FILED MAY 15, 2015
DOCUMENT NO. 02869-15
FPSC - COMMISSION CLERK

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 140060-WS

APPLICATION FOR INCREASE IN WATER AND WASTEWATER RATES IN SEMINOLE COUNTY BY SANLANDO UTILITIES CORPORATION.
________________________________/

PROCEEDINGS:	COMMISSION CONFERENCE AGENDA ITEM NO. 4
COMMISSIONERS PARTICIPATING:	CHAIRMAN ART GRAHAM COMMISSIONER LISA POLAK EDGAR COMMISSIONER RONALD A. BRISÉ COMMISSIONER JULIE I. BROWN COMMISSIONER JIMMY PATRONIS
DATE:	Tuesday, May 5, 2015
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LINDA BOLES, CRR, RPR Official FPSC Reporter (850) 413-6734

P R O C E E D I N G S

CHAIRMAN GRAHAM: Okay. Commissioners, let's go back to the beginning of the agenda. Item No. 1.

MR. WILLIAMS: Commissioners, Curtis Williams, Pam Page, and Bob Casey on behalf of staff. Item 1 --

CHAIRMAN GRAHAM: Curtis, hold on one second.

(Pause.)

Let's move on to Item No. 4 and come back to Item No. 1.

(Pause.)

So I take it Item No. 4 is one of those group efforts, huh?

(Laughter.)

Okay. Staff, take us through Item No. 4.

MR. GRAVES: Good morning, Commissioners. Robert Graves with staff.

Item 4 is an application for an increase in water and wastewater rates for Sanlando Utilities Corporation in Seminole County. The utility has waived the five-month statutory deadline to today, May 5th, for the Commission to address the utility's requested final rates.

The utility requested revenue increases of 15.7 percent for water and 13.7 percent for wastewater. Staff is recommending a revenue decrease of 5.4 percent for water and a revenue increase of 21.3 percent for wastewater; however, giving consideration to the utility's reuse system, staff is recommending that a portion of wastewater revenues be allocated to water. This results in a revenue increase for both water and wastewater revenues.

Counsel for the utility as well as members from the Office of Public Counsel are here. And staff has requested oral modifications to this recommendation, and all related parties have been supplied with this information. If you wish, Commissioners, staff is prepared to discuss these changes.

CHAIRMAN GRAHAM: Let's go through those changes.

MR. GRAVES: All right. And I'll, I'll start us off on Schedule 4B, Commissioner, we had a scrivener's error. For the column titled 10,001 to 15,000 gallons -- or rather the row titled that -- in the second to last column, instead of reading $1.59, it should read $1.39.

CHAIRMAN GRAHAM: Okay.

MR. BUYS: Commissioners, on Issue 5 in the recommendation statement, the changes to -- in the last sentence, the change is to strike decreased and add increased, and then strike the number $6,532 and add

$55,296. And again on --

CHAIRMAN GRAHAM: Hold on a second.

Commissioner Brown.

COMMISSIONER BROWN: Mr. Buys, can you elaborate why the change has decreased to an increase?

MR. BUYS: Yes. The -- in the -- that amount is essentially to give the company the amount of property tax that they were to change from the year 2013 to 2014. Staff had -- subsequent to its MFRs, the company had filed a request to increase its property tax expense by about $63,000. Staff reviewed that information and believed that the company had already received that amount of money in the total amount in the MFRs, which was 423,000, and the property tax was 424,000.

Reviewing the MFRs, it appeared that the company had already received all the money that was due for the property taxes going forward. However, upon subsequent information provided by the utility on, on Friday, it was pointed out that the company still did not have the money necessary for the property taxes related to the pro forma plant that was, that was going in during 2014 and '15. So, essentially, staff is making the correction to add back the money for the pro forma plant that the company will need to pay for those property taxes going forward.

COMMISSIONER BROWN: Thank you. I just wanted that clarification pointed out in more detail.

MR. BUYS: And, again, Commissioners, on Page 17 in the conclusion, in the last sentence it's also the same change where you strike decreased and add increased and strike the $6,532 and add the $55,296.

CHAIRMAN GRAHAM: Are those the only changes?

MS. NORRIS: There is an additional one on -- it would be on page 27 in the recommendation. It's the second sentence would read, "In addition, salaries and wages expense should be increased by $23,309 for water and by $17,607 for wastewater." As well as on page 28 -- or actually, sorry, it's on 27 still, and this is going to be the -- let's see. After the second paragraph of staff's analysis, well, to strike the last sentence, "Consequently, staff recommends no adjustment to salaries and payroll taxes other than the adjustment for the audit finding," striking that and adding, "As discussed in Issue 15, staff recommended the removal of in-house staff fees associated with processing the instant docket. As such, salaries and wages expense should be increased by $22,309 for water and $17,607 for wastewater."

And just a little bit more background on that adjustment is based on staff's recommendation to remove in-house fees and rate case expense, we wanted to ensure that salaries and wages reflected no additional adjustments from any previous dockets of rate case expense. And so we reevaluated the cap time that's included in the test year as well as the adjustment made in the annualized audit adjustment and found that there were some additional amounts included, and that's the adjustment to remove that so as to reflect a full year of salaries and wages since we are taking in-house fees out of rate case expense.

CHAIRMAN GRAHAM: Okay. Is that it from staff?

MR. GRAVES: For now.

CHAIRMAN GRAHAM: Mr. Truitt.

MR. BUYS: We do have several additional changes to the oral modification, if you'd like to go over those.

CHAIRMAN GRAHAM: Sure.

MR. BUYS: More scrivener's errors.

Issue 4, I believe it's on page 12 of the recommendation. In the second -- in the middle of the page, in the paragraph that begins with, "In regard to Audit Finding 1," the tenth line down, there's the -- the sentence begins, "Accumulated depreciation should be increased by $126,680 for water and $117,089 for wastewater," the $117,089 should be stricken and $115,219 should be added.

