

STATE OF FLORIDA

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DIVISION OF LEGAL SERVICES
 NOREEN S. DAVIS
 DIRECTOR
 (850) 413-6199

Public Service Commission

July 18, 1997

Mr. Jim McCormack, President
 Duval Utility Company
 c/o Sun Coast Utility
 9621 Shellie Road
 Jacksonville, Florida 32257

Re: Docket No. 970273-WU - Application for sale, assignment or transfer of Certificate No. 299-W from Duval Utility Company to Sun Coast Utility in Clay County

Dear Mr. McCormack:

After review of Sun Coast Utility's application for transfer, a need for additional information vital to proceeding with this PAA case was apparent. The Water and Wastewater Division of the Florida Public Service Commission has determined that the books and records of Duval Utility Company must be examined in order to proceed. Staff therefore requests the company supply the following information. In order to conduct the audit in a concise and timely manner, staff therefore requests that the following items be made available for selective review depending upon the needs of the audit staff by the dates indicated to the left of each requested item.

ACK _____
 AFA _____ **ITEM A: GENERAL BOOKS & RECORDS**

- APP _____ 7/28 1. Chart of Accounts representing transactions in 1996, 1995, 1994.
- CAF _____ 7/28 2. General Ledger of utility from January 1, 1996 to August 1, 1996.
- CMU _____ 7/28 3. General Ledger of utility from 1/1/95 to 12/31/95.
- CTR _____ 7/28 4. Trial Balance of the utility as of 12/31/95.
- EAG _____ 7/29 5. General Ledgers for each year from Date Of Incorporation of utility through 12/31/94.
- LEG _____ 7/29 6. Annual Trial Balances at Year End (if those reports are available) from Date Of Incorporation through 1994.
- OPC _____ 7/28 7. Cash disbursements/receipts journals from 1/1/95 to 12/31/95 and from 1/1/96 to 8/1/96.

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DOCUMENT NUMBER - DATE
 07301 JUL 21 97
 FPSC-RECORDS/REPORTING

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- 7/29 8. Bank statements and canceled checks to support disbursements made for all Plant & Equipment items claimed within each Annual Report filed before the State of Florida Public Service Commission from Date of Incorporation of Duval Utility Company through 1996.
- 7/31 9. Provision for full access to external auditor's working papers, if any, for the time period January 1, 1994 to December 31, 1995.
- 7/31 10. Copies of the audited financial statements since 1993, if any.
- 7/31 11. Copies of the external auditor's management letters, if any.
- 7/31 12. Copies of any internal audits since 1993.
- 7/31 13. The utility's Articles of Incorporation and bylaws.
- 7/31 14. Board of Director's minutes from Date Of Incorporation to December 31, 1996 for Duval Utility Company.
- 7/31 15. Organizational chart of utility personnel; their titles/duties; and their salaries/wages during 1995 and 1996.
- 7/29 16. List of all officers of the company and their titles in 1995 and 1996.
- 7/30 17. List of all related parties.
- 7/30 18. List of related party transactions (including dates and amounts) which occurred in Plant accounts, or in CIAC accounts, or in Land accounts from Date Of Incorporation through 1996.
- 7/30 19. Descriptions of any assets pledged as security for financial obligations or of any assets subjected to liens or of any assets subjected to disputed title/value.
- 7/28 20. Copies of all Annual Reports of Duval Utility Company that were filed before "any" regulatory agency (County Board, F.P.S.C., etc.).

ITEM B: PLANT

- 7/28 1. All invoices, contracts, and other documents to support all plant and equipment additions (or retirements) from Date Of Incorporation through August 1, 1996.
- 7/28 2. Continuing property records.
- 7/28 3. Description of any costs allocated into the plant accounts from Date Of Incorporation through 1996 (Examples: management overhead, etc.) and description of the methodology used to make any cost allocations.
- 8/1 4. Plant depreciation records from Date of Incorporation through 1996.
- 8/1 5. Schedules showing Plant Depreciation Expense calculations and corresponding increments to Accumulated Depreciation/Reserve (with such schedules also indicating the asset service life).
- 8/1 6. Matching of Accumulated Depreciation/Reserve increments to the general ledger and to the Annual Reports filed from Date Of Incorporation through 1996.
- 7/30 7. Matching of the Annual Report filed data for Plant Accounts to the corresponding general ledger data from Date of Incorporation through 1996.

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- 7/30 8. Listing of related party or affiliated party or parent/subsidiary party transactions for the Plant & Equipment accounts from the Date Of Incorporation through 1996 showing: date, amount, account number, and corresponding general ledger entry.
- 8/1 9. Descriptions (and amounts) of any Work In Progress from January 1, 1995 to December 31, 1995.
- 7/28 10. Descriptions (and amounts) of any plant abandonments, or of any not-useful plant, or of any idle/unused plant from the Date Of Incorporation through 1996.

