission orders. As long as there is no penalty to the utility, there is no incentive for the utility to correct its books and records once and for all. We believe that there is sufficient evidence that the utility continues to fail to book prior Commission orders and the rate case should be dismissed.

    a. The Chairman's letter approving the test year has this paragraph in it:

    > In addition, Sanlando should satisfactorily document that it has recorded all adjustments to the Utility's general ledger and accounts that have been ordered by the Commission in any prior proceeding relating to this system. If adjustments were ordered for prior periods that impact subsequent years, the related adjustments shall also be made to reflect the impact for the appropriate period up to and including the approved test year. Further, Sanlando should be prepared to justify its requested test year operation and maintenance expenses, particularly those which have increased above the level of customer growth and inflation from the year ended five years prior to the test year.

    b. Staff Audit Finding 1 states that the auditors were unable to reconcile the schedules provided by the utility to the Commission's prior ordered adjustments. Further, the Utility did not respond in a timely manner to the auditors' requests for information and explanation of the adjustment schedules.
    c. Staff's Affiliate Audit Finding 4 also adjusts for Commission Ordered adjustments that were not made at the corporate and regional levels.
    d. The staff's audit for Sanlando dedicates 311 pages (out of 1,298 pages, or 24%) to its attempts to reconcile the utility's books to the prior Commission orders.

Quality of Service

<u>Water Quality</u>

2. On October 17, 2014, Mr. George Hammer filed a letter in Document No. 04665-14 describing pressure problems and the lack of a response from the utility. We believe that the staff should follow up on Mr. Hammer's concern and determine if there is a specific problem or if it is a systemic problem, both of which should be rectified by the utility.

RATE BASE

Utility Plant In Service

3. Staff audit work papers 16-3, 16-4, and 16-5 document the plant additions that the auditors tested for whether they were correctly included in the utility plant in service balances. The work papers indicate several items that were replacements but no corresponding retirement was included in the utility's books. Audit Findings 4 – 9 address many of these items. However, we believe that the following items were identified where adjustments should be made to plant and were inadvertently missed from the audit findings.

Audit WP	Date	OBJ Code	NARUC #	Vendor	Amount	Audit Note
16-3	10/26/11	1105	311.3	Locke Well & Pump	5,465.15	Replacement: Change out check valve
16-3	8/22/11	1195	344.5	USA Bluebook	428.42	Expense: Phosphate Pocket Colorimeter test kits
16-5	3/18/13	1140	334.4	Sunshine Building	3,744.52	Replaced utility's side gate valve and meter. Meter failed spec and gate valve leaked.

We believe that a corresponding retirement should be reflected for the first and third items which would result in a reduction to water plant of $4,099 and $2,808 for the two items. A corresponding adjustment should also be made to accumulated depreciation and depreciation expense. The third item should be removed from plant as it should have been an expense in 2011. These three adjustments reduce plant in service by $7,336.

4. Staff audit work paper section 19 provides information regarding the actual costs related to the pro forma plant that was included in the last rate case. Page 13 of Commission Order No. PSC-13-0085-PAA-WS lists 5 pro forma plant projects that were included in the last order. OPC has concerns regarding the significant increased costs over the projected costs for three of these projects. We believe that the Commission evaluated the reasonable cost of the projects in the last rate case and substantial increases such as these should be further evaluated for reasonableness.

   A. Project 1 on Page 13 of the order is for the FDOT scheduled widening of SR 434. This project was projected to cost $165,000 and would be complete by approximately October 1, 2013. However, the project has not been completed and the accumulated cost shown in the audit work papers is $230,918.11. The utility explained that the delay was based on delays caused by the FDOT contractor. However, the audit work papers indicate that the current accumulated balance of costs will be increased by at least another $19,245 (WP19-1/1 p. 1). Based on the current total projected cost, it appears that the project will be completed at a price 52% higher than originally estimated. The majority of this increase includes capitalized labor and AFUDC. The utility contractor for this project has invoiced the utility for $145,755. The capitalized labor through August 19, 2014 is $59,721 and the AFUDC through July 2014 is $25,442.45.

OPC is concerned with the following issues:

- What work has the utility provided that required $59,721 in capitalized labor over and above the work performed by the contractor?
- Why has the utility continued to accrue capitalized labor (January 2013 through August 2014) but the contractor has not billed for work since May 2013?

