

FILE COPY

UNITED WATER FLORIDA

DOCKET NO. 960451-WS

TESTIMONY OF MICHAEL E. BUCKLEY  
ON BEHALF OF THE STAFF OF THE FLORIDA PUBLIC SERVICE COMMISSION  
DIVISION OF AUDITING AND FINANCIAL ANALYSIS

FILED: 12/18/96

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13449 DEC 18 96

FPSC-RECORDS/REPORTING

DIRECT TESTIMONY OF MICHAEL E. BUCKLEY

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

3 A. My name is Michael E. Buckley and my business address is 2540 Shumard  
4 Oak 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 a Regulatory  
7 Analyst IV in the Division of Auditing and Financial Analysis.

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 seven years and nine months.

11 Q. Briefly review your educational and professional background.

12 A. I have a Bachelor of Business Administration degree with a major in  
13 accounting from Oklahoma University. I was hired as a Regulatory Analyst I  
14 by the Florida Public Service Commission in July 1989.

15 Q. Please describe your current responsibilities.

16 A. Currently, I am a Regulatory Analyst IV with the responsibilities of  
17 planning and directing the more complicated financial, program, special and  
18 investigative audits, including audits of affiliate transactions. I am also  
19 responsible for creating audit work programs to meet a specific audit purpose  
20 and integrating EDP applications into these programs. I also direct and  
21 control assigned staff work as well as participate as a staff auditor and  
22 audit manager.

23 Q. What is the purpose of your testimony today?

24 A. The purpose of my testimony is to sponsor the staff audit report of  
25 United Water Florida, Docket No. 960451-WS. The audit report is filed with



1 my testimony and is identified as MEB-1

2 Q. Was this audit report prepared by you?

3 A. Yes, I was the audit manager in charge of this audit.

4 Q. Please review the audit exceptions in the audit report.

5 A. Audit Exceptions disclose substantial non-compliance with the Uniform  
6 System of Accounts, a Commission rule or order, Staff Advisory Bulletins, and  
7 formal company policy. Audit Exceptions also disclose company exhibits that  
8 do not represent company books and records and company failure to provide  
9 underlying records or documentation to support the general ledger or exhibits.

10 Audit Exception No. 1 discusses the NARUC Uniform System of Accounts.  
11 Commission Rule 25-30.115(1), Florida Administrative Code, requires that  
12 "Water and wastewater utilities shall, effective January 1, 1986, maintain its  
13 accounts and records in conformity with the 1984 NARUC Uniform Systems of  
14 Accounts adopted by the National Association of Regulatory Utility  
15 Commissioners." The utility uses its own chart of accounts for its record  
16 keeping. However, it cross-references these accounts to the NARUC Uniform  
17 Systems of Accounts (USOA). Many of these cross-references are incorrect.  
18 For instance, in the balance sheet accounts, the utility included Completed  
19 Construction Not Classified (USOA account 106), Property Held For Future Use  
20 (USOA account 103), and CWIP (USOA account 105) in its account 101. It also  
21 incorrectly cross-referenced Accumulated Amortization of Acquisition  
22 Adjustments, Other Accounts Receivable (Employees), and Accumulated Provision  
23 for Uncollectible Accounts. I believe that these errors in cross-referencing  
24 are significant enough to be considered a violation of the rule requiring the  
25 USOA.

1        Audit Exception No. 2 discusses continuing property records.    The  
2 utility Policy Number 120 directs that:

3        "each company maintain separate Continuing Property Records (CPR)  
4        ... (and) when properly established will provide: a) an inventory  
5        of property records which may be readily spot checked for proof  
6        of existence. b) the association of costs with such property units  
7        to assure accurate accounting of retirements..."

8        The NARUC USOA also requires that "all property shall be considered as  
9        consisting of (1) retirement units and (2) minor items of property." The USOA  
10       also goes on to require that when retirement units are retired from utility  
11       plant in service, the book cost shall be credited to the utility plant  
12       account. Without CPR records, this entry cannot be accomplished.

13       Also, as the utility's own policy points out, CPR records also serve  
14       as a method of spot checking for proof of existence. A utility should keep  
15       track of all the property that is owned and make sure that it continues to be  
16       properly recorded and that none of the property has been lost, stolen or  
17       damaged.

18       I recommend that the utility be directed to comply with the NARUC USOA  
19       and its own company policy and maintain continuing property records.

20       Audit Exception No. 3 discusses the Allowance for Funds used During  
21       Construction (AFUDC). Commission rule 25-30.116(3), Florida Administrative  
22       Code, states "a discounted monthly AFUDC rate, calculated to six decimal  
23       places, shall be employed to ensure that the annual AFUDC charged does not  
24       exceed authorized levels." Subsection (5) further states that "no utility may  
25       charge or change its AFUDC rate without prior Commission approval."



1 Commission order 21492, dated June 30, 1989, established an AFUDC rate of  
2 11.12% for this utility. Beginning January 1, 1995, the utility used an AFUDC  
3 rate of 14.83%. The audit estimates that the capitalized AFUDC for 1995  
4 should be reduced by \$94,515 to reflect the discounted rate approved in Order  
5 No. 21492. Exhibit MEB-2 attached to my testimony is the set of work papers  
6 which detail this adjustment. The 1996 rate base and depreciation expense  
7 should also be reduced consistent with the adjustment for 1995.

8 Audit Exception No. 4 discusses numerous errors in the MFR pages for the  
9 capital structure. The first five adjustments are to the capital structure  
10 of United Waterworks Inc. The first adjustment is to the preferred stock.  
11 MFR Schedule D-2 Page 3 of 9 reflects a 13-month average for preferred stock.  
12 Following are the thirteen balances from the general ledger. These result in  
13 an increase to the MFR average of \$4,631.

|    |                |           |
|----|----------------|-----------|
| 14 | December 1994  | \$824,500 |
| 15 | January 1995   | 820,000   |
| 16 | February 1995  | 815,700   |
| 17 | March 1995     | 815,700   |
| 18 | April 1995     | 815,700   |
| 19 | May 1995       | 815,700   |
| 20 | June 1995      | 815,700   |
| 21 | July 1995      | 815,700   |
| 22 | August 1995    | 815,700   |
| 23 | September 1995 | 815,700   |
| 24 | October 1995   | 815,700   |
| 25 | November 1995  | 815,700   |

1 December 1995 801,700

2 The second adjustment is to short-term debt. Schedule D-4 of the MFRs  
3 indicates a thirteen-month average for short-term debt. For most of the  
4 months, the utility has calculated a daily average for each month in order to  
5 accurately calculate effective interest rates. However, three months reflect  
6 incorrect daily averages. December 1994 should be changed to \$6,411,290.  
7 April 1995 should be changed to \$235,000. June 1995 should be changed  
8 to \$5,870,000. These changes result in a decrease to short-term debt of  
9 \$655,595.

10 The third adjustment is to the long-term debt cost rate. The utility  
11 has numerous issues of long-term debt. One coupon rate was entered  
12 incorrectly when listing the debt issues and coupon rates in the schedules  
13 supporting the MFRs. Account 221-053 should have a coupon rate of 6.35% which  
14 results in a new long-term debt rate of 8.18%.

15 The fourth adjustment is to the short-term debt cost rate. The auditors  
16 recalculated the monthly interest expense for short-term debt and found errors  
17 in the calculations. The correct monthly balances are listed below. When  
18 these interest amounts are compared to the corrected short-term debt balances,  
19 the resulting effective interest rate is 6.41%.

|    |               |          |
|----|---------------|----------|
| 20 | December 1994 | \$35,384 |
| 21 | January 1995  | 43,712   |
| 22 | February 1995 | 2,809    |
| 23 | April 1995    | 1,236    |
| 24 | May 1995      | 11,960   |
| 25 | June 1995     | 30,921   |



1 July 1995 9,647

2 The fifth adjustment is to the common equity cost rate. After making  
3 the previous adjustments to the balances for debt and equity, the cost rate  
4 for equity should be adjusted to reflect the revised ratios. This results in  
5 a new rate of 11.57%.

