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STEVE CRISAFULLI
Speaker of the House of Representatives

September 29, 2016

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

Re: Docket 160065 -- Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc.

Dear Ms. Stauffer:

Attached are issues that OPC has prepared to identify concerns we have with the utility filing. We are bringing these to staff's attention to aid staff in its review of the rates and to allow staff sufficient time to review our concerns and ask for additional information or documentation 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 (Norris, Frank, Fletcher)
Division of Economics (Johnson, Hudson, Bruce)
Division of Engineering (Hill, King, Graves)
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OPC Issues and Concerns
Bocilla Utilities, Inc.
Docket 160065-WU

Utility Plant in Service

1. Audit work paper (WP) 43-4-4 page 14 indicates that there are three meters at the utility's interconnection with Englewood Water District (EWD) as well as three meters at the interconnect between Bocilla and Knight Island Utilities, Inc. (KIU). We believe that this configuration should be examined closely for the following issues:

    a. Did the utility build three underwater pipelines between the EWD interconnection and the utility site on the island?

    b. Does the utility demand justify the three pipelines?

    c. How much of the investment was due to the sale of water to KIU?

    d. Have any adjustments been made to allocate costs to KIU for plant investments made solely for the provision of water to KIU?

Land

2. The utility MFR's include land at $44,000. Land was purchased from a related party and placed in the utility's name in 1989. The audit was unable to determine the appropriate value of the land and the utility did not provide any documentation supporting the cost of $44,000. In Commission Order No. PSC-00-0917-SC-WS, the Commission stated the following:

    > By their very nature, related party transactions require closer scrutiny. Although a transaction between related parties is not per se unreasonable, it is the utility's burden to prove that its costs are reasonable. Florida Power Corp. v. Cresse, 413 So.2d at 1191. In GTE Florida, Inc. v. Deason, 642 So.2d 545 (Fla. 1994), the court established that when affiliate transactions occur, that does not mean that unfair or excessive profits are being generated, without more evidence to contrary. The standard established to evaluate affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair.
    >
    > We have addressed the valuation of land purchased from related parties in numerous cases[1]. . .
    >
    > Florida is an original cost jurisdiction. Pursuant to Rule 25-30.115, Florida Administrative Code, we adhere to the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (USOA) in recording land when first dedicated to public use. Accounting Definition 9 for Class

[1]Citing, Order No. 7020, issued November 1975, in Docket No. 750128-WS; Order No. 17366, issued April 6, 1987, in Docket No. 850031-WS; Order No. 17532, issued on May 8, 1987, in Docket No. 850941-WS; Order No. PSC-93-0301-FOF-WS, issued February 25, 1993, in Docket No. 911188-WS; Order No. PSC-98-1579-FOF-WS, issued November 25, 1998, in Docket No. 980441-WS; and Order No. PSC-98-1585-FOF-WU, issued November 25, 1998, in Docket No. 980445-WU.

> C Water Utilities states that utility plant is be [sic] recorded at original cost when first devoted to public service.

The utility has not provided any documentation which supports what the original cost was to the entity that first devoted the land to public service. We have the following concerns regarding the $44,000 included in rate base.

a. Should any land be included in rate base? The utility has retired the reverse osmosis (RO) plant and we question whether the land is still needed.

b. If land is included in rate base, the utility must file evidence of the date the land was first dedicated to provide utility service, the owner of the land at that time, and the amount this owner paid for the land.

c. If the land should be included in rate base, we believe staff should investigate the other uses for the land and how these impact the utility. Primarily, it appears that there is a tennis court on the two lots. Does the utility receive income for all other uses of the land? Where is this revenue recorded? If the cost of the land is included in rate base and customers have been paying rates based on this investment, customers should also receive the benefit of all revenues derived from other uses of the land.

