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Sent: Thursday, August 22, 2013 10:42 AM
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Subject: Docket 120209 -- Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.
Attachments: Issues for Staff on UIF.docx

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

Docket 120209-WS – Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida

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:

16 pages

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

Cover letter with attached list of OPC issues and concerns

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August 22, 2013

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

Re: Docket No. 120209-WS; Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida

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 Utilities, Inc. of Florida to support its requested rate increase. We are submitting this letter in an effort to highlight 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 utility's response to the two staff audits. However, the comments attached are based on the MFR's and some of the audit work papers 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 (T. Brown, Maurey, Fletcher)
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OPC Issues and Concerns
Utilities, Inc. of Florida (UIF)
Docket No. 120209-WS

Quality of Service

1. In the prior order, the Commission found that the overall quality of the water and wastewater service for the UIF systems was satisfactory, except for the Summertree water system in Paso County. The Commission commented that while water quality at the Summertree system has some undesirable attributes, including taste, odor, and color and that while the water provided by the Utility is meeting applicable primary and secondary standards, treatment alternatives can be implemented by the Utility. The Commission recognized that those improvements will result in additional capital costs and ultimately higher rates to customers and ordered UIF to provide an updated test of the Summertree water system quality to determine whether it meets primary and secondary DEP standards. The water system quality test was completed and the successful results were submitted to staff.

During the recent customer meeting in Pasco County, approximately 130 customers (as reported by the Tampa Bay Times) attended with more than 30 signing up to speak. These customers again complained about the quality of service issues: taste, smell, slime, color, sediment, etc. Many said, even though they have secondary home water treatment systems, they still cannot drink the water and must use bottled water instead. The utility's method of treatment for the TTHMs uses chloramine disinfection, which uses a derivative of ammonia. Customers closest to the injection point complained of sensing that ammonia in the water. Some customers reported a rise in kidney issues, bladder issues, and other hospitalizations in Summertree after this new treatment system was installed. Customers said UIF warned in a letter that customers with autoimmune diseases should consult their doctors before using the water. We are concerned for the customers, especially about the possibility of health concerns with drinking the water mentioned by the customers. When following up on these serious water quality issues, the Commission should follow up with DEP on these health concerns raised by the customers.

During the customer meeting in Seminole County, four customers attended and complained of similar water quality issues – taste, color, awful smell, and black sediment coming out of the tap. After the meeting, a utility representative said most of the water quality issues they were experiencing were due to a free chlorine "burn" and these issues should be resolved in the next month or so. Follow-up with these customers should be made to confirm whether their water quality issues were resolved.

2. We are also concerned that the utility has not complied with the intent of Commission Order No. PSC-10-0585-PAA-WS, issued in the last rate case. The Commission ordered: "Also, within eight months from the issuance of the Order, the Utility shall meet with its Summertree customers to discuss water quality improvement options". Customers in contact with OPC indicated that the utility met with the customers on December 6, 2010 and presented plans to install a filtration system. Customers indicated there was to be a follow up meeting with the utility on January 10, 2011, but despite interest on the part of the customers, the utility never followed up. The customers indicated that all communication with the utility ceased after December 2010. We believe that the utility has not met the intent of the last order to work toward a long-term resolution to the water

quality issues complained of by the customers and the utility should be ordered to explore with the customers options to provide palatable water.

Utility Plant in Service

3. The Office of Public Counsel continues to be concerned with the adjustments reflected in the MFR's. We do not have the staff and resources to audit and analyze the adjustments in detail. However, our review of the staff audit work papers does not alleviate our concerns. The following analysis is based on a limited review of only the plant total for one wastewater system. However, we believe that this concern applies to the plant for every water and wastewater system, as well as the CIAC, Accumulated Depreciation, and Accumulated Amortization. We will present our analysis for the Pasco County wastewater plant below and make summary comments on each of the others so that the magnitude of our concerns can be conveyed.