6 The next four adjustments are to the capital structure items from United  
7 Water Florida. The first adjustment is to the deferred income tax average.  
8 In calculating the thirteen-month average for deferred income taxes, the  
9 utility used a December 1995 balance of \$231,044. However, the actual balance  
10 was \$917,179. Substituting the correct balance and recalculating the average  
11 results in an increase to the average deferred income tax of \$52,779.

12 The second adjustment is to the average balance for investment tax  
13 credits (ITCs). Schedule D-2 Page 2 of 9 reflects the thirteen monthly  
14 balances for ITCs. The December 1994 balance is typed incorrectly and should  
15 be \$1,281,558. This decreases the average balance by \$853,846.

16 The third adjustment is to the customer deposit cost rate. The only  
17 customer deposits that the utility has collected are from commercial laundry  
18 facilities. Commission rule 25-30.311(4)(a), Florida Administrative Code,  
19 requires an interest rate of 7 percent on non-residential deposits.

20 The fourth adjustment is to the ITC cost rate. After making the  
21 previous adjustments to the balances for debt and equity, the cost rate for  
22 ITCs should be adjusted to reflect the revised ratios. This results in a new  
23 rate of 9.69%.

24 Audit Exception No. 5 addresses the MFR schedules A-1 and A-2 for water  
25 and wastewater rate base. Commission rule 25-30.437, Florida Administrative

1 Code, requires that "each Class A utility applying for a rate increase shall  
2 provide the information required by Commission Form PSC/WAW 19 (11/93),  
3 entitled "Class A Water and/or Wastewater Utilities Financial, Rate and  
4 Engineering Minimum Filing Requirements." This form includes Schedules A-1  
5 and A-2 as rate base schedules and the explanation describes the schedule as  
6 an "average rate base for the test year". United Water Florida did not  
7 present an average rate base for the test year on these schedules. The rate  
8 base presented is a year-end rate base. These schedules should be adjusted  
9 to reflect an average rate base, unless the utility demonstrates extraordinary  
10 growth or investment costs, with no corresponding increase in revenues.

11       Audit Exception No. 6 discusses plant held for future use reflected on  
12 the utility's general ledger. The utility general ledger reflects \$23,776 for  
13 plant held for future use but this amount is not reflected in the MFRs. I  
14 recommend that the MFRs be reduced by \$23,776 to reflect the balance on the  
15 general ledger.

16       Audit Exception No. 7 discusses accumulated depreciation. Page 12 in  
17 the audit report only addresses wastewater. However, our audit also looked  
18 at the water account. This exception actually covers four areas for both  
19 water and wastewater. First, the MFRs reflect a year-end balance of  
20 accumulated depreciation instead of a thirteen-month average. According to  
21 the general ledger, the thirteen-month average balance is \$8,020,895 for water  
22 and \$16,323,875 for wastewater. This is \$131,055 less than shown in the MFRs  
23 for water and \$706,459 less for wastewater. Second, the MFR balances for  
24 accumulated depreciation are taken from the utility's subsidiary depreciation  
25 schedules. However, these schedules do not reflect the general ledger



1 | balances. For water, the MFRs are \$120,808 greater than the general ledger.  
2 | For wastewater, the MFRs are \$120,816 less than the general ledger. The third  
3 | area concerns the utility's change in 1983 from depreciating total plant to  
4 | depreciating plant by account. The 1983 depreciation schedules show \$1,389,492  
5 | for water and \$3,129,090 for wastewater labeled "Reserve for Depreciation  
6 | prior to 1982." These amounts were written off by 1985. Therefore, the  
7 | balance in the accumulated depreciation account is solely the depreciation  
8 | since 1983. The fourth area discusses the depreciation rates used. In 1986,  
9 | the utility changed its depreciation rates from those used in the last rate  
10 | proceeding. The rates the utility changed to are the rates included in the  
11 | Commission's depreciation rule 25-30.140, Florida Administrative Code. The  
12 | audit attempted to recalculate accumulated depreciation for wastewater using  
13 | the rates used in the last order. Without adjustment for the other errors,  
14 | the audit calculated a balance for wastewater accumulated depreciation of  
15 | \$17,552,424.

16 | Q. Please review the audit disclosures in the audit report.

17 | A. Audit Disclosures disclose material facts that are outside the  
18 | definition of an Audit Exception.

19 |       Audit Disclosure No. 1 discusses several expense items that are included  
20 | in the MFRs that are normally excluded for rate proceedings. The first item  
21 | recommends that \$9,603 be disallowed for items which are normally disallowed  
22 | for rate determinations. These items generally include charitable  
23 | contributions, association dues, and golf cart fees. A full listing is  
24 | included in Exhibit MEB-3 attached to my testimony. The second item is for  
25 | life insurance for officers and employees. The utility paid \$17,788 for life

1 insurance for officers and employees. The third item states that the utility  
2 misclassified a \$10,580 expense as Water insurance when it should have been  
3 classified as travel expense. The last item relates to the allocation of rent  
4 expense. The utility allocated approximately 93% of the rent expense to the  
5 water systems. I believe that the rent should be reduced to 70% for water and  
6 the remainder should be allocated to wastewater. This 70/30 split matches the  
7 utility's other allocations. This adjustment results in a reduction of  
8 \$51,330 to water and an increase of \$51,330 to wastewater.

9       Audit Disclosure No. 2 discusses \$78,112 included in expenses in the  
10 MFRs for "investor relations." Previous commission orders have disallowed  
11 these types of cost in whole and in part. Commission Order No. 11307, issued  
12 November 10, 1982, in a Petition of Tampa Electric Company, states

13       "Stockholder relations expenses are incurred for activities  
14 related to image building and goodwill. This type of expense is  
15 not normally allowed by this Commission if incurred by a utility."

16       Commission Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, for a  
17 Petition of Southern States Utilities, Inc., states

18       "However, through the ROE leverage formula, we have allowed  
19 recovery of costs associated with being a publicly traded utility.  
20 Specifically, in the calculation of the appropriate cost of  
21 equity, we recognized an additional 25 basis points to the  
22 otherwise determined cost of equity to provide for these costs.  
23 To ask SSU's ratepayers to pay 25 basis points on ROE in addition  
24 to the amount requested by SSU would be duplicative. We also  
25 question whether the benefits SSU receives from MP&L are worth



1       \$208,776 to the ratepayers in Florida. Consequently, we shall  
2       disallow all of the utility's requested shareholder services  
3       expenses of \$208,776."

4       Commission Order No. PSC-94-0119-FOF-TL, issued February 1, 1994, in a  
5       Petition of Quincy Telephone Company states

6       "Intrastate expense should be reduced by \$6,514 to remove half of  
7       the costs for activities related to maintenance of an active  
8       investor relations program, since these activities benefit both  
9       the stockholders and the ratepayers."

10       The amount included in the MFRs is approximately 7% of the total spent  
11       by the parent company and consists of:

|    |          |                       |
|----|----------|-----------------------|
| 12 | \$8,765  | "Annual Report"       |
| 13 | \$7,097  | "Quarterly Reporting" |
| 14 | \$18,278 | "Annual Meeting"      |
| 15 | \$26,133 | "Transfer Agent"      |
| 16 | \$17,839 | "Other"               |

17       I am merely disclosing these amounts for the Commission to determine the  
18       appropriate treatment.

19       Q.     Does this conclude your testimony?

20       A.     Yes, it does.

21

22

23

24

25

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

RATE AUDIT

YEAR ENDED DECEMBER 31, 1995

Field Work Completed

November 19, 1996

UNITED WATER FLORIDA INC.