CHAIRMAN GRAHAM: Okay.

MR. BUYS: And in Issue 8 there's some fallout issues related to these adjustments.

Issue 8 in the recommendation statement, the appropriate 13-month average rate base for the test year --

COMMISSIONER BROWN: Could Mr. Buys please speak up? I can't hear him.

MR. BUYS: Oh, I'm sorry.

In Issue 8 in the recommendation statement the appropriate 13-month average rate base for the test year ended December 31st, 2013, is $8,756 -- excuse me -- $8,756,187. That, that number should be stricken and replaced with $8,808,839.

And going forward in the staff analysis paragraph, in the -- excuse me -- third sentence, and also that, those numbers in the third sentence that begins with "Accordingly," the $8,756,187 should be stricken and, again, the $8,808,839 should be added.

And we have a lot of changes to numbers in Issue 17 as well, which is the appropriate revenue requirement for test year. We can go through those, if you'd like.

CHAIRMAN GRAHAM: Yeah. Let's go through those. I just want to make sure everybody has got everything complete in front of them.

MR. BUYS: Okay. In Issue 17 in the recommendation paragraph we have a table, and for the water, in the water row, under the increase/decrease we should strike the $250,461 decrease and replace that with $221,024.

Going across the row to the revenue requirement, the 3,865,511 should be stricken and replaced with 3,894,948.

Moving to the end of the row, the percent increase and decrease, the 6.09 percent decrease should be stricken and replaced with 5.37 percent. And in the wastewater row under the increase and decrease column, the $748,919 should be stricken and replaced with $832,301.

Going across to the revenue requirement, the $4,654,409 should be stricken and replaced with the $4,737,791.

Then at the end of the row under the increase and decrease, the 19.18 percent should be stricken and the -- and 21.31 percent should be added.

CHAIRMAN GRAHAM: Okay.

MR. BUYS: Then the next, the next changes are in the second paragraph in the staff analysis. Beginning at the -- on the second line at the end of the paragraph, the amount of $3,865,511 should be stricken and replaced with $3,894,948.

If you follow along, in the wastewater revenue requirement of the $4,654,409 should be stricken and replaced with $4,737,791.

In reading further, staff's water revenue requirement of $3,865,511 should be stricken and replaced with $3,894,948, is the -- the next word "is" and then after that the $250,461 should be stricken and replaced with $221,024.

And continuing on, it reads, "less than staff's adjusted test year revenue of $4,654,409" should be stricken and replaced with $3,894,948, "or a decrease of 6.09" should be stricken and replaced with 5.37, and strike the percent sign, percent. And that's not there.

"Staff's recommended wastewater revenue requirement exceeds staff's adjusted test year revenue by $748,919," that should be stricken and replaced with $832,301, "or 19.18," that number should be stricken and replaced with 21.31 percent.

CHAIRMAN GRAHAM: Okay.

MR. BUYS: And we'll go to Issue 19, page 52, it's page 52, Issue 19. In second paragraph at the bottom that begins with, "To establish the proper refund amount," the third -- in the third sentence at the end where we're changing the percent numbers, the third sentence, it says, "are greater than the final revenue requirement for water by 9.88," that number should be stricken and replaced with 9.81 percent, "and less than the final revenue requirement for wastewater by 18.05" should be replaced by 20.18 percent.

And I believe that's all of the changes that we have for the oral modification.

MR. GRAVES: I believe that is it for staff now.

CHAIRMAN GRAHAM: Okay. Mr. Truitt.

MR. TRUITT: Thank you, Mr. Chairman, Commissioners. I'm John Truitt, and with me is Ms. Denise Vandiver from the Office of Public Counsel. Of course, we're representing the customers of Sanlando Utilities. We both have a few comments regarding the recommendation. I have a general request or a clarification to start and then a couple of comments, and then Ms. Vandiver has got a couple more details.

I'd like to start by saying we agree with most of the staff's recommendation, but I did want to point out, like I mentioned, a clarification. If we look at

Issue 17 on page 45 and the associated oral modification, we note staff's recommending a revenue requirement for wastewater that's larger than what the utility requested. We request a clarification on this as it deviates from the historical practice of this Commission and the policy that's embedded in the prior orders. And we understand that there may be a reuse issue and a shift, but we would appreciate maybe a clarification either on the record here or something in the order so that when future utilities look back, they can see that the prior policy of this Commission is intact.

Besides that, I had two brief points regarding an email and issues raised by the utility that was submitted last Thursday. I figured I'd just address them here.

We agree with staff's statements regarding the uncertainty as related to the chemical expenses. We just wanted to point out the consent order that was referenced by the utility presents several alternative methods, so we agree with staff's recommendation that it's uncertain depending on which route the utility chooses. And also we wanted to state for the record we support staff's position regarding the leadership conference because we believe the utility did not provide justification as to why those expenses were reasonable as requested in staff's data request No. 29. That's all I have. There's a few more issues that Ms. Vandiver would like to speak on. Thank you.

CHAIRMAN GRAHAM: Let's stick with the clarification first, if we can get that from staff, and then we'll go to Ms. Vandiver.

MR. BUYS: Yes, Commissioners. In the utility's MFRs, they -- when they -- part of their revenue requirement includes a shift in revenue in the amount of $486,320 from wastewater to water to account for the, the reuse system, consistent with the Commission's decisions in the prior two rate cases for Sanlando Utilities, Inc.

The company has requested a total of 1 million -- between water and wastewater they've requested a total revenue requirement -- I'm sorry -- revenue increase of $1,192,238. Staff is recommending a total revenue increase, water and wastewater, of 500 -- I'm sorry, that's the old number -- of 612,277 -- 612,000 -- $612,277.