<u>New Pro Forma Items</u>

3. The utility filed its MFR's on May 24, 2016. These MFR's requested six pro forma increases to test year expenses totaling $39,695. In response to Staff's First Data Request, the utility requested an additional seven pro forma requests totaling $85,778 in capital and expense costs. Because this is a file and suspend rate case, and not a staff-assisted rate case, we believe that additional pro forma requests are outside the original petition and should not be considered. These would serve to increase the requested rate increase without requiring the utility to file revised MFR pages supporting the rate base, NOI, rate schedules, and proposed tariffs, as well as failing to provide notice to the customers of the proposed rates resulting from the increased pro forma items (as required by Rule 25-22.0407(5)(b)(5)). In addition, we have the following specific concerns with the requested items.

    a. The first item listed is "boost station rebuild (started and partially completed)" for $7,970. There is no description of the project, the attached document is not clear who performed the work and how the various items listed are related to rebuilding the boost station. Was this a boost station built along with the interconnection? If so, why does the utility need to "rebuild the boost station" if it only recently connected to EWD? There is no start date indicated or estimated completion date (other than "in 2017").

    b. The second item is described as "loop dead end line" for $10,060. There are no bids or invoices provided and the justification states "Looping this line will improve water quality to the existing customers by removing a dead end line and reduce the need to blow off the dead end line on a regular basis . . . The costs listed above are based on an estimate received for the work." However, the utility did not provide the estimate. There is no start date indicated or estimated completion date (other than "in 2017").

c. The next item is described as "6" valve replacement" for $11,340. There is no indication what valves this covers and why they need replacing. If these are replacements, why is there no related retirement? There are no bids or invoices provided and the justification includes a statement that the costs are based "on the recent cost of 6" valve replacements accomplished for another utility located on the Island." However, the utility did not provide a copy of the evidence of the comparable cost. There is no start date indicated or estimated completion date (other than "in 2017").

d. The next item is for a "chloramine feed system" for $10,114. There are no bids or invoices provided and there is no start date indicated or estimated completion date (other than "in 2017").

e. The next item is the "annual cost of chemicals" for $2,250. These appear to be for the costs related to the above chloramine feed system. However, there are no estimated bids or invoices, or other support for how the utility came up with the specific chemicals, the estimated quantities of each chemical, and the estimated unit costs of each chemical.

f. The next item is for an "annual meter replacement program" which totals $23,500 in the first year. We have several concerns with this item.

    i. The utility's justification states that "mechanical meters utilized for billing over time tend to read slower as they age causing a larger and larger differential between what is purchased and what is sold. The differential has a direct impact on the revenue stream generated." However, the utility has not submitted any evidence that it is experiencing slow reading meters. In fact, Schedule F-1 of the MFR's does not indicate any excessive unaccounted for water on an annual basis.
    ii. In addition, the utility proposes a rotating 5 year replacement program. Typically, water meters are depreciated over 17 – 20 years. Even if the coastal environment is harsh, the utility has not justified a five year program. Based on invoices provided to the auditors, it does not appear that any meters have been replaced in the 10 years that the utility was able to provide invoices.
    iii. The utility's justification also states that the figures are based on actual cost of equipment and installation. The 2016 costs are estimated as shown in the chart below. We believe that these estimates are overstated. The audit work papers include several invoices for meters that were replaced in the test year. The average cost for these meters is about $56 (see WP 43-4-20 pages 20, 21, 27and 43). Even adding the

additional costs for the meter box, and other items, the cost for each meter should be less than $100. The labor cost is estimated at $110, but on audit WP 43-4-20 page 1 there is a utility statement that in 2015 there were 104 meters replaced and $8,320 of labor was capitalized. This results in a labor cost of $80 per meter. Therefore, we believe that the replacement cost of meters should be reduced to at least $180 per meter.

Meter	$235
Labor	$110
Meters per Year	100
Total	$23,500

iv. We also, believe that the replaced meters should continue to be capitalized. This is a Class B utility and a meter replacement program should be considered a capital replacement program. In addition, the utility has not demonstrated a problem which would justify an alternative treatment.

g. The last item is a “control package for boost station” for $17,595. There are no bids or invoices provided and no start date indicated or estimated completion date (other than “in 2017”). The utility states that the “current control system in the booster station is functional, however the system installed is not being supported by the booster station package supplier any longer.” However, the utility does not state how old the current system is and what the retirement value of the old system should be. If the “old” system was originally installed along with the EWD interconnect, why is it already outdated? Should there be an adjustment for an imprudent purchase?

