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February 12, 2014

COMMISSION  
CLERK

VIA FEDEX

Carlotta S. Stauffer, Commission Clerk  
Office of Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399

RE: Docket No. 130212-WS; Application for an Increase in Water and Wastewater Rates in Polk County by Cypress Lakes Utilities, Inc.  
Our File No.: 30057.212

Dear Ms. Stauffer:

The following are Cypress Lakes Utilities, Inc.'s ("Company" or "Cypress Lakes") responses to the Staff's Fourth Data Request dated January 29, 2014:

**Affiliate Audit**

- Staff's Audit Report of Utilities, Inc. was filed on January 10, 2014, (Document No. 00151-14). Please provide a statement detailing which audit finding(s) the Utility agrees with. For each finding the Utility disagrees with, please provide a detailed explanation of the disagreement as well as supporting documentation.

**RESPONSE:**

The Company has no objections to the audit findings. However, the Company believes that the treatment of Project Phoenix in Audit finding #2 should be held in abeyance pending the outcome of Generic Docket No. 120161-WS.

- According to staff's Audit Work Paper 53-1, the Utility's 2012 taxable value was \$2,259,988 with \$33,885 reflected in property taxes according to MFR Schedule B-15. The same work paper establishes that the Utility's taxable value was \$931,950 in 2013 with estimated property taxes of \$14,083. Please explain the difference in taxable value between 2012 and 2013.

**RESPONSE:**

The amount of \$931,950 is the Property Appraiser's "Assessed Value" for 2013 (as compared to the 2012 "Assessed Value" of \$2,259,988). The "Taxable Value" for each year was \$25,000 less as the result of an exemption. This is value placed on the real property by the Property Appraiser and the Company has no information as to why the "Assessed Value" decreased.

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**MFR's**

3. Rule 25-30.437(3), Florida Administrative Code (F.A.C.) requires that each Class B utility applying for a rate increase shall provide the information required by Commission Form PSC/ECR 20 (11/93), entitled "Class B Water and/or Wastewater Utilities Financial, Rate and Engineering Minimum Filing Requirements." The following MFR schedules, as filed, do not comply with Rule 25-30.437, F.A.C.:
  - a) The instructions for MFR Schedules B-7 and B-8 (Operation and Maintenance Expense Comparison), require the Utility to provide account balances approved by the Commission for its prior test year and to utilize the Consumer Price Index All Urban Consumers (CPI-U) table for all items published by the U.S. Department of Labor. Per these instructions, please make the following adjustments:
    - (i) The CPI-U found on MFR Schedules B-7 and B-8 is incorrect for 2012. Please revise both schedules to reflect the correct index for each year.
    - (ii) In addition, the Utility is required to provide an explanation of all differences in excess of the benchmark factor for customer growth and inflation. When revising MFR Schedules B-7 and B-8, please provide an explanation for expenses in excess of the revised benchmark factor.

Please provide updated MFR schedules that correct all the schedules identified above.

**RESPONSE:**

Please see the revised MFR B-7 and B-8 schedules in the attached filed named "4th DR\_3 a i and 3 a ii Response.xlsx" that properly reflect the 2012 CPI-U.

**Rate Case Expense**

4. Please provide an update of actual and estimated rate case expense along with any necessary supporting documentation (i.e. invoices or receipts). In addition, please provide a detailed explanation and calculations to justify estimated expense to completion.

**RESPONSE:**

Please see file "Cypress Lakes RCE 2-10-14 - Revised.xlsx" for the updated actual and estimated rate case expenses. Also see file "Invoices-Professional Fees.zip" for copies of invoices.

5. For each individual Water Services Corporation (WSC) In-House employee providing consulting services on this docket, provide an itemized description of work performed, hours or allocation of time associated with each activity, and supporting documentation

(i.e. timesheets). In addition, please provide the same detail for estimated hours to completion of the case.