Jacksonville, Florida

Duval County

DOCKET NO. 960451-WS

Audit Control Number 96-214-1-2

Audit Staff

Robert T. Moore  
Mark Caruth  
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Chris Holman

Minority Opinion

|     |       |    |          |
|-----|-------|----|----------|
| Yes | _____ | No | RTM      |
| Yes | _____ | No | MC       |
| Yes | _____ | No | DML      |
| Yes | _____ | No | DL by RH |
| Yes | _____ | No | TM       |

Michael E. Buckley  
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DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING



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**I. EXECUTIVE SUMMARY:**

**AUDIT PURPOSE:** We have applied the procedures described in Section II of this Report to audit the schedules of Rate Base, Net Operating Income, and Capital Structure for the test period ending December 31, 1995, prepared by United Water Florida Inc., for their Petition for rate relief, FPSC Docket 960451-WS. This report is not based on confidential information.

**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 MFR's of Rate Base, Net Operating Income, and Capital Structure for the test period ending December 31, 1995 represent United Water Florida Inc. books and records which have not been maintained in substantial compliance with Commission directives as expressed in the following exceptions and disclosure. The expressed opinions extend only to the scope of the work described in Section II of this report.



**II. AUDIT SCOPE:**

The opinions contained in this report are based on the audit work described below. When used in this report, the following definitions shall apply.

**COMPILED** - The audit staff reconciled exhibit amounts with the general ledger, visually scanned accounts for error or inconsistency, disclosed any unresolved error, irregularity, or inconsistency, and except as noted, performed no other audit work.

**RATE BASE:** Compiled Plant-in-Service; tested selected additions and retirements for the year ended December 31, 1995; recomputed Construction Work in Progress; selected Work Order amounts and traced journal entries to accounts payable ledgers and vendor invoices; recomputed accumulated depreciation balances; recomputed working capital including interest bearing amounts, unfunded reserves, and non-utility transactions; traced CIAC total balances to the general ledger for the year ended December 31, 1995. Traced Accumulated Amortization of CIAC to the general ledger for the year ended December 31, 1995.

**NET OPERATING INCOME:** Compiled the Operation and Maintenance Expenses for the year ending December 31, 1995; matched company's O&M accounting structure (non-USOA format) to the rate filing format (USOA), and traced data from the general ledger to the company's rate filing schedules; performed a selective analysis of the following accounts: Purchased Water; Purchased Power; Chemicals; Materials and Supplies; Contractual Services Other; Rental; Transportation; Insurance vehicle; Insurance general liability; Insurance workmans comp; Miscellaneous expenses; Purchased Sewage Treatment; Sludge Removal expense. Reviewed selected invoices and selected checks, equipment, and automobile leases, and other documentation to support the accounting data. Reviewed the allocation of corporate management costs and other overhead charges flowing down to the books of United Water Florida (being charged into the Contract Services Management Fees - Clearing account of United Water Florida).

**CAPITAL STRUCTURE:** Recomputed 13 month averages for each General Ledger account in capital; recomputed cost rates for all General Ledger accounts; reconciled all General Ledger balances of the parent's (United Waterworks, Inc.) capital; obtained copies of all long term debt agreements; recomputed short term debt daily average; recomputed Deferred Income Taxes; recomputed parent company's cost of capital for use in allocating Florida's Equity; recomputed United Water Florida's Weighted Cost.

**OTHER:** Read the Board of Directors Minutes for 1991 to 1995; obtained federal and state income tax returns; obtained gross receipts tax returns and ad valorem tax returns; obtained internal audit reports for 1994 and 1995.

III. AUDIT EXCEPTIONS:

AUDIT EXCEPTION NO. 1

SUBJECT: UNIFORM SYSTEM OF ACCOUNTS FOR WATER AND WASTEWATER

STATEMENT OF FACT: Rule 25-30.115 F.A.C. (1) 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 (USOA) adopted by the National Association of Regulatory Utility Commissioners."

AUDIT OPINION: The Company General Ledger does not follow the USOA. The table provided by the Company to cross-reference the General Ledger accounts to the USOA also does not fully comply with the USOA.



**AUDIT EXCEPTION NO. 2**

**SUBJECT: CONTINUING PROPERTY RECORDS**

**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."

Company Policy Number 120, Page 1 of 1, adopted by United Water Florida directs:

"1.1 It is the policy of GWC, where directed by the Regulatory Commission, that each company maintain separate Continuing Property Records (CPR) of the original book costs of all water and sewer plant located within each city, town, village or borough of the company service area."

"The CPR when properly established will provide:

- a) An inventory of property records which may be readily spot checked for proof of existence.
- b) The association of costs with such property units to assure accurate accounting of retirements.
- c) The dates of installation and removal of property units to provide age-life data for use in depreciation studies."

**AUDIT OPINION:** The Company records do not comply with NARUC Uniform Systems of Accounts Class A Water and Wastewater instructions 2.A. The Company also does not follow its own policy for Continuing Property Records. The Company should be directed to comply with NARUC Accounting Instructions.

## AUDIT EXCEPTION NO. 3

SUBJECT: ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

STATEMENT OF FACT: Rule 25-30.116 (3) F.A.C. states "Discounted monthly AFUDC rate. A discounted monthly AFUDC rate, calculated to six decimal places, shall be employed to insure that the annual AFUDC charged does not exceed authorized levels."

Rule 25-30.116 (3)(b) states "The monthly AFUDC rate, carried out to six decimal places, shall be applied to the average monthly balance of eligible CWIP that is not included in rate base."

Rule 25-30.116 (5) states "No utility may charge or change its AFUDC rate without prior Commission approval."

FPSC Order 21492 dated June 30, 1989, states "Ordered by Florida Public Service Commission that the application of Jacksonville Suburban Utilities Corporation for establishment of an 11.12% AFUDC rate is approved."

The company does not use a monthly discounted rate to calculate monthly AFUDC charges. Instead the company divided the AFUDC rate by 12 and calculates monthly charges.

The company did not use the approved AFUDC rate of 11.12% as of January 1, 1995, but used an AFUDC rate of 14.83%.

If the company had used the approved AFUDC rate and monthly discounted rate for the year 1995, the AFUDC charges would have been \$94,515.00 less than what was booked in 1995.

|  |                    |
|--|--------------------|
| Total AFUDC Booked by Company in 1995:     | 330,619.00         |
| Total AFUDC Estimated Per FPSC Order Rate: | <u>236,104.00</u>  |
| Amount Difference from Ordered Rate        | <u>\$94,515.00</u> |

An AFUDC rate of 14.83% is still being used in 1996.

OPINION: The 1995 rate base should be reduced by \$94,515.00. The projected 1996 and 1997, rate bases should also be adjusted.



**AUDIT EXCEPTION NO. 4**

**SUBJECT: CAPITAL STRUCTURE**

**STATEMENT OF FACT:** Numerous errors were made in the MFRs for Capital Structure:

**United Waterworks Inc.**

1. Preferred Stock Calculation Error (13 Month General Ledger Average understated \$4,631).
2. Short Term Debt 13 Month Average Calculation overstated \$655,595. (Misstatement of average amount outstanding for December 1994, April and June 1995)
3. Long Term Debt Cost Rate should be 8.18%. (Fallout calculation).
4. Short Term Debt Cost Rate recalculation should be 6.41%. (Fallout calculation).
5. Common Equity Cost Rate should be 11.57%. (Fallout calculation).