UTILITIES, INC. OF FLORIDA - PASCO COUNTY WASTEWATER	
General Ledger Balance Dec 31, 2008	1,262,674
Averaging Adjustment	(10,199)
Allocation of General Plant from Water	172,185
Allocation Adjustment for Transportation	29,526
Allocation Adjustment for UIF Cost Center	(19,470)
Roll Forward Plant Adjustment	(57,144)
Utility Requested Plant	1,377,572
Order Adjustments	
Agreed Upon Audit Adjustments	1,280
Phoenix Project Adjustment	(6,480)
Add Other Pro Forma Adjustments	558
December 31, 2008 Balance Per Order	1,372,930
2009 Additions Per Audit WP 16-2.7	18,939
2010 Additions	10,542
2011 Additions	12,250
Calculated December 31, 2011 Balance	1,414,661
MFR A-4 Adjusted December 31, 2011 Balance	2,267,685
Difference	853,024
	60.3%

The chart above starts with the general ledger and adjustments from the prior Commission order. It then adds the net plant additions as shown in the audit work papers. The test year calculated balance does not equal the MFR balance. There is a significant increase in the MFRs which contributes significantly to the requested rate increase.

The utility includes a note on Schedule A-4 in the MFR's in an attempt to explain a $927,478 adjustment to total plant at the end of the test year. However, the note does nothing to explain why the balance from the prior order, increased by annual additions, needs to be increased by another $853,024 or 60.3%. We put significant effort into our attempt to reconcile these amounts. Our review of the staff audit work papers also indicates the auditors spent an extensive amount of time and reviewed hundreds of pages of documents and schedules to determine the utility's adjustments in this case.

OPC recognizes that this concern of unsupported adjustments reflected in the MFRs and many of those that follow are issues that are to be addressed in the Generic Utilities, Inc. docket. However, our concern is that the Commission is considering significant rate increases for Utilities, Inc. of Florida. We believe that these concerns impact the balances that will be used to justify these significant increases and must be addressed at this time. The utility should not be allowed to justify a rate increase based on increasing rate base through the use of journal entries. The utility has the burden of proof to show that these journal entries are supported. Absent supporting documentation, the adjustments should be disallowed. We encourage staff to only allow rate base to include direct additions and retirements. All other adjustments should be disallowed.

4. Audit work paper 16-2.7 is the auditor's analysis of the wastewater plant additions and final balances for the Pasco County wastewater system. Column 16 appears to show the Utility's adjustments to the MFR's as shown on Schedule A-3 (A) 1 (a) and (c) for the general plant allocation and roll forward. These two adjustments total $1,017,970 as shown in Column 16. However, the 80 journal entries provided by the utility in its response to Document Request No. 37 for Pasco County do not appear to support this total. We reviewed all the plant entries (as found in "Pasco Fxd Assets A-3(A)1(c) (B)1(c)(d)(f) (D)1 (E)1 2 B-3(C)3 4 (D)1.xlsx") and were unable to reconcile many of the accounts. While many of these entries appear to be administrative entries to move amounts from one account to another, and others are to record the effect on accumulated depreciation and amortization, we bring this up as an illustration of the magnitude of information that the staff analysts and auditors must analyze in each and every Utilities, Inc. rate case to determine the correct balances. Even if staff determines that the adjustments are correct, the amount of Commission resources used to verify these balances is enormous and diverts time and other resources from other more important items in a rate case.

However, we do not believe that the Journal Entries provided support the adjustments made. The table below shows two NARUC accounts (361.2 and 380.4) where the journal entries that we totaled did not equal the adjustment shown on Schedule A-6.

Account	BU	NARUC	Ledger	Description	Debit	Credit
252.1350	252126	361.2	AA	Gravity Mains	44,673.00	
252.1350	252107	361.2	UR	Gravity Mains		24,500.00
252.1350	252107	361.2	AA	Gravity Mains	24,500.00	
252.1350	252107	361.2	AA	Gravity Mains		22,097.66
					69,173.00	46,597.66
				Net Adj	22,575.34	
				Adj on A-6	595,625.00	
				Difference	573,049.66	
252.1400	252107	380.4	UR	T & D Equipment - Wastewater Treatment		86,333.00
252.1400	252107	380.4	AA	T & D Equipment - Wastewater Treatment	86,333.00	
252.1400	252126	380.4	UR	T & D Equipment - Wastewater Treatment	872.00	
252.1400	252126	380.4	UR	Treatment & Disposal - Wastewater Treatment	254,281.00	
252.1400	252107	380.4	UR	Treatment & Disposal - Wastewater Treatment	89,633.00	
252.1400	252126	380.4	AA	Treatment & Disposal - Wastewater Treatment		23,473.00
252.14	252126	380.4	AA	Treatment & Disposal - Lagoons		114,849.00
252.1400	252126	380.4	AA	Treatment & Disposal - Wastewater Treatment		109,045.92
					431,119.00	333,700.92
				Net Adj	97,418.08	
				Adj on A-6	120,891.00	
				Difference	23,472.92	

5. The $254,281 adjustment to T&D Wastewater Treatment in the chart above is described as "To remove UR ledger entries from the Orange County business units that were booked in error in 2005 as a result of the 2002 rate case, Docket No. 020071-WS." This appears to indicate that the prior order balance was incorrect. We believe that additional support must be provided if the utility is attempting to change the prior order.