B. Project 2 on Page 13 of the order is for a force main replacement that was included at a cost of $61,644. The audit work papers indicate that the balance of costs closed to fixed assets was $122,896 (WP19 p. 2). This is almost double the amount that the Commission reviewed in the last rate case. The $61,644 included in the last order is the amount paid to the contractor Sunshine Building & Construction. This project was closed to Fixed Assets on October 31, 2012, but the last charges to this project were incurred in September 2011. The amount transferred to Fixed Assets included $47,408.90 for WIP-Engineering described as "May 11 Clean Up CP 2009719", plus $10,489.65 for capitalized labor and $3,352.78 for AFUDC. The "WIP-Engineering" costs were transferred to this project on May 1, 2011.

OPC is concerned with the following issues:

- Why were the total costs not provided to the Commission for its review of the project?
- What are included in the engineering costs? The engineering costs appear to be higher than usual for a project this size.
- The capitalized salary is about 17% of the total contract price. What work did the utility provide that required $10,489.65 in capitalized labor over and above the work performed by the contractor?

C. Project 4 on Page 13 of the order is for an engineering report on the Wekiva-Apopka Reuse Main that was included at a cost of $125,000. The audit work papers indicate that the balance of costs closed to fixed assets was $233,833.20 (WP19-1/1 p. 3). This is 87% higher than the amount that the Commission reviewed in the last rate case. Audit work paper 19-1/1-1 pages 1-3 list the engineering and legal invoices included in this project. It appears that the engineering contract was increased from $125,000 to a total payment of $187,810.76. What factors contributed to the increase in the engineering contract? What additional duties were performed by the engineering firm?

<u>Pro Forma Plant</u>

5. The utility requested a pro forma plant item of $2,200,000 for the Wekiva Hunt Club WWTP EQ Tank and Headworks. The total estimated engineering costs (SDR #3 Item 7) total $120,225. The total bid for the project is $2,065,000. These total $2,185,225 which is $38,775 less than the estimate. Pro Forma plant should be reduced by this amount.

6. The utility requested a pro forma plant item of $600,000 for Wekiva Hunt Club WWTP Electrical Improvements. The total estimated engineering costs (SDR #3 Item 11) total $42,000. The total bid (plus change orders) for the project is $215,478.30. These total $257,478.30 which is $337,522 less than the estimate. Pro Forma plant should be reduced by this amount.

7. The utility requested a pro forma plant item of $1,000,000 for Collection System Improvements. The completed actual costs for this project (SDR #3 Item 14) total $973,127.43 which is $26,873 less than the estimate. Pro Forma plant should be reduced by this amount.

<u>Contributions In Aid Of Construction (CIAC) and Accumulated Amortization of CIAC</u>

8. Staff Audit Finding 13 indicates that the utility attempted to “retire” CIAC and Accumulated Amortization balances during the test year for balances that were “over-amortized”. The audit finding and the supporting audit work papers indicate CIAC balances by plant designated accounts. However, these accounts total more than the amount of contributed property reported on Schedule A-12. We believe that these entries are inappropriate for the following reasons:
    a. Commission Rule 25-30.140(9), Florida Administrative Code requires that CIAC and Accumulated Amortization be maintained using separate sub-accounts that are detailed in the rule. MFR Schedule A-12 appropriately reflects CIAC in these sub-accounts. The rule further allows separate amortization rates by sub-account. If a particular sub-account reaches a point where it is fully amortized, we believe that future amortization may be suspended for that sub-account.
    b. However, based on the amounts indicated in the audit work papers, it appears that the utility has allocated cash CIAC to plant designated accounts.
    c. In the Settlement approved by Commission Order No. PSC-14-0044-FOF-WS, the utility agreed that for “those systems where cash CIAC has been inadvertently allocated to plant designated

accounts, all cash CIAC shall be moved back to the appropriate cash CIAC accounts."

d. By "retiring" cash CIAC based on an inappropriate allocation to plant designated accounts, the utility is manipulating the amortization expense that should be included as an offset to depreciation expense.
e. We believe that the entries should be reversed and the allocated cash CIAC should be restored to the appropriate sub-account, as agreed to by the utility in the settlement agreement.

NET OPERATING INCOME

Revenues

9. The Corporate 101 General Ledger indicates Revenues of $110,619 from Home Service, an independent contractor that provides maintenance contracts with Sanlando's customers. We believe that these revenues should be allocated to the utility systems as the only reason that the corporate level is able to receive these revenues is because it provides monopoly service to the utility customers. If the utility is able to profit from this relationship, we believe that those profits should be shared with the utility customers and used to help offset utility expenses.