Staff's revenue requirement does not include a revenue shift from wastewater to water. That revenue shift is handled through the rate issue, and rates has subsequently moved that shift of revenue requirement --

I believe $625,000 from wastewater to water is handled in the rates.

So we -- so accounting essentially looks at the revenue requirement separate of the revenue shift to determine what's appropriate for each system. So in total, we've actually recommended a 49 percent reduction in revenue increase from what the company has requested.

CHAIRMAN GRAHAM: Mr. Truitt.

MR. TRUITT: Mr. Chairman, staff, thank you. We just wanted to note for the record that we understand together it was less, and we just want that noted on the record to make sure that going forward the normal prior Commission history and policies stayed the same.

CHAIRMAN GRAHAM: Okay.

MR. TRUITT: Thank you.

CHAIRMAN GRAHAM: Ms. Vandiver.

MS. VANDIVER: Thank you, Commissioners.

My first issue is Issue No. 2, and on pages 6 and 7 of the staff recommendation there are charts that reflect audit adjustments that the staff is including in its recommendation. The one that's reflected is audit finding No. 12 we have an issue with.

This audit finding discusses the CIAC reviewed -- received from the St. Johns River Water Management District. It was inadvertently recorded in water, but it should have been recorded in wastewater. The staff recommendation holds out $605,943 for the water system, and that's based on a 13-month average. However, when staff puts it back into wastewater, they only put it in at 315,938. We believe that same 13-month average should be used to transfer the money from water to wastewater. That would be an adjustment of about $290,000 to rate base for wastewater.

My second issue is Issue No. 3 on Project Phoenix. The staff recommendation regarding the utility investment in Project Phoenix is that no adjustment needs to be made as the utility has acquired sufficient ERCs to be at the same level as the system was placed into service.

If you remember, Project Phoenix has been adjusted in the past because it was put into service for a certain number of ERCs. And as the utility divested itself of certain systems, more of the project was put onto Florida utilities with no additional benefit.

The utility has since provided evidence that their ERCs into 2015 has reached that same level that it was at the beginning. However, what staff's recommendation does not reflect is that the amount of the Project Phoenix that's in the MFRs and are in the revenue requirement is based on the 2013 ERCs, which is a much smaller number, and so the MFRs reflect the higher level of the investment that is included.

We are concerned on two bases. One is that it ignores that fact. And, also, if you're going to use the 2015 ERC to base this decision on, we believe that that's a violation of the test year concept. If you're only making adjustments in one way for post test year changes, these post test year adjustments reflect increases but don't consider decreases.

We also believe that if you're going to use the 2015 adjustments for Project Phoenix, those same allocation factors should be applied to the expenses. There are substantial allocated expenses in the test year to Sanlando, but they're all allocated on 2013 ERCs. If you're going to adjust Project Phoenix, we believe that the allocated expenses should also be adjusted, and that would be, my rough guess, about $165,000 for Sanlando, and Labrador, too, in the next case is 12,000.

My next issue is Issue 4.

CHAIRMAN GRAHAM: Ms. Vandiver, how many of these do you have?

MS. VANDIVER: Just two more.

CHAIRMAN GRAHAM: Well, let staff address the first two, then we'll come back to the next three.

MS. VANDIVER: Okay. All right. That's fine.

CHAIRMAN GRAHAM: Staff.

MR. BUYS: If we could have Ms. Vandiver please reiterate her concerns on Issue 2, if she wouldn't mind, please.

MS. VANDIVER: Sure. Our concern is on audit finding No. 12 that's on the chart on pages 6 and 7. The audit finding removed $600,000 in CIAC from water, specifically $605,943, in an attempt to transfer it to wastewater, but 315,938 was put into wastewater.

And in the audit finding, they show some calculations of 13-month averages, but I don't know why you would have a 13-month average be different when you're just transferring the money from one system to the other.

MR. BUYS: Commissioners, that was a result of the audit conducted by staff on the Sanlando Utilities. The best staff can determine is that part of that difference is related to improper accrual of AFUDC for the project during the construction period that I believe would have accounted for some of the difference.

CHAIRMAN GRAHAM: What about the rest of it?

MR. BUYS: The three hundred -- there was a -- reading through the report, it said the amount quip (phonetic) closed out to Account No. 375 should be reduced by 37,000 to the 4,259,000. So some of that may be accounted for with the adjustment to the quip.

CHAIRMAN GRAHAM: What about the --

MR. BUYS: I, I -- other than the audit findings in which the company agreed to, we didn't do any, you know, further analysis because they used the 13-month average --

CHAIRMAN GRAHAM: What about --

MR. BUYS: -- to the adjustment.

CHAIRMAN GRAHAM: What about our concern on the Phoenix Project?

MR. BROWN: Commissioner, I can address the Phoenix Project issues.

Basically in looking at the 2015 ERCs and the additions, what staff was doing is really just trying to -- I mean, kind of match up our principle of making rates prospectively. The utility is currently closed on one of their acquisitions for this year. It appears that they've got three more under contract, and pending approval from either the New York PSC or the Louisiana PSC, in an effort to avoid the utility coming back in for a limited proceeding and incurring that rate case expense, staff included them now.

Staff believes the Commission has always kind of handled the Phoenix Project as a special case, and we've kind of carved it out as, carved it out as an exception. So -- and that's one of the reasons we did that.

CHAIRMAN GRAHAM: Commissioner Brown.

COMMISSIONER BROWN: Thank you, Mr. Brown. And I had a similar question that, similar to Ms. Vandiver with regard to the Phoenix issue. I was wondering why we included the MF -- the ERCs for 2015 when the test year is based on a 2013. It did kind of throw me off a little bit when I read the recommendation.

MR. BROWN: Yes, ma'am.

