

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: February 24, 2011
TO: Ann Cole, Commission Clerk, Office of Commission Clerk
FROM: Avy Smith, Regulatory Analyst II, Division of Economic Regulation
RE: Docket No. 100359-WS- Application for staff-assisted rate case in Volusia County
by Tymber Creek Utilities, Incorporated.

RECEIVED-FPSC
11 FEB 24 PM 4:51
COMMISSION CLERK

The attached documents were faxed to the Division of Economic Regulation. Please incorporate the attached audit response letter into the docket file.

DOCUMENT NUMBER-DATE

01249 FEB 24 =

FPSC-COMMISSION CLERK

Tymer Creek Utilities, Inc.
1951 W. Granada Blvd.
Ormond Beach, FL 32174
(386) 672-9815
(386) 677-5707 - fax



Fax

To: Avy Smith From: Stan Shirah

Fax: _____ Pages: _____

Phone: _____ Date: _____

Re: _____ CC: _____

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- Please Comment
- Please Reply
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Comments:

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FPSC-COMMISSION CLERK

Regulated Plant Accounting

2307 Andrews Ave. Orlando, Florida 32804-5401
Phone 407-843-9060 Cell 321-217-6407 FAX 407-843-0990

February 15, 2011

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

Commission Clerk,

RE: Response to Audit Report Docket No. 100359 Findings

No. 1 Audit Finding - Books and Records - No Response other than to note that Tymber Creek Utilities, Incorporated has changed from an older construction related General Ledger to Quick Books Pro and has begun using the correct NARUC Uniform System of Accounts. (See Exhibit _____)

No. 2 Audit Finding - Utility Plant in Service - The audit report added back, to zero General Ledger water plant balances for, Power Generating Equipment, Pumping Equipment, Water Treatment and Distribution Reservoirs totaling \$46,325. These had been removed from the books after TCU began purchasing its water product from the City of Ormond Beach. Audit Finding No. 5 added back Accumulated Depreciation for these accounts totaling \$59,389. This same finding stated that the auditors "Toured the Utility's water and wastewater plant sites and lift stations to observe and ascertain the condition and existence of the Utility's assets." This report, on page 18, vouched for "Total purchased water expense is (of) \$63,587."

No. 3 Audit Finding - Land and Land Rights- No Response

No. 4 Audit Finding - CIAC

No. 5 Audit Finding - Accumulated Depreciation

No. 6 Audit Finding - Accum Amort of CIAC

No. 7 Audit Finding - Revenues

The audit report mentioned that one of the customers, an owner of the utility, was not charged tariff rates for Water or wastewater service. This is an incorrect statement as the billing system has shown. The owners Water meter is read monthly and put into the billing system. In order to avoid company paperwork, the owners computed water and wastewater bills are always netted against the office rent paid to his solely owned construction company.

Additionally, an arbitrary recomputation of revenue from the billing register was made and applied to both the water and the wastewater system. The recomputation of revenue was made and the resulting water revenue decrease of \$6,511 (in the utilities favor) was made. The recomputation of Wastewater Revenue was also made and this resulted in a revenue increase in the amount of \$23,987. (Not in the utility favor) Perhaps an adjustment of this magnitude was the result of not limiting the sewer usage to the first 10,000 thousand gallons per customer. This is Company and FPSC Policy.

DOCUMENT NUMBER-DATE

01249 FEB 24 =

FPSC-COMMISSION CLERK

No. 8 Audit Finding – Operation and Maintenance

- W 601 Salaries Employees - No Response Other than to say that the auditors said they tested the account and found a 40/60 water / wastewater split as opposed to the company position of a 25/75 percent allocation. TCU believes the direct labor hours allocation method should control in this case as all the truly administrative hours are the officers and those hours are split 50/50. Also, because TCU is a reseller of water and has no water treatment plant, almost all of the O&M Related calls relate to the Sewer System.
- W 603 Officers Salaries Employees – The extra work done by the officer was exclusively performed for the Sewer Utility and was done per a Contract for Services. They should have been reclassified to Sewer Contract Other. Please see Officers Salary Proforma adjustment WE1 \$464
- W 604 Benefits and Pensions - No Response
- W 610 Purchased Water - No Response (Please see the purchased water cost proforma) WE3 \$2,521
- W 620 Materials and Supplies - No Response (Lacking audit detail)
- W 631 Contractual Services Professional - No Response but please see the Water Operator cost proforma adjustment. WE1a \$300
- W 635 Contractual Services Testing - No Response (Lacking audit detail) Please see additional testing required proforma WE5 \$120
- W 636 Contractual Services Other - No Response (Lacking audit detail) Please see proforma for late billed repair WE4 \$370
- W 640 Rent Expense – If the rent appears reasonable then why reallocate 40/60 to reduce rent by \$733.
- W 650 Transportation Expense - No Response
- W 655 Insurance Expense - No Response
- W 670 Bad Debt Expense - No Response Please note that TCU is applying to increase the Tarifed Initial Security Deposit.
- W 675 Miscellaneous Expense - No Response (Lacking audit detail)
- S 701 Salaries Employees - See Response to #601
- S 703 Officers Salary - The extra work done by the officer was done per a signed Contract for Services. They should have been reclassified to Sewer Contract Other. Please see Proforma for Officers Salary SE1 \$464
- S 704 Benefits and Pensions - No Response
- S 711 Sludge Hauling - No Response
- S 715 Purchased Power - No Response

