

State of Florida



## 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:** October 6, 2006  
**TO:** Nina L. Merta, Professional Accountant Specialist, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance  
**RE:** **Docket No:** 060261-WS **Company Name:** Utilities Inc. of Pennbrooke  
**Audit Purpose:** File & Suspend Rate Case  
**Audit Control No:** 06-209-2-8

---

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 Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV:bj  
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)  
Division of Commission Clerk & Administrative Services (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

Mr. Patrick C. Flynn, Regional Director  
Alafaya Utilities, Inc.  
200 Weathersfield Avenue  
Altamonte Springs, FL 32714-4027

Steve Lubertozi, Director, Regulatory Accounting  
Alafaya Utilities, Inc.  
2335 Sanders Road  
Northbrook, IL 60062

Valerie L. Lord  
Rose Law Firm  
Sanlando Center  
2180 W. State Rd 434, Suite 2118  
Longwood, FL 32779

DOCUMENT NUMBER-DATE

09250 OCT-6 08

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
BUREAU OF AUDITING

Tampa District Office

UTILITIES INC. OF PENNBROOKE

FILE AND SUSPEND RATE CASE INVESTIGATION

AS OF DECEMBER 31, 2005

DOCKET NO. 060261-WS  
AUDIT CONTROL NO. 06-209-2-8

Jeffery A. Small, Audit Manager

Robert A. Freeman, Audit Staff

Genarro Jackson, II, Audit Staff

Jocelyn Y. Stephens, Audit Staff

Intesar Terkawi, Audit Staff

Kathryn L. Welch, Audit Staff

Joseph W. Rohrbacher, District Supervisor

DOCUMENT NUMBER-DATE

09250 OCT-6 8

FPSC-COMMISSION CLERK

TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES .....	2
III. AUDIT FINDINGS	
1. ADJUSTMENT TO CONTRIBUTION IN AID OF CONSTRUCTION .....	6
2. ADJUSTMENT TO ACCUMULATED DEPRECIATION .....	10
3. ADJUSTMENT TO WASTEWATER DEPRECIATION RATES .....	12
4. ADJUSTMENT TO ALLOCATED WSC RATE BASE.....	14
5. ADJUSTMENT TO ALLOCATED UIF RATE BASE.....	15
6. ADJUSTMENT TO ALLOCATE TRANSPORTATION EQUIPMENT .....	17
7. ADJUSTMENT TO OPERATION AND MAINTENANCE EXPENSE.....	18
8. ADJUSTMENT TO ALLOCATED WSC EXPENSE.....	21
9. ADJUSTMENT TO TAXES OTHER THEN INCOME EXPENSE.....	23
10. INFORMATION ON TRANSPORTATION EXPENSE .....	25
11. INFORMATION ON CAPITAL STRUCTURE BALANCES .....	26
12. INFORMATION ON DEFERRED TAXES .....	28
IV. EXHIBITS	
1. WATER RATE BASE.....	31
2. WASTEWATER RATE BASE.....	32
3. WATER NET OPERATING INCOME .....	33
4. WASTEWATER NET OPERATING INCOME .....	34
5. COST OF CAPITAL .....	35

**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
AUDITOR'S REPORT**

**SEPTEMBER 27, 2006**

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

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated July 26, 2006. We have applied these procedures to the attached schedules which were prepared by Utilities, Inc. of Pennbrooke in support of its filing for rate relief in Docket No. 060261-WS.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

## OBJECTIVES AND PROCEDURES

### RATE BASE

#### General

*Objective:* To determine that the utility's filing represents its recorded results from continuing operations.

*Procedures:* We reconciled the following individual component rate base balances to the utility's general ledger as of December 31, 2005 and verified that adjustments required in Order No. PSC-03-1000-PAA-WS, issued September 5, 2003, were recorded.

#### Utility-Plant-in-Service (UPIS)

*Objective:* To determine that property exists and is owned by the utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that the proper retirements of UPIS were made when a replacement item was put in service.

*Procedures:* We sampled UPIS additions for the period April 3, 2003 through December 31, 2005 for compliance with the stated objectives above. We verified that the utility properly recorded retirements to UPIS when a capital item was removed or replaced. We toured the utility plant sites to observe whether assets additions were completed and to ascertain if asset retirements were properly recorded. We sampled construction project additions and the corresponding source documentation. We verified that the utility used Commission approved AFUDC rates and traced the capitalized salaries to individual employee time sheets. Audit Finding No. 6 discusses our adjustments to allocate the transportation equipment plant balance to the utility's wastewater system.

#### Land and Land Rights

*Objective:* To determine that utility land is recorded at original cost and is owned or secured under a long-term lease.

*Procedures:* We verified that there have been no changes to utility land since its last rate proceeding by searching the county's public records.

#### Contributions-in-Aid-of-Construction (CIAC)

*Objective:* To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that CIAC additions are reflective of the utility's Commission approved service availability tariff. To verify and insure that all donated property is properly accounted for and recorded as CIAC and UPIS.

*Procedures:* We sampled CIAC additions for the period April 3, 2003 through December 31, 2005 for compliance with the stated objectives above. We scanned the utility's cash receipts records for unrecorded cash and property. We reviewed developer agreements for unrecorded CIAC. We traced utility CIAC schedules to the general ledger and the utility's authorized tariff rates. We toured the utility's authorized service territory to look for new developments that may have included contributed property. Audit Finding No. 1 discusses our adjustments to correct the utility's 2003 CIAC adjusting journal entry that was made to allocate CIAC based on specific UPIS account balances.

### Accumulated Depreciation

*Objective:* To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that depreciation expense accruals are calculated using the Commission authorized rates and that retirements are properly recorded.

*Procedures:* We traced the accumulated depreciation schedules to the corresponding UPIS schedules. We verified that the utility used Commission authorized rates to depreciate its UPIS accounts by calculating a sample of accumulated depreciation account balances to test for calculation errors. We verified that the utility properly recorded retirements to accumulated depreciation when the corresponding UPIS was removed or replaced. We recalculated a sample of accumulated depreciation account balances as of December 31, 2005. Audit Finding No 2 discusses our adjustments to correct and include accumulated depreciation account balances that were left out of the utility's filing. Audit Finding No. 3 discusses our adjustments to the utility's wastewater depreciation rates and the corresponding effect on its accumulated depreciation account balance. Audit Finding No. 6 discusses our adjustments to allocate the transportation equipment accumulated depreciation account balance to the utility's wastewater system.

### Accumulated Amortization of CIAC

*Objective:* To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that CIAC amortization expense accruals are properly recorded and calculated based on the rates and method used in the utility's last rate proceeding.

*Procedures:* We traced the accumulated amortization of CIAC schedules to the corresponding CIAC schedules. We verified that the utility used Commission authorized rates to amortize its CIAC accounts by calculating a sample of accumulated amortization account balances to test for calculation errors. We recalculated a sample of accumulated amortization of CIAC account balances as of December 31, 2005. Audit Finding No. 1 discusses our adjustments to correct the utility's 2003 CIAC adjusting entry and the corresponding accumulated amortization of CIAC account balances.

### Working Capital

*Objective:* To determine that the utility's working capital balance is properly calculated in compliance with Commission rules.

*Procedures:* We recalculated the utility's working capital balance as of December 31, 2005.

### Other Rate Base Items

*Objective:* To determine that other component balances affecting rate base are properly stated and authorized by Commission rules or prior orders.