COMMISSIONER BROWN: Is this how you're going to apply and treat all Phoenix Project related acquisitions/divestitures?

MR. BROWN: I believe that's staff's intent, yes, ma'am, to include acquisitions as well as divestitures on a going-forward --

COMMISSIONER BROWN: Specifically for this project.

MR. BROWN: Yes, ma'am.

COMMISSIONER BROWN: Okay. Thank you.

CHAIRMAN GRAHAM: Ms. Vandiver, you may continue.

MS. VANDIVER: Thank you, Commissioners.

My next issue is Issue No. 4. The staff recommendation includes audit adjustments to reflect prior Commission adjustments. The audit adjustments reflected in the audit report included about 107 line item adjustments for Sanlando and --

CHAIRMAN GRAHAM: Ms. Vandiver, could I get you to slow down a little bit.

MS. VANDIVER: I'm sorry.

CHAIRMAN GRAHAM: I can imagine our poor court reporter over there, her fingers are all twisted.

MS. VANDIVER: Sure.

CHAIRMAN GRAHAM: Thank you.

MS. VANDIVER: Sorry. Because of our office's limited resources, we defer to the Commission's audit staff regarding these specific adjustments; however, we are concerned that the utility continues to fail to adjust their books and records accurately.

We realize that the Commission addressed the issue of the utility's failure to book Commissioner-ordered adjustments in a generic docket with two orders that were issued in 2014, which is after the test year. However, we want to make the Commission aware of the magnitude of this problem. Almost a quarter of the staff audit work papers were related solely to the audit of these adjustments. We believe that this puts an extreme burden on the staff, the auditors, and our office.

When the audit staff requested further information, the utility failed to provide any. The utility did not agree with the audit finding but did not provide staff with any support for their disagreement.

The Chairman's test year approval level in both Sanlando and Labrador required that the utility should satisfactorily document that it has recorded all adjustments to the general ledger that have been ordered by the Commission. We do not believe that this has been done.

We believe that the utility has not made sufficient effort to comply with the Commission's orders and directions, and that it should be put on notice that future rate cases will not be deemed filed until it has met this burden.

Further, in the Sanlando case, we are concerned that staff did not address the utility's apparent failure to properly reflect cash CIAC. Based on the amounts indicated in the audit work papers, it appears that the utility has allocated cash CIAC to property-specific accounts.

In the settlement approved by the Commission in Order No. PSC-14-0044-FOF-WS, the utility agreed that 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, and that's the quote. We believe that these entries should be reversed and the allocated cash CIAC should be restored to the appropriate cash CIAC accounts.

The utility responded to a staff data request that in a conversation with staff and the utility's assistant controller it was determined that the utility did not need to make any adjustments. We disagree, and we believe that this issue needs to be readdressed and that the stipulation was between OPC and the utility. We had a lengthy conversation with a former employee of the utility who agreed that the adjustment needed to be made.

CHAIRMAN GRAHAM: Staff?

MS. NORRIS: In speaking to the COA adjustment Ms. Vandiver references as well as the settlement and specifically on Issue 4, right now staff has accepted this is a time of transition, a period of transition between the settlement and adhering to these to be reflected in the MFRs. So that's, I guess -- Bart, do you want to --

MR. FLETCHER: Bart Fletcher, Commission staff.

As Ms. Norris mentioned, in the generic docket -- and Ms. Vandiver from OPC -- that was one of the issues that was raised in the generic docket, not only addressing Phoenix but also the COAs and other bookkeeping issues for the Phoenix Project.

They did settle. And then my understanding is, is that the changes that are being made bring in a subsidiary ledger offline and to try to account more appropriately for the Commission-ordered adjustments in the future. We're still in the transitional period is my understanding from the Utilities, Inc., and they can correct me if I'm wrong. But we -- that's one of the reasons why we still see some spillover, if you will, in the rate cases that we're processing now. We have seen improvement as far as the level of adjustments that show up in their MFRs. But, again, I believe we're in a transitional period where we still see some spillover.

CHAIRMAN GRAHAM: Commissioners, any questions?

Ms. Vandiver.

MS. VANDIVER: Thank you. My last issue is not a particular issue in the staff recommendation; it's on depreciation expense, and there is not a specific issue on that. However, the staff recommendation includes an adjusted depreciation expense which is based on the utility's annualization of depreciation expense for test year additions.

Schedule B3, page 2 of 2, adjustment C2, includes an adjustment of $105,929 for Sanlando. Page 1 of the staff recommendation states that the test year established in this case is a 13-month average period ended December 31, 2013. However, by annualizing depreciation expense on test year additions, the utility has essentially adjusted depreciation expense to a year-end calculation. We believe that this is an example of using a partially historical test year and a partially projected test year. We do not believe that the use of a hybrid test year is appropriate; therefore, we request that the Commission remove this adjustment and reduce test year depreciation expense by the 105,929. Thank you.

CHAIRMAN GRAHAM: Mr. Fletcher.

MR. FLETCHER: Commissioners, again, in the utility's filing for Sanlando, they had annualized accumulated depreciation and also reflected the full amount of depreciation expense for that. Staff believes that is appropriate as the rates are going to be -- going into effect in 2015. And to reflect the true cost of depreciation expense for the plant investment in the test year, we believe that, again, it is a proper adjustment to make.

CHAIRMAN GRAHAM: Okay. Ms. Vandiver, was that your last one?

MS. VANDIVER: Yes, it was.

CHAIRMAN GRAHAM: All right. Mr. Friedman.

MR. FRIEDMAN: Thank you, Mr. Chairman, Commissioners. Martin Friedman of the law firm of Friedman & Friedman on behalf of Sanlando Utilities Corporation. Also with me to my immediate left is John Hoy, who is the president of the Florida subsidiaries, and to his left, Mr. Patrick Flynn, who is the vice president of the Florida subsidiaries. And I'm going to address generally questions and then ask them to be more specific in a couple of issues that we have raised. And these are issues we brought to the, the staff's attention after the staff recommendation came out, so there's been some, some interchange of information.