**RESPONSE:**

Please see file "Cypress Lakes RCE 2-10-14 – Revised.xlsx" for the updated actual and estimated rate case expenses. Also see file "Invoices-Professional Fees.zip" for copies of invoices. The Company does track individual employee tasks associated with each time sheet entry. Rather, the timesheet entries reflect time spent in preparing MFR's and associated supporting documents as well as responses to staff data requests. Since no deficiencies were identified by staff in reviewing the MFR's, no employee time was spent on correcting deficiencies in the filing. This was sufficient to address in-house rate case expense in the recently concluded Utilities, Inc. of Florida rate case, Docket No. 120209-WS.

6. In response to the affiliate audit in Docket No. 120209-WS, Utilities Inc. of Florida asserted that revised salaries accounted for capitalized time through rate case expense as a reduction to salaries prior to any allocation. Has the Utility taken similar accounting measures to ensure that WSC In-House employee fees are not duplicative? If so, please provide supporting documentation to verify the allocated salaries reflected in the MFRs do not contain any capitalized time spent on the current rate case.

**RESPONSE:**

Yes, the company has continued to use the same method of capitalizing time as was utilized in the Utilities, Inc. of Florida rate case, Docket 120209-WS.

**Rate Base**

7. In response to the Utility's Audit Report, Finding 1, the Utility provided an unsigned quote from USA BlueBook for \$5,657. The Utility also provided an invoice for one of the items listed on the quote for \$4,634. Please provide an executed copy of the original quote and/or invoices to support the additional \$1,022.

**RESPONSE:**

The Company was successful in reducing the amount of material supplied by USA BlueBook with respect to the pro forma capital project. Therefore, the actual project cost was reduced by \$1,022 from the original cost estimate. However, the additions to rate base should reflect the total project expenditures.

8. In response to staff's first data request, Item 10, the Utility provided a capital project report for the pro forma improvements. Under the section labeled "Comments," there is a note that states "I have an additional \$15,779.00 dollars for the cleaning of the surge tank prior to blasting and coating. This will need to be accomplished by Arthur Price Vactor Services.

This amount was not part of any of the 3 contracts and must be completed prior to coating process.” There are no invoices included from this company. Please clarify which invoices account for this additional service.

**RESPONSE:**

The Company chose to use Utility Group of Florida, LLC to empty the tanks of grit and debris in place of Arthur Price Vector Services. The invoices are attached as files “UGOF Invoice A.pdf” and “UGOF Invoice B.pdf” and reflect a total cost of \$5,305 to complete this project task.

9. Are all pro forma improvements complete? If not, please provide an explanation of any outstanding projects and a revised estimated completion date.

**RESPONSE:**

The pro forma is substantially complete. The contractor is expected to complete his work by February 28, 2014. Over the next two weeks, Lehigh Environmental will complete the priming and painting of the external surfaces of the three filter units, address any remaining punch list items associated with the project, complete the cleanup of the site and demobilize.

10. Please provide updated invoices for pro forma plant improvements and the estimated or actual salvage value of the corroded steel and scrap materials removed during the project.

**RESPONSE:**

An accounting to date is provided in the attached file” 2013083 as of 2014.02.11.xlsx.” The invoices are provided in the attached files “Project 2013083 Invoices.pdf”, “Lehigh Invoice.pdf” and “Wilson Invoice.pdf.” Please also note that the invoices referenced in the response to #8 are also part of this project.

11. In response to staff’s second data request, Item 1, the Utility stated that the \$23,660 invoice from TBE Group should be capitalized to the water treatment account. Please clarify whether or not this invoice was recorded in another account after the entry was reversed in error.

**RESPONSE:**

An accounting error occurred with this invoice. This invoice was never capitalized or expensed to Cypress Lake Utilities, Inc. This invoice was incorrectly booked to one of UI’s subsidiaries.

### **O&M Expenses**

12. According to the Utility's response to staff's first data request, Item 11, the Cross Connection Technician was hired in 2007 for the purposes of complying with Florida Department of Environmental Protection (FDEP) regulations regarding a cross connection control program. Please provide supporting documentation from the FDEP regarding this requirement.