6. We also note that out of the 80 Journal Entries provided, Journal Entry Nos. 13 - 41 and Nos. 67 – 68 were described as relating to Docket No. 020071-WS. Journal Entry Nos. 42 – 66 were described as relating to Docket No. 060253-WS which was closed in May 2008. We are concerned with why the journal entries for the 2002 and 2006 rate cases were not recorded prior to the start of the current test year of 2011. The utility response to the document request does not indicate whether these journal entries have been booked, and if so, on what date.

7. The chart below summarizes the utility adjustments on Schedule A-3 that are similar to our discussion in Item No. 3 above.

UTILITIES, INC. OF FLORIDA

	Orange	Seminole	
	Water	Water	Sewer
General Ledger Balance Dec 31, 2008	**382,071**	**4,722,393**	**2,361,004**
Averaging Adjustment	(30,276)	1,801,700	(31,477)
Allocation of General Plant from Water	49,094	(1,093,571)	1,093,571
Allocation Adjustment for Transportation	8,028	649,975	19,577
Allocation Adjustment for UIF Cost Center	7,228	85,038	(23,092)
Roll Forward Plant Adjustment	(132,922)	(2,138,305)	(564,957)
Pro Forma		550,151	143,818
Utility Requested Plant	283,223	4,577,381	2,998,444
Order Adjustments			
Agreed Upon Audit Adjustments UPIS	4	72	331
Agreed Upon Audit Adjustments Land		(3,564)	
Phoenix Project Adjustment	(1,660)	(14,383)	(7,685)
Remove Pro Forma		(505,573)	(120,000)
Add Other Pro Forma Adjustments	143	(43,340)	(23,156)
December 31, 2008 Balance Per Order	**281,710**	**4,010,593**	**2,847,934**
2009 Additions Per Audit WP 16	12,610	56,465	(3,703)
2010 Additions	37,062	(608,536)	(960,712)
2011 Additions	3,844	213,892	7,971
Calculated December 31, 2011 Balance	335,226	3,672,414	1,891,490
Pro Forma Requested		642,739	213,000
Test Year Plus Pro Forma	**335,226**	**4,315,153**	**2,104,490**
MFR A-4 Adjusted December 31, 2011 Balance	**411,124**	**5,096,122**	**3,397,697**
Difference	75,898	780,969	1,293,207
	22.6%	21.3%	68.4%

8. We reviewed the audit work papers and noticed that the following material adjustments were included in the additions and retirements reported in the audit work papers for Account 348 – Other Tangible Plant. The utility provided a journal entry to describe the adjustments. However, we were not able to discern the basis for the utility to adjust the previous Commission ordered balance. If these adjustments are removed, it would impact the numbers we reflected in the chart in Item No. 7.

Account 348 – Other Tangible Plant			
County	System	Adjustment	12/31/2009 Balance
Orange	Water	$ 26,612	$ (41,832)
Pasco	Water	$ 358,676	$ (517,964)
Pinellas	Water	$ 38,338	$ (61,700)
Seminole	Water	$ 354,019	$ (579,614)
Seminole	Sewer	$ (966,738)	$ 49,050

9. Audit Finding 1 of the Staff's Rate Case Audit discusses Commission Ordered Adjustments (COAs). In the last paragraph, the report states that the "aggregate amounts were reversed **in the filing** and allocated to the proper accounts and counties **on the MFR A-3 Schedules** [emphasis added]..." This quote emphasizes our concern that the utility continues to exclude these adjustments to correctly reflect the Commission orders from its general ledger, and if these adjustments are made, they are not timely and result in extraordinarily complex adjustments to reflect the related impact on depreciation and amortization. Another illustration of why we are concerned with the timeliness of the COAs is the fact that the last order was issued September 2010 and the proof of adjustments was submitted and shows adjustments posted December 31, 2010. If these adjustments were posted to the general ledger in a timely manner in 2010, we do not understand why there should be any roll-forward adjustments in 2011.

