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Division of Commission Clerk and  
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Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399

Re: Ni Florida, LLC's Response to PSC Audit  
Docket No. 130010

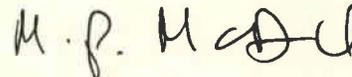
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13 JUL 12 AM 10:54  
COMMISSION  
CLERK

Dear Ms. Cole:

Enclosed for filing in the above referenced docket is Ni Florida, LLC's response to Staff's audit report, audit control numbers 13-071-4-1 and 13-071-4-2 dated June 7, 2013.

Should your staff have any questions regarding this filing, please do not hesitate to give me a call.

Very truly yours,



Martin P. McDonnell

MPM/vp  
Enclosures

cc: Stan Rieger  
Melissa L'Amoreaux  
Suzanne Brownless  
Joseph D. Richards

## **RESPONSE TO NI FLORIDA, LLC'S RATE CASE AUDIT REPORT**

Ni Florida, LLC ("Ni Florida") has reviewed the audit report related to the Ni Florida, LLC rate filing in PSC Docket No. 130010-WS. Ni Florida appreciates the efforts and analysis performed by the PSC audit staff. In this response, Ni Florida addresses Findings 1 and 5 to audit control number 13-071-4-1. In response to audit control number 13-071-4-2, Ni Florida responds herein to Findings 1, 4 and 5.

### AUDIT CONTROL NO. 13-071-4-1

#### **Audit Finding No. 1**

Audit Finding No. 1 proposes to reconcile Ni Florida's general ledger accounts to the prior rate base established in PSC Order Nos. PSC-11-0199-PAA-WU and PSC -10-0168-PAA-SU. It appears as though the Commission's auditors utilized the general ledger for the detailed account balances therein. During the course of the audit, representatives of Ni Florida advised the PSC audit staff that the detailed NARUC account by account balances of plant in service and accumulated depreciation for both water and wastewater were accurately stated in a subsidiary ledger utilized by Ni Florida. Ni Florida explained that its general ledger does have some breakout of the amounts in certain accounts but the account balances for each individual account are accurately stated in the above mentioned subsidiary ledger. Having stated that, although each individual account balance and the general ledger does not necessarily reconcile to the ledger approved in prior dockets, the total amount is accurate and the subsidiary ledger amounts agree with the PSC audit staff when the staff adjustments are included.

#### **Audit Finding No. 5**

Audit Finding No. 5 found that Ni Florida had overstated its purchased wastewater treatment expense. In support of its conclusion, audit staff utilized the purchased wastewater treatment expense for Ni Florida's test year. During the performance of PSC staff's audit, Ni Florida provided staff with the most recent detail of purchased wastewater treatment expense (in response to Staff's audit request number 7). In its MFRs, Ni Florida filed the current wastewater treatment expense pro formed for the current cost imposed on Ni Florida by Pasco County to treat the purchased wastewater. Ni Florida expects that rate to be increased in October of every year and respectfully asserts that the current rate should be used in determining rates to the customers as that rate, along with the most-recent gallons of wastewater treated (154,345,000 gallons), most likely will be the best indicator of the purchased wastewater treatment costs going forward. When one takes the current rate per gallon and multiplies it by the most recent gallons used, the expense is \$736,225.65. When compared to the test year expense of \$716,547.77, an increase of \$19,677.88 results. Ni Florida asserts that on a going forward basis, the Commission should utilize the current \$4.77 per 1,000 gallons of wastewater treated and the most recent gallons of wastewater treated in setting Ni Florida's customers rates.

AUDIT CONTROL NO. 13-071-4-2 (AUDIT OF NI AMERICA, LLC)

**Audit Finding No. 1**

Audit Finding No. 1 reportedly reduces Ni Florida's cost of capital from 8.01% to 7.85%. Ni Florida respectfully asserts that the cost of capital is accurately stated in its books to reflect a return on rate base of 8.00%. By way of background, Ni Florida's debt interest rate should include amortization of its debt expense as well as the impact of the costs of an interest rate swap that Ni Florida utilizes to protect the customers if interest rates go higher. The prudently incurred debt that Ni Florida currently maintains includes that mandatory interest rate swap in its agreement with its lender. As the full amortization of debt expense as well as the impact of the interest rate swap was incurred for the benefit of its customers, all of those costs should be included in Ni Florida's cost of debt and its cost of capital. When one utilizes the full amortization of debt expense and the cost of the interest rate swap, Ni Florida's books accurately reflect a cost of capital of 8.00%.

**Audit Finding No. 4**

In Audit Finding No.4, the PSC audit staff removed all due diligence costs and salaries related to due diligence. The due diligence costs are prudently paid by Ni Florida and result in lower costs to Ni Florida's customers and should therefore be included in determining the proper rates to be set to Ni Florida's customers. By way of background, the due diligence costs paid by Ni America as reflected in its schedules, resulted in obtaining approximately 11,000 ERCs in an acquisition with the city of Columbia, South Carolina. Ni Florida included these ERCs in the allocation of corporate overhead and therefore Ni Florida had a lower expense for allocated overhead than it would have had otherwise. Since those expenses were prudently incurred, and result in a lower expense for Ni Florida customers in both Pasco and Lee County, those due diligence costs should be included in the accurate setting of Ni Florida's customer's rates.

**Audit Finding No. 5**

In Audit Finding No. 5, the PSC audit staff purports to remove the equity sponsor fee paid by Ni America to Metalmark Capital, LLC. Ni Florida asserts that the equity sponsor fee should not be removed and the resulting water and wastewater expenses should not be reduced by the Commission. As a general rule, Ni America pays a fee/salary to each member of its Board of Directors. There are two exceptions to that general rule. Two partners of Metalmark Capital, LLC serve on Ni America's Board of Directors. Neither of those partners receives any direct fee or salary from Ni America for their service on the Board. Each of the two members attends the Board meetings, and discusses and votes on all pertinent board matters relating to Ni America. Because Board of Director fees are generally included in valid corporate expenses, Ni Florida asserts that the equity sponsor fee paid to Metalmark is the equivalent of a Board of Director's fee in that it is Ni America's method of payment to the two Metalmark partners that serve on the Ni America Board of Directors.