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- S 718 Chemicals - No Response
- S 720 Materials and Supplies - No Response
- S 731 Contractual Services – Professional No Response
- S 735 Contractual Services Testing - No Response (Lacking audit detail) Please see new test proforma for DEP Required tests SE4 \$960
- S 736 Contractual Services Other - No Response (Lacking audit detail)
- S 740 Rents - The rent adjustment appears to be in two parts, First, the office rent and secondly, the land rent. Concerning the Office Rent, which the auditor found reasonable to reallocate, since the water office rent was reduced \$755 then the Sewer office rent should increase by a corresponding \$733.

It is the company position that the annual land rent should be controlled by the rental contract renewable for 99 years between the land owner and Tymber Creek Utilities. This is a market based business decision and Tymber Creek realizes that the FPSC decisions are based on other ratemaking factors. In the early 90's TCU had pond failure and new percolation capacity was required. The owner had land nearby set aside for future multi-family development and allowed new ponds to be developed on the land. The lease issue was never addressed in D#900501 – WS. Next, in Docket # 040300-SU, the lease rate for the 3.6 acres of perc pond land was computed by the FPSC Staff and not disputed by the utility. This rental value in that docket was based on a rate of return of 8.78% on the proposed purchase price of the nearby land of \$49,432.

Currently, the land is valued at \$175,000 per acre and the annual utility lease of the DEP required percolation pond land is \$44,400 or 7% of the value. (See Exhibit ____)

- S 755 Insurance Expense - No Response
- S 770 Bad Debt Expense - No Response
- S 755 Insurance Expense - No Response

No. 9 Audit Finding – Taxes Other than Income - No Response but please see the property tax proforma adjustments WE2 and SE2

No. 10 Audit Finding – Capital Structure – Due to a cash shortage, the utility officers have not executed their paychecks for a number of years.

COMPANY TEST YEAR ADJUSTMENTS – During the preparation for the instant Staff Assisted Rate Case, it was discovered that neither the Water nor the Wastewater CWIP accounts had been closed out at the end of 2009. This classification to plant workorders and to expense is usually done as part of the year end closing procedure. Also, in order to get more current information, the Test Year was moved to encompass the first six months of 2010. Because of this, the 2010 CWIP Accounts were closed out during the SARC field work. These adjustments were to be presented to and explained to the field auditors but from October the 8th on, the FPSC Field Audit Staff never returned to Tymber Creek Utilities. (Please see notes on audit staff conduct.)

The results of these reclassifications are recapped below. The documentation has been previously filed with the FPSC Commission Clerk on December 13, 2010. Document ref. 09912-10.

Water CWIP Reclassifications

		Doc. #	
2009 Acct. # 636	\$761	09912-10 Page Ref. A	Contract Services Other
2010 Acct. # 636	\$ 96	09912-10 Page Ref B-3	Material and Supplies
2010 Acct. # 620	161	09912-10 Page Ref B-4	Contract Svcs Other

WASTEWATER CWIP Reclassifications

2009 Acct. # 736	\$5,491	09912-10 Page Ref. C	July-Dec Exp never reclassified
2010 Acct. # 186	3,576	09912-10 Page Ref. D-1/7	Filter and Tank Repairs
2010 Acct. # 736	3,239	09912-10 Page Ref. D-1	Contract services Other
2010 Acct. # 186	13,363	09912-10 Page Ref. D-1	STP Permit Costs to date
2010 Acct. # 370	2,418	09912-10 Page Ref. D-1	Monit. Well Development

WATER EXPENSE PROFORMA ADJUSTMENTS - These also were never able to be presented to the FPSC Field Auditors.

<u>DESCRIPTION</u>	<u>DOC</u>		<u>AMT</u>
	<u>09912-10</u>	<u>ACCT</u>	
OFFICERS SALARY INCREASES	WE1	#603	\$464.
CONT. EMPLOYEE SAL INCR	WE1a	636	300
WATER PROP TAX INCREASE	WE2	408	184
PURCHASED WATER COST INCR	WE3	610	2,521
TEST YEAR BILLED AFTER TY	WE4	637	370
ADDITIONAL TEST REQ BY VOLUSIA	WE5	636	12 0

WASTEWATER EXPENSE PROFORMA ADJUSTMENTS - These also were never able to be presented to the FPSC Field Auditors.

