

LAKE SIDE WATERWORKS, INC.

January 10, 2017

Office of Commission Clerk
Florida Public Service Commission
Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399

*Re: Re: Docket No. 160195-WS - Application for Staff Assisted Rate Case (SARC)
in Lake County by Lakeside Waterworks, Inc. – Response to Staff Audit Report –
Audit No.16-271-2-1*

Dear Commission Clerk,

Lakeside Waterworks, Inc. (Lakeside) hereby submits its response to Staff Audit Report – Audit No.16-271-2-1.

Audit Finding 1: Lakeside agrees with the majority of Audit Finding 1 with the following exceptions:

Account 331 – The PSC Auditor previously provided a balance of \$57,683 or an increase of \$3,079 to Lakeside during the audit for Account 331. There is no explanation as to why the audit does not reflect the balance previously provided to Lakeside.

Account 334 - The PSC Auditor previously provided a balance of \$28,989 or an increase of \$1,371 to Lakeside during the audit for Account 331. There is no explanation as to why the audit does not reflect the balance previously provided to Lakeside.

In addition, as previously stated in its SARC cover letter, Lakeside is requesting a Year End Rate Base due to the significant increase in Utility Plant in Service during the test year. The audit provides an average balance. Lakeside does not agree with utilizing the average balance.

Audit Finding 2: - Lakeside does not agree with the adjustment made to Account 307 – Wells and Springs. In Audit Finding 1, the auditor appropriately made an adjustment of \$15,955 to reflect the early retirement of the collapsed well. However, the same adjustment should have been made to Accumulated Depreciation in the amount of \$15,955 to reflect this retirement. However, the auditor made an adjustment of \$13,650 with no explanation. This is incorrect accounting to reflect the appropriate retirement. The same amount should be removed from both Plant in Service and Accumulated Depreciation.

For the remainder of the items, Lakeside has no position other than to note the items identified in its response to Audit Finding 1 above. In addition, Lakeside does not agree with utilizing the average balance.

Audit Finding 3: Lakeside has no opinion on Audit Finding 3. The utility neither agrees or opposes these adjustments.

Audit Finding 4: Lakeside has no opinion on Audit Finding 4. The utility neither agrees or opposes these adjustments. However, Lakeside is providing verification that the customers who were overcharged the reconnection fees have received the appropriate refunds and the charges have been revised to the correct amount.

Audit Finding 5: Lakeside vehemently disagrees and opposes the Auditor’s recommendation to eliminate the Officer’s Salary which was previously approved by the Commission. The Commission previously approved Officer’s Salaries for this utility in Order No. PSC-15-0013-PAA-WS.

The owners of Lakeside only receive any type of compensation through disbursement of retained earnings if there are any net operating profits from operations that are not retained or utilized for continuing operations or capital improvements. The Annual Reports for Lakeside consistently show that the utility has been operating at a loss. The Annual Reports shows a combined loss of 2013 - (\$51,862); 2014 – (\$37,228); and 2015 – (\$9,970). Since the utility has continually been operating at losses, no disbursements for Officers’ Salaries have been made.

The amount of Officers’ Salary for Lakeside is a nominal amount of \$3,000/water and \$3,000/wastewater for all responsibilities. The average amount of Officers’ Salary for all the related regulated utilities owned by the common shareholder are approximately \$27.07 per ERC for water and \$28.01 for wastewater; the average amount for Lakeside per ERC is \$20.98 per ERC for water and \$19.77 for wastewater, which is below this average.

The Florida Public Service Commission has recently approved Officer’s Salaries for the related utilities as follows:

<u>Utility Name</u>	<u>Order Number</u>	<u>Amount</u>
Lakeside Waterworks, Inc.	PSC-15-0013-PAA-WS	\$2,500/water - \$2,500/wastewater – total \$5,000
LP Waterworks, Inc	PSC-14-0413-PAA-WS	\$6,000/water - \$6,000/wastewater – total \$12,000
Brevard Waterworks, Inc.	PSC-15-0329-PAA-WU	\$5,000/water
Jumper Creek Utility Company	PSC-15-0335-PAA-WS	\$750/water - \$750/wastewater – total \$1,500
HC Waterworks, Inc.	PSC-15-0282-PAA-WS	\$9,120/water - \$2,880/wastewater – total \$12,000
Raintree Waterworks, Inc.	PSC-16-0256-PAA-WU	\$3,000/water
Lake Idlewild Utility Company	PSC-16-0305-PAA-WU	\$4,000/water

In addition, recently the Commission approved the following amounts for Officer's Salaries in the following dockets for Michael Smalridge:

<u>Order Number.</u>	<u>Amount</u>	
PSC-15-0592-PAA-WU	\$15,890	(Water only)
PSC-15-0588-PAA-WU	\$11,763	(Water only)

In addition, Officer's Salaries have also recently been approved by the Commission in the following orders:

<u>Order Number.</u>	<u>Amount</u>	
PSC-14-0626-PAA-WU	\$70,710	(Water only)
PSC-16-0126-PAA-WU	\$9,360	(Water only)
PSC-16-0128-PAA-WU	\$2,269	(Water only)
PSC-15-0535-PAA-WU	\$4,142	(Water only)
PSC-16-0537-PAA-WU	\$26,400	(Water only)

The auditor states that the salary should be removed since no payments were made. However, Lakeside explained that the utility is appropriately accruing the Officer's Salary to Account No. 241.6 pursuant to NARUC USoA. There are numerous instances where Class C utilities have not recorded any Officer's Salary and the Commission approved an amount for utility officers for compensation of their time and responsibilities. See Order No. PSC-15-0535-PAA-WU, pg. 8. *(Additionally, the Utility recorded no salaries or wages for the Utility President.)*

Gary Deremer is the majority shareholder and CEO of Lakeside Waterworks, Inc. As majority shareholder, Gary Deremer ultimately has sole discretion over all financial, legal, operational, and regulatory matters. The officers receive no compensation through the operations contract with U.S. Water Services. If salaries are not allowed in the Operation and Maintenance Expenses; then the contract will need to be adjusted to include compensation for the officers' responsibilities. The minority shareholders also have an equity stake and ownership in the utility. As CEO and majority shareholder, Mr. Deremer has a fiduciary responsibility to make reasonable and necessary decisions to protect the interest of the minority shareholders, as well as the customers of the utility. Mr. Deremer's capacity in this position is making all final decisions as it relates to:

- a) Oversight of All Business and Utility Operations
- b) Capital Improvements required at the utility
- c) Financing of operations and funding of utility improvements; including equity investment in utility; long term debt, etc.
- d) Primary liaison with the Florida Department of Environmental Regulation, Public Service Commission, and various Florida Water Management Districts
- e) Acts as President of utility similar to other regulated utilities throughout Florida
- f) Ensures WU compliance with Federal, State, and Local Tax Filing Requirements.

- g) Ensures corporate record management and annual corporate renewals.

Mr. Deremer provides over 29 years of utility experience in operation and ownership of water and wastewater utilities.

Specifically, in Order No. PSC-13-0425-PAA-WS, issued on September 18, 2013, the Commission stated:

The application also included information attesting to the fact that Lakeside's president, Mr. Gary Deremer, has 27 years of experience in the water and wastewater industry, including utility ownership in the following systems previously regulated by this Commission and subsequently sold to FGUA:

<u>Utility System</u>	<u>Location</u>
Holiday Utility System	Holiday, FL
Virginia City Utility System	New Port Richey, FL
Dixie Groves Utility System	Holiday, FL
Colonial Manor Utility System	Holiday, FL
Pasco Utilities, Inc.	Zephyrhills, FL

In addition, Lakeside's vice president, Mr. Cecil Delcher, has approximately 35 years in operations and construction, including private utility ownership. According to the application, both Mr. Deremer and Mr. Delcher have operated more than 450 facilities within the State of Florida, including customer service to more than 70,000 customers daily.

See also, Order No. . PSC-12-0587-PAA-WU, issued October 29, 2012.

Officer Salaries has historically been recognized as a beneficial operating expense for regulated utilities, and particularly for Class C utilities. This is also true for utilities that have also had contractual agreements with US Water Services. One example is for Pasco Utilities, Inc. In Order No. PSC-07-0425-PAA-WU, issued May 15, 2007, the Commission approved an officer's salary of \$24,000 for a water only utility with 674 customers, while also approving Outside Services for an agreement with U.S. Water Services Corporation (USWSC) for operations, maintenance, and customer service of the utility system. In this order, the Commission approved

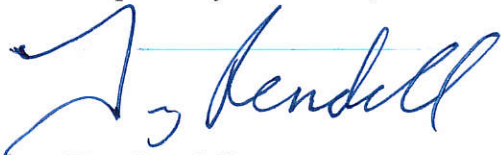
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the monthly fee totaling \$70,772 annually. Again, this was for a water only utility. (see pgs. 7 – 8).

Lakeside respectfully submits that the auditor is incorrect in recommending removal of a previously approved expense which has prudently been incurred by the utility.

In addition, for the recommended adjustment to remove \$1,166 from Account 736, Lakeside agrees that this was a plant improvement that should have been recorded to Account 331 but was erroneously recorded to expense. Lakeside agrees that it should be removed from Account 736; however, Lakeside does not agree that this was recorded in the plant account 331. In response to the auditor, the utility provided Invoice No. 814532 dated July 28, 2015 and also indicated that the plant should have been recorded in Account 331 for a main break repair. Lakeside submits that an adjustment should be made to Utility Plant in Service and Accumulated Depreciation to appropriately reflect this plant account erroneously recorded in expense.

Respectfully Submitted,



Troy Rendell
Manager of Regulated Utilities
// For Lakeside Waterworks, Inc.