10. We compared the MFR's to the Commission's prior order and noticed that the following systems reflected substantial increases in the land balances. The balance in the Land account should not change unless land is bought or sold. The utility provided a journal entry to describe the adjustments. However, we were not able to discern the basis for the utility to adjust the previous Commission ordered balance. The entry appears to indicate that the prior order balance was incorrect. We believe that additional support must be provided if the utility is attempting to change the prior order.

County	System	Current MFR	Prior Order
Pasco	Water	$ 13,653	$ (1,153)
Pasco	Sewer	$ 8,954	$ 1,218
Seminole	Sewer	$ 19,012	$ 470

Contributions In Aid of Construction (CIAC)

11. We reviewed MFR Schedule A-11 and the audit work papers for CIAC. The MFR Schedule for Orange County reflects a $42,081 adjustment to the test year balance. This adjustment wipes out all of the CIAC and puts it in a negative position. First, such an adjustment does not make regulatory sense – how can you have a negative CIAC balance? Second, the journal entry provided to the staff auditor appears to indicate that the prior order balance was incorrect. We believe that additional support must be provided if the utility is attempting to change the balance in the prior order.

12. Our review of MFR Schedule A-11 for CIAC indicates an adjustment to each system that is labeled "Allocation of UIF Cost Center". It appears that the utility is adjusting

balances between systems. CIAC should be a direct account tied to each system and there should not be adjustments between systems unless the utility provides specific support and explanations for changing the balances. (This also has a fall-out relationship with the Accumulated Amortization.)

13. Audit Finding 1, in part, recommends an adjustment to reduce Seminole County CIAC for wastewater. We believe this adjustment needs further review. The impact of this adjustment is to reduce wastewater CIAC below the level established in the last rate case. CIAC should not be reduced unless it relates to a specific contributed plant item that is retired. Otherwise, the CIAC balance should only be increased as additional CIAC is received. We do not believe that the utility should reduce the CIAC below the level established in the prior rate case order without specific justification.

Accumulated Depreciation and Accumulated Amortization of CIAC

14. Our concerns expressed above for Plant and CIAC have a dual impact on Accumulated Depreciation and Accumulated Amortization of CIAC. First, we see the same type of adjustments made that appear to be changing balances that were established in the prior docket. Second, all adjustments to Plant and CIAC result in a revised calculation of the related depreciation and amortization. Our resources are not sufficient to fully analyze these concerns.

15. Our review of Schedule A-8 for Accumulated Depreciation indicates items that concern us in that the amounts reported appear to include "irregularities" that make this schedule unreliable. For each of the systems, the schedules show additions in 2009 and 2011 which equate to a reasonable average depreciation rate. However, the "additions" for 2010 reflect a decrease in the accumulated depreciation balance of from 15% to 55%. This does not make regulatory sense to reflect a negative addition to accumulated depreciation, especially when there are separate line items for retirements and adjustments. There are similar inconsistencies on Schedule A-13 for Accumulated Amortization. For instance, the additions for Orange County for all three years (2009-2011) are negative. The utility should be required to explain these inconsistencies in Schedules A-8 and A-13 or the Commission should adjust the balances to reflect only the reasonable accruals on an annual basis.

16. Audit Finding 1 recommends an adjustment to reduce Pasco County Wastewater Accumulated Amortization of CIAC by $23,424. Our review of Schedule A-13 indicates that this adjustment may need to be higher. The balance established in the last order was $242,352. Schedule A-13 reflects an adjusted balance for December 31, 2008 of $360,610. Because there are multiple "adjustments" on this schedule, we calculated an adjusted test year balance of $287,124 (using an average amortization of $14,924 as shown in 2010 added to the prior order balance). We believe that the test year balance is approximately $65,000 overstated and the staff audit adjustment should be increased by approximately $42,000.