*Procedures:* Determine that adjustments to include allocated rate base from subsidiary operations are properly reported in the filing. Audit Finding No. 5 discusses our adjustments to WSC allocated rate base balances based on the affiliate transaction investigation performed in Docket. No. 060253-WS. Audit Finding No. 5 discusses our adjustments to allocate UIF allocated rate base balances to the utility's wastewater system.

## NET OPERATING INCOME

### General

*Objective:* To determine that the utility's filing represents its results from continuing operations.

*Procedures:* We reconciled the following individual component net operating income balances to the utility's general ledger for the 12-month period ended December 31, 2005.

### Revenues

*Objective:* To determine that revenues are properly recorded in compliance with Commission rules and are based on the utility's Commission approved tariff rates.

*Procedures:* We traced revenues to the general ledger and utility billing registers and selected a sample of customer bills from each customer rate class on a random basis and recalculated the bills using the Commission approved tariff rates.

### Operation and Maintenance Expenses (O&M)

*Objective:* To determine that operation and maintenance expenses are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

*Procedures:* We sampled O&M expense items from the general ledger based on auditor judgment. We reviewed the sample for the proper utility system, water or wastewater classification, NARUC account, amount, period and recurring nature. We examined invoices and supporting documentation to determine if the above objectives were met. Audit Finding No. 7 discusses our adjustments to O&M expense balances. Audit Finding No. 8 discusses our adjustments to the allocated WSC O&M expense balances based on the affiliate transaction investigation performed in Docket No. 060253-WS. Audit Finding No. 10 provides information on the utility's transportation expense balances.

### Taxes-Other-Than-Income (TOTI)

*Objective:* To determine that taxes other than income tax expense is properly recorded in compliance with Commission rules and was reasonable and prudent for ongoing utility operations.

*Procedures:* We obtained the regulatory assessment fee filings and reconciled them to the general ledger. We obtained the property tax bills for review and to determine if the amount booked reflects the discount amount. Audit Finding No. 9 discusses our adjustments to regulatory assessment fee and property tax balances.

### Depreciation Expense

*Objective:* To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of UPIS assets and amortization of CIAC assets for ongoing utility operations.

*Procedures:* We recalculated a sample of UPIS depreciation expense and CIAC amortization expense balances for the period using Commission approved rates and we verified that CIAC amortization expense was properly netted against depreciation expense. Audit Finding No. 1 discusses our adjustments to correct the utility's 2003 accumulated amortization of CIAC account balance and the corresponding effect on the CIAC amortization expense balances that

are netted against depreciation expense. Audit Finding No. 3 discusses our adjustments to the utility's wastewater depreciation rates and the corresponding effect on depreciation expense balances. Audit Finding No. 4 discusses adjustments to the WSC allocated depreciation expense balances based on the affiliate transaction investigation performed in Docket No. 060253-WS. Audit Finding No. 5 discusses our adjustments to allocate the UIF and WSC allocated depreciation expense balances to the utility's wastewater system. Audit Finding No. 6 discusses our adjustments to allocate the depreciation expense balance on transportation equipment to the utility's wastewater system.

## **CAPITAL STRUCTURE**

### General

*Objective:* To determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules and that it represents the ongoing utility operations.

*Procedures:* We reconciled the following individual component capital structure balances to the utility's general ledger as of December 31, 2005. Audit Finding No. 11 provides information on the utility's capital structure component balances that were determined in the affiliate transaction investigation performed in Docket No. 060253-WS.

### Long-Term-Debt

*Objective:* To determine that long-term debt balances represent actual obligations of the utility's parent and that they are properly recorded in compliance with Commission rules.

*Procedures:* We traced long-term debt balances to the original documents and verified the terms and interest rate of each note payable.

### Short-Term-Debt

*Objective:* To determine that short-term debt balances represent actual obligations of the utility's parent and that they are properly recorded in compliance with Commission rules.

*Procedures:* We traced short-term debt balances to the original documents and verified the terms and interest rate and period. We recalculated test year interest expense.

### Accumulated Deferred Income Taxes

*Objective:* To determine that accumulated deferred income taxes are properly stated and calculated based on the recorded differences between utility book and taxable income.

*Procedures:* Recalculated a sample of deferred tax balances for the period using Commission authorized rates and federal tax rates. Audit Finding No. 12 provides information on the utility's deferred tax balances.

### Customer Deposits

*Objective:* To determine that customer deposit balances represent actual obligations of the utility and are properly recorded in compliance with Commission rules.

*Procedures:* We traced a sample of customer deposit balances to supporting documentation and verified that customer deposits were refunded and credited with interest payments in compliance with Commission rules.



**AUDIT FINDING NO. 1**

**SUBJECT: ADJUSTMENT TO CONTRIBUTIONS IN AID OF CONSTRUCTION**

**SUMMARY:** The utility's water and wastewater rate base balances are understated by \$18,651 and \$35,332, respectively, as of December 31, 2005 and its water and wastewater net depreciation expense balances are understated by \$7,473 and \$10,154, respectively, for the 12-month period ended December 31, 2005.

**STATEMENT OF FACT:** The utility was purchased in 2003. When Utilities, Inc. recorded the purchase of Pennbrooke Utilities Inc. to its general ledger it recorded the contributions in aid of construction (CIAC) balances as undistributed contributions instead of allocating them to the appropriate utility plant in service accounts. A balance of \$842,934 was recorded in 2003 for water and \$1,195,631 for wastewater.

Rule 25-30.140, F.A.C. requires CIAC for contributed property to be depreciated using the same depreciation rates as the utility plant in service (UPIS) associated with the contribution.

20 Our review of the utility's tariff and the prior period workpapers indicated that most of the transferred CIAC was related to contributed UPIS. The utility recorded contributed UPIS for Section J of its service territory in 2003. The remaining additions were for tap fee collections.

20-3 The balance of \$752,858 (\$842,934 - \$90,076) for contributed water UPIS and the entire balance of \$1,144,388 for contributed wastewater UPIS was re-allocated to the appropriate CIAC sub-accounts based on the utility's water and wastewater transmission and distribution account balances as of April 2003.

The audit staff estimated the maximum tap fees collected based on the utility's tariff rate times the number of additions by meter size to be \$108,900 as of December 2005.

20-2 The schedules that follow show the audit staff's allocation and calculations of the corrected balances and the corresponding computation of accumulated amortization of CIAC and CIAC amortization expense for the 12-month period ended December 31, 2005.

**EFFECT ON GENERAL LEDGER:** The following entries are needed to correct the utility's general ledger balances to properly record the retirements discussed above. See the audit staff schedules and calculations that follow.

