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COMMISSION  
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**CHARLIE CREEK UTILITIES, LLC**

September 26, 2016

RE: Docket No. 160143-WU. Application for Staff Assisted Rate Case in Hardee County by Charlie Creek Utilities, LLC - Response to Staff Audit Report - ACN 16-182-1-1.

Commission Clerk

Charlie Creek Utilities, LLC, (CCU) hereby submits its response to the Staff Audit Report in the above referenced docket.

**Audit Finding 1:** CCU believes that the Plant in Service (PIS) and Accumulated Depreciation balances should be \$6,302 (\$10,020-\$3,718) and \$153 (\$277-\$124), respectively, as of December 31, 2015, based on the following.

1. The audit finding reclassifies four invoices totaling \$3,718 to Acct. No. 311-Pumping Equipment that CCU believes should either remain as O&M expense or be transferred to a deferred asset account. CCU discussion in Audit Finding 5 provides more details.
2. Reducing the PIS adjustment by \$3,718 in Acct. 311 will reduce test year depreciation expense and the corresponding Accumulated Depreciation balance by \$124, as of December 31, 2015.

**Audit Finding 2:** CCU takes no position on this finding and defers to our response provided for Audit Finding 7.

**Audit Finding 3:** CCU takes no position on this finding.

**Audit Finding 4:** CCU takes no position on this finding.

**Audit Finding 5:** CCU believes that Operation & Maintenance Expense (O&M) should be \$31,214 for the test year period (\$28,949+\$2,265), based on the following.

1. The audit finding reclassified two invoices totaling \$1,144 from Acct. 620-Materials & Supplies to PIS. The two invoices, \$504 and \$640, were for repairs performed on the pumps at the water plant. CCU believes that repairs are properly expensed because they are minor amounts, recurring in nature, and do not increase the life of the plant asset.
2. The audit finding reclassified an invoice totaling \$418 from Acct. 636-Contract Services Other to PIS. The invoice was for a repair in an electrical panel for a well pump at the water plant. CCU believes that repair should be expensed because it was a minor amount, recurring in nature, and did not increase the life of the plant asset.

3. The audit finding reclassified an invoice totaling \$2,156 from Acct. 636-Contract Services Other to PIS. The invoice was for parts and labor to repair and rebuild the piping and electrical components for a high service pump that were damaged when a well pump went out of service. CCU believes that the repair should be recorded in a deferred asset account and amortized to Acct. 636 over five years per Rule 25-30.433 (8), F.A.C., because it was a large amount, non-recurring in nature, and did not increase the life of the plant asset. The amount of amortization expense that should be included in Acct. No. 636 is \$431 ( $\$2,156/5\text{yrs}$ ) for the test year.
4. The audit finding removed two invoices totaling \$887 from Acct. No. 675-Miscellaneous Expense. The two invoices, \$750 and \$137, were for filing fees and legal notices associated with CCU transfer application filed with the Commission. CCU believes that these costs should be recorded in a deferred asset account and amortized to Acct. 665-Regulatory Commission Expense over four years per the guidelines established in NARUC USoA for Class C Utilities for Water O&M Expense Account No. 665-Regulatory Commission Expense and Section 367.0816, F.S., because the transfer fees were required by rule and law. They were non-recurring costs that are similar in nature to rate case expense. The amount of amortization expense that should be included in Acct. No. 665 is \$222 ( $\$887/4\text{yrs}$ ) for the test year.
5. The audit finding removed an invoice totaling \$100 from Acct. No. 675. The invoice was for closing cost associated with a long-term note that was discussed in Audit Finding 3. Typically, loan origination fees and closing cost, such as these, are amortized over the life of the loan and included in the annual interest expense calculation of long-term debt to determine the effective cost rate for the debt. Alternatively, CCU believes that the \$100 fee should be recorded in a deferred asset account and amortized to Acct. No. 675, over two years. The amount of amortization expense that should be included in Acct. No. 675 is \$50 ( $\$100/2\text{yrs}$ ) for the test year.

**Audit Finding 6:** CCU takes no position on this finding and defers to our response provided for Audit Finding 7.

**Audit Finding 7:** CCU agrees that the proper method to allocate common Rate Base and Net Operating Income accounts among affiliated systems is by Equivalent Residential Connections (ERC). Attached is a proposed Florida Utility Services 1, LLC (FUS1) Common Cost Allocation Schedule (CCAS) that was developed for this purpose. Because of the varied customer base of FUS1 utility systems, CCU believes that the proposed allocation method is a reasonable approach that is fair to our utility customers. With Commission approval, the CCAS would be applicable to all FUS1 systems. The CCAS provided was calculated using the total number of active customers for each FUS1 system, as of the September 2016 billing cycle. We have removed the Forest Lake and Bimini Bay systems based on the pending transfer to Polk County Utilities.

The CCAS will redistribute the common rate base and net operating income costs for CCU by,

- Reallocating the common rate base balance in Audit Finding 2.
- Reallocating the common O&M expense amount in Audit Finding No. 6.
- Reallocating the common payroll tax expense in Audit Finding No. 8.

**Audit Finding 8:** CCU takes no position on this finding and defers to our response provided for Audit Finding 7.

If you have any further questions or desire any of the calculations, please do not hesitate to contact me.

Respectfully submitted,

Mike Smallridge  
Charlie Creek Utilities, LLC  
Managing Member

**Attachment to Charlie Creek Utilities, LLC – Response to Audit Report – ACN 16-182-1-1  
Proposed Common Cost Allocation Schedule (CCAS)**

Active customers as of September 2016 Billing Cycle														
FUS1 Utility System	Customer Bills		Water Bills by Meter				W/Water Bills by Meter				ERC Calculations			
	Water	W/Water	5/8"	3/4"	1"	2"	5/8"	3/4"	1"	2"	Water	W/Water	Total/Avg.	Percent
CCU Charlie Creek	143	-	143	-	-	-	-	-	-	-	143.0	-	143.0	7.29%
CRU Crestridge	599	-	598	-	1	-	-	-	-	-	600.5	-	600.5	30.62%
EMU East Marion	105	92	105	-	-	-	92	-	-	-	105.0	92.0	98.5	5.02%
x MGU McLeod Gardens	90	-	90	-	-	-	-	-	-	-	90.0	-	90.0	4.59%
HGU Holiday Gardens	446	-	440	-	6	-	-	-	-	-	455.0	-	455.0	23.20%
LFU Lake Forest	-	63	-	-	-	-	63	-	-	-	-	63.0	63.0	3.21%
x OLU Orange Land	70	-	68	1	1	-	-	-	-	-	72.0	-	72.0	3.67%
PCU Pincrest	130	-	130	-	-	-	-	-	-	-	130.0	-	130.0	6.63%
WLU West Lakeland	-	309	-	-	-	-	309	-	-	-	-	309.0	309.0	15.76%
<b>Total</b>	<b>1,583</b>	<b>464</b>	<b>1,574</b>	<b>1</b>	<b>8</b>	<b>-</b>	<b>464</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,595.5</b>	<b>464.0</b>	<b>1,961.0</b>	<b>100.00%</b>

Residential Service ERC factor	1.0	1.5	2.5	8.0	1.0	1.0	1.0	1.0	Per Annual Report					
General Service ERC factor	1.0	1.5	2.5	8.0	1.0	1.5	2.5	8.0	pgs W-3 & S-3					

x Pending transfer approval.