

ANDY GARDINER
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
WWW.FLORIDAOPC.GOV

STEVE CRISAFULLI
Speaker of the House of Representatives



June 10, 2015

Carlotta S. Stauffer, Director
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 140219-WU – Application for staff-assisted rate case in Polk County by Alturas Utilities, L.L.C.

Dear Ms. Stauffer:

Attached is a list of issues that the Office of Public Counsel (OPC) has prepared to identify our concerns with the information included in the staff report that addresses the preliminary review of the requested rate increase. We are submitting this letter in an effort to be up front with our concerns and to allow the staff and the utility sufficient time to review it and to ask for any additional information that might be needed. If you should have any questions, please feel free to call or e-mail us.

Respectfully submitted,

s/ Denise N. Vandiver *s/ Tarik Noriega*

Denise N. Vandiver
Legislative Analyst

Tarik Noriega
Legislative Analyst

c: Division of Accounting & Finance (Golden, Sunrise Utilities, L.L.C.
Vogel, T. Brown) Leslie Szabo
Division of Economics (Bruce) (yourwaterutility@gmail.com)
Division of Engineering (King, Lewis) P. O. Box 2608
Office of the General Counsel (Corbari) Eaton Park , FL 33840-2608
Office of Auditing and Performance Analysis
(Deamer) Office of Public Counsel (Reilly, Saylor)

OPC Issues and Concerns
Alturas Utilities, L.L.C.
Docket No. 140219-WU

Quality of Service

1. The staff report indicates that there were 6 consumer complaints from January 1, 2010 through December 31, 2014. Our review of the Commission's website indicates that there were 7 (3 service complaints and 4 billing complaints). However, only 1 complaint was filed after 2011. Being that this was the only recent complaint, OPC did not pursue any further investigation along these lines.
2. The Alturas customer meeting was scheduled and noticed for May 19, 2015. To our knowledge, no customers attended or submitted comments, concerns, or complaints. Therefore, OPC cannot comment about the customers' satisfaction in regard to the quality of the water service provided by the utility.

OPC notes that Alturas Utilities and Sunrise Utilities share the same utility Manager. Please see OPC Issues and Concerns letter filed in the Sunrise Utilities case (Docket No. 140220-WU).

Pro Forma Plant

3. The staff report recommends a Phase II increase for 2 pro forma plant items: a \$6,000 Electric Panel Repair Project and a \$2,000 Backflow Prevention Device Project. Page 24 of the staff report indicates that staff's analysis regarding the prudence of these projects is not complete. OPC is very concerned that we have seen almost no explanation in this regard. There has been no documentation indicating the problems that exist and how these 2 projects will solve those problems. The utility should fully justify these proposed increases before Phase II rates are developed.
4. Also, we are concerned with the \$600 depreciation expense listed in the staff report for these projects. This expense averages to a 12-year life, which seems short based on the depreciation rule. We encourage staff to fully investigate what plant items will be included in these projects and to verify that the correct useful life is applied, as outlined in Commission Rule 25-30.140(2), Florida Administrative Code.

Operating Revenues

5. Our review of the audit work found that the operators appear to occasionally collect cash payments when on-site at a customer's location.¹ The auditors only included some months of these work schedules maintained by the operator, so it is not possible to determine how many cash payments have been received to date. While OPC is concerned about whether or not the cash payments are being properly recorded against accounts receivable, we are more concerned about whether or not the cash collections of miscellaneous service charges are recorded and included in test year revenues.

¹ See audit work paper 43-16/4-1; pages 5, 6, and 15 appear to be customer payments.

OPC Issues and Concerns
Alturas Utilities, L.L.C.
Docket No. 140219-WU

O&M Expenses

Wages and Salaries – Officers

6. The staff report includes \$3,468 for the primary officer based on the amount approved in the last rate case for Sunrise Utilities, L.L.C. (Sunrise), a sister company. The referenced rate case stated² that the

Utility president is responsible for reviewing the monthly meter reading reports, reviewing monthly bank statements, preparing the Annual Report, and compiling financial data for the accountant to prepare federal tax form. He is also responsible for interfacing with the Utility manager on the day-to-day operations.