ITEM C: CIAC

- 7/30 1. List of CIAC by customer, amount, and date received from Date Of Incorporation through 1996.
- 7/30 2. Descriptions (and amounts) of any donated property received from Date Of Incorporation through 1996.
- 7/30 3. Descriptions of any "tap-in fees" collected from Date Of Incorporation through 1996.
- 7/30 4. Copy of utility tariff.
- 7/30 5. Schedule of CIAC Amortization (and methodology used) within each of the Annual Reports filed with the F.P.S.C..
- 7/31 6. Calculations supporting the utility's accounting for the tax effect of CIAC collections, if any.
- 8/1 7. A statement describing special agreements for providing services to any customer or group of customers at no cost or at a reduced cost.
- 8/1 8. A statement listing all developers agreements currently active along with the total amount due from each agreement, the total amount received to date, and the amount of any donated property received with each agreement.- This statement should agree or reconcile to any balance(s) on the books.

ITEM D: LAND

- 7/30 1. For each year from Date Of Incorporation through 1996, copies of deeds or other evidence of ownership for any Land purchases made by the utility during this time period.
- 7/30 2. For each Land Purchase, matching of amount per Annual Report, per General Ledger, and per canceled check.
- 7/30 3. If any Land is not owned, provide a copy of the land lease agreement.
- 7/30 4. Listing of related party or affiliated party or parent/subsidiary party transactions (as per real estate company affiliate, etc.) for the Land account(s) from Date of Incorporation through 1996 showing: amount, account, date, and corresponding general ledger entry.

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ITEM E: CUSTOMER DEPOSITS

- 7/31 1. Description of the data source used to account for all customer deposits received by Duval Utility Company (i.e., a Customer Deposits Journal, or a Cash Receipts Journal, or a General Ledger Account Number, etc.).
- 8/1 2. Current Status of such customer deposits (i.e., Held by utility, or Refunded to customer, or Rebated per billed amount, etc.).
- 7/31 3. Customers List for 1995 and 1996.
- 8/1 4. Annual Revenues for 1995 and 1996.
- 7/31 5. Utility Policies & Procedures regarding acceptance and protection of customer deposits.

ITEM F: DEPRECIATION EXPENSE IN 1995

- 8/1 1. Schedule of Depreciation expense charged during 1995 and the depreciation methodology utilized for each asset/plant/equipment item during 1995.

ITEM G: PROPERTY TAXES

- 7/31 1. Copies of calendar year 1994, 1995, and 1996 Property Tax bills and corresponding entries made into the General Ledger to support claim of Land ownership.
- 7/31 2. Copies of canceled checks for the 1994, 1995, and 1996 Property Taxes paid to provide financial ties from deed/asset ownership to property tax expense disbursements.

ITEM H: INCOME TAX RECORDS

- 8/1 1. Disclosure of book depreciation rates (and amounts) and tax depreciation rates (and amounts) for 1995 water plant operations.
- 8/1 2. Reconciliation between book and tax depreciable plant for 1995.
- 8/1 3. Copies of Tax Returns (and supporting documents) relating to Duval Utility Company water operations for 1994 & 1995 & 1996 which will enable the auditor to determine book and tax treatment of utility water plant and related transactions.

ITEM I: SALES AGREEMENT AND/OR BILL OF SALE

- 8/1 1. Details of the Bill of Sale on August 1996 made between Duval Utility Company and Sun Coast Utility --- was this Notarized?
- 8/1 2. Explanation of the Bill of Sale on August 1996 between Duval Utility Company and Sun Coast Utility --- since Duval Utility Company claims "the right to receive 45% of the net proceeds from the sale of the McRae Landing water

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system and its customers and the land whenever sold by Purchaser" does Duval Utility Company have in place any internal controls or review procedures to monitor Sun Coast Utility operations.

- 7/28 3. Disclosure of any affiliate/personal relationships existing between Duval Utility Company and Sun Coast Utility which could lead a reasonable person to question if a transaction (either sale or acquisition) had occurred which was not at arms-length or which was not independent or which did not maintain rate base valuation.

ITEM J: AFFILIATED TRANSACTIONS

- 8/1 1. Any agreements making/receiving advances or loans to/from any affiliated companies, any affiliated utility officers, or any affiliated directors.

