

**Dorothy Menasco**

**From:** Vandiver, Denise [VANDIVER.DENISE@leg.state.fl.us]  
**Sent:** Tuesday, April 03, 2012 11:12 AM  
**To:** Filings@psc.state.fl.us  
**Cc:** Andrew Maurey; Bart Fletcher; Ralph Jaeger; Martin Friedman Esquire (mfriedman@sfflaw.com); Patrick Flynn; Reilly, Steve  
**Subject:** Docket No. 110257-WS; Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation

**Attachments:** April 3, 2012 Letter and Attachments to Staff.pdf; April 3, 2012 Letter and Attachments to Staff.docx

a. The full name, address, telephone number, and e-mail address of the person responsible for the electronic filing:

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

Docket No. 110257-WS  
Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation

c. The name of the party on whose behalf the document is filed:

Office of Public Counsel (OPC)

d. The total number of pages in each attached document:

10 pages

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

Cover letter with attached list of OPC issues and concerns.

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DOCUMENT NUMBER-DATE

02029 APR-3 09

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4/3/2012

**MIKE HARIDOPOLOS**  
*President of the Senate*



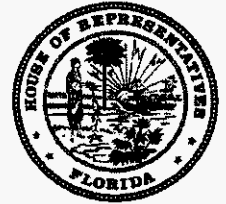
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**DEAN CANNON**  
*Speaker of the*  
*House of Representatives*



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April 3, 2012

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

Re: Docket No. 110257-WS; Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation

Dear Ms. Cole:

The Office of Public Counsel has reviewed the Company's MFR's and responses to staff data requests in this docket. As a result of this review we have identified the attached concerns that we believe should be addressed before staff finalizes its recommendation. It is our hope that staff will be able to explore these issues and obtain sufficient information from the company to determine the proper ratemaking treatment for each issue. 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

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c: Division of Economic Regulation (Maurey, Fletcher)  
Office of the General Counsel (Jaeger)

Sundstrom, Friedman & Fumero, LLP (LakeMary11a)  
Martin Friedman

Utilities, Inc. of Florida  
Mr. Patrick C. Flynn

Office of Public Counsel (Reilly)

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Prior Commission Adjustments and Depreciation Rates

1. In Staff Audit Finding 2, the auditors state that the Utility has not booked the adjustments from the prior Commission ordered adjustments and does not use the Commission prescribed depreciation. The Commission ordered these adjustments. The Utility filed a Notice on April 20, 2011 (Document No. 02728-11), submitting a copy of bookkeeping entries reflecting the Commission Ordered Adjustments as support that these adjustments had been made. Because the Utility did not follow the Commission order and because it filed a letter erroneously indicating that these adjustments had been made, we believe that the Utility should be fined or penalized for failing to book these adjustments and not following the Commission order.

Utility Plant In Service

2. The Utility has moved significant balances between plant accounts. Table 2-A reviews several wastewater plant account balances from the current docket and the last two dockets. This Table shows a pattern of the Utility making adjustments and moving amounts from one account to another. These adjustments combined with the Utility's failure to make timely adjustments based on Commission orders results in additional work effort by staff and parties. We believe that the Utility must be held accountable for its continuing manipulation of its accounts.

Pro Forma Plant

3. The utility has requested \$3,836,708 in pro forma plant items. The utility's response to the staff data request indicates that only \$71,708.80 of this amount has been completed. We do not believe that significant plant items should be included as pro forma plant until it has been completed. It appears that the utility only submitted estimates and there are no signed contracts. We recommend that these items be excluded from rate base until the plant items are completed.
  - a. We are also concerned with the estimate for the Wekiva-Apopka Reuse Main. In response to the staff data request, the utility submitted a letter dated January 9, 2011 from CPH Engineers, Inc. On the third page of this letter, the engineers state that the project is eligible for funding from the St. Johns River Water Management District and could receive as much as 20% of the project cost, or \$600,000. We would expect that it would be prudent for the utility to pursue this source of funds and that any costs of the project included in rate base be reduced by this amount.
  - b. We are also concerned whether all related revenues for additional effluent sold through this pipeline have been included in the MFR's. The CPH letter indicates a substantial change in the final effluent disposal and we would want to make sure that any additional revenues are included.

