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UNITED WATER FLORIDA INC.

DOCKET NO. 960451-WS

TESTIMONY OF JOHN M. GRAYSON

ON BEHALF OF THE STAFF OF THE FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS

FILED: DECEMBER 18, 1996

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FILED: DECEMBER 18, 1996

DIRECT TESTIMONY OF JOHN M. GRAYSON

1
2 Q. Please state your name and business address.

3 A. My name is John M. Grayson and my business address is 2540 Shumard Oak
4 Blvd., Tallahassee, Florida.

5 Q. By whom are you presently employed and in what capacity?

6 A. I am employed by the Florida Public Service Commission as the Inspector
7 General.

8 Q. How long have you been employed by the Commission?

9 A. I have been employed by the Florida Public Service Commission for
10 approximately six years.

11 Q. Briefly review your educational and professional background.

12 A. In 1988, I received a Bachelor of Science Degree in Accounting from
13 Bethune-Cookman College. I received a Master of Business Administration
14 Degree from Nova University in 1992. I worked for the Florida
15 Department of Transportation as an Accountant before joining the
16 Commission staff. I was an Auditor with the Commission from October
17 1989 to October 1992. I then worked as an Analyst in the Bureau of
18 Revenue Requirements (Telecommunication Accounting Section) until May
19 1994. At this time I accepted the position of Inspector General with
20 the Florida Department of Education and worked there until I returned
21 to the Commission as a Regulatory Analyst Supervisor in March 1995.
22 In August 1996 I was appointed as the Inspector General for the
23 Commission. I am also a Certified Public Accountant licensed in the
24 State of Florida.

25 Q. Please describe your current responsibilities.

- 1 A. My current responsibilities include the performance of audits,
2 investigations, and management reviews relating to the programs and
3 operations of the Commission as well as other duties and
4 responsibilities provided for in Section 20.055, Florida Statutes.
- 5 Q. Have you presented expert testimony before this Commission or any other
6 regulatory agency?
- 7 A. Yes. I presented testimony which sponsored the staff audit report of
8 Venture Associates Utilities Corporation, Docket No. 930892-WU, in
9 January 1996.
- 10 Q. What is the purpose of your testimony today?
- 11 A. The purpose of my testimony is to sponsor the staff Rate Base Audit
12 Report of United Water Florida Inc., Undocketed, for the Fourteen Years
13 Ended December 31, 1994. The audit report is filed with my testimony
14 and is identified as JMG-1. I am sponsoring this audit report as part
15 of my responsibilities from when I was the audit supervisor of the
16 Tallahassee district office, not as part of my current position as
17 Inspector General with the Commission.
- 18 Q. Was this audit report prepared by you?
- 19 A. Yes, I was the audit manager in charge of this audit.
- 20 Q. Do you have any changes to make to this audit report?
- 21 A. Yes. After reviewing the utility's comments to the rate base audit
22 report I do have some changes. These revisions will be presented in my
23 review of the audit exceptions.
- 24 Q. Please review the audit exceptions in the audit report.
- 25 A. Audit Exception No. 1 addresses the Continuing Property Records for land

1 transactions. Commission Rule 25-30.115(1), Florida Administrative Code.
2 requires that "Water and wastewater utilities shall, effective January 1,
3 1986, maintain its accounts and records in conformity with the 1984 NARUC
4 Uniform Systems of Accounts adopted by the National Association of Regulatory
5 Utility Commissioners." The Uniform System of Accounts (USUA) Accounting
6 Instruction 24C for Utility Plant - Land and Land Rights states "A record
7 shall be maintained showing the nature of ownership, full legal description,
8 area, map reference, purpose for which used, city, county and tax district in
9 which situated, from whom purchased or to whom sold, payment given or
10 received, other cost, contract date and number, date of recording of deed, and
11 book and page of record." Accounting Instruction 2.A, General - Records
12 states "Each utility shall keep its books of accounts, and all other books,
13 records, and memoranda which support the entries in such books of account so
14 as to furnish readily full information as to any item included in any
15 account." On February 2, 1996, the audit staff requested the information
16 required by this instruction for all land transactions from 1981 through 1994.
17 On February 21, 1996, the utility responded that some of the items requested,
18 (related to land acquired or purchased by means other than acquisitions) were
19 not readily accessible and might require excessive research. The audit staff
20 had not been provided a complete response to this request when the audit
21 report was issued on July 22, 1996.

22 I believe that the utility's failure to fully respond indicates that its
23 records were not maintained in a manner so as to furnish readily full
24 information as to any land item. Therefore, I believe the utility is in
25 violation of Rule 25-30.115.

1 Audit Exception No. 2 addresses the preservation of utility records.
2 Commission Rule 25-30.110(1)(a). Florida Administrative Code requires that
3 "Each utility shall preserve its records in accordance with the "Regulations
4 to Govern the Preservation of Records of Electric, Gas and Water Utilities"
5 as issued by the National Association of Regulatory Utility Commissions, as
6 revised May 1985." These regulations require the utility to retain records
7 related to plant a minimum of 25 years. United retains vendors' invoices with
8 amounts less than \$2,000 in Jacksonville. In February 1996, United discovered
9 the accounts payable invoice files for the years 1990 and 1991 were not in
10 storage. The utility represented to the auditors that the records were
11 discarded with those files that exceeded the record retention date. One of
12 the basic standards of auditing requires that the auditor obtain "sufficient,
13 competent evidential matter." The standards further discuss that when
14 "evidential matter can be obtained from independent sources outside an entity,
15 it provides greater assurance of reliability" This basic principle is
16 why auditors prefer invoices over canceled checks and company prepared reports
17 to verify plant expenditures. The total amount of invoices with amounts less
18 than \$2,000 booked to Utility Plant for 1990 and 1991 was \$182,030 and
19 \$241,839, respectively. Through the utility's own admission, it destroyed
20 records prematurely and is therefore in violation of Commission rule 25-
21 30.110. Because these invoices are the preferred method of verifying plant
22 additions, I recommend that the plant additions that cannot be verified should
23 be removed from rate base along with appropriate adjustments to depreciation
24 expense and taxes.

25 Audit Exception No. 3 discusses the utility's plant accounting. The

1 utility accounts for plant placed into service during the current year in
2 general ledger account 101-00 - Current Year Plant and accounts for the
3 cumulative plant placed into service in prior years in accounts 101-05 and
4 101-55. Prior Year Water Plant in Service and Prior Year Sewer Plant in
5 Service, respectively. Account 101-XX is the NARUC control account for plant
6 accounts 301 through 348 (water) and accounts 351 through 398 (sewer). When
7 support for the activity in the 300 accounts was requested, the utility
8 provided the audit staff with Lotus 1-2-3 spreadsheets which provided plant
9 additions, retirements, and adjustments on a yearly basis. On March 3, 1996,
10 the audit staff asked if the utility maintained a ledger for the 300 accounts.
11 The utility responded, "A LOTUS 1-2-3 plant and accumulated depreciation
12 schedule is maintained identifying all 300 accounts. Entries are posted
13 manually to the LOTUS 1-2-3 schedule which are not linked to the CWIP ledger
14 or general ledger." NARUC, Class A, Instruction 2 requires, "A. Each utility
15 shall keep its books of account, and all other books, records, and memoranda
16 which supports the entries in such books of account so as to be able to
17 furnish readily full information as to any item included in any account." The
18 audit staff believes that the utility is in violation of this rule due to the
19 following factors. First, the plant schedules provided to the audit staff
20 were on a yearly basis and did not provide the detail of transactions which
21 occurred. A subsidiary ledger should contain details of all entries to the
22 300 accounts which are closed monthly to the control account. This was not
23 provided. Second, the schedules provided by the utility did not support the
24 general ledger 101 account as there were errors identified by the audit staff
25 and subsequently corrected by the utility.

