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STEVE CRISAFULLI
*Speaker of the House of
Representatives*



February 8, 2016

Mr. Andrew Maurey
Division of Accounting and Finance
Florida Public Service Commission
2340 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket 150149-WS - Application for staff-assisted rate case in Glades and Highlands
Counties by Silver Lake Utilities, Inc. – OPC List of Concerns

Dear Mr. Maurey,

The Office of Public Counsel is actively monitoring the staff-assisted rate case docket for Silver Lake Utilities, Inc. (“Utility”, or “Company”). Attached is a list of issues that OPC has prepared to identify concerns we have with Staff’s preliminary findings in its Staff Report issued on January 21, 2016. We would like to bring these to staff’s attention to aid staff in its review of the rate case and to allow the staff 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.

Sincerely,

s/ Patricia W. Merchant

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C: Division of Accounting & Finance (M. Vogel, M. Cicchetti, T. Brown)
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Division of Engineering (A. Hill)
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Office of the General Counsel (K. Corbari)
Silver Lake Utilities, Inc. (Joe Collins/Christopher Shoemaker)

OPC Issues and Concerns Docket No. 150149-WS

Utility Service

1. Please explain how the revenues associated with any residential or general service connections are billed and collected for water service.
2. According to the Staff audit, the LB Ranch and Citrus Divisions of Lykes Brothers, Inc. (LB) pay the monthly service revenues to the Utility for all connections except the Brighton Baptist Church. Please explain how the Ranch and Citrus Divisions obtain the funds to pay the revenues associated with each connection's water bill.
3. Does Brighton Baptist Church have a long-term lease with LB or any other Utility affiliate stating that the church does not have to pay for rent or water service as long as the building remains operated by a church?
4. According to staff audit workpaper pages 41-4 (1-12), the utility receives payment by check for the amount billed to Brighton Baptist Church. Please state which entity pays the amounts due from the church?
5. OPC would like the utility to confirm that the Utility, LB or any other LB affiliate, reimburse the Brighton Church for its water bill through the form of a charitable donation or any other form of payment or transaction.
- 6.
7. Please refer to Staff Audit workpaper 42-2 page 3. Please state whether any of the customers listed on this worksheet individually pay for the monthly water usage listed.
8. Do any of the individuals listed on audit workpaper 42-2 page 3, directly pay rent to either the Citrus or Ranch Division or any other affiliate of LB that includes a water usage component.
9. If the Commission approves a rate increase in this docket, please state whether the pay of any individual that lives in any LB housing will be reduced as a result of the increased water rates.
10. Do any government employees live on the property without being charged for rent or water service? If so, please state how many persons work for any governmental entity, which utility account is associated with any government employees and which agency the persons are employed.

Land Leases

11. Please provide the authority for the Utility's parent, which is the owner of the land on which the wells are located, to charge the utility a \$0.20 royalty per thousand gallons for withdrawing water in light of the fact that the utility is leasing the land on which the wells are located, the

utility owns the plant and equipment to withdraw the water, the utility pays the expenses to withdraw the water and pays the taxes on the land leased.

12. For each well that is leased from LB, the Utility (in addition to the royalty payment) is charged an annual lease payment based on an initial per well amount of \$1,000 in 2007 escalated annually by the increase in the consumer price index. Have any calculations been performed to reflect that the lease costs are based on the original cost of the land when first devoted to utility service. If not, please provide the following information in order to determine the original cost of the land on which each well is located: when each well was devoted to public service: the date each well was devoted to public service, the value of each parcel of land for each well, the basis used to determine the value of the land when devoted to public service, the number of acres of land used for each well.
13. For each parcel of land leased by the utility as a well site, please state the total number of acres leased, the number of wells on each parcel, and the number of acres of setback required for a well to be used.