<u>Operating Revenues</u>

4. Scattered throughout the MFR’s, audit work papers, and responses to staff’s data request are references to the utility’s purchase of water from EWD and subsequent “sale” or pass-through of water to KIU. The purchased water bills from EWD indicate that Bocilla uses approximately 60% of the total water purchased and 40% goes to KIU. It appears that Bocilla only charges KIU the $2.98 per thousand gallonage rate from EWD even though there is a bulk water rate included in Bocilla’s tariff which reflects a base charge of $2,324.85 for a 6” meter and a $16.48 gallonage charge. As discussed in later issues, it appears that some allocations are made for non-utility time and expenses. However, we do not believe that the issue has been fully analyzed such that the full cost of maintaining the system for the benefit of the 40% usage by KIU has been identified. The customers of Bocilla paid or are paying for all this infrastructure, yet KIU is using the system for 40% of the purchased water.

5. The test year revenues do not appear to include any revenues from the new private fire protection tariff. This tariff was approved in December 2015 (see Docket No. 150254-WU). There are test year costs for the fire station tap (see audit WP 43-4-8

pages 9 and 10 and 43-4-10 page 4.) Therefore, we believe that revenues should be imputed for the new service that will be in effect when the new rates are implemented.

6. We also note that the utility reports all bills are residential. We believe the utility should indicate why there are no general service or bulk water bills indicated. There appears to be, at a minimum, a resort with a casual restaurant, ice cream/deli shop, sundries store, tennis courts, and a heated swimming pool, as well as the fire station. We believe staff should verify that these units are billed at the correct tariff rates and that all consumption is included. Customers have also indicated that the fire station may use its connection to the water system to fill the tanker trucks as well as relying on the hydrants throughout the development. We believe that the revenue requirement should be spread over all billing determinants for residential, general service, and bulk customers.

<u>O&M Expenses</u>
<u>Retirement of Plant</u>

7. Schedule B-3 provides the utility calculation for a loss on the retirement of the water plant. We have several concerns with this calculation.

    a. The utility first lists plant additions from 1986 – 2008. However, the utility did not provide to the auditors any supporting documentation for plant prior to 2007. If the utility cannot support its investment in the plant, the loss on the retirement should not be recovered from the ratepayers.

    b. The calculation of accumulated depreciation does not appear to be based on the Commission's depreciation rule (Rule 25-30.140, Florida Administrative Code.) Using a composite rate based on a 21 year life for the plant, our calculation results in accumulated depreciation at the end of 2014 in the amount of approximately $691,000 instead of the $431,000 calculated by the utility.

    c. As indicated in Audit Finding No. 3, the utility did not provide any support for its calculation of the loss on retirement. This includes how the utility determined the amount of CIAC and accumulated amortization that is related to the retired plant. Not only has the utility not supported the amount of CIAC to be retired, the amount of accumulated amortization is approximately 49% of the CIAC retired while the accumulated depreciation is about 70% of the plant retired. Without any support otherwise, we believe that the accumulated amortization should be larger to reflect similar rates as the plant retired.

    d. The utility appears to include plant costs in the retirement calculation but does not include a retirement of the Land. We believe that the utility should justify why it is not selling the land. The proceeds from the sale of the land would more than offset the loss, if any, on the retirement of the plant.

Allocations

8. Rule 25-30.436(4)(h) addresses costs between the utility and related parties which requires detailed descriptions, work papers and organization charts to support costs allocated between the utility and related parties. Schedule B-12 requires detailing expenses which are subject to allocation between systems showing allocation percentages, gross amounts, amounts allocated, and a detailed description of the method of allocation. The utility did not provide any detail but said that there is no wastewater system so there is no allocation. The utility also stated in its petition that the "Utility has no costs or charges to it from an affiliate or related party." However, several expense accounts include allocations, charges, and adjustments between the utility and related parties (see especially Accounts 601, 603, 604, 641, 675, and taxes other than income). We do not believe that the utility has provided the required information to support its allocations and why there are no allocations for plant accounts.

Wages and Salaries - Employees

9. We have reviewed the utility MFR's and responses to staff's data request as well as the staff audit work papers. There is no evidence in any of these documents that supports the 20% allocation to non-utility business. We believe that the 20% should be fully supported by the utility by detailing the tasks performed for both the utility and the non-utility business. In addition, we believe that this detail should address what the operator does on a daily basis for both the utility and non-utility functions. Will the operator continue to work the same number of hours per week with no treatment plant to operate? Even if the new interconnection has resulted in additional work while the appropriate treatment level is adjusted, what is a reasonable level of work on a going forward basis when the rates are in effect? Any additional costs to stabilize the treatment levels should be considered either as part of the capitalized cost to interconnect or a non-recurring expense that should be amortized over a reasonable time. It does not appear that the utility has justified the 20% allocation to non-utility work, nor have any documents provided to the staff auditor or analyst provided any support for an 80% allocation to Bocilla ratepayers and whether it should be lower based on duties that will be performed during the time that the rates will be in effect.

    a. In addition, the utility has included in response to Staff's First Data Request No. 21 a request for additional costs to cover the additional cost of looping a dead end line by the fire station. The response further states that this project will reduce the need to regularly blow out the water lines. However, we note that there is no suggested reduction to salary expense for any cost savings.

