

**Shawna Senko**

---

**From:** Vandiver, Denise <VANDIVER.DENISE@leg.state.fl.us>  
**Sent:** Tuesday, August 20, 2013 2:12 PM  
**To:** Filings@psc.state.fl.us  
**Cc:** anorris@psc.state.fl.us; Andrew Maurey; Bart Fletcher; Shannon Hudson; Lydia Roberts; Melinda Watts; Lynn Deamer; Julia Gilcher; Martin Friedman Esquire (mfriedman@sfflaw.com); pambrewer@embarqmail.com; Reilly, Steve; Vandiver, Denise  
**Subject:** Docket 130025 -- Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.  
**Attachments:** Letter - Issues for Staff on Placid Lakes.docx

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

Denise N. Vandiver  
Office of Public Counsel  
111 West Madison Street  
Pepper Building, Room 812  
Tallahassee, Florida 32399-1400  
Phone: 850-717-0330  
Email: [vandiver.denise@leg.state.fl.us](mailto:vandiver.denise@leg.state.fl.us)

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

Docket No. 130025-WU Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.

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

Office of Public Counsel

- d. The total number of pages in the attached document:

4 pages

- e. A brief but complete description of the attached document:

Cover letter with attached list of OPC issues and concerns



STATE OF FLORIDA  
OFFICE OF PUBLIC COUNSEL



**DON GAETZ**  
PRESIDENT OF THE SENATE

c/o THE FLORIDA LEGISLATURE  
111 WEST MADISON ST.  
ROOM 812  
TALLAHASSEE, FLORIDA 32399-1400  
1-800-540-7039

**WILL WEATHERFORD**  
SPEAKER OF THE HOUSE OF  
REPRESENTATIVES

J.R. Kelly  
Public Counsel

EMAIL: OPC\_WEBSITE@LEG.STATE.FL.US  
WWW.FLORIDAOPC.GOV

August 20, 2013

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

Re: Docket No. 130025-WU; Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.

Dear Ms. Cole:

Attached is a list of issues that the Office of Public Counsel has prepared to identify concerns we have with the MFRs and other information filed by Placid Lakes Utilities, Inc. to support its requested rate increase. We are submitting this letter in an effort to be up front with our concerns and allow the staff and utility sufficient time to review our concerns and ask for any additional information that might be needed. We have not had time to fully review the information filed in this case, especially the utility's response to the staff's first data request and the staff audit. However, the comments attached are based on the MFR's that we have had time to review. If you should have any questions, please feel free to call or e-mail me.

Respectfully submitted,

*s/ Denise N. Vandiver*

Denise N. Vandiver  
Legislative Analyst

c: Division of Accounting & Finance (Norris, Maurey, Fletcher)	Mr. Martin Friedman
Division of Economics (Hudson, Roberts)	Sundstrom, Friedman & Fumero, LLP
Division of Engineering (Watts)	Placid Lakes Utilities, Inc.
Office of the General Counsel (Gilcher)	Ms. Pam Brewer

Office of Public Counsel (Reilly)

OPC Issues and Concerns  
Placid Lakes Utilities, Inc.  
Docket No. 130025-WU

Utility Plant In Service

1. The utility has requested pro forma plant for its continuing Meter Replacement Program. Based on information included in the filing, this Program is based on replacing all 582 of the remaining meters. The Board Minutes included in Volume IV for October 2009 indicate a goal of 6 meters per month. However, the actual average for 2010 – 2012 was 8 meters per year (2 meters in 2010, 2 in 2011 and 22 in 2012). If the utility replaces 6 meters per month as described in the Board Minutes, it will take eight years to replace the remaining 582 meters. We do not believe that it is reasonable to allow pro forma plant in current rates that will be for plant additions 8 years in the future.

Revenues

2. Schedule B-1, Net Operating Income does not appear to include the annualized test year revenues. If an adjustment is made to test year revenues, the increase decreases to 18.6%. While this does not affect the final revenue requirement, it may affect the perception of the increase and would affect a flat percentage increase, if staff were to use such a mechanism.

Capital Structure

3. It appears that the only debt reported on Schedule D-1 is the Ford Credit Debt. The remaining debt appears to be parent company debt and is reported solely through advances to equity. We believe that this overstates the true cost of capital as all investment through equity is assigned a higher cost of capital. The parent company debt appears to be in the 4% range compared to the requested 8.79% equity rate. We note that the prior rate case allowed this treatment of parent company debt, but we believe staff should look carefully at the sources of funds and allow the utility only its actual cost of providing capital.
4. There are no deferred income taxes shown in the capital structure. However, Schedule C-1 indicates that about 40% of the income tax expense included in the revenue requirement is from deferred income tax expense. We believe that staff should determine the appropriate level of deferred income taxes and include this balance in the capital structure.
5. The utility included over \$100,000 in pro forma plant additions. We believe that deferred income taxes should be increased for the impact of all pro forma plant projects that are included in rate base.