#### **RESPONSE:**

The following FDEP regulation specifies the utility's obligation to establish and execute a cross connection control program:

**62-555.360 Cross-Connection Control for Public Water Systems.**

(2) Community water systems, and all public water systems that have service areas also served by reclaimed water systems regulated under Part III of Chapter 62-610, F.A.C., shall establish and implement a routine cross-connection control program to detect and control cross-connections and prevent backflow of contaminants into the water system. This program shall include a written plan that is developed using recommended practices of the American Water Works Association set forth in Recommended Practice for Backflow Prevention and Cross-Connection Control, AWWA Manual M14, as incorporated into Rule 62-555.330, F.A.C.

The Cypress Lakes water system is a community water system as defined by FDEP. Additionally, the Cypress Lakes WWTP is designed and permitted to provide reclaimed water to the Cypress Lakes golf course. As a result, a Cross Connection Technician position was established in 2007 to carry out this program in support of all West Florida and South Florida operating companies.

13. According to the Utility's response to staff's first data request, Items 14 and 23, Contractual Services – Engineering expense increased substantially in May 2012 for both systems due to the cost associated with updated water and wastewater system maps. How often have these maps been updated?

#### **RESPONSE:**

Typically, water and wastewater system maps are updated as needed to reflect additions or modifications to distribution and collection systems, or changes in service areas.

The following FDEP regulation specifies the mapping requirement with respect to water systems:

**62-555.360 Cross-Connection Control for Public Water Systems.** (14) By December 31, 2005, suppliers of water who own or operate a community water system serving, or designed to serve, 350 or more persons or 150 or more service connections shall have, and thereafter maintain, an up-to-date map of their drinking water distribution system. Such a map shall show the location and size of water mains if known; the location of valves and fire hydrants; and the location of any pressure zone boundaries, pumping facilities, storage tanks, and interconnections with other public water systems.

System maps may also be updated in conjunction with the preparation of MFR's for an impending rate case as required under Rule 25-30.440(1), Additional Engineering Information Required of Class A and B Water and Wastewater Utilities in an Application

for Rate Increase. In the case of Cypress Lake Utilities, system maps were revised to reflect the expansion of the service area to include Phase 12.

14. According to the Utility's response to staff's first data request, Items 16 and 25, Contractual Services – Other expense increased substantially in October 2012 and November 2012 due to the use of a contract operator. The following items relate to this expense.

- a) Was the former employee the recipient of any post-employment compensation?
- b) What were the exact dates of the contract operator's employment? Please include all invoices for the duration of the contract operator's employment.
- c) If the contract operator is still being utilized by the Utility, please provide a comparison of the total compensation of the former employee and the total cost associated with the contract operator. If the total compensation is higher for the contract operator, please provide justification for the increased expense.
- d) If the Utility is no longer using the contract operator to operate both systems, please provide the total compensation or salary for the new employee.
- e) In response to staff's first data request, the Utility provided a November invoice for the contract operator in the amount of \$522. However, in the file titled "Item 16 - Contractual Services Other," the journal entry highlighted for "contract ops for 9/12" is \$1,817. Please explain the discrepancy in these amounts and provide any additional supporting documentation, if necessary.

**RESPONSE:**

- a) No.
- b) A contract operator, General Utilities, has provided contract operator services on an as needed basis since February 2012 at Cypress Lakes' treatment facilities. Cypress Lakes Utilities continues to utilize General Utilities for this purpose. Customarily, a contract operator is employed to operate the Cypress Lakes WWTP and WTP for one weekend day per week in order to meet minimum staffing requirements established by FDEP regulations contained in Chapter 62-610.462 and 62-699.310. Beginning in February 2012 following the retirement of a Cypress Lakes second operator, General Utilities provided manpower on a temporary basis while the Utility recruited a replacement. Beginning in March 2012, the Lead Operator was absent for about two months while recovering from major knee surgery. The absence of the Lead Operator for an extended time period resulted in the expanded use of General Utilities to supplement the remaining Cypress Lakes Utilities workforce in order to maintain compliance with FDEP staffing requirements. General Utilities will continue to provide manpower each Sunday at the

