



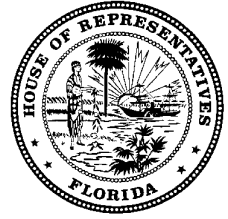
**DON GAETZ**  
*President of the Senate*

**J.R. Kelly**  
*Public Counsel*

**STATE OF FLORIDA**  
**OFFICE OF PUBLIC COUNSEL**

*c/o* THE FLORIDA LEGISLATURE  
111 WEST MADISON ST.  
ROOM 812  
TALLAHASSEE, FLORIDA 32399-1400  
1-800-342-0222

EMAIL: [OPC\\_WEBSITE@LEG.STATE.FL.US](mailto:OPC_WEBSITE@LEG.STATE.FL.US)  
[WWW.FLORIDAOPC.GOV](http://WWW.FLORIDAOPC.GOV)



**WILL WEATHERFORD**  
*Speaker of the House of  
Representatives*

January 30, 2014

Mr. Andrew Maurey  
Division of Accounting and Finance  
Florida Public Service Commission  
2340 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Re: Docket 130212-WS- Application for increase in water/wastewater rates in Polk County by  
Cypress Lakes Utilities, Inc. - OPC's 2<sup>nd</sup> Letter

Dear Mr. Maurey,

The Office of Public Counsel is actively monitoring the rate case docket for Cypress Lakes Utilities, Inc. ("CLUI" or "Company"). This is OPC's second letter outlining issues that we believe are important for staff to consider before it issues its recommendation. We would like to bring these to staff's attention to allow the staff sufficient time to review our concerns and ask for any additional information that might be needed. If you should have any questions, please feel free to call or e-mail me.

Sincerely,

s/ Patricia W. Merchant

Patricia W. Merchant  
Chief Legislative Analyst  
Phone: (850) 717-0332  
Email: [merchant.tricia@leg.state.fl.us](mailto:merchant.tricia@leg.state.fl.us)

C: Division of Accounting & Finance (Maurey, Norris, Kelly, Fletcher)  
Division of Economics (K. Thompson, Hudson)  
Division of Engineering (Lee)  
Division of Auditing and Performance Analysis (Deamer)  
Office of the General Counsel (Gilcher)  
Sundstrom, Friedman & Fumero, LLP (Friedman)  
Cypress Lakes Utilities, Inc. (Flynn)

**OPC 2<sup>nd</sup> Letter of Issues and Concerns – Cypress Lakes Utilities, Inc. Docket No. 130212-WS**

1. “Reconciliation” of General Ledger Accounts to the NARUC Accounts. Exhibit “A” attached to the CLUI rate case application contains the Company’s reconciliation of its general ledger to the annual report and the general ledger to the MFRs. For the majority of accounts, the reconciliation is clear. However, what the company labels as a “reconciliation” for Materials and Supplies, Miscellaneous Expenses and Contractual Services Other, reflected on pages 7 and 8 of 15 of the application, is only a comparison of the general ledger balances to the NARUC balances in total. Anyone reviewing this schedule cannot tell which of the 65 general ledger accounts actually were included in the 6 individual NARUC accounts. This is further complicated by the fact that other documents provided by the Company in the MFRs and to the staff auditors are in conflict with the stated account distribution. Specifically, amounts identified by the Company as being included in NARUC accounts 636/736 Contractual Services-Other, for Computer Maintenance and Internet Supplier accounts, were apparently included in Miscellaneous Expenses. The Cypress Lakes’ allocated amounts total \$14,113, which is more than the combined \$4,986 total for NARUC accounts 636 and 736 included in the MFRs. The Company should be required to provide, in this case as well as all future rate cases, a proper reconciliation and breakdown of each amount included in Miscellaneous Expenses, Materials and Supplies and Contractual Services Other.
  
2. On MFR Schedule B-7 Water Account 636 Contractual Services – Other, the Company included \$2,598 for water and \$2,388 for wastewater. The explanations for the increase in the account from the last rate case states that computer system maintenance and support, internet service, payroll services, temporary employment of clerical service and other outside service costs were allocated to each company out of the Florida Cost Center and the Water Service Corporation Cost Center. The Company also stated that included in the 2012 amount were charges to calibrate flow meters at wells and the wastewater treatment plant, as well as maintenance and repair of plant instrumentation. It appears that the descriptions of the types of expenses included in the MFRs for these accounts do not agree with the amounts that are identified in the affiliate audit as included in Contractual Services Other and that some of these explanations belong to items included in Miscellaneous Expenses. OPC has several questions regarding the amounts included in these accounts.
  - a. First, the Company should list the items by type of service and amount included in the total costs prior to allocations being made to this account with a calculation showing how the costs were allocated to Cypress Lakes.
  
