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WILL WEATHERFORD
Speaker of the House of Representatives

December 13, 2013

Mr. Andrew Maurey
Division of Accounting and Finance
Florida Public Service Commission
2340 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket 130212-WS- Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

Dear Mr. Maurey,

The Office of Public Counsel is actively monitoring the rate case docket for Cypress Lakes Utilities, Inc. ("CLUI"). Attached is a list of issues that OPC has prepared to identify concerns we have with the MFRs and other information filed by CLUI in support its requested rate increase. We have not had time to fully review the information filed in this case, but we would like to bring these to staff's attention to aid staff in its review of the rate case to allow the staff and utility sufficient time to review our concerns and ask for any additional information that might be needed. If you should have any questions, please feel free to call or e-mail me.

Sincerely,

s/ Patricia W. Merchant

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C: Division of Accounting & Finance (Maurey, Norris, Kelly, Fletcher)
Division of Economics (K. Thompson, Hudson)
Division of Engineering (Lee)
Division of Auditing and Performance Analysis (Deamer)
Office of the General Counsel (Gilcher)
Sundstrom, Friedman & Fumero, LLP (Friedman)
Cypress Lakes Utilities, Inc. (Flynn)

OPC Issues and Concerns – Cypress Lakes Utilities, Inc. Docket No. 130212-WS

1. Shifting balances of Plant, Accumulated Depreciation, and Depreciation Expense. OPC has prepared a comparative analysis of the balances of plant by primary account since the last rate case, test year ended December 31, 2005. Our review reflects that many plant balances are shifting erratically between most of the years. Even going back to the 2002 rate case, in Docket No. 020407-WS, the staff audit in Audit Exception 12 stated that the books and records maintained by CLUI were not in compliance with the NARUC USOA and prior Commission orders. In Docket No. 060257-WS, the staff audit had two findings related to erroneous plant and accumulated depreciation amounts, many of the accumulated depreciation balances were incorrect because the plant balances were incorrect. Looking at the year-to-year changes in plant and accumulated depreciation balances reflect dramatic changes between accounts even though there have been few retirements which might warrant any changes. This is evident in both the water and wastewater systems. A comparison of the plant and accumulated depreciation accounts reflected on the Company's MFRs between the 2002, 2006 and 2013 rate cases show numerous accounts that regularly change between the years from the millions in one year, to negative plant or accumulated depreciation balances the next year. From an accounting perspective, this is clearly wrong. OPC believes that it is the Company's burden to show that its investment in rate base is accurate and supported. With the current filing and booked rate base, the Commission cannot ascertain the correct investment level. Until the Company can correct its plant, accumulated depreciation and depreciation expense, this case should be suspended with rate case expense related to fixing these grave concerns denied. Below are several additional areas that are lacking that OPC has addressed.

2. Proper Plant Balances for Items addressed in the Prior Limited Proceeding. Examples of accounts that have erroneous balances for plant relate to the plant improvements approved by the Commission in CLUI's last limited proceeding.
 - a. The water plant dealt with a supply main upgrade which the Company stated would be recorded in Account 309.2.

	<u>Description</u>	<u>Completion Date</u>		<u>Costs</u>
309.2	TBE Group	1/1/2008	(c)	\$23,660.00
309.2	Ken's Bush Hog Service	6/1/2008	(c)	27,056.00
309.2	Ken's Bush Hog Service	6/1/2008	(c)	<u>9,323.02</u>
	Total 309.2			<u><u>\$60,039.02</u></u>

The balance in Account 309.2 from Annual Report and MFRs in Docket No. 130212-WS is as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
309.2 Supply Mains	\$36,379	\$36,379	\$36,891	\$36,929	\$36,929
Additions		\$0	\$512	\$38	\$0

OPC would like an explanation why this account does not agree with the amounts requested and approved in the limited proceeding.