Capital Structure

17. The utility included $1.56 million in pro forma plant projects in this case. Our review of Schedule D-2 indicates that the utility used a test year average balance for Deferred

Income Taxes. 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

18. We are concerned with the increase in salaries and benefits requested by the utility. This is a significant portion of each of the requested increases in the revenue requirements. The chart below shows our two concerns. First, the utility is requesting a 9% increase in salaries for 2013. We believe that 9% is unreasonable and should be reduced to a more reasonable increase considering the low levels of inflation and slow job growth. Second, the utility has requested a "base" level of salaries that is from 58% to more than 131% higher than the last rate case. Schedules B-7 and B-8 comment that the prior order included numerous vacancies that the current test year includes as filled positions. We believe that the utility has a higher burden to justify such significant increases by showing the additional benefit that the ratepayers are receiving by having to pay for double the salaries and wages.

	Orange	Pasco		Pinellas	Seminole	
	Water	Water	Sewer	Water	Water	Sewer
B-5/6 Adjusted Expense before Increase						
Account 601	18,852	217,595	85,815	30,799	140,715	74,660
Pro Forma B-3 (B)(9)	1,697	19,584	7,723	2,772	12,664	6,719
Percentage Increase for 2013	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Account 603	2,441	23,334	9,203	3,473	21,035	11,160
Pro Forma B-3 (B)(9)	220	2,100	828	313	1,893	1,004
Percentage Increase for 2013	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Total Salaries Before Increase	21,293	240,929	95,018	34,272	161,750	85,820
Salaries Allowed in Prior Order	11,435	104,356	41,043	17,687	100,007	54,349
Test Year Higher than Prior Order	86.2%	130.9%	131.5%	93.8%	61.7%	57.9%

19. We would also like to point out one additional concern for staff's consideration of the appropriate salary level to include in rates. Our review of the salaries reported in the 2011 and 2012 Annual Reports filed with the Commission shows that the 2012 salaries have decreased across the board for all systems (including Marion County, a system for which the utility is not seeking a rate increase). The chart below shows decreases between 13% and 42%.

Account No. and Name	2011 Annual Report	2012 Annual Report	Difference	% Decrease
Marion				
601 Salaries & Wages -Employees	$21,915	$19,005	($2,910)	13.3%
603 Salaries & Wages -Officers, Etc.	$4,240	$3,338	($902)	21.3%
604 Employee Pensions & Benefits	$8,844	$8,830	($14)	0.2%
701 Salaries & Wages -Employees	$2,928	$1,693	($1,235)	42.2%
703 Salaries & Wages -Officers, Etc.	$617	$471	($146)	23.7%
704 Employee Pensions & Benefits	$1,289	$1,247	($42)	3.3%
Orange				
601 Salaries & Wages -Employees	18,516	15,944	($2,572)	13.9%
603 Salaries & Wages -Officers, Etc.	2,441	1,912	($529)	21.7%
604 Employee Pensions & Benefits	5,104	5,060	($44)	0.9%
Pasco				
601 Salaries & Wages -Employees	$215,547	$181,497	($34,050)	15.8%
603 Salaries & Wages -Officers, Etc.	$23,372	$18,081	($5,291)	22.6%
604 Employee Pensions & Benefits	$48,953	$47,838	($1,115)	2.3%
701 Salaries & Wages -Employees	$87,797	$74,753	($13,044)	14.9%
703 Salaries & Wages -Officers, Etc.	$9,165	$7,153	($2,012)	22.0%
704 Employee Pensions & Benefits	$19,128	$18,923	($205)	1.1%
Pinellas				
601 Salaries & Wages -Employees	$30,792	$24,305	($6,487)	21.1%
603 Salaries & Wages -Officers, Etc.	$3,473	$2,677	($796)	22.9%
604 Employee Pensions & Benefits	$7,249	$7,084	($165)	2.3%
Seminole				
601 Salaries & Wages -Employees	$149,877	$111,221	($38,656)	25.8%
603 Salaries & Wages -Officers, Etc.	$21,030	$16,264	($4,766)	22.7%
604 Employee Pensions & Benefits	$43,934	$43,032	($902)	2.1%
701 Salaries & Wages -Employees	$65,917	$48,240	($17,677)	26.8%
703 Salaries & Wages -Officers, Etc.	$11,165	$8,638	($2,527)	22.6%
704 Employee Pensions & Benefits	$23,328	$22,854	($474)	2.0%

Transportation Expense

20. Schedules B-7 and B-8 reflect significant increases in Transportation Expense for Seminole and Orange Counties. The chart below shows an average increase of 94% over the last rate case for Seminole and 88% for Orange. The MFR schedule comments that the increase is the net effect of increases in fuel prices, changes in cost and type of repairs to fleet vehicles, changes in miles driven. These are the only counties that are reflecting an increase of this magnitude for Transportation Expense. We do not believe that the utility's explanation provides sufficient evidence to justify an almost double

expense in three years. We believe that the burden is on the utility to further justify this increase.