Contributions In Aid Of Construction

4. Schedule A-12 indicates that the Utility retired approximately \$584,000 from Water CIAC and \$663,000 from Wastewater CIAC. What justifies these retirements?

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Salaries and Wages

5. The Utility annualized salary and wages expense. We believe that it is unreasonable to allow a pro forma adjustment to annualize salaries, overtime, and transportation expenses when the test year concept uses an average rate base. If the Commission annualizes expenses, it is in effect using a year-end basis for setting rates. Annualization also does not allow for the fact that employee turnover occurs every year and some salaries are not paid in their entirety. Annualization sets rates with the expectation that every employee position will be filled for the entire year. We disagree with the annualization of salaries and wages expense as it contradicts the average test year concept. If salaries and wages are annualized, we believe that all expenses as well as the cost of capital should be annualized to match all the components of the revenue requirement.
  - a. We are also concerned that the Utility made numerous pro forma adjustments to the test year to increase expenses but did not reflect any known and measurable decreases in expenses, such as the major decrease in sludge hauling expenses.
  - b. Adjustment 5 on Schedule B-3, Page 3 of 4 is also included to annualize depreciation expense and we would have the same concerns about this adjustment.
  
6. The allocation schedules in the MFRs show that the allocated salaries and wages increased by \$104,000 (23%) in the two years since the last rate case. Table 5-A illustrates these increases. The utility has not shown any indication why this increase is reasonable.

Sludge Hauling Expense

7. The Staff Audit Finding No. 8 recommends that sludge hauling expense be reduced by \$38,064 due to an improved method of treatment. The Utility agreed with this adjustment and OPC agrees that this adjustment should be made.

Purchased Power Expense

8. The invoices and Excel file submitted in response to Staff Data Request #8 and #19 on Purchased Power totals \$1,040,246. The monthly amounts do not readily reconcile on a monthly basis to the MFR Schedules B-5 and B-6. The total Purchased Power Expense included in the MFRs is \$1,082,964 or \$42,718 more than the support provided to staff. We recommend that the Purchased Power Expense be reduced by \$42,718.

Chemical Expense

9. Schedule B-7, page 1 of 2 indicated a 108.96% increase in Chemical Expense for the water system, since the last rate case. The Schedule further explained that this increase was due to a higher volume of gallons pumped in the test year. However, our review of the amount of water pumped, as reported on schedule F-1 in each case indicates that the amount of water has actually decreased. We do not believe that the Utility has carried its burden to justify the doubling of its Chemical Expense and that the expense should be reduced by \$86,000.

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**Materials and Supplies**

10. The invoices and Excel file submitted in response to Staff Data Request #10 and #21 on Materials and Supplies total \$39,879, for the five months addressed. The amounts included in the MFR's total \$159,757 for the same five months, or \$120,000 less than the MFR's. (Coincidentally, this expense has increased by \$120,000 (60%) in the two years since the last rate case.)

- a. The MFR expense includes a pro forma expense for the \$33,000 amortization of the Wekiva WWTP de-gritting. The staff audit found that the actual cost for the project was \$116,000 less than projected and the 5 year amortization of that difference should be removed. The Utility agrees with this adjustment and we agree that the expense should be reduced by \$23,194.
- b. The invoices and Excel file submitted in response to Staff Data Request #10 and #21 on Materials and Supplies include three items that appear to be for items outside the test year. These three items total \$10,832. We believe that the expense should be reduced to remove these costs.

Line 47	AOK Tire	\$268.86	Invoice dated 2009
			Description is to write off 1998 Balance (see also Audit
Line 20	Reclass FL	\$6,318.14	Finding No. 22)
			Description is to record Commission Ordered
Line 152	Reclass JE	\$4,245.00	Adjustment for 2006 expense

- c. As stated above, the total invoices provided by the Utility are approximately 25% of the amounts shown in the MFR's. We do not believe that the Utility has met its burden in justifying the increase in these costs and the test year expense should be reduced.

