

*Speaker of the House of  
Representatives*



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**ANDY GARDINER**  
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April 11, 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 2<sup>nd</sup> 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 second list of issues that OPC has regarding Staff’s preliminary findings in its Staff Report issued on January 21, 2016. While OPC has met with the Utility and we have had some of our concerns addressed, there remain many concerns, both included in our first letter and additional issues listed in this letter, that we believe have not been adequately addressed by staff or the Utility. We believe that these issues and concerns should be fully analyzed and addressed in staff’s analysis for its upcoming staff recommendation. If you should have any questions, please feel free to call or e-mail me.

Sincerely,

s/ Patricia W. Merchant

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Silver Lake Utilities, Inc. (Christopher Shoemaker, Marty Friedman)

**OPC Issues and Concerns Docket No. 150149-WS**

Utility Service

1. The Utility issues 3 bills per month to the Lykes Brothers (LB) Ranch Division, the LB Citrus Division and the Brighton Baptist Church. While the individual meters on each building are read and billed, the Utility does not charge any employee or other individual who live in the homes served by any well or treatment system, nor is any portion of the water bill included in rent or offset from any salary or benefits. The Utility, LB or another LB affiliate reimburses the Brighton Church for its water bill through the form of a charitable donation monthly. Essentially, there are no customers of this Utility and OPC has concerns whether this Utility actually operates as a “utility” as defined under Chapter 367, Florida Statutes, and accordingly whether it needs to be certificated. Additionally, there is a wastewater certificate for this Utility for which there is no plant or service provided, nor has the Utility documented that any service will likely be provided in the near to distant future. Thus, OPC sees no reason why the wastewater Utility should also be certificated.

Plant in Service

2. OPC has seen no documentation from the Utility showing 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 by staff to this effect? If one was completed, 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?
3. In Audit Finding 1, under the heading “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. OPC requests an explanation as to 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 from 2007, when the Utility was created, to the present?
4. According to Audit Finding 1, under the heading “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 development was never initiated or completed. 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? In addition, please note the Utility did not record any accumulated depreciation on the two plants prior to 2009. Why?

5. On page 16-7 of the Staff audit work papers, 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 provide any additional comments reflecting whether any further analyses were performed on these Company provided amounts. Did PSC engineering staff verify the reasonableness of these amounts? 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?
6. In the original application for a certificate 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 is requesting to see the work papers 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 has been fully depreciated, especially since 9 of the systems were over 31 years old in 2006 (41 years old now) and 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. It is OPC's position that this analysis should be included in staff's recommendation.
7. 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 application for a certificate. OPC would like to know if any of the existing water treatment systems are associated with bulk water or bulk treated water facilities, and whether any of the bulk water systems provide water service to any customers. If so, how were these revenues accounted for in Staff's Report?
8. On Audit Workpaper 16-8, at the bottom of a document prepared by the Company, there is a note that states: "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 the appropriate amount of accumulated depreciation recorded since the date the treatment systems came online and began producing water?

9. OPC submits that the Company should be required 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 submits that a used and useful adjustment should be considered for organization costs that were incurred to produce rates for 3 systems that have never added any customers or provided service.

#### Used and Useful Calculations

10. In staff's used and useful calculation, the only non-used and useful system calculations 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 factor. 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 submits 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 and Springs, since those accounts are related to source of supply and water treatment. OPC further submits that an analysis should be performed to determine if the Utility is using more land than necessary for the well and treatment facilities' sites, and if so whether a used and useful adjustment to land costs is required.

11. 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 that was 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 submits it is appropriate to apply the used and useful percentages to the stand alone investment levels for these plants, not the composite rate. Using the plant values from the above workpapers, accumulated depreciation and depreciation expense can be calculated to bring the rate base components up to the test year values.

### Contributions in Aid of Construction

12. Exhibit B-6 in Silver Lake's Original Certificate Application in Docket No. 060726-WS reflects that property CIAC for Transmission and Distribution Mains is \$208,379 as of 2006, which was the estimated actual cost of the plant (not including estimated 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 submits 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