10. The Trial Balance included in the staff audit work papers (WP 12 page 2 of 2) indicates 10% of "payroll overhead" is allocated to KIU. However, we believe that the 10% is insufficient and that the following expenses should be more closely evaluated.

    a. Payroll Benefits: Account 604 includes Medical Insurance for the plant operator which should be allocated based on the same percentage that is determined to be non-utility.

b. Insurance - Workers Comp: Account 658 includes workers comp insurance. Because workers compensation insurance is based on payroll costs, we believe that a portion of this expense should be allocated for the non-utility portion of payroll expense.

c. Vehicle expense: The MFR's include test year transportation expense of $2,954.04. In addition, the utility has requested an additional $12,300 for the lease, insurance and gas for a new truck. We believe that a portion of transportation expense should be allocated, at a minimum, for the non-utility portion of payroll expense.

d. Payroll taxes: The MFR's (Schedule B-15) include $10,351 for payroll taxes. We believe that a portion of the payroll taxes should be allocated for the non-utility portion of payroll expense.

11. Schedule B-7 indicates that the only increase in salaries is the projected increase for additional clerical help due to "more reporting and more customers". The chart below indicates the salaries and customer counts for the test year and 2010 and 2012. The test year and 2010 numbers are the numbers provided by the utility in the MFR's. However, the 2012 Annual Report does not appear to support the utility's claim that there have not been any salary increases since 2010. The utility's first Annual Report with the Commission was for 2012 and it indicated an employee salary expense of $65,184, which results in a 61% increase for the test year. Using the utility's customer count for 2010, the utility has only experienced a 6% increase in customers.

	2012 Annual Report	Schedule B-7 12/31/2010	Schedule B-7 Adjusted Test Year	Percent Increase over 2010
Employee Salaries	$65,184	$92,272	$104,866	60.9%
Customers	381	381	404	6.0%

The MFR adjustment for $10,400 for additional clerical work (Schedule B-3) includes one day weekly at $25 per hour. This rate of pay appears high for the type of work performed by the current employee as well as for the additional proposed work. We believe that the utility should justify the level of salary for the test year as well as the proposed increase.

a. Further, in the utility's response to Staff First Data Request No. 1 Bocilla states that it has a part time person that is "office manager, software/webmaster, bookkeeper, and **administrative assistant to the president and the licensed operator**." (Emphasis added) However, there is no adjustment for the percentage of time that is related to non-utility job functions (i.e. assistant to the President and Operator, and bookkeeping for the KIU expenses and revenues indicated on the Trial Balance.) We believe that the salary expense should also be reduced for the non-utility portion of these costs.

12. The audit work papers reflect that the MFR expense includes a charge of $598.18 but there is no indication of what this amount is for, what benefit the utility receives for this charge, and whether the charge will be recurring in the future.

Wages and Salaries - Officers

13. The Utility MFR's include Officer Salary expense of $88,061.95. In response to Staff's First Data Request No. 15, the utility states that the "officer/owner's duties have increased after removing the water treatment plant from service. This was not anticipated but dealing with nitrification and bio-films generated from Chloramine treated water has presented many additional problems that require continuous flushing, exploring alternative treatment solutions with DEP and the FRWA . . . Officer compensation is approved annually at the board of directors meeting."

