

**Dorothy Menasco**

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**From:** Dana Rudolf [DRudolf@RSBattorneys.com]  
**Sent:** Tuesday, December 20, 2011 4:53 PM  
**To:** Filings@psc.state.fl.us  
**Cc:** Martin Friedman; keweeks@uiwater.com; EPPovich@uiwater.com; Bart Fletcher  
**Subject:** Docket No. 120076-SU Investigation into possible overearnings of Mid-County Services, Inc.  
**Attachments:** PSC Clerk 02 (Audit Response).ltr.pdf

- a) Martin S. Friedman, Esquire  
Rose, Sundstrom & Bentley, LLP  
766 North Sun Drive, Suite 4030  
Lake Mary, FL 32746  
(407) 830-6331  
[mfriedman@rsbattorneys.com](mailto:mfriedman@rsbattorneys.com)
- b) Docket No. 120076-SU  
Investigation into possible overearnings of Mid-County Services, Inc.
- c) Mid-County Services, Inc.
- d) 9 pages
- e) Response to Audit dated October 24, 2011 in connection with Audit Control No. 11-230-4-1.

12/20/2011

DOCUMENT NUMBER-DATE

09070 DEC 20 =

FPSC-COMMISSION CLERK

LAW OFFICES

**ROSE, SUNDBSTROM & BENTLEY, LLP**

www.rsbattoorneys.com

Please Respond to the Lake Mary Office

December 20, 2011

VIA E-FILING

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JOHN L. WILARTON

ROBERT M.C. ROSE, (1924-2006)

Ann Cole, Commission Clerk  
Office of Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399

RE: Docket No.: 120076-SU; Investigation into possible overearnings of Mid-County Services, Inc.  
Our File No.: 30057.202

Dear Ms. Cole:

Enclosed for filing in the above-referenced docket is the response of Mid-County Services, Inc. to Staff's Audit dated October 24, 2011 in connection with Audit Control No. 11-230-4-1.

**Audit Finding No. 1 – Retirement of Telephone Equipment**

The Company agrees with Staff that the retirement entries could not be located. However, the retirement made to the UPIS account for communication equipment on the books of Water Service Corporation (WSC) was \$360,358.40. This amount is also the per books balance in communication equipment for WSC as of January 1, 2010, consisting of prior year additions of \$401,854.46 and a prior year retirement of \$41,496.06. \$366,946.17 of these additions were added prior to 1999, with the remaining (\$6,587.77) added in 2003, 2005, and 2007. Please see the enclosed workpaper entitled AF 1 for support for these amounts. Since the test year is the 12 months ending December 31, 2010, any asset placed in service prior to 2001 would be fully depreciated, based on a 10 year asset life. The remaining assets placed in service in 2003, 2005, and 2007 have been fully disposed of and are no longer in use, so it stands to reason that those assets should be fully written off as well.

The appropriate amount to retire out of UPIS for the Altamonte Springs division is the amount the Company retired, which was \$66,110.31. These assets were fully depreciated at the beginning of the test year.

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FPSC-COMMISSION CLERK

Accumulated depreciation and depreciation expense on both WSC and Altamonte Springs communication assets has been adjusted in the Company's filing to reflect the appropriate month of the retirement and the appropriate depreciation rate. No further adjustment is required.

**Audit Finding No. 2 – Ordered Adjustments for Project Phoenix Not Booked**

For purposes of an overearnings investigation it is not appropriate to make changes to Project Phoenix costs and allocations based upon Commission decisions for other utilities.

The Company disagrees with Audit Finding No. 2 and argues for the full balance of Project Phoenix to be included at the headquarters level, with the appropriate 1.24% allocated to Mid County. It is incorrect to reduce the Phoenix balance for sold companies, as none of the Phoenix system was sold in conjunction with the divested companies. The total Phoenix balance is currently in service and benefiting ratepayers and it is arbitrary and inappropriate to reduce the balance. Doing so guarantees that the Company earns a subpar return on a Commission-approved investment. Any such adjustment is also contrary to Section 367.0813, Florida Statutes.

