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STEVE CRISAFULLI
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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 140177 -- Application for staff-assisted rate case in Pasco County by Holiday Gardens 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) Holiday Gardens Utilities, LLC.
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OPC Issues and Concerns
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Docket 140177-WU

Pro Forma Plant

1. The staff report indicates an increase of \$11,250 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 \$17,908 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. 01343-15 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

Materials and Supplies

2. The staff report includes test year materials and supplies expense of \$1,902 and reduces this amount by \$781 to capitalize two invoices for meters and a third charge for a shared lawnmower and tools. The audit work papers indicate that the remainder of the amount included in Materials and Supplies Expense is \$1,120.92 which is another invoice for 24 meters. We believe that the third invoice for meters should also be removed from expenses and capitalized.

Allocations

3. The following chart indicates allocated charges found in the general ledger. 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?

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

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<u>Charge</u>	<u>Date</u>	<u>Holiday Gardens</u>
Accounting Fees	12/31/2015	\$2,320.50
Management Fees	12/31/2015	\$8,248.50
Rents 2013	12/31/2013	\$3,507.47
Rents 2014	9/5/2014	\$1,497.41
Insurance	12/31/2013	\$939.53
Utilities	12/31/2013	\$248.24
Telephone	12/31/2013	\$1,598.71
Office Supplies	12/31/2013	\$1,282.33

4. Our review of the general ledger included in the audit work papers indicates a journal entry in the amount of \$1,525 to “record 2013 prepaid water tests”. There is no documentation for this number included in the audit work papers. This amount should be investigated further to determine if it is an annual expense or whether it should be amortized over future years.

5080	Special Tests	12/31/2013	2013.3	Record 2013 prepaid water tests
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5. The general ledger included \$540 for lawn service. The staff report removed \$360. With the purchase of a new lawn mower as requested in Document No. 01343-15, the utility states that the lawn service would no longer be needed and would be provided in-house. Therefore, the staff adjustment is appropriate but should be increased to include an additional \$180.

6180	Lawn Service	10/10/2013	3419	MTM Landscaping	Sept's Lawn Services	60.00
6180	Lawn Service	11/10/2013	3429	MTM Landscaping	Oct's Lawn Services	60.00
6180	Lawn Service	12/10/2013	3443	MTM Landscaping	Nov's Lawn Services	60.00
6180	Lawn Service	1/10/2014	3453	MTM Landscaping	Dec's Lawn Services	30.00
6180	Lawn Service	2/10/2014	3462	MTM Landscaping	Jan's Lawn Services	30.00
6180	Lawn Service	3/10/2014	3478	MTM Landscaping	Feb's Lawn Services	30.00
6180	Lawn Service	4/10/2014	3489	MTM Landscaping	Mar's Lawn Services	30.00
6180	Lawn Service	5/10/2014	3503	MTM Landscaping	Apr's Lawn Services	30.00
6180	Lawn Service	6/10/2014	3516	MTM Landscaping	May's Lawn Services	30.00
636	Contractual Services - Other	7/2/2014	2952	MTM Landscaping	Mowing Fields	60.00
6180	Lawn Service	7/10/2014	3524	MTM Landscaping	Jun's Lawn Services	60.00
636	Contractual Services - Other	8/2/2014	3003	MTM Landscaping	Mowing Fields	60.00
				LANDSCAPING		540.00

Rent Expense

6. 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.

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01343-15 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. 01343-15, 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

7. The staff report includes insurance expense of \$4,784. This is the same as the amount included in the audit which includes two December 2013 journal entries in the amounts of \$115 and \$824 for Liability/Property Insurance and an amount of \$347 for Worker’s Comp Insurance. In addition, there is a December 2013 journal entry for \$3,497 for Group Insurance. There are no audit work papers to support these charges to the account. However, we believe that the group insurance amount should be moved to Account 604 – Employee Pensions and Benefits. Staff should verify whether this is duplicative of the staff adjustment to the benefits account.

6020	Group Insurance	12/31/2013	2013.19	To Allocate Costs from HGB	3,497.30
6100	Liability/Property Insurance	12/31/2013	2013.11	Record 12/11/13 - 12/31/13 insurance	115.46
6100	Liability/Property Insurance	12/31/2013	2013.19	To Allocate Costs from HGB	824.07
6115	Workman's Comp Insurance	12/31/2013	2013.19	To Allocate Costs from HGB	347.46
					4,784.29

Miscellaneous Expense

8. The general ledger includes \$230 for 2013 membership dues in the Florida Rural Waterworks Association in the Office Supplies & Expense account. In addition, the Membership Dues account includes \$245 for the 2014 dues to the same organization. We believe that the staff should remove the 2013 dues in the amount of \$230.

6200	Office Supplies and Expense	11/21/2013	3390	Florida Rural Water Association	2013 Membership Dues (399)	229.70
680	Membership Dues	8/12/2014		Florida Rural Water Association	Membership Dues	244.70

9. The staff audit report indicates it increased miscellaneous expense by \$1,316 to “include licensing and corporation fees, and to amortize the utility’s DEP permit renewal fee.” There is no detail included regarding the specific amounts and why they were not recorded in the general ledger. The staff audit report indicates that \$968 is the amount of the “amortization of water permit over five years.” However, there are no audit work papers to support this adjustment. We believe that staff should verify that the licensing and corporation fees are not already included in miscellaneous expenses for the test year and that there are no test year costs related to the permit fee already included in the test year.

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10. Audit work paper 10-9 in the Crestridge audit indicates that rent expense is marked up 20% to cover “overhead and administrative costs.” This needs to be investigated to determine whether there is any duplication with the amounts charged such as CS-Billing, CS-Professional, Transportation, Insurance, Miscellaneous – Utilities, Telephone.
11. The staff report increases miscellaneous expense by \$20,318 to reflect an expedited meter replacement program. Document No. 01343-15 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 456 customers will be replaced in a little over 3 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 replacement program is complete.

Depreciation Expense

12. The staff report includes a test year depreciation expense of \$1,954 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 forma depreciation expense. Our rough calculation based on what is included in the staff report appears to calculate a composite depreciation expense on the pro forma plant of over 4.5%, which appears high without any other supporting explanation.
13. Our review of staff audit work paper 22-7/1 indicates that the current level of depreciation expense will cause the accumulated depreciation for Accounts 309 – Supply Mains and 335 – Hydrants to exceed the related plant balance. We believe staff should consider an adjustment such that the accumulated depreciation balance does not continue to increase higher than the related plant balances.

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;