    The salary expense included in the MFR's is an 80% allocation of the total officer salary. As discussed previously, there is no evidence in any of the filed documents that supports the 20% allocation to non-utility business. We believe that the full salary, as well as the 80% allocated to the utility should be fully supported by the utility by detailing the tasks performed for both the utility and the non-utility business. In addition, we believe that this detail should address what the officer does on a daily basis for both the utility and non-utility functions. Will the officer continue to work the same number of hours per week with no treatment plant to operate? Even if the new interconnection has resulted in additional work while the appropriate treatment level is adjusted, what is a reasonable level of work on a going forward basis when the rates are in effect? Any additional costs to stabilize the treatment levels should be considered either as part of the capitalized cost to interconnect or a non-recurring expense that should be amortized over a reasonable time. It does not appear that the utility has justified the 20% allocation to non-utility work, nor has any documents provided to the staff auditor or analyst provided any support for an 80% allocation to Bocilla ratepayers and whether it should be lower based on duties that will be performed during the time that the rates will be in effect.

Purchased Power

14. The MFR's include $4,548.98 for Purchased Power expense. Using the bills included in the audit work papers we believe the expense should be reduced to $2,538. The test year expense includes charges for the RO plant. The MFR's include adjustments to retire the RO plant. Therefore, we believe that test year expense related to this plant should be removed. This results in a reduction of $1,471.27. We also believe that two additional reductions should be made. The first is to remove the December 16, 2014 bill for $174.71 which is for usage outside of the test year. The second is to remove the $365 reimbursed to the utility's officer to pay for the FPL deposit at the interconnection site. Because deposits will be refunded, they should be recorded on the balance sheet and not in the expense accounts.

Purchased Power

Bill date	Bill $
1/9/2015	$129.91
1/27/2015	$656.14
02/11/2015	$260.84
03/31/2015	$76.40
05/04/2015	$44.27
06/02/2015	$45.96
07/02/2015	$40.77
08/03/2015	$39.45
09/02/2015	$26.71
10/02/2015	$28.92
11/02/2015	$31.55
12/01/2015	$50.42
12/31/2015	$39.93
	$1,471.27

Chemicals

15. The MFR's include $563 for chemical expense. Volume III reports that the utility "purchases all of its water from the Englewood Water District and provides no additional treatment. Thus it uses no chemicals." In response to Staff's First Data Request No. 21, the utility changed its request to include $2,250 for chemicals. While the utility has provided an explanation of why the expense should be increased, it has not provided any documentation to support this number. We believe that the utility should provide estimated types and amounts of chemicals as well as the unit prices to support its requested increase.

Contractual Services-Engineering

16. The MFR's include test year expenses of $13,947 plus a pro forma adjustment for $6,750 for "additional engineering for Lead and Chlorine yearly 50 hours @$135". We reviewed the invoices provided to the staff auditor as well as those provided in response to Staff's First Data Request. The chart below lists the invoices, summarized by the purpose of the services. We have the following questions and concerns:

    a. There is a total of $3,510 in costs for a "pilot study". What is this study and shouldn't this be reflected as a deferred debit for preliminary surveys, plans, investigations (per NARUC USOA) or capitalized as a plant item?

    b. There are two charges for well plugging costs that total $1,012.50. These do not appear to be recurring charges and should be included as costs to retire the plant.

    c. There are also two charges for "Chlorine residual loss" that total $3,510. It is not clear whether these are recurring charges or are part of the efforts to balance the chemical levels in the water. If these will not be recurring, they should be capitalized as part of the plant costs.

d. Lastly, there are two charges for "Lead and Copper" that total $3,543.75 for 26.25 hours of work that are on invoices dated 2016. The utility told the staff auditors that these were actually 2015 charges that were not invoiced until 2016. Nevertheless, we believe that these charges should be carefully considered in the determination of an annual expense for the lead and copper issue. As stated previously, the utility has requested an "additional 50 hours" of expense for pro forma engineering expenses. We believe the utility should detail how many hours each month or quarter the utility expects to need for these engineering services and that should be compared to the 26.25 hours that are already in the test year.

Date	Invoice	Description	Amount
10/31/2015	10497	Pilot Study	$1,417.50
12/31/2015	10628	Pilot Study	$1,282.50
01/31/2016	10742	Pilot Study	$810.00
		Pilot Study Total	$3,510.00
06/30/2015	10165	Observe Plugging	$461.25
08/31/2015	10326	Certification for well plugging	$551.25
		Certification for well plugging Total	$1,012.50
09/30/2015	10401	Chlorine residual loss	$1,012.50
10/31/2015	10497	Chlorine residual loss	$2,497.50
		Chlorine residual loss Total	$3,510.00
01/31/2016	10742	Lead and Copper	$1,113.75
02/29/2016	10777	Lead and Copper	$2,430.00
		Lead and Copper Total	$3,543.75
07/31/2015	10264	Consumer Confidence Report	$472.50
		Consumer Confidence Report Total	$472.50
07/31/2015	10264	FDEP Certification	$450.00
		FDEP Certification Total	$450.00
09/30/2015	10400	Notice of violation	$1,012.50
		Notice of violation Total	$1,012.50
01/31/2016	10742	Placida Road Reuse Main Conflicts	$135.00
		Placida Road Reuse Main Conflicts Total	$135.00
		Grand Total	$13,646.25

