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STEVE CRISAFULLI
*Speaker of the House of
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September 23, 2015

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

Re: Docket 140175 -- Application for staff-assisted rate case in Pasco County by Crestridge Utilities, LLC.

Dear Ms. Stauffer:

Attached is a list of issues that the Office of Public Counsel has prepared to identify concerns we have 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 allow the staff and utility 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.

Respectfully submitted,

s/ Denise N. Vandiver

Denise N. Vandiver
Legislative Analyst

c: Division of Accounting & Finance (Mouring, Cicchetti, Fletcher) Crestridge Utilities LLC
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OPC Issues and Concerns
Crestridge Utilities, LLC.
Docket 140175-WU

Pro Forma Plant

1. The staff report indicates an increase of \$22,766 for pro forma plant improvements. The report does not indicate what specific improvements are included, whether there are any retirements considered, and what time frame these projects are expected to be completed. The staff report also reduces accumulated depreciation by \$42,899 related to retirements associated with the pro forma plant items. There is no explanation regarding what pro forma plant is related to any retirements.
 - a. Document No. 00599-15 indicates a new used truck was purchased October 31, 2014. The total price was \$14,417.90. Document No. 01346-15 indicates that the truck will be used for all utilities. If this item was included in pro forma plant, has it been allocated to all eight¹ systems?

O&M Expenses
Allocations

2. The following chart indicates allocated charges found in the general ledger and included in the audit balances. It does not appear that the staff audit or the staff report has reviewed the total costs allocated, the basis for the allocation, and whether there is any duplication in the amounts included in the expenses for this system. Some questions that we believe should be addressed are:
 - o Are the accounting fees duplicative of the allocated salary for the CFO?
 - o The utility document to support the new rent expense includes costs related to telephone and electric. Does rent expense include amounts that are duplicative of the telephone and utilities charges below or the expense included in the staff report?
 - o What do the charges for management fees include? Are they duplicative of amounts included in Salaries, Rent, Billing, Accounting, Transportation, Insurance, and Miscellaneous expenses?
 - o Audit work paper 10-9 in the Crestridge audit indicates that rent expense is marked up 20% to cover “overhead and administrative costs.” Is this mark-up included on all allocated charges?
 - o What is included in any mark-up? Does it duplicate any specific charges?

<u>Charge</u>	<u>Date</u>	<u>Crestridge</u>
Accounting Fees	12/31/2015	\$3,034.50
Management Fees	12/31/2015	\$10,786.50
Rents 2013	12/31/2013	\$4,262.07
Rents 2014	9/5/2014	\$1,835.64
Insurance	12/31/2013	\$1,210.44
Utilities	12/31/2013	\$324.62
Telephone	12/31/2013	\$2,090.62
Office Supplies	12/31/2013	\$1,676.90

¹ Crestridge, Holiday Gardens, West Lakeland, Pinecrest, Charlie Creek, East Marion, Four Points, Bimini Bay

OPC Issues and Concerns
 Crestridge Utilities, LLC.
 Docket 140175-WU

Contractual Services-Other

3. Our review of the audit work papers and the staff report appears to indicate \$2,392 for special tests. The chart below indicates the amounts reflected in the general ledger that we believe are included in the staff balance. We are concerned with the journal entry in the amount of \$2,046.67 to “record 2013 prepaid water tests”. There is no documentation for this number included in the audit work papers. We believe that this amount should be investigated further to determine if it is an annual expense or whether it should be amortized over future years.

Acct #	Account	Date	Refer	Vendor	Description	Amount
5080	Special Tests	12/31/2013	2013.6		Record 2013 prepaid water tests	2,046.67
5080	Special Tests	3/10/2014	3654	Eric Karl	1/4ly NO3	60.00
5080	Special Tests	4/10/2014	3667	Eric Karl	CR#4 Dibromo sample	85.00
5080	Special Tests	7/10/2014	3705	Eric Karl	2nd Qtr Nitrate	60.00
636	Contractual Services - Other	9/30/2014	130095	Aqua Environmental, Inc.	Water Plant Operations \$1,400 (\$1,200 operations, \$90 locates, \$60 3rd Qtr testing, \$50 Other)	60.00
636	Contractual Services - Other	1/10/2014	3624	Eric Karl	GL description: Dec's repairs; Invoice for annual and 4th Qtr testing	80.00
						2,391.67