**Contractual Services – Legal**

- 11. The utility's response to Staff Data Request #12 and #23 includes WSC allocations of 9 invoices from Winston & Strawn (totaling \$35,881) for a court case. How do these invoices relate to Florida and why should the allocations be included in the Sanlando expenses? If these are related to Sanlando, are these recurring charges or should they be considered non-recurring and amortized?
- 12. The utility's response to Staff Data Request #12 and #23 includes WSC allocations of two invoices from Poyner Spruill for a Superior Court case in North Carolina. How do these invoices relate to Florida and why should the allocations be included in the Sanlando expenses? If these are related to Sanlando, are these recurring charges or should they be considered non-recurring and amortized?
- 13. In the utility's response to Staff Data Request #12 and #23 there are 7 invoices to Butler, Pappas, Weihmuller, Katz, Craig, LLP that total \$11,742. How do these invoices relate to Florida and why should the allocations be included in the Sanlando expenses? If these are related to Sanlando, are these recurring charges or should they be considered non-recurring and amortized?

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14. In the utility's response to Staff Data Request #12 and #23 there are two invoices for RSB Invoices for \$566 and \$331. These are for invoices dated 2007. These should be removed from test year expenses.
15. In the utility's response to Staff Data Request #12 and #23, Page 41 of the .pdf file is an e-mail that states two developers are sharing the cost of the legal fees. Does this apply to both of the invoices (\$1,342 and \$3,484) that are for the Sanlando – Longwood Swap? Does that mean the entire invoice will be reimbursed?

Contractual Services – Other

16. Contractual Services – Other has increased by \$124,000 (144%) in the two years since the last rate case. Table 15-A shows the increase in this account using the amounts in the staff schedules from the last rate case compared to the expense included in the current MFR's. However, Schedules B-7 and B-8 include higher amounts for 2008 and are misleading in that these amounts do not include the Commission adjustments and misrepresent the amount of the increase since the last rate case. Table 15-A also shows the allocated amounts based on the MFR allocation schedules (Schedule B-12). This also is misleading in that the significance of the increase appears to show only a 44% increase in the allocated expense. But, these amounts also appear to exclude the Commission adjustments.
  - a. The MFRs offer a justification that the increase in this expense is due to the increase for skilled computer technicians to implement the new computer system. However, the computer system went into service at the beginning of 2008. Therefore, the 2008 test year should have included a full year of costs for the new system. Even when staff asked for information through a staff data request, the utility did not explain specific technicians hired, monthly amounts paid to the technicians, the allocation methodology for these salaries and the monthly amounts allocated to Sanlando in the test year, whether any employees operating the old system were terminated, and whether these new technicians are short-term for implementation purposes only and will be terminated after the system is fully operational.

Rate Case Expense

17. The Nevada Commission disallowed rate case expense to the extent that the WSC charges for cap time duplicate the salary expense included in rates. (See the Spring Creek Utilities Co. (SCUC) rate case, Docket No. 08-06036, Modified Final Order, issued March 18, 2009). We agree that capitalized time should be removed from rate case expense.
18. Informal reviews by our office confirm that Utilities, Inc. companies consistently over-estimate rate case expense. In the last Sanlando case, the Commission order allowed \$193,087. Table 17-A shows that the final rate case expense submitted by the utility is about 80% of the amount allowed by the Commission order. (We compared the allowed amounts in the PAA order to the amounts submitted after the Consummating Order, adjusted for the Commission adjustments in the PAA Order.) This over-estimate is not unusual in the filings provided by the utility in

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most of its rate cases. We believe that rate case expense should be adjusted to reflect the over-estimates provided by the utility.

Miscellaneous Expense:

19. Miscellaneous Expenses show an unusual monthly expense in August, about double the average. The Staff Data Request asked the utility to justify the increased levels of Miscellaneous Expense for February, April, August, and November. The total expense reported in the MFRs for these months was \$156,216. The utility's response to the request listed the total for these months as \$117,381 (25% less than the MFR's.) This amount was shown in the letter response as well as the excel file provided. We believe that the utility has not met its burden to prove the level of its expense. We believe that Miscellaneous Expense should be reduced by \$38,835. In addition, our review of the invoices and documentation provided has raised several concerns.