NARUC			
<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings - Water		\$11,178
215	Retained Earnings - W/Water		\$25,178
271	CIAC Water Acc. Amtz.	\$18,651	
272	CIAC W/Water Acc. Amtz.	\$35,332	
407	CIAC Water Amtz. Exp.		\$7,473
407	CIAC W/Water Amtz. Exp.		\$10,154

**EFFECT ON FILING:** The utility's water and wastewater rate base balances should be increased by \$18,651 and \$35,332, respectively as of December 31, 2005. The utility's water and wastewater net depreciation expense balances should be increased by \$7,473 and \$10,154, respectively, for the 12-month period ended December 31, 2005

General Ledger Adjustment Entries

Utility Acct. No.	NARUC Acct. No.	Acct. Description	System	Debit	Credit
	215	Retained Earnings	Water		\$11,178.47
2711000	272	CIAC Undistributed	Water Acc. Amort.		\$226,306.35
2711010	272	CIAC Water Tax	Water Acc. Amort.		\$641.04
2711043	272	CIAC Mains	Water Acc. Amort.	\$185,170.63	
2711045	272	Service Lines	Water Acc. Amort.	\$43,639.89	
2711048	272	Hydrants	Water Acc. Amort.	\$16,787.84	
4071000	407	CIAC Undistributed	Water Amortz. Exp.	\$17,502.85	
4071010	407	CIAC Water Tax	Water Amortz. Exp.	\$398.46	
4071043	407	CIAC Mains	Water Amortz. Exp.		\$19,067.63
4071045	407	Service Lines	Water Amortz. Exp.		\$4,487.86
4071048	407	Hydrants	Water Amortz. Exp.		\$1,818.33
	215	Retained Earnings	W/Water		\$25,177.50
2721000	272	CIAC Sewer Undis.	W/Water Acc. Amort.		\$377,866.97
2721006	272	CIAC Services Ww	W/Water Acc. Amort.	\$50,414.35	
2721008	272	CIAC Mains Ww	W/Water Acc. Amort.	\$305,325.01	
2721098	272	CIAC Manholes	W/Water Acc. Amort.	\$0.45	
	272	CIAC Force Ww	W/Water Acc. Amort.	\$57,458.94	
4073000	407	CIAC Sewer Undis.	W/Water Amortz. Exp.	\$29,842.92	
4073006	407	CIAC Services Ww	W/Water Amortz. Exp.		\$4,895.51
4073010	407	CIAC Tax	W/Water Amortz. Exp.	\$11.52	
4073098	407	CIAC Manholes	W/Water Amortz. Exp.		\$0.23
4074008	407	CIAC Mains Ww	W/Water Amortz. Exp.		\$29,446.38
	407	CIAC Force Ww	W/Water Amortz. Exp.		\$5,666.61
Sum of:	215	Retained Earnings	Water		\$11,178.47
	215	Retained Earnings	W/Water		\$25,177.50
	272	CIAC Water	Water Acc. Amort.	\$18,650.97	
	272	CIAC W/Water	W/Water Acc. Amort.	\$35,331.78	
	407	CIAC Water	Water Amortz. Exp.		\$7,472.50
	407	CIAC W/Water	W/Water Amortz. Exp.		\$10,154.29

Utilities Inc. Of Pennbrooke  
 Analysis Of CIAC Contributed Plant  
 Test Year Ended December 31, 2005

	Balance 4/2003	Additions 2003	Balance 12/2003	Additions 2004	Balance 12/2004	Additions 2005	Balance 12/2005
Cash	\$90,076	\$6,227	\$96,303	\$9,000	\$105,303	\$3,597	\$108,900
Total CIAC	<u>842,934</u>						
NET CIAC to Allocate	\$752,858						

Utility Acct. No.	NARUC Acct. No.		Plant Balance at Transfer	Percent of Total	Allocated CIAC
3315043	331	Water Mains	582,155	75.20%	566,135
3335045	333	Services	136,564	17.64%	132,806
3355048	335	Hydrants	<u>55,443</u>	7.16%	<u>53,917</u>
Total Water Plant			\$774,162	100.00%	\$752,858
3602006	360	Sewer Services	\$140,550	12.28%	\$146,844
3602007	360	Force Mains	162,693	14.22%	169,978
3612008	361	Gravity	<u>841,145</u>	73.50%	<u>878,809</u>
Total Wastewater Plant			\$1,144,388	100.00%	\$1,195,631

CIAC Balances

Utility Acct. No.	NARUC Acct. No.		Balance 4/2003	Additions 2003	Balance 12/2003	Additions 2004	Balance 12/2004	Additions 2005	Balance 12/2005	G/L Balance 12/2005	Difference	
2711000	271	Undistributed CIAC	10.69%	\$90,076	\$6,227	\$96,303	\$9,000	\$105,303	\$3,597	\$108,900	\$842,934	(\$734,034)
2711010	271	CIAC Water Tax	0.00%	0	0	0	0	0	0	18,824	18,824	(18,824)
2711043	271	CIAC Mains	67.16%	566,135	19,353	585,488	0	585,488	0	585,488	19,353	566,135
2711045	271	Service Lines	15.76%	132,806	7,260	140,066	0	140,066	0	140,066	7,260	132,806
2711048	271	Hydrants	6.40%	<u>53,917</u>	<u>1,875</u>	<u>55,792</u>	0	<u>55,792</u>	0	<u>55,792</u>	<u>1,875</u>	<u>53,917</u>
			100.00%	\$842,934	\$34,715	\$877,649	\$9,000	\$886,649	\$3,597	\$890,246	\$890,246	\$0
2721000	272	CIAC Sewer Undis.		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2721006	272	CIAC Services WW	12.28%	146,844	2,920	149,764	0	149,764	0	149,764	1,195,631	(1,045,867)
	272	CIAC Force WW	14.22%	169,978	0	169,978	0	169,978	0	169,978	2,920	167,058
2721008	272	CIAC Mains WW	73.50%	878,809	13,403	892,213	0	892,213	0	892,213	13,403	878,809
2721010	272	CIAC Tax	0.00%	0	0	0	0	0	0	116	116	(116)
2721098	272	CIAC Manholes	0.00%	0	<u>4,805</u>	<u>4,805</u>	0	<u>4,805</u>	0	<u>4,805</u>	<u>4,805</u>	0
				\$1,195,631	\$21,128	\$1,216,759	\$0	\$1,216,759	\$0	\$1,216,759	\$1,216,875	(\$116)

Accumulated Amortization of CIAC Balances

Utility Acct. No.	NARUC Acct. No.		Rule Rates	Balance 4/2003	Additions 2003	Balance 12/2003	Additions 2004	Balance 12/2004	Additions 2005	Balance 12/2005	G/L Balance 12/2005	Difference
2721000	272	Undistributed CIAC	3.33%	\$21,972	\$2,071	\$24,043	\$3,360	\$27,403	\$3,570	\$30,974	\$257,280	(\$226,306)
2711010	272	CIAC Water Tax	2.22%	0	0	0	0	0	0	0	641	(641)
2711043	272	CIAC Mains	2.33%	138,094	8,937	147,031	19,519	166,549	19,519	186,068	897	185,171
2711045	272	Service Lines	2.50%	32,395	2,270	34,665	4,669	39,334	4,669	44,004	364	43,640
2711048	272	Hydrants		<u>13,152</u>	0	<u>13,152</u>	<u>1,860</u>	<u>15,012</u>	<u>1,860</u>	<u>16,872</u>	<u>84</u>	<u>16,788</u>
				\$205,612	\$13,278	\$218,890	\$29,408	\$248,298	\$29,618	\$277,917	\$259,266	\$18,651
2721000	272	CIAC Sewer Undis.		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$377,867	(\$377,867)
2721006	272	CIAC Services WW	2.86%	37,789	2,824	40,613	4,993	45,606	4,993	50,598	184	50,414
	272	CIAC Force WW	2.63%	43,743	2,978	46,721	5,667	52,388	5,667	58,054	595	57,459
2721008	272	CIAC Mains WW	3.34%	226,157	19,694	245,850	29,744	275,594	29,744	305,338	13	305,325
2721010	272	CIAC Tax		0	0	0	0	0	0	0	0	0
2721098	272	CIAC Manholes		0	0	0	160	160	160	320	320	0
				\$307,689	\$25,495	\$333,184	\$40,563	\$373,748	\$40,563	\$414,311	\$378,980	\$35,332