WWTP until such time as the second operator acquires his Florida water and wastewater treatment certifications.

c) As noted above, General Utilities continues to provide contract operator services at Cypress Lakes one day per week. General Utilities charged \$39.50 per hour in 2012 for their services at Cypress Lakes, the scope of which is limited to operating the two treatment plants, not performing any field activities away from the plant sites or responding after normal business hours to any alarms or to respond to customer service requests. The hourly rate increased to \$40.50 in January 2013. The hourly rate charged by General Utilities exceeds the total of salaries, benefits, and transportation expense that would be incurred by an employee working overtime for the same amount of time. However, scheduling an individual to routinely work overtime each Sunday in order to avoid the use of a contract operator is not sustainable in the long term. The hiring of a part-time certified water and wastewater operator to work one or two weekend days each week was considered, but a scarcity of qualified individuals who would be willing to work such a schedule made this approach untenable. In comparison, the contract operator provides his own transportation to the site. There is no obligation on the part of the Utility to use the services of the contract operator for a defined term. The hourly rate is consistent with the going rate charged by other similar contract operations companies.

d) Cypress Lakes Utilities continues to employ the contract operator on a one day per week basis. Following the retirement of the Lead Operator in May 2013, a new Lead Operator was hired on July 10, 2013 at a pay rate that is approximately \$0.50/hour less than the previous Lead Operator. This equates to a projected annual expense reduction in salary expense of approximately \$1,040.

e) Services provided in September 2012 totaling \$1,817 included the provision of services on five Sundays plus staffing services at the WTP on two Saturdays when Utility's personnel were not available. No invoice in the amount of \$522 was provided in the first staff data response.

15. According to the Utility's response to staff's first data request, Items 18 and 27, diesel fuel was purchased for the emergency generator and was recorded in Miscellaneous expense. The following items relate to this expense.

a) Please explain why this fuel purchase was not classified within Fuel for Purchased Power expense.

**RESPONSE:**

The Company did not classify this expense as "Fuel for Purchased Power" expense because the Company does not have an account designated for that purpose

b) Is this a routine expense or did a specific event necessitate this fuel purchase?

**RESPONSE:**

Yes, this is a routine Company expense to insure that the generators will run when needed. The generators at the Cypress Lakes WWTP and WTP are exercised weekly per FDEP regulations as well as in response to loss of normal power supplied by the local power company, Lakeland Electric. Fuel level in the two generators dictates when diesel fuel is purchased

16. According to the Utility's response to staff's first data request, Item 18, two replacement golf carts were purchased in September 2012 and classified within Miscellaneous expense. The following items relate to this expense.
- a) Please explain why the file titled "Misc Expenses" within folder "DR 18" does not include an entry for the purchase of any golf carts.
  - b) The Utility did not include any invoices for golf carts within folder "DR 18." However, an invoice for one golf cart was included in response to Item 22 regarding Material and Supplies expense for the wastewater system. Please explain this discrepancy and provide supporting documentation for both golf carts.
  - c) Please explain why the golf carts aren't classified as Utility Plant in Service (UPIS) under Transportation Equipment.
  - d) Were the golf carts that were being replaced ever classified as depreciable UPIS?
  - e) Are the golf carts used solely for the Utility's meter readers? If not, please explain.

