



July 29, 2015

VIA HAND DELIVERY

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COMMISSION
CLERK

Carlotta S. Stauffer, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

RE: Docket No. 150102-SU; Application for an increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven
Our File No. 30057.221

Dear Ms. Stauffer:

The following are the responses of Utilities, Inc. of Sandalhaven, ("Utility") to the Staff's First Data Request dated July 8, 2015:

Please refer to the system maps.

1. Rule 25-30.440(1)(b), Florida Administrative Code., requires detailed system maps showing the location and respective classification of the applicant's customers. The Sandalhaven wastewater map provided by the utility shows certain lots in different colors, but the legend does not identify which color denotes which customer classification. Please provide updated copies of these system maps with the additional information required. Please provide the map in electronic form if available.
Response: A new system map has been provided to Melinda Watts in paper format which includes the legend. Attached is the map in electronic format.

Please refer to minimum filing requirement MFR Schedule A-3, page 1 of 2, Adjustments to Rate Base.

- COM _____ 2. Explain the purpose for the reclassification of the payments of \$2,258,119 from Account 380.4 Treatment & Disposal Equipment to Account 389.1 Intangible Plant on lines 1 – 4.
- AFD _____ Response: In 2006 Utilities Inc., of Sandalhaven entered into an Agreement with the Englewood
- APA _____ Water District (EWD) to purchase treatment capacity whereby EWD would provide bulk
- ECC CD _____ wastewater treatment and disposal to serve new customers of Sandalhaven through an
- ENG _____ interconnection with the EWD's system. The interconnection was completed on April 19, 2007.
- GCL _____ Sandalhaven paid a total of \$2,258,119 to the EWD in 2006. This amount was booked to Account
- IDM _____ 380.4 Treatment & Disposal Equipment in error instead of Account 389.1 Intangible Plant
- TEL _____ necessitating the reclassification to account 389.1.
- CLK _____

3. Provide the calculations for the accumulated depreciation of \$479,854 on lines 40 – 42.

a. Include the depreciation rates and the type of plant.

Response: See Attachment #3.

Please refer to MFR Schedule A-3, page 2 of 2, Adjustments to Rate Base.

4. Explain the purpose for the reclassification of contributions in aid of construction (CIAC) for Sewer Tap Fees to Plant Capacity Fees of \$974,922 on lines 21 – 23.

Response: To reclassify CIAC received from new customers erroneously booked to Sewer Tap Fees to Plant Capacity. New customer Flows will be diverted to the EWD interconnection, per agreement. See response to Item #2 of Staff's 1st Data Request.

5. Provide the calculations for the accumulated amortization of CIAC of \$190,402 on line 36.

Response: See Attachment #5.

Please refer to MFR Schedule B-3, page 2 of 2, Adjustment to Operating Income.

6. Provide the calculations for the adjustment of \$10,412 to amortize the Net Loss related to decommissioning the wastewater treatment plant (WWTP) on line 26.

Response: See Attachment #6.

7. Provide the calculations and assumptions for the pro forma adjustments related to the increase of \$169,597 for Account 710 Purchased Sewage Treatment on line 31.

Response: The pro forma adjustment was calculated in error. The correct calculation is based on the following assumptions:

\$7.28/kgal = EWD's current bulk rate for treatment and disposal

26.463 million gallons = volume treated in the Test Year at the Sandalhaven Plant

24,648 gallons/ERC = average annual volume generated per SFR

87 ERC/year = average annual customer growth

Therefore, the increase in purchased sewage treatment expense would reflect the following:

$(\$7.28/\text{kgal} \times 26,463 \text{ kgal/year}) + (\$7.28/\text{kgal} \times 24,648 \text{ kgal/ERC} \times 87 \text{ ERC/yr}) =$

$\$192,651 + \$15,611 = \$208,262/\text{yr}$. This is an increase of \$38,664 over the amount noted in the MFRs.

