



August 2, 2013

VIA E-FILING

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

Re: Docket No. 120209-WS - Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.
Our File No.: 30057.207

Dear Ms. Cole:

The following are the responses of Utilities, Inc. of Florida ("Company") to the Auditor's Report, Audit Control No 12-254-4-1.

Audit Finding No. 1- Transportation Equipment

The Company accepts audit finding no. 1.

Audit Finding No. 2- Project Phoenix

The Company disagrees with finding no. 2. The Company believes this matter will be resolved upon the closing of the Florida Global Docket No. 120161-WS.

Audit Finding No. 3- Project Phoenix Depreciation

The Company disagrees with finding no. 2. The Company believes this matter will be resolved upon the closing of the Florida Global Docket No. 120161-WS.

Audit Finding No. 4- Accumulated Depreciation Adjustment Misclassified

The Company accepts audit finding no. 4.

Audit Finding No. 5- Cost of Capital

The Company disagrees with audit finding no. 5. The Company agrees with the revised equity amount but not the revised equity rate of 10.21%. The Commission issued an Order with a new leverage formula; however in that Order the Commission noted that the 2011 leverage formula shall continue to be used. Therefore, the Company believes that the Staff computation of the 10.94% equity rate should be used as initially noted in Staff's Finding. Please see wp AF 5/1.

Effect on the General Ledger: There is no effect on the ledger.

Effect on the Filing: Cost of capital for Orange County is increased to 7.53%, Pasco County is increased to 7.87%, Pinellas County is increased to 8.07%, and Seminole County is increased to 8.02%.

Audit Finding No. 6- Error in Orange County Allocations

The Company accepts audit finding no. 6.

Audit Finding No. 7- Adjustments to Expenses Allocated From Altamonte Springs Headquarters

The Company will address each item separately.

- a. The Company agrees with rationale behind the adjustment; however the Company has calculated a different adjustment amount. The Lift Station expenses should have been charged directly to the division the lift station belongs to. The Lift Station belongs to business unit 252111 Weathersfield in Seminole County. Please see wp AF 7/1 for the adjustment of Seminole County's wastewater expenses.
- b. The Company accepts item 2.
- c. The Company accepts item 3.
- d. The Company accepts item 4.
- e. The Company accepts item 5.

Effect on the General Ledger: Since the test year is already closed in the ledger, there is no effect on the general ledger.

Effect on the Filing: Water expenses should be reduced by \$69 for Orange County, \$666 for Pasco County, \$99 for Pinellas County, and \$599 for Seminole County. Wastewater expenses should be reduced by \$263 for Pasco County and increased by \$1,563 for Seminole County.

Audit Finding No. 8- Adjustments to Expenses Allocated from Northbrook, Illinois Headquarters

The Company will address each item separately.

- a. The Company accepts item 1.
- b. The Company accepts item 2.
- c. The Company accepts item 3.
- d. The Company disagrees with item 4. The Windstream Communications invoices were originally thought to be related entirely to North Carolina, however Windstream is used for all companies. Windstream, also known as Paetec, is a telecom services provider. The Company uses them primarily for out MPLS Network, toll free numbers and local phone service in the

Northbrook, Altamonte Springs and Charlotte Offices. They also provide a line in our Pahrump office.

- e. The Company accepts item 5.
- f. The Company accepts item 6.
- g. The Company accepts item 7.
- h. The Company accepts item 8.
- i. The Company accepts item 9.
- j. The Company accepts item 10.
- k. The Company accepts item 11.
- l. The Company disagrees with item 12. Although the Company's parent, Utilities, Inc. ("UI") was sold by Hydro Star; UI will still continue to have tax returns. Because UI will continue to have to file taxes, it is reasonable to assume that UI will incur tax review expenses each year.
- m. The Company accepts item 13.

In addition, the Company disagrees with the removal of the "lobbying" expenses, and to the costs related to the code violations. The travel expense was for John Williams to attend the NAWC Congressional Fly-In event to establish relationships with members of Congress and their staff. This should not be disallowed because it is part of John Williams' job to establish relationships and review legislation related to the Company, Mr. Williams is a Utilities, Inc. employee not an outside Lobbyist hired by the Company. For the code violations, the \$14,437.50 is the total cost of the legal services related to the Cook County Code Violations; however those invoices also include the cost of legal services for the Petition to annex the Northbrook location to Glenview, IL. Those cost related to the annexation are unrelated to the Code Violations, therefore the Company believes that only half of the violation invoice costs should be removed. In addition, although the building annexation issue itself most likely will not be reoccurring, the Company will still continue to accrue legal expenses in relation to the Northbrook office. Please see wp AF 8-1.