In a later issue, the staff report mentions that the accounting records are substantially deficient. In fact, the staff report recommends additional expense for a bookkeeper. Also, in Document No. 03102-15, filed in this docket, the Polk County Health Department sent a warning letter dated May 26, 2015 indicating that the utility failed to respond to 2 previous letters requesting updated information regarding corrective action necessary at the water plant. These letters were dated August 28, 2013 and April 22, 2014. Based on the fact that the utility officer has been negligent in responding to the Polk County Health Department and in maintaining the utility's books and records, OPC believes that this officer's salary should be re-evaluated.

7. We also disagree with the salary calculation for the primary officer. The staff report used the \$12,000 amount allowed for Sunrise and divided it by the number of Sunrise customers to determine a cost per customer. However, the staff report used approximately 234 customers for Sunrise, even though page 3 of the same document shows that there are 244 customers. Further, the staff report multiplies the average cost per customer by 68 Alturas customers. This also appears to be incorrect. The staff audit work papers³ seem to indicate that there are 51 residential customer locations and 10 general service customers, for a total of 61 customers. Using staff's methodology and adjusting for these differences would result in a salary of \$3,000, which is a reduction of \$468.

Contractual Services – Billing

8. The staff report includes \$750 for meter reading and \$780 for billing services. We would note that the meter reading figure is an allocated amount based on the number of customers (20.96%). However, the billing is allocated based on a factor used to allocate the operator (35.67%). We believe that the allocation based on customers is more appropriate for meter reading and billing services.

² See Order No. PSC-12-0533-PAA-WU, issued October 9, 2012, in Docket No. 110238-WU, In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, L.L.C., page 7.

³ Audit work paper B-14-350-4-2 Alturas Revenues.xlsx, Tab Total After Adj.

OPC Issues and Concerns
Alturas Utilities, L.L.C.
Docket No. 140219-WU

Contractual Services – Other

9. The staff report includes \$6,225 for the contract operator’s services (page 15). This amount is based on \$3,960 for monthly operator fees⁴ and \$2,265 for various additional operator services⁵ (\$3,960 + \$2,265 = \$6,225). The \$2,265 includes inspections, reports, flushing, repairs, and mowing. The repairs portion of these Contract Operator Incurred Repairs is \$1,140. We believe that this level of repairs appears high, especially considering that the staff report for the Sunrise system listed \$1,275 for the same expense. Sunrise has over 3 times the number of customers and has 2 wells compared to 1 well for Alturas. We believe that staff should review these expenses for reasonableness. One noteworthy item to OPC is that the utility had 4 chlorine pump repairs during the 2014 test year (January, April, May, and June).⁶ We question whether or not it is reasonable or prudent to repair the same item 4 times in 1 year, and whether or not these costs will be recurring.
10. The staff report also includes another \$1,019.25 for repair expenses from 2 other vendors. This amount is the total of 4 invoices shown on audit work paper 43-14 and listed in the table below. OPC believes that the full amount of the \$225 paid to Mr. Harvey should not be included in repair expense. We believe that only \$56 for checking meters at Alturas should be included. The invoice indicates that \$159 is for checking meters at Sunrise and mowing expenses are already included elsewhere in this account (please see discussion in paragraph No. 11 below). Therefore, the \$225 invoice should be reduced by \$169 to the \$56 listed for Alturas. Also, the utility did not provide an invoice for the \$270 Crown Electric repair from June 16, 2014. We ask staff to encourage the utility to improve its recordkeeping practices by obtaining invoices for all future repair expenses, regardless of vendor.

<u>Date</u>	<u>Vendor</u>	<u>Amount</u>	<u>Invoice Note</u>
5/1/2014	Crown Electric	\$ 224.25	Emergency call-out 4/22/14
5/22/2014	Crown Electric	300.00	Replace defective gauge
6/16/2014	Crown Electric	270.00	No invoice provided-amount shown on statement
8/16/2014	Greg Harvey	225.00	Checked meters \$56 - Alturas \$159-Sunrise \$75 mowing Alturas Check was written for \$225
		<u>\$1,019.25</u>	

11. The staff report includes \$6,225 for the contract operator and \$7,660 for the office manager. Based on audit work papers 43-14/3 and 43-14/4, the \$6,225 for the

⁴ Audit work paper 43-14/4.