1 The audit exception further states that the utility closes multi-year
2 work orders on an annual basis and that plant not in use is booked to plant
3 in service. After further review, the audit staff has concluded that the
4 original conclusion was in error and that the only costs associated with plant
5 placed into service is booked to plant in service.

6 Audit Exception No. 4 discusses the utility's accounting practices for
7 acquisition adjustments and concludes that the utility's books and records do
8 not comply with the NARUC Uniform System of Accounts. Specifically, NARUC,
9 Class A, Instruction 2 requires, "A. Each utility shall keep its books of
10 account, and all other books, records, and memoranda which supports the
11 entries in such books of account so as to be able to furnish readily full
12 information as to any item included in any account." On March 22, 1996, the
13 audit staff requested journal entries and supporting calculations for selected
14 general ledger activity to the acquisition adjustment and related acquisition
15 adjustment amortization accounts (FPSC Document/Record Request #RTM-18). On
16 March 28, 1996, the utility responded that journal entries and supporting
17 documentation for the amortization of acquisition adjustments are not
18 currently available for this request. The basis for acquisition adjustment
19 amortization and supporting documentation may be made available with the
20 response to RTM-10. FPSC Document/Record Request #RTM-10, as referred to by
21 the utility was not responded to by the close of this audit.

22 Audit Exception No. 5 recommended a debit adjustment of \$1,530,199 to
23 account 117.00 - Plant Acquisition Adjustment - Water. Subsequent to the
24 issuance of the audit report, the audit staff has concluded that the proposed
25 adjustment is not appropriate.

1 Audit Exception No. 6 discusses the utility's records relating to
2 Contributions in Aid of Construction (CIAC). During fieldwork, the audit
3 staff verified that the CIAC totals as presented in the Annual Reports (1981 -
4 1994) were supported by the utility general ledger. The CIAC totals
5 presented in the Annual Reports were supported by the detail schedule totals
6 within the Annual Report, namely Schedule A, Contributions received from
7 Capacity, Main Extension, and Customer Connection Charges and Schedule B,
8 Contribution Received from Developer or Contractor Agreements in Cash or
9 Property. The audit staff attempted to verify that the details presented in
10 Schedules A and B were supported by the utility's books and records. On
11 February 15, 1996, the audit staff requested that the utility provide
12 documentation to support the transactions within Accounts 271-90-CIAC-Closed
13 Work Orders, 271-96 CIAC-Receipt of Contributions (FPSC Document Record
14 Request MC-CIAC 6 & 7). On April 5, 1996, the utility provided the audit
15 staff with computer runs in response to this request. The computer runs
16 provided by the utility did not provide the sufficient documentation to
17 reconcile from general ledger detail to detail maintained in the annual report
18 schedules. The audit staff verbally informed the utility of such
19 inconsistencies. On May 15, 1996, the utility provided a spreadsheet which
20 acknowledged a \$996,139 difference between the detail presented in the annual
21 report and the utility books and records for Account 271-90-CIAC-Closed Work
22 Orders. NARUC, Class A, Instruction 2 requires, "A. Each utility shall keep
23 its books of account, and all other books, records, and memoranda which
24 supports the entries in such books of account so as to be able to furnish
25 readily full information as to any item included in any account. Each entry

1 | shall be supported by such detailed information as will permit a ready
2 | identification, analysis, and verification of all fact relevant thereto." The
3 | audit staff expects the utility to be able to support the detail schedules as
4 | filed in the annual reports and believes that the utility's failure to do so
5 | violates this rule.

6 | Audit Exception No. 7 discusses the utility's records relating to
7 | Accumulated Amortization of Contributions in Aid of Construction. On March
8 | 8, 1996, the audit staff requested information necessary to verify the CIAC
9 | amortization rates and bases used to calculate the accumulated amortization
10 | amount for water and wastewater (FPSC Document/Record Request No. MC-AA1).
11 | This request had a due date of March 12, 1996. The utility responded to this
12 | request on July 17, 1996. The audit staff believes that the utility's failure
13 | to respond to this request in a timely manner indicates that the utility did
14 | not furnish readily the requested information and is therefore in violation
15 | of NARUC, Class A, Instruction 2 which requires, "A. Each utility shall keep
16 | its books of account, and all other books, records, and memoranda which
17 | supports the entries in such books of account so as to be able to furnish
18 | readily full information as to any item included in any account. Each entry
19 | shall be supported by such detailed information as will permit a ready
20 | identification, analysis, and verification of all fact relevant thereto."

21 | Audit Exception No. 8 recommended a credit adjustment of \$1,262,048 to
22 | account 111 - Reserve for Depreciation. Subsequent to the issuance of the
23 | audit report, the audit staff has concluded that the proposed adjustment is
24 | not appropriate. It has been brought to my attention that accumulated
25 | depreciation was further reviewed in the rate case audit and Mike Buckley is

1 | sponsoring that audit.

2 | Q. Does this conclude your testimony?

3 | A. Yes, it does.

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FLORIDA PUBLIC SERVICE COMMISSION
AUDIT REPORT
RATE BASE ACTIVITY AUDIT
FOURTEEN YEARS ENDED DECEMBER 31, 1994

Field Work Completed
July 18, 1996

UNITED WATER FLORIDA INC.
Jacksonville, Florida
Duval County

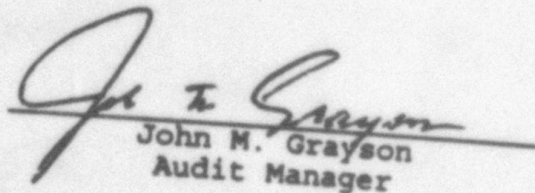
UNDOCKETED
Audit Control Number 93-216-1-1

Audit Staff

Robert T. Moore
Mark Caruth
Demetrius M. Lockwood
David J. Draper

Minority Opinion

Yes	_____	No	<u>RTM</u>
Yes	_____	No	<u>MC</u>
Yes	_____	No	<u>Dem</u>
Yes	_____	No	<u>Dr</u>


John M. Grayson
Audit Manager

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I. EXECUTIVE SUMMARY:

AUDIT PURPOSE: We have applied the procedures described in Section II of this Report in order to audit the following components of Rate Base (Land, Plant in Service, Accumulated Depreciation, Contribution in Aid of Construction and Accumulated Amortization of Contribution in Aid of Construction) at December 31, 1994, for United Water Florida Inc.