The question is also raised that if the Company were to acquire customers, would the Commission allow the Company to increase its Phoenix balance? Such practice would not be allowed. However, the same arbitrary practice is occurring by reducing the Phoenix balance due to divestment. The Company cannot arbitrarily reduce the book value of an asset due to divestment of customers.

In addition, reducing the Phoenix balance creates a gain on sale situation in the amount of \$1,652,234 because it effectively "sells off" this amount of Phoenix with the sold companies. In Order No. PSC-03-1440-FOF-WS, pg. 129, in Docket No. 020071-WS, the Commission expressly states "it is clear that the courts have found that the rates paid by customers are only for the service received during a given period of time and that the rates paid by customers do not vest ratepayers with any ownership rights to property used to render service." Another compelling factor raised by witness Gower is that the customers pay rates based on original cost rather than on replacement values. We find that these are strong arguments to assign the gains to the shareholders."

Based on these facts, it is inappropriate to reduce the Project Phoenix balance. The Phoenix balance should remain as is in the filing, and no adjustments are required.

**Audit Finding No. 3 – Depreciation Life of Project Phoenix**

For purposes of an overearnings investigation it is not appropriate to make changes to Project Phoenix depreciation based upon Commission decisions for other utilities.

The Company disagrees with Audit Finding No. 3. Staff has no basis for changing Phoenix to a ten year life; however an eight year life has already been established in previous dockets and is the life used for all other computer software booked to the same account as Phoenix.

**Audit Finding No. 4 – Removal of Operating Expense**

The Company accepts Audit Finding No. 4.

**Audit Finding No. 5 – Prepaid – Other Expenses**

The Company accepts Audit Finding No. 5.

**Audit Finding No. 6 – Ordered Adjustments and Rule Depreciation Rates**

The Company accepts Audit Finding No. 6.

**Audit Finding No. 7 – Capitalized Items**

The Company accepts Audit Finding No. 7. The Company notes that some of the depreciation rates were incorrect, but the difference is immaterial.

**Audit Finding No. 8 – Retirements**

The Company accepts Audit Finding No. 8. The Company notes that some of the depreciation rates were incorrect, but the difference is immaterial.

**Audit Finding No. 9 – Expenses for Other Utilities**

The Company accepts Audit Finding No. 9.

**Audit Finding No. 10 – Permit Fees**

The Company disagrees with Audit Finding No. 10. The Company agrees with the schedule provided; however the Department of Environmental Protection imposes an Annual Wastewater Regulatory and Surveillance Fee that wasn't accounted for. The Company paid the 2010 fee in December of 2009, and paid the 2011 fee in January of 2011. Therefore, none of this fee was booked in the test year, and isn't being accounted for. Both the invoices for the 2010 and 2011 fees are enclosed. This will increase O&M expenses by \$5,625.00.

**Audit Finding No. 11 – Penalties**

The Company accepts Audit Finding No. 11.

**Audit Finding No. 12 – Rate Case Expense**

The Company accepts Audit Finding No. 12.

**Audit Finding No. 13 – Salaries**

The Company accepts Audit Finding No. 13.

**Audit Finding No. 14 – Headquarter Allocations**

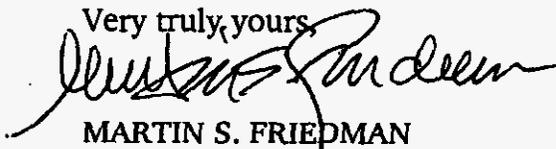
The Company accepts Audit Finding No. 14.

**Audit Finding No. 15 – Sludge Equipment**

The Company accepts Audit Finding No. 15. However, although the \$42,591.45 was not booked for Mid-County Services until July 2010, that amount of rate base should not be subject to 13-month averaging, since the entire amount of the sludge hauling expense savings is reflected in 2010, and the facility was actually placed in service in 2009.

If you or Staff should have any questions, please do not hesitate to contact me.