⁵ Audit work paper 43-14/3.

⁶ Audit work papers 43-14/3-1 pages 1, 4, 5, and 6.

OPC Issues and Concerns
 Alturas Utilities, L.L.C.
 Docket No. 140219-WU

contract operator includes \$300 for mowing. Also, audit work paper 43-15/1 indicates that the \$7,660 for the office manager includes \$800 for mowing. We believe that staff should carefully review the mowing expenses to ensure that amounts are not duplicated, and so that these expenses accurately reflect the amount necessary for the system on an annual basis.

12. The staff report includes \$2,400 for bookkeeping services. The utility has not spent this money in the past, but staff recommends that this expense would be appropriate based on the poor quality of accounting records. This amount may be reasonable if the utility were to provide some assurance or proof that the amount will actually be spent on accounting services.
13. The staff report allocates the office manager’s \$300 weekly expense as follows: 64.33% to Sunrise and 35.67% to Alturas. However, the meter reading expense is allocated based on customers, or 79.37% to Sunrise and 20.63% to Alturas. Without any additional reason(s) for the higher allocation of the office manager to Alturas, we believe that the customer allocation methodology is more appropriate.

Miscellaneous Expense

14. The staff report includes miscellaneous expense of \$3,160. The chart below shows a breakdown of the amounts included based on our review of the audit work papers and the staff report. We do not believe that the \$278 for Operator Services – Other should be included in expenses. Our review of the audit work papers found that for July, August, and September 2014, the operator invoices included a line item for “Additional Responsibilities”. The audit note on these invoices indicates that these charges were “one-time for office manager change over”. Based on our review, we understand that the utility experienced a change in the office manager position in June 2014. However, we do not believe that the \$278 is a recurring expense and it should not be included in setting future rates.

<u>Description</u>	<u>Amount</u>
Polk County Drinking Water Permit	\$ 600
Secretary of State Corporation Filing	145
SWFMD Water Permit	50
Operator Services Cell Phone June - Dec	295
Annualization of cell phone	171
Operator Services - Other	278
Postage & Supplies from invoices	714
Annualization of postage and supplies	704
Audit work paper 43-19	\$ 2,957
Pro Forma business license	58
Pro Forma FRWA membership	145
Total Staff Report - Miscellaneous Expense	\$ 3,160

OPC Issues and Concerns
Alturas Utilities, L.L.C.
Docket No. 140219-WU

Rates

15. The case background of the staff report indicates that there are 55 residential customers. This is also the same number reported in the 2014 Annual Report. However, page 20 of the staff report indicates that there are 46 residential customers. This number appears to be based on the number of bills shown in the billing work papers of the staff audit. Work paper 42-1 indicates 51 billing locations. (The test year included 54 “no bills”, which brings the average customer count to 46.) We are concerned about why there is a difference between the 55 customers reported in the Annual Report and the 51 billing locations provided to the staff auditors. While 4 customers is not usually a significant number to pursue for adjustment purposes, we believe that in this case it is very significant as it represents almost 8% of the customer base and could have a noticeable impact on the rate resulting from the revenue requirement. We believe that the discrepancy should be explained to determine if there are any unbilled customer locations.
16. We also note that most months on the billing work sheet indicate 4 or 5 “no bills”.⁷ Four (4) of these customer locations are the same for 11 months with only 1 monthly bill. We believe that this issue should also be explained.
17. In addition, our review of audit work paper 42-1 indicates that there are 10 general service customers, while page 20 of the staff report indicates that there are 9 general service customers. We believe that this difference should also be examined because it represents 10% of the general service customer base and could have a noticeable impact on the rate resulting from the revenue requirement.

⁷ Audit work paper B-14-350-4-2 Alturas Revenues.xlsx, Tab Total After Adj.