Effect on the General Ledger: Since the test year is already closed in the ledger, there is no effect on the general ledger.

Effect on the Filing: Water expenses should be reduced by \$107.43 for Orange County, \$1,074.31 for Pasco, \$166.03 for Pinellas County, and \$966.88 for Seminole County. Wastewater expenses should be reduced by \$429.72 for Pasco County and \$517.62 for Seminole County.

Audit Finding No. 9- Payroll, Benefits, and Taxes

The Company disagrees with audit finding no. 9. The Company's amopunts are different because the Company has reduced the employees total salary, taxes, and benefits by

capitalized time prior to allocation. For example, if the salary for person ABC is \$50,000 and they had \$10,000 of capitalized time, their allocable base is now only \$40,000. Assuming that their capitalized time was \$7,500 for UIF – Seminole County and \$2,500 for Sanlando. The first set of journal entries (assuming salary and captime are only recorded once a year for simplicity) would be the following:

Company	Description	Debit	Credit
WSC	Salary Expense	\$40,000	
UIF – Seminole	Salary Expense	\$7,500	
Sanlando	Salary Expense	\$2,500	
	Salaries Payable (or Cash)		\$50,000

Company	Description	Debit	Credit
UIF – Seminole	Rate Case Expense	\$7,500	
UIF – Seminole	Capitalized Time (contra-exp)		\$7,500

Company	Description	Debit	Credit
Sanlando	Wells & Springs	\$2,500	
Sanlando	Capitalized Time (contra-exp)		\$2,500

As you can see, in the first entry, UIF – Seminole and Sanlando are receiving salary expense of \$7,500 and \$2,500, respectively. However, in the second and third entries, those amounts are being credited via the capitalized time accounts (which is a contra expense that reduces salary expense) and the debit for the same amounts are going into the assets (in this case, it's the rate case expense deferred asset for UIF and Wells for Sanlando). Therefore, there is no effect on the income statement (i.e., no double recovery), and all the dollars would be recovered through either rate case expense or through rate base.

Under this hypothetical we are now only left with the \$40,000 net salary expense which must also be allocated. Again, because we are allocating only \$40,000 and the other \$10,000 has been recorded as capitalized time and into an asset, the Company is not double recovering. The remaining \$40,000 of salary expense has been allocated to UIF and Sanlando based on ERCs.

Company	Description	Debit	Credit
UIF – Seminole	Salary Expense	\$15,000	
Sanlando	Salary Expense	\$25,000	
WSC	Salary Expense		\$40,000

See the attached CD, the excel file, "Salaries for UIF Audit – Findings 9 and 10.xlsx". (This file has salary redactions and is the subject of a separate Request for Confidential Classification) This file clearly shows that capitalized time has been removed before any

allocation of salary, therefore avoiding double recovery. Any capitalized time for a UIF county has been added back to that county's salary expense, but has also been calculated in order to adjust that county's capitalized time. This file utilizes employees as of May 2013. Overtime has been annualized based on the first four months. Capitalized time is based on hours recorded in 2012. 401K contributions are based on actual percentages contributed to each employee.

A summary file, entitled, "Salary Adjustment Summary" is attached. Based on the correct salary adjustment for UIF, water salary expenses should be reduced by \$5,949.20 for Orange County, \$46,058.45 for Pasco County, \$5,056.85 for Pinellas County, and \$29,341.74 for Seminole County. Sewer salary expenses should be reduced by \$18,164.57 for Pasco County and \$15,567.82 for Seminole County. Water payroll tax expenses should be reduced by \$530.90 for Orange County, \$17,951.67 for Pasco County, \$56.00 for Pinellas County, and \$18,761.13 for Seminole County. Sewer payroll tax expenses should be reduced by \$7,079.80 for Pasco County and \$9,954.07 for Seminole County. Water benefits expenses should be reduced by \$1,339.44 for Orange County, \$10,120.78 for Pasco County, \$1,487.35 for Pinellas County, and \$12,594.90 for Seminole County. Sewer benefits expenses should be reduced by \$3,991.44 for Pasco County and \$6,682.46 for Seminole County.