<u>Legal</u>

17. The test year expenses for Contractual Services – Legal total $654 based on two invoices. The first invoice for $294 is for services provided in 2014 and should be disallowed. The second invoice is for $360 for work performed in contemplation of the upcoming rate case. This should be considered rate case expense and removed from test year legal expense.

Transportation Expense

18. The MFR's include a test year expense of $2,954 for Transportation Expense and $1,744 for auto Insurance Expense. Schedule B-3 includes a pro forma increase of $12,300 for the lease, insurance, maintenance, and gas for a used Ford F-150. In response to Staff's First Data Request No. 5, the utility states that it "has only one (1) vehicle, a 1995 Ford ¾ ton truck that is not public road worthy. Besides maintaining the utility distribution & boost station a truck is required to pick up materials, supplies, and the delivery of regulatory required lab samples on the mainland. Currently employees are driving their own vehicles with the only compensation being fuel, which is not equitable." We have three concerns regarding the total utility requested transportation expense.

    a. As support for the requested pro forma increase for a new truck, the utility provided a retail work sheet which indicates a brand new 2015 transit-250 box truck for a total of $41,371.40. The utility is asking for a lease expense for $600 per month. We question whether a brand new truck is necessary for a utility the size of Bocilla when a used truck would be able to serve the utility for less expense.

    b. The utility also provided an estimate for insurance expense of $2,018. The test year expense for auto insurance was $1,744. Therefore, we believe the test year expense should only be increased by $274 to reflect the estimate for the insurance on the new vehicle.

    c. The test year transportation expense of $2,954.04 is reflected in the detail below which is found in the audit work papers. The detail appears to reflect an audit adjusted fuel expense of $818.17. The audit work papers further indicate certain repair costs for the golf cart but the work papers do not provide sufficient detail on the other maintenance and welding costs. We believe the utility should identify the purpose of the test year costs and how these are not an offset to the costs that will be incurred with the new truck. If the total adjusted test year fuel and other maintenance costs of $2,213.09 ($818.17 + $1,394.92) are compared to the $2,500 requested fuel and maintenance for the new truck, there is only a $286.91 difference. The utility should provide support for why the fuel expense should increase over the test year, why it needs 1,000 miles per month, and how it came up with a .21/mile cost.

Type	Date	Name	Memo	Debit	Credit	Audit Adj	Audit Balance
	650 - Vehicle Expense						
650.2	1/20/15		Unsupported	93.62		(93.62)	-
650.2	3/2/15	Palm Island Marina	Fuel Cap 1 CC	173.92		-	173.92
650.2	4/11/15	Palm Island Marina	Fuel Cap 1 CC	74.96		-	74.96
650.2	5/1/15	Palm Island Marina	Fuel Cap 1 CC	158.36		-	158.36
650.2	6/15/15	Exxon, Citgo	Fuel Cap 1 CC	172.48		-	172.48
650.2	8/24/15	Citgo	Fuel Cap 1 CC	15.12		-	15.12
650.2	9/8/15	Shell, Palm Island Marina	Fuel Cap 1 CC	41.79		-	41.79
650.2	9/27/15	Palm Island Marina	Fuel Chgd to 675.3	-		50.83	50.83
650.2	10/14/15	Exxon	Fuel Cap 1 CC	35.60		-	35.60
650.2	11/17/15	Citgo	Fuel Cap 1 CC	95.11		-	95.11
	650.2 Total			860.96	-	(42.79)	818.17
650.3	2/4/15	Palm Island Resort	Golf cart Tires	351.00		-	351.00
650.3	3/13/15	Palm Island Resort	Golf cart Mirrors	59.96		-	59.96
650.3	6/30/15	Palm Island Resort	Rebuild switch	65.00		-	65.00
650.3	11/2/15	Palm Island Resort	Battery & cables	142.71		-	142.71
	650.3 Total			618.67	-	-	618.67
650.7	2/2/15		Unsupported	79.49		(79.49)	-
650.7	6/9/15	Certified Disel & Marine	Starter	435.32		-	435.32
650.7	11/4/15	B & P Welding	No invoice	291.26		-	291.26
650.1	12/21/15	B & P Welding	Fabrication of Dump bucket	493.79		-	493.79
650.7	12/21/15	Sterns, Supercenter	Cap 1 CC	174.55		-	174.55
	650.7 Total			1,474.41	-	(79.49)	1,394.92
	Grand Total 650·Vehicle Expense			2,954.04	-	(122.28)	2,831.76