	Prior Docket	Current MFR	% Increase	$ Increase
Seminole				
Water	9,499	18,464	94.4%	8,965
Sewer	5,075	9,796	93.0%	4,721
	14,574	28,260	93.9%	13,686
Orange				
Water	1,142	2,147	88.0%	1,005

Rate Case Expense

21. The utility has requested rate case expense of $578,071 which is 90% higher than what the Commission allowed in the last rate case. This current case includes 4 counties (2 with both water and wastewater). The last case included five counties (three with water and wastewater). Despite filing a reduced number of MFRs, the utility has requested an additional 45.7% for rate consultants. We recommend that the staff carefully review the requested expenses and make adjustments consistent with those made in the last rate case.

Utilities, Inc. of Florida
Docket No. 120209-WS
Rate Case Expense

	Prior MFR	090462 Revised	PSC Order	Current Request	Over PSC
Milian Swain	230,250	230,000	174,650	254,550	45.7%
Marty Friedman	85,050	112,919	46,704	117,250	151.0%
M & R Consultants	19,790	23,775	22,688	16,950	-25.3%
Filing Fee	4,000	9,000	9,000	4,000	-55.6%
CPH Engineers	-	858	858	-	-100.0%
WSC	102,728	142,773	35,008	165,121	371.7%
Meals - WSC	-	816	-		Disallowed
Travel - WSC	3,200	1,578	-	3,200	Disallowed
Temp Employees - WSC	-	2,581	1,581		-100.0%
Fed Ex and Other Misc	12,000	5,984	-	12,000	Disallowed
Notices and printing	18,880	13,771	13,064	5,000	-61.7%
Total Rate Case Expense	475,898	544,055	303,553	578,071	90.4%

Contractual Services - Engineering

22. Schedules B-5 and B-6 for Pasco County reflect Contractual Services – Engineering Fees of $1,367 for water and $539 for wastewater, for a total of $1,906. Schedule B-7 describes the expense as in support of permitting activities in Summertree regarding addition of polyphosphate. However, Schedule B-9 describes the expenses as "services

which help facilitate Wastewater Treatment Plant operating permits". This discrepancy raises several questions. We believe that these questions should be answered before the expense is allowed.

- Is a permit needed when all wastewater is treated by a third party?
- If it is for a permit (water or wastewater), should it be amortized over the life of the permit?
- If it is for a wastewater permit, should it all be charged to wastewater?
- If it is for polyphosphate, should it all be charged to water?

23. Schedules B-5 and B-6 for Seminole County reflect Contractual Services – Engineering Fees of $7,126 for water and $3,780 for wastewater, for a total of $10,905. Schedules B-7 and B-8 indicate the increase in Contractual Services – Engineering is due to "services used in support of permitting a change in water treatment method at Park Ridge" and an increase in the "use of engineering services in 2011". However, Schedule B-9 describes the Engineering Fees as "services which help facilitate Wastewater Treatment Plant operating permits. This discrepancy raises several questions. We believe that these questions should be answered before the expense is allowed.

- Is a permit needed when all wastewater is treated by a third party?
- If it is for a permit (water or wastewater), should it be amortized over the life of the permit?
- If it is for a water permit, should it all be charged to water?

24. The utility's General Ledger included in the audit work papers provides the detail of the amounts charged to Contractual Services – Engineering Fees for Seminole County. The test year expense is significantly higher than the amount included in the prior rate case. This detail shows four charges from Knight Engineering Consultants, all for over $2,000. These may relate to the answers provided above. If not, we are concerned whether these four charges are representative of what will be incurred in a typical year going forward. If not, we believe these should be amortized over a longer period of time.

Contractual Services - Testing

25. Schedule B-7 indicates the increase in Contractual Services – Testing for Pasco County is due to "Triennial testing expense occurred in 2011 but not in 2008. FDEP adjusted timing of testing cycle." It appears that the full amount of the testing is included instead of amortizing the amount over the three year period before additional testing is required. We note that there is an invoice dated February 22, 2011 for $8,178 which may be the invoice for these tests.