Unaccounted For Water

10. In response to Staff's 2nd data request, the utility discussed an open valve that was delivering water from OUC (approximately 125,000,000 gallons for 2013) which contributed to the negative unaccounted for water calculation found in the MFR's. The utility has requested an increase in Purchased Power and Chemical expense as it will be treating an additional amount of water to make up for closing this valve. We have been unable to fully understand the calculations provided in the schedules provided so our questions are listed below:
    a. It appears that on the Chemical Schedule, the utility is multiplying the "feed rate" times $125. We are not sure what the $125 represents. Based on the chemical schedule in the MFRs Volume II, it appears the unit price is .80 (which is similar to the .81 listed in the response to the data request.) This question is the same for Chlorine as well as Phosphate (but the unit price for Phosphate appears to be 6.90.)
    b. The feed rate may be a more precise calculation than increasing the chemical use by the 2.9% indicated on the schedule, but we believe that staff should carefully check the formulas to determine the effect.
    c. We have similar questions regarding how the $125 is applied to the purchased power calculation when calculating the expected increase.
    d. As a note, it appears that there is an inconsistency in the purchased power expense reported in Document No. 04993-14. The Purchased Power expense for the Wekiva water plant is

reported as $17,837.43 for the amount paid in August 2013. However, staff audit work paper 44-1, page 5 reflects an expense of $13,837.43.

Salaries and Wages

11. We reviewed the staff audit of affiliate transactions and the recommended adjustment to salaries, wages, benefits, and taxes (Finding 8). We agree that the MFRs should be adjusted to reflect the salaries that the utility has justified. The annualized salary adjustment appears to include an across the board 3% increase. We disagree that the utility should be granted an across the board salary increase.

Contractual Services - Engineering

12. Audit Finding 17 removes two invoices from CPH Inc. from expenses and reclassifies them to the pro forma project for the Wekiva Surge Tank Expansion. We agree with this audit finding.

Contractual Services – Other

13. We reviewed the staff audit work papers and the utility general ledger for the audit of the affiliate transactions. Our review of the Company Code 102 general ledger for Object Code 5750 (Internet Supplier) indicates what appears to be 13 monthly payments included in the account that is allocated to Sanlando. We believe that the second December payment of $13,942.91 should be removed, which will reduce Sanlando expenses by $1,101 (7.90% * 13,942.91).

14. Our review of the Company Code 102 general ledger for Object Code 6050 (Other Outside Services) indicates a May entry for $18,225. Audit WP 43-7.4 indicates it is for "review of forecast for 3 market (LUSI, Carolina, Louisiana). We believe that his should be a direct charge to those systems and the amount allocated to Sanlando should be removed. This will reduce Sanlando expenses by $1,440 (7.90% * $18,225).

15. Our review of the Company Code 102 general ledger for Object Code 5735 (Computer Maintenance) indicates an increase from $112,330.12 in 2012 to $122,272.80 in 2013 (an 8.9% increase). We believe that this appears high and should be justified by the utility.

Insurance Expense

16. Our review of the Company Code 102 general ledger included a review for Object Code 5715 - Insurance expense. In response to Audit Request Number "Affiliate 4", the utility submitted an Excel file titled "Prepaid Insurance Schedule for 2013.xlsx." Our analysis of this schedule indicates some unexplained fluctuations in the monthly insurance charges.
    a. The Life Insurance component includes a monthly charge of $5,000 except for February ($15,000), March ($10,000), and April ($10,000). We are concerned with who is covered by the life

insurance policies as well as why the charges are two and three times higher in these three months.

b. The “Other” component for Insurance includes widely varying charges each month. We are concerned what is included in this “Other” component that is 20% of the total account. We are also concerned specifically with April, May, and September where the charges are significantly higher than the average charge for the year. (The average charge is about $42,000 and these months reflect charges of $64,745, $59,347, and $97,659.)

Rate Case Expense

17. The test year expense in the MFRs includes more than the amount allowed in the prior order. PAA Order PSC-10-0423-PAA-WS was issued July 1, 2010 in Docket No. 090402-WS. The four year amortization of the rate case expense expired in the Fall of 2014 and should be removed from the test year expenses for setting rates going-forward. The utility included $169,647 in test year expenses for rate case expense amortization. Removing the requested rate case expense for the current rate case leaves a balance of $112,872. This should be reduced by $56,167 to reflect only the $56,705 allowed as the annual amortization in the last rate case. This results in a reduction of $31,255 to the water expense and $24,912 to the wastewater expense.

18. The estimated rate case expense for the current rate case included $95,000 for an estimated 2,000 hours charged by WSC In-House staff. However, in response to staff’s third data request, the utility submitted the hours that the staff spent on the rate case. These hours totaled 856 historical hours and 64 estimated hours. This only totals 920 hours compared to the estimated 2,000 hours. We believe that staff should first verify that the listed employees are not included in the salary expense for the test year. If the rate case expense would not include double recovery of these salaries, we believe that the $95,000 should be cut at least in half to reflect the lower level of salaries actually needed to complete the rate case.