  - b. The Company should provide an explanation of the requested employee finders’ fees and payroll services, the fees paid per position, why these amounts are reasonable to be charged to Cypress Lakes as annually recurring expenses, and the levels of these costs on a total Company basis incurred for 2009, 2010, and 2011 and 2013.

- c. The Company should clarify and provide supporting documentation to show if the temporary employment services paid for by contractual services have been replaced by salaried personnel that have been included in the annualized employee salary amounts as of April 2013 after the test year.
  - d. The Company should explain why the water and wastewater meters needed to be recalibrated and the plant instrumentation repaired during the test year. To support this, the Company should provide a copy of any work orders and invoices related to each of the job orders mentioned to recalibration or repair of flow meters or plant instrumentation.
  - e. According to the Company's response to Staff 1st Data Request Nos. 16 and 25, the Utility used the services of a contract operator for a portion of the year following a vacancy in the work force reflecting the termination of an operator. The contract operator performed activities at both the water and wastewater facilities. The Company should explain and provide supporting documentation to show if the temporary employment services paid for by contractual services have been replaced by salaried personnel that have been included in the annualized employee salary amounts as of April 2013 after the test year. If the position(s) have been filled and annualized in the filing, please provide the total dollars of costs associated with the temporary employment that was included in the test year and any calculations showing how the amounts were derived.
  - f. From customer comments received at the customer meeting, OPC understands that Cypress Lakes discontinued its contract meter readers and began using in house meter readers in the 2011 and 2012 time frame. The Company should clarify and provide supporting documentation to show if any component of contract services was included in the 2012 test year related to meter reading.
3. **Materials and Supplies.** The Company should detail the amount of deferred maintenance amortization that has been included in the test year, including a description of the maintenance performed, the NARUC account in which the amounts were recorded, and provide invoices supporting the inclusion of any amounts included in the test year.
4. **Contractual Services Engineering.** The explanation on MFR Schedule B-6 for Water Account 631 Contractual Services - Engr., states that \$1,690 account total related to engineering services in support of the permitting of a change in the disinfection system at the WTP. The MFRs further state that the need for engineering support varies from year to year reflecting changes in regulations that occur or for technical support. In response to Staff's 1<sup>st</sup> Data Request, Questions 14 & 23, the Company provided an invoice for Contractual Services Engineering that labeled the work for Utilities Inc. mapping revisions but does not show that this invoice relates to Cypress Lakes. Also, no mention of how often map revisions are necessary and it does not relate to any permitting change for the disinfection system at the water treatment plant. These costs appear to be

non-annual costs that do not recur frequently. The Company should provide supporting documentation to show that these costs recur annually.

5. **Miscellaneous Expenses.** On MFR Schedules B-7 and B-8, the Company stated that Miscellaneous Expenses included office telecom system, vendors that test-equipment/chemical and contracted operations worker costs. The remaining expenses included travel, office and supply expenses, and various other office expenses. Miscellaneous expenses were allocated to each company out of the Florida Cost Center, Southeast Region Cost Center, RVO FL/South Cost Center and the Water Service Corporation Cost Center. OPC is concerned that the majority of these increase in expenses relates to affiliate allocations of costs that have ballooned since the Company's last rate case test year in 2006 as shown below:

Miscellaneous Expense	12/31/2005	12/31/2012	\$ Increase	% Increase
Water	\$17,309	\$30,094	\$12,785	74%
Wastewater	\$8,685	\$45,290	\$36,605	421%
Total	\$25,994	\$75,384	\$49,390	290%

It is the Company's burden to show that its requested expenses are reasonable and prudent and to allow such a huge increase in miscellaneous costs should be fully explained prior to allowing recovery in rates.

- a. The Company should provide a breakdown by vendor and amount, with a description of the type of costs incurred for each the following general ledger accounts for each business unit that allocates charges to CLUI. Calculations should also be shown to identify the basis and amount that was allocated to CLUI, and why these levels of expense are reasonable and necessary to charge to a utility system the size of Cypress Lakes. The amounts shown below are the allocated amounts charged to Cypress Lakes.