Contractual Services – Other

26. Schedule B-7 indicates the increase in Contractual Services – Other for Seminole County is due to Hydro tank inspection activities for the water system and an increase in landscaping/mowing expense for the sewer system. These explanations concern us and we have the following questions.

- Are these tank inspections every year, or should they be amortized?

- What landscape/mowing is needed in the sewer system? The only land in rate base is the general plant land and all the wastewater treatment is purchased. In addition, there are no landscaping or mowing companies listed on Schedule B-9.

27. The total for Contractual Services – Other for Seminole County is $31,739 and the increase over the last case is almost $11,000. $75% of the annual expense ($23,942) is for computer related expenses identified on Schedule B-9. Ten percent of the expense ($3,188) is for employment related fees. The remaining 15% ($4,570) is grouped together but includes more computer related expenses, land survey fees, One Call fees, and other unidentified expenses. We are concerned with why this account for Seminole County is increasing. The utility has not provided any analysis or documentation that relates to the numbers in this account that justify the increase.

Bad Debt Expense

28. Schedules B-5 and B-6 of the MFR's indicate a total Bad Debt Expense of $42,924. On average, this is about 40% higher than the bad debt expense included in the last rate case. It is also more than twice what the utility included in its 2010 Annual Report and higher than the amount included in its 2012 Annual Report. We believe that the staff should adjust the bad debt expense to an average expense level.

MFR Balances

	Water	Sewer	Total
Orange	5,098		5,098
Pasco	9,923	3,914	13,837
Pinellas	343		343
Seminole	15,450	8,196	23,646
Total	30,814	12,110	42,924

Annual Report Balances

	2009	2010	2011	2012
Water	5,719	19,444	41,864	35,414
Sewer	7,626	(83)	(364)	(2,622)
Total	13,345	19,361	41,500	32,792

Allocations

29. According to UI's response to Question 2[1] in the Generic Utilities Inc. case, Docket No. 120161-WS, the costs in computer maintenance (object account 5735) decreased dramatically in 2011. The chart below shows a 27% decrease over 2010. We are concerned whether the costs are continuing to decline. We believe that staff should look at the amount of the computer maintenance costs (object account 5735) for the year ending December 31, 2012 and year to date 2013.

2009	$1,778,918.78
2010	$1,914,523.15
2011	$1,389,050.36

O&M Expenses

30. Based upon our review of UIF's 2011 and 2012 annual reports, the 2012 operation and maintenance (O&M) expenses have decreased by $248,488, on a total company basis. The chart below shows the detail between water and wastewater.

O&M Expense W/S-10(a)	2011	2012	Decrease
Water	1,323,577	1,181,879	(141,698)
Sewer	926,615	819,935	(106,680)
Total	2,250,192	2,001,814	(248,378)

The chart below shows some of the more significant decreases. (As a note, we have not adjusted these amounts to include any of the requested pro forma adjustments to payroll and benefits of $32,191 for water and $10,284 for wastewater.) We are concerned that the 2011 test year includes higher expenses than what the utility expects to incur in future years. We believe that the utility should justify why these decreases in 2012 should not be reflected in the expenses included in the revenue requirement in this rate case. Any further review should include a system by system analysis comparing 2011 and 2012 annual report balances for the four systems in the rate case, as well as the Marion County system. (If the annual report is not reflective of actual expenses, the utility should provide a detailed explanation and submit revised annual reports.)

[1] Question 2. What were the causes of the increased computer maintenance expenses in 2010 and 2011? Does Utilities, Inc. anticipate those expenses to continue in the future, and if so, why? Please discuss each type of expense (by vendor or purpose).
Utility Response:
The costs in the computer maintenance account (object account 5735) for the year ending December 31, 2009, 2010 and 2011 were $1,778,918.78, $1,914,523.15 and $1,389,050.36 respectively. The costs have not increased as this question suggests. Utilities, Inc. does anticipate these types of expenditures to continue in the future because they are associated with the cost of doing business.