19. The estimated rate case expense for the current rate case included $53,000 for estimated Legal Fees and $4,000 for the estimated Filing Fee. Based on the utility’s response to Staff’s 3rd Data Request, the utility is estimating total actual and estimated legal Fees to be $44,336.72. This includes a filing fee of $9,000. Therefore the estimated rate case expense should be reduced by $12,663.28. (In addition, the utility identified certain legal costs to respond to the staff’s deficiency letter regarding the MFR's. These costs should also be removed as well as any related costs for the other consultants and company staff.)

Miscellaneous Expense:

20. The staff audit report addresses the retirement of the Woodlands Des Pinar (WDP) wastewater treatment plant (Audit Finding 3). The audit report

recommends that approximately 9.94 acres of the 22.27 acre WDP site contained the three percolation ponds and the related cost should be moved to a Land Held for Future Use account. The audit report also identified $25,800 the utility paid for landscape and lawn services for all the water and wastewater plant sites in 2013 (Page 10). The Commission has previously reduced expenses for costs of mowing the portion of land no longer included in rate base.[1] We believe that a similar adjustment should be made to reflect the landscape and lawn service costs related to the 9.94 acres moved to Land Held for Future Use. Staff audit work paper 29-10 page 1 indicates a total of 60.87 acres for utility plant land. Using these acreage numbers results in an amount of $4,213 in landscape and lawn services costs related to the WDP plant retirement. We recommend that Miscellaneous Expense be reduced by $4,213 to reflect the portion of land that is no longer serving current customers.

21. Our review of the Staff Affiliate Audit work papers (WP 7-1) found that the Company Code 102 general ledger for Object Code 5955 (Office Landscape/Mowing) experienced a significant increase in 2013 over 2012 costs ($14,497 in 2012 and $31,157 in 2013) Our review of the general ledger entries and the audit staff descriptions of the invoices provided indicates three invoices for tree removal. These represent most of the significant increase over the prior calendar year (May: $6,875, June $2,775, and September $2,390 for a total of $12,040). These appear to be non-recurring and should be removed or amortized.

22. Our review of the Staff Affiliate Audit work papers found multiple payments for a Leadership Training Conference in Orlando at the Rosen Conference Center. These costs appear to be unreasonably high costs and the utility at a minimum should provide additional information as to how these costs benefit the utility customers and what benefit the customers receive for this level of expenditure. In a prior rate case,[2] these costs were removed due to inadequate justification. The Commission found “that the costs associated with this meeting shall not be borne by the ratepayers, especially in light of the minimal accountability of the event’s expenses.” We believe that the utility should be required to identify the total cost related to this training. The utility has been put on notice to justify the cost. Without any further justification, we believe that, at a minimum, the costs below should be removed and Sanlando’s expenses should be reduced accordingly. The effect on Sanlando would be a reduction of $3,703 (7.90% * $46,870.06).

[1] See Order No. PSC-02-0487-PAA-SU, issued April 8, 2002, in Docket No. 010919-SU, In re: Application for staff-assisted rate case in Marion County by BFF Corp.

[2] See Order No. PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

Rosen Leadership Training Conference Costs (Audit WP 43-7.5)				
OBJ	DESCRIPTION	DATE	DEBIT	Audit Description
6185	ROSEN CENTRE HOTEL	1/9/2013	1,000.00	Deposit for Rosen Centre Hotel (Leadership Team Meeting)
6185	CARDMEMBER SERVICE	4/3/2013	9,252.41	Rosen Centre Lodging for Leadership Meeting
6185	CARDMEMBER SERVICE	7/10/2013	7,810.00	Remaining Balance for Leadership Team Meeting
6190	Japczyk, James F.	3/18/2013	1,222.60	Airfare to Vancouver-Corix Mgmt Strategy Mtg/to Orlando-Leadership Mtg
6200	CARDMEMBER SERVICE	4/3/2013	3,500.00	Rosen Centre Meeting Rooms and catering for Leadership Meeting
6200	CARDMEMBER SERVICE	5/10/2013	5,503.60	Dinner for Leadership Meeting
6200	CARDMEMBER SERVICE	7/10/2013	7,810.00	Remaining Balance for Leadership Team Meeting
6200	CARDMEMBER SERVICE	5/10/2013	10,771.45	Remaining Balance for Leadership Meeting
			46,870.06	

Depreciation Expense:

23. Our review of the Amortization of CIAC Expense for water indicates that the utility included a negative water amortization expense. To clarify, the utility INCREASED depreciation expense by $4,542 for what it labelled as Amortization of CIAC. However, amortization of CIAC should always serve to reduce the level of depreciation expense. Our review of the adjustments included in the staff audit reports indicates that the audit adjustments may have corrected the error that led to the utility's erroneous expense on MFR Schedule B-13.

