

**Diamond Williams**

100128-WU

**From:** DAVIS.PHYLLIS [DAVIS.PHYLLIS@leg.state.fl.us]  
**Sent:** Wednesday, May 11, 2011 3:49 PM  
**To:** Filings@psc.state.fl.us; Keino Young  
**Cc:** 'Norman Horton, Jr.'; 'luci@gtcom.net'; Andrew Maurey; Bart Fletcher; Tonya Linn; Dale Buys; Jennie Lingo; Kaley Thompson; Monica Brown; Patti Daniel; Paul Stallcup; Stan Rieger; MERCHANT.TRICIA; REILLY.STEVE  
**Subject:** AMENDED 100128-WU Electronic Filing May 11, 2011

**Attachments:** Letter to staff regarding opc issues on Lighthouse.pdf

Please substitute this letter for the letter previously filed this afternoon. This revised letter is identical except for reformatting and a small wording change on question 10.

Electronic Filing

a. Person responsible for this electronic filing:

Stephen C. Reilly, Associate Public Counsel  
 Office of Public Counsel  
 c/o The Florida Legislature  
 111 West Madison Street, Room 812  
 Tallahassee, FL 32399-1400  
 (850) 488-9330  
[Reilly.steve@leg.state.fl.us](mailto:Reilly.steve@leg.state.fl.us)

b. Docket No. 100128-WU

In re: Application for increase in water rates in Lake County by Lighthouse Utilities Company, Inc.

c. Document being filed on behalf of Office of Public Counsel.

d. There are a total of 5 pages.

e. The document attached for electronic filing is **OPC's Letter of Issues to Staff Regarding Lighthouse Utilities Company, Inc. Rate Case**

Thank you for your attention and cooperation to this request.

Phyllis W. Philip-Guide  
 Assistant to Stephen C. Reilly, Associate Public Counsel  
 Office of Public Counsel  
 Telephone: (850) 488-9330  
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DOCUMENT NUMBER-DATE

03275 MAY 11 =

5/11/2011

FPSC-COMMISSION CLERK

MIKE HARIDOPOLOS  
President of the Senate



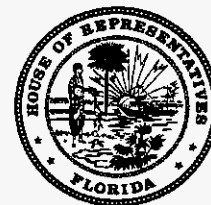
J.R. Kelly  
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DEAN CANNON  
Speaker of the  
House of Representatives



Patricia W. Merchant  
Chief Legislative Analyst

May 11, 2011

Keino Young  
Office of the General Counsel  
Florida Public Service Commission  
2340 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0830

Re: Docket No. 100128-WU - Application for increase in water rates in Gulf County by  
Lighthouse Utilities Company, Inc. – OPC Issues Regarding Rate Case

Dear Mr. Young,

The Office of Public Counsel is actively monitoring the rate case docket for Lighthouse Utilities, Inc. In our review of the minimum filing requirements and the staff audit workpapers, we have numerous concerns that we believe should be addressed. We would like to bring these to staff's attention to aid staff in its review of the rate case so that staff can address these concerns as they see fit.

1. Shareholder Debt. We would like to determine what Olive Branch Financial is and the relationship between the debt with Langdon S. Flowers (Jr. or the III) and this organization. Is this an affiliate organization with any of the shareholders of Lighthouse? Further, why is some debt to this organization paid sometimes at prime less 0.25%, 3%, or at 8% which is listed in the rate case filing? We would also like to have an explanation as to why the company lists this debt as short-term but the company has held much of this debt for more than 5 years.
2. Shareholder Debt. Why should ratepayers pay 8% interest on related party long-term debt, when the prime rate of interest is 3.25%, and a 5-year treasury note earns less than 2%?
3. Shareholder Debt. OPC would like to have an explanation why the company paid interest of 3% and 5% on the shareholder loan from John Thorpe when that debt was held over 4 years according the Lighthouse annual reports and descriptions on the general ledgers for 2008 and 2009.

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4. **Directors Fees.** During the test year, Lighthouse paid 7 directors and shareholders \$6,000 each for a total of \$42,000. OPC would like to know what services the directors provide to Lighthouse in addition to attending annual directors and shareholders' meeting. This would include whether any functions other than attending the annual meeting in person or by phone are performed in the operation of the company.
5. **Non-utility use of utility property.** Is any utility property used for non-utility purposes, such as the location of any cell towers or any other non-utility function(s)? If yes, we would like to obtain a copy of the current contract or agreement, and the annual revenues collected for using the utility property.
6. **Non-utility Income.** OPC would like to have an explanation of the source and basis of the non-utility interest and dividend income reported on the 2010 annual report page F-3(c).
7. **Salaries Expense.** We would like to know why the 2010 salaries increased \$36,000 above the level in 2009.
8. **Pensions Expense.** What is the company's pension policy and which employees are eligible to participate in the pension plan, and is the pension expense annually funded or expensed without funding. OPC would also like an explanation of why the pension expense averaged \$3,200 for 2006-2008, increased to \$16,763 in 2009, then decreased to (\$7,581) in 2010. This negative balance presumably resulted from the credit refund of \$11,196 applied to the 2010 expense of \$3,615 in 2010. An explanation of what caused this error is requested.
9. **Accounting Services.** Why did the accounting services expenses increase in 2010 above those incurred for 2009? Could these amounts have included costs incurred as rate case expense?
10. **Miscellaneous Expenses.** Below is a breakdown of the miscellaneous expenses reported in the PSC Annual Reports. (On its general ledger, Lighthouse includes directors' fees as a miscellaneous expense. The staff audit recommended that the directors' fees be moved to salaries expense.)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Misc. Expenses	51,424	48,082	59,519	124,107	68,865
Directors' Fees	49,100	45,000	40,500	42,000	42,000
Misc. Expense excluding Directors' Fees	2,324	3,082	19,019	82,107	26,865

Why did miscellaneous expenses, excluding directors' fees, more than quadruple from 2008 to 2009, and then decrease more than three-fold in 2010 from 2009 levels? Additionally, what is the annual sub-account balance of repairs and maintenance expense from 2006 to 2010? Also, OPC would like to know if the company would agree that a normalized level of repairs and maintenance would be appropriate. If the company does

not agree with a normalized basis, provide justification why the 2009 level of repairs should be used for prospective rate setting.

