

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** December 9, 2020

**TO:** Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

**FROM:** Christopher R. Richards, Public Utility Analyst III, Division of Accounting & Finance *CRR*

**RE:** Docket No. 20200169-WS - Application for staff-assisted rate case in Lake County, and request for interim rate increase, by Lake Yale Utilities, LLC. – Additional analysis of capital structure and previous instances of the Commission’s treatment of Related Party Debt.

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Please file the attached documents provided by Lake Yale Utilities, LLC. (LYU) through email in the above-referenced docket containing additional analysis of Capital Structure and previous instances of the Commission’s treatment of Related Party Debt.

1. December 9, 2020, email providing response to staff’s email dated December 8, 2020
2. LYU Response to Staff Email (12.04.20)

Thank you for your assistance.

Attachments

**From:** [Jeff Small](#)  
**To:** [Christopher Richards](#)  
**Cc:** [Mike Smallridge](#); [Jeff Small](#)  
**Subject:** Re: McLeod Gardens and Lake Yale Capital Structure  
**Date:** Wednesday, December 09, 2020 6:57:26 AM  
**Attachments:** [LYU Response to Staff Email \(12.04.20\).docx](#)  
[LYU AP Analysis.xlsx](#)

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Chris

Attached is LYU response to your follow-up email above.

Additionally, you requested sources to my statement concerning the Commission's treatment of related party debt balances. Below are a few orders that addressed this issue.

Order Number

PSC-2013-0140-PAA-WS, pg 6

PSC-2014-0195-PAA-WS, pg 9

PSC-2016-0583-PAA-WS, pgs 11-12

PSC-2018-0549-PAA-WS, pg 10

Please let me know if you have any questions.

Thanks

On Tue, Dec 8, 2020 at 4:26 PM Christopher Richards <[crichard@psc.state.fl.us](mailto:crichard@psc.state.fl.us)> wrote:

Good afternoon Mr. Small,

Thank you for your timely and thorough response concerning the capital structure for McLeod Gardens. In your response, you state that "It is Commission policy to treat related party debt such as this as equity when developing a Capital Structure for a rate proceeding." I have been unable to find an example of that.

Can you please point me towards a couple of utilities (the docket number is not necessary if you do not have those readily available) where the Commission treated related party debt as equity, so I can reference those?

Also, please provide the analysis for Lake Yale as well.

Thank you for all of your assistance in this matter, and please feel free to reach out if you have any questions.

Respectfully,

Christopher R. Richards

Public Utilities Analyst III

Division of Accounting and Finance

Florida Public Service Commission

[crichard@psc.state.fl.us](mailto:crichard@psc.state.fl.us)

Office: 850-413-6742

**From:** Jeff Small <[jeffsmall@ocboa.net](mailto:jeffsmall@ocboa.net)>

**Sent:** Tuesday, December 08, 2020 3:09 PM

**To:** Christopher Richards <[crichard@psc.state.fl.us](mailto:crichard@psc.state.fl.us)>

**Cc:** Mike Smallridge <[mike@fus1llc.com](mailto:mike@fus1llc.com)>; Marianne McDonald <[accounting@fus1llc.com](mailto:accounting@fus1llc.com)>; Jeff Small <[jeffsmall@ocboa.net](mailto:jeffsmall@ocboa.net)>

**Subject:** Re: Docket No. 20200168-WU -- Request to schedule a phone call to discuss capital structure and AFUDC

Good afternoon Chris

Attached is MGU written responses to your questions in the email and our follow-up telephone conversation.

Also attached are two supporting files for our written response.

Please do not hesitate to call me if you have any questions.

Thanks

Jeff Small

Side note -- My analysis of LYU account payable balance indicates that it may require the same treatment as we propose for MGU equity balance.

Upon request, I can readily provide that analysis for your consideration.