Audit Finding No. 10- Salaries in Rate Case Expense

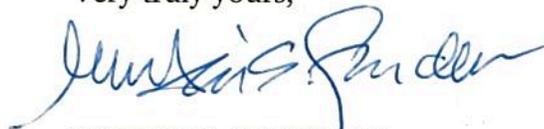
The Company disagrees with audit finding no. 10 on the basis that its proposed adjustment to the filing in audit finding no. 9 accounts for capitalized time as a reduction to salaries prior to any allocation. Therefore salaries are not being double recovered, and capitalized time through rate case expense should be allowed. There is no difference between rate case expense capitalized time and capitalized time for a capital project or general ledger line item (as shown above). Please reference audit finding no. 10 for supporting documents and explanations.

Audit Finding No. 11 Marion County

The Company is willing to make adjustments in Marion County as are deemed appropriate.

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

Very truly yours,



MARTIN S. FRIEDMAN
For the Firm

MSF/der
Enclosures

Ms. Ann Cole
Office of Commission Clerk
August 2, 2013
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cc: w/o CD attachment:
Kirsten Markwell (via e-mail)
Darrien Pitts (via email)
Patrick Flynn (via e-mail)
Todd Brown (via e-mail)
Steve Reilly (via email)

Orange County Cost of Capital

Class of Capital	Reconciled to Rate Base 13- Month Average TYE 12/31/11	Ratio	Revised Cost Rate	Weighted Cost
Long Term Debt	\$ 107,145	43.05%	6.65%	2.86%
Short Term Debt				
Preferred Stock				
Common Equity	\$ 104,895	42.15%	10.94%	4.61%
Subtotal	\$ 212,040			
Customer Deposits	\$ 2,281	0.92%	6.00%	0.06%
Tax Credits-Zero Cost	\$ 2,955	1.19%		0.00%
Tax Credits- Weighted Cost				
Accumulated Deferred Income Tax	\$ 31,581	12.69%		0.00%
Other (Explain)				
Total	\$ 248,857	100.00%		7.53%
Total Per Filing				7.29%
Difference				0.24%

Pasco County Cost of Capital

Class of Capital	Reconciled to Rate Base 13- Month Average TYE 12/31/11	Ratio	Revised Cost Rate	Weighted Cost
Long Term Debt	\$ 2,084,609	45.11%	6.65%	3.00%
Short Term Debt				
Preferred Stock				
Common Equity	\$ 2,040,820	44.16%	10.94%	4.83%
Subtotal	\$ 4,125,429			
Customer Deposits	\$ 30,739	0.67%	6.00%	0.04%
Tax Credits-Zero Cost	\$ 39,802	8.60%		0.00%
Tax Credits- Weighted Cost				
Accumulated Deferred Income Tax	\$ 425,306	9.20%		0.00%
Other (Explain)				
Total	\$ 4,621,276	100.00%		7.87%
Total Per Filing				7.63%
Difference				0.24%

Pinellas County Cost of Capital

Class of Capital	Reconciled to Rate Base 13- Month Average TYE 12/31/11	Ratio	Revised Cost Rate	Weighted Cost
Long Term Debt	\$ 293,100	46.30%	6.65%	3.08%
Short Term Debt				
Preferred Stock				
Common Equity	\$ 286,944	45.32%	10.94%	4.96%
Subtotal	\$ 58,044			
Customer Deposits	\$ 3,288	0.52%	6.00%	0.03%
Tax Credits-Zero Cost	\$ 4,258	0.67%		0.00%
Tax Credits- Weighted Cost				
Accumulated Deferred Income Tax	\$ 45,503	7.19%		0.00%
Other (Explain)				
Total	\$ 633,093	100.00%		8.07%
Total Per Filing				7.81%
Difference				0.26%

Seminole County Cost of Capital

Class of Capital	Reconciled to Rate Base 13- Month Average TYE 12/31/11	Ratio	Revised Cost Rate	Weighted Cost
Long Term Debt	\$ 2,501,618	45.98%	6.65%	3.06%
Short Term Debt				
Preferred Stock				
Common Equity	\$ 2,449,070	45.02%	10.94%	4.93%
Subtotal	\$ 4,950,688			
Customer Deposits	\$ 30,341	0.56%	6.00%	0.03%
Tax Credits-Zero Cost	\$ 39,287	0.72%		0.00%
Tax Credits- Weighted Cost				
Accumulated Deferred Income Tax	\$ 419,804	7.72%		0.00%
Other (Explain)				
Total	\$ 5,440,120	100.00%		8.02%
Total Per Filing				7.29%
Difference				0.73%