And the first one I would address is the chemical expense. As was pointed out, Sanlando is going to have to change the method of effluent disposal, which is going to drastically increase its expense. And we believe that there is sufficient definition of what that change is going to be, so that it is a known and measurable change and should be a legitimate pro forma expense. And I'm going to let Mr. Flynn address the specifics of, of that project and the consent order and the necessity for the increase in the chemical expense.

MR. FLYNN: Hello, Commissioners. Sanlando's wastewater plant, Wekiva Wastewater plant currently has three different effluent disposal options, one of which is reclaimed water, the primary means of disposal; the second is onsite percolation ponds; and the third is discharge to the surface waters of Sweetwater Creek. Any discharge to Sweetwater Creek requires nutrient removal process; in other words, to add our chemical sodium aluminate in sufficient amount to remove phosphorous in order to meet the effluent limits for that option.

Before 2014, the utility would primarily generate reclaimed water adequate to discharge under its limits, but used the perc ponds when issues would occur at plant upset or intermittent use or wet weather conditions in order to avoid using the surface discharge to Sweetwater Creek. In the test year we had -- we took delivery of four shipments of sodium aluminate that were utilized for about four months of the test year, reflecting the ability to use the perc ponds very, very successfully. However, over the course of 2014, the, the use of the perc ponds was elevated because of wet weather conditions and performance of the plant in order to avoid using the surface discharge.

At the end of 2014, the perc ponds were quite evidently not able to, in fact, handle the application rate of 400,000 gallons per day that was permitted in the existing operating permit, and so the consent order was issued by DEP that directed the utility to investigate the actual amount that the perc ponds could really handle on a going-forward basis in a reliable way.

There's absolutely no doubt in the DEP language of the consent order that the perc pond usage going forward will be reduced substantially. We don't know exactly how much. That amount is going to be determined through an engineering evaluation. However, what it does say is that the operating at the plant must be done in such a way that we are essentially removing phosphorus on a continuous basis in order to allow for us to discharge in Sweetwater Creek in a permitted way in order to avoid excessively applying water to the perc ponds.

And what that means essentially is that we don't have the luxury, as we had before, of operating the plant with two, two discharge options, neither of which require nutrient removal. We now must essentially operate the plant day after day in such a way that we remove phosphorus all the time, and that means essentially we need to feed sodium aluminate on a daily basis to observe the means to meet limits in those instances when we have to discharge to Sweetwater Creek.

And what that translates into is a projection of an additional $83,000 in sodium aluminate expense on a going-forward basis in order to ensure that we can meet limits in a reliable fashion each day. I'd be glad to answer any questions you might have.

CHAIRMAN GRAHAM: Commissioners, any questions of Mr. Flynn?

MR. FRIEDMAN: And if it's not handled in this case, it's going to be -- you know, it's just going to necessitate the company having to file a limited proceeding in the future, and the time and expense of that, we're trying to avoid that.

The, the other issue that we wanted to address is the leadership conference. And Mr. Hoy will explain to you the purpose and need for that, and I think the staff has already acknowledged in this and other orders that the leadership conference is a reasonable expense to be incurred, and their complaints generally have been with the documentation of that expense. And in connection with this case, in one of the data requests, the staff asks for a, quote, breakdown by vendor amount and allocation of the total expenses associated with this meeting. And so what the company provided in response to that was exactly that; we provided a schedule. They didn't ask for invoices or any of that sort of documentation. They wanted a breakdown. And so the only thing that, the only expense that we have asked in connection with this leadership conference is the actual amount that was paid to Rosen Hotel, which is a conference center hotel down in the Orlando area where this is held at least the last couple of years. I don't know if it's always been there, but -- so it's, it's just the invoices to Rosen Hotel. And those invoices are in connection with the rooms for conference and meeting rooms, whatever meals that were had onsite. And so we provided the staff exactly what they asked for, which was the schedule of what that is, and we provided it to them and then they denied it.

And I'm going to ask Mr. Hoy to explain in a little more detail the, the advantages of that leadership conference. And it's come up before and I think we're finally at the point where we have provided the documentation that was requested and it should be included. Mr. Hoy.

CHAIRMAN GRAHAM: Mr. Friedman, the invoice that was provided, was that an itemized invoice?

MR. FRIEDMAN: No, they didn't ask for an invoice. What they asked for --

CHAIRMAN GRAHAM: I mean, you said the hotel bill. I'm sorry.

MR. FRIEDMAN: Well, it's not a hotel bill. They didn't ask for bills. They asked for a breakdown by vendor, amount and allocation. And so the breakdown was -- the vendor was Rosen Hotel. The amount was -- I forget what those amounts were. We paid them in several bills. And then the allocations are the 7.9 to Sanlando, I think is the allocation.

CHAIRMAN GRAHAM: But the hotel bill that you provided was just a one lump sum?

MR. FRIEDMAN: It was just the -- it was just the amount we paid, because they didn't ask for the bill. They just asked for a schedule.

CHAIRMAN GRAHAM: Okay.

MR. FRIEDMAN: So -- and we gave them a schedule. If they would have asked for the bills, we'd have gone to Rosen Hotel and had them provide the bills.

CHAIRMAN GRAHAM: Hold on a second.

Commissioner Brown.

COMMISSIONER BROWN: Thank you. And I appreciate you trying to proffer this as an additional consideration. And I did read OPC's issues and concerns, and one of which they provided audit results of this leadership training.

You said earlier in the statement -- thank you -- you said that the Commission has previously granted inclusion of this in rate base?