On Mon, Dec 7, 2020 at 1:56 PM Christopher Richards <[crichard@psc.state.fl.us](mailto:crichard@psc.state.fl.us)> wrote:

Thank you sir, I will call you in just a couple of minutes. Please see the two tables below which I will reference in our phone call:

**Table 1: McLeod Gardens Capital Structure per the Audit**

Cost of Capital

McLeod Gardens Utilities, LLC  
Staff Assisted Rate Case  
As of December 31, 2019  
Dkt: 20200168-WU ; ACN 2020-198-1-1  
Capital Structure

HU  
9/2/20

Cost of Capital	Average 12/31/2019 per Utility	Audit Adjustment	Average 12/31/2019 Per Audit	Ratio	Cost Rate	Weighted Cost
Long Term Debt						
Paid in Capital	\$ 21,568	\$ -	\$ 21,568	88.73%	7.85%	6.96%
Retained Earnings	\$ (34,503)	\$ 34,503	\$ 21,568			
Customer Deposits	\$ 2,730		\$ 2,730	11.23%	2.00%	0.22%
Accrued Taxes	\$ 11	\$ (0)	\$ 11	0.04%		0.00%
<b>Total</b>	<b>\$ 24,309</b>		<b>\$ 24,309</b>	<b>100.00%</b>		<b>7.19%</b>

**Table 2: McLeod Gardens Capital Structure per Staff Report**

MCLEOD GARDENS UTILITIES, LLC  
 TEST YEAR ENDED 12/31/2020  
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2  
 DOCKET NO. 20200168-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE AFTER ADJ	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$0	\$0	\$0	\$0	\$0	0.00%		
2. RETAINED EARNINGS	(34,503)	34,503	0	0	0	0.00%		
3. PAID IN CAPITAL	21,568	(21,568)	0	0	0	0.00%		
4. OTHER EQUITY	0	0	0	0	0	0.00%		
TOTAL EQUITY	<u>(\$12,935)</u>	<u>\$12,935</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	10.55%	0.00%
5. LONG-TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%		
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%		
7. PREFERRED STOCK	0	0	0	0	0	0.00%		
TOTAL DEBT	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	0.00%	0.00%
8. CUSTOMER DEPOSITS	\$2,730	\$0	\$2,730	\$0	\$2,730	99.60%	2.00%	1.99%
9. DEFERRED INCOME TAXES	\$11	\$0	\$11	\$0	\$11	0.40%	0.00%	0.00%
10. TOTAL	<u>(\$10,194)</u>	<u>\$12,935</u>	<u>\$2,741</u>	<u>\$0</u>	<u>\$2,741</u>	<u>100.00%</u>		<u>1.99%</u>
<b><u>RANGE OF REASONABLENESS</u></b>							<b><u>LOW</u></b>	<b><u>HIGH</u></b>
RETURN ON EQUITY							9.55%	11.55%
OVERALL RATE OF RETURN							1.99%	1.99%

Christopher R. Richards  
 Public Utilities Analyst III  
 Division of Accounting and Finance  
 Florida Public Service Commission  
[crichard@psc.state.fl.us](mailto:crichard@psc.state.fl.us)  
 Office: 850-413-6742

**From:** Jeff Small <[jeffsmall@ocboa.net](mailto:jeffsmall@ocboa.net)>  
**Sent:** Monday, December 07, 2020 1:30 PM  
**To:** Christopher Richards <[crichard@psc.state.fl.us](mailto:crichard@psc.state.fl.us)>  
**Subject:** Re: Docket No. 20200168-WU -- Request to schedule a phone call to discuss capital structure and AFUDC

Afternoon Chris,

Please call me at your convenience to discuss your request.

I am available until 2:30pm today or all day tomorrow.

Thanks

Jeff Small

On Fri, Dec 4, 2020 at 1:57 PM Christopher Richards <[crichard@psc.state.fl.us](mailto:crichard@psc.state.fl.us)> wrote:

Good afternoon,

I would like to schedule a time to speak with you on a conference call about the capital structure for McLeod Gardens. Currently staff is showing that there is no equity, and no long term debt associated with the Utility. During the call, I would like to try and figure out how McLeod Gardens was purchased so I am able to determine how to set up the capital structure for the current SARC, Docket No. 20200168-WU. During this phone call, I would also like to discuss your request for an AFUDC rate in the following SARCs: McLeod Gardens, Lake Yale and Sunny Shores.

If possible, I would like to have on the line as well, Mr. Jeff Small, and Dale Buys from the Commission. Mr. Buys is the supervisor for the Finance and Tax section in the Commission.

Please let me know a date and time as soon as possible that would be acceptable for both you and Mr. Small to discuss the capital structure for McLeod Gardens and requested AFUDC rates. I do not anticipate the phone call to last more than 30 minutes.