**RESPONSE:**

- a) The purchase of the two golf carts was not posted to Misc. Expenses.
- b) A 1990's vintage electric powered golf cart that had been in use at Mid-County WWTP since 2009 was transferred to Cypress Lakes in 2011 for use by the meter readers. Subsequently, a used golf cart was purchased for use at Mid-County WWTP for \$500. It is still in use at that location. The \$500 expense ought to have been posted to the Cypress Lakes water system since this expense reflects the replacement value of the electric powered cart that was transferred to Cypress Lakes.
- c) The Utility was in error in not booking the purchase of the two golf carts in 2012 as Utility Plant in Service under Transportation Equipment.
- d) No, one of the replaced carts was included in the purchase of the Cypress Lakes system in 1997. The second golf cart was transferred in 2011 from Mid-County WWTP.
- e) Yes, the golf carts are used by two meter readers when reading meters located in Utility's West Florida water systems including Cypress Lakes, Labrador Utilities, and Utilities, Inc. of Florida's Pasco and Pinellas County systems.



17. According to the Utility's response to staff's first data request, Item 22, Materials & Supplies expense increased substantially in April 2012 and September 2012 due to annual preventative maintenance on the emergency generator. The invoices included in its response support this expense in April but not September. The Utility's supporting documentation explains the September increase was due to the purchase of a golf cart expensed to the wastewater system. The following items relate to that expense.

- a) Please explain why the golf cart is not classified as UPIS under Transportation Equipment.
- b) Is the golf cart that was being replaced ever classified as depreciable UPIS?
- c) Is the golf cart used solely for the Utility's wastewater system? If not, please explain.

**RESPONSE:**

As noted in the response to Item 16, the Utility erred in not booking the golf carts as UPIS Transportation Equipment.

18. According to the Utility's response to staff's first data request, Item 27, Miscellaneous expense increased substantially in September 2012 and October 2012 due to the purchase of backwash pumps, air filters, and a mud well pump. The following items relate to these expenses.

- a) The supporting documentation included with the response does not contain any invoices for these items. Please submit the invoices for these expenses.
- c) Did any of the pumps purchased materially add to the value of the property or prolong its life? If yes, please explain.

**RESPONSE:**

a) The reference to the purchase of misc. equipment was in error. The purchases posted to Misc. Expense in September and October 2012 relate to the purchase of uniforms for personnel at that time.

b) The purchased uniforms were provided to newly hire personnel.

19. According to MFR Schedules A-3 and B-3, roll forward adjustments were made to Accumulated Depreciation and Depreciation expense for items which depreciation has not been taken since the last rate case. Please provide a detailed explanation and supporting

documentation including, but not limited to, work papers and calculations, to justify these adjustments.

**RESPONSE:**

The Company does not have access to the referenced adjustment as they were made by someone no longer employed by the Company. It will continue to try to locate these documents.

20. According to MFR Schedule B-7 and B-8, Employee Pensions and Benefits expense increased by approximately 42 and 34 percent for water and wastewater respectively. When accounts 601 and 701 are separated from accounts 603 and 703, the increase in Employee Salaries and Wages expense is approximately 28 percent for water and 21 percent for wastewater. The following items relate to this expense.

- a) Please provide a detailed explanation to account for the increase in Employee Pensions and Benefits expenses for each system.
- d) Please explain why the increase in Employee Pensions and Benefits expense is disproportionate to the increase in Employee Salaries and Wages.

**RESPONSE:**

Benefits expenses will most likely increase more than salary expense. The Company can control salary increases and does not currently provide pensions. Benefit expenses vary from year to year based on claims and inflation. The Company's health care costs have risen at a greater rate than the Company's salary increases.

21. According to MFR Schedule B-7 and B-8, Insurance-Other expense increased by approximately 124 percent and 23 percent, respectively. With respect to the water system, the response stated that the increase was due to a substantial rise in the annual cost for the same level of coverage. Please explain why the increase in Insurance expense was so much greater for the water system than for the wastewater system.

**RESPONSE:**

The test year's insurance is split almost equally between the water and sewer divisions. The Company used a different allocation method previously.