Very truly yours,



MARTIN S. FRIEDMAN  
For the Firm

Ann Cole, Commission Clerk  
Office of Commission Clerk  
Florida Public Service Commission  
December 20, 2011  
Page 5

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MSF/der  
Enclosures

cc: Kirsten Weeks, Regulatory Accounting Manager (w/enclosures) (via e-mail)  
Ms. Erin Povich, Senior Regulatory Accountant (w/enclosures) (via e-mail)  
Mr. Bart Fletcher, Division of Economic Regulation (w/enclosures) (via e-mail)

Mid County Utilities, Inc.  
Docket No. 110000-OT  
WATER SERVICE CORPORATION  
COMMUNICATION EQUIPMENT A/C 1205 (10.0%)  
AF 1

	Additions	Depr Rate	12/31/2004 Accum Depr	2005 Depreciation	2006 Depreciation	2007 Depreciation	2008 Depreciation	2009 Depreciation	2010 Depreciation
prior to 1990	114,707.76	10.00%	114,707.76						
1990	-	10.00%	-						
1991	1,122.40	10.00%	1,122.40						
1992	1,038.98	10.00%	1,038.98						
1993	1,507.42	10.00%	1,507.42						
1994	1,017.75	10.00%	1,017.75						
1995	-	10.00%	-	-					
1996	175,918.01	10.00%	149,530.01	17,592.00	8,796.00				
1997	66,093.53	10.00%	49,570.00	6,609.00	6,609.00	3,305.53			
1998	5,540.32	10.00%	3,601.00	554.00	554.00	554.00	277.32		
1999	-	10.00%	-	-	-	-	-	-	
2000	-	10.00%	-	-	-	-	-	-	-
2001	-	10.00%	-	-	-	-	-	-	-
2002	-	10.00%	-	-	-	-	-	-	-
2003	11,254.94	10.00%	1,688.24	1,125.00	1,125.00	1,125.00	1,125.00	1,125.00	1,125.00
2004	-	10.00%	-	-	-	-	-	-	-
2005	23,653.35	10.00%	-	1,182.67	2,365.00	2,365.00	2,365.00	2,365.00	2,365.00
2006	-	10.00%	-	-	-	-	-	-	-
2007	-	10.00%	-	-	-	-	-	-	-
2008	-	10.00%	-	-	-	-	-	-	-
2009	-	10.00%	-	-	-	-	-	-	-
2010	356,031.73	10.00%	-	-	-	-	-	-	17,802.00
Retirement	(401,854.46)					(41,496.06)			(360,358.40)
<b>TOTAL</b>	<b>356,031.73</b>		<b>323,783.56</b>	<b>27,062.67</b>	<b>19,449.00</b>	<b>(34,146.53)</b>	<b>3,767.32</b>	<b>3,490.00</b>	<b>(339,066.40)</b>
<u>Dec-09</u>	<u>Jan-10</u>	<u>Feb-10</u>	<u>Mar-10</u>	<u>Apr-10</u>	<u>May-10</u>	<u>Jun-10</u>	<u>Jul-10</u>	<u>Aug-10</u>	<u>Sep-10</u>
(343,406.02)	(343,696.85)	(343,987.69)	(344,278.52)	(344,569.35)	(344,860.19)	(345,151.02)	11,949.55	8,691.71	5,433.88

Mid County Utilities, Inc.  
Docket No. 110000-OT  
REGIONAL COST CENTER  
COMMUNICATION, A/C 1205 (10%)  
AF 1

	Additions	Depr Rate	2007 Accum Depr	2008 Depreciation	2009 Depreciation	2010 Depreciation
prior to 2008	66,110.31	10.00%	65,069.87	1,040.44	-	-
2008	-	10.00%		-	-	-
2009	-	10.00%			-	-
2010	-	10.00%				-
Retirement	(66,110.31)					(66,110.31)
TOTAL	<u>-</u>		<u>65,069.87</u>	<u>1,040.44</u>	<u>-</u>	<u>(66,110.31)</u>

<u>Dec-09</u>	<u>Jan-10</u>	<u>Feb-10</u>	<u>Mar-10</u>	<u>Apr-10</u>	<u>May-10</u>	<u>Jun-10</u>	<u>Jul-10</u>	<u>Aug-10</u>	<u>Sep-10</u>
(66,110.31)	(66,110.31)	(66,110.31)	(66,110.31)	(66,110.31)	(66,110.31)	(66,110.31)	(66,110.31)	(66,110.31)	(66,110.31)

