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# Public Service Commission

June 15, 2004

Martin S. Friedman  
Rose, Sundstrom & Bentley, LLP  
600 S. North Lake Boulevard, Suite 160  
Altamonte Springs, Florida 32701

**Re: Docket No. 040316-WS, Analysis of Utilities, Inc.'s plan to bring all of its Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code.**

Dear Mr. Friedman:

Pursuant to Order No. PSC-04-0358-FOF-WS, issued April 5, 2004, in Docket No. 020407-WS, the Commission opened a new docket to analyze Utilities, Inc.'s plan to bring all Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code. In order to achieve this, staff believes that it is necessary to address the specific points previously enumerated in the show cause analysis from Docket No. 020407-WS. Staff suggests that a possible way to resolve the identified issues is for the company to make an offer of settlement in this current docket to address each of the 11 issues. The specific issues are listed below and include a discussion of the problem, the utility's response, staff comments and proposed language that the utility could submit in an offer of settlement. Staff requests that the utility review each item and communicate with staff for any questions. If the utility were to propose the following items in its offer of settlement, staff would be able to recommend to the Commission that the offer of settlement be approved.

**1) Annual Report and Minimum Filing Requirements (MFRs) shall begin with balance per books**

CMP \_\_\_\_\_ Numerous pages of the MFRs are designed with a column titled "Balance Per Books." This  
COM \_\_\_\_\_ column must reflect the balances on the General Ledger, or in some cases reflect the average  
CTR \_\_\_\_\_ balance of the general ledger amounts. The Annual Report balances should also agree with the  
ECR \_\_\_\_\_ general ledger as well as the MFR balances.

GCL \_\_\_\_\_ Company Response

OPC \_\_\_\_\_ The utility understands the importance of this issue and ensures the Commission that all rate cases  
filed in the future will comply with this requirement.

MMS \_\_\_\_\_ Proposed Offer of Settlement

RCA \_\_\_\_\_ Beginning with all years ending December 31, 2004, the utility's annual report balances shall agree  
SCR \_\_\_\_\_ with the general ledger balances. All MFR pages that require a balance per books column shall either  
SEC \_\_\_\_\_ be the actual balance per the general ledger or an average test year balance, with supporting  
calculations provided that show that the components of the calculation came from the general ledger.

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**2) Adjustments to rate base should be timely made**

All adjustments to the utility balances that are included in Commission orders must be booked by the utility within 60 days of the date of the order. The utility must submit documentation to the Commission showing that these adjustments have been made within 90 days of the date of the order. These adjustments include the following:

*Transfers:* When the utility purchases a system, the balances included in the Commission order setting rate base must be recorded on the utility books.

*Adjustments:* When the Commission adjusts rate base items in an order that becomes final, these adjustments must be made on the utility books.

Company Response

Utilities, Inc. is in the process of reviewing all prior Commission orders and comparing those orders to its books and records to assure compliance. The utility filed several rate cases in 2004 and conducted a comparison analysis on an expedited basis for those companies. In addition, the utility anticipated that the review process for all other Florida companies will be completed prior to the filing of our 2003 Annual Reports.

Proposed Offer of Settlement

Beginning with the year ended December 31, 2003, the utility shall have reviewed all Commission transfers and rate case orders to determine if proper adjustments have been made to correctly state rate base balances. If the utility has any questions regarding adjustments for a specific system, staff should be notified by September 30, 2004. Sufficient workpapers shall be maintained so that Commission staff can easily review adjustments made and whether appropriate adjustments to reserve accounts have been made since the date of transfer or the end of the test year in a rate case or other proceeding where rate base was established

