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February 28, 2011

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Ann Cole, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Re: Docket No. 100426-WS; Application for increase in water and wastewater rates in
Lake County by Lake Utility Services, Inc.
Our File No.: 30057.194

Dear Ms. Cole:

Enclosed for filing in the above-referenced docket is the response of Lake Utility
Services, Inc. (the "Utility") to Staff's second data request dated January 28, 2011. Staff
has requested the following information in order to complete its analysis in the above-
referenced docket. Please note that the attached documents are contained on a data disc
enclosed herein.

1. Please refer to MFR Schedule A-3, page 1 of 3, line 22. Please explain, in
detail, what the Adjustments to Rollforward Plant in the amount of \$7,306,431
represents.

RESPONSE: The adjustments comprising the negative amount of \$7,306,431 on
MFR Schedule A-3, page 1 of 3, line 22, were explained in detail in
the schedules provided in response to Item 2 of Staff's first data
request. There are multiple adjustments that, when combined, total
the amount in question. The largest portion of the adjustment to
Water UPIS is because a capital project that should have been
booked to wastewater was inadvertently booked to water account
1065. This one project was comprised of \$6,785,294 and was the
majority of the difference referenced. The other portion of the
adjustment occurred for a variety of reasons including differences in
the per book amounts, the 13-month average amounts required for
filing purposes and recalculation of proper project closing entries

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when calculating AFUDC which would eventually become part of an asset.

2. Please refer to MFR Schedule A-4, page 1 of 1.
 - a. Please provide a description of all plant additions made since the last rate case.
 - b. Please provide a description of all the additions that comprise the amount of \$8,568,682 listed on line 7.
 - c. Please provide a description of all the additions that comprise the amount of \$7,330,623 listed on line 12.
 - d. Please provide a description of all plant retirements made since the last rate case.
 - e. Please explain, in detail, the adjustment in the amount of \$6,809,056 for water on line 33.
 - f. Please explain, in detail, the adjustment in the amount of \$3,520,700 for wastewater on line 33.

RESPONSE:

- 2a. The Company understands that general ledgers have generally been accepted as sufficient descriptions of all plant additions and retirements in the past. Please see the 2007 and 13-month test year ending June 30, 2010 general ledgers (2008 and 2009 are supplied in response to Items 2a and 2b, respectively) attached hereto, titled, "Item 2a – 2007 General Ledger.xlsx" and "Item 2a – Test Year 6.30.2010 General Ledger.xlsx" for a description of all plant additions made since the last rate case.
- 2b. Please see the attached 2008 general ledger for a description of all plant additions that comprise the \$10,407,037 (\$8,568,682+\$1,838,355) listed in line 7 of MFR Schedule A-4. Because the common UPIS accounts (computers, other plant) are allocated for MFR presentation purposes, the amounts will only tie in total. The accounts that make up this amount are highlighted in the attached MS Excel file titled, "Item 2b.xlsx." Also note

that the "additions" for the year are not isolated, so in order to reconcile to the amount highlighted of \$51,356,731, you would have to combine the following amounts on MFR Schedule A-4; Balance at 12/31/08 \$36,286,692 from water and \$15,071,039 from wastewater.

2c. Please see the attached 2009 general ledger for a description of all plant additions that comprise the \$6,046,954 (\$7,330,623+\$4,655-\$79,713-\$199,854-\$111,294-\$789,470-\$43,577-\$64,417+1) listed in lines 12 through 19 of MFR Schedule A-4. Because the error of \$2,215 referenced in the footnote at the bottom of the schedule brings the total change in UPIS to \$6,044,739, this amount plus the beginning balance from the prior year (of \$51,356,731) brings the total UPIS to \$57,401,470, which tie to the highlighted account in the attached MS Excel file titled, "Item 2c.xlsx." Because the common UPIS accounts (computers, other plant) are allocated for MFR presentation purposes, the amounts will only tie in total. Also note that the "additions" for the year are not isolated, so to reconcile to the amount highlighted of \$7,401,470, you would have to combine the following amounts on MFR Schedule A-4; Balance at 12/31/09 \$43,225,454 from water and \$14,178,231 from wastewater minus the aforementioned adjustment of \$2,215.

2d. Please see the response to item 2a.