<u>Rate Case Expense</u>

19. The MFR's request total rate case expense of $84,400 amortized over 4 years for an annual expense of $21,100. We have reviewed the MFR's and the utility response to Staff's First Data Request No. 18. We have the following concerns regarding the actual and estimated rate case expense.

    a. The utility submitted a bill from Englewood Management LLC for $36,934.79 in rate case expense. The bill does not indicate the person(s) performing the work but does detail the tasks performed and the hours spent each day. We are also concerned whether this is a related party, whether the expense is cost based, and why there is travel from Grand Rapids to Florida.

    b. We are also concerned with why the actual expense submitted for Englewood is so much higher than the original estimate. Based on Audit Finding No. 1 which states that the "Utility could not provide general ledgers prior to January 1, 2010" we believe that the utility's non-compliance with Commission rules may have made the task of compiling MFR's more difficult. Commission Rule 25-30.110(1)(a) states that each "utility shall preserve its records in accordance with the "Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities" as issued by the National Association of Regulatory Utility Commissions". In general, this document requires original bills and invoices for plant to be retained at least 6 years after the plant is retired. The same documents for non-plant items must be retained for six years. Audit Finding No. 2 appears to indicate that the auditors were only able to verify about 50% of the plant based on some invoices that were provided from January 1, 2007 through December 31, 2015. We believe that rate case expense is unusually inflated due to the utility's non-compliance with the Commissions rules on record retention for ledgers and invoices. Therefore, we believe that the expense related to the Englewood charges should be capped at no more than the original estimate.

c. In reviewing the tasks listed for Englewood, we found five listed costs from work performed in 2013 and 2014. It appears these tasks were performed in contemplation of a rate case that was not filed. Therefore, these costs should be removed.

d. The staff found several deficiencies in the utility's MFR filing.[2] The utility's listing of actual charge include several charges for correcting the MFR deficiencies. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.

[2] Document No. 03982-16 filed June 3, 2016 in Docket No. 160065-WU.

Firm	Dates	Tasks	Hours	Rate	Total
Englewood	6/24/2016	Work on revisions	8.00	150.00	1,200.00
Englewood	7/11/2016	Work on revisions	4.00	150.00	600.00
Englewood	7/15/2016	Postage send reports to Marty		6.45	6.45
		Total Englewood			**1,806.45**
Friedman	6/23/2016	Review Deficiency Letter and letter to Mr. Noden concerning same	0.20	360.00	72.00
Friedman	7/12/2016	Review correspondence from and telephone conference with Mr. Noden and begin deficiency responses	0.30	360.00	108.00
Friedman	7/13/2016	Review and respond to correspondence from Mr. Noden regarding deficiency responses	0.20	360.00	72.00
Friedman	7/15/2016	Review comments from Mr. Noden and Mr. Flischel and incorporate in deficiency response	0.30	360.00	108.00
Friedman	7/18/2016	Review revised schedules; telephone conference with Mr. Hill at PSC; Telephone Conference with Mr. Flischel; Correspondence with Mr. Flischel and finalize deficiency responses	0.40	360.00	144.00
		Total Friedman & Friedman			**504.00**
		Total Rate Case Expense Related to Deficiencies			**2,310.45**

e. Our review of the estimated legal expenses appears to indicate a mathematical error. The chart indicating the estimates to complete through the PAA order includes 6 tasks that total 40.5 hours. However, the bottom line of the chart calculates an expense for 46.5 hours. Therefore, we believe that the difference of $2,160 should be removed from the total actual and estimated legal expense.

   i. In addition, the detail of total actual and estimated legal expense of $26,294 is less than the estimate included in the MFR's. Therefore the remaining difference should also be adjusted.

f. The utility included an estimated $8,100 for engineering charges in rate case expense. However, the utility did not respond with any actual invoices or specific estimates for the rate case expense to be incurred by the engineering firm. Therefore, we believe that this amount should be removed.

g. The utility estimated $4,300 for Bocilla staff, customer notices, travel, and Fed-Ex. In support of the Bocilla staff time, the utility simply named 2 people with a total number of hours and a billing rate for each. There is no detail regarding the tasks to be performed by these people. Without any support for the work to be performed, we believe that these costs should be removed.