MR. FRIEDMAN: No. They previously have acknowledged, I think at least implicitly, that it is a reasonable thing to do. They have never included this specific --

COMMISSIONER BROWN: I don't remember this Commission doing that. What, what --

MR. FRIEDMAN: It would be probably whatever the last order -- maybe even the last Labrador order before this.

COMMISSIONER BROWN: Which wasn't included.

MR. FRIEDMAN: I don't have it with me. But they just said, you know, we -- we're not saying it's not a reasonable expense, we're just saying they haven't shown us enough documentation of the amount of the expense.

COMMISSIONER BROWN: Okay. Of the $46,870 or so for this training conference, what is directly attributed to training costs?

MR. FRIEDMAN: I'll let Mr. Hoy -- I don't, I don't --

COMMISSIONER BROWN: If you were to prove up your -- that these are prudently incurred costs, because that is your obligation to do --

MR. FRIEDMAN: Oh, absolutely.

COMMISSIONER BROWN: -- what would be directly training related?

MR. HOY: Maybe I could add to that. And good morning, Commissioners.

We have an annual conference with our leadership team. We bring together people from around the country, the 15 states that we serve. Typically we will -- the conference is in the February/March timeframe when we're there to assess the prior year and continue to set direction for the coming year. So it's talking about goals, objectives, but, more importantly, it's to share best practices across our companies, which we all benefit from.

So I think it's a -- when you ask what's -- you know, how much is training, you know, it's -- I guess it's all training when you're -- you know, not a physical trainer coming in and just, you know, running a class, but it is, it is sharing information across all of our utilities so we can use that in our respective states.

We typically have had the conference -- in prior years had it in Chicago, you know, where our corporate office is. But we found, after we looked around a few years ago, that it was much more cost-effective to have it here in Florida. And as we continue to look at that, we think every year we should be moving the conference around to different states, and we find out the most cost-effective place is in the Orlando area just because of the deal we've had with that hotel, the deal we've -- the number of people we have here in Florida, it's probably the most cost-effective for Florida than any of our other states.

So the, you know, the costs themselves, as Mr. Friedman said, it was for, you know, conference facilities, hotel rooms for those who needed to stay overnight, for food. I think there was one external restaurant, you know, that was off-site that was part of that, so that detail was provided as well.

CHAIRMAN GRAHAM: Did you have any -- did you have anything else to add?

MR. HOY: No, that's it on that.

MR. FRIEDMAN: Yeah. Those are our questions as well, unless you have any, any further questions of us.

CHAIRMAN GRAHAM: Commissioners? No? .

Okay. It's time -- Commissioner Brown.

COMMISSIONER BROWN: Thank you, Mr. Chairman.

I just wanted to point out for the -- my fellow Commissioners a couple of areas of the recommendation that just caused me some -- or I'd like to address.

I think Office of Public Counsel addressed the issue in Issue 4 that was -- I had a similar concern. But in Issue 13, Mr. Buys, this is with regard to salaries and wages. And we, we walked through this exercise yesterday because I had some concern with the 3 percent increase in salary and wages when, during the last rate case, they received -- how much was the increase? It was -- and it was in 2011 and they received, was it 1.4 percent? Can you walk us all through for the benefit of what that number actually reflects?

MR. BUYS: Yes, ma'am. The -- let me get set.

COMMISSIONER BROWN: There, there were index increases outside of the rate case in 2012 and in 2013 that totaled 4 percent outside of the rate case. But during the rate case what did the company receive in terms of increase in salary and wages?

MR. BUYS: Staff is recommending that the company receive $1,193,369 in total salaries for this, for this rate case, and that includes the salaries for water and wastewater, and that's officers and employees. And the Commission approved rate -- the Commission approved a total salary amount of $1,130,313.

COMMISSIONER BROWN: Could you do percentage, please?

MR. BUYS: Okay. Since the last rate case they increased the index -- the 2012 and 2013 index was 1.04 percent, which brings them up to the 1,176,000.

COMMISSIONER BROWN: Each, each year.

MR. BUYS: For both years combined.

COMMISSIONER BROWN: Okay.

MR. BUYS: It was essentially 4 percent for both years combined.

COMMISSIONER BROWN: Right.

MR. BUYS: 2 percent average.

COMMISSIONER BROWN: Okay.

MR. BUYS: That brings them up to the 1,176,422.

COMMISSIONER BROWN: And they applied for an index increase in 2014 of 1.41 percent?

MR. BUYS: They have not.

COMMISSIONER BROWN: They did. My understanding was that they did. They didn't receive it because of the pending rate case. Is that correct?

MR. HOY: No, I don't believe we filed the index in 2014.

COMMISSIONER BROWN: Okay. Okay. So the, the actual amount of each year was 2 percent index increases. The last rate case, how much did the Commission find for salary and wages percentage-wise?

MR. BUYS: I'm sorry, Commissioner. I don't understand. The last rate case?

COMMISSIONER BROWN: Uh-huh. What was the last -- the percentage of increase in salary and wages in the last rate case?

MR. BUYS: They -- I don't know the percentage increase, but they tied that amount to the prior rate case and indexed it up, and they received the 2011 increase on their salaries in the last rate case, in which the order was issued in February of 2013.

COMMISSIONER BROWN: All right. Mr. Buys, I think you know what I'm trying to get at here. We've consistently held the line for rate increases, and here in this recommendation you're recommending a 3 percent increase.

MR. BUYS: Well, the total amount that we've recommended is in line with the indexes that they've -- that the Commission has approved throughout 2014. Currently if the company -- if the, if the company were to have applied for the 2004 increase and it was granted, that --

COMMISSIONER BROWN: Which would be -- what would that amount be?

MR. BUYS: That amount would be $360 less than what staff is recommending. It would be 1,193,300.