STATE OF FLORIDA, DEPARTMENT OF ENVIRONMENTAL PROTECTION

Bureau of Finance & Accounting

P.O. Box 3070 *3000890*

Tallahassee, FL 32315-3070

**INVOICE**



Annual Wastewater Regulatory and Surveillance Fee  
2010

INVOICE NO: 18043

DATE: 12/4/2009

*BUSINESS UNIT: 250100*  
*P.O. # - 48887*  
*Scotty Haws*

**Accounting Information**

Object Code 002205  
Org code 37 35 10 10 000  
Expansion Option M7  
FLAIR Code: 3720252600137350200000020000  
**Facility Key # 12899**

FLYNN, PATRICK  
MID-COUNTY SERVICES INC  
200 WEATHERSFIELD AVE  
ALTAMONTE SPRINGS, FL 32714-4027

Batch 71114

Doc 219292  
**INVOICE AMOUNT**

**FACILITY ID FACILITY NAME**  
FL0034789 MID-COUNTY WWTP

\$5,625.00

Invoice amount represents only current year fee assessment.

This fee is assessed pursuant to Rule 62-4.052, Florida Administrative Code, and is due January 15, 2010.  
If you have questions concerning this invoice, call the Wastewater Compliance Evaluation Section at (850) 245-8567.

ENTERED

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DEC 09 2009

cc: DEP SWD District Office

PLEASE DETACH THIS PORTION OF THE INVOICE AND RETURN WITH YOUR PAYMENT

INVOICE NO: 18043

DATE: 12/4/2009

MAKE PAYMENTS PAYABLE TO: **FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION**  
REMIT ADDRESS: **BUREAU OF FINANCE AND ACCOUNTING**  
**P.O. BOX 3070**  
**TALLAHASSEE, FL 32315-3070**

FACILITY ID	FACILITY NAME	INVOICE AMOUNT	REMIT AMOUNT
FL0034789	MID-COUNTY WWTP	\$5,625.00	\$

**Accounting Information**

Object Code 002205  
Org code 37 35 10 10 000  
Expansion Option M7  
FLAIR Code: 3720252600137350200000020000  
**Facility Key # 12899**

STATE OF FLORIDA, DEPARTMENT OF ENVIRONMENTAL PROTECTION

Bureau of Finance & Accounting

P.O. Box 3070

Tallahassee, FL 32315-3070

INVOICE



Annual Wastewater Regulatory and Surveillance Fee  
2011

INVOICE NO: 19198

DATE: 12/7/2010

3000890  
P.O. # 74911  
BUSINESS UNIT # 250100  
P.L.C. - 1/4/2011

Accounting Information

Object Code: 002205

Org. code: 37 35 10 10 000

Expansion Option: M7

FLAIR Code: 3720252600137350200000020000

Facility Key # 12899

Batch 97476

Doc 319345

FLYNN, PATRICK  
MID-COUNTY SERVICES INC  
200 WEATHERSFIELD AVE  
ALTAMONTE SPRINGS, FL 32714-4027

FACILITY ID FACILITY NAME

FL0034789 MID-COUNTY WWTP

INVOICE AMOUNT

\$5,625.00

Invoice amount represents only current year fee assessment.

This fee is assessed pursuant to Rule 62-4.052, Florida Administrative Code, and is due January 15, 2011.  
If you have questions concerning this invoice, call the Wastewater Compliance Evaluation Section at (850) 245-8567.

ENTERED

JAN 05 2011

JAN 04 2011

cc: DEP SWD District Office

PLEASE DETACH THIS PORTION OF THE INVOICE AND RETURN WITH YOUR PAYMENT

INVOICE NO: 19198

DATE: 12/7/2010

MAKE PAYMENTS PAYABLE TO: FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION

REMIT ADDRESS: BUREAU OF FINANCE AND ACCOUNTING

P.O. BOX 3070

TALLAHASSEE, FL 32315-3070

FACILITY ID FACILITY NAME INVOICE AMOUNT REMIT AMOUNT

FL0034789 MID-COUNTY WWTP

\$5,625.00

\$

Accounting Information

Object Code: 002205

Org. code: 37 35 10 10 000

Expansion Option: M7

FLAIR Code: 3720252600137350200000020000

Facility Key # 12899