2e. The adjustment in the amount of \$6,809,056 for water on line 33 of MFR Schedule A-4 is comprised of three adjustments included on MFR Schedule A-5. These adjustment amounts are \$-136,244 from adjustment A-3 – (A)1.(b); \$-7,306,431 from adjustment A-3 – (A)1.(c); and \$-633,619 from adjustment A-3 – (A)1.(d). Each of the adjustments was explained in detail in response to Item 2 of Staff's first data request.

2f. The adjustment in the amount of \$3,520,700 for water on line 33 of MFR Schedule A-4 is comprised of three adjustments included on MFR Schedule

A-6. These adjustment amounts are \$-6,773 from adjustment A-3 – (A)1.(b); \$3,467,473 from adjustment A-3 – (A)1.(c); and \$60,000 from adjustment A-3 – (A)1.(d). Each of the adjustments was explained in detail in response to Item 2 of Staff's first data request.

3. A note on MFR Schedule F-1, page 1 of 3, states that LUSI is allocating resources to address UAW to survey the residential meters to determine their accuracy and replace those meters that are found to be outside the acceptable range. Please provide further detail of this undertaking, including any anticipated costs and a schedule of completion. Also, please describe the anticipated impact that this program will have on the test year billing determinants.

RESPONSE: A meter survey was performed in June 2009 that consisted of checking the performance of approximately 100 of the oldest meters in service, all greater than 10 years, in order to determine whether water meter accuracy was a significant source of unaccounted for water ("UAW"). The Company made the assumption that the oldest meters would be subject to the most wear and therefore represent the least accurate meters among all of the meters in use. The results of the survey identified that about 10% of the meters had an accuracy of less than 95%; which is the minimum requirement set by the St. Johns River Water Management District (SJRWMD). The meters that were measuring below this minimum accuracy level were promptly replaced. The SJRWMD has directed the Utility to perform a meter change out program at a rate of 200 meters annually beginning with the first year after Consumptive Use Permit No. 2700 is reissued, if the meters are found to be less than 95% accurate. At this time, it is assumed that LUSI CUP No. 2700 will be approved by SJRWMD in 2011.

The function of meter reading is now being serviced in house. The Company has received numerous high bill complaints as a result of KBH curb reading. The Company has found numerous meters that either did not function at all or were under-registering. These

meters are currently being replaced. There has also been an issue with CC&B not catching account activity for 12 months or more in some instances; however these instances do not account for a significant component of UAW.

4. A note on MFR Schedule F-1, page 3 of 3, states that the excess UAW is attributable to poor metering at the Wastewater Treatment Plant ("WTP") site as well as a bad solenoid valve on the iron removal filter, but that these items have been rectified. Please provide detail related to the resolution of these issues, including the nature of the resolution, dates of completion, and the associated costs.

RESPONSE: This item refers to the Lake Saunders Water Treatment Plant (WTP), not a Wastewater Treatment Plant. This isolated water system has less than 50 customers. Iron removal filters were installed at Lake Saunders WTP in early 2000. Since that time, Utility personnel have routinely estimated the amount of backwash water volume generated during each filter backwash cycle based upon the manufacturer's recommendations for filter runtime, backwash flow rate, duration, and frequency.

After several attempts to identify the reason for elevated UAW at Lake Saunders, we consulted with a vendor, WTW, which specializes in repair and maintenance of mechanical treatment equipment including the Utility's iron removal filters. WTW identified that our iron filters were originally equipped with mechanical timer assemblies that performed backwashing based upon a specified time interval, not by volume of water treated. This effectively meant that backwashing was occurring prematurely. It was also discovered that the mechanical clocks that control the backwash process were negatively affected each time a power failure occurred, thus altering the backwash initiation, duration and sequencing.

As a result of these findings the Utility installed digital timers with flow meters to correct these deficiencies at a cost of \$2,610.00 on December 1, 2009. The modified filter control equipment allows for

optimization of filter runtime before a backwash cycle is initiated. Plant performance data collected over the next few months indicated that the backwash cycled about half as often and the waste stream was substantially reduced from before.

However, the Utility continued to notice elevated UAW, so a waste stream meter was installed in October 2010 to accurately measure the amount of the waste stream. Additionally, the services of Avanti Company were used to perform a well meter calibration check on October 28, 2010. It was found that the well meter had an accuracy of 121.7%. According to Avanti, this is because the meter was installed incorrectly with not enough downstream distance before the first fitting. Based on the recommendation of Avanti, the Utility purchased a new 3" McCrometer propeller meter and installed it on January 18, 2011 with the help of Locke Well and Pump at a cost of \$4,942.00. Immediately thereafter it was discovered that the 3" meter register is limited to a maximum flow rate of 250 gpm which is less than the 300 gpm output of the Lake Saunders well. The Utility is currently in the process of replacing the original meter register with a register having an adequate flow range at a cost of \$145.00. Once this is done, it is assumed that the Lake Saunders UAW will be well below 10%.