**United Water Florida**

1. Deferred Income Tax 13 Month Average understated \$52,779 (Misstatement of December 1995 Total calculation).
2. Investment Tax 13 Month Average overstated \$853,846 (Misstatement of December 1994 Month Amount).
3. Customer Deposits Cost Rate should be 7.00% when a utility elects not to refund a deposit after 23 Months (F.A.C. Rule 25-30.311(4)(a). Laundries are the only customer deposits held.
4. Investment Tax Cost Rate should be 9.69%. (Fallout Calculation)

**AUDIT OPINION:** The auditor's recalculated 13 Month average capital structure follows.

United Water Florida, Inc.  
 Capital Structure  
 13-MONTH AVERAGE  
 Rate Base Audit  
 Test year ended: 12/31/95

## STAFF CALCULATED

| Capital Components       | UWF<br>Per Book   | Equity Allocation<br>based on Parents<br>Capital Structure | Test Year<br>Adjusted | Ratio          | Cost Rate | Weighted<br>Cost |
|--------------------------|-------------------|--|-----------------------|----------------|-----------|------------------|
| Long-Term Debt           |                   | 32,268,508   | 32,268,508            | 52.35%         | 8.18%     | 4.28%            |
| Short-Term Debt          |                   | 291,049  | 291,049               | 0.47%          | 6.41%     | 0.03%            |
| Preferred Stock          |                   | 121,588  | 121,588               | 0.20%          | 5.00%     | 0.01%            |
| Common Equity            | 59,382,462        | 26,701,317   | 26,701,317            | 43.32%         | 11.57%    | 5.01%            |
| Customer Deposits        | 9,133             |  | 9,133                 | 0.01%          | 7.00%     | 0.00%            |
| Investment Tax           | 1,264,038         |  | 1,264,038             | 2.05%          | 9.69%     | 0.20%            |
| Acc. Deferred Income Tax | 980,755           |  | 980,755               | 1.59%          | 0.00%     | 0.00%            |
|                          | <u>61,636,388</u> | <u>59,382,462</u>  | <u>61,636,388</u>     | <u>100.00%</u> |           | <u>9.53%</u>     |

Equity Percentage  $(0.01131/0.4496) + (0.0905) = 0.1157$

Allocation based on United Waterworks, Inc. 13 Month Average Capital Structure

|                 | 13-Month<br>Average  | Ratio          | Cost Rate | Weighted<br>Cost |
|-----------------|----------------------|----------------|-----------|------------------|
| Long-Term Debt  | (216,462,668)        | 54.34%         | 8.18%     | 4.45%            |
| Short-Term Debt | (1,952,405)          | 0.49%          | 6.41%     | 0.03%            |
| Preferred Stock | (815,631)            | 0.20%          | 5.00%     | 0.01%            |
| Common Equity   | (179,117,000)        | 44.96%         | 11.57%    | 5.20%            |
|                 | <u>(398,347,704)</u> | <u>100.00%</u> |           | <u>9.69%</u>     |



AUDIT EXCEPTION NO. 5

SUBJECT: MFR SCHEDULE A-1 & A-2 RATE BASE: WATER & SEWER

STATEMENT OF FACT: The Company has filed these Schedules entitled 13-month average rate base on a year-end basis instead of the required calculation based on a 13 month average. This results in an overstatement of Water Rate Base of \$1,754,670 and an overstatement of Sewer Rate Base of \$3,487,740.

AUDIT OPINION: The Company should file this Schedule on a 13-month average.

**AUDIT EXCEPTION NO. 6**

**SUBJECT: PROPERTY FOR FUTURE USE**

**STATEMENT OF FACT:** The Company General Ledger reflects \$23,776 in Property for future use. It has been included in Utility Plant in Service, MFR Schedule A-1. The Company shows a \$0 amount for Nonused Plant on MFR A-1.

**AUDIT OPINION:** \$23,776 should be removed from Rate Base for property not used.



AUDIT EXCEPTION NO. 7

SUBJECT: ACCUMULATED DEPRECIATION

**STATEMENT OF FACT:** SAB 17 issued February 13, 1990 requires "If a company has previously appeared before this Commission (example would be a revenue rate case) and (1) has received an order to use a certain depreciation rate or set of rates, or (2) 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."

**AUDIT OPINION AND CONCLUSION:** The Company changed depreciation rates in 1986 from the rates used in the Company's last rate case in 1980.

This change of rates caused the Company to under depreciate sewer plant. The proper balance in year-end accumulated depreciation is \$17,552,424. This balance represents recomputing depreciation from 1981 through 1995 at the same rates in effect in 1980.

The filed 12/31/95 year-end "per books" accumulated depreciation of sewer \$16,909,582 is understated by \$642,842.

The 12/31/95 general ledger balance for accumulated depreciation of sewer \$17,030,424 is understated by \$522,091.

In 1981 and 1982, the Company combined accumulated depreciation for most plant accounts into one amount. In 1983, the Company began to show accumulated depreciation by each plant account.

The 1983 depreciation schedule shows \$3,129,090 labelled "Reserve for Depreciation prior to 1982" separately. Prior accumulated depreciation was not allocated to the plant accounts.

The beginning balance for accumulated depreciation by account equals only the 1982 depreciation.

The \$3,129,090 was written off by 1985.

**RECOMMENDATIONS:** The Company should adjust the general ledger and filed amounts for the understatement in sewer depreciation.

AUDIT DISCLOSURE NUMBER 1

SUBJECT: O & M EXPENSES

STATEMENT OF FACT: The O & M Water expense accounts contained items which normally are excluded for rate determination (Charity contributions, Rotary dues, etc.).

|  |           |
|--|-----------|
| #675 Miscellaneous Expenses - Water                    |           |
| #604 Life Insurance for Officers and Employees - Water | (\$3,662) |
|  | (\$5,336) |

The O&M Sewer expense accounts contained items which normally are excluded for rate determination (Charity contributions, Rotary dues, etc.).

|  |            |
|--|------------|
| #775 Miscellaneous Expenses - Sewer                    |            |
| #704 Life Insurance for Officers and Employees - Sewer | (\$5,941)  |
|  | (\$12,451) |

In another instance, the O & M expense account was mistitled; (Insurance - Water should have been Travel - Water)

|                        |            |
|------------------------|------------|
| #656 Insurance - Water |            |
| #675 Travel - Water    | (\$10,580) |
|                        | \$10,580   |

Rent also was not allocated to sewer. The following entry should be made:

|                   |            |
|-------------------|------------|
| #641 Rent - Sewer |            |
| #741 Rent - Water | \$51,330   |
|                   | (\$51,330) |



AUDIT DISCLOSURE NUMBER 2

SUBJECT: INVESTOR RELATIONS

STATEMENT OF FACT: \$78,112 was allocated to United Water Florida for United Water Annual Report, Quarterly Reporting, Annual Meeting, Transfer Agent and other. Order Number 11307 and Order Number PSC-96-1320-FOF-WS disallowed all of these expenses. Order Number PSC-94-0119-FOF-TL disallowed half of these expenses.

All of the Investor Relations Expenses were charged to Water.