Real Estate Taxes

24. Schedule B-3, Page 2 of 2 calculates ad valorem taxes on total net plant additions. The adjustment used a 2013 tax millage rate of 16.005 and 2014 tax rate is 15.5291. Any adjustments to property taxes should use the updated millage rate of 15.5291.

25. By letter dated February 11, 2015, the utility requested an additional pro forma increase to property taxes due to "a substantial increase" in property taxes. The property taxes included in the letter totaled $424,446. The MFRs requested a total of $401,523 for property taxes, a difference of approximately $23,000. Therefore we undertook a further review of the property taxes. Our review of the bills attached to the utility request indicates that the millage rate decreased in 2014. However, the assessed value increased. We further compared the total assessed value to the net plant balance in the 2012 and 2013 annual reports. It appears that the assessed value may have some correlation to the net plant (gross plant less accumulated depreciation.) Therefore, we compared the 2014 millage rate to the net plant included in the MFR's. Our rough calculations indicate

that the requested property taxes may be approximately $14,000 too low. However, we encourage staff to carefully consider any increases and that the property tax should be correlated to the net plant after staff's recommended adjustments to plant and accumulated depreciation. While the utility has already included requested pro forma plant increases in its MFR calculation, if staff recommends adjustments to plant for retirement, these should also have an impact om property taxes.

26. As discussed previously, the staff audit report addresses the retirement of the Woodlands Des Pinar (WDP) wastewater treatment plant (Audit Finding 3) and recommends that approximately 9.94 acres be moved to a Land Held for Future Use account. Staff audit work paper 29-10/1-5 page 1 includes a 2014 real estate tax bill for the WDP 9.94 acres of $2,386.36. With the 4% discount for paying in November, the utility recorded an expense of $2,290.91. We recommend that the Real Estate Taxes be reduced to reflect the amount related to the portion of land that is no longer serving current customers.

<u>Income Taxes</u>

27. We have reviewed the Income Tax Schedules included in the MFR's and have the following questions.
    a. Schedule C-5, Page 2 of 2, Line 2 reflects Tax Depreciation and Amortization. The tax depreciation reported for the wastewater system of $796,031 appears to be lower than expected.
        i. total Wastewater Plant is larger than total Water plant,
        ii. the utility added $4.6 million of wastewater plant in 2013 that should have been available for bonus depreciation,
        iii. we would expect to see tax depreciation higher than the water tax depreciation of $2,173,104,
        iv. tax depreciation reflected in the final adjusted column for wastewater is lower than the adjusted depreciation expense on Schedule B-14 (Generally, tax depreciation expense is greater than book depreciation expense).
    b. Schedule C-5, Page 2 of 2, Line 3 reflects Book Depreciation and Amortization and includes the Schedule B-3 Page 2 of 2 Adjustments for Depreciation on Pro Forma Plant (Line 22 $168,850 less Line 24 $14,085). However, there is no imputation of tax depreciation for these items and the impact on Deferred Taxes. In Commission Order No. PSC-14-0044-FOF-WS, the Commission accepted the utility and OPC's settlement on seven issues. Page 9 of the Commission order includes the utility's agreement that for "rate cases, Utilities Inc. should make adjustments to it's capital structure as necessary to reflect the proper amount of deferred income taxes on pro forma plant additions." We believe that the Deferred Taxes included in the Capital Structure should be adjusted to reflect the impact of the approved pro forma plant.

c. Schedule C-5, Line 14 reflects “Other” adjustments to reduce deferred taxes. The explanation for this line is that the adjustment is “needed due to the fact that the Company's tax schedules were done prior to the Company's books being closed”. The utility should provide additional information to justify these significant decreases to deferred income taxes.
d. Schedule C-2, Page 2 of 2, Line 10 reflects Permanent Differences from Schedule C-4 (which describes these differences as Interest During Construction). However, page 2 (Wastewater Taxes) has reversed the sign and reflects it as a positive number instead of a negative number as reflected on schedule C-4.
e. Schedule C-2, Line 11 reflects Total Timing Differences from Schedule C-5. However, the numbers do not appear to have been brought forward from Schedule C-5 correctly. Page 1 of 2 for the water system appears to reverse the sign and does not pick up the test year adjustments. Page 2 of 2 for the wastewater system does not pick up the utility adjustments or the test year adjustments.