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Sent: Tuesday, May 29, 2012 1:43 PM
To: Filings@psc.state.fl.us
Cc: Andrew Maurey; Bart Fletcher; Ralph Jaeger; Patrick Flynn; Martin Friedman Esquire (mfriedman@sfflaw.com); Reilly, Steve; Davis, Phyllis; Vandiver, Denise
Subject: Docket No. 110257-WS; Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation
Attachments: May 29 Comments on Issues .docx

a. The full name, address, telephone number, and e-mail address of the person responsible for the electronic filing:

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b. The docket number and title if filed in an existing docket:

Docket No. 110257-WS
Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation

c. The name of the party on whose behalf the document is filed:

Office of Public Counsel (OPC)

d. The total number of pages in each attached document:

5 pages

e. A brief but complete description of each attached document:

Cover letter with attached comments on issues.

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SPEAKER OF THE HOUSE OF REPRESENTATIVES

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May 29, 2012

Ann Cole, Director
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 110257-WS; Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation;

Dear Ms. Cole:

We are submitting our comments on issues in the Sanlando rate case. We hope this assists the staff and parties in knowing where we have primary issues and concerns. If you should have any questions, please feel free to call or e-mail me.

Respectfully submitted,

s/ Denise N. Vandiver
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c: Division of Economic Regulation (Maurey, Fletcher)
Office of the General Counsel (Jaeger)

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Martin Friedman

Utilities, Inc. of Florida
Mr. Patrick C. Flynn

Office of Public Counsel (Reilly)

Utility Plant In Service

The Utility has moved significant balances between plant accounts. Table 2-A in OPC's prior letter shows a pattern of the Utility making adjustments and moving amounts from one account to another. The Utility responded that it occasionally sees an account that may be classified better somewhere else. This explanation sounds plausible, but it appears to happen with regularity in the case of Utilities, Inc. Table 2-A also shows that $4 million dollars was recorded in three different accounts in 2004, 2005, and 2007 and was moved again in 2010. In addition, the Land of $200,000 was also recorded in three different accounts in 2008, 2009, and 2010. These continual reclassifications make analysis in a rate case time-consuming and difficult. It stretches the imagination to believe that it takes four tries to get an asset in the right account.

Acct No	Account Name	Dec-04	Dec-05	Dec-07	Dec-08	Dec-09	Dec-10
Collection Plant							
353.2	Land & Land Rights				203,894		
Treatment & Disposal							
354.4	Structures/Improve.		4,327,579				4,703,313
380.4	Treat/Disposal Eq.	4,802,974					
Reclaim. Water Dist							
353.5	Land & Land Rights						203,894
General Plant							
353.7	Land & Land Rights					203,894	
354.7	Structures/Improve.			4,355,108	4,703,313	4,713,992	

Pro Forma Plant

The Utility has requested $3,836,708 in pro forma plant items. The Utility's response to the staff data request indicates that only $71,708.80 of this amount has been completed. We do not believe that significant plant items should be included as pro forma plant until it has been completed. We are also concerned with the estimate for the Wekiva-Apopka Reuse Main. In response to the staff data request, the Utility submitted a letter dated January 9, 2011 from CPH Engineers, Inc. On the third page of this letter, the engineers state that the project is eligible for funding from the St. Johns River Water Management District (SJRWMD) and could receive as much as 20% of the project cost, or $600,000. We would expect that it would be prudent for the Utility to pursue this source of funds and that any costs of the project included in rate base be reduced by this amount.

The Utility responded that it expects to finish the projects shortly and would submit documentation regarding the costs. The Utility did not specifically respond to the SJRWMD funding. We continue to recommend that costs be reviewed before inclusion in rate base and if the Utility does not acquire SJRWMD funding, the decision should be explained.

Contributions In Aid Of Construction

We expressed concern regarding apparent retirements of CIAC shown on Schedule A-12 of the MFR's. These were adjustments in the amount of approximately $584,000 from Water CIAC and $663,000 from Wastewater CIAC. The Utility explained that these are to record Commission Ordered Adjustments (COAs). We believe that this response highlights our continuing concern with the Utility's books. There were no COAs to CIAC in the last rate case. These adjustments include adjustments from the 2006 rate case as well as a duplicative adjustment made to CIAC in 2005 regarding overearnings from Docket No. 980670-WS. (This adjustment was addressed in the staff audit for Docket No. 060258-WS and Audit Finding No. 8 addresses the $242,474 for water and $233,333 for wastewater). While our former Issue List did not address the related amortization of these CIAC adjustments, we do not see any reason that the related accumulated amortization does not appear to match the amounts shown in the two prior orders (even accounting for rounding).

Salaries and Wages
The allocation schedules in the MFRs show that the allocated salaries and wages increased by $82,194 (23%) in the two years since the last rate case[1]. The utility argued that the benefits provided at the affiliate level are greater than what can be purchased by Sanlando as a stand-alone company. However, the Utility fails to recognize that two years ago, the Commission determined that the costs were reasonable and now the costs for the same services are 23% greater, with no identifiable increase in benefits. We are also concerned that the Sanlando customers are paying more for the same services to make up for increased allocations due to the fact that Utilities, Inc. has sold systems and the current customer are picking up the increased allocations instead of the utility making comparable cuts in expenses.

Sludge Hauling Expense
The Staff Audit Finding No. 8 recommends that sludge hauling expense be reduced by $38,064 due to an improved method of treatment. The Utility agreed with this adjustment and OPC agrees that this adjustment should be made.