Schedule of Water Rate Base  
 Company: United Water Florida  
 Docket No.: 880481-WF  
 Test Year Ended 12/31/87  
 Historic [x] or Projected [x]

Florida Public Service Commission  
 Schedule: A-1  
 Page 1 of 1  
 Preparer: F. McGhee

Explanation: Provide the calculation of 13-month average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held for Future Use. Use the Balance Sheet Method approach to determine working capital.

| Line No. | Description                       | Balance Per<br>Books<br>12/31/85 | 1986<br>Adjustments | Projected<br>Balance<br>12/31/86 | 1987<br>Adjustments | Projected<br>Balance<br>12/31/87 | Supporting<br>Schedules |
|----------|-----------------------------------|----------------------------------|---------------------|----------------------------------|---------------------|----------------------------------|-------------------------|
| 1        | Utility Plant in Service          | 48,337,300                       | 8,787,326           | 52,104,634                       | 8,800,885           | 58,604,319                       | A-6                     |
| 2        | Utility Land & Land Rights        | 582,780                          |                     | 582,780                          |                     | 582,780                          | A-6                     |
| 3        | Total Utility Plant in Svc.       | 48,830,075                       | 8,174,550           | 52,104,634                       | 7,282,451           | 58,387,085                       |                         |
| 4        | Less: Non-Used & Useful Plant     | 0                                |                     |                                  |                     |                                  |                         |
| 5        | Construction Work in Progress     | 2,788,000                        | (2,788,000)         | 0                                | 0                   | 0                                |                         |
| 6        | Less Accum. Depreciation          | (8,272,787)                      | (1,282,482)         | (9,535,228)                      | (1,888,788)         | (11,134,000)                     | A-8                     |
| 7        | Less CIAC                         | (21,843,810)                     | (2,834,100)         | (23,877,910)                     | (884,488)           | (24,872,010)                     | A-12                    |
| 8        | Accumulated Amortiz. of CIAC      | 4,824,871                        | 823,680             | 5,348,570                        | 548,187             | 5,896,877                        | A-14                    |
| 9        | Acquisition Adjustments           | 884,328                          | 0                   | 884,328                          | 0                   | 884,328                          | B-00                    |
| 10       | Accum. Amort. of Acq. Adjustments | 0                                | 0                   | 0                                | (22,287)            | (22,287)                         |                         |
| 11       | Less Advances for Construction    | (182,370)                        | 0                   | (182,370)                        | 0                   | (182,370)                        | A-16                    |
| 12       | Working Capital Allowance         | 322,487                          | 13,375              | 335,842                          | 0                   | 335,842                          | A-17                    |
| 14       | Total                             | 24,183,182                       | 674,871             | 24,818,183                       | 5,225,081           | 30,043,254                       |                         |



Schedule of Sewer Rate Base  
 Company: United Water Florida  
 Docket No.: 000461-198  
 Test Year Ended: 12/31/97  
 Historic [x] or Projected [x]

Florida Public Service Commission

Schedule: A-2

Page 1 of 1

Prepared: F McGuire

| Line No. | Description                       | Balance Per Books<br>12/31/95 | 1998 Adjustments | Projected Balance<br>12/31/98 | 1998 Adjustments | Projected Balance<br>12/31/97 | Supporting Schedules |
|----------|-----------------------------------|-------------------------------|------------------|-------------------------------|------------------|-------------------------------|----------------------|
| 1        | Utility Plant in Service          | 73,884,369                    | 18,583,887       | 90,447,496                    | 13,848,848       | 104,083,544                   | A-6                  |
| 2        | Utility Land & Land Rights        | 1,018,304                     |                  | 1,018,304                     |                  | 1,018,304                     | A-6                  |
| 3        | Total Utility Plant in Svc.       | 74,902,703                    | 18,583,887       | 91,465,800                    | 13,848,848       | 105,111,848                   | A-6                  |
| 4        | Less: Non-Used & Useful Plant     |                               |                  |                               |                  |                               |                      |
| 5        | Contr. Work In Progress           | 1,788,000                     | (1,788,000)      | 0                             |                  | 0                             |                      |
| 6        | Less Accum. Depreciation          | (10,906,882)                  | (1,334,078)      | (12,243,960)                  | (3,871,520)      | (21,916,100)                  | A-10                 |
| 7        | Less CIAC                         | (32,482,120)                  | (2,107,000)      | (34,589,120)                  | (1,448,100)      | (36,037,220)                  | A-12                 |
| 8        | Accumulated Amortiz. of CIAC      | 9,872,800                     | 741,477          | 10,614,185                    | 788,887          | 11,400,972                    | A-14                 |
| 9        | Acquisition Adjustments           | 887,888                       | 0                | 887,888                       | 0                | 887,888                       |                      |
| 10       | Accum. Amort. of Acq. Adjustments |                               | 0                |                               | (32,540)         | (32,540)                      |                      |
| 11       | Loss Advances for Construction    | 0                             |                  | 0                             | 0                | 0                             |                      |
| 12       | Working Capital Allowance         | 825,985                       | 25,884           | 851,829                       | 0                | 851,829                       | A-17                 |
| 13       | Total                             | 38,955,631                    | 12,141,489       | 50,797,081                    | 8,290,688        | 60,077,777                    |                      |

Schedule of Water Not Operating Income  
 Water  
 Company: United Water Florida  
 Schedule Year Ended  
 Interim: 1998

Florida Public Service Commission  
 Schedule B-1  
 Page 6 of 6  
 Docket No: 980451-WB  
 Preparer: Just

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any account other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

| Line No. | Description                            | Balance For Books | Utility Test Year Adjustments | Requested Revenue Requirement @ Present | Requested Annual Adjustment | Requested Revenue Requirement | Supporting Schedule |
|----------|--|-------------------|-------------------------------|---|-----------------------------|-------------------------------|---------------------|
| 1        | OPERATING REVENUES                     | \$8,852,515       |                               | \$8,852,515                             | \$1,148,888                 | \$8,001,481                   | B-4                 |
| 2        | Operation and Maintenance              | 3,488,048         |                               | 3,488,048                               | 7,301                       | 3,488,348                     | B-6                 |
| 3        | Depreciation, Net of CMC Amort.        | 817,733           |                               | 817,733                                 |                             | 817,733                       | B-14                |
| 4        | Amortization of Acquisition Adjustment | 12,752            |                               | 12,752                                  |                             | 12,752                        |                     |
| 5        | Taxes Other Than FIT                   | 781,334           |                               | 781,334                                 | \$1,700                     | \$13,036                      | B-15                |
|          | OPERATING EXPENSES                     | \$4,779,868       |                               | \$4,779,868                             | \$89,006                    | \$4,838,870                   |                     |
| 6        | Operating Income Before FIT            | \$2,072,648       |                               | \$2,072,648                             | \$1,088,881                 | \$3,162,811                   |                     |
| 7        | Provision for Income Taxes             | 480,128           | (100,378)                     | 389,752                                 | 410,152                     | 799,804                       | C-2                 |
| 8        | NET INCOME                             | \$1,612,521       |                               | \$1,712,896                             | \$679,808                   | \$2,392,707                   |                     |
| 9        | Rate Base                              |                   |                               | \$24,183,182                            |                             | \$24,183,182                  |                     |
| 10       | Rate of Return on Rate Base            |                   |                               | 7.08%                                   |                             | 9.88% *                       |                     |

\*Commission Order No. 18531, Docket No. 910771-WB(CB) established for the rate of return to be used in the interim rate proceeding from 12.40% to 13.23%. However United Water Florida wishes that right and opts to use that rate of return developed on Schedule D-1.



Schedule of Water Not Operating Income  
 Wastewater  
 Company: United Water Florida  
 Schedule Year Ended  
 Interim: 1996

Florida Public Service Commission  
 Schedule: B-2  
 Page 3 of 3  
 Docket No: 980451-WB  
 Preparer: Just

Supplement: Provide the calculation of net operating income for the test year. If amortization (Line 4) is reduced to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of change.