- b. Further, CLUI has a wastewater treatment plant that it modified in 2008, which was one of the items included for recovery in the 2007 limited proceeding. The Commission approved recovery of \$1,049,052 for expansion of the wastewater collection system to Phase 12 of Cypress Lakes Estates and modifications to the wastewater treatment plant, which was identified to be recorded in Account 380.4, Treatment and Disposal Equipment. Given that the original treatment plant was not retired, there should have always been a balance in T&D Equipment which should have increased by the \$1,049,052 balance in 2008. The balance of this account reported in the annual report and MFRs by year are shown below:

Annual Report Balances		MFR Balances	
		2000	\$645,388
		2001	\$1,181,049
2004	\$1,217,045	2004	\$957,183
2005	(\$63,009)	2005	(\$63,009)
2006	\$1,017,967		
2007	\$1,017,967		
2008	(\$4,966)		
2009	\$11,022		
2010	\$26,085		
2011	\$28,501	2011	\$28,501
2012	\$31,754	2012	\$31,754

It appears from many of the adjustments that the T&D Equipment has been transferred in and out of Structures and Improvements. Since these two accounts have different depreciation rates, obviously accumulated depreciation has been impacted by these errors. OPC would like to have the total balance of these two accounts analyzed to determine the true balance that should be recorded on the books and records.

- c. In Order No. PSC 10-0682-PAA-WS in Cypress Lake's limited proceeding rate increase, the Commission made an adjustment to remove the cost of a generator used at the wastewater treatment plant. The Commission reduced wastewater plant and accumulated depreciation by \$16,639, and reduced depreciation expense by \$1,426. The annual report balances reflect zero balances from 2005 to 2007. The Company's MFRs do not reflect the

power generation balance but a pro forma reclassification adjustment adds this amount back to 2011 and 2012.

Annual Report 355.2 Power Generation Equipment	Balance
2008	\$517
2009	\$1,313
2010	\$1,313
2011	\$1,313
2012	\$1,313

Please explain how the Commission approved adjustments were made to CLUI's books including why the balance is different between the annual report balances and the MFRs. Also explain why the balance of accumulated depreciation on the MFRs and the annual report for power generation equipment is not the same amount and why the MFRs do not reflect any depreciation expense for this plant account.

3. Removal of Erroneous Non-used and Useful Adjustment. In its MFRs, the Company has requested a correcting entry to rate base to Wastewater Plant Account 380.4 to restore an amount to plant in service that was erroneously removed from the books 8 years ago as part of a used and useful adjustment. According to the Staff Audit Report in Docket No. 060257-WS, in 2005, the Company reduced Wastewater Treatment Plant Account 380 and increased plant held for future use by \$200,004. This adjustment apparently related to a non-used and useful adjustment made in Docket No. 020407-WS. OPC would like to obtain copies of the following:
 - a. All journal entries showing: the sub-account where and when the erroneous adjustment was recorded on CLUI plant accounts, and any transfers of any related amounts made between plant accounts.
 - b. Journal entries to show how these amounts have been corrected and all workpapers showing in which account it is located.
 - c. All calculations of adjustments to accumulated depreciation and the workpapers to support the calculation of the \$133,372 in accumulated depreciation that the Company has requested to be added back into rate base.
 - d. An explanation of why an error found by the staff auditors in 2006 for an erroneous adjustment made by CLUI in 2005 has not been corrected on the Company's books.

4. Organization and Franchise Plant. Please explain why the Company recorded a negative balance of 34,044 in water organization plant and a positive balance of \$37,739 in franchises plant in 2007 when there had been no costs in these plant accounts prior to 2007. Additionally, for organization

and franchises, the plant, accumulated depreciation and depreciation expense amounts have no rational relationship as should normally exist between each of these accounts. Please provide the invoices and journal entries with descriptions supporting the organization and franchise costs that were recorded in 2007 and documentation supporting any additions or adjustments made to the accounts since 2007. Also provide the calculations reflecting the amount of depreciation taken and recorded each year since 2007.

5. Transportation Plant and Expenses. The Company made a proforma adjustment in its MFRs for the current test year to transportation plant, accumulated depreciation and transportation operating expenses. OPC requests an explanation of why transportation adjustment reallocations result in a decrease (credit) to both water and wastewater plant and an increase (credit) to the corresponding accumulated depreciation, but there was no change for depreciation expense booked of \$6,214 for water and \$5,711 for wastewater. An explanation of why there are such inconsistencies in the plant, accumulated depreciation and depreciation expense accounts, is needed especially given that the requested transportation expense increased for both water and wastewater. In addition to the explanation, OPC would request a copy of all workpapers that support the Company's adjustments related to transportation.