<u>General Ledger</u>	<u>NARUC</u>	<u>General Ledger Account Title</u>	<u>Balance</u>
<u>Acct</u>	<u>Acct</u>		
5735	636/736	Computer Maintenance	\$12,816
5945	675/775	Office Telecom	10,784
5750	636/736	Internet Supplier	1,297
5895	675/775	Shipping Charges	788
5810	675/775	Memberships	442
6185	675/775	Travel/Lodging	478
6190	675/775	Travel Airfare	474
6195	675/775	Travel Transportation	153

6200	675/775	Travel Meals	313.13
6205	675/775	Travel Entertainment	179.60
6207	675/775	Travel Other	372.73
5875	675/775	Kitchen Supplies	98.44
5795	675/775	Contributions	75.64
6390	675/775	Weather/Hurricane Costs	42.43
5870	675/775	Holiday Events/Picnics	32.94

- b. The Company should provide a detailed explanation of the amounts incurred for each of the computer maintenance, and internet supplier levels incurred from the last rate case expense incurred in 2005 annually through 2013. Understanding that Project Phoenix was implemented in 2008, an explanation showing how and why the amount has increased would be helpful to gauge the reasonableness of the expense, given the low level of customer growth and inflation that has occurred since the last rate case.
- c. The \$10,784 amount for Office Telecom expense is the second largest Miscellaneous Expense after Computer Maintenance. The Company should provide an explanation of what types of charges are included in this account with a detailed description of all types of telecom service the Company uses. Particularly, the Company should identify its Company policy for cell phone usage, including how many employees are provided smart phones and whether the employees are able to use Company provided cell phones for personal use. If any employees are allowed to use the Company provided cell phone for personal usage, provide the number of employees that use the Company provided phone for personal use, how the company monitors how much usage is business compared to personal, and whether any reimbursement is made to the Company for any personal usage. If the company does not adjust its books for personal phone usage, it should provide sufficient documentation and an explanation why it is reasonable for ratepayers to pay for personal cell phone usage through rates.
- d. The Company should provide the business purpose for each of the travel events included in General Ledger Accounts 6185, 6190, 6195, 6200, 6205, and 6207. Almost \$2,000 in annual corporate travel appears excessive for a company the size of Cypress Lakes to incur. In reviewing the staff audit workpapers for the Affiliate Audit for 2012, OPC observed several substantial invoices related to corporate travel expenses for a conference held in Orlando in the spring of 2012, including expensive per person airfare, hotel, meals, and entertainment expenses. Extravagant travel and entertainment costs should not be borne by the ratepayers.
- e. Further, while the allocated amounts appear small, OPC is concerned about the inclusion of costs associated with kitchen supplies, contributions, and holiday events and picnics being charged to rate payers. The Company should be required to provide an explanation and supporting documentation to show why these amounts should be allowed. Also, the

Company should explain what type of hurricane costs were incurred on the parent company level and charged to Cypress Lakes and whether these are reasonable expenses to be borne by the ratepayers.

- f. In its response to Question 18 from Staff's 1st Data Request, the Company responded that Miscellaneous Expenses increased substantially in August 2012, September 2012 and October 2012 when compared to other months. In August, the Utility stated that diesel fuel was delivered to the emergency generator. The Company should provide the quantity of fuel purchased, how many gallons were burned in 2012 and 2013, and explain how often the fuel is burned and refueled. Also, the Company should explain why this expense was included in Miscellaneous Expenses instead of Fuel for Power Purchased.
  - g. In its response to Question 18 from Staff's 1st Data Request, the Company responded that Miscellaneous Expenses increased substantially in September, because it purchased two used golf carts for meter readers to use. The Company should explain why the purchase of two golf carts was expensed as a normal recurring expense during the test year. Also, the Company should explain how the meter readers traveled through the service territory prior to the purchase of the two golf carts, and whether other transportation that was used and recorded on the books that is no longer in use or is used for other purposes. If so, provide in what accounts any amounts are reflected on the books that should be retired or adjusted, if any.
6. Other Water Usage. By Order No. PSC-04-1275-AS-WS, issued in Docket No. 040316-WS on December 23, 2004<sup>1</sup>, page 4, Utilities Inc. agreed to implement a standard operating protocol to track other water usage. According to the settlement agreed to in that docket, UI stated that it believed that this protocol would satisfy the Commission's concerns. The specific language for tracking other water usage is as follows:

*For each water system in Florida, the operator or field supervisor for each system will submit a report form each month entitled water loss record to the Florida regional office. This document shall identify the estimated volume of unmetered water used in the system on a given day and the reason why it was lost. For example, water lost due to a water main break would be calculated from the duration of the event, the size of the pipe, and the estimated flow rate.*

*Other types of unmetered water use include, but are not limited to: water main flushing activities; hydrant flow testing; filling and chlorinating new water main extensions, storage tanks or treatment units; filling new force main and reuse main extensions; and water used internally in the treatment or disinfection process.*

---

<sup>1</sup> Analysis of Utilities, Inc.'s plan to bring all of its Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code.