Thank you,

Christopher R. Richards

Public Utilities Analyst III

Division of Accounting and Finance

Florida Public Service Commission

[crichard@psc.state.fl.us](mailto:crichard@psc.state.fl.us)

Office: 850-413-6742

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**Jeffery Small**

*OCBOA Consulting, LLC*

*407-377-5400*

*Associate Member of the Florida Rural Water Association*

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*OCBOA Consulting, LLC*

*407-377-5400*

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*OCBOA Consulting, LLC*

*407-377-5400*

*Associate Member of the Florida Rural Water Association*

**FLORIDA UTILITY SERVICES 1, LLC  
5911 TROUBLE CREEK ROAD  
NEW PORT RICHEY, FLORIDA 34652  
863-904-5574**

December 9, 2020

Chris Richards  
Public Utilities Analyst III  
FPSC

RE: Response to staff email dated 12/4/20 and subsequent telephone conversation on 12/7/20.

Chris,

Per your request, Lake Yale Utilities, LLC (LYU) is providing a written response to the questions arising from your email and our telephone conversation.

Equity Components

The Paid in Capital balance of \$368, reflected in the LYU general ledger, at December 31, 2019, represents the total cash out of pocket paid by Mike Smallridge (Cash purchase price of \$145,368, after adjustments, less \$145,000 loan balance). The contract for purchase and the loan document were provided in LYU Certificate of Transfer Docket No. 20170220-WS in Document No. 08437-2017.

The negative Retained Earnings balance of \$65,227 reflected in the general ledger at December 31, 2019, represents the cumulative results (losses) of annual operations since July 7, 2017, when Mike Smallridge took over operations.

Capital Structure Presentation

Staff's Capital Structure presentation omits LYU retained earnings balance from the 2019 general ledger. I have researched the issue that staff raised concerning the discrepancy concerning an overall negative equity balance of \$64,909 in relation to the positive net asset balance reflected in the general ledger. (Negative Retained Earnings of \$65,277 plus \$368 Paid in Capital)

LYU asserts that the discrepancy is the result of a presentation issue for the Liabilities and Capital Equity account balances in the LYU general ledger. An analysis of the Account Payable balance of \$103,039 indicates that \$96,528 of this balance is an outstanding payable (debt) to LYU parent, Florida Utility Services 1, LLC (FUS1). The \$96,528 balance represents the cumulative net charges for the allocation of services (payroll, insurance & transportation expenses, etcetera) and supplies (direct purchases on behalf of LYU) by FUS1 (Total charges of \$191,843 less payments of \$95,315). These costs represent the goods and services that FUS1 incurred and paid for, on behalf of LYU customers. LYU, to date, has not generated the cash flow necessary to reimburse FUS1 for all of the services and supplies provided since it was purchased and included with FUS1 other utility systems. The accounts payable analysis file is attached to this response for staff's review.

LYU asserts that the net \$96,528 portion of the Account Payable balance attributed to FUS1 is, in essence, an inter-company or related party debt due to FUS1. It is a creditable, and long-term debt, because it represents the allocated cumulative net charges from FUS1 to LYU for the two- and one-half-year period of July 2017 to December 2019.

It is Commission policy to treat related party debt such as this as equity when developing a Capital Structure for a rate proceeding. In LYU case, such a treatment would reverse the negative equity balance \$64,909 to a positive balance of \$31,619. LYU Capital Structure balance would now become \$166,793, which is more comparable to the \$124,072 net book value balance for rate base as determined in staff's audit. (\$16,765 -Water plus \$107,307 – W/Water)

<u>CAPITAL COMPONENT</u>	<u>BALANCE</u>
COMMON STOCK	\$0
RETAINED EARNINGS	(\$65,277)
PAID IN CAPITAL	\$368
OTHER EQUITY	<u>\$96,528</u>
TOTAL EQUITY	\$31,619
LONG-TERM DEBT	\$135,124
SHORT-TERM DEBT	\$0
PREFERRED STOCK	<u>\$0</u>
TOTAL DEBT	\$0
CUSTOMER DEPOSITS	\$50
DEFERRED INCOME TAXES	\$0
<b><u>TOTAL</u></b>	<b><u>\$166,793</u></b>

Please contact me should you have any further questions.

(407) 690-2647

Jeff Small

OCBOA Consulting, LLC

On behalf of//

Lake Yale Utilities, LLC

Attachment

LYU AP Analysis (excel file)

Cc// Mike Smallridge, Lake Yale Utilities, LLC