



# Public Service Commission

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

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**DATE:** June 12, 2003  
**TO:** Division of Economic Regulation (Merchant)  
**FROM:** Division of Auditing and Safety (Vandiver) *WJ*  
**RE:** **Undocketed; Company Name:** Utilities Inc. and all Affiliates;  
**Audit Purpose:** Affiliate Transactions Audit; **Audit Control No.** 02-122-3-1

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On November 4, 2002, I forwarded to you the final audit report for the utility stated above. Please remove page 19 of the audit reported dated October 23, 2002 that was provided to you and insert the attached revised document.

I am sending a copy of this memo with the revised page of the audit report to all the persons who received a copy of the original audit report.

Thank you.

DNV/jcp  
Attachments

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)  
Division of the Commission Clerk and Administrative Services (2)  
Division of Competitive Markets and Enforcement (Harvey)  
Office of Public Counsel  
Office of General Counsel

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## Disclosure No. 2

**Subject:** WSC Allocation Factors

**Statement of Fact:** Water Service Corp. allocates rate base and expenses using 11 different allocation factors. Most of these factors are based on the customer equivalent factor. To determine customer equivalents, the company records single family equivalents for each development as of the end of June of the year the allocation is to take place. It then determines the customer equivalents by taking the single family equivalents and adjusting it to one half for the following reasons:

1. The division has both water and wastewater. The wastewater is counted at one half.
2. The customer is an availability customer only. The customer is counted at one quarter.
3. The water company is distribution only. The customer is counted at one half.
4. The wastewater company is collection only. The customer is counted at one half.

The company could not provide a formula or methodology for determining the single family equivalent number.

Also, the company is the contract operator for two water plants and three wastewater plants. According to a company representative, no costs were ever allocated to these operations.

**Recommendation:** Not having a formalized methodology for determining single family equivalents can cause inconsistency between divisions. According to a company representative, the company determines the estimated gallons at the time of purchase and inputs a number for single family equivalents based on gallons. This may not be based on the same number of gallons per single family as a different person may use the next year or year after. No mention was made of how the single factor equivalent is adjusted for new customers.

The audit staff attempted to determine gallons of water purchased and pumped and gallons of wastewater treated so that we could determine our own calculation of equivalent residential connections (ERCs) for each company. The audit staff planned on using these ERCs to prepare our own customer equivalent schedule and to compare it to the Florida allocations using customer equivalents. If it was significantly different, almost all 11 allocation factors would have to be redone.

The company could not provide gallons of wastewater treated for states other than Florida. It claimed that operating reports were not available to provide the information. In addition, some small water plants did not have usage reports. The report of number of customers that the company provided showed water customers and did not break down wastewater number of customers by division. Therefore, we were unable to determine ERCs and unable to determine if the company's computation is reasonable.