Plant in Service

14. In Audit Finding 1, under the heading of “2009 Activity”, the staff auditors stated that the Utility purchased five water treatment plants from LB for a total of \$638,107, which doubled the cost of its water system plant in 2009. These plants were the Brighton Ranch Water Treatment Plant, the Brighton Grove Water Treatment Plant, the Lake Placid Water Treatment Plant, the Dinner Lake Water Treatment Plant, and the Mulch Plant. Please explain why these water treatment plants were not included in the original purchase in 2007. Were any of these subsequent purchases made as a result of the extension of its territory granted in Docket Nos. 080213-WU and 080613-SU? How many customers were added to the system for this doubling in the cost of the plant? What changes have occurred in the utility’s operations and customer base since the utility was created in 2007.
15. According to Audit Finding 1, under the heading of “2011 Activity”, the staff auditors stated that The Utility was granted an extension of its service territory in Docket Nos. 080213-WU and 080613-SU in anticipation of expanding plant facilities to serve the proposed Muse development which never occurred. Please explain whether any of the 2009 systems added were purchased to serve the proposed Muse development, which never occurred. What are the dates that the Brighton Ranch and Brighton Grove water treatment plants were constructed and activated? When the utility purchased the assets for these two plants, was the recorded cost the original cost or the purchase price. The utility did not record any accumulated depreciation on the two plants prior to 2009.
16. On page 16-7 of the Staff audit workpapers, there are amounts that appear to be an original cost study evaluation performed by the company to support the cost of the Lake Placid water treatment plant purchase. The auditors did not add any additional comments reflecting that further analysis was performed on these company provided amounts. Did staff engineering verify the reasonableness of these amounts? Also were there any similar schedules provided

by the company to show how each of the other plant components were estimated. If so, did staff verify that the amounts recorded by the utility for all of the other plants were reasonable and recorded at original cost?

17. In the original certificate application in the engineering report Schedule B-2 (page 123 of the pdf document as filed on the Commission's website in Docket No. 060726-WS), the company provided a breakdown by well facility number showing the estimated original cost, the age of the well and the size. It also reflects the estimated original cost and age of the bulk water connections. The total of these well costs do not match with the total cost of wells reflected on Schedules B-2 and B-5 in the Special Report of Silver Lake Utilities, Inc. prepared by Cronin, Jackson, Nixon & Wilson, CPAs (pages 296 & 300 in the pdf of the application) OPC would like to see the workpapers supporting the determination of the original plant costs used by the engineering and accounting firms to calculate plant and accumulated depreciation by well. This information is necessary to be able to determine if the company has recorded plant on its books that have been fully depreciated especially since 9 of the systems were over 31 years old in 2006 (41 now) 5 additional wells are now over 31 years old. As such, these wells should have been fully depreciated when booked by the utility. The schedules provided by the utility and included in the audit do not provide an analysis of how the plant or accumulated depreciation amounts were calculated.
18. In Order No. PSC-07-0983-PAA-WS, in Docket No. 060726-WS, the Commission set original rates for the water, wastewater, bulk raw water and bulk treated water systems. For each of these systems, the Commission estimated rate base and revenue requirements. There were 22 water systems and 7 bulk water facilities listed in the original certificate application. Are any of the existing water treatment systems associated with bulk water or bulk treated water facilities? Are any of the bulk water systems providing water service to any customers? If so, how were these revenues accounted for in Staff's Report?
19. On Audit Workpaper 16-8, at the bottom of a document prepared by the Company is the following note: "Additions to plant in service included the acquisition of the Lake Placid and Dinner Lake facilities from the Lykes Citrus Management Division. The purchase price was original cost plus depreciation. This purchase was coincident to SLU receiving the Service Area Amendment for the Lake Placid Groves Property and occurred on 4/29/09. Documentation is included with the Response." Has staff verified that the purchase was indeed recorded at cost with accumulated depreciation taken since the date the treatment systems were online and producing water?
20. Please state any plans for future development known by the utility or its parent in the in the next ten years in the utility's service territory.
21. OPC believes that it is necessary for the company to provide an analysis of how much of the \$170,938 in organization costs incurred in the 2007 original certificate application were costs related to the existing water treatment systems and what proportion of the costs were incurred to estimate the wastewater, bulk water and bulk treated water as well as the projected future growth plant which has never occurred. OPC believes that a used and useful adjustment should

be considered for organization costs that were incurred to produce rate for 3 systems and have never added any customers or provided service.