**3) Improve account cross reference & allocation methodology**

The structure of the utility's accounting system, particularly regarding O&M expenses, continues to require significant amounts of staff time to reconcile the MFR filings to the books and records. Specifically, our audit of Account 620 (Materials and Supplies-Water) and Account 720 (Materials and Supplies-Wastewater) is cumbersome, difficult, and time-consuming. We would suggest that the utility add two fields to its General Ledger and accounting reports as follows: 1) USOA account cross-reference, and 2) Allocation methodology. If these two fields are added, the Commission staff should be able to sort the General Ledger in a more efficient manner and reconcile the utility accounts to the NARUC accounts in an expeditious manner. Also, we have found some inconsistencies in how a particular account may be allocated in different methodologies for different subsidiaries. (For instance, GL Account #6355010, #6755090, and #6759503 are cross referenced to NARUC account #620. In Cypress Lakes, the amounts are allocated between water and wastewater. In UIF, the amounts are allocated to water only.) The addition of an allocation field will facilitate an efficient reconciliation of the accounting records and the MFRs. We believe that it may also be an opportunity for the utility to verify the consistent application of each allocation methodology.

Company Response

The requested information cannot be provided within the general ledger systems; however, UI will provide a schedule in all subsequent MFR filings that is a detailed listing of all General Ledger account numbers, the corresponding USOA account number and method of allocation. This allocation will include percentages and methodology from the affiliate company (Water Service Corp.) and any other affiliate relationship including Utilities, Inc. of Florida to all other Florida operating subsidiaries.

Staff Comment

Maintenance of a schedule reconciling each account shall be maintained by the utility for each year, not just when MFRs are filed. This is required pursuant to the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), Accounting Instruction 3-D, in the section entitled General - Numbering System. If the utility is unable to modify its general ledger program, then some other mechanism shall be manually performed each year to provide this reconciliation. Staff does not believe that this requirement can be waived. Further, staff believes that hiring a consultant to prepare this document for a rate case filing is inappropriate and is not cost-effective.

Proposed Offer of Settlement

Beginning with the year ended December 31, 2004, the utility shall annually maintain a schedule reconciling each general ledger account and sub-account to the USOA primary accounts. For any system that is utilizing a December 31, 2003, test year, such as Labrador, this analysis shall be completed prior to filing its MFRs.

**4) Pumping equipment account number incorrect**

The utility has generally done a good job at matching plant accounts to NARUC accounts. However, Account 310 (Power Generation Equipment) is included in Account 311 (Pumping Equipment)

Company Response

The utility has reviewed this allegation and has identified the accounts and amounts in questions and will make the necessary adjusting entries. The utility stated that the entries would be booked by November 11, 2003, (90 days from the August 11, 2003, letter) and reflected in the 2003 annual report.

Proposed Offer of Settlement

Beginning with the year ended December 31, 2003, the utility shall have adjusted any systems where accounts 310 and 311 have been mismatched. Supporting documentation shall be maintained to allow quick review of the utility's adjustments for future PSC staff audits.

**5) Retirements not made consistently**

The utility has a four-step policy for retirement of Utility Plant In Service (UPIS). The utility appears to be inconsistent in applying its policy. The utility should develop a method to improve its implementation of its policy, i.e. a new form, procedure, internal control, etc. Two findings regarding this are found in Docket No. 020071-WS (UIF), Exception No. 4 and the undocketed affiliate audit, Exception No. 1. In the UIF audit, staff found \$299,017.94 of additions which did not have

corresponding retirements. In the affiliate audit, staff found inadequate documentation regarding the disposition of old computers that are either transferred or destroyed when new ones are purchased.

#### Company Response

The utility has recently moved to a fully automated work order system to facilitate our work order process. The utility stated it was going to add the following fields to the work order form and input screen, to track retirements when items are moved from the CP ledger to the General Ledger: 1. New, 2. Upgrade, 3. Repair, and 4. Replace. These additional data entry fields will allow the utility to sort all projects and better evaluate which projects require retirements. In addition, the utility will require operations employees to provide accounting staff with the original date the asset was placed in service or the original cost, if available.

The utility will be reiterating to its operations personnel and accounting staff the importance of retirements to ensure that all retirements or replacements are clearly marked on all invoices and properly recorded. A memo was to be distributed before December 15, 2003. A copy was provided to FPSC Staff by fax on December 15, 2003. The memo reiterates the company's current retirement policy so that all employees are clear as to the decisions to be made regarding retirements.

