



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: April 20, 2004
TO: Division of Economic Regulation (Clapp)
FROM: Denise N. Vandiver, Chief, Bureau of Auditing W
Division of Regulatory Compliance and Consumer Assistance
RE: Docket No. 030458-WU ; Company Name: Holiday Utility Company ;
Audit Purpose: Establish Rate Base for Transfer of Utility ;
Audit Control No. 03-176-2-1

On September 4, 2003 I forwarded the final audit report for the utility stated above. Attached is a copy of changes to the audit report and workpapers. Please replace pages 4, 5 and 6 of the audit report with the revised pages. Also attached are the following revised workpapers No. 16, No. 22 and No. 23.

I am sending the utility a copy of this memo and the revised pages of 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)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Disclosure No. 2

Subject: Plant In Service

Statement of Fact: The Commission set rate base for the utility after a staff assisted rate case with FPSC Order No. 14506, issued June 26, 1985. According to this Order, in June of 1977, the utility stopped selling water to two nearby utilities, West Coast Utilities and Aloha Utilities, Inc.. The order goes on to state that the water main and wells which provided this service are now dormant and should not be considered used and useful.

This order determined Water Plant In Service of \$117,255 and net Plant Held for Future Use of \$62,294 (Plant Held for Future use of \$106,124 less Accumulated depreciation of \$43,830). The utility did not adjust its books and records to properly reflect the above adjustment.

The utility has recorded plant additions of \$36,341 from October 1, 1984 through June 30, 2003.

Recommendation: The utility plant account should be adjusted to reflect the balance approved by the Commission with FPSC Order No. 14506. Below is a summary of proposed adjustments.

Plant In Service per Utility's 2002 Annual Report	\$250,234
Amount to Adjust to FPSC order	1,761
Add: 2003 Plant Additions	<u>7,725</u>
Total Plant In Service	<u>\$259,720</u>

The utility should increase Plant In Service by \$1,761 to adjust to FPSC order No. 14506, issued June 26, 1985.

Disclosure No. 3

Subject: Accumulated Depreciation

Statement of Fact: The utility has not been depreciating plant using guideline rates as required by Rule 25-30.140, Florida Administrative Code. The utility books and records reflect incorrect plant balances being depreciated at incorrect rates.

Recommendation: The auditor recalculated accumulated depreciation using guideline rates and Commission approved plant account balances. The difference between company's figure and auditor's recalculated balance was \$2,843 (1.22%). The difference is immaterial, therefore, accept the company's accumulated depreciation balance of \$233,378 as of December 31, 2002 as being correct. Below is a summary of Accumulated Depreciation.

Accumulated Depreciation per utility annual report @ 12/31/02	\$233,378
Add: Accumulated Depreciation Jan. 1 - June 30, 2003	<u>3,179</u>
Total Accumulated Depreciation per audit @ 06/30/03	<u>\$236,557</u>

Disclosure No. 4

Subject: Contributions In Aid of Construction - CIAC

Statement of Fact: Rule 25-30.115, F.A.C., requires all water and wastewater utilities to maintain their accounts and records in conformity with the NARUC Uniform System of Accounts.

The NARUC Uniform System of Accounts for Contributions In Aid of Construction, Account Number 271, states that:

The records supporting the entries to this account shall be so kept that the utility can furnish information as to the purpose of each donation, the conditions, if any, upon which it was made, the amount of donations from (a) states, (b) municipalities, (c) customers, and (d) others, and the amount applicable to each utility department.

An attempt was made to update CIAC from September 30, 1984, when Rate Base was last established, to June 30, 2003. A request was made to the utility for records pertaining to this period. The information provided was incomplete and did not sufficiently allow for the updating of CIAC.

The auditor scheduled CIAC for the above time frame using copies of the utility's Annual Report. Many of these were improperly prepared and did not appear to reflect the true CIAC contributions. On the 1989 Annual Report the utility recorded CIAC net of prior years amortization as the beginning balance. CIAC Amortization was not recorded on the 1991 through 1997 Annual Reports. We requested that the new owners explain and reconcile the Annual Reports for discrepancies noted by the auditor. They were unable to do this.

Opinion: The utility records provided were insufficient to determine CIAC with any certainty. The records maintained by the prior owners were not kept in accordance with the NARUC Uniform System of Accounts. Therefore, the auditor relied on the figures as recorded on the Annual Reports in establishing CIAC and Amortization for current rate base.

Recommendation: Accept auditor amounts for CIAC and Amortization in determining Rate Base as of June 30, 2003.

	<u>Per Utility</u>	<u>Per Audit</u>	<u>Difference</u>
CIAC @ 06-30-03	\$ 11,810	\$ 32,052	\$ 20,242
Accrued Amortization	1,859	19,041	17,182

HOLIDAY UTILITY COMPANY, INC.

DOCKET 030458-WU

CERTIFICATE TRANSFER

AVERAGE RATE BASE

PERIOD ENDED 06/30/03

	Balance Per Company <u>12/31/2002</u>	<u>Ref</u>	Audit <u>Adjustments</u>	Balance Per Audit <u>06/30/2003</u>
Plant in Service	250,234	D2 D2	1,761 7,725	259,720
Land	0		0	0
Const Work in Progress	0		0	0
Accum Depr of Plant	(233,378)	D3	(3,179)	(236,557)
CIAC	(11,810)	D4	(20,242)	(32,052)
Amort of CIAC	1,859	D4	17,182	19,041
Contributed Taxes, net	0		0	0
Working Capital	0		0	0
Deferred Tax Assets	0		0	0
Total	<u>6,905</u> =====		<u>3,247</u> =====	<u>10,152</u> =====

Revised Copy - 03/23/2004