SCOPE LIMITATION: This report is not based on confidential information. The scope of work performed by the audit staff was limited by the Company as they did not readily furnish timely responses to numerous document requests submitted by the audit staff. Furthermore, many responses were incomplete and to date there are still some outstanding document requests.

DISCLAIM PUBLIC USE: This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must not be relied upon for any purpose except to assist the Commission Staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

OPINION: The audited components of rate base at December 31, 1994 presented as an exhibit in this report, represents the Company's books and records which are not in substantial compliance with Commission directives as expressed in the following exceptions. The expressed opinions extend only to the scope of the work described in Section II of this report.

II. AUDIT SCOPE:

The report is based on the audit work described below.

SCOPE OF WORK PERFORMED

UTILITY PLANT-IN-SERVICE: Analyzed Plant-in-Service; analyzed selected additions and retirements for the fourteen years ended December 31, 1994; traced selected additions and retirements to the general ledger and to the Construction Work in Progress ledger; selected Work Order amounts and traced journal entries to accounts payable ledgers and vendor invoices.

LAND: Reconciled Company land schedules to the general ledger. Scheduled land activity by year. Agreed land acquisitions to FPSC order.

CIAC AND ACCUMULATED AMORTIZATION OF CIAC: Traced CIAC Total balances from each Annual Report to the general ledger for the fourteen years ended December 31, 1994. Traced Accumulated Amortization CIAC from each Annual Report to the general ledger for the fourteen years ended December 31, 1994.

ACQUISITION ADJUSTMENT AND ACCUMULATED AMORTIZATION OF ACQUISITION ADJUSTMENT: Scheduled general ledger activity. Agreed each acquisition to a FPSC order. Determined the proper 12/31/80 general ledger balance from the last rate order. Analyzed Company accounting procedures for acquisition adjustment.

ACCUMULATED DEPRECIATION: Compared the Company's depreciation rates to the depreciation rates per rule 25-30.140. Recalculated depreciation expense and accumulated depreciation for water and wastewater using the rates approved in the Company's last rate case for the fourteen years ended December 31, 1994.

III. AUDIT EXCEPTIONS:

AUDIT EXCEPTION NO. 1

SUBJECT: CONTINUING PROPERTY RECORDS FOR LAND TRANSACTIONS

STATEMENT OF FACT: NARUC, Class A, Water Utility, Accounting Instruction 2.A., General - Records, states "Each utility shall keep its books of accounts, and all other books, records, and memoranda which support the entries in such books of account so as to furnish readily full information as to any item included in any account."

NARUC, Class A, Water Utility, Accounting Instruction 24.C., Utility Plant - Land and Land Rights, states "A record shall be maintained showing the nature of ownership, full legal description, area, map reference, purpose for which used, city, county and tax district in which situated, from whom purchased or to whom sold, payment given or received, other cost, contract date and number, date of recording of deed, and book and page of record."

Audit Document/Record Request numbered DJD-6 requested the continuing property records for land transactions. The request contained the items required in NARUC instruction 24 paragraph C. The Company responded that the items listed below are not readily accessible and might require excessive research.

1. Full legal description, area, and map reference.
2. From whom purchased or whom sold.
3. Payment given or received.
4. Contract data and number (work order #).
5. Date of recording deed, book and page number.
6. Copies of deeds and document stamp.

AUDIT OPINION: The Company records do not comply with NARUC Uniform Systems of Accounts Class A Water and Wastewater instructions 2.A. and 24.C. The Company should be directed to comply with NARUC Accounting Instructions.

AUDIT EXCEPTION NO. 2

SUBJECT: DESTRUCTION OF RECORDS

STATEMENT OF FACT: NARUC Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities, April 1974 (REVISED MAY, 1985), General Instructions, item J., requires the Company to retain records related to plant a minimum of 25 years.

The Company retains vendor's invoices with amounts under two thousand dollars in Jacksonville. In February, 1996, the Company discovered the accounts payable invoice files for the years 1990 and 1991 were not in storage. The Company represents the records were discarded with those files that exceeded the record retention date. The Company concluded the destruction occurred when the files at the end of the year were purged. The total amount of invoices with amounts under two thousand dollars booked to plant in service for 1990 and 1991 was \$182,030 and \$241,839 respectively.

AUDIT OPINION: The auditor is unable to audit the above stated amount. The total for the two years, \$423,870 should be excluded from rate base.

AUDIT EXCEPTION NO. 3

SUBJECT: PLANT ACCOUNTING

STATEMENT OF FACT:

Rule 25-30.115 (1) F.A.C. states "Water and wastewater utilities shall, effective January 1, 1986, maintain its accounts and records in conformity with the 1984 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners."

NARUC, Class A, account 101 Utility Plant in Service for water states "A. This account is the control account for plant accounts 301 through 348."

NARUC, Class A, account 101 Utility Plant in Service for sewer states "A. This account is the control account for plant accounts 351 through 398."

NARUC, Class A, account 101 Utility Plant in Service for both water and sewer states "B. This account shall include the original cost of utility plant, included in the plant accounts prescribed herein and in similar accounts for other utility departments, owned and used by the utility in its utility operations, having an expected life in service of more than one year from date of installation, including such property owned by the utility but held by nominees."

NARUC, Class A, Instruction 32 states
"A. Class A utilities are required to subdivide the plant accounts into "functional" operations."

"B. The "functional" operations for the water system are listed below along with the designated suffix:

- .1 Intangible plant
- .2 Source of supply and pumping plant
- .3 Water treatment plant
- .4 Transmission and distribution plant
- .5 General plant"

"B. The "functional" operations for the sewer system are listed below along with the designated suffix:

- .1 Intangible plant
- .2 Collection pumping plant
- .3 System pumping plant
- .4 Treatment and disposal plant
- .5 General plant"

NARUC, Class A, Instruction 2 requires "A. Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of account so as to be able to furnish readily full information as to any item included in any account."

STATEMENT OF FACT (continued):

The Company accounts for plant in service with "general ledger accounts 101-00, 101-05 and 101-55".

"101-00 is current year plant in service"

"101-05 represents prior year water plant in service"

"101-55 represents prior year wastewater plant in service"

The Company general ledger does not contain NARUC required accounts for 300 plant accounts subdivided into functional operations.

The Company closes multi-year work order additions/adjustments on an annual basis whether the construction is completed or not. Plant in service per the general ledger contains property not in use.

The Company required over 2 months to correct their prepared analysis of plant by 300 account requested in audit request RTM-2. The Company responded on April 29, 1996 to request RTM-2 submitted February 22, 1996.

The Company required nearly 2 months to provide an analysis of land acquired or purchased in answer to audit request number RTM-4. The Company responded on April 18, 1996 to request RTM-4 submitted February 22, 1996.

AUDIT OPINION AND CONCLUSION:

The Company books and records do not comply with NARUC.

The books of account do not record journal entries by 300 account nor by functional operation suffix.

Plant not in use is booked in plant in service.

Information about 300 account functional operation entries and balances could not be readily furnished.

RECOMMENDATIONS:

Direct the Company to comply with NARUC in their general ledger plant accounting practices.

Direct the Company to use the NARUC prescribed 300 account nomenclature with functional operation suffixes in the general ledger.