#### Royalties and Land Leases

13. Please explain why it is reasonable for the Utility to pay its parent, which is the owner of the land on which the wells are located, a \$0.20 royalty per thousand gallons for withdrawing water, in light of the fact that (a) the Utility is leasing the land on which the wells are located, (b) the Utility owns the plant and equipment to withdraw the water, (c) the Utility pays the expenses to withdraw the water, and (d) the Utility pays the taxes on the land leased. The Utility should be required to provide supporting documentation to show why these costs are reasonable and prudent to be recovered from ratepayers, especially since the Utility is charged all costs of operating the plant.
14. In its test year, the Utility recorded \$44,095 in lease payments to the LB Ranch and LB Citrus Divisions. Has the Utility provided, or has staff performed, any calculations to reflect that the lease costs are based on the original cost of the land when first devoted to utility service? If not, the Utility should be required to provide the following information in order to determine the original cost of the land on which each well is located: (a) when each well was devoted to public service, including the date each well was devoted to public service, (b) the value of each parcel of land for each well, (c) the basis used to determine the value of the land when devoted to public service, and (d) the number of acres of land used for each well.
15. Land Cost and Property taxes. In the Staff Audit workpapers, Page 53-1, the auditors included a copy of the Company prepared worksheet entitled: "2014 Property Tax Payment Summary, Utility Site Leases for Silver Lake Utilities, Inc., Data Compiled by C. Shoemaker." The auditors used this spreadsheet to verify the Utility's allocation of property tax bills, based on the leased parcels compared to the total value of the parcels owned by LB. This spreadsheet was very helpful in documenting the assessed value of total land to that leased to the Utility.
  - a. First, OPC recommends that this schedule reflect that one parcel of the land relates to Lake Placid wastewater treatment plant land. Based on the Utility's description, the

\$459 in property tax expense allocated to the wastewater treatment site should be removed from the water expenses.

- b. OPC further recommends that the allocated assessed value of land should be included in rate base instead of the annual lease costs. The assessed value is the closest valuation that has been presented in this case that reflects at least a current market value of the property used for wells and water treatment. The appropriate value for land should be based on the Commission’s long standing policy of using the original cost of land when first devoted to public service. The Utility has not provided any information to document the original cost, which is clearly its burden to show. Using the Utility’s data that it provided and then multiplying the assessed value for each property times the acres of land used for utility service calculates to a total cost of land of \$87,972. If you remove the cost of land for the Lake Placid wastewater treatment plant site of \$39,765 and the cost of land for the two Muse Utility sites which were not included by audit staff as utility-related property of \$6,706 and \$2,321, the total value of land should be \$39,180 (see chart below). The assessed value allocated by the Utility clearly shows that the requested annual lease expense of \$44,095 is far and above what the revenue impact would be if you capitalized the assessed value of land.
- c. OPC further recommends that, since staff has determined the Brighton Ranch and Brighton Grove treatment plants are substantially non-used and useful (76.1% and 65% non-used and useful, respectively), a used and useful adjustment should also be made to the cost of the land, and the specific property tax amounts allocated to these sites.

<b>Analysis of Property Taxes and Land</b>				<b>OPC</b>		
<b>Utility Land Cost Analysis</b>				<b>County</b>	<b>Recomm.</b>	
<b>Based on Assessed Value</b>	<b>Total</b>	<b>Total</b>		<b>Assessed</b>	<b>Adjust-</b>	
	<b>Parcel</b>	<b>Assessed</b>	<b>Leased</b>	<b>Cost of</b>	<b>ments</b>	<b>Total</b>
<b>Highlands County Sites</b>	<b>Acres</b>	<b>Value</b>	<b>Acres</b>	<b>Land</b>	<b>to Land</b>	<b>Land</b>
Brighton Ranch Office	253.85	1,531,716	3.110	\$18,766		\$18,766
Wild Island	3,109.16	1,057,719	0.016	\$5		\$5
Iron Pens	3,109.16	1,057,719	0.016	\$5		\$5
Employee House (Todd)	24	66,714	0.029	\$81		\$81
Boat Ramp Nursery	180	343,623	0.088	\$168		\$168
Buckhorn Housing	1,491.95	213,963	0.065	\$9		\$9
Basinger Grove Shop	736.88	164,933	0.065	\$15		\$15
Basinger Grove Barn 1	1,731.38	4,128,378	0.029	\$69		\$69
Basinger Grove Barn 3	2,436.67	5,413,973	0.016	\$36		\$36
Basinger Grove Barn 4	1,140.09	4,324,757	0.016	\$61		\$61
Basinger Grove Barn 10	914.02	495,889	0.088	\$48		\$48
Lake Placid Office, Shop	56.57	1,602,958	0.500	\$14,168		\$14,168
Lake Placid Dinner Lake Road	564.23	1,121,828	0.200	\$398		\$398
Ake Placid WWTP Site	564.23	1,121,828	20.000	\$39,765	(\$39,765)	\$0
<b>Total Highlands County</b>				<u>\$73,593</u>	<u>(\$39,765)</u>	<u>\$33,828</u>