22. According to MFR Schedule B-7 and B-8, Miscellaneous expense increased by approximately 150 and 370 percent for water and wastewater, respectively. Outside of expenses related to employment, Miscellaneous expense accounts for approximately 32 percent and 26 percent of the O&M expenses for water and wastewater, respectively. The following items relate to this expense.

- a) In the Utility's explanation of this increase, it included expenses that appear to belong in other accounts such as "vendors that test-equipment/chemical and contracted operations worker costs" and "office and supply expenses." What criteria does the Utility use when classifying expenses to the Miscellaneous expense account?

**RESPONSE:** The Miscellaneous expenses reflect purchase made for which no other line item in the Company's budget applies. The decision to classify the expense as Miscellaneous is typically made by the originator of the purchase order.

- b) Please provide supporting documentation for Miscellaneous expense items over \$250 for the test year.

**RESPONSE:** Please see the Excel file titled "Misc Exp Over \$250.xlsx" and the PDF titled "Misc Expense Invoices +\$250.pdf".

23. In reference to MFR Schedule B-9, Lines 10, 11, and 12, please clarify under which NARUC accounts these expenses are classified in the MFRs.

**RESPONSE:** They are classified under NARUC accounts 675, 675 and 775 respectively.

24. According to MFR Schedule B-12, Lines 8, 23, and 47, the parent company is allocating separate interest expense to its subsidiaries. Since the overall rate of return reflected in MFR Schedule D-1 includes recovery of interest expense, please explain this separate line item for interest expense.

**REPOSE:** In previous Rate Cases other subsidiaries have included interest expense as a cost of doing business. This does not affect the overall rate of return that the Company is allowed to receive. The two items are unrelated.

25. Please provide work papers and supporting documentation (i.e. invoices) for Sludge Removal expense in May 2012.

**RESPONSE:** Please see the Excel file titled "May 2012 Sludge Removal Expense.xlsx", the PDF titled "Cypress Lks May 2012.pdf" and the PDF titled "439442.pdf"

### **Taxes Other Than Income**

26. According to MFR Schedule B-15, the Utility recorded a property tax adjustment of \$704 to water for pro forma changes in net plant. According to staff's Audit Work Paper 53-1, the 2013 Polk County millage rate used for the Utility is 15.5281. Using this millage rate,

the property tax adjustment to water reflects a \$45,337 pro forma plant net increase. However, the Utility did not include a pro forma adjustment to net plant in MFR Schedule A-3. Please provide a detailed explanation and any calculations or work papers to support this adjustment.

**RESPONSE:** This adjustment was calculated using the Personal Property/ICT, Property/Other general, and Real Estate taxes per books along with the ratio between the book and adjusted plant net of net CIAC & depreciation from schedule A-1 of the MFR. Please see the Excel file titled "MFR B-15 property tax adjustment.xlsx" for the calculations and workpaper to support this adjustment.

**Others**

27. Please reconcile the difference between the gallons used for flushing shown in the schedule titled, "List of manual and automatic flushing locations" as part of the Utility's response to staff's third set of data request and the gallons for Other Uses shown in MFR Schedule F-1, Column (4).

**RESPONSE:**

Schedule SDR 3.1, List of Flushing Points, identifies the location of manual and automatic flushing points in 2012 and 2013. The schedule has been revised to quantify the monthly flushing volume used at each location. Schedule SDR 3.3, Water flushed & pumped per year, 2005-2013, reflects water pumped and other water uses by month and includes 2013 data. Flushing occurred at 17 locations in 2012, none of which were metered. Therefore, flow rates are estimated based on information provided by using Hydroguard's flow calculation methodology. In 2013, meters were installed at 11 of the 17 locations with a reduction in outlet size completed in some of those locations. The Utility plans to install meters at three locations in 2014.

If you or the Staff have any questions, please feel free to contact me.

Very truly yours,



MARTIN S. FRIEDMAN  
For the Firm

MSF/der

cc: Jason Barrett (via e-mail)  
Patrick Flynn (via e-mail)  
Frank Seidman (via e-mail)  
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