CIAC Amortization Expense Balances

Utility Acct. No.	NARUC Acct. No.		Additions 2005	G/L Balance 12/2005	Difference
4071000	407	Undistributed CIAC	(\$3,570)	(\$21,073)	\$17,503
4071010	407	CIAC Water Tax	0	(398)	398
4071043	407	CIAC Mains	(19,519)	(451)	(19,068)
4071045	407	Service Lines	(4,669)	(182)	(4,488)
4071048	407	Hydrants	<u>(1,860)</u>	<u>(42)</u>	<u>(1,818)</u>
			(\$29,618)	(\$22,146)	(\$7,473)
4073000	407	CIAC Sewer Undis.	\$0	(\$29,843)	\$29,843
4073006	407	CIAC Services WW	(4,993)	(97)	(4,896)
	407	CIAC Force WW	(5,667)		(5,667)
4074008	407	CIAC Mains WW	(29,744)	(298)	(29,446)
4073010	407	CIAC Tax	0	(12)	12
4073098	407	CIAC Manholes	<u>(160)</u>	<u>(160)</u>	<u>(0)</u>
			(\$40,563)	(\$30,409)	(\$10,154)

**AUDIT FINDING NO. 2**

**SUBJECT: ADJUSTMENT TO ACCUMULATED DEPRECIATION**

**SUMMARY:** The utility's water and wastewater rate base balances are overstated by \$11,677 and \$3,158, respectively, as of December 31, 2005 because it failed to include the organization cost's accumulated depreciation general ledger balances in the filing.

**STATEMENT OF FACT:** The utility properly recorded the organization costs that were transferred from the last order in the plant schedules and in rate base but did not include the accumulated depreciation or depreciation expense on those accounts in the filing.

16-1/1  
16-1/2  
The utility's filing reflects balances of \$11,677 and \$10,738 for Acct. Nos. 301 and 351 - Organization Cost as of December 31, 2005. These balances were the approved transfer balances established in Docket No. 030236-WS, which transferred ownership of the utility to Utilities, Inc.

12-1/1  
12-1/2  
The utility's general ledger reflected a balance of \$37,536 for Acct. No. 301 as of December 31, 2004. The utility adjusted this balance in 2005 by reducing \$25,859 to the proper balance of \$11,677 which was established at the time of transfer. The wastewater organization cost was properly recorded.

16-1/1  
22-2/3  
The utility's filing reflects an average balance of \$24,607 on MFR Schedule A-5 which was calculated incorrectly because it incorporated the general ledger balance of \$37,536 in its calculation which was not the correct organization cost balance established at the time of transfer. The utility did not carry this error forward to the water rate base presentation in MFR Schedule A-1 of its filing.

The utility, however, did not include the corresponding accumulated depreciation account balances for these two accounts in its filing. The utility's general ledger reflects a balance of \$13,176 for accumulated depreciation of organization cost which exceeds the asset balance by \$1,499. The general ledger balance for the wastewater accumulated depreciation of organization cost is \$3,158.

12-1/10  
12-1/11  
The utility's general ledger also reflects balances of \$292 and \$268 for direct water and wastewater organization depreciation expenses for the 12-month period ended December 31, 2005. Neither was included in the utility's filing.

We could not ascertain why the water organization cost account would be fully depreciated and not the wastewater account. The prior audit workpapers for the transfer docket did not break down accumulated depreciation for organization cost by account. The utility originally recorded the total accumulated depreciation for organization cost from the transfer docket in separate water and wastewater accounts. However the accumulated depreciation balances were combined into one account until they were allocated between water and wastewater accounts in 2004.

Since the utility included the organization cost balances in the filing, the associated accumulated depreciation and depreciation expense balances should also be included. However, since the water asset and accumulated depreciation organization cost accounts are out of balance its adjustment should include a second adjustment to remove the excess accumulated depreciation balance.

**EFFECT ON GENERAL LEDGER:** The following entries should be made to the utility's general ledger balances.

Utility <u>Acct. No.</u>	NARUC <u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
1083001	180	Water Acc/Dep - Organization Cost	\$1,499	
2151000	215	Retained Earnings - Water		\$292
4032001	403	Water Dep. Expense - Organization Cost		\$1,207

Correct accumulated depreciation balance to equal the balance of the associated asset account

**EFFECT ON FILING:** The utility's water and wastewater rate base balances are overstated by \$11,677 and \$3,158, respectively, as of December 31, 2005 because it failed to include the organization cost's accumulated depreciation general ledger balances in the filing. In addition, the water NOI is understated by \$268 for the 12-month period ended December 31, 2005, because the utility also did not include the corresponding organization cost depreciation expense in the filing.. No adjustment is needed for wastewater depreciation expense because its organization cost account was not fully depreciated before the beginning of the test year.

### AUDIT FINDING NO. 3

#### SUBJECT: ADJUSTMENT TO WASTEWATER DEPRECIATION RATES

**SUMMARY:** The utility's wastewater accumulated depreciation and depreciation expense balances are understated by \$3,129, each, respectively, for the 12-month period ended December 31, 2005.

**STATEMENT OF FACT:** The utility records depreciation accruals monthly but the recorded amount is based on the beginning balance of plant and is not trued up at year end.

Rule 25-30.140, F.A.C., requires the use of specific rates for each utility plant in service (UPIS) account. The utility provided a depreciation schedule that computed depreciation accruals based on its 2005 beginning UPIS sub-account balances for the year and it multiplied each account balance times the corresponding monthly depreciation rate. The utility reported some account activity to its UPIS account balances in July 2005 in its depreciation schedules, however the activity could not be reconciled to the general ledger. The utility's depreciation schedule did not compute depreciation accruals using a half year convention for the additions.

22-AP-3  
The schedules on the following pages details the differences between the audit staff's calculated depreciation accruals and the amounts reported in the utility's filing. Allocated depreciation balances from subsidiary operations are not included in these schedules because they were audited separately in the affiliate transaction investigation in Docket No. 060253-WS. Only the 2005 test year was affected because that is the year that the utility booked the adjustments for its last proceeding in Docket No. 030236-WS. The utility's adjustments only affected the 2005 beginning balance and not the July 2005 activity.

**EFFECT ON GENERAL LEDGER:** The utility's wastewater accumulated depreciation balances should be increased by \$3,129, as of December 31, 2005. The utility's wastewater depreciation expense balances should be increased by \$3,129 for the 12-month period ended December 31, 2005. See the audit staffs calculations that follow for details.

**EFFECT ON THE FILING:** Net wastewater rate base balances are reduced and net depreciation expense balances are increase by the same amount as discussed above.

