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State of Florida



Public Service Commission

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COMMISSION CLERK

DATE: January 16, 2004  
TO: Division of Economic Regulation (Brady)  
FROM: Division of Auditing and Safety (Vandiver)  
RE: Docket No. 030747-SU; Company Name: Hacienda Utilities, LTD.; Audit Purpose: Establish rate base for transfer of Utility of December 31, 2002; Audit Control No. 03-240-2-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp  
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)  
Division of the Commission Clerk and Administrative Services (2)  
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**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF AUDITING AND SAFETY  
BUREAU OF AUDITING*

*TAMPA DISTRICT OFFICE*

**HACIENDA UTILITIES, LTD.**

**ESTABLISH RATE BASE FOR TRANSFER OF UTILITY**

**AS OF DECEMBER 31, 2002**

**DOCKET NO. 030747-SU**

**AUDIT CONTROL NO. 03-240-2-1**

A handwritten signature in black ink, appearing to read "J. W. Rohrbacher", written over a horizontal line.

*Joseph W. Rohrbacher, Tampa District Supervisor*

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**DIVISION OF AUDITING AND SAFETY  
AUDITOR'S REPORT**

**DECEMBER 29, 2003**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to prepare and audit schedules of Wastewater Rate Base as of December 31, 2002 for Hacienda Utilities, Ltd.'s petition for transfer of Certificate No. 285-S. These schedules were prepared by the auditor as part of our work in Docket No. 030747-SU. There is no confidential information associated with this audit.

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.

## **SUMMARY OF SIGNIFICANT FINDINGS**

Rate Base balances authorized in PSC Order No. 99-0636-FOF-SU were not reflected on the utility's books and records. The utility does not maintain its books and records in conformity with the NARUC Uniform System of Accounts as required by Rule 25-30.115, Florida Administrative Code. The utility was not using guideline depreciation rates as required by Rule 25-30.140, Florida Administrative Code.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

**Compiled** - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

**Verify** - The item was tested for accuracy, and substantiating documentation was examined.

**RATE BASE:** Prepared a schedule and compiled account balances for Utility-Plant-in-Service (UPIS), Contributions-in-Aid-of-Construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC for the period October 8, 1998 through December 31, 2002. Reconciled rate base balances authorized in Commission Order No. PSC-99-0636-FOF-SU, issued April 5, 1999, to utility records. Reviewed utility records to verify CIAC additions. Examined invoices and supporting documentation for all major plant additions. Calculated accumulated depreciation using guideline rates. Computed amortization of CIAC using yearly composite depreciation rates.

**OTHER:** Toured the Utility's service area. Determined whether any assets of the utility are not being transferred. Verified that rates, miscellaneous service charges and service availability charges charged by the utility are consistent with approved tariff. Verified that water service is included in trailer park lot rent but is not identified as water service. The utility does not assess a separate charge for water service.

**Disclosure No. 1**

**Subject: Non-Regulation of Hacienda Utilities, Ltd. Water System**

**Statement of Fact:** Chapter 367.022(5), Florida Statutes specifically exempts “landlords providing service to their tenants without specific compensation for the service” from regulation by the Public Service Commission (PSC) as a utility. Currently, the PSC only regulates the wastewater side of Hacienda Utilities, Ltd.

Hacienda Utilities, Ltd. provides water and wastewater service to its tenants of the Hacienda Village Mobile Home Park. In addition, the utility provides wastewater service for approximately 44 other houses in a residential area adjacent to the mobile home park. Because the utility provides water service solely to its tenants without specific compensation, the water side of the utility is exempt from PSC regulation by this statute. However, because the utility provides wastewater service to tenants and non-tenants alike, it is not similarly exempted from PSC regulation by the above-mentioned statute.

**Conclusion:** This information is provided to help explain the regulatory relationship that exists between the PSC and Hacienda Utilities, Ltd.

**Disclosure No. 2**

**Subject: Utility Plant and Land**

**Statement of Fact:** The Commission last set rate base for the utility in Order No. 99-0636-FOF-SU, issued April 5, 1999. This order determined wastewater plant and land, as of October 8, 1998, to total \$355,948 (\$312,506+\$43,442). The utility did not adjust its books and records to reflect the required rate base. The utility balance for plant and land as of December 31, 1998 was \$800,015 (\$568,000+232,015).

The utility does not maintain its books and records in conformity with the NARUC Uniform System of Accounts as required by Rule 25-30.115, Florida Administrative Code. All of the utility's plant is recorded in four general ledger accounts, Land, Building, Building Improvements and Building and Maintenance Equipment. Also, the amounts reported in the Annual Reports do not agree to the general ledger.

The general ledger balance for plant and land as of December 31, 2002 was \$854,604 (\$622,589+232,015).