5. Please refer to MFR Schedule F-4. Please explain the decrease in the permitted plant capacity of the WTP since the last rate case. Please provide all documentation and correspondence with the Florida Dep't of Environmental Protection regarding the decrease in permitted plant capacity.

RESPONSE: Although the Lake Groves WWTF is permitted to treat 1.0 MGD, the Utility had only been receiving an average annual daily flow ("AADF") of approximately 0.367 MGD. Therefore during the process of renewing the WWTF operating permit, the Utility requested through the Florida Department of Environmental Protection ("FDEP") to reduce the treatment capacity on an interim basis to 0.499 MGD thus reducing the compliance staffing requirement and the number of monthly composite samples. When

flows become greater than 0.499 AADF, the Utility will be required to meet the increased compliance requirements in accordance with the operating permit. Please see the attached PDF file titled, "Item 5.pdf" for the requested FDEP correspondence acknowledging this interim limit condition.

6. Please refer to MFR Schedule SAC-2. Please explain how LUSI calculated the proposed main extension charge in the amount of \$800. Please clarify if the proposed main extension charge is in addition to donated property.

RESPONSE: The basis of the service availability charge was the June 30, 2010 average test year book value of Transmission & Distribution Mains, Services and Hydrant plant in service as indicated on MFR Schedule SAC-3 Column (4) line 47. The charge was calculated based on 12,782 ERCs at design capacity. With current ERCs of 9,825 the future ERC count of 3,427 was calculated using plant capacity less fire flows and a max-day demand of 1,083 ERCs as provided in Schedule SAC-7.

Per LUSI's Service Availability Policy, Original Sheet No. 29.0 Section 3:

Main extension charges for service to customers outside the Utility's Service Area

Such customers may be required to advance the full cost of the off-site mains, subject to refund of portions thereof in excess of the contributor's hydraulic share.

In addition to payment of the above, connection (plant capacity) charges will be required to support excess plant capacity dedicated to the contributor.

7. Regarding the Utility's proposed Service Availability Charges, please refer to the table in Staff's January 28, 2011 letter. Using the account balances submitted by LUSI, staff determined that the total level of CIAC for Water Plant in Service at the Utility's

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design capacity is projected to be approximately 69 percent based on Rule 25-30.580, F.A.C., Guidelines for Designing Service Availability Policy. Does LUSI agree with staff's calculation? If not, please provide the rationale for the Utility's difference of opinion.

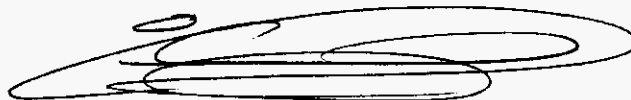
RESPONSE: The Utility agrees with Staff's calculation.

8. Based on the Utility's existing Service Availability Policy and Charges for wastewater, please provide the percentage of CIAC that would exist for Wastewater Plant at design capacity. Please include all calculations and assumptions in the response.

RESPONSE: Please see the attached PDF file titled, "Item 8.pdf" for the following Schedules: Wastewater SAC 1; Wastewater SAC 2; Wastewater SAC 3; Wastewater SAC 4; and Wastewater SAC 5.

Should you or the Staff have any questions regarding this filing, please do not hesitate to give me a call.

Very truly yours,



CHRISTIAN W. MARCELLI
For the Firm

Enclosures

cc: Steven M. Lubertozi, Executive Dir. of Regulatory Accounting & Affairs (w/enclosures) (via e-mail)
John Stover, Vice President and Secretary (w/enclosures) (via e-mail)
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State of Florida



Public Service Commission

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-M-E-M-O-R-A-N-D-U-M-

DATE: March 25, 2011
TO: Division of Economic Regulation
FROM: Ann Cole, Commission Clerk, Office of Commission Clerk *ac*
RE: Data Request CD, Document Number 01318-11

Attached please find one CD, labeled Docket Number 100426-WS, Lake Utility Services, Inc., Attachments – Response to Staff's 2nd Data Request, which is being forwarded to the Division of Economic Regulation for further disposition.

If you have any questions regarding this transmittal, please feel free to contact me.

Thank you.