*Each month, the total sum of water noted on the water loss record is entered into the utility's spreadsheet that tracks and compares water pumped and water purchased, against water sold for each system. In this way, UI has the means to review the data on a routine basis. The monthly form is attached to and filed with the file copy of each utility's Monthly Operating Report and retained for future use.*

- a. The Company should provide a copy of the monthly water loss records for 2010, 2011 and 2012 which comply with the protocol described in the above paragraphs and agreed to by the Company in the settlement approved by the Commission in Docket No. 040316-WS.
  - b. If the Company's response is that it does not maintain water loss records in accordance with Order No. PSC-04-1275-AS-WS, the Company should explain why this policy is not being followed.
7. Other Water Usage. According to the water usage statistics reported in the Cypress Lakes' Annual Reports, for 2008 to 2010, the average yearly gallons sold compared to water pumped was 98% for an annual difference of 1.3 million gallons. The gallons sold compared to total water pumped was 66% for 2011 (25 million annual gallonage difference) and 62% for 2012 (28 million annual gallonage difference). This issue was discussed by several customers at the customer meeting held on December 19, 2013. Customers were concerned that the utility was exceeding its consumptive use permit by pumping more water than allowed by the Water Management District, causing many flooded areas throughout the community affecting the residents along Peavine Circle. The customers also complained about the large waste of potable water drained into the nearby swamp. One customer mentioned that he had observed a fire hydrant left on for 5 to 6 hours one night draining into the swamp. In a January 16, 2014, letter to Clayton Lewis, Dr. Robert M. Halleen, among other concerns, questions the reasonableness of incurring this expensive flushing. The issue of excess water usage has been addressed by customers in the last limited proceeding and prior two rate cases, but those cases did not have near the difference in water pumped compared to water sold as in 2011 and 2012. In its response to Staff's 3<sup>rd</sup> Data Request, the Company provided documentation regarding the change to chloramine treatment and the apparent need to increase flushing. It also stated that it had installed automatic flushing equipment in several locations in the distribution system. Of the 17 sites, 3 currently remaining on manual flushing, 3 were installed prior to the test year, 4 were installed during the test year and 7 were installed during 2013.

OPC has the following questions regarding Unaccounted for Water and Other Water Usage:

- a. The Company MFRs and Annual Report for the 2012 test year report an identical level of flushing of 2 million gallons (MG) per month for an annual total of 24 MG. OPC notes that none of the water usage data reported in Cypress Lakes' Annual Reports for 2007 to 2011 have identical amounts of other water usage. The Company should provide the operational reports and other documents that show how this water usage amount was calculated. If obviously identical amounts are estimates, the Company should provide all calculations

used to support this amount, explaining why and how identical amounts were identified and/or recorded each month. Further, the Company should state when management became aware of these reported identical amounts of other water usage and provide an explanation of what actions management took when it became aware that these amounts were recorded in the Annual Report and MFRS.