Allocation of Adjustment to Divisions

	Total Company Adjustment	Marion Water	Marion Wastewater	Orange Water	Pasco Water	Pasco Wastewater	Pinellas	Seminole Water	Seminole Wastewater
Florida Allocation		0.98%	0.98%	0.49%	6.55%	6.55%	0.70%	6.47%	6.47%
Water/Wastewater		87.38%	12.62%		71.72%	28.28%		65.34%	34.66%
Percent Allocated 2011		0.86%	0.12%	0.49%	4.70%	1.85%	70.00%	4.23%	2.24%
Adjustments to division 855	\$ (14,176.47)	\$ (121.92)	\$ (17.01)	\$ (69.46)	\$ (666.29)	\$ (262.26)	\$ (9,923.53)	\$ (599.66)	\$ (317.55)
Adjustment for Weathersfield Lift Station									\$ 1,880.97
Total	\$ (14,176.47)	\$ (121.92)	\$ (17.01)	\$ (69.46)	\$ (666.29)	\$ (262.26)	\$ (9,923.53)	\$ (599.66)	\$ 1,563.42

Allocation of Adjustment to Divisions

	Total Company Adjustment	Marion Water	Marion Wastewater	Orange Water	Pasco Water	Pasco Wastewater	Pinellas	Seminole Water	Seminole Wastewater
Illinois Allocation		0.23%	0.23%	0.11%	1.54%	1.54%	0.17%	1.52%	1.52%
Water/Wastewater		87.83%	12.62%		71.72%	28.28%		65.34%	34.66%
Percent Allocated 2011		0.20%	0.03%	0.11%	1.10%	0.44%	0.17%	0.99%	0.53%
Direct Expense	\$ (34,250.81)	\$ (68.50)	\$ (10.28)	\$ (37.68)	\$ (376.76)	\$ (150.70)	\$ (58.23)	\$ (339.08)	\$ (181.53)
Possible Non-reoccurring Expenses	\$ (41,494.67)	\$ (82.99)	\$ (12.45)	\$ (45.64)	\$ (456.44)	\$ (182.58)	\$ (70.54)	\$ (410.80)	\$ (219.92)
Cost Related to Violations	\$ (21,918.75)	\$ (43.84)	\$ (6.58)	\$ (24.11)	\$ (241.11)	\$ (96.44)	\$ (37.26)	\$ (217.00)	\$ (116.17)
Total	\$ (97,664.23)	\$ (195.33)	\$ (29.30)	\$ (107.43)	\$ (1,074.31)	\$ (429.72)	\$ (166.03)	\$ (966.88)	\$ (517.62)

**UTILITIES, INC. OF FLORIDA
SALARY ADJUSTMENT SUMMARY**

COUNTY		TOTAL SALARIES	TOTAL PAYROLL TAXES	TOTAL BENEFITS	TOTAL CAPTIME	
Orange						
	Per Adjustment	17,824.90	1,665.06	3,739.52	(2,546.27)	
	Per MFR	23,135.17	2,195.96	5,078.96	(1,907.34)	
	Difference	<u>(5,310.27)</u>	<u>(530.90)</u>	<u>(1,339.44)</u>	<u>(638.93)</u>	<u>(7,819.54)</u>
Pasco						
	Per Adjustment	298,912.29	28,594.35	59,629.09	(29,489.70)	
	Per MFR	356,109.40	53,625.82	73,741.32	(22,463.79)	
	Difference	<u>(57,197.11)</u>	<u>(25,031.47)</u>	<u>(14,112.23)</u>	<u>(7,025.91)</u>	<u>(103,366.71)</u>
	Water	(41,019.72)	(17,951.67)	(10,120.78)	(5,038.73)	(74,130.90)
	Sewer	(16,177.39)	(7,079.80)	(3,991.44)	(1,987.18)	(29,235.81)
Pinellas						
	Per Adjustment	31,973.19	3,058.75	6,378.74	(3,146.12)	
	Per MFR	37,748.33	3,114.75	7,866.09	(3,864.40)	
	Difference	<u>(5,775.14)</u>	<u>(56.00)</u>	<u>(1,487.35)</u>	<u>718.28</u>	<u>(6,600.20)</u>
Seminole						
	Per Adjustment	259,153.39	24,327.93	53,711.90	(66,406.16)	
	Per MFR	270,355.35	53,043.13	72,989.26	(32,698.56)	
	Difference	<u>(11,201.96)</u>	<u>(28,715.20)</u>	<u>(19,277.36)</u>	<u>(33,707.60)</u>	<u>(92,902.12)</u>
	Water	(7,318.82)	(18,761.13)	(12,594.90)	(22,022.92)	(60,697.77)
	Sewer	(3,883.14)	(9,954.07)	(6,682.46)	(11,684.68)	(32,204.35)