Direct the Company to cease booking work orders before completion and final close out of the work order.

AUDIT EXCEPTION NO. 4**SUBJECT: ACCOUNTING FOR ACQUISITION ADJUSTMENT****STATEMENT OF FACT:**

1. Rule 25-30.115 (1) F.A.C. states "Water and wastewater utilities shall, effective January 1, 1986, maintain its accounts and records in conformity with the 1984 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners."
2. NARUC, Class A, Account 114 Utility Plant Acquisition Adjustments states "C. The amounts recorded in this account with respect to each property acquisition shall be amortized, or otherwise disposed of, as the Commission may approve or direct."
3. NARUC, Class A, Account 115 Accumulated Amortization of Utility Plant Acquisition Adjustments states "This account shall be credited or debited with amounts which are includible
 in account 406 - Amortization of Utility Plant Acquisition Adjustments,
 or account 426 - Miscellaneous Nonutility Expenses,
 for the purpose of providing for the extinguishment of amounts in account 114 - Utility Plant Acquisition Adjustments."
4. NARUC, Class A, Instruction 2 states "A. Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of account so as to be able to furnish readily full information as to any item included in any account."
5. Company accounting practices for Acquisition Adjustments:
 - a. "Acquisition Adjustments are booked to account 117-0x or 117-5x (water or wastewater) and authorized amortization is booked to account 118-0x or 118-5x (water or wastewater)."
 - b. For (7) 117.xx accounts, the Company has recorded acquisition adjustments not approved by the Commission. Two accounts contain "excess" in the account title to distinguish them from amounts authorized by the Commission.
 - c. The Company was unable to provide acquisition adjustment amortization computation - schedules and journal entries - for 1981 through 1994.

AUDIT OPINION AND CONCLUSION:

For Acquisition Adjustments, the Company books and records do not comply with NARUC Uniform System of Accounts as they are using A1/ account not prescribed by NARUC.

RECOMMENDATIONS:

1. Direct the Company to comply with NARUC in their general ledger acquisition adjustment practices.
2. Direct the Company to stop use of their current acquisition adjustment accounts, and use the NARUC prescribed 114, 115, 406, and 426 accounts to account for acquisition adjustments.
3. Direct the Company to record acquisition adjustment amortization to account 115 as prescribed by NARUC.
4. Direct the Company to maintain documentation to support the amortization amounts entered in the general ledger each month.

AUDIT EXCEPTION NO. 5

SUBJECT: PRIOR RATE CASE ADJUSTMENTS

STATEMENT OF FACT:

The "staff adjusted test year" balance as of 12/31/80 for Acquisition Adjustment per Order 10531 is \$205,141 for water and \$353,918 for sewer.

The Company general ledger as of 12/31/80 for Acquisition Adjustment:

For water: (\$1,991,409) for Jacksonville Suburban Utilities and (\$1,152,282) for Southern Utilities Company.

For sewer: \$1,375,097 for Jacksonville Suburban Utilities and \$1,066,644 for Southern Utilities Company.

AUDIT OPINION AND CONCLUSION:

The balances in Order 10531 are averages. The year-end balances were calculated by the audit staff and are presented below.

For water: (\$995,705) for Jacksonville Suburban Utilities and (\$617,787) for Southern Utilities Company.

For sewer: \$1,375,097 for Jacksonville Suburban Utilities and \$1,066,644 for Southern Utilities Company.

The difference between the general ledger and Order 10531 in year-end amounts as of 12/31/80 is listed below.

For water: \$995,704 for Jacksonville Suburban Utilities and \$534,495 for Southern Utilities Company. The sum of these amounts equal \$1,530,199.

Adjustment to the Company books for total water agreement to the last rate order is a debit of \$1,530,199 to account 117.00.

From our examination of the general ledger for 1980 through 1994, no entry had been made to approximate the audit computed debit adjustment of \$1,530,199.

RECOMMENDATIONS:

Direct the Company to enter a debit adjustment of \$1,530,199 to account 117.00.

AUDIT EXCEPTION NO. 6

SUBJECT: CIAC

STATEMENT OF FACT: Rule 25-30.115 F.A.C. states "Water and wastewater utilities shall, effective January 1, 1986, maintain its accounts and records in conformity with the 1984 NARUC Uniform Systems of Accounts adopted by the National Association of Regulatory Utility Commissioners."

NARUC Uniform System of Accounts, Class A, Water and Wastewater Accounting Instruction 2.A., General - Records states "Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of account so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts relevant thereto."

The NARUC, Class A, Balance Sheet Account 271 - Contributions in Aid of Construction, part C, states "The records supporting the entries to this account shall be so kept that the utility can furnish information as to the purpose of each donation, the conditions, if any, upon which it was made, the amount of donations from (a) states, (b) municipalities, (c) customers, and (d) others, and the amount applicable to each utility department."

The utility did not furnish those data records necessary to reconcile CIAC balances from the individual Water and Sewer amounts listed in the Annual Reports (1981-1994) to the individual Water and Sewer account balances within the General Ledger Detail, the CIAC Ledger (the Developers Advances and Contributions Ledger), the Cash Receipts Ledger/Reports, and detailed Computerized Financial Reports.

AUDIT OPINION AND CONCLUSION: The company records for CIAC do not comply with Rule 25-30.115 F.A.C., Accounting Instruction 2.A of NARUC Uniform System of Accounts for Class A Water and Wastewater, and NARUC Balance Sheet Account description for Contributions in Aid of Construction (Account 271 CIAC part C).

RECOMMENDATION: The utility should be directed to comply with Commission Rules and NARUC requirements.

AUDIT EXCEPTION NO. 7

SUBJECT: ACCUMULATED AMORTIZATION OF CIAC

STATEMENT OF FACT: Rule 25-30.115 F.A.C. states, "Water and wastewater utilities shall, effective January 1, 1986, maintain its accounts and records in conformity with the 1984 NARUC Uniform Systems of Accounts adopted by the National Association of Regulatory Utility Commissioners."

NARUC, Class A, Water and Wastewater Accounting Instruction 2.A General - Records states that "Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of account so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts relevant thereto."

The utility did not furnish complete information in response to data requested by the auditor necessary to verify the amortization rates and bases used to calculate the accumulated amortization amount for water and sewer.

AUDIT OPINION AND CONCLUSION: The Company records for Accumulated Amortization of CIAC do not comply with Rule 25-30.115 F.A.C. and Accounting Instruction 2.A of NARUC Uniform System of Accounts for Class A Water and Wastewater.

RECOMMENDATION: The Company should be directed to comply with Commission Rules and NARUC requirements.

AUDIT EXCEPTION NO. 8

SUBJECT: ACCUMULATED DEPRECIATION

STATEMENT OF FACT: Rule 25-30.140 F.A.C provides specific guidelines for the determination of depreciation rates for water and wastewater companies. SAB 17, issued 2/13/90, states, "If a company previously appeared before this Commission and has received an order to use a certain depreciation rate or set of rates, or a depreciation rate or rates were used to calculate expenses allowed in calculating allowed tariffs, those explicit or implicit depreciation rates from the latest Commission action are in effect until the first Commission action under the new (effective 3-22-84) depreciation rule."