Accumulated Depreciation and Depreciation Expense Adjustments

Utility Acct. Nos.	Acct. Description	Accumulated Depreciation		Depreciation Expense	
		Debit	Credit	Debit	Credit
1084011	4033011 Lift Station	120.26			120.26
1084003	4033003 Building		18,419.92	18,419.92	
1084006	4033006 Services	1,082.51			1,082.51
1084007	4033007 Force		6.52	6.52	
1084008	4033008 Gravity		19.66	19.66	
1084010	4033010 Manholes		1,706.53	1,706.53	
1084004	4033004 Lagoons		12.18	12.18	
1084005	4033005 Stp	15,817.43			15,817.43
1085006	4037006 Reuse	16.09			16.09
Total W/Water Acc/Dep. & Dep. Exp. Adjustment		<u>\$17,036.29</u>	<u>\$20,164.80</u>	<u>\$20,164.80</u>	<u>\$17,036.29</u>
Total Adjustment		Inc. Acc/Dep	<u>\$3,128.51</u>	Inc. Dep. Exp.	<u>\$3,128.51</u>

See the schedule that follows for the specific audit staff calculations.

Utility Plant in Service, Accumulated Depreciation and Depreciation Expense Adjustments

22-2p3

Utility Acct. No.	NARUC Acct. No.	Rule Dep. Rate	Balance 12/31/2004	Adjustment For 2001	Net Beg. Bal.	2005 Additions	Balance 12/31/05	Dep. Expense	Per Filing	Difference	Per G/L	Difference	Dep. Exp. Acct. No.	Adjusting Entry	Acc/Dep Acct. No.	Adjusting Entry	
3511001	351	Organization	2.50%	\$10,738	\$0	\$10,738	\$0	\$268	\$0	\$268	\$268	\$0	4033001	\$0	1084001	(\$0)	
3542011	354	Lift Station	3.13%	72,557	0	72,557	1,826	74,383	2,296	0	2,296	2,416	(120)	4033011	(120)	1084011	120
3547003	354	Building	3.13%	149,882	530,379	680,261	118,787	799,048	23,114	7,110	16,004	4,694	18,420	4033003	18,420	1084003	(18,420)
3602006	360	Services	2.63%	155,224	0	155,224	2,150	157,374	4,113	0	4,113	5,196	(1,083)	4033006	(1,083)	1084006	1,083
3612007	361	Force	3.33%	195,204	0	195,204	0	195,204	6,507	11,897	(5,390)	6,500	7	4033007	7	1084007	(7)
3612008	361	Gravity	2.22%	854,763	0	854,763	59	854,822	18,995	19,136	(141)	18,976	20	4033008	20	1084008	(20)
3612010	361	Manholes	3.33%	4,805	51,190	55,995	0	55,995	1,866	0	1,866	160	1,707	4033010	1,707	1084010	(1,707)
3662006	366	Reuse	2.30%	0	0	0	16,100	16,100	185	0	185	201	(16)	4037006	(16)	1085006	16
3804004	380	Lagoons	5.56%	0	0	0	903	903	25	0	25	13	12	4033004	12	1084004	(12)
3804005	380	Stp	5.55%	903,905	(530,379)	373,526	0	373,526	20,731	36,561	(15,830)	36,548	(15,817)	4033005	(15,817)	1084005	15,817
3824009	382	Outfall Lines	3.33%	20,694	0	20,694	0	20,694	689	689	0	689	0	4033009	0	1084009	(0)
3907091	390	Furniture	6.67%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3917050	391			0	0	0	0	0	0	0	0	0	0	0	0	0	0
3937094	393	Tools	6.25%	1,391	0	1,391	0	1,391	87	87	(0)	87	0	4033094	0	1084094	(0)
3947095	394	Lab	6.67%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3967097	396	Communication	10.00%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3975000	397			0	0	0	0	0	0	0	0	0	0	0	0	0	0
3985000	398			0	0	0	0	0	0	0	0	0	0	0	0	0	0
Wastewater utility plant in service				\$2,369,161	\$51,190	\$2,420,351	\$139,825	\$2,560,176	\$78,877	\$75,480	\$3,397	\$75,748	\$3,129		\$3,129		(\$3,129)

Average wastewater utility plant in service \$2,490,263

(268.08) Remove Organization Cost not included in utility filing

\$75,480 Wastewater utility plant in service per MFR filing



**AUDIT FINDING NO. 4**

**SUBJECT: ADJUSTMENT TO ALLOCATED WSC RATE BASE**

**SUMMARY:** The utility's allocated average net rate base from Water Service Corporation (WSC) is \$17,270 as of December 31, 2005. The balance should be further allocated to water and wastewater operations for \$9,281 and \$7,989, respectively.

**STATEMENT OF FACT:** WSC, the service corporation for the parent company Utilities, Inc., allocates a portion of its common rate base to each subsidiary utility throughout the United States. Utilities, Inc. of Pennbrooke received \$14,085, which is the average amount as of December 31, 2005. The allocation is net of accumulated depreciation and accumulated deferred income taxes or approximately 0.81 percent of the total WSC average net rate base of \$1,740,155. The allocation was calculated using a customer equivalent percentage that equates all customers throughout the United States in terms of equivalent residential connections.

The Commission's Division of Regulatory Compliance and Consumer Assistance, at the request of The Division of Economic Regulation, performed an affiliate transaction audit of Utilities, Inc. and its subsidiary WSC for the 12-month period ended December 31, 2005, in Docket No. 060253-WS. The scope of the audit included a review of the WSC rate base components that are allocated to all of its subsidiary operations in 2005. The audit report, issued July 15, 2006, included specific adjustments that increased Utilities, Inc. of Pennbrooke's allocated average WSC rate base allocation by \$3,185 to \$17,270.

The audit staff has incorporated the findings of the above-mentioned audit report to determine Utilities, Inc. of Pennbrooke's allocated average WSC rate base balance of \$17,270 for this proceeding.

**EFFECT ON GENERAL LEDGER:** None, because WSC only allocates its net rate base for rate case proceedings.

**EFFECT ON FILING:** Increase the utility's average water and wastewater rate base balances by \$1,712 and \$1,473, respectively, for the 12-month period ended December 31, 2005.

Simple Average	Total Amount	Water	Allocation Percent	W/Water	Allocation Percent
Per Utility Allocated Rate Base	\$14,085	\$7,569	53.74%	\$6,516	46.26%
Per Audit Allocated Rate Base	<u>\$17,270</u>	<u>\$9,281</u>	53.74%	<u>\$7,989</u>	46.26%
Audit Adjustment	\$3,185	\$1,712		\$1,473	

Small differences are due to rounding

**AUDIT FINDING NO. 5**

**SUBJECT: ADJUSTMENT TO ALLOCATED UIF RATE BASE**

**SUMMARY:** The utility's average water and wastewater rate base balances are overstated and understated by \$12,276, each as of December 31, 2005 and its net water and wastewater depreciation expense balances are overstated and understated by \$1,292, each, for the 12-month period ended December 31, 2005, because it did not allocate any allocated rate base or depreciation expense balances to its wastewater operations.

**STATEMENT OF FACT:** The utility's general ledger reflects the following allocated rate base and corresponding depreciation expense balances that were included in its filing for this proceeding. All of the balances were included in the water system filing only. The utility's filing also included adjustments to allocate these costs to the wastewater system but we could not determine if the allocated balances were based on historical or proforma information.