O&M Expense W/S-10(a)	2011	2012	Decrease
Salaries and Benefits	826,619	690,060	(136,559)
Purchased Water and Sewage Treatment	551,342	539,352	(11,990)
Purchased Power and Chemicals	155,240	124,626	(30,614)
Transportation	66,381	60,938	(5,443)
Regulatory Commission Expense - Other	11,928	369	(11,559)
Bad Debt Expense	41,500	32,792	(8,708)
Miscellaneous Expense	176,788	166,490	(10,298)
	1,829,798	1,614,627	(215,171)

31. The customers at Summertree have also expressed considerable concern regarding the "mark-up" they pay on wastewater services. The utility purchases all the wastewater treatment for the Summertree system from Pasco County. The chart below shows the rates Pasco County charges to its customers and the rates the utility has requested in this case. We understand that the utility incurs costs that the county does not, such as taxes. However, the chart below shows that these customers are being asked to pay almost double for the utility to service the lines and lift stations and perform the administrative function of the wastewater system. We also note that the Summertree system is not alone in this situation. There are other systems in this docket that receive pass-through water and wastewater service and are paying significantly higher rates to UIF. We believe the Commission should investigate whether the overhead and other costs charged to the customers on top of the purchased wastewater costs is a reasonable amount for what amounts to a "mark-up" on the purchased wastewater costs. The utility should be required to provide additional justification that the utility has minimized its costs such that customers are not paying unreasonable costs.

	Summertree Wastewater		
	Pasco County	UIF Request	Difference
Base	16.18	15.71	
Gallonage	4.76	13.35	
Bill at 3,000	30.46	55.76	83.1%
Bill at 5,000	39.98	82.46	106.3%

Marion County

32. Based upon a brief review of the audit work papers, it appears that the Marion County systems are over-earning, on a combined basis. We encourage staff to review the audit work papers and make the appropriate adjustments to reduce the Marion county rates so the rate payers are not over-charged. We also question whether the Commission should open an over-earnings docket to place potential over-earnings subject to refund.

Unaccounted For Water

33. Schedule F-7 for Pasco County reflects Unaccounted For Water of 18.9% for the Orangewood system. In Docket No. 090462-WS, the Commission order stated that there

was excessive unaccounted for water (EUW) of 9.1% but declined to make an adjustment stating that customer meter inaccuracy was suspected as the cause and that the utility indicated it had initiated a comprehensive water meter change-out effort in order to reduce the EUW. We are concerned whether the utility followed through on its commitment to change-out the meters. We believe that expenses should be reduced to reflect this continuing problem and the additional costs required for chemicals and purchased power. If the utility asserts in this case that it is changing out meters, we recommend that the billing determinants be adjusted to reflect the fact that the new meters are expected to register higher usage.

34. Schedule F-7 for Pinellas County reflects Unaccounted For Water of 24% for the Lake Tarpon system. In Docket No. 060253-WS, there was an issue with unaccounted for water of 12.2% and no adjustment was made due to the replacement of the master meter at the water plant and the change-out of customers meters. In Docket No. 090462-WS, the Commission order stated that there was EUW of 12.4%. The Commission declined to make an adjustment as customer meter inaccuracy was suspected as the cause of the EUW and the utility indicated it had initiated a comprehensive water meter change-out effort in order to reduce the EUW. Three years later the unaccounted-for-water has doubled for this system. We are concerned whether the utility followed through on its commitment to change-out the meters. We believe that expenses should be reduced to reflect this continuing problem and the additional costs required for chemicals and purchased power. If the utility asserts in this case that it is changing out meters, we recommend that the billing determinants be adjusted to reflect the fact that the new meters are expected to register higher usage.

35. Schedule F-7 for Seminole County reflects Unaccounted For Water for the four systems listed below. In Docket No. 090462-WS, the Commission order stated that there was EUW for the Phillips (1.3%) and Ravenna Park (1%) systems. The Commission declined to make an adjustment as the percentages were minimal. However, in this docket, the EUW for these systems is much higher, plus there are two new systems with an EUW issue. There is no explanation provided by the utility as required by the MFR's. We believe that expenses should be reduced to reflect the EUW in these systems to reflect the additional costs for chemicals and purchased power required to treat the excess water. As discussed above, if the utility asserts that it is changing out meters, we recommend that the billing determinants be adjusted to reflect the fact that the new meters are expected to register higher usage.

- Bear Lake – 12.8%
- Phillips – 22.8%
- Ravenna Park; Lincoln Heights – 12.4%
- Weatherfield – 15.8%

Volume 3

36. We note that in Volume 3 for the Pinellas County system, the DEP permit that was supplied by the utility was for the Crownwood system in Marion County instead of the Lake Tarpon system.