OFFICERS SALARY INCREASE	SE1	#703	\$464
SEWER PROPERTY TAX INCR	SE2	408	572
EXP PORTION OF L/S MONIT SYS	SE3	736	695
ADDITIONAL TESTS REQ BY DEP	SE4	735	960
DEP REQ MEDIA REPLACEMENT	SE5	736	5,865

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WASTEWATER PLANT IN SERVICE PROFORMA ADJUSTMENTS - These also were never able to be presented to the FPSC Field Auditors.

CAP PORTION OF L/S MONIT SYS	MON	#370	\$ 3,155
INSTALL TWO GOREMAN L/S PUMPS	RUPP	370	14,400
NEW PUMP BLOWER ASSEMBLY (DONE)	PUMP	380	4,090

SARC IMPLICATIONS OF HOA/TCU/DEP PERMIT LAWSUIT -

NARUC Expenses

All expenses incurred and projected by the utility in renewing the DEP Operating permit are to be accumulated and rolled into the rates. These are to be collected from the customers on a prorata basis one fifth each year during the 5 year term of that permit. The problem Tymber Creek is facing is that the DEP/HOA legal action is requiring large ongoing costs. TCU needs a methodology to recover these expenses through FPSC approved rates. If the 10 year costs of the DEP required Capital Improvement Program (CIP) were to be forced into the rates of TCU, the rate shock would be devastating to the customers and eventually to the utility.

TCU Proposes to split the 10 year GAI Report CIP expenses into two five (5) periods corresponding with the next two five year DEP Permit No. FLA011193 Renewal Periods. This mechanism fits the FPSC STP Permit renewal allowance and would only require the FDEP to approve this process for the next two Permit periods or 10 years.

The Florida Public Service Commission would have to approve this rate stabilization plan for the next two ten years. This would correspond to the next two DEP STP Permit periods. To accommodate this process, TCU would refrain from filing any rate proceedings, other than the indexing Filings, until the end of the first DEP Permit Renewal period, or five years. During this first five year term of permit number FLA011193 the first five years operating expenses required by the FDEP total \$87,070. These costs are located in the GAI Engineering Report CIP Table 3-2 Operation and Maintenance Expenses would be amortized over the 5 year term of the permit at \$17,414 per year.

During the next or second five year term of of permit number FLA011193 the second five years operating expenses required by the FDEP or years 6 through 10, as listed in the GAI Report CIP totaling \$57,435 would be amortized over the second 5 year term of the permit at \$11,487 per year. These second term permit costs would be picked up in addition to normal operating expenses in a formal FPSC Rate Case at that time. These listed CIP costs would have to be accounted for separately in the TCU General Ledger for this PSC Rate Proceeding.

NARUC - Additions to Rate Base

All of the GAI Report Table 3-1 Additions to Rate Base would need to be approved as known future additions during the current Rate Proceedings. This is reasonable as most are already accomplished and are in the Test Year. Three proforma additions needed are installing monitoring well covers and bollards for \$2,850, installing an automatic dialer system for \$3,300 and installing a backup surge pump, blower and motor assembly for \$5,675. Items to be added to the Test Year are replacements requiring retirements. The rest of the additions are replacements and would require associated retirements.

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FPSC FIELD AUDIT STAFF CONDUCT –

It was reported by several people associated with Tymber Creek Utilities that the FPSC Auditors were communicating with personal friends or family VIA Skype while sitting in the conference room.

Thursday Sept 23, the audit manager gave me two document requests #s 4 and 5 as he left for the day. These were year end plant differences to be accounted for. There were 22 water differences and 37 wastewater differences with a due date of Thursday September 30th. These differences were developed on two landscape legal size pages. FILEUPIS.xls Sheets Water-Plant_GL and WWater-Plant_GL We worked diligently through the weekend gathering documents. The next week when the auditors arrived, I presented our research to date. The requesting auditor said " Oh, we won't be using those."

As detailed in the response to Audit Finding No. 2, the audit staff failed to notice that TCU is only a reseller of purchased water. This is even after an October 7 plant tour to ascertain the existence of a water treatment plant and obtaining, reviewing and tracing to the General Ledger a balance of \$63,587 in account No. 610, Purchased Water.

October 8th, Friday, the auditors leave saying they will be back next Tuesday October 12, 2010.

October 12th, We called the auditors at 9:40AM after not hearing a word. They said they were not coming over but would be here on Thursday October 28th.

October 28th, We called the auditors at 9:48AM again not hearing a word, who said they were not coming to Volusia County until Thursday November 4th.

November 4th, we called at 9:18 asking about trip progress and we were told that they were not going to return and would complete the audit by phone, email and FAX.

November 5th, we were cleaning the conference room and found original workpapers 41 series and 42 plus 22 index through 22-5 and various original Annual Reports and Orders. We called about the status and were told they would not need them so we did not have to mail them as we offered.

Rate Case Expense –

This category of expense was not been addressed in any inquiry or document request.

Deferred Cost of DEP Sewer Permit Renewal

This category of expense was not been addressed in any inquiry or document request.