Utility Acct. No.	NARUC Acct. No.	Acct. Description	Balance Dec-04	Balance Dec-05	Average
1081050	108	Acc/Dep - Office Furniture & Equip.	(\$2,738)	(\$3,575)	(\$3,157)
1083050	108	Acc/Dep - Other Tangible Plant	(7,260)	(9,366)	(8,313)
3406050	340	Office Furniture & Equip.	3,378	4,219	3,799
3486050	348	Other Tangible Plant	<u>31,758</u>	<u>36,796</u>	<u>34,277</u>
			\$25,138	\$28,074	\$26,606
<b>UIF</b>					
4032090	403	Dep. Exp. - Other Tangible Plant		\$160	
4032091	403	Dep. Exp. - Office Furniture & Equip.		75	
4032094	403	Dep. Exp. - Communication & Equip.		68	
4032095	403	Dep. Exp. - Laboratory & Equip.		1	
4032097	403	Dep. Exp. - Communication Equip.		50	
4032098	403	Dep. Exp. - Other Tangible Plant		145	
<b>WSC</b>					
4032090	403	Dep. Exp. - Office Structures		542	
4032091	403	Dep. Exp. - Office Furniture		795	
4032093	403	Dep. Exp. - Telephones		23	
4032098	403	Dep. Exp. - Other Tangible Plant		<u>941</u>	
				\$2,800	

The rate base accounts and four of the depreciation expense accounts were allocated from Utilities Inc. of Florida (UIF), the regional office for all of Utilities, Inc. (Parent) Florida systems. These balances were audited in a separate affiliate transaction audit in Docket No. 060253-WS. No adjustments were noted in the audit report dated July 15, 2005.

The rate base accounts allocated from Utilities, Inc. were included as an adjustment to the utility's rate base in the filing and they are addressed in a separate finding in this report along with the corresponding depreciation expense balances reflected above. That finding did not, however, determine an allocation of depreciation expenses between the utility's water and

wastewater operations.

63

The above balances should have been allocated between the utility's water and wastewater systems. The utility's general policy is to allocate common expenses based on the percentage of water and wastewater customers for each system. The utility's customer percentages are 53.86 percent water and 46.14 percent wastewater based on its customer allocation schedule.

**EFFECT ON GENERAL LEDGER:** The water and wastewater allocation adjustments only apply to the utility's filing.

**EFFECT ON FILING:** The utility's water and wastewater average net rate base balances should be decreased and increased by \$12,276, each, respectively, as of December 31, 2005. (\$26,606 x 46.14%) The utility's net water and wastewater depreciation expense balances should be decreased and increased by \$1,292, each, respectively, for the 12-month period ended December 31, 2005. (\$2,800 x 46.14%)

**AUDIT FINDING NO. 6**

**SUBJECT: ADJUSTMENT TO ALLOCATE TRANSPORTATION EQUIPMENT**

**SUMMARY:** The utility's average water and wastewater rate base balances are overstated and understated by \$3,727, each as of December 31, 2005 and its net water and wastewater depreciation expense balances are overstated and understated by \$1,755, each, for the 12-month period ended December 31, 2005, because it did not allocate any transportation asset or transportation depreciation expense balances to its wastewater operations.

**STATEMENT OF FACT:** The utility's filing reflects the following transportation account rate base and depreciation expense balances. All of the balances were included in the water system filing only. The utility's filing also included adjustments to allocate this cost to the water system but we could not determine if the allocated balances were based on historical or proforma information.

Utility Acct. No.	NARUC Acct. No.	Acct. Description	Balance Dec-04	Balance Dec-05	Average
1083050	108	Acc/Dep - Transportation	(15,064)	(3,805)	(9,435)
3917000	341	Transportation Equipment	<u>\$15,998</u>	<u>\$19,024</u>	<u>\$17,511</u>
			\$934	\$15,219	\$8,077
4032092	403	Dep. Exp. - Transportation		\$3,805	

63 The above balances should have been allocated to the utilities water and wastewater systems. The utility's general policy is to allocate common expenses based on the percentage of water and wastewater customers for each system. The utility's customer percentages are 53.86 percent water and 46.14 percent wastewater based on its customer allocation schedule.

**EFFECT ON GENERAL LEDGER:** The water and wastewater allocation adjustments only apply to the utility's filing.

**EFFECT ON FILING:** The utility's water and wastewater average net rate base balances should be decreased and increased by \$3,727, each, respectively, as of December 31, 2005. (\$8,077 x 46.14%) The utility's net water and wastewater depreciation expense balances should be decreased and increased by \$1,755, each, respectively, for the 12-month period ended December 31, 2005. (\$3,805 x 46.14%)

**AUDIT FINDING NO. 7**

**SUBJECT: ADJUSTMENT OF OPERATION AND MAINTENANCE**

**SUMMARY:** The utility's water and wastewater rate base balances are understated by \$1,779 and overstated by \$842 as of December 31, 2005. The utility's water and wastewater O&M expense balances are overstated by \$3,716 and \$6,548, respectively, for the 12-month period ended December 31, 2005.

**STATEMENT OF FACT:** The utility has charged out of period invoices causing 13 months of invoices to be charged to some accounts. The utility also charged tariff filing charges that affect more than one year to 2005 expenses. A fence which should have been capitalized was also expensed.

The utility included the following expense to the indicated accounts for the 12-month period ended December 31, 2005.

Utility Acct. No.	Invoice Ref. No and Vendor	Amount	Service provided
6338001	98520*08662*Rose,Sun	\$781.80	Misc Legal To Amend Tariff And Territory Application Amendment
6338001	99647*08662*Rose,Sun	<u>601.25</u>	Misc. Legal Re Tariff Amendment
		\$1,383.05	
6755090	93564*18025*Aabot Fence	\$2,329.51	Labor And Materials To Replace 13 Line Posts And Top Rail With Fittings. Retiehen Barbed Wire install Bottom Tension Wire
43-3 7754008	73180*02137*American Pi	\$1,150.20	Pumped 14,200 Gal Of Sludge Dec. 28 2004
7754008	73180*02137*American Pi	1,725.30	Pumped 21,300 Gal. Of Sludge Dec 29 2004
7352020	73709*13024*Advance	1,033.50	Sewer Testing December 2004
6759415	73314*17284*Turfmaster	<u>675.00</u>	Lawn Maintenance For Dec. 2004
		\$4,584.00	
6759490	74209*17241*Waste Man	\$215.86	13 Months Of Expenses Included
6361000	73320*14878*Ken's Bu	842.40	13 Months Of Expenses Included
6759140	U68377*67043*Sprint	<u>99.83</u>	13 Months Of Expenses Included
		\$1,158.09	
7754008	79480*16224*American	\$1,155.00	3 Tickets Indian River Plantation Sludge Haul At 385

The audit staffs analysis of the above invoices indicated the following problems

1. In two of the invoices the utility recorded \$1,383 of legal fees to amend its water service tariffs. These costs affected more than one year and therefore, they should be deferred and amortized over four years. The amount removed would be three years of amortization.
2. In one invoice the utility had a portion of a fence replaced by Aabot Fence for \$2,330 during the test year. According to the Commission staff engineer assigned to this proceeding, the cost to replace the fence should have been capitalized.
3. Four of the invoices totaling \$4,584 were for services provided in the prior year 2004 and should be removed.

4. Three of the invoices totaling \$1,158 should be removed because they represent a thirteenth or fourteenth payment for monthly services where only twelve invoices should have been recorded.
5. One invoice for \$1,155 was to haul sludge from a sister subsidiary system and should be removed.

**EFFECT ON GENERAL LEDGER:** The following general ledger entries are needed to correct the utility's general ledger balances. See the audit staff schedules and calculations on the following page.