Reallocation Adjustments to Rate Base for Transportation Equipment	Water	Wastewater	Total
Plant	(\$23,430)	(\$21,511)	(\$44,941)
Accumulated Depreciation	(\$22,901)	(\$21,030)	(\$43,931)

6. CIAC and Accumulated Amortization of CIAC Reclassifications. In the last rate case, test year ended December 31, 2005, CIAC was recorded only in the categories of Line/Main Extension Fees for both water and wastewater. In each year of the CLUI annual reports the majority of CIAC additions were made to water or wastewater tap fees with two years containing contributed plant other than tap fees. In Docket No. 060257-WS, Staff Audit Finding 11, stated that in 2003 the Company reallocated cash CIAC based on the ratios of plant by primary account. In the MFRs in this current docket, Schedules A-12 for CIAC and A-14 for Accumulated Amortization of CIAC, apparently reflect amounts that have been allocated based on primary accounts, with no distinction between cash CIAC and contributed plant. OPC believes that this allocation was improper and requests that the proper amount of CIAC, with corresponding balances of accumulated amortization and test year amortization of CIAC be recalculated.
7. Accumulated Depreciation. The following years are identified as having substantial adjustments made to accumulated depreciation to multiple accounts. 2005 Wastewater, 2007 Water, 2008 Water and Wastewater and 2010 Water and Wastewater. OPC is concerned that CLUI has made many changes to accumulated depreciation over the years without support or justification. We believe that the changes in plant balances have materially impacted the balances of accumulated depreciation by primary account. This issue of misstated plant and accumulated depreciation

appears to be a recurring problem as evidenced by the issues addressed in CLUI's last two rate cases. Two specific examples are outlined below:

- a. Further, in 2007 in its annual report, CLUI reflected a total credit adjustment to its water system of \$213,519 which consisted of the \$45,579 annual accrual and a \$167,940 net credit adjustment. The net credit adjustment consisted of 14 separate adjustments to the depreciation reserve between primary accounts. OPC notes that there are no adjustments to any of the water plant primary accounts that would correspond to these types of adjustments, nor a similar adjustment to the wastewater reserve account. The footnote provided by the Company at the bottom of Page W-6(a) states that the Other Credits Adjustments are "due to allocation of UIF plant" with no further detail provided. In the MFRs on Schedule A-8, the Company removed \$119,412 from accumulated depreciation also with no explanation. OPC believes that all of the accumulated depreciation balances are suspect and should be recalculated as the amounts requested by the Company are completely unreliable to use for setting rates.
- b. Further, the following wastewater plant, accumulated depreciation and depreciation accounts have erroneous balances and inconsistent balances and each should be analyzed and reconciled as to why the errors exist. Accumulated depreciation should have a relationship to the plant account based on the age of the plant included in the account. Accumulated depreciation for a given account should not be higher than the plant balance, it should never be a negative (debit) balance, and there should not be depreciation expense in a given account when there is no related plant or accumulated depreciation. All of these types of errors have been shown in the following accounts, meaning that the balances are unreliable.

Water Plant Accounts

309.2 Supply Mains
311.2 Pumping Equipment
336.4 Backflow Prevention Devices
345.5 Power Operated Equipment
309.2 Supply Mains

Wastewater Plant Accounts

354.3 Structures & Improvements
389.3 Other Plant & Misc. Equipment
355.4 Power Generation Equipment
380.4 Wastewater Treatment Equipment
381.4 Plant Sewers
389.4 Other Plant & Misc. Equipment
374.5 Reuse Distribution Reservoirs
375.6 Reuse Trans. & Dist. System

354.7 Structures & Improvements
390.7 Office Furniture & Equipment
394.7 Laboratory Equipment
395.7 Power Operated Equipment

8. Unaccounted for Water Calculation. OPC has observed that on MFR Schedule F-1 that the “Other Uses” column for each month in the test year is a fixed 2.000 per month, which also matches the 2012 Annual Report schedule. In prior years’ annual reports, the amounts for other uses varies, as it should, according to the amount of flushing, plant use and fire flow. OPC would like documentation to support why this amount is the same each month.