- b. It is also particularly concerning that the Company reported that in July and August 2012, the gallons of water sold and other uses combined exceed the gallons of water pumped. Unless there was a reporting error, it is impossible to use more water per month than pumped. Please explain how this is possible unless one or more of the components are erroneous.
  - c. In response to Staff's 3rd Data Request, the Company was asked to provide documentation to substantiate the other uses in the test year 2012 including the purpose, quantity, and frequency of such uses. While the Company's response included several explanations of why it increased its flushing, it failed to provide any documentation showing how the water used was measured, estimated or monitored during the year. It also included a spreadsheet showing how much water should be used for flushing if the Company measured the flows at the various metered and unmetered flushing sites. OPC notes that when the estimated flushing data provided by the Company in Excel file name SDR 3.1 List of Flushing Points.xlsx, the total annual flushing according to this schedule equals 10.6 MG per year, not even close the 24 MG for other uses included in the MFRs. OPC believes that, unless the Company can submit any additional supporting records that it has failed to adequately document its excessive 24 MG of other water uses for the test year.
  - d. Given the magnitude of other water uses, the Company should detail what level of water was pumped compared to water sold for 2013, as compared to 2011 and 2012 to see if the trend is still continuing for high levels of unmonitored water loss in the system.
  - e. The Company should explain what alternatives it considered prior to implementing this procedure to flush approximately 40% of the water pumped on an annual basis from an operational standpoint and whether this flushing program was implemented with the knowledge and approval of the water management district.
8. Transportation Expenses. In its MFRs, the Company made adjustments to reduce transportation plant and accumulated depreciation and to increase transportation expenses. In OPC's letter dated December 13, 2013, we addressed questions related to inconsistent relationships between the Company's adjustments to transportation plant, accumulated depreciation and the lack of adjustments to depreciation expense. Our letter was not clear regarding OPC's concern regarding the inconsistent relationship of the Company's adjustments to transportation plant compared to transportation expenses. It would be logical that if the transportation plant related costs and expense related costs were allocated or charged to each system in the same manner, transportation



expenses for Cypress Lakes should be decreased consistent with the Company's allocated reductions to plant and accumulated depreciation. Further, as noted in its MFRs, transportation expenses per books increased from \$5,348 in 2006 to \$15,650 in 2012. The Company then increased transportation expenses in the MFRs by \$4,840 to reflect a total requested 2012 annual expense of \$20,490. This adjusted expense increased 383%, or \$15,142 over the level approved in the last rate case.

While the staff auditors found several errors that will reduce the Company's requested level of transportation expense, OPC is concerned that the Company's basis for adjusting its transportation expenses is inconsistent with how transportation expenses are assigned for general ledger purposes. The Company should provide a detailed explanation of its allocated or charged transportation expenses to CLUI on the general ledger, outlining in what business unit the charges are initially recorded, and the basis used to allocate or assign charges to the system level. OPC would also like a description of the method that it used to make its adjustments in its MFRs and a detailed comparison of how the two methods differ. If there are workpapers available to explain how the two methods compare, the Company should provide a copy with formulas intact and no file protections.

9. Rate Case Expense - In-house Labor Capitalized. OPC has reviewed a response from the Company to the staff auditors in the Affiliate Audit regarding the dollar amount of capitalized salaries that the company states was incurred by in-house employees working on the Cypress Lakes rate case. The document submitted consists of an Excel spreadsheet with detail including the employee name, date and allocated costs assigned to rate case expense for Cypress Lakes. The company-prepared spreadsheet generated presumably from the general ledger does not detail what type of work each employee performed, the number of hours performed, and whether the work was specifically performed on the Cypress Lakes' rate case. The spreadsheet contains many instances of multiple charges on the same date for several employees.

UI Requested Capitalized In-House Labor for Cypress Lakes 2013 Rate Case		
Barrett, Jason O.	280.00	10,920.00
DiPasquale, Susan M.	37.50	1,511.64
Feathergill, Adam K	14.00	308.00
Flynn, Patrick C.	31.00	2,604.00
Hanks, Peggy J.	20.50	826.36
Markwell, Kirsten E.	20.50	1,271.00
Norwoods, Regence	183.25	8,428.50
Pitts, Darrien	118.00	3,304.00
Valrie, LaWanda N.	23.00	529.00
Wilson, Michael A.	4.00	161.24
Winans, Nicole D.	13.50	567.00
Wiorek, Sharon	25.00	1,200.00
Total		31,630.74

- a. For each employee who charged time to the Cypress Lakes' rate case, the Company should provide any supporting documentation such as time sheets or detailed ledgers reflecting how all of each employee's time is charged for each time period, including the hours worked on the CLUI rate case and a detailed description of the work performed, the dates the work was performed similar to the level of detail that is required to be submitted to support rate case expense from outside consultants and legal contractual services.
- b. For each employee whose time is being requested for inclusion in rate case expense, the Company should provide the percentage of that employee's annual salary and benefits expensed during the test year compared to the amount of time capitalized and charged to rate case expense for any subsidiary during 2012.
- c. The Company should also clarify whether any of the requested employee capitalized time spent on the Cypress Lakes rate case expense was regular time or overtime pay. Without this information, one cannot tell whether the requested rate case expense for capitalized employee time has already been included in the test year operating expenses.