| Line No. | Description                            | Balance Per Books | Utility Test Year Adjustments | Requested Revenue Requirement @ Present | Requested Annual Adjustment | Requested Revenue Requirement | Supporting Schedule |
|----------|--|-------------------|-------------------------------|---|-----------------------------|-------------------------------|---------------------|
| 1        | OPERATING REVENUES                     | \$13,636,706      |                               | \$13,636,706                            | \$1,073,960                 | \$14,710,666                  | B-4                 |
| 2        | Operation and Maintenance              | 6,917,129         |                               | 6,917,129                               | 6,825                       | 6,923,954                     | B-6                 |
| 3        | Depreciation, Net of CIAC Amort.       | 1,880,845         |                               | 1,880,845                               |                             | 1,880,845                     | B-14                |
| 4        | Amortization of Acquisition Adjustment | 13,408            |                               | 13,408                                  |                             | 13,408                        | B-15                |
| 5        | Taxes Other Than FIT                   | 1,686,525         |                               | 1,686,525                               | 48,328                      | 1,734,853                     |                     |
| 6        | OPERATING EXPENSES                     | \$9,617,717       |                               | \$9,617,717                             | \$95,152                    | \$9,712,869                   |                     |
| 7        | Operating Income Before FIT            | 4,021,989         |                               | 4,021,989                               | 1,018,787                   | 5,040,776                     |                     |
| 8        | Provision for Income Taxes             | 791,979           | 42,384                        | 834,370                                 | 363,373                     | 1,217,743                     | C-2                 |
| 9        | NET INCOME                             | \$3,230,012       |                               | \$3,187,616                             | \$635,424                   | \$3,823,042                   |                     |
| 10       | Rate Base                              |                   |                               | \$36,655,631                            |                             | \$36,655,631                  |                     |
|          | Rate of Return on Rate Base            |                   |                               | 8.29%                                   |                             | 8.69% *                       |                     |

\*Commission Order No. 18531, Docket No. 910971-WB(CB) established for the rate of return to be used in the interim rate proceeding from 13.49% to 13.53%. However United Water Florida values that right and opts to use that rate of return developed on Schedule D-1.

F:\CASES\JAND\_1\_PB\_2.WK1

Reconciliation of Capital Structure to

Requested Rate Base

13-Month average

Company: United Water Florida

Docket No.: 880481-WF8

Test Year ended: 12/31/86

Histories [x] or Projected [ ]

Florida Public Service Commission

Schedule D-2

Page 1 of 8

Preparer: McGuire

Explanation: Provide a reconciliation of the 13-Month Average capital structure to requested rate base. Explain all adjustments made. Submit an additional schedule if a year-end basis is used.

| <u>Line</u><br><u>No.</u> | <u>Class of Capital</u>     | <u>Reconciled to</u><br><u>To Requested</u><br><u>Rate Base</u> | <u>Equity</u><br><u>Allocation based on</u><br><u>Parent Cap. Struct.</u><br><u>See D-2, Page 3</u> | <u>Test Year</u><br><u>Adjusted</u> | <u>Ratio</u> |
|---------------------------|-----------------------------|---|---|-------------------------------------|--------------|
|                           | Test Year<br>ended 12/31/86 |   |   |                                     |              |
| 1                         | Long-Term Debt              |   | 32,215,817  | 32,215,817                          | 51.80%       |
| 2                         | Short-Term Debt             |   | 388,148   | 388,148                             | 0.62%        |
| 3                         | Preferred Stock             |   | 120,700   | 120,700                             | 0.19%        |
| 4                         | Common Equity***            | 58,382,462  | 28,657,799  | 28,657,799                          | 42.70%       |
| 5                         | Cashless Deposits           | 9,133   |   | 9,133                               | 0.01%        |
| 7                         | Tax Credit-net cost         | 2,117,884   |   | 2,117,884                           | 3.38%        |
| 8                         | Accum. Deferred Inc. Tax    | 927,878   |   | 927,878                             | 1.49%        |
| 9                         | Total                       | 62,437,456  | 58,382,462  | 62,437,455                          | 100.00%      |

\*\*\* Allocation based on United Waterworks (Parent)

United Waterworks 13-Month Average Capital Structure  
(see D-2, Pg. 3)

See Schedule D-2, Page 3.

| Line |                 | (Thousands of \$) |         |
|------|-----------------|-------------------|---------|
|      |                 |                   |         |
| 10   | Short-Term Debt | 2,808             | 0.85%   |
| 11   | Long-Term Debt  | 218,462           | 54.25%  |
| 12   | Preferred Stock | 811               | 0.20%   |
| 13   | Common Equity   | 178,117           | 44.89%  |
| 14   |                 | 399,998           | 100.00% |



dl 11/11/96  
md 10/22/96

d

UNITED WATER FLORIDA  
RATE CASE AUDIT  
CALCULATION OF AFUDC  
PERIOD 1995 TEST YEAR

SUBJECT: UNITED WATER FLORIDA INC., RATE CASE AUDIT

COMPONENTS: 1995 ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

WORK SUMMARY: The auditor examined AFUDC for 1995 by selecting one month and recalculating AFUDC capitalized interest charge using the FPSC authorized rate of 11.12% (Order 21492). The auditor found a discrepancy in interest rate used, and recalculated the 1995 year. The company monthly booking of AFUDC charges were divided by the monthly rate used by the company, as determined by examining the separate work-order booking sheets. This process provided a estimated amount of CWIP eligible for AFUDC interest capitalization. The estimated CWIP for august was compared with the actually eligible CWIP to determine accuracy. The difference between the amounts was less the one ten of one percent. The monthly estimated eligible CWIP was then multiplied by the correct monthly discounted rate of .882543% per order 21492. The years 1996, 1994, 1993, and 1992 were reviewed to determine that the correct rate and monthly discount method was used. 16W-12.4

CONCLUSION: For 1995 and 1996, the company was using a AFUDC rate of 14.83%, and dividing it by 12 to arrive at a monthly rate. For the years 1994 to 1992, the company used the FPSC ordered rate of 11.12%, but did not used the authorized monthly discounted rate of .882543%. The difference between per company AFUDC amount and per audit amount is \$94,515.00. For 1995 16W-12.1

No.

COMPANY: UNITED WATER FLORIDA  
SCHEDULE: CALCULATION OF AFUDC 1986  
AUDITOR: DAVID J. DRAPER

DOCKET: 880481-WB  
CONTROL NO.: 88-214-1-2  
FILENAME: AFUDC.WK4

|   |           |           |           |
|---|-----------|-----------|-----------|
| Monthly Rates Charged:                  | debt      | equity    |           |
| Per Company                             | 15.21%    | 19.62%    |           |
| Monthly Amt. Per Company =              | 0.434187% | 0.801667% | Total     |
| Per FPSC Order 21492 =                  | 5.20%     |           | 11.4833%  |
| M = Monthly Rate Per FPSC Order 21599 = | 5.91%     |           | 12.35833% |
|   |           |           | 11.12%    |
|   |           |           | 6.882843% |

| 1986 Company AFUDC Interest Charges         |          |          |          |           |                           |                              |                                   |
|---|----------|----------|----------|-----------|---------------------------|------------------------------|-----------------------------------|
| Total AFUDC Booked by Co. in 1986 by Month: |          |          |          |           |                           |                              |                                   |
| Acct. #:                                    | 432.00   | 432.20   | 432.50   | 432.70    | Total AFUDC Booked by Co. | Auditor Est. Amt.            |                                   |
|   | (a)      | (b)      | (c)      | (d)       | (e)                       | Col. (e) div. by (14.83%/12) | Col. (f) mult. by FPSC disc. rate |
| JAN   | 0        | 0        | 0        | 0         | 0                         | 0                            | 0                                 |
| FEB   | 0        | 0        | 0        | 0         | 0                         | 0                            | 0                                 |
| MAR   | 0        | 0        | (3,886)  | (4,157)   | (7,843)                   | (634,833)                    | (5,801)                           |
| APR   | 0        | 0        | (1,909)  | (2,152)   | (4,061)                   | (328,804)                    | (2,900)                           |
| MAY   | 0        | 0        | (1,909)  | (2,152)   | (4,061)                   | (328,804)                    | (2,900)                           |
| JUN   | 0        | 0        | (1,915)  | (2,160)   | (4,075)                   | (328,737)                    | (2,910)                           |
| JUL   | 0        | 0        | (1,915)  | (2,160)   | (4,075)                   | (328,737)                    | (2,910)                           |
| AUG   | (18,518) | (34,364) | (25,198) | (54,653)  | (128,724)                 | (10,460,580)                 | (57,017)                          |
| SEP   | (3,786)  | (8,838)  | (8,608)  | (18,892)  | (38,193)                  | (3,134,262)                  | (20,513)                          |
| OCT   | (4,285)  | (7,321)  | (11,044) | (20,414)  | (43,064)                  | (3,533,163)                  | (31,182)                          |
| NOV   | (4,727)  | (8,740)  | (9,405)  | (17,387)  | (40,258)                  | (3,257,840)                  | (28,750)                          |
| DEC   | (4,882)  | (9,023)  | (22,728) | (42,118)  | (78,822)                  | (6,378,045)                  | (56,288)                          |
|   | (38,168) | (88,984) | (70,810) | (147,857) | (330,618)                 |                              | (236,104)                         |