FPSC Document/Record Request No. DML-2, dated April 5, 1996, requests the Company to justify the depreciation rates being used and the change in depreciation rates in year 1986. In response to the depreciation rates being used, United Water Florida stated, "...we had been using these rates since our last rate case in 1981/1982 (test year ended 12/31/80), which is prior to the date of your guideline rates. We were waiting until our next rate case before changing them." In response to the change in depreciation rates in year 1986, United Water Florida stated, "In 1986, the Company went to individual rates by plant account number, keeping the aggregate effect consistent with the previous composite rate. The change was made to conform as much as possible with the Florida Public Service Commission Docket No. 850287-WS, Order No. 16285, issued 6/26/86."

AUDIT OPINION: The audit staff recalculated the accumulated depreciation by account for years 1986 through 1994 utilizing the rates approved in the Company's last rate case.

RECOMMENDATION: The Commission should direct the Company to credit accumulated depreciation for water plant accounts by \$1,262,048 and debit accumulated depreciation for wastewater plant accounts by \$173,981 for a net credit adjustment of \$1,088,067 to total accumulated depreciation.

UNITED WATER FLORIDA INC.
RATE BASE
12/31/94

RATE BASE COMPONENT	WATER PER BOOK BALANCE 12/31/94	SEWER PER BOOK BALANCE 12/31/94	TOTAL PER BOOK BALANCE 12/31/94	AUDIT ADJUSTMENT	[E/D]	AUDIT BALANCE 12/31/94
UTILITY PLANT IN SERVICE (Excl Land)	43,207,221	70,355,759	113,562,980	(423,870)	E2	113,139,110
LAND & LAND RIGHTS	857,505	1,283,144	2,140,749			2,140,749
TOTAL UTILITY PLANT IN SERVICES	44,064,826	71,638,903	115,703,729	(423,870)		115,279,859
ACQUISITION ADJUSTMENT	1,897,686	2,801,401	4,499,087	(1,530,199)	E5	2,968,888
ACCUMULATED AMORTIZATION - ACQUISITION ADJUSTMENT	(882,820)	(1,542,374)	(2,425,194)			(2,425,194)
ACCUMULATED DEPRECIATION	(7,746,420)	(15,565,657)	(23,312,077)	(1,088,067)	E8	(24,400,144)
CIAC	(20,987,017)	(30,944,706)	(51,911,723)			(51,911,723)
ACCUMULATED AMORTIZATION - CIAC	4,420,182	9,052,859	13,473,051			13,473,051
TOTAL RATE BASE *	20,588,447	35,440,426	56,028,873	(3,042,136)		52,986,737

* WORKING CAPITAL AND CWIP EXCLUDED

Order # 9533

General Waterworks Corp
owned Jack Subtiltas

Sally
WILLER IN A RATE CASE
IF NO objection than
will be filed is
11 1.

LAW OFFICES

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SCOTT S. SCHLESER
DAVID L. WILSON
L. PETER JOHNSON 1942-1992

October 4, 1996

VIA FEDERAL EXPRESS

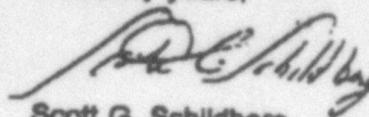
Blanca Bayo, Director
Department of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Betty Easley Building, Room 110
Tallahassee, Florida 32399-0850RE: Undocketed Audit control 93-216-1-1
In re: Rate Base Audit Report - Fourteen Years Ended December 31, 1994

Dear Ms. Bayo:

In connection with the above-referenced matter, please find enclosed for filing an original and seven copies of United Water Florida Inc.'s Comments to their Audit Report on Rate Base By the Florida Public Service Commission. Please file the original and distribute the copies in accordance with your usual procedures.

If you have any questions or comments regarding this matter, please do not hesitate to call.

Sincerely yours,


Scott G. Schildberg
SGS/msa
Enclosurescc: Mr. David E. Chardavoyne
Mr. Richard A. Hensch
Mr. Frank J. McGuire
Mr. Munipalli Sambamurthi
Ms. Rosanne Capeless
Ms. Beth Selak (via facsimile) ✓
Mr. James L. Ade

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Rate Base Audit Report -)
Fourteen Years Ended December 31,)
1994)
_____)

UNDOCKETED
Audit Control 93-216-1-1
Date Submitted for
Filing: October 4, 1996

COMMENTS OF UNITED WATER FLORIDA INC. TO AUDIT REPORT
ON RATE BASE BY THE FLORIDA PUBLIC SERVICE COMMISSION

United Water Florida Inc., a Florida corporation (hereinafter referred to as "United Water Florida"), by and through its undersigned attorneys, makes the following responses to certain audit exceptions contained in that certain Audit Report of the rate base of United Water Florida, for the fourteen (14) years ended December 31, 1994, Audit Control number 93-216-1-1 ("Audit Report"):

Executive Summary

United Water Florida does not agree with several of the statements in the Scope Limitation and Opinion sections of the Executive Summary.

United Water Florida's books and records are in substantial compliance with the directives of the Florida Public Service Commission ("Commission") and the National Association of Regulatory Utility Commissioners ("NARUC"). After completing a few minor matters, United Water Florida's books and records will be in total compliance with such directives.

United Water Florida has now fully complied with all document requests and is not aware of any outstanding document requests or any document requests which require additional information. United Water Florida asks that in the event the Staff requires additional

information or documents, that the Staff request United Water Florida to furnish such information and documents.

With respect to the comment that United Water Florida did not readily furnish timely responses, United Water Florida states that United Water Florida provided the responses in a diligent and responsive manner despite the large number of document requests and the fact that the requests covered a fourteen (14) year time period. In addition, United Water Florida notes that the audit occurred during the transition of United Water's records from one computer system to another computer system, which in turn reduced United Water Florida's ability to respond during the transition. Furthermore, the Audit Staff required United Water Florida to perform a special sorted run with its computer system - a sort for which the computer system was not designed to perform. United Water Florida required additional time to complete this requirement.

Audit Exception No. 1

United Water Florida complies with NARUC, Class A, Water Utility, Accounting Instruction 2 A., General- Records by keeping "its books of accounts, and all other books, records, and memoranda which support the entries in such books of account so as to furnish readily full information as to any item included in any account." United Water Florida has substantially complied with NARUC, Class A, Water Utility, Accounting Instruction 24.C., Utility Plant - Land and Land Rights, which states "[a] record shall be maintained showing the nature of ownership, full legal description, area, map

reference, purpose for which used, city, county and tax district in which situated, from whom purchased or to whom sold, payment given or received, other costs, contract date and number, date of recording of deed, and book and page of record."

It is United Water Florida's understanding that it has now complied with the Audit Document/Record Request No. DJD-6 relating to records of land transactions for the period 1981 through 1994.

