

M E M O R A N D U M

December 1, 1992

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDIT AND FINANCE (DEVLIN) *TJS*

RE: DOCKET NO. 920949-EU -- FLORIDA POWER CORPORATION
(STUDY FOR SEBRING UTILITIES COMMISSION)
REVIEW OF INVESTMENT AND PLANT
CONTROL NO. 92-294-2-1

Forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit findings disclose information that may influence the decision process.

Audit working papers are available for review on request. There are no confidential working papers associated with this audit.

Please forward a complete copy of this report to:

Florida Power Corporation
Albert H. Stephens
P. O. Box 14042
St. Petersburg, FL 33733-4042

TJD/sp

Attachment

cc: Chairman Beard
Commissioner Clark
Commissioner Deason
Commissioner Easley
Commissioner Laredo
Bill Talbott, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Mailhot/Lee
File Folder)

Tampa District Office (Bouckaert)

Office of Public Counsel
624 Fuller Warren Building
202 Blount Street
Tallahassee, FL 32301

1992 12 1
1992 12 1
FPC-RECORDS/REPORTS

State of Florida

Commissioners:
THOMAS M. BEARD, CHAIRMAN
BETTY EASLEY
J. TERRY DEASON
SUSAN F. CLARK
LUIS J. LAUREDO



DIVISION OF RECORDS &
REPORTING
STEVE TRIBBLE,
DIRECTOR
(904) 488-8371

Public Service Commission

December 1, 1992

Florida Power Corporation
Albert H. Stephens
P. O. Box 14042
St. Petersburg, FL 33733-4042

Dear Mr. Stephens:

Docket No. 920949-EU -- Florida Power Corporation
(Study for Sebring Utilities Commission)
Review of Investment and Plant

The enclosed report is forwarded for your review.

The audit report and any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Steve Tribble".
Steve Tribble

ST/TJD/sp
Enclosure
cc: Public Counsel

RECEIVED
FLORIDA PUBLIC SERVICE
COMMISSION

92 NOV 30 PM 2: 58

FLORIDA PUBLIC SERVICE COMMISSION

AUDITING &
FINANCIAL ANALYSIS DIV

AUDIT REPORT

AS OF SEPTEMBER 30, 1991

FIELD WORK COMPLETED

NOVEMBER 24, 1992

FLORIDA POWER CORPORATION

ST. PETERSBURG, FLORIDA

PINELLAS COUNTY

SEBRING UTILITIES COMMISSION ELECTRIC PLANT

VALUATION STUDY

DOCKET NUMBER 920949-EU

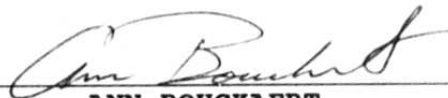
AUDIT CONTROL NUMBER 92-294-2-1



LEON CHEROK, JR.
ENGINEER IV
AUDIT MANAGER

AUDIT STAFF
Costas Panagiotopoulos
Ron Mayes

Minority Opinion
Yes _____ No CP
Yes _____ No SM



ANN BOUCKAERT
PUBLIC UTILITIES SUPERVISOR
TAMPA DISTRICT OFFICE

I N D E X

	Page
I. EXECUTIVE SUMMARY	1
Audit Purpose	1
Scope Limitations	1
Disclaim Public Use	1
Opinions.	1
Summary Findings.	1
II. AUDIT SCOPE	
Scope of Work Performed	2
III. AUDIT DISCLOSURES	
Distribution Plant Inventory.	3
Vintage Year Dates.	4
Overhead Plant Framing Crew Rates	5
Plant Material Unit Cost.	6
Indirect Benefits, Overheads, A & G, Fringe Benefits, Purchasing, & Stored Overheads	7
Vehicle and Equipment Rates	8

I. EXECUTIVE SUMMARY

Audit Purpose: We have applied the procedures described in Section II of this report to perform an audit of the Resource Management International, Inc. (RMI) Valuation Study of Sebring Utility Plant which is to be purchased by Florida Power Corporation, FPSC Docket 920949-EU.

Scope Limitation: The exit conference was held November 24, 1992. Audit work on site was ended November 12, 1992. This report was not based on confidential information.

The work performed on this audit was limited in scope due to lack of availability of certain documents from Sebring Utilities Commission (SUC).

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.

Opinions: The original cost less depreciation (OCLD) methodology applied by RMI for the Sebring Utilities Commission study is consistent with that of other studies completed by RMI in 1986 and 1988. The methodology is reasonable.