Chemical Expense
Schedule B-7, page 1 of 2 indicated a 108.96% increase in Chemical Expense for the water system, since the last rate case. The Schedule further explained that this increase was due to a higher volume of gallons pumped in the test year. However, our review of the amount of water pumped, as reported on schedule F-1 in each case indicates that the amount of water has actually decreased. We do not believe that the Utility has carried its burden to justify the doubling of its Chemical Expense and that the expense should be reduced by $86,000. The Utility response addressed a change in price between 2005 and 2010. However the question is about the change from 2008 and 2010. Based on the information provided previously, it appears that the price for one chemical actually decreased while the other went up about 22%. The primary difference in cost appears to be the fact that the Utility purchased 91,940 pounds of Sodium Aluminate in 2008 and 490,612 pounds in 2010. Without explaining why the Utility purchased a substantially higher level of this chemical, we do not believe that the Utility has justified this increase, especially when the amount of water pumped has decreased.

[1] The Utility pointed out an error in the OPC amount, but this adjustment does not change the percentage increase over the last rate case.

Materials and Supplies

The invoices and Excel file submitted in response to Staff's First Data Requests #10 and #21 on Materials and Supplies total $39,879, for the five months addressed. The amounts included in the MFR's total $159,757 for the same five months, or $120,000 more than the actual documented expense. The Utility submitted additional documentation. As part of this documentation, the Utility included the following entry. We are unable to identify what Order this adjustment is related to and how it would affect test year expenses. We believe that the expense should be reduced by the $33,460.

255	255100	6310	COA SANLANDO	JE	277641	12/31/10	33,460.00	This is a Commission Ordered Adjustment from Docket No. 090402-WS.

The MFR expense also includes a pro forma expense for the $33,000 amortization of the Wekiva WWTP de-gritting. The staff audit found that the actual cost for the project was $116,000 less than projected and the 5 year amortization of that difference should be removed. The Utility agrees with this adjustment to reduce expenses by $23,194.

The invoices and Excel file submitted in response to Staff Data Requests #10 and #21 on Materials and Supplies include three items that appear to be for items outside the test year. These three items total $10,832. The Utility agrees with this adjustment to expense.

Contractual Services – Legal

The Utility's response to Staff's First Data Requests #12 and #23 includes WSC allocations of 9 invoices from Winston & Strawn (totaling $35,881) for a court case. The Utility admits that one invoice should be removed but the other 8 invoices are for services benefitting Sanlando. However, the Utility response does not address the question whether these are recurring or should be amortized. Further, we believe that the utility should provide more information concerning how these expenses benefit the Sanlando ratepayers and are not the result of improper conduct by the Utility or its personnel.

The Utility's response to Staff's First Data Requests #12 and #23 includes WSC allocations of two invoices from Poyner Spruill for a Superior Court case in North Carolina. The Utility agrees these should be removed from expenses.

In the Utility's response to Staff Data Requests #12 and #23 there are 7 invoices to Butler, Pappas, Weihmuller, Katz, Craig, LLP that total $11,742. The Utility response indicates that the invoices are for services benefitting Sanlando and no other systems. However, the Utility response does not address the question whether these are recurring or should be amortized. Further, we believe that the utility should provide more information concerning how these expenses benefit the Sanlando ratepayers and are not the result of improper conduct by the Utility or its personnel.

In the Utility's response to Staff Data Requests #12 and #23 there are two invoices for RSB for $566 and $331. These are for invoices dated 2007. These should be removed from test year expenses. The Utility agrees with this adjustment.

In the Utility's response to Staff Data Requests #12 and #23, Page 41 of the .pdf file is an e-mail that states two developers are sharing the cost of the legal fees. The Utility agrees with this adjustment.

Contractual Services – Other

Contractual Services – Other has increased by $67,685.77 (47%)[2] in the two years since the last rate case. The Utility response provides a breakdown of the items in the account and there is an increase of $59,250 in the computer maintenance portion of the expense. All of the charges to Computer Maintenance appear to be allocations from WSC and the Utility provided a listing of all the Computer Maintenance charges for WSC. These charges total $1,914,523. Invoices from IP Soft total $721,685 or 38% of the total and invoices from AT&T and Paetec total $655,133 or 34% of the total. The Utility response did not address why these charges are higher than in 2008. We are concerned that the Sanlando customers are paying more for the same services to make up for increased allocations due to the fact that Utilities, Inc. has sold systems and the current customer are picking up the increased allocations instead of the utility making comparable cuts in expenses.

Rate Case Expense

The Nevada Commission disallowed rate case expense to the extent that the WSC charges for cap time duplicate the salary expense included in rates. (See the Spring Creek Utilities Co. (SCUC) rate case, Docket No. 08-06036, Modified Final Order, issued March 18, 2009). The Utility argues that it accounts for these adjustments and there should be no disallowance of cap time in rate case expense. OPC continues to believe that the cap time should be removed from rate case expense.

Miscellaneous Expense:

Our review of the travel expenses included in this account indicate an average of about $1,500 per month. While the allocated amounts are not substantial, there are several trips that appear to be for non-Florida business. There are numerous trips to Nevada, some for conferences but some appear to be for Nevada Utility business. There are other trips to: 1) South Carolina for a state system and a show cause issue, 2) Indiana for issues before the state Commission, 3) Washington DC for lobbying, and 4) Georgia for a potential sale of a system. The Utility agrees that the portion of trips for the South Carolina show cause issue, the Indiana case, and the Georgia sale of a system should not be included in test year expenses.

[2] The Utility pointed out an error in the amount of $124,000 that OPC referenced, the correct amount is $67,685.77