#### Proposed Offer of Settlement

By the end of 2004, the utility will complete a review of all systems to make sure that all appropriate retirement entries have been made. Beginning with the year ended December 31, 2003, the utility will ensure that its operation and accounting personnel consistently utilize the utility's existing retirement policy. Beginning September 30, 2004, a quarterly analysis shall be made by accounting personnel to review all plant additions to ensure that all required retirements have been made.

#### **6) CIAC amortization rate incorrect**

The utility has been using an incorrect method of calculating the amortization rate for CIAC. Rule 25-30.140(9)(a), Florida Administrative Code, states as follows: "Beginning with the year ending December 31, 2003, all Class A and B utilities shall maintain separate sub-accounts for: (1) each type of Contributions-in-Aid-of-Construction (CIAC) charge collected including, but not limited to, plant capacity, meter installation, main extension or system capacity; (2) contributed plant; (3) contributed lines; and (4) other contributed plant not mentioned previously. Establishing balances for each new sub-account may require an allocation based upon historical balances. Each CIAC sub-account shall be amortized in the same manner that the related contributed plant is depreciated. Separate sub-accounts for accumulated amortization of CIAC shall be maintained to correspond to each sub-account for CIAC."

#### Company Response

Utilities, Inc. intends to comply with all Commission orders and rules. As of January 2003, Utilities, Inc. and all Florida operating subsidiaries will use the appropriate amortization rate "where supporting documentation is available to identify the account or function of the related CIAC plant." These changes will be reflected in the utilities' 2003 annual reports.

#### Proposed Offer of Settlement

The utility shall comply with the rule requirements and stated timeframe.

**7) Water Service Corporation allocation not supported**

The utility does not maintain adequate documentation regarding its allocation methodology and its calculation of customer equivalents.

Company Response

The utility's allocation methodology distributes common expenses and Utility Plant in Service based upon customer equivalents and is an equitable allocation. Utilities, Inc. has circulated to all operations personnel and to all branch offices, where the Single Family Equivalent (SFE) information is entered, and a policy and procedure memo to ensure that the appropriate supporting documentation is being provided when an SFE is being added to the billing system. A copy was provided to staff by fax dated September 29, 2003. In addition, Utilities, Inc. does keep records of gallons pumped, purchased and treated for all operating subsidiaries and this information is available for Staff's review. Utilities, Inc. also has the capacity to generate reports that contain the numbers of gallons sold to each individual within all subdivisions and bill codes. However, we do have some limitations on content for systems where other entities control the billing data. The utility is committed to working with the FPSC's auditors prior to any subsequent audits to ensure that all requested consumption data is available. Most of the consumption is contained on Utilities, Inc.'s billing and general ledgers systems that were replaced in the second quarter of 2003. This new and improved system allows us the capacity to generate and print additional data. In addition, certain consumption data is contained in the field with operational personnel. The intent would be to work with the FPSC Staff, prior to their arrival, to ensure that all of the requested information is available.

Proposed Offer of Settlement

Pursuant to Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, the Commission ordered that "Utilities, Inc. shall use ERCs as its primary allocation factor for affiliate costs in future cases in Florida as of January 1, 2004, and shall use the end of the applicable test year as the measurement date." Staff recommends that Utilities Inc. permanently discontinue its customer equivalent methodology for all subsidiaries and implement an ERC methodology using the American Waterworks Association (AWWA) meter equivalent factors, as delineated in Rule 25-30.055, Florida Administrative Code, beginning January 1, 2004. The utility shall also maintain workpapers for each system to show how the ERCs are determined on an annual basis.

**8) Allocation to systems not owned**

In a related matter to the above issue, the affiliate audit found evidence that the utility does not allocate costs to systems that the utility does not own but systems for which the utility performs management and/or billing functions.