First, in accordance with Rule 25-30.436(4)(i), Florida Administrative Code ("FAC"), United Water Florida filed, as Exhibit H-12 to its Application for Adjustment of Rates ("Application"), copies of documents that demonstrate that it owns the land upon which its treatment facilities are located or that provide for its continued use of the land, for land which was recorded on its books since its rate base was last established. The time period covered by such documents includes the 14-year period set forth in Document Request/Record Request No. DJD-6. Such documents provide the following information:

1. Full legal description.
2. From who purchased.
3. Date of recording deed.
4. Book and page of record.
5. Copies of deeds and document stamp (not a requirement of Accounting Instruction 24).

Such documents also include information as the nature of ownership and the county in which the land is situated. Please note the following: (i) all of United Water Florida's land in Duval County

is also located in the City of Jacksonville; (ii) none of United Water Florida's land in St. Johns County is located in an incorporated city; and (iii) none of United Water Florida's land in Nassau County is located in an incorporated city.

In addition, except for the information on the deeds from its corporate parent, which were a contribution to capital, the documentary stamp tax information contained on the deeds supports the cost of the land recorded in United Water Florida's records (payment given or received).

During the current audit of United Water Florida's test year, United Water Florida has provided to the Staff of the Florida Public Service Commission ("Commission") the same type of documents for its land transactions (other than the land transactions set forth in Exhibit H-12) occurring during 1981 through 1994.

United Water Florida's land acquisitions primarily have been through the acquisition of facilities from other utility companies and from developer agreements, for which no contract data and number (work order number) would be appropriate.

United Water Florida believes that it has provided all of the required information for the Staff of the Commission.

United Water Florida already has initiated a program for additional monitoring of its acquisitions of land rights. The program includes the development of computer records identifying land transactions in connection with developer agreements, including cross references to the physical files containing the recorded documents and the other information required by Accounting

Instruction No. 24. The computer records will be expanded to include all future transactions involving land rights to enhance United Water Florida's record keeping ability in this area.

United Water Florida has made available to the Audit Staff for review United Water Florida's closing binders for its acquisitions of the facilities of other utility companies occurring since 1980. If there is any additional information needed by the Staff of the Commission, United Water Florida asks the Staff to advise United Water Florida of its needs.

Audit Exception No. 2

United Water Florida states that: (i) the auditor could audit the plant account for 1990 and 1991 and (ii) the investments in plant by United Water Florida of \$182,030.92 and \$241,839.15 relating to invoices of less than \$2,000.00 in 1991 and 1992 should not be excluded from rate base. United Water Florida has invoices for its plant investments in 1990 and 1991 which account for well over ninety percent (90%) of its total investments (96.5% in 1990 and 93.9% in 1991). With respect to the remaining invoices, the Audit Staff can audit the NARUC account numbers and amounts of such invoices, thus satisfying the intent of the NARUC Regulations. United Water Florida has an account distribution report which is prepared in the processing of the accounts payable and identifies the vendor, the amount paid to the vendor, and the NARUC account number. The Audit Staff can use the account distribution report, canceled checks, and the check register to audit and verify the remaining invoices.

The average yearly total of the invoices for plant investments for amounts of less than \$2,000.00 in 1990 and 1991 (\$211,935.04), which are the invoices discussed in Audit Exception No. 2, is consistent with the average yearly total for such invoices in the two years before and the two years after 1990 and 1991 (\$222,652.50).

Audit Exception No. 3

United Water Florida complies with NARUC accounting practices with regard to recording plant in its general ledger. Account 101 is used for all plant activity and is the control account for the 300 accounts. The 300 accounts are set forth in a supplemental ledger as prescribed in Rule 25-30.115(1), FAC, and NARUC Instruction 32. The 300 accounts set forth in the supplemental ledger agree in total with general ledger account 101. United Water Florida's plant records comply with the guidelines set forth by NARUC and the books of account record journal entries by 300 accounts and by functional operation suffix.

With respect to recording plant, the Audit Report erroneously states that plant not in use is booked to plant in service. United Water Florida's multi-year projects often include several components which are placed into service before the completion of the last component of the multi-year project is completed. Only the costs associated with the component which is placed into service are booked to plant in service. For example, in December of 1995, piping in connection with Work Order No. 95131 was placed into service and then the costs associated with such piping

(\$1,767) were booked to plant in service. Replacing the remaining piping and the Carlotta Lift Station was completed in January 1996 (the rest of the work order) and placed into service in January 1996. Accordingly, the remaining costs were booked to plant in service in January 1996.

United Water Florida's basic procedure in this area is as follows:

1. Once a project or a significant component of a project is physically placed in service, it is added to plant in service and not before;

2. Project costs may be booked to plant in service subsequent to the project or significant component of a project being placed in service; and

3. Once all costs are captured, the project is closed.

Accordingly, none of the recommendations should be adopted because United Water Florida already is complying with the directives of the Commission and the accounting procedures of NARUC.

Audit Exception No. 4

United Water Florida's accounting practices for acquisition adjustments are consistent with NARUC Requirements - except that the account numbers used by United Water Florida are different from the account numbers used by NARUC. However, United Water Florida uses the NARUC account numbers for all filings with the Commission.

United Water Florida maintains documentation to support its amortization of acquisition adjustments with its book depreciation

schedules. See information provided with Document Request/Record Request RTM-16. United Water Florida currently reconciles its amortization of acquisition adjustments to its general ledger annually rather than monthly. However, United Water Florida is willing to reconcile the amortization of the acquisition adjustments to the general ledger on a monthly basis if requested by the Commission.

Audit Exception No. 5

Audit Exception No. 5 addresses United Water Florida's existing Acquisition Adjustment as of December 31, 1980, and recommends that United Water Florida be directed to enter a debit adjustment of \$1,530,199 to account 117.00. United Water Florida's position is that it should not be directed to make such an adjustment, or, in the alternative, it should be directed to make such an adjustment and an off-setting equal adjustment to the accumulated amortization of acquisition adjustment account.

As shown in Order No. 6575, Docket Nos. R-74517-WS and R-74516-WS, the net balance of the existing Acquisition Adjustment as of the 1973 test year was \$828,249.00 (\$379,392.00 plus \$448,857.00). The Commission approved an annual amortization expense of \$41,413.00 (\$30,394.00/2 years plus \$52,432.00/2 years) which was effective in 1974. See Order No. 10531, Docket No. 810071-WS, pages 4 and 14. Accordingly, the Commission had approved an amortization period of twenty (20) years for the existing Amortization Adjustment (\$828,249.00 + \$41,413.00/per year

= 20 years). The twenty (20) year period expired at the end of 1994.

The "staff adjusted test year" balance in the Audit Report's Statement of Facts appears to be based on net information (i.e., a balance for the Acquisition Adjustment which is reduced by an amount for Accumulated Amortization of Acquisition Adjustment), whereas the remainder of the discussion in Audit Exception No. 5 utilizes gross information (i.e., amounts for Acquisition Adjustments which are not reduced by amounts of Accumulated Amortization of Acquisition Adjustments). The analysis of this issue should consistently utilize net or gross information and should also consider the effect of Accumulated Amortization of Acquisition Adjustment, which the current recommendation does not address (see Schedule to Audit Report - no changes in the account for Accumulated Amortization - Acquisition Adjustment).