<b>Glades County Sites</b>						
Brighton Grove WTP	649.8	2,490,171	1.378	\$5,281		\$5,281
Boar Hammock	629.3	33,867	0.045	\$2		\$2
Moore Haven House North	638	47,325	0.016	\$1		\$1
Moore Haven House South	638	47,325	0.016	\$1		\$1
North Island	638.3	439,981	0.029	\$20		\$20
Silver Lake West (Lodge)	643.5	125,488	0.045	\$9		\$9
Silver Lake East (Tower House)	643.5	125,488	0.016	\$3		\$3
Lakeport House 1	600.3	197,538	0.029	\$10		\$10
Lakeport House 2	600.3	197,538	0.029	\$10		\$10
4480-4500 Us 27 North	566.8	325,168	0.016	\$9		\$9
5475 Us 27 North	565.7	80,325	0.016	\$2		\$2
10260 Farabee Road	649.1	108,139	0.029	\$5		\$5
Muse Utility Site S15	120.3	20,167	40	\$6,706	(\$6,706)	\$0
Muse Utility Site S16	325.4	17,564	43	<u>\$2,321</u>	<u>(\$2,321)</u>	<u>\$0</u>
<b>Total Glades County</b>				<u>\$14,379</u>	<u>(\$9,027)</u>	<u>\$5,353</u>
<b>Total Land</b>				<u>\$87,972</u>		<u>\$39,180</u>

16. The following schedule reflects a comparison of the cost per ERC of the Company's O&M Expenses to the level included in Staff's Report. If the Commission considers that it is reasonable for this Utility to serve 111 ERCs with 26 wells, then it must also consider how reasonable the following costs are on a per-ERC basis. Based upon its standard policies, the Commission routinely compares utility services on a per ERC basis. In this case, the majority of the costs shown below would be by far the most expensive costs that the Commission has ever approved. This Utility's original rates were set based on growth that never developed. On a stand-alone basis, the per-ERC costs should be denied unless fully supported by the Utility as reasonable for this few number of customers, regardless of whether LB is its only customer. Looking at the categories of purchased water (which are royalty payments to LB), management fees, contractual services other and rental of buildings and property alone (which the overwhelming majority of those costs are affiliate charges that have not been supported as reasonable and prudent), those costs equate to \$1,113 per ERC per year or \$93 per month. Included in Contractual services other are \$31,827 in fixed monthly affiliate charges that are either lease payments or contract maintenance fees. OPC notes that there was no analysis included in the staff report on these very material affiliate transactions, which are in addition to the \$4,630 in charges to outside parties for operating the wells and treatment plants. OPC submits that, unless the Utility can document the reasonableness and prudence of these levels of charges on a per ERC basis, the affiliate charges should be denied.

<b>Silver Lake Utilities, Inc.</b>	<b>Total</b>	<b>Staff</b>	<b>Total</b>	<b>Cost/ERC</b>	<b>Cost/ERC</b>
<b>Analysis of O&amp;M Expenses</b>	<b>Per</b>	<b>Adjust-</b>	<b>Per</b>	<b>Per</b>	<b>Per</b>
<b>Total ERCs of Silver Lake = 111.5</b>	<b><u>Utility</u></b>	<b><u>ment</u></b>	<b><u>Staff</u></b>	<b><u>Company</u></b>	<b><u>Staff</u></b>
(601) Salaries And Wages - Employees	\$0	\$0	\$0		
(603) Salaries And Wages - Officers	\$0	0	0		
(604) Employee Pensions And Benefits	\$0	0	0		
(610) Purchased Water	\$1,256	108	1,364	\$11.26	\$12.23
(615) Purchased Power	\$6,364	143	6,507	\$57.08	\$58.36
(616) Fuel For Power Production	\$0	0	0		
(618) Chemicals	\$2,326	(90)	2,236	\$20.86	\$20.05
(620) Materials And Supplies	\$14,757	(4,400)	10,357	\$132.35	\$92.89
(630) Contractual Services - Billing	\$0	0	0		
(634) Contractual Services - Management	\$42,177	0	42,177	\$378.27	\$378.27
(635) Contractual Services - Testing	\$6,346	0	6,346	\$56.91	\$56.91
(636) Contractual Services - Other	\$37,177	(720)	36,457	\$333.43	\$326.97
(641) Rental Of Buildings And Property	\$44,095	0	44,095	\$395.47	\$395.47
(650) Transportation Expense	\$0	0	0		
(655) Insurance Expense	\$0	0	0		
(665) Regulatory Commission Expense	\$0	276	276	\$0.00	\$2.48
(670) Bad Debt Expense	\$0	0	0		
(675) Miscellaneous Expense	\$2,908	0	2,908	\$26.08	\$26.08
	<u>\$157,406</u>	<u>(\$4,683)</u>	<u>\$152,723</u>	<u>\$1,411.71</u>	<u>\$1,369.71</u>