COMMISSIONER BROWN: What is the percentage, Mr. Buys, of what they would be receiving though as an index?

MR. BUYS: For 2014 --

COMMISSIONER BROWN: Yes.

MR. BUYS: -- it would be 1.41 percent.

COMMISSIONER BROWN: Okay. Which is different than 3 percent.

MR. BUYS: Yes. The total dollar amount the company received, is receiving from staff's recommendation or would receive through staff's recommendation if approved by the Commission is very closely tied to the index. That's what we used as a barometer to verify that their salaries were in line with prior Commission orders.

So the total salary amount is -- if you were to give them the index, is exactly what they would get with an index.

COMMISSIONER BROWN: And that's what I want --

and you walked me through the exercise. The number itself, 3 percent, it appears from your wording that they would be receiving a carte blanche 3 percent increase when in essence technically it would be more akin to a 1.4 percent or so index increase.

MR. BUYS: Correct. Yes. We --

COMMISSIONER BROWN: It's very complicated. It's not worded correctly.

MR. BUYS: It could have been articulated better. The 3 percent was what the auditors had put in. That was -- the company had annualized their salary using a 3 percent increase. We didn't really consider it as a 3 percent increase. We just looked at the total amount that the auditors had determined was appropriate for the --

COMMISSIONER BROWN: All I would suggest, you can clarify if any other Commissioners have concerns with it, but I just would, in the order to make it more reflective of what the actual increase is, because it's, in essence, a 3 percent increase. It's more akin to a -- and I think you've clarified what that amount would be really. So --

MR. BUYS: Yes, ma'am. Yes. It is basically set against the indexes, staff's recommended amount.

COMMISSIONER BROWN: That's what I would prefer in the order.

The other issue, Mr. Chairman, if you would -- just one more.

CHAIRMAN GRAHAM: Sure. Sure.

COMMISSIONER BROWN: Thank you. Is the rate case expense. Issue 15, page 35, which it runs 35, 36, and 37. The issue that I have concern with, Office of Public Counsel did not put in it their comments, but I do want to address it to the Commission because it could become a slippery slope.

And I noticed that Mr. Friedman gave himself a raise effective January 1st so that he's now making $360 an hour rather than the $340 an hour he was making in the last rate case. Not to say -- and we've discussed this at other Agenda Conferences, other PAAs, other rate cases regarding your hourly rate, without discrediting your value by any means. I can firsthand appreciate attorneys' work. But the question is who is actually benefiting from this representation?

And then this increase in your hourly rate -- and I looked at, I looked at the legal fees from the last rate case, which are somewhat -- the approved amount was 42,000. This amount, the revised recommendation is 44,000. It's not as significant, but I just want to see what you've done to justify the increase from your last rate case and why this would be a prudently incurred expense. I just don't see the justification other than you're saying the utility is getting an index increase, so you should be getting an index increase.

Even when you filed your rate case, it was $350 an hour. You changed it to 360. And obviously you appear before us frequently, so I'd like to see some justification why you merit that increase.

MR. FRIEDMAN: Well, I think every business, and particularly, you know, a law firm is a business, reevaluates periodically what it charges for its goods and services. And, and, you know, our expenses increase just like -- you know, we have rent increase expenses, we have an increase in healthcare expenses. We have the same kind of increase in expenses that everybody else does.

And I thought the most prudent way to figure out what would be a reasonable increase to -- for our rates would be to use the PSC's index. And so I went back to the last time we increased our rates was two years ago, and I applied the PSC's index to my rates just like you would to any expense, and it actually came up a couple of pennies higher than the 360.

COMMISSIONER BROWN: Do you plan on doing this annually, filing an increase annually?

MR. FRIEDMAN: I don't, but it's, but it's probably not a bad idea. We did it -- like I say, it's been two years since we did it, you know. We -- and --

COMMISSIONER BROWN: But who's benefiting from this increase?

MR. FRIEDMAN: Everybody is benefiting.

COMMISSIONER BROWN: I'm not saying you're not, your work is not there.

MR. FRIEDMAN: You know, everybody is --

COMMISSIONER BROWN: It's just the customers are paying for the increase.

MR. FRIEDMAN: Well, I mean, you know, am I worth it? I think I'm worth more.

COMMISSIONER BROWN: Don't we all.

MR. FRIEDMAN: If you look at the expenses -- you know, you've approved rate case expenses, an hourly rate of a heck of a lot higher than mine. I think my rate case expense amounts are reasonable. And if you look at the actual amounts that we spend, a typical rate case would run about $40,000, and most of the time that includes the filing fee, which is, you know, $6,000 or $7,000. So the actual legal fee part of a rate case is, you know, is in the 30s. And it doesn't change much from case to case, except maybe a larger case like

Utilities, Inc. of Florida that has more subsidiaries and does more meetings. But typically the legal part stays pretty much the same for any type of case because --

COMMISSIONER BROWN: Have you done anything -- have you gone beyond what you did in the last rate case to justify the need for this increase? What -- you're -- I haven't seen any documentation here to justify why the increase is a prudent expense for the ratepayers and for the company.

MR. FRIEDMAN: Well, it's prudent for the, for the, for the company to get competent counsel. And my expenses increase just like everybody's expenses increase, and I have to recover that, those increases somehow.

I mean, when the, when Blue Cross tells me, you know, our rate is going to go up, when my landlord says our rent is going to go up, when the power company says you're using more power, I mean, it's natural. You're going to raise your rates to compensate for that increase in your expenses, and that's exactly what we've done. I don't think we're any different than any other law firm in the State of Florida, except I think that our increases are probably a lot more modest than most.

COMMISSIONER BROWN: Actually in the first item that we haven't heard yet today they have kept the legal fees at the same amount for the past four years consistently, and it could go back even further than that.