- a. The documentation supports approximately \$8,000 a month for telecom charges. This amount consists of approximately \$1,000 for direct charges, \$1,000 for WSC charges, and \$6,000 for the "State Cost Center." These are telecom charges in addition to those recorded in Contractual Services – Other for the Web-based Computer System. We question whether the utility has done all it can to review its telecom charges to keep them at a minimum reasonable expense.
- b. Our review of the travel expenses included in this account indicate an average of about \$1,500 per month. While the allocated amounts are not substantial, there are several trips that appear to be for non-Florida business. There are numerous trips to Nevada, some for conferences but some appear to be for Nevada Utility business. There are other trips to: 1) South Carolina for a state system and a show cause issue, 2) Indiana for issues before the state Commission, 3) Washington DC for lobbying, and 4) Georgia for a potential sale of a system. In addition there are many trips for conferences such as NARUC and NAWC. In these four months alone, there were 11 trips. Our review also found that the documentation for several of the charges did not include any purpose at all. First, we believe that Sanlando should not be paying for trips related to other systems. In addition, it appears that Sanlando is paying for a large number of conferences and related travel. Second, while we believe that there is a benefit to this type of travel, we believe that the utility should be conservative in what is passed through to the customers and the number of trips appears to raise a red flag.

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Sanlando Utilities Corporation		Table 2-A					
Docket No. 110257-WS		----- MFR BALANCES -----					
Utility Plant In Service		060258-WS		090402-WS		110257-WS	
		Dec-04	Dec-05	Dec-07	Dec-08	Dec-09	Dec-10
<b>Collection Plant</b>							
353.2	Land & Land Rights	202,552	202,552	202,552	203,894	-	
354.2	Structures & Improvements	2,035,889	2,127,411			-	625
355.2	Power Gen Equipment	210,601	213,205		1,702	1,275	1,275
360.2	Collection Sewers - Force	7,019,383	7,027,733	256,759	316,471	319,508	132,985
361.2	Collection Sewers - Gravity			7,434,701	7,493,657	7,533,028	7,748,983
363.2	Services to Customers					-	215,640
<b>System Pumping Plant</b>							
354.3	Structures & Improvements			3,081,720	3,205,741	3,222,657	3,207,918
<b>Treatment &amp; Disposal Plant</b>							
353.4	Land & Land Rights					-	-
354.4	Structures & Improvements	266,024	4,327,579			-	4,703,313
380.4	Treatment & Disposal Equip	4,802,974	897,656	1,318,056	1,339,169	1,395,240	1,492,024
381.4	Plant Sewers	644,006	644,006			-	-
382.4	Outfall Sewer Lines			644,005	644,005	644,005	644,005
<b>Reclaimed Water Distribution Plant</b>							
353.5	Land & Land Rights					-	203,894
<b>General Plant</b>							
353.7	Land & Land Rights					203,894	-
354.7	Structures & Improvements			4,355,108	4,703,313	4,713,992	10,994



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Sanlando Utilities Corporation		Table 5-A		
Salaries and Wages Expense				
	090402-WS	110257-WS	Percent	Dollar
<b>ALLOCATIONS</b>	<b>12/31/08</b>	<b>12/31/10</b>	<b>Increase</b>	<b>Increase</b>
<b>Water Service Corp Allocated Expenses:</b>				
Salaries - Water	166,968	208,812	25.06%	41,844
Salaries - Wastewater	129,653	162,938	25.67%	33,285
<b>Water Service Corp Allocated RVP Expenses:</b>				
Salaries - Water	31,727	25,398	24.92%	6,328
Salaries - Wastewater	24,636	19,819	24.31%	4,818
<b>Water Service Corp Allocated Regional Expenses:</b>				
Salaries - Water	1,368	17,599	1186.10%	16,231
Salaries - Wastewater	1,063	13,733	1192.39%	12,670
<b>Water Service Corp Allocated State Expenses:</b>				
Salaries - Water	3,579	(2,433)	-167.96%	(6,012)
Salaries - Wastewater	2,780	(1,898)	-168.30%	(4,678)
<b>Total Salaries and Wages - MFRs</b>	<b>361,774</b>	<b>443,968</b>	<b>22.72%</b>	<b>104,486</b>