As of December 31, 1980, United Water Florida's books had the following: (i) a total combined gross balance for Acquisition Adjustment - Water of <\$3,143,691>, which equals the auditor's finding in the audit report (<\$1,991,409> + <\$1,152,282> = <\$3,143.691>); (ii) a total combined gross balance for Acquisition Adjustment - Wastewater of \$2,441,741, which equals the auditor's finding in the audit report (\$1,375,097 + \$1,066,644 = \$2,441,741); and (iii) a total combined net balance of \$971,060.00 for Acquisition Adjustments less Accumulated Amortization of Acquisition Adjustments. Although the Acquisition Adjustment should have been fully amortized by the end of 1994, the final

\$16,548.00 of the net Acquisition Adjustment on the company's books was not amortized until 1995. See attached Schedule 1.

Under (i) the combined "staff adjusted test year" balance for Acquisition Adjustment as of December 31, 1980, of \$559,059.00 (\$205,141.00 and \$353,918.00), (ii) United Water Florida's net book balance of Acquisition Adjustment as of December 31, 1980, of \$971,060.00, or (iii) the Audit Report's recalculation of the Acquisition Adjustment via either gross book balance or balance per Order No. 10531, the Acquisition Adjustment should have been completely amortized by the end of 1994. As mentioned above, \$16,547 of the Acquisition Adjustment on the company's books, which should have been amortized prior to 1995, was not amortized until 1995. Under any of the alternatives, no net Acquisition Adjustment should have existed to impact rate base after 1994 and none did, except for the minor \$16,547 amount, which was amortized in 1995. Accordingly, there is a zero balance for the Acquisition Adjustment (of the existing Acquisition Adjustment as of December 31, 1980) remaining to amortize, which is proper because the amortization period has expired.

Therefore, first, there should be no adjustment. The amortization period has expired and the balance in the Acquisition Adjustment account for the existing Acquisition Adjustment as of December 31, 1980, should be zero and it is zero.

Second, if an adjustment is made to the Acquisition Adjustment account, an off-setting equal adjustment should be made to Accumulated Amortization of Acquisition Adjustment to create a zero

balance for the Acquisition Adjustment existing as of December 31, 1980, because the amortization period has expired and the applicable balance should be zero.

Third, if there is an adjustment made to the Acquisition Adjustment account, the Audit Report schedule must be corrected. The Audit Exception indicates that United Water Florida should enter a debit adjustment of \$1,530,199.00. The debit adjustment to an asset account would increase United Water Florida's rate base by \$1,530,199.00. The Audit Report's Schedule mistakenly uses a credit adjustment of \$1,530,199.00, which incorrectly reduces United Water Florida's rate base by \$1,530,199. The net effect of the mistake in the schedule reduces United Water Florida's rate base by \$3,060,398.00 from the rate base total contemplated by the audit report recommendation.

There should be no adjustment to account no. 117.00 as suggested by the Audit Report or there should be a corresponding adjustment to the Accumulated Amortization - Acquisition Adjustment account.

Audit Exception No. 6

Audit Exception No. 6 relates to data records for contributions in aid of construction ("CIAC"). United Water Florida has provided the information requested by the auditors on this subject in its responses to the document requests. United Water Florida has verified that the aggregate totals for CIAC listed in United Water Florida's ledgers agree with the aggregate totals for CIAC listed in United Water Florida's annual reports and

provided a copy of the verification in its response to Document Request/Record Request No. MC-CIAC10 submitted on May 14, 1996.

Reconciling the totals for individual components of CIAC listed in United Water Florida's ledgers with the totals for individual components by CIAC listed in United Water Florida's annual reports proved to be difficult.

As discussed earlier, during the audit, United Water Florida's parent company was in the process of transitioning its records from one computer system to another. The computer upgrade will permit United Water Florida to maintain its CIAC balances by individual components, enable United Water Florida to perform all necessary reconciliations, and assist United Water Florida to maintain its records in full compliance with NARUC requirements on a prospective basis.

Audit Exception No. 7

United Water Florida does not agree that: (i) it did not furnish complete information in response to data requested by the auditor necessary to verify the amortization rates and bases used to calculate the Accumulated Amortization amounts for water and sewer, or (ii) its records for Accumulated Amortization of CIAC do not comply with Rule 25-30.115 FAC and Accounting Instruction 2.A of NARUC Uniform System of Accounts for Class A Water and Wastewater.

United Water Florida has supplied all of the information requested by the Staff. United Water Florida satisfied the final request with its response to Document Request/Record Request No.

MC-AA1, which was sent to the Audit Staff while the Audit Report was being written. The response provides information about the amortization rates and bases for Accumulated Amortization of CIAC. Furthermore, the rates for the amortization of CIAC are reflected on the depreciation schedule supplied to the Staff during the audit in response to Document Request/Record Request No. RTM-3.

United Water Florida's records for Accumulated Amortization of CIAC together with its books of account; and all other books, records, and memoranda which support the entries in such books of account, are kept so that United Water Florida is able to furnish readily full information as to any item included in any account. Each entry is supported by such detailed information as will permit a ready identification, analysis, and verification of all facts relevant thereto.

United Water Florida is already complying with Commission Rules and NARUC requirements in this area. However, the computer upgrades discussed in the Executive Summary and Audit Exception No. 6 will make verifying amortization rates and bases even easier in the future.

Accordingly, United Water Florida should not be directed to comply with Commission Rules and NARUC requirements.

Audit Exception No. 8

The Auditor recommends that United Water Florida be directed to increase its Accumulated Depreciation by \$1,088,067, and thereby reduce United Water Florida's rate base by over one million dollars. United Water Florida's response to this exception

consists of two major points. First, United Water Florida's depreciation rates are consistent with the rates approved in its last rate case. Second, the auditor has significantly overdepreciated items in the general plant accounts.

United Water Florida's depreciation rates from its last rate case are set forth on Schedule 2. United Water Florida's General Plant accounts (e.g., office furniture, small tools, power operated equipment, transportation equipment, laboratory equipment, communication and miscellaneous equipment) have depreciation rates ranging from 10% to 33 1/3%. United Water Florida's composite rates for its remaining accounts are 2.0% for water accounts and 2.5% for wastewater accounts. United Water Florida has reviewed its accumulated depreciation for 1986 through 1994, the time period addressed in Audit Exception No. 8, and confirmed that United Water Florida's rates are consistent with the rates approved by the Commission in United Water Florida's last general rate case (Docket No. 810071-WS). See attached Schedule 3. United Water Florida's average of depreciation rates on total depreciable plant, excluding General Plant, for United Water Florida during the relevant time period (1986-1994) were 1.97% (sum of rates divided by 9 years: $17.75\% \div 9$ years) and 2.46% (sum of rates divided by 9 years: $22.11\% \div 9$ years) for water and wastewater, respectively. Accordingly, United Water Florida's rates for depreciation on total depreciable plant, excluding General Plant, varied less than two percent from United Water Florida's composite rates of 2.0% and 2.5% for water and wastewater, respectively, $[(2.0\% - 1.97\%) \div 2.0\%$

- 1.5¢ overall variance for water, and $(2.5¢ - 2.46¢) + 2.5¢ = 1.6¢$ overall variance for wastewater].