8. Provide the calculations and assumptions for the pro forma adjustments related to the decrease of \$69,473 for Account 720 Materials & Supplies on line 35.

a. Explain the rationale for the remaining balance of \$20,121 in the test year.

Response: The pro forma adjustment of a decrease of \$69,473 in the MFR was made in error. This amount reflects the total amount of deferred maintenance expenses incurred in the test year that are associated with treatment plant related activities, all of which are being amortized over a 5-year period as described on Schedule B-11 of the MFR. These deferred maintenance expenses will continue to be posted irrespective of the decommissioning of the treatment plant. Therefore, no adjustment should be made at line 35. The remaining balance of \$20,121 reflects the ongoing expenses that will be incurred in a typical year in order to operate, maintain, repair and manage the Sandalhaven collection system components and facilities.

- b. If the utility is decommissioning the WWTP, what expenses for Materials & Supplies will Sandalhaven incur after the test year?

Response: The Utility will continue to incur expenses for Materials & Supplies necessary to operate, maintain, repair, and manage the Sandalhaven collection system's components and facilities. Examples of ongoing expenses include: repairs made to facilities such as lift station pumps, motors, control panels, manholes, pipe, fittings, valves, and fencing; hand tools; electrical parts; small engine parts; and any other items that would not otherwise be posted to other expense accounts in order for the Utility to continue delivering proper and adequate wastewater service to its customers.

Please refer to MFR Schedule B-6.

9. On line 6, Account 715 Purchased Power, includes an amount of \$14,828 in column (16) for the Adjusted Total for the test year.

- a. Please provide all invoices for the purchased power expense in the test year ended December 31, 2014.

Response: See Attachment #9, Attachment #9.a Power Invoices 12-13 to 6-14, and Attachment #9.a Power Invoices 7-14 to 12-14.

- b. Explain for what purpose will the utility need purchased power after the WWTP is decommissioned.

Response: Following the decommissioning of the WWTP, the utility will continue to purchase power for use at each of the 13 lift stations located within the Sandalhaven collection system as well as at the Sandalhaven field office located on the WWTP site. In addition, the power consumption at Lift Station 4 will increase substantially due to the change in pump horsepower from the existing 5 Hp pumps to 35 Hp pumps beginning in September 2015. There will be a slight increase in expense at Lift Station 1 after the existing 5 Hp sewage pumps are replaced with 5 Hp pumps with vortex impellers. There will also be a net increase in pumped volume due to projected annual customer growth, which will primarily impact Lift Station 13's pump runtime and power bill due to the location of future customers relative to Lift Stations 4 and 13.

10. On line 9, Account 720 Materials & Supplies, the amount for August 2014 (\$21,579) is three times the average amount for the other months (\$7,466).

- a. Explain the reason for the substantial increase in Materials & Supplies expense in the month of August 2014.

Response: There was an expense for tree trimming in the amount of \$13,500 in August that was reclassified in September to deferred maintenance expense.

- b. Explain the reason for the decrease of \$7,331 in the month of September 2014.

Response: There was an expense for tree trimming in the amount of \$13,500 in August that was reclassified in September to deferred maintenance expense.

11. On line 15, Account 736 Contractual Services – Other, shows a total adjusted annual expense of \$21,950.

- a. Provide all invoices that comprise the expenses in Account 736 Contractual Services – Other.

Response: See Attachments 11, 11-1 and 11-2. Please note that the computer/ internet related invoices are total bills which were then allocated across the company.

Please refer to MFR Schedule B-9.

12. Line 11 shows an amount of \$17,666 for Other Outside Services related to various consultants.

- a. Provide all invoices for the services included in the total of \$17,666.

Response: Please refer to prior question for related invoices.

Please refer to MFR Schedule B-10, Rate Case Expense.

13. For each individual person, in each firm providing consulting services to the applicant pertaining to this docket, provide the billing rate, and an itemized description of work performed. Please provide detail of hours worked associated with each activity. Also provide a description and associated cost for all expenses incurred to date.