Although the lack of time prevented a more thorough analysis of the RMI study results, inconsistencies noted in disclosures 1-6 indicate the results tend to border on the area of being unreasonable.

Summary Findings: The inventory of the SUC distribution plant was found to be reasonable. (Audit Disclosure No. 1)

The distribution plant vintage year dates were found to be reasonable. (Audit Disclosure No. 2)

RMI calculated the overhead plant framing/pole setting crew rates of SUC for September, 1991, to be \$69.88. The rates were overstated by \$14.34 per hour which is 20.5% of the actual crew rate in effect in September, 1991, the time of the valuation study. RMI crew rates assumes a four man crew while the actual SUC crew rate for September, 1991, captures a three man crew which excludes the groundsman position. (Audit Disclosure No. 3)

Material unit costs used by RMI in their valuation study were obtained by SUC purchasing from vendor quotes on buying the material new in March, 1992. RMI intended to use September, 1991, replacement costs for the study. The average unit costs of SUC stock items in September, 1991, the valuation period, ranged from 0% to 387.6% less than the unit costs for material that could be purchased March, 1992. (Audit Disclosure No. 4)

Payroll, A & G, Purchasing and Stores overhead costs were traced back to SUC books and records. (Audit Disclosure No. 5)

The crew vehicle rates for overhead wire pulling used by RMI in the valuation study were \$230.45. These rates are \$20.08 or 8.7% over the SUC listed price. (Audit Disclosure No. 6)

II. AUDIT SCOPE

The opinions contained in this report are based on the audit work described below.

Analyzed the RMI Valuation Study of SUC's Electric Utility plant assets.

Analyzed the inventory methods used by the FPC, RMI and SUC team.

Analyzed judgmental sample of distribution plant for inventory accuracy and reasonableness of asset dating.

Analyzed crew rates, vehicle rates and allocated costs used by RMI for valuation study.

Determined if the RMI study places a reasonable value on the distribution plant to be purchased by Florida Power Corporation.

AUDIT DISCLOSURE NUMBER 1

Subject: RMI study - Verify Distribution Plant Inventory

Statement of Facts:

1. For inventory purposes, the Sebring Utilities (SUC) Service area was divided into eight map areas. Inventory was conducted by FPC and Sebring Utilities employees with checks by a quality control team.
2. All of the assets on every pole in each of the map areas was identified by Florida Power assembly codes using FPC's Automated Construction Estimate (ACE) System.
3. Sebring items of equipment not identical with FPC equipment were assigned the nearest FPC equipment code.
4. FPSC engineers, accompanied by FPC and SUC employees, tested the accuracy of the inventory of 32 pole locations.
5. The FPSC inventory found a variance of 12 out of a total of 273 assembly units (ACE) located on the 32 selected poles for an error rate of 4.39%. The variance of 12 is composed of a total of 8 additional items not listed at 3 pole locations and 4 items listed but not found at 2 pole locations.

Opinion:

An error rate of 4.39% is acceptable, although it tends to border on the area of being unreasonable.

Company Comments:

Company reserves the right to make a comment at a later date.

AUDIT DISCLOSURE NUMBER 2

Subject: RMI Study - Verify Plant Vintage Year Dates (overhead plant)

Statement of Facts:

1. Each pole is date stamped and RMI estimated that all of the equipment on the pole with the exception of cable, was placed at that same date. Overhead cable was dated by averaging all of the pole dates for each of the map areas.
2. Two of the 32 poles inventoried by FPSC engineers had vintage years differing from the ACE sheet inventory. One pole (A) listed as 1972 was found to be dated 1967 and the second pole (B) listed as 1973 was found to be dated 1974, for an error rate of 6.25%.
3. The assets on Pole (A) (1967) was understated for a period of 4 years and the assets on Pole (B) (1974) were overstated for a 1 year period.

Opinion:

Since the error indicates both over and under statement of assets, it is acceptable.

Company Comments:

Company reserves the right to make a comment at a later date.