Column:

- (a) thru (d) AFUDC amounts booked by company account numbers.  
(e) Total AFUDC booked by Company in 1986.  
(f) Total Company CWIP subject to AFUDC calculations determined by dividing Column (e) by the monthly rate used by the Company (14.83%/12).  
(g) Total Company CWIP subject to AFUDC calculations multiplied by FPSC approved monthly discounted

Total amount of CWIP applicable to AFUDC for Sept. per Company:

16W-12.2  
(2,847,870)

Total estimated amount of CWIP applicable to AFUDC for Sept. per Audit

(2,847,714)

Difference

(156)

The difference in the two amounts is small - audit estimates are acceptable by Auditor.

432.00 Debt Water  
432.20 Equity Water  
432.50 Debt Sewer  
432.70 Equity Sewer

(38,168) ✓  
(88,984) ✓  
(70,810) ✓  
(147,857) ✓

Total AFUDC Booked by Co. for 1986

(330,618)

Total AFUDC Per FPSC Order for 1986

(236,104)

Amt. to be Removed From Rate Base

(94,514) To 16W-12.1

CONCLUSION: The company is not using the ordered annual AFUDC rate set forth in FPSC order 21599. The company is not using the prescribed method to determine the monthly discounted AFUDC rate.

Note: AFUDC monthly bookings have a one month lag - August AFUDC is booked in Sept.  
Source: FPSC Order 21599 & 21492, FPSC rules & regulations Chapter 25-30.116 3(a), and Document Request # 35

7-T-1-614

AFUDC.WK4

16W-12.1



COMPANY: UNITED WATER FLORIDA INC.  
SCHEDULE: UWF AFUDC for August<sup>2</sup>  
AUDITOR: DAVID J. DRAPER

DOCKET: 980481-498  
CONTROL NO.: 98-214-1-3  
FILENAME: CIAC\_UWF.WKA

10/13/98  
10/14/98

| Line # | Month Order # | (a)              | (b)                              | (c)   | (d)  | (e)  |
|--------|---------------|------------------|----------------------------------|---|--|--|
|        |               | USD<br>Per Month | Total AFUDC<br>CWP For<br>August | Capitalized<br>AFUDC<br>Interest<br>For Company | Col. (d)<br>mult. by<br>(14.83%/12)<br>Per Month | Col. (e)<br>mult. by<br>FPSC rate<br>Per Month |
| 0      |               |                  |                                  |   |  |  |
| 1      |               |                  |                                  |   |  |  |
| 2      |               |                  |                                  |   |  |  |
| 3      |               |                  |                                  |   |  |  |
| 4      |               |                  |                                  |   |  |  |
| 5      |               |                  |                                  |   |  |  |
| 6      |               |                  |                                  |   |  |  |
| 7      |               |                  |                                  |   |  |  |
| 8      |               |                  |                                  |   |  |  |
| 9      |               |                  |                                  |   |  |  |
| 10     |               |                  |                                  |   |  |  |
| 11     |               |                  |                                  |   |  |  |
| 12     |               |                  |                                  |   |  |  |
| 13     |               |                  |                                  |   |  |  |
| 14     |               |                  |                                  |   |  |  |
| 15     |               |                  |                                  |   |  |  |
| 16     |               |                  |                                  |   |  |  |
| 17     |               |                  |                                  |   |  |  |
| 18     |               |                  |                                  |   |  |  |
| 19     |               |                  |                                  |   |  |  |
| 20     |               |                  |                                  |   |  |  |
| 21     |               |                  |                                  |   |  |  |
| 22     |               |                  |                                  |   |  |  |
| 23     |               |                  |                                  |   |  |  |
| 24     |               |                  |                                  |   |  |  |
| 25     |               |                  |                                  |   |  |  |
| 26     |               |                  |                                  |   |  |  |
| 27     |               |                  |                                  |   |  |  |
| 28     |               |                  |                                  |   |  |  |
| 29     |               |                  |                                  |   |  |  |
| 30     |               |                  |                                  |   |  |  |
| 31     |               |                  |                                  |   |  |  |
| 32     |               |                  |                                  |   |  |  |
| 33     |               |                  |                                  |   |  |  |
| 34     |               |                  |                                  |   |  |  |
| 35     |               |                  |                                  |   |  |  |
| 36     |               |                  |                                  |   |  |  |
| 37     |               |                  |                                  |   |  |  |
| 38     |               |                  |                                  |   |  |  |
| 39     |               |                  |                                  |   |  |  |
| 40     |               |                  |                                  |   |  |  |
| 41     |               |                  |                                  |   |  |  |
| 42     |               |                  |                                  |   |  |  |
| 43     |               |                  |                                  |   |  |  |
| 44     |               |                  |                                  |   |  |  |
| 45     |               |                  |                                  |   |  |  |
| 46     |               |                  |                                  |   |  |  |
| 47     |               |                  |                                  |   |  |  |
| 48     |               |                  |                                  |   |  |  |
| 49     |               |                  |                                  |   |  |  |
| 50     |               |                  |                                  |   |  |  |
| 51     |               |                  |                                  |   |  |  |
| 52     |               |                  |                                  |   |  |  |
| 53     |               |                  |                                  |   |  |  |
| 54     |               |                  |                                  |   |  |  |
| 55     |               |                  |                                  |   |  |  |
| 56     |               |                  |                                  |   |  |  |
| 57     |               |                  |                                  |   |  |  |
| 58     |               |                  |                                  |   |  |  |
| 59     |               |                  |                                  |   |  |  |
| 60     |               |                  |                                  |   |  |  |
| 61     |               |                  |                                  |   |  |  |
| 62     |               |                  |                                  |   |  |  |
| 63     |               |                  |                                  |   |  |  |
| 64     |               |                  |                                  |   |  |  |
| 65     |               |                  |                                  |   |  |  |
| 66     |               |                  |                                  |   |  |  |
| 67     |               |                  |                                  |   |  |  |
| 68     |               |                  |                                  |   |  |  |
| 69     |               |                  |                                  |   |  |  |
| 70     |               |                  |                                  |   |  |  |
| 71     |               |                  |                                  |   |  |  |
| 72     |               |                  |                                  |   |  |  |
| 73     |               |                  |                                  |   |  |  |
| 74     |               |                  |                                  |   |  |  |
| 75     |               |                  |                                  |   |  |  |
| 76     |               |                  |                                  |   |  |  |
| 77     |               |                  |                                  |   |  |  |
| 78     |               |                  |                                  |   |  |  |
| 79     |               |                  |                                  |   |  |  |

All Company CWP amounts that were applied to AFUDC calculations were summed up in column (a). All capitalized interest charges booked by the company are summed up in column (d). Column (e) is column (c) multiplied by 14.83%/12. Column (e) illustrates that column (a) and column (d) are similar amounts, showing the same rates of 14.83%/12 were used in their calculations. Column (f) is the total monthly CWP in column (c) multiplied by FPSC ordered monthly discounted rate of .952543%.

|   |           |
|---|-----------|
| Total CWP Used for AFUDC Calculation                              | 2,867,870 |
| Company's AFUDC Interest Charged for Aug <sup>2</sup>             | 25,183    |
| Column (a) Multiplied by Company's AFUDC Rate of (14.83%/12)      | 25,125    |
| Column (a) Multiplied by FPSC Ordered Discounted Rate of .952543% | 25,134    |
| AFUDC Amounts Booked in Sept.                                     |           |
| Aug. #  | Aug.      |
| 432.00  | 3,750.7   |
| 432.20  | 8,938.7   |
| 432.50  | 8,808.3   |
| 432.70  | 15,882.3  |

Total AFUDC  
Booked in Sept. (Aug) 25,183

CONCLUSION: The company is not using the ordered annual AFUDC rate set forth in FPSC order 21589. The company is not using the prescribed method to determine the monthly discounted AFUDC rate.