22. Please explain why is it reasonable and prudent in terms of economies of scale to have 26 water systems for 66 customers? What type of analysis was performed and, if so, what are the results of any such analysis to show that the wells and treatment systems constructed by LB and sold to its affiliated utility represent reasonable and prudent investments in public utility assets to provide service to unaffiliated ratepayers.

Used and Useful Calculations

23. In staff's used and useful calculation, the only non-used and useful systems considered by staff in its report were made to the Brighton Grove Office and the Brighton Ranch Office water treatment plants because each of those systems had more than one well. The staff engineer, then compiled a composite used and useful percentage to the total of all systems based on the capacity in ERCs compared to the number of customers in ERCs. This equated to a 90.99% used and useful factor or 9.01% non-used and useful. According to the accounting spreadsheets, staff only applied the non-used and useful adjustments to the following accounts:
310 Power Generation Equipment
311 Pumping Equipment
320 Water Treatment Equipment
330 Distribution Reservoirs and Standpipes (storage tanks)

OPC believes that Commission practice has been to make non-used and useful adjustments for water treatment plant to Account 304-Structures and Improvements (Water Supply) and Account 307-Wells & Springs since those accounts are related to source of supply and water treatment.

24. According to Audit Finding 7, the utility purchased the Brighton Ranch and Brighton Grove water treatment plants from LB in 2009 for \$349,622 and \$153,239, respectively. The total purchase price for these two systems combined equate to \$502,861 for apparently 47 ERCs. The breakdown of the plant asset primary account costs are reflected in Staff Audit Workpapers 16-7 pages 2 and 3. As mentioned above, the 2009 asset purchased doubled the cost of the plant balance previously reflected by the utility. Given the materiality of the cost of the newer treatment systems, OPC believes that it is appropriate to apply the used and useful percentages to the stand alone investment levels for these plants not the composite rate.

Contributions in Aid of Construction

25. Exhibit B-6 in Silver Lake's Original Certificate Application in Docket No. 060726-WS reflects that property CIAC for Transmission & Distribution Mains is \$208,379 as of 2006 which was the estimated actual cost of the plant (not including future plant). This schedule further states: "The cost of transmission and distribution mains has been classified as CIAC to meet the minimum guideline requirements of Rule 25-30.580. Future additions to the transmission and distribution system (if any) will be contributed." In its Annual Reports and

general ledger the company does not reflect any CIAC. OPC believes that the CIAC of the transmission and distribution lines for all of the systems should be reflected as contributed plant consistent with the treatment approved by the Commission in Order No. PSC-07-0983-PAA-WS.

Operating Expenses

26. According to Staff Audit Workpaper 43-1/5-1 p 1, LB charges Silver Lake \$6,874.11 per month in affiliate charges for land leases, office rental, contract maintenance, office support, utility management, and vehicle costs. For 66 customers, this equates to \$105 in expense per month in affiliate charges. OPC is concerned that this level of affiliate expenses far exceed a level that would be deemed reasonable for a comparably-sized utility. The utility has stated that 25% of the manager's time is spent on utility management for salary and benefits of \$2,305 per month. This equates to a full time salary and benefit of \$110,640. What are the utility manager's other duties? Was there any other verification of the time spent on utility business other than the job duties estimate provided by the company manager as reflected on audit workpaper 43-1/5 page 3. Has any additional analysis has been performed showing that the amounts charged to the utility are reasonable for this size utility serving only 66 customers.