The major error in Audit Exception No. 8 relates to the auditor's recalculation of United Water Florida's accumulated depreciation on United Water Florida's General Plant accounts. In United Water Florida's review of the auditor's recalculation of United Water Florida's accumulated depreciation for 1986 through 1994, the time period addressed in Audit Exception No. 8, United Water Florida discovered a serious flaw which renders the auditor's results inaccurate. The recalculation results in the overdepreciation of items in United Water Florida's General Plant accounts. As shown by Schedule 4, the auditor's recalculations result in the accumulated depreciation for such accounts actually exceeding the original cost of the assets by approximately \$1.2 million dollars $(\$947,914 + \$245,039 = \$1,192,953)$. Therefore, the recalculations result in more depreciation being taken on assets than is possible.

The incorrect overdepreciation results in a proposed increase in depreciation (i.e., a net credit adjustment) of \$1,192,953, which is slightly more than the net credit adjustment of \$1,088,067 recommended by audit exception no. 8.

United Water Florida will make its work papers on accumulated depreciation available to the Staff for further review.

Because United Water Florida's rates are consistent with the rates approved by the Commission in its last rate case and the auditor's calculations are inaccurate, United Water Florida should

not be required to make any changes to its accumulated depreciation.

DATED this 4th day of October, 1996.

MARTIN, ADE, BIRCHFIELD &
MICKLER, P.A.

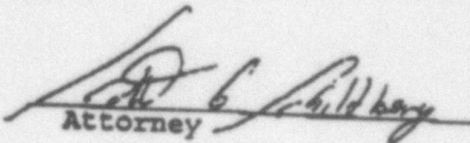
By: 

James L. Ade
Florida Bar No. 0000460
Scott G. Schildberg
Florida Bar No. 0613990
3000 Independent Square
Jacksonville, FL 32202
Telephone: (904) 354-2050

Attorneys for United Water
Florida Inc.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the original and 7 copies of the above and foregoing has been furnished by Federal Express to Blanca Bayo, Director, Division of Records and Reporting, Florida Public Service Commission, 2450 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, this 4th day of October, 1996.


Attorney

UNITED WATER FLORIDAAmortization of Acquisition Adjustments Originating
From Commission Order No. 8575 and 10531General Ledger Balances at 12/31/80

<u>Account No.</u>	<u>Amount</u>
117-00	(3,143,891)
117-01	2,441,741
118-00	1,884,890
118-01	<u>(311,880)</u>
	871,060

Accumulated amortization
from 12/31/80 to 12/31/94
(954,513)

Balance 12/31/94 18,547

Commission Order No. 8575 directed the Company to amortize the above acquisition adjustments over a 20-year period commencing at January 1, 1975, and ending December 31, 1994. The 1994 remaining balance was amortized during 1995.

JACKSONVILLE SUBURBAN UTILITIES CORPORATIONDocket No. 810071-WSInterrogatories Dated November 13, 1981Interrogatory No. 8

What is the overall depreciation rate used by the Company to determine depreciation expense?

Answer

<u>Plant in Service</u>	<u>Jacksonville</u>		<u>Southern</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>
Utility Plant	2%	2.5%	2%	2.5%
Office Furniture	10%	-	10%	-
Small tools, power operated equipment and transportation equipment	33.33%	-	33.33%	-
Laboratory equipment, communication and miscellaneous equipment	20.0%	20%	20%	-

UNITED WATER FLORIDA
ANALYSIS OF PSC ADJUST SCHEDULES (RE: 1995 RATE CASE)
COMPOSITE DEPRECIATION RATES

YEAR	WATER	SEWER
1996	2.82%	2.63%
1997	2.81%	2.48%
1998	1.87%	2.48%
1999	1.97%	2.07%
2000	1.92%	2.45%
2001	1.94%	2.48%
2002	1.88%	2.66%
2003	1.99%	2.54%
2004	1.86%	2.81%

- Supporting worksheets are available for review upon request -

ASSUMPTIONS:

All figures used were taken from the worksheets prepared by the PSC Audit Staff and are assumed to be correct.

NOTE:

Composite rates were calculated by dividing Depreciation Expense - Company, net of expense on General Plant, by Total Depreciable Plant, including General Plant.

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HWFO
08/25/96

SCHEDULE 3

0004 354 8842

10:52

10/04/96

UNITED WATER FLORIDA
ANALYSIS OF PSC AUDIT SCHEDULES (YE: 1996 RATE CASE)
GENERAL PLANT ACCUMULATED DEPRECIATION AT 12/31/94

33 GENERAL PLANT - WATER:
 34 303 Land and Land Rights
 35 304 Structures & Improvements
 36 340 Office Funs & Eqt
 37 341 Transportation Eqt
 38 342 Stores Eqt
 39 343 Tool, Shop and Garage Eqt
 40 344 Laboratory Eqt
 41 345 Power Operated Eqt
 42 346 Communication Eqt
 43 347 Misc Eqt
 44 348 Other Tangible Plant
 45 Total General Plant

Gross Plant @ 12/31/94	Accumulated Depreciation @ 12/31/94	Acc. Depr. Greater than Gross Plant
27,718	0	5,843
13,418	18,261	
96,732	34,581	
787,477	254,188	
0	0	
62,282	58,351	
13,814	12,172	
86,791	38,400	
142,454	136,785	
47,882	53,189	
0	0	
948,050	678,897	5,843

32 GENERAL PLANT - SEWER:
 33 353 Land and Land Rights
 34 354 Structures & Improvements
 35 308 Office Funs & Eqt
 36 301 Transportation Eqt
 37 302 Stores Eqt
 38 303 Tool, Shop and Garage Eqt
 39 304 Laboratory Eqt
 40 305 Power Operated Eqt
 41 306 Communication Eqt
 42 307 Misc Eqt
 43 308 Other Tangible Plant
 44 Total General Plant

0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
28,641	28,641	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
28,641	28,641	0

Gross Plant @ 12/31/94	Accumulated * Depreciation @ 12/31/94	Acc. Depr. Greater than Gross Plant
269,585	0	
883,881	80,888	13,425
288,486	233,820	678,533
212,368	888,883	
3,181	1,261	
84,280	287,888	843,310
12,135	34,844	22,588
88,388	160,387	74,811
424,745	888,110	18,128
28,888	48,822	
1,882	3,387	
2,133,768	2,888,243	847,814

423,604	0	
788,526	112,381	
163,782	58,208	
485,443	(117,452)	
3,181	887	
62,138	21,878	
81,582	88,800	
87,791	34,718	
822,584	884,588	72,882
34,873	17,358	
4,877	177,834	172,857
2,827,942	1,288,888	245,839

- Supporting worksheets are available for review upon request -

ASSUMPTIONS:

All figures used were taken from the worksheets prepared by the PSC Audit Staff and are assumed to be correct.

NOTE:

12/31/94 Accumulated Depreciation Balances netted at by taking total depreciation expense for the years 1993 through 1994, as calculated by the Audit Staff, net of Retirement, Cost of Removal, and Salvage, and adding it to the 12/31/93 Accumulated Depreciation Balances.

Note that this results in several plant accounts becoming zero - depreciated.

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MWD

10/25/96

SCHEDULE 4