ITEM K: DETAILS OF ASSETS WITHIN RATE BASE

- 8/1 1. Description of any Assets/Land/Plant/Equipment (as listed within any Annual Reports filed before the F.P.S.C. by Duval Utility Company) which are subjected to restricted ownership, disputed ownership, etc..
- 7/30 2. Copies of all Land Deeds to support claims of Land ownership per 1995 Annual Report (pre-sale) and 1996 Annual Report (post-sale).
- 7/28 3. Description of any Assets/Land/Plant/Equipment (as listed within any Annual Reports filed before the F.P.S.C. by Duval Utility Company) which were/are not completely devoted (100%) to Duval Utility Company customer service; in other words the identification of any common/joint/concurrent plant/equipment used to provide services to customers/entities not defined on the Duval Utility Company customer list.
- 7/28 4. Description of any assets on the seller's books for the Duval Utility Company which were not transferred into the unrestricted possession of the acquirer (i.e.. were retained by the seller) perhaps such as: furniture, computers, vehicles, etc..
- 8/1 5. Description of any Engineering Studies conducted/commissioned by prior owners or by current owners regarding the usefulness or non-usefulness of any plant/equipment items listed within the asset rate base of the Annual Reports filed before the F.P.S.C..
- 8/1 6. Copy of the complete Sales Agreement for Duval Utility Company listing all conditions/provisions/requirements/options for the buyer and for the seller, listing the amount paid by the buyer, and listing the specific assets acquired.

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ITEM L: HISTORY OF DUVAL UTILITY COMPANY

- 8/1 1. Details of Duval Utility Company as it relates to the Water Utility as per its filings before the F.P.S.C.:
- a) original corporate owners,
 - b) date of incorporation,
 - c) date service began,
 - d) full names and locations of any management companies/individuals hired/contracted/used by the owners (Stokes & Co.) to keep the water utility's accounting books and records,
 - e) full names and locations of any service companies/individuals hired/contracted/used by the owners (Stokes & Co.) to operate and provide service for the benefit of the utility's water customers,
 - f) date that this Water utility filed its first Annual Report with the F.P.S.C.,
 - g) copy of that first Annual Report filed with the F.P.S.C..

ITEM M: AUDITOR INQUIRIES REGARDING DETAILS OF ANNUAL REPORTS FILED

- 7/28 1. Explanation of Customer Deposits balance per 1995 Annual Report Page F-4 being reduced to Zero per 1996 Annual Report Page F-4.
- 7/28 2. Explanation of Utility Plant In Service per 1995 Annual Report Page F-4 being reduced to Zero per 1996 Annual Report Page F-4.
- 8/1 3. Explanation of Name Change from Duval Utility Company per 1995 Annual Report Page F-2 (service area McRae Landing) to Sun Coast Utility per 1996 Annual Report Page F-2 (service area McRae Landing).
- 8/1 4. Explanation of the acquisition --- were only the assets purchased or were equity shares purchased?

From telephone conversations, it is understood that Sun Coast Utility has encountered some problems in finding data relating to Duval Utility Company. For any unavailable, lost or misplaced data items, please prepare a search history listing on your part the steps you have taken to obtain the requested data. This data retrieval log should include:

- 1) the dates on which attempts were made to acquire data.
- 2) the method of communication used (telephone, fax, certified letter, in-person meeting, etc.) in such attempts.
- 3) the individual contacted and his/her title and his/her telephone number and his/her address.
- 4) the description of the data being requested.
- 5) the outcome/status of the request (i.e., provided or not provided).
- 6) the reason for any failure by the contacted party to provide the data.

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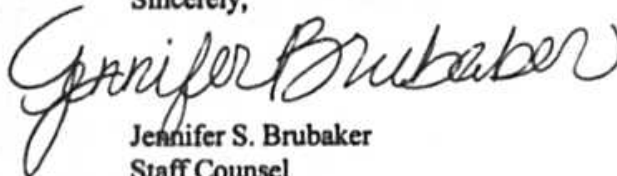
You have stated in the the transfer application that you already have available certain books and records for Duval Utility Company, which were transferred to you when Sun Coast Utility took over the management in August 1995. As I've stated previously, it is my understanding that some portion of Duval Utility Company's books and records may have been lost or destroyed in storage.

Pursuant to Section 367.121(1)(I), Florida Statutes, the Commission may require the filing of reports and other data by a public utility or its affiliated companies, including its parent company, regarding transactions or allocations of common costs, among the utility and such affiliated companies. The Commission may also require such reports or other data necessary to ensure that a utility's ratepayers do not subsidize nonutility activities. Pursuant to section 367.121(1)(c), Florida Statutes, the Commission may require regular or emergency reports from a utility, including, but not limited to, financial reports, as the Commission deems necessary. If the Commission finds a financial report to be incomplete, incorrect or inconsistent with the uniform system and classification of accounts, the Commission may require a new report or supplemental report to be produced.

Staff has determined that the information requested below is necessary in order to proceed with the disposition of this case. I am therefore requesting, to the extent any of the requested data has been lost or misplaced, that you work in conjunction with Stokes & Company, Clay Utility, and any other party or parties who may be able to help reconstruct any incomplete or missing records.

If you have any questions, please do not hesitate to contact me at (850)413-6228. Any specific questions regarding the audit or requested data may be addressed to Mr. Mark Caruth, Division of Auditing and Financial Analysis, at (850)413-6477.

Sincerely,



Jennifer S. Brubaker
Staff Counsel

cc: Mr. E. Chester Stokes, Jr., President
Stokes & Company
Division of Auditing and Financial Analysis
Division of Records and Reporting