NARUC			
<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
108	Accumulated Depreciation		\$36
186	Miscellaneous Deferred Assets	\$1,037	
215	Retained Earnings	\$6,897	
304	Structures & Improvements	\$2,330	
408	Depreciation Expense	\$36	
620	Water - Material & Supplies		\$2,809
633	Water - Contractual Services - Legal	\$346	
635	Water - Contractual Services		\$745
675	Water- Miscellaneous Expense		\$507
711	Sludge Hauling		\$4,031
720	W/Water - Material & Supplies		\$1,445
735	W/Water - Contractual Services		\$638
775	WWater- Miscellaneous Expense		\$435

**EFFECT ON FILING:** The utility's water and wastewater rate base balances should be increased \$1,779 and reduced by \$842, respectively, as of December 31, 2005. The utility's water and wastewater O&M expenses balances should be reduced by \$3,716 and \$6,548, respectively, and the utility's water depreciation expense should be increased by \$36 for the 12-month period ended December 31, 2005

<u>Rate Base Adjustment</u>	<u>Water</u>	<u>Wastewater</u>
Add fence removed form O&M expense	\$2,330	-na-
Add 1/2 year Acc/Dep on fence	(36)	-na-
Reduce Working Capital (1/8th of \$4,121 & \$6,895)	<u>(515)</u>	<u>(842)</u>
	\$1,779	(\$842)

Adjustments to utility's general ledger

Utility Acct. No.	NARUC Acct. No.	Invoice Ref. No and Vendor	Amount	Water	Wastewater
6755090	620	93564*18025*Aabot Fence	\$2,329.51	(\$2,329.51)	-na-
6759415	620/720	73314*17284*Turfmaster	675.00	(363.54)	(311.46)
6759490	620/720	74209*17241*Waste Man	215.86	(116.26)	(99.60)
7352020	720	73709*13024*Advance	<u>1,033.50</u>	-na-	<u>(\$1,033.50)</u>
			\$4,253.87	(\$2,809.31)	(\$1,444.56)
	633	One-fourth of legal fees	\$345.76	\$345.76	-na-
6338001	635/735	98520*08662*Rose,Sun	\$781.80	(\$421.06)	(\$360.74)
6338001	635/735	99647*08662*Rose,Sun	<u>601.25</u>	<u>(323.82)</u>	<u>(277.43)</u>
			\$1,383.05	(\$744.88)	(\$638.17)
6361000	675/775	73320*14878*Ken's Bu-	\$842.40	(\$453.70)	(\$388.70)
6759140	675/775	U68377*67043*Sprint	<u>99.83</u>	<u>(53.77)</u>	<u>(46.06)</u>
			\$942.23	(\$507.46)	(\$434.77)
7754008	711	79480*16224*American	\$1,155.00	-na-	(\$1,155.00)
7754008	711	73180*02137*American Pipe	1,150.20	-na-	(1,150.20)
7754008	711	73180*02137*American Pipe	<u>1,725.30</u>	-na-	<u>(1,725.30)</u>
			\$4,030.50		(\$4,030.50)
Total O&M Expense reduction			\$10,955.41	(\$3,715.88)	(\$6,548.01)
Allocations based on customers per utility schedule				53.86%	46.14%

Calculation:

Acct. 633

\$1,383.05 / 4 years = \$345.46

Remaining balance of \$1,037.59 to Acct. 186

63

**AUDIT FINDING NO. 8**

**SUBJECT: ADJUSTMENT TO ALLOCATED WSC EXPENSE**

**SUMMARY:** The utility's allocated common operating expense from Water Service Corporation (WSC) is \$56,034 for the 12-month period ended December 31, 2005.

**STATEMENT OF FACT:** WSC, the service corporation for the parent company Utilities, Inc., allocates a portion of its common operating expenses to each subsidiary utility throughout the United States. Utilities, Inc. of Pennbrooke received \$57,875 or approximately 0.76 percent of \$7,644,705 in total WSC common expenses for the 12-month period ended December 31, 2005. The allocation was calculated using a customer equivalent percentage that equates all customers throughout the United States in terms of equivalent residential connections.

The Commission's Division of Regulatory Compliance and Consumer Assistance, at the request of The Division of Economic Regulation, performed an affiliate transaction audit of Utilities, Inc. and its subsidiary WSC for the 12-month period ended December 31, 2005, in Docket No. 060253-WS. The scope of the audit included a review of the WSC common expenses that are allocated to all of its subsidiary operations in 2005. The audit report, issued July 15, 2006, included specific adjustments that reduced Utilities, Inc. of Pennbrooke's allocated common expenses by \$1,842 to \$56,034. Additionally, the corresponding adjustment to reduce working capital for this proceeding is \$230.

The audit staff has incorporated the findings of the above-mentioned audit report to determine Utilities, Inc. of Pennbrooke's allocated average WSC common expenses is \$56,034 for this proceeding. See audit staffs calculations on the following page.

**EFFECT ON GENERAL LEDGER:**

G/L Acct.	Description	Debit	Credit
2151000	Retained Earnings	\$1,452	
4032098	Dep. Exp. - Computer		\$6
4191010	Interest Income	\$1	
4272090	Interest Expense	\$389	
6329002	Audit Fees		\$703
6369009	Amtz. Exp. - Computer		\$80
6599090	Insurance Exp. - Other		\$726
6759005	Postage Fees		\$327

**EFFECT ON FILING:** The utility's water and wastewater O&M expense balances are overstated by \$938 and \$904, respectively, for the 12-month period ended December 31, 2005. Additionally, water and wastewater working capital balances should be reduced by \$117 and \$113, respectively, as of December 31, 2005 which is 1/8<sup>th</sup> of the O&M expense reductions mentioned above.



58-1

Pennbrooke		Per Company		Adjustment		Per Audit	
Allocation Schedules		WSC Expense	Pennbrooke	WSC Expense	Pennbrooke	WSC Expense	Pennbrooke
SE51	Allocated Computer	\$545,445	\$4,166	(\$12,634)	(\$86)	\$532,811	\$4,081
SE52	Allocated Insurance	2,114,495	12,012	(156,711)	(726)	1,957,784	11,286
SE60	Allocated General	<u>4,984,765</u>	<u>41,697</u>	<u>(74,972)</u>	<u>(640)</u>	<u>4,909,793</u>	<u>41,057</u>
	Per G/L	\$7,644,705	\$57,875	(\$244,317)	(\$1,452)	\$7,400,388	\$56,424
	Remove interest income and expense not included in the filing				<u>(390)</u>		<u>(390)</u>
	Per MFR				(\$1,842)		\$56,034

SE51		Per Utility	Adjustment	Per Audit
Acct No.				
4032098	Dep. - Computer	\$941	(\$6)	\$935
6369009	Amtz. - Computer	<u>196</u>	<u>(80)</u>	<u>116</u>
		\$1,137	(\$86)	\$1,051

SE52		Per Utility	Adjustment	Per Audit
Acct No.				
6599090	Insurance - Other	\$12,012	(\$726)	\$11,286

SE60		Per Utility	Adjustment	Per Audit
Acct No.				
4191010	Interest Income	(\$1)	\$1	\$0
4272090	Interest Expense	(389)	389	0
6329002	Audit Fees	2,054	(703)	1,351
6759005	Postage Fees	<u>607</u>	<u>(327)</u>	<u>280</u>
		\$2,271	(\$640)	\$1,631

Acct No.		MFR Acct. No.	Adjustment	MFR B-12	MFR B-12
				50.78% Water	49.22% W/Water
4032098	Dep. - Computer	403 *	(\$6)	(\$6)	\$0
4191010	Interest Income	426 **	0	0	0
4272090	Interest Expense	419/427 **	0	0	0
6329002	Audit Fees	632/732	(703)	(357)	(346)
6369090	Amtz. - Computer	636/736	(80)	(41)	(39)
6599090	Insurance - Other	659/759	(726)	(369)	(357)
6759005	Postage Fees	675/775	<u>(327)</u>	<u>(166)</u>	<u>(161)</u>
	O&M Expense Adjustment		(\$1,836)	(\$932)	(\$904)
	Total WSC allocated expense adjustment		(\$1,842)	(\$938)	(\$904)
	Working Capital Adjustment (1/8 of O&M Expense Adjustment)		(\$230)	(\$117)	(\$113)

\* This account was only charged to water operations per the reconciliation schedule provided with the MFRs.  
 \*\* Per utility these two allocations from WSC are not carried forward into the MFR filing so no adjustment is needed.