But I appreciate you trying to justify it. I just don't know if I can support it, especially with your explanation that you think you should be entitled to it annually. I'm not saying you shouldn't. I'm just saying the customers shouldn't have to pay for that increase, so --

MR. FRIEDMAN: Well, they have expenses increase just like everybody else does. I mean, so am I supposed to keep my rate the same as I had ten years ago? I mean, nobody, nobody, nobody charges --

COMMISSIONER BROWN: I'm saying I don't think the customers should have to bear the burden unless you justify it, Mr. Friedman. And I'm finished having this dialogue with you.

MR. FRIEDMAN: Well, I don't want to argue. I won't argue with you about it, but --

CHAIRMAN GRAHAM: Okay. Commissioners, if there's any specific issues that you want to bring up. If not, I'm going to go through these things -- I don't know -- five, ten at a time. Are there any specifics?

All right. Let's go with the -- unless I hear different, let's go with the staff recommendation on items -- Issues 1 through 10. If I can get that kind of motion.

COMMISSIONER EDGAR: Mr. Chairman, I will move the staff recommendation on Issues 1 through 10.

CHAIRMAN GRAHAM: It's been moved and seconded, staff recommendation on Issues 1 through 10. Any -- Commissioner Brown?

COMMISSIONER BROWN: Just a friendly amendment. With the oral modifications?

COMMISSIONER EDGAR: Which would include the oral modifications. Thank you for the clarification.

COMMISSIONER BROWN: Second.

CHAIRMAN GRAHAM: It's been moved and seconded, staff recommendations on Issues 1 through 10 with the oral modifications. Any further discussion?

Seeing none, all in favor, say aye.

(Vote taken.)

Any opposed? By your action, you've approved the staff recommendations on those items.

Now let's look at Items 11 through 14 -- I'm sorry -- Issues 11 through 14. If I can get a recommendation on that.

COMMISSIONER BROWN: Mr. Chairman, I would move to approve Issues 11 through 14 with the modifications presented here today.

COMMISSIONER EDGAR: Second.

CHAIRMAN GRAHAM: It's been moved and seconded, staff recommendations on Items 11 through -- Issues 11 through 14, including the oral modifications and changes mentioned today.

Any further discussion? Commissioner Brown? No?

All in favor, say aye.

(Vote taken.)

Any opposed? By your actions, you've approved the staff recommendations on those.

Okay. Issue 15. Commissioner Brown.

COMMISSIONER BROWN: Mr. Chairman, I'm going to move to approve Issue 15 irrespective of the conversation we had here with regard to Mr. Friedman because -- for the only purpose that the rate case expense is in line with the previous rate case expense that this Commission found in 2011, and that is the only reason. But I would like Mr. Friedman to be on notice that that -- I'm not convinced that billable rate should be passed on to the customers. With that, I move staff recommendation on Issue 15.

CHAIRMAN GRAHAM: It's been moved and seconded, staff recommendation on Issue 15.

All in favor, say aye.

(Vote taken.)

Any opposed? By your action, you've approved staff recommendation on 15.

Okay. Let's pick up 16 through 22. I'll entertain a motion.

COMMISSIONER BRISÉ: Mr. Chairman, I move Issues 16 through 22.

CHAIRMAN GRAHAM: Staff recommendation?

COMMISSIONER BRISÉ: Of staff recommendation.

CHAIRMAN GRAHAM: That's been moved and seconded. Any further discussion?

Commissioner Edgar.

COMMISSIONER EDGAR: Thank you. Just a quick question for staff. Are you comfortable that you will have the information such that the adjustments will be reflected in the books, will be reflected in the MFRs?

MR. BUYS: Yes, Commissioner.

COMMISSIONER EDGAR: And with the process and the back and forth and all of that?

MR. BUYS: Yes. As Mr. Fletcher explained, I think it's in process.

COMMISSIONER EDGAR: Okay. Thank you. I'll second.

CHAIRMAN GRAHAM: It's been moved and --

COMMISSIONER BRISÉ: Mr. Chairman, I think Mr. Young may have something.

MR. YOUNG: It's just the previous two motions included the oral modifications.

COMMISSIONER BRISÉ: Okay. Perfect. So we will include the oral modifications with that.

CHAIRMAN GRAHAM: Okay. It's been moved and seconded. Any further discussion?

Seeing none, all in favor, say aye.

(Vote taken.)

Any opposed? By your action, you've approved that motion.

I think that concludes all of Item No. 4; correct?

Commissioner Brisé.

COMMISSIONER BRISÉ: Thank you, Mr. Chairman. So obviously there was a little bit of discussion as to the timeliness of information coming into the Commission. I think it is important that we follow the process as prescribed and that we don't wait until after a recommendation is in to sort of attempt to make adjustments and adjustments and adjustments, which then creates an issue post, post recommendation coming out and so forth.

So we know that things change or there may be something that may come to mind as a recommendation arises, but we, we want to admonish everyone to keep to the schedule.

The other thing I would suggest of staff is that as they are going through things, if there are particular things that they don't see, that staff can also reach out to the companies and ensure that, look, we need some clarity on this and please make that available. Thank you.

(Agenda item concluded.)

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, CRR, RPR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 15th day of May, 2015.

Linda Boles

____

LINDA BOLES, CRR, RPR
FPSC Official Hearings Reporter
(850) 413-6734

Sanlando Utilities Corp.
Docket No. 140060-WS (Item 4)
Staff Contact: Todd Brown

Sanlando Utilities Corp. Legal Rate Case Expense		
	Last Rate Case 110257-WS	Current Rate Case 140060-WS
Utility Revised Actual and Estimated	$51,474	$44,337
Approved/Recommended Legal Fees	$42,168	$38,636
Hourly Rate for Mr. Friedman	$340	$350/$360*
* Hourly rate changed as of 1/1/15		