Salaries and Benefits

6. We are concerned with the increase in salaries and benefits requested by the utility. The utility's justification for the increase is shown on Schedule B-7 as due to the fact that the utility "hired staff in lieu of management fee". However, the increase in salaries is \$92,180 and the reduction in the management fee is \$31,500. Staff should determine whether the additional salary and related benefits are justified by the services received by the ratepayers. The chart below shows our calculation of the \$92,180 increase that we do not believe the utility has justified.



OPC Issues and Concerns  
Placid Lakes Utilities, Inc.  
Docket No. 130025-WU

Schedule B-5 prior case	163,747
Schedule B-5 current case	248,849
Pro Forma Adjustment	<u>7,078</u>
Total Requested	<u>255,927</u>
Increase over prior rate case	<u>92,180</u>

Employee Pensions & Benefits

7. The utility has included a pro forma expense increase of \$10,682 for a profit sharing plan. Page 65 of 68 in Volume IV shows the \$2,165 Administrative cost as well as the \$8,517 in matching costs. The administrative costs include a \$500 one time set up fee that will not be recurring. This appears to be a new plan with no history of whether the employees will contribute 3% of their salary. If the employees contribute less, then the matching could be less. We believe that staff should carefully consider what actual percentage should be used to estimate employee contributions so the matching expense is not overstated.

Fuel for Power Purchased

8. Schedule B-5 reflects Fuel for Power Purchased of \$3,863. The prior rate case included a zero expense for this account. Schedule B-7 describes the expense as "timing of generator fuel purchases". We believe that staff should determine the nature of this expense and whether it relates to a multi-year supply and the expense should be amortized over the expected life of the fuel supply. The test year expense should be examined and adjusted to an annualized amount representing what a typical year should include.

Materials and Supplies

9. Schedule B-5 indicates the monthly expense for Materials and Supplies. In June and December of the test year, the utility incurred substantially larger expenses than in the remaining months. We are concerned whether these monthly charges are normal, recurring charges or are for extraordinary items that are not representative of future expenses. We believe that the utility should justify these higher monthly fluctuations in the Materials and Supplies expense.

Contractual Services - Engineering

10. Schedule B-5 reflects Contractual Services – Engineering Fees of \$1,750. Schedule B-7 describes the expense as "timing of water permit renewal". We believe that staff should determine the nature of this expense and if it relates to a multi-year permit, the expenses should be amortized over the life of the permit.

Contractual Services – Other

11. Schedule B-5 indicates the monthly expense for Contractual Services – Other. In May and November of the test year, the utility incurred substantially larger expenses

OPC Issues and Concerns  
Placid Lakes Utilities, Inc.  
Docket No. 130025-WU

than in the remaining months. We are concerned whether these monthly charges are normal, recurring charges or are for extraordinary items that are not representative of future expenses. We believe that the utility should justify these higher monthly fluctuations in the Contractual Services – Other expense.

Rental of Building/Real Prop.

12. Schedule B-7 indicates Rent expense increased due to “increased costs”. We do not believe that the utility has adequately justified the 38% increase in this expense from the last rate case. Schedule B-12 indicates that the entire balance in this account is allocated from an affiliated company. We believe that any affiliate allocations should be subject to greater scrutiny. Schedule B-12 describes the cost as based on FMV. Staff should review this to determine the actual cost the parent company is paying and only include an allocation of actual cost. This Commission has not previously allowed affiliate lease allocations based on fair market value, only historical or actual costs.

Transportation Expense

13. Schedule B-7 indicates that the Transportation Expense is more than double what was included in the last rate case. The utility justification is that the increase is due to “higher gas prices and older vehicle repairs”. OPC is concerned about the level of this increase. We first notice that in August the utility incurred more than twice the normal expense. We believe that this month should be examined for unusual items that may not be recurring expenses. Second, we note that the utility has included a pro forma adjustment for the replacement of an older vehicle and question whether this will reduce some of the repair costs. Our last concern is that we do not believe that the justification on Schedule B-7 fully explains the doubling of the expense from the prior rate case. We believe that the utility has not justified this increase.