Rent Expense

4. The staff report reflects test year rent expense in the amount of \$6,098 and adjusts it by \$711 to reflect the appropriate allocation of the lease expense of \$5,387. The report does not indicate the basis for the adjustment or the basis for the total expense. Document No. 00599-15 indicates office rent is based on a lease from January 1, 2015 through September 30, 2018. For January 1, 2015 through September 30, 2015, the rent is \$1,400 per month. After that the rent is \$1,600 per month. Document No. 01346-15 indicates the new office will serve “all utilities.” We have several concerns with the expenses since there is no explanation regarding what was included.

- a. In Document No. 01346-15, the utility included a chart comparing the cost of the new lease with the old lease. Is the staff report based on the \$1,400 per month lease or the \$1,600 per month lease?
- b. The utility chart also includes Phone/Internet and Electric expense. Are these expenses included in the staff report expense? If so, are they duplicated with other allocations as discussed above?
- c. What is the allocation basis used by staff? Is it based on all eight systems as detailed in a prior issue?

Insurance Expense

5. The staff report includes insurance expense of \$1,210. This is the same as the amount included in the audit which includes two December 2013 journal entries in the amounts of \$133 and \$1,078. There are no audit work papers to support these charges to the account. There is no discussion of this amount in the staff report. We believe that the utility should justify these charges and that staff should verify that these are not

OPC Issues and Concerns
 Crestridge Utilities, LLC.
 Docket 140175-WU

duplicative of insurance expense included in Employee Benefits or in allocated charges addressed above.

Miscellaneous Expense

The staff report includes test year miscellaneous expense of \$10,074. This is the same as the amount included in the audit. Our review of the audit work papers indicates that the audit adjusted balance for this account includes the following items

Office Supplies & Expense	3,551
Misc Expense - Bank Fees	226
Postage	3,472
Corporate License/Membership Dues	359
Utilities	325
Telephone	2,142
Total	10,075

6. Miscellaneous Expense includes Office Supplies & Expense in the amount of \$3,551. This includes \$294 for 2013 membership dues in the Florida Rural Water Association. However, in the membership dues line item, there is an amount of \$309 for 2014 membership dues in the same organization. (The chart below shows the two entries from the general ledger.) We believe that the 2013 membership dues should be removed from expenses.

680	Membership Dues	8/12/2014	Florida Rural Water Association	Membership Dues	309.20
6200	Office Supplies and Expense	11/21/2013	Florida Rural Water Association	2013 Membership Dues (614)	294.20

7. The staff report increases miscellaneous expense by \$20,318 to reflect an expedited meter replacement program. Document No. 01346-15 requests a meter change-out program be included in the rates. The requested cost is \$141.10 per meter for 12 meters monthly, for 18 months - \$30,477.60. The staff report reduced this amount to a twelve-month period. However, this includes costs to replace 144 meters in one year. If this cost is included as an annual expense, the meters for all 614 customers will be replaced in a little over 4 years. We believe that the annual amount should be reduced to a more reasonable 10 year replacement period as has been done in prior cases.² If staff believes an aggressive replacement program is appropriate, we recommend that the cost be treated similar to rate case expense and that the rates be reduced to remove this expense after the four year replacement program is complete.

² 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, LLC, page 19; and Order No. PSC-96-1474-FOF-WS, issued December 4, 1996, in Docket No. 960523-WS, In re: Application for staff-assisted rate case in Citrus County by J & J Water and Sewer Corporation, page 13;

OPC Issues and Concerns
Crestridge Utilities, LLC.
Docket 140175-WU

Depreciation Expense

8. Our review of staff audit work paper 51 indicates that the current level of depreciation expense will cause the accumulated depreciation for Account 334 - Meters and Meter Installations to exceed the related plant balance. We believe that this situation will only be exacerbated by the staff's recommendation to include a meter replacement program in expenses. Therefore, we believe that an adjustment should be made to the test year depreciation expense to reduce the depreciation expense for Account 334.

9. The staff report includes a test year depreciation expense of \$4,134 with a pro forma increase of \$1,367 related to the recommended pro forma plant. Because there is no indication of what pro forma plant was included, it is impossible to determine the reasonableness of the pro form depreciation expense.