11. Cell Phone Reimbursement for the President. The 2009 general ledger reflects that the president, Jay Rish, is reimbursed \$150 per month for cell phone service. We would like to know the total cost of the cell phone bill for the president and if any portion of the cell phone cost is allocated to Mr. Rish's realty business or other non-utility or personal usage.
12. Mileage Reimbursement. OPC would like to know the basis behind the \$150 monthly mileage reimbursement for Rick Simmons and William J. Rish, Jr. Does the company require or maintain mileage records to support the reasonableness of this allowance? If so, OPC would like to see the mileage and/or vehicle logs used.
13. General Ledger 2010. OPC would like to obtain a copy of the Excel spreadsheet for the 2010 general ledger.
14. Rate Case Expense. Please provide the dollar amount of rate case expense incurred to prepare and present the original cost study information. If this information has already been provided, please state where this amount is reflected.
15. Test Year Water Revenues and Consumption. Below is a comparison of Lighthouse revenues, customers and consumption by customer class for 2006 to 2010 from the PSC annual reports for 2006 to 2010. Based on this comparison, total water revenues for 2009 were the lowest during that 5 year time frame. Although customers decreased in 2010 from the level in 2009, revenues and gallons sold both increased in 2010. Please explain what factors caused the gallons sold and water revenues to decline in 2009 and why this apparent one year decline should be used as a basis to set rates on a perspective basis.

<u>Revenues</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>5 Yr Avg.</u>
Residential Rev	450,279	432,786	467,673	417,911	470,301	447,790
Commercial Rev	9,321	5,724	5,685	5,425	4,850	6,201
Public Auth Rev	62,546	39,668	55,161	54,154	24,996	47,305
Revenues total	522,146	478,178	528,519	477,490	500,147	501,296

<u>Customers</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Residential	1,278	1,310	1,335	1,369	1,357
Commercial	8	8	8	7	7
Public Authority	8	8	7	7	7
Total Customers	1,294	1,326	1,350	1,383	1,371

<u>Revenues Per Customer</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>5 Yr Avg.</u>
Residential	352	330	350	305	347	337
Commercial	1,165	716	711	775	693	812
Public Authority	7,818	4,959	7,880	7,736	3,571	6,393
Total Customers	404	361	391	345	365	373

16. Water Pumped and Sold in 2010. Reviewing the 2010 Annual Report, it appears that the data presented is in the wrong columns. We would like for Lighthouse to review this schedule and provide a corrected Schedule W-11 for the 2010 annual report, if in error.
17. Rate Base Schedules in the Annual Report. OPC would like to point out that in most years of the company's annual report filings that rate base on Schedule F-4 is mathematically correct but the rate base schedule on W-2 erroneously does not include CIAC in the rate base calculation and correspondingly overstates rate base and understates the achieved rate of return.
18. Consumption and Bills for 2010. OPC would like to have the number of bills and gallons of water billed monthly for January 2010 to April 30, 2011 by customer class and meter size.
19. Unaccounted For Water. On Schedule F-1 (2<sup>nd</sup> Revision) of the MFRs, note a) states that South Gulf Volunteer Fire Department used 1,327,240 gallons during 2009 for training purposes. On page 75 of the MFRs, a letter to the utility by the South Gulf County volunteer Fire Department, states that the fire department uses 1,327,240 gallons for training and fire suppression. OPC would like to know what records exist that support the

November 17, 2010

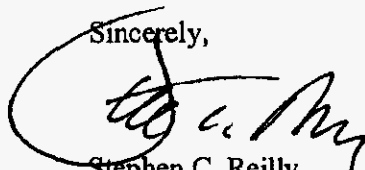
Page 5

numbers shown in the letter from the fire department. These numbers appear to be estimates, not actual. Is the utility aware of or notified when the fire department uses water for training and fire suppression purposes? Also, what procedures and documentation does the utility maintain when the fire district uses water for training purposes and for fire suppression?

20. Unaccounted For Water. On Schedule F-1 (2<sup>nd</sup> Revision) of the MFRs, note b) states that in April 2010, approximately 1,200,035 gallons were back billed due to billing errors in the software. What were the details surrounding this billing error? What was the date(s) of the error(s), how many customers were impacted, what caused the error(s), how was it discovered, and how was this billing error corrected in the MFRs for billing purposes?
21. Interconnection with City of Port St. Joe. OPC would like to know why it was necessary for Lighthouse to interconnect with the City of Port St. Joe water system. According to the 2007 Annual Report, this interconnection was for emergency backup and/or additional capacity. Given the large amount of unaccounted for water/water for other uses, Lighthouse please explain the necessity of and what annual costs are incurred related to this interconnection.

In conclusion, I wish to thank you in advance for your analysis and consideration of our issues. Should staff have any questions, we would be willing to discuss these in a meeting with the parties, if necessary.

Sincerely,



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cc: Division of Economic Regulation (Maurey, Fletcher, Linn, Buys, Lingo, Thompson, Brown, Daniel, Stallcup, Rieger)  
Norman H. Horton, Esq.  
Mr. Jay Rish