AFUDC monthly book have a one month lag - August AFUDC is booked in Sept.

Source: United Water Florida's September 1995 Journal Entry Index

Completed 26-5-15-1-16

11. David Deane

United Water Florida  
Rate Case Audit

Expenditure of AFUDC charged 76 May 72

00 02/12/96

10/20/00

1996-AP00C

By Work Order

1995-AFUDC

1774-WF-DC

Conclusions: In 1995 The Company changed AFUDC Rate from 11.12% To 14.80%. The Company did not use a monthly discounted Rate of 12.00% 25-30.116 (2) F.R.C. for the years 1996 to 1998. The Action Requested (Dec. 1994) AFUDC Rate and Calculations for years 1991 to 1995 from the Company.

Ref: 12-11

Rev. 12-6

4/19/82



Docket 76-0431-46

Control No. 76-0431-1-2

Author: David T. Daughen

United Water Florida  
Rate Case Audit  
FPSC Order 21492  
AFUDC Rates.

DO 10/12/86

MB 12/1/86

ORDER NO. 21492  
ISSUED NO. 090400-02  
PAGE 5

Since the 12-month period ended on December 31, 1985, the AFUDC rate shall be effective for eligible projects as of January 1, 1986.

Based on the foregoing, it is hereby

ORDERED by the Florida Public Service Commission that the application of Jacksonville Waterworks Corporation for establishment of an 11.12% AFUDC rate is approved. It is further

ORDERED that the AFUDC rate shall be effective for eligible projects as of January 1, 1986.

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition is filed with the Florida Administrative Code, in accordance with the Director, Division of Records and Reporting, at his office at 161 East Duval Street, Tallahassee, Florida 32399-0070, by the date of business on July 31, 1986.

ORDERED that in the event that this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission  
this 20th day of 1986.

STEVE THOMAS, Director  
Division of Records and Reporting

(S E A L)

RCS

By David T. Daughen  
Acting Director

| Class of Capital        | Average Capital Structure | Component Adjustment | Adjusted Capital Structure | Percent of Capital | Cost Rates | Weighted Cost | Unweighted Monthly Rate |
|-------------------------|---------------------------|----------------------|----------------------------|--------------------|------------|---------------|-------------------------|
| Common Equity           | 12,500,000                |                      | 12,500,000                 | 42.22%             | 12.00%     | 5.06%         |                         |
| Long-Term Debt          | 14,179,000                |                      | 14,179,000                 | 49.00%             | 10.00%     | 4.90%         |                         |
| Short-Term Debt         | 0                         |                      | 0                          | 0.00%              | 0.00%      | 0.00%         |                         |
| Customer Deposits       | 11,000                    |                      | 11,000                     | 0.04%              | 0.00%      | 0.00%         |                         |
| Pre Credits - Zero Cost | 1,400,000                 |                      | 1,400,000                  | 4.74%              | 0.00%      | 0.00%         |                         |
| Deferred Income Taxes   | 670,000                   |                      | 670,000                    | 2.30%              | 0.00%      | 0.00%         |                         |
| Total                   | 28,749,000                | 0                    | 28,749,000                 | 100.00%            |            | 11.12%        |                         |

1/6/12-3

Conclusion: Authorized AFUDC Rates are 11.12%, with a Discounted Monthly rate of .882543%.

Source: as per Above

Author: David T. Daughen

REMOVALS/ADJUSTMENTS FROM O&M:  
PRELIMINARY WORKING COPY:  
PREPARED BY: MARK CARUTH

| ACCOUNT<br>TITLE              | Company<br>Clearing<br>ACCOUNT<br>NUMBER | TOTAL<br>1.00 | WATER<br>0.30 | SEWER<br>0.70 |
|-------------------------------|--|---------------|---------------|---------------|
| MISC EXP                      | 921.32                                   |               |               |               |
| BOOKLAND                      | 921.32                                   |               |               |               |
| FLA WTR WKS ASSOC             | 921.32                                   | -31.90        | -9.87         | -22.33        |
| CHAMBER                       | 921.32                                   | -3200.00      | -980.00       | -2240.00      |
| ROTARY                        | 921.32                                   | -1078.77      | -323.63       | -755.14       |
| ROTARY                        | 921.32                                   | -186.00       | -55.80        | -130.20       |
| AARP SUBSCR                   | 921.32                                   | -165.00       | -49.50        | -115.50       |
| ROTARY                        | 921.32                                   | -45.00        | -13.50        | -31.50        |
| BBB                           | 921.32                                   | -186.00       | -55.80        | -130.20       |
| ROTARY                        | 921.32                                   | -450.00       | -135.00       | -315.00       |
| CHAMBER                       | 921.32                                   | -220.00       | -66.00        | -154.00       |
| ROTARY                        | 921.32                                   | -206.50       | -61.95        | -144.55       |
| R.L. CIVIC ASSOC              | 921.32                                   | -194.00       | -58.20        | -135.80       |
| ROTARY                        | 921.32                                   | -90.00        | -27.00        | -63.00        |
| ROTARY                        | 921.32                                   | -230.00       | -69.00        | -161.00       |
|                               | 921.32                                   | -196.00       | -58.80        | -137.20       |
| SUB-TOTAL                     | 921.32                                   | -6479.17      | -1943.75      | -4535.42      |
| MISC EXP                      | 921.33                                   |               |               |               |
| PONTE VEDRA PTSO              | 921.33                                   | -75.00        | -22.50        | -52.50        |
| SUB-TOTAL                     | 921.33                                   | -75.00        | -22.50        | -52.50        |
| MISC EXP WATER                | 930.15                                   |               |               |               |
| NAWC                          | 930.15                                   | -1116.00      | -1116.00      | 0.00          |
| SUB-TOTAL                     | 930.15                                   | -1116.00      | -1116.00      | 0.00          |
| MISC EXP                      | 930.33                                   |               |               |               |
| JFL ACHIEVEMENT JAX           | 930.33                                   |               |               |               |
| USS SARATOGA                  | 930.33                                   | -100.00       | -30.00        | -70.00        |
| UNF FOUNDATION                | 930.33                                   | -500.00       | -150.00       | -350.00       |
| WJCT                          | 930.33                                   | -500.00       | -150.00       | -350.00       |
| CAMP TRACEY                   | 930.33                                   | -125.00       | -37.50        | -87.50        |
| SO. PONTE VEDRA ASSOC.        | 930.33                                   | -100.00       | -30.00        | -70.00        |
| JAX FIRE ASSOC                | 930.33                                   | -250.00       | -75.00        | -175.00       |
| RIVER CITY PLAYHOUSE          | 930.33                                   | -100.00       | -30.00        | -70.00        |
| JR. ACHIEVEMENT JAX           | 930.33                                   | -60.00        | -18.00        | -42.00        |
| GOLF CARTS/FEES               | 930.33                                   | -100.00       | -30.00        | -70.00        |
|                               | 930.33                                   | -87.98        | -26.39        | -68.59        |
| SUB-TOTAL                     | 930.33                                   | -1932.98      | -576.89       | -1353.09      |
| TOTAL MISC. EXPENSE REMOVALS: |  | -9603.15      | -3662.15      | -5941.01      |