Company Response

The utility does not currently allocate Water Service Corporation expenses to utilities that it does not own but operates. We do not allocate expenses to these systems because they do not require the same level of attention from management as subsidiaries that are owned and operated. However, in light of the Commission's inquiry, the utility will allocate costs to systems that it does not own but operates. In addition, the utility believes that a water or sewer customer in a system that Utilities, Inc. owns and operates is not equivalent to a water or sewer customer in a system that it operates but does not own. Utilities, Inc. will develop a methodology for allocating costs to these systems that will be implemented to allocate costs in the 2003 Annual Reports.

Proposed Offer of Settlement

The utility shall provide a written statement that describes how it implemented its allocation methodology to systems operated but not owned.

**9) Document “other water uses”**

In several systems, the utility does not adequately document its normal “other water uses” such as line flushing and line breaks. The utility should maintain records indicating actual usage or documentation regarding estimation methodology for each individual event, with a monthly summary.

Company Response

Each month the operators of the various water systems in Florida provide the regional office with a monthly flushing log sheet. This log identifies the estimated volume of water used in such activities as line flushing, hydrant use, water main and service line breaks, construction activities, and filling new water mains. The estimated volume is recorded and tracked internally on the system’s water report to assist in determining percent of unaccounted for water. These reports are kept and are available for the Commission’s review. The utility is committed to improving this reporting mechanism by educating its field personnel of the importance of accurately estimating these flows.

On July 12, 2003, Lisa Crossett, Utilities, Inc.’s Director of Operations advised all regional managers as to the importance of “other water uses” and the importance of accurately estimating this information. This information was then disseminated to all operations personnel. The utility stated that it would be circulating a memo by September, 2003, to reiterate what was said on July 12th and to further elaborate on how to ensure that all future employees will be informed of these requirements. A copy was to be provided to FPSC Staff, however, this has not yet been submitted.

Proposed Offer of Settlement

As of January 1, 2004, the utility shall maintain daily records of all other water uses for each water plant that it operates. These records shall be maintained with the monthly operating reports required by the Florida Department of Environmental Protection. If metering equipment is not available, provide the basis used for estimation (i.e., number of gallons determined by amount of time multiplied by pressure and size of line).

**10) Maintenance of adjusting entry log book**

Staff believes that each journal entry should have attached to it, or in a central filing system for all journal entries, all support for that journal entry (i.e. purpose of the entry, person making the entry, worksheets showing any calculations, and any supporting documents, reconciliations, invoices, etc.).

Company Response

Utilities, Inc.’s Accounting Department’s personnel have created a folder that will contain all manual and uploaded journal entries, this information will be sorted by month. In addition, the utility’s accounting department has been advised to retroactively create these folders as of January 2003. The folder will contain all manual journal entries. The folder will also provide enough information that an individual can easily find source documents either within the folder or in another location.

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Proposed Offer of Settlement

The above detail shall be maintained for years beginning January 1, 2003.

**11. Lack of detail in cash book and general ledger**

The utility's Cash Book does not include the supporting documentation or a reference to where the documentation can be found. The same level of information we described for journal entries should be provided for the cash book.

Company Response

The accounting staff will be providing as much information that is available and that the system will allow them to enter. This additional information will also be provided in the cash book.

Proposed Offer of Settlement

The above detail shall be maintained for years beginning January 1, 2003.

Please review the proposed language as stated in staff's proposed offers of settlement above and address each item, stating whether the utility is in agreement with staff's position. If the utility disagrees with any of staff's proposals, provide reasons and an alternative method that the utility believes will achieve the stated goals as addressed by staff. Your response should be in writing and filed with the Commission no later than July 19, 2004.

After staff's review of the utility's plan is completed, we will prepare a recommendation for the Commission's approval. If approved by the Commission, the plan should become enforceable to all Florida subsidiaries of Utilities, Inc. If you have any questions regarding any of the above items, please call me and we can discuss the items.

Sincerely yours,



Patricia W. Merchant  
Public Utilities Supervisor

- cc: Office of the General Counsel (Fleming)  
Division of Regulatory Compliance and Consumer Assistance (Vandiver)  
Division of Economic Regulation (Joyce, Willis)  
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