AUDIT DISCLOSURE NUMBER 3

Subject: RMI Study - Verify Overhead Plant Framing Crew Rates

Statement of Facts:

1. In order to develop the hours needed to install assembly units, RMI with the assistance of SUC employees, assumed using a four man crew composed of a lineman/crew leader, equipment operator, apprentice lineman and groundsman.
2. The RMI Study was based on the replacement cost of SUC Facilities as of September, 1991. Theoretically labor rates for September, 1991, were utilized to arrive at the overhead framing crew labor rates used in the study.
3. The Study used \$12.74 per hour for lineman/crew leader when the actual rate in September, 1991, was 26 cents less or \$12.48. The rate for apprentice lineman (RMI \$8.97) also differed by 26 cents (actual September, 1991 - \$8.71) for a total of 52 cents per hour less.
4. The lineman/crew leader and apprentice lineman rates used by RMI were those in effect March 15, 1992.
5. RMI included the rates for a groundsman @\$7.21/hour as part of the crew in September, 1991. The groundsman position had not been filled since March 18, 1990 - a period of 18 months.
6. The crew rate used by RMI was loaded 85.5% for A & G overhead, payroll overhead, overtime and rain time.
7. RMI used a total crew rate of \$69.88 per hour for overhead plant and pole setting which includes the groundsman rate (\$7.21) and the 52 cents/hour error for September, 1991.

Opinion:

The crew rate used for the period March 18, 1990, to September, 1991, is overstated.

Company Comments:

Company reserves the right to make a comment at a later date.

AUDIT DISCLOSURE NUMBER 4

Subject: RMI Study - Verify Plant Material Unit Cost

Statement of Facts:

1. To determine the original cost of Distribution Plant, RMI used current prices new for March 31, 1992, to trend back using the Handy-Whitman Index.
2. RMI obtained Sebring Utilities' March 31, 1992, Inventory Status List and with the assistance of SUC's purchasing agent, updated the prices to then current 1992 prices to arrive at replacement costs.
3. The SUC Inventory Status List for September 16, 1991, the date of the study, was compared to the RMI March 31, 1992, updated price list for 47 judgmentally selected stock items.
4. The average unit cost listed in the September 16, 1991, Inventory Status List ranged from 0% to 387.6% less than those updated to current prices on the March 31, 1992, updated list and used in the RMI study with the exception of two stock items which were 17.8% and 31.8% higher.
5. Eight items not listed on the Inventory Status List were priced from purchase orders.
6. Transformers are not stock items and the replacement costs were vendor quotes obtained by SUC's purchasing agent.

Opinions:

RMI theoretically used September, 1991, Sebring Utilities crew rate, vehicle and equipment rates and updated material prices in completing the study. In using updated 1992 replacement costs, an error representing the difference between 1991 and 1992 prices was created in calculating distribution plant material costs.

SUC Stock Items are used to add to or replace existing plant with the exception of specialty items purchased for work orders. September 16, 1991, average unit prices should have been used to arrive at Material Replacement Costs.

Company Comments:

Company reserves the right to make a comment at a later date.

AUDIT DISCLOSURE NUMBER 5

Subject: RMI Study - Verify Indirect Overheads, A & G, Fringe Benefits, Purchasing & Stored Overheads

Statement of Facts:

1. Traced A & G expenses to supporting schedules and traced supporting schedules to SUC books.
2. Traced payroll overheads (fringe benefits) to SUC books.
3. Finance Director, Nancy Holloway, states overhead accounts for both electric and water utilities are co-mingled.
4. Time did not permit verification of charges in the overhead accounts.
5. No documentation was furnished to support the 30% of environmental engineering and distribution dispatcher included in A & G.

Opinion:

The amount used by RMI for overhead calculation as of 9/30/91 agree with the books and records of SUC.

Company Comments:

Company reserves the right to make a comment at a later date.

AUDIT DISCLOSURE NUMBER 6

Subject: RMI Study - Verify Vehicle and Equipment Rates

Statement of Facts:

1. Sebring Utilities (SUC) Vehicle and Equipment List is not kept up to date with new purchases or retirements.
2. SUC has no documentation to show how vehicle and equipment rates were calculated or when they went into effect.
3. The wire pulling machines rate used by RMI for the study was \$25.00/hour when SUC's listed rate was \$12.00/hour for a difference of \$13.00/hour listed.
4. The rope pulling machine rate used by RMI for the study was \$11.25/hour when SUC listed \$6.00/hour for a difference of \$5.25/hour.
5. Vehicle and equipment rates are loaded 10% for rain time and overtime.
6. The loaded hourly rate difference for the rope and wire pulling machines is \$20.08/hour composed of \$5.25 + \$13.00 + 10% which is 8.7% of the total wire pulling rate of \$230.45/hour used by RMI.

Opinion:

The accuracy of the vehicle rates cannot be verified due to lack of documentation.

The wire pulling machine hourly rate used by RMI is overstated by 8.7% over the SUC listed rate. Due to the lack of time, we could not calculate the dollar impact this rate differential had on the plant valuation.

Company Comments:

Company reserves the right to make a comment at a later date.