Advertising Expense

20. The utility MFR's include $375 in Business Promotions expense. The staff audit work papers show two charges to this account (Advertising expense for NARUC accounting purposes). The two charges are both for the Lemon Bay Sunrise Rotary - $325 for Dues and $50 for a Rotary Photo. The Commission has a practice of removing civic dues and expenses from utility expenses as they do not provide any benefit to the ratepayers. Therefore, we recommend that $375 be removed from test year expenses.

Miscellaneous Expense

21. Schedule B-3 includes a pro forma adjustment of $3,720 for a "fire hydrant exercise program." In response to Staff's First Data Request No. 3, the utility stated that the Fire Marshall's office requires that the fire hydrants be exercised twice a year. However, the utility did not state whether this is a new program and why it's not already included in test year expenses. Further, it should be verified that all 62 hydrants are in the Bocilla service area and not also in the KIU territory. Otherwise, these costs should not be added to test year expenses.

22. Schedule B-3 also includes a pro forma adjustment of $2,325 for a "fire hydrant maintenance painting". However, the utility did not state whether this is a new program and why the utility hasn't been maintaining the fire hydrants previously. Further there is no breakdown of how the utility estimated the cost or supporting documentation for the estimated costs. These costs should not be added to test year expenses unless the utility is able to support the costs and why these costs are not already included in the test year.

23. The utility MFR's include $13,320 for barge fees. Audit work paper 43-4-20 page 1 of 64 includes the utility's explanation for the barge fees by stating that it holds a commercial rate agreement with the owner of the barge company and receives a $20 per round trip rate instead of the normal $55 rate. We do not believe that the utility fully justified why there are 50-70 trips billed each month (the chart below lists the payments made each month and the trips included.) The utility explained that it has three employees that travel to the island "daily", but it further states that any "repair and subcontractors" add the reduced fare to their billings to the utility. Therefore, we question why there are so many trips each month. First, why is the utility paying for commuting costs for its employees? If the utility pays the commuting costs for the employees, the IRS considers that a taxable benefit. Second, there is only one full-time employee and two part-time employees. Even if they have to drive to the mainland for utility business, we don't know why it should be any more than 20 trips a month. Therefore we believe that the expense should be no more than $4,800, but only if the utility can justify why it requires so many trips for the purpose of providing utility service to ratepayers.

Month	Expense	Trips
January	1,080	54
February	1,040	52
March	1,000	50
April	1,000	50
May	1,089	54
June	1,120	56
July	1,200	60
August	1,160	58
September	1,400	70
October	1,080	54
November	1,040	52
December	1,120	56

24. The utility MFR's include $10,800 for directors' fees. Audit work paper 43-4-20 page 1 of 64 includes the utility's explanation for these fees, which only states that the three directors split the fees. There is no explanation for why a utility with only one full-time employee needs three directors. There is also no explanation for how many meetings there are and how long each meeting is. The audit did not include any review of the Board of Directors minutes so we are unable to determine if the Board actually met during the test year.

25. The utility MFR's include $4,133.28 for cell phones. Islander Management Group, LLC invoices the utility each month for rent and cell phones. The cell phone expenses is for four cell phones and totals $344.44 each month (see Audit work papers 43-4-19 pages 57 – 69). There is no explanation for why the utility has four cell phones and only one full time employee. We believe that 75% of this cost should be disallowed unless the utility can provide support for the benefits provided to ratepayers for the utility to pay for four cell phones.

Taxes Other Than Income

26. Our review of the tangible property tax does not appear to indicate that the tax expense included in the MFR's has been decreased to reflect the retirement of the RO plant. We believe that the taxes other than income expense should be adjusted to reflect the lower tax basis that will be in effect when the new rates will be in effect.