Response: See Attachment #13-17 for the firms of Friedman & Friedman, P.A., Management & Regulatory Consultants, Inc. and Milian, Swain & Associates, Inc.

14. For each firm or consultant providing services for the applicant in this docket, please provide copies of all invoices for services provided to date.

Response: See Attachment #13-17 for the firms of Friedman & Friedman, P.A., Management & Regulatory Consultants, Inc. and Milian, Swain & Associates, Inc.

15. If rate consultant invoices are not broken down by hour, please provide reports that detail by hour, a description of actual duties performed, and amount incurred to date.

Response: N/A

16. Please provide an estimate of costs to complete the case by hour for each consultant or employee, including a description of estimated work to be performed, and detail of the estimated remaining expense to be incurred through the proposed agency action (PAA) process.

Response: See Attachment #13-17 for the firms of Friedman & Friedman, P.A., Management & Regulatory Consultants, Inc. and Milian, Swain & Associates, Inc.

17. Please provide an itemized list of all other costs estimated to be incurred through the PAA process.

Response: See Attachment #13-17 for the firms of Friedman & Friedman, P.A., Management & Regulatory Consultants, Inc. and Milian, Swain & Associates, Inc.

18. For each individual Water Services Corporation (WSC) In-House employee providing consulting services on this docket, provide an itemized description of work performed, hours or allocation of time associated with each activity, and support documentation (i.e. timesheets). In addition, please provide the same detail for estimated hours to completion of the case.

Response: The Utility is not seeking rate case expense for WSC In-House employees.

19. In several recent sister company dockets, Utilities, Inc. asserted that revised salaries accounted for WSC-employee time working on rate cases as a reduction to salaries prior to any allocation. Has

the utility taken similar accounting measures to ensure that WSC In-House employee fees are not duplicative in this docket? If so, please provide support documentation to verify the salaries reflected in the MFRs do not contain any capitalized time spent on the current rate case.

Response: The Utility is not seeking rate case expense for WSC In-House employees.

Please refer to MFR Schedule B-11, Analysis of Major Maintenance Projects.

20. Lines 7 and 8 list two projects that include a date of 12/31/2012 under the column with the heading "Period."

- a. Does the date of 12/31/2012 indicate that the Deep Well Injection Project and the Wastewater Treatment Plant Expansion Project are fully amortized as of December 31, 2012?

Response: No, the date of 12/31/2012 indicates the date that the Deep Well Injection Project and the Wastewater Treatment Plant Expansion Project were placed in to service according to JDE.

- b. If the Deep Well Injection Project and the WWTP Expansion Project are not fully amortized, are the test year amortization expenses of \$19,977 and \$45,411 included in the test year?

Response: Yes the amortization expenses of \$19,977 and \$45,411 are included in the test year.

- c. In Order No. PSC-07-0865-PAA-SU, the Commission approved an amortization period of 15 years for the above referenced projects. However, it appears Sandalhaven used a 5-year amortization period to calculate the amortization expense. Please explain the discrepancy in the amortization period.

Response: The 5-year amortization periods of the Deep Well Injection Project and the Wastewater Treatment Plant Expansion Project were inadvertent errors, these projects should have had a 15-year amortization period as approved in Order No. PSC-07-0865-PAA-SU.

Please refer to MFR Schedule C-6, Accumulated Deferred Income Taxes (ADIT).

21. Lines 12 through 23 lists Acct No. 256.4421/4371Def Tax Tap Fee Post 2000 for years 2005 through 2014. In Sandalhaven's last rate case with the FPSC, the Commission disallowed the debit ADITs in these accounts for rate making purposes.

- a. Please explain from what sources these ADITs were generated.