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Sanlando Utilities Corporation		Table 8-A	
Chemicals			
Schedule F-1			
Month	2008 Pumped	2010 Pumped	
January	204,247	190,389	
February	196,153	159,024	
March	228,943	183,242	
April	280,931	225,475	
May	345,545	268,520	
June	287,078	232,119	
July	237,859	252,847	
August	218,667	252,356	
September	210,414	254,432	
October	229,761	297,273	
November	241,517	227,749	
December	226,068	177,047	
	<u>2,907,183</u>	<u>2,720,473</u>	

Sanlando Utilities Corporation		Table 15-A		
Contractual Services - Other				
	090402-WS	110257-WS	Percent	Dollar
	<u>12/31/08</u>	<u>12/31/10</u>	<u>Increase</u>	<u>Increase</u>
Water	48,998	118,554	141.96%	69,556
Wastewater	37,589	92,503	146.09%	54,914
<b>Total Contractual Services - Other</b>	<u>86,587</u>	<u>211,057</u>	<u>143.75%</u>	<u>124,470</u>
	090402-WS	110257-WS	Percent	Dollar
<u>ALLOCATIONS</u>	<u>12/31/08</u>	<u>12/31/10</u>	<u>Increase</u>	<u>Increase</u>
<b>Water Service Corp Allocated Expenses:</b>				
CS Other - Water	72,875	109,251	49.92%	36,376
CS Other - Wastewater	56,588	85,250	50.65%	28,662
<b>Water Service Corp Allocated Regional Expenses:</b>				
CS Other - Water	933		-100.00%	(933)
CS Other - Wastewater	724		-100.00%	(724)
<b>Water Service Corp Allocated State Expenses:</b>				
CS Other - Water	2,623	522	-80.10%	(2,101)
CS Other - Wastewater	2,036	407	-80.01%	(1,629)
<b>Total Contractual Services - Other - MFRs</b>	<u>135,779</u>	<u>195,430</u>	<u>43.93%</u>	<u>59,651</u>

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Sanlando					Table 17-A	
Prior Rate Case Expense						
	MFR Estimate	Utility Revised &	Commission Adjustment	Commission Allowed	Actual at October Filing	Act/Est at Oct Filing
Legal & Filing Fees	68,625	61,943	(9,204)	52,739	57,011	60,284
Consultant - Milian & Swain	46,700	68,263	(21,326)	46,937	59,588	59,588
Consultant - M&R	5,000	7,468	(2,175)	5,293	7,618	7,618
Consultant CPH	-	2,271	(1,000)	1,271	1,271	2,271
WSC In-House	77,521	88,303	(16,107)	72,196	57,141	57,605
Filing Fee	4,000	-	-	-	-	-
Travel - WSC	3,200	3,200	(3,200)	-	-	3,200
Temp employ Fees - WSC	-	1,473	(800)	673	673	1,473
Miscellaneous	12,000	15,561	(15,561)	-	-	-
PSC Auditor Travel	-	623	(623)	-	623	623
Alliant Insurance Services	-	7,602	(7,602)	-	3,801	7,602
PWC	-	2,500	(1,000)	1,500	1,500	2,500
Notices	19,663	20,063	(7,585)	12,478	6,654	38,676
<b>Total</b>	<b>236,709</b>	<b>279,270</b>	<b>(86,183)</b>	<b>193,087</b>	<b>195,880</b>	<b>241,440</b>
Final Expense				241,440		
Actual/Estimated				279,270		
Final Expense as percent of Estimated				86.5%		
Final adjusted Expense		241,440	(86,183)	155,257		
Commission Allowed				193,087		
Final Expense as percent of Allowed				80.4%		