The Florida Department of Environmental Protection (DEP) required the utility to make improvements at the wastewater treatment plant (WWTP) holding pond for sludge removal and disposal. In discussion with the PSC analyst and engineer, it was determined that the associated costs should be capitalized

**Recommendation:** The utility's plant and land accounts should be adjusted to reflect the balances approved by the Commission with Order No. 99-0636-FOF-SU, reflect the costs incurred to be in compliance with DEP requirements and other audit adjustments.

A summary of the proposed adjustments follows:

Plant in Service per Utility's General Ledger		\$622,589
Add: WWTP upgrades per DEP	325,066	
Add: Items to capitalize	5,482	
Less: Adjustment to prior Order	(255,494)	
Less: Capitalized repairs	( 1,150)	
		<u>73,904</u>
Plant in Service Per Audit		<u>\$696,493</u>
Land per Utility's General Ledger		\$232,015
Adjustment to prior Order		( 188,573)
Land per audit		<u>\$ 43,442</u>

**Disclosure No. 3**

**Subject: Accumulated Depreciation**

**Statement of Fact:** Hacienda Utilities, Ltd. did not adjust its books and records to reflect the rate base set by the Commission in Order No. 99-0636-FOF-SU. The utility has not been depreciating plant using guideline rates as required by Rule 25-30.140, Florida Administrative Code. It has been using a fifteen-year life for all depreciable assets.

**Recommendation:** The utility's books and records reflect incorrect plant balances being depreciated at incorrect rates. The accumulated depreciation accounts have been recalculated using approved rates and balances. A summary of the proposed adjustments follows:

Accumulated depreciation per utility @ 12/31/02	\$172,794
Adjustment to prior Order (181,734 - 9,421)	172,313
Accumulated depreciation 10/8 - 12/31/98	4,453
Recalculation of accumulated depreciation using correct plant balances and guideline rates	( 69,895)
Accumulated depreciation per audit @ 12/31/02	<u>\$279,665</u>

**Disclosure No. 4**

**Subject: Contributions in Aid of Construction (CIAC)**

**Statement of Fact:** Rule 25-30.140, Subsection 8 (a), F.A.C. states in part “Where CIAC records are not kept by account, the depreciation rates shall be applied to the entire depreciable plant . . . the composite plant amortization rate shall be used.”

The utility books do not reflect any CIAC or related amortization of CIAC. PSC Order 99-0636-FOF-SU, issued April 5, 1999, set balances of CIAC and Accumulated Amortization of CIAC to be \$35,264 and \$22,315 respectively.

**Recommendation:** The auditor used additions per the Annual Report and recalculated CIAC and amortization using the annual composite depreciation rates derived from the 1998 - 2002 depreciation schedules. As of December 31, 2002, the balance of CIAC should be \$47,864 and \$32,924 for accumulated amortization.

**Disclosure No. 5**

**Subject: Customer Billing**

**Statement of Fact:** The utility's wastewater charges are regulated by the Florida Public Service Commission. The current Commission approved wastewater monthly service charges were approved administratively in a rate case reduction filing, and became effective on March 27, 1997. They are noted in Order No. PSC-99-0636-FOF-SU. The rates are \$12.13 monthly per residential unit.

This charge is only billed to the 44 homeowners outside of Hacienda Village Mobile Home Park. The other customer of the utility is the mobile home park. The park residents do not receive water or wastewater bills because they are not considered utility customers. Their water and wastewater service is included in their rent to the park. All they receive is a yearly notice of an increase in the lot rent amount. No breakout is shown for utility services.

**Recommendation:** From utility records, and from discussions with utility representatives, it does not appear that wastewater billings were made to the general service customer, Hacienda Village Mobile Home Park.

The Annual Report for the years 2000 - 2002 showed the amount of what the income would be for the residents within and outside of the park using the PSC approved tariff rate. This amount was recomputed by the auditor and appeared to be correct. Hacienda Village Mobile Home Park should be billed monthly for wastewater services based upon the number of lot residents.

HACIENDA UTILITIES, LTD  
DOCKET 030747-SU  
RATE BASE - WASTEWATER  
TEST PERIOD ENDED DECEMBER 31, 2002

DESCRIPTION	(a) BALANCE PER BOOKS @12/31/02	(b) AUDIT ADJUSTMENTS	(c) AUDITED BALANCE @12/31/02	(d) AVERAGE RATE BASE @12/31/02
UTILITY PLANT IN SERVICE	622,589	73,904 Disc 2	696,493	533,960
LAND	232,015	(188,573) Disc 2	43,442	43,442
PLANT HELD FOR FUTURE USE	0	0	0	0
CIAC	0	(47,864) Disc 4	(47,864)	(47,864)
CWIP	0	0	0	0
ACCUMULATED DEPRECIATION	(172,794)	(106,871) Disc 3	(279,665)	(264,028)
AMORTIZATION-CIAC	0	32,924 Disc 4	32,924	31,522
WORKING CAPITAL	0	0	0	0
ACQUISTION ADJUSTMENT	0	0	0	0
TOTAL	681,810	(236,480)	445,330	297,032

NOTE: WORKING CAPITAL ALLOWANCE NOT REQUIRED