Response: The ADITs shown on MFR Schedule C-6 were generated from the company's General Ledgers. Within the ledger the balances that comprise the amounts in accounts 4421/4371 come from the company's "Standard Entry 3". The Standard Entry 3s are calculated by taking the Tap Fees collected through the year and then multiplying them by the state benefit and federal tax rates. Please see below for the ADIT calculation by year.

1. 2006: For the \$287,564 entry, it is $(\$895,000 - (\$895,000 \times 5.5\%)) \times 34\%$ [state benefit] x 34% [federal tax rate]. The \$895,000 shown is an adjustment made for Tap Fees collected in 2006.

2. 2007: For the \$3,213 entry, it is $(\$10,000 - (\$10,000 \times 5.5\%))$ [state benefit] $\times 34\%$ [federal tax rate]. The \$10,000 shown is the amount of Tap Fees collected in 2007.
 3. 2008: For the \$21,873 entry, it is $(\$68,075 - (\$68,075 \times 5.5\%))$ [state benefit] $\times 34\%$ [federal tax rate]. The \$68,075 shown is the amount of Tap Fees collected in 2008.
 4. 2009: For the \$3,154 entry, it is $(\$9,815 - (\$9,815 \times 5.5\%))$ [state benefit] $\times 34\%$ [federal tax rate]. The \$ 9,815 shown is the amount of Tap Fees collected in 2009.
- b. Please provide documentation that demonstrates the Utility paid income tax on the Tap Fees.
Response: The Utility is attempting to locate documents responsive to this request and will supplement this response when such documents are located.

Please refer to MFR Schedule D-4, Simple Average Cost of Short-Term Debt.

22. The cost rate of 7.77% in column (4) does not reflect the actual cost rate of short-term debt for Utilities, Inc. According to the Financial Statement of Utilities, Inc. provided to staff under request for confidential treatment, UI's cost rate for short-term debt is Libor plus a risk premium basis point adjustment. Further, the cost rate for short-term debt in the Sandalhaven's 2014 Annual Report is listed as 4.61% (see F-5).
- a. Please explain the discrepancy between the three cost rates of 4.61%, 7.77%, and the actual cost rate for UI.
Response: See attachment 22a for a breakdown of the cost rates. The 4.61% was generated in error due to the fact that 2013 numbers were used to calculate the rate and the 7.77% was calculated based on the simple average as required for a Class B Utility. The corrected 2014 rate is shown on the Actual Cost tab of the attached workbook.
 - b. Please provide the calculation for the Total Interest Expense of \$310,713.
Response: See Attachment 22b for the calculation of total interest expense.
 - c. Please explain how the amount of \$310,713 is allocated to Utilities Inc., of Sandalhaven.
Response: The \$310,713 is not allocated, it is held at the parent level on company 101's books.
 - d. Disregarding the mathematical derivation to calculate the cost rate of 7.77%, please provide justification for a cost rate of 7.77% for short-term debt during a period of time when short-term interest rates are at an all-time low.
Response: The utility calculated the cost rate based on the simple average as required for a Class B Utility. Using any other basis would have resulted in a deficiency.

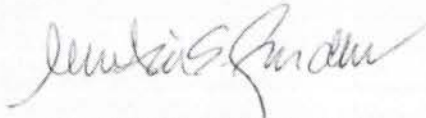
Please refer to MFR Schedule E-2.

23. It appears that the utility did not use the wastewater gallons at its tariffed gallonage cap to determine operating revenues. Please correct any fallout calculations necessary on MFR Schedule E-2 due to this correction.
Response: See Attachment #23

Carlotta S. Stauffer, Commission Clerk
July 29, 2015
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Should you or Staff have any questions regarding this filing, please do not hesitate to give me a call.

Very truly yours,



MARTIN S. FRIEDMAN
For the Firm

MSF/
Enclosures

cc: John Hoy (via email, w/o attachments)
Patrick Flynn (via email, w/o attachments)
Suzanne Brownless, Esquire (via email, w/o attachments)
Erik Sayler, Esquire (via US Mail, with attachments)