**AUDIT FINDING. 9**

**SUBJECT: ADJUSTMENT TO TAXES OTHER THEN INCOME**

**SUMMARY:** The utility's water and wastewater Taxes Other Then Income (TOTI) balances are understated by \$4,601 and overstated by \$4,252, respectively, for the 12-month period ended December 31, 2005.

**STATEMENT OF FACT:** The utility's filing reflects balances of \$43,472 and \$39,394 for water and wastewater TOTI, respectively, for the 12-month period ended December 31, 2005.

System	RAFs	Payroll Taxes	Property Taxes	Other	Total
Water	\$15,159	\$5,860	\$22,374	\$79	\$43,472
Wastewater	<u>13,738</u>	<u>5,309</u>	<u>20,275</u>	<u>72</u>	<u>\$39,394</u>
	\$28,897	\$11,169	\$42,649	\$151	\$82,866

The utility's water and wastewater RAF balances are understated by \$223 and \$125, respectively, based on the following audit staff determinations.

- 53.28
- 53.4
1. The utility allocated its total RAF balance to water and wastewater operations based on its corresponding revenues for the period. They should have recorded the specific RAF amounts calculated to each specific system.
  2. The utility's combined RAF balance above of \$28,628 includes RAFs calculated for the period July 2004 through December 2004 and does not include the July 2005 through December 2005 combined RAF balance of \$12,841. The utility should have included the proper periods for the filing.

The utility's water and wastewater property tax balances are overstated and understated by \$4,377, each, respectively, based on the following audit staff determinations.

- 53.28
- 53.29
1. The utility allocated its property taxes between water and wastewater operations based on revenues.
  2. Real estate taxes should have been recorded to the water or wastewater system specifically using the property.
  3. Tangible property tax should be allocated based on gross utility plant balances because it represents a tax on tangible assets such as the utility plant assets.

See the audit staff's calculations that follow for the above adjustments.

**EFFECT ON GENERAL LEDGER:** The utility's 2005 RAF should be increased by a net \$223 to properly record the actual combined water and wastewater RAF for the period. There is no effect on property taxes because it is a reallocation within the same utility system.

**EFFECT ON THE FILING:** The utility's water and wastewater Taxes Other Then Income (TOTI) balances should be increased by \$4,601 and reduced by \$4,252, respectively, for the 12-month period ended December 31, 2005.

Adjustment to RAF		Water	W/Water	Total		
Per Audit	53-25/53-26	\$7,397	\$6,962	\$14,359	a	Add Jan-Jun 2005 per RAF filing
Per Utility		(7,512)	(6,847)	(14,359)	b	Remove Jan-Jun 2005 per RAF filing
Per Audit	53-8/53-9	7,945	6,942	14,886	a	Add Jul-Dec 2005 RAF filing
Per Utility		(7,606)	(6,932)	(14,538)	b	Remove Jul-Dec 2004 RAF filing
Audit Adjustment		\$223	\$125	\$349		Remove 2004 RAF and add 2005 RAF

#### Adjustment to Property Tax

Per Audit	53-15	\$17,633	\$23,933	\$41,566	c	Tangible Property Tax Inv. Ref# - U92013
Per Audit	53-27	250	\$339	589	c	Parent property tax allocation
Per Audit	53-16	0	251	251	a	Real Estate Property Tax Inv. Ref# - U92011
Per Audit	53-17	0	78	78	a	Real Estate Property Tax Inv. Ref# - U92010
Per Audit	53-18	114	0	114	a	Real Estate Property Tax Inv. Ref# - U92009
Per Audit	53-19	0	13	13	a	Real Estate Property Tax Inv. Ref# - U92007
Per Audit	53-19	0	7	7	a	Real Estate Property Tax Inv. Ref# - U92006
Per Audit	53-20	0	16	16	a	Real Estate Property Tax Inv. Ref# - U92005
Per Audit	53-21	0	16	16	a	Real Estate Property Tax Inv. Ref# - U92004
Per Audit	53-22	\$17,997	\$24,652	\$42,649		
Per Utility		22,374	20,275	42,649	b	
Audit Adjustment		\$4,377	(\$4,377)	\$0		
TOTI Audit Adjustment		<u>\$4,601</u>	<u>(\$4,252)</u>	<u>\$349</u>		

UPIS MFR A-5&6	\$1,907,390	\$2,617,212	\$4,524,602
Less Land	(21,115)	(57,035)	(78,150)
Gross UPIS	\$1,886,275	\$2,560,177	\$4,446,452
Percentage	42.42%	57.58%	100.00%

- a) Actual invoice
- b) Allocated based on revenues
- c) Allocated based on gross utility plant

**AUDIT FINDING NO. 10**

**SUBJECT: TRANSPORTATION EXPENSE**

**SUMMARY:** The utility's transportation expense account balances may not reflect the actual cost incurred by the utility.

**STATEMENT OF FACT:** The utility uses GE Capital Fleet to manage its fleet of vehicles. GE Capital provides gas cards for the employees to buy fuel for their vehicles and oversees the maintenance of the fleet

The supporting documentation supplied by the utility for transportation expense was not sufficient to determine that the charges relate to the specific vehicles assigned to each system.

The utility provided the total invoice and its internal allocations of those invoices to the respective utility systems. This alone did not provide us adequate information necessary to determine that the charges allocated to each utility actually related to vehicles use for that system or whether the repairs were reasonable. We requested additional information but it was not received before the completion of the audit.

**EFFECT ON GENERAL LEDGER:** The balance in the transportation expense account may need to be reallocated among subsidiary systems.

**EFFECT ON FILING:** Same as above.

43-10  
43-381

**AUDIT FINDING NO. 12**

31 all

**SUBJECT: INFORMATION ON CAPITAL STRUCTURE BALANCES**

**SUMMARY:** The utility's average capital structure balance is \$229,314,620 as of December 31, 2005 and its cost rate for long-term debt is 6.73 percent.

**STATEMENT OF FACT:** The utility's filing reflects the following capital structure balances prior to the reconciliation with rate base as of December 31, 2005.

Class of Capital	Prior Year 12/31/2004	Test Year 12/31/2005	Average	Cost Rate
Long Term Debt	\$112,803,215	\$135,285,191	\$124,044,203	6.81%
Short Term Debt	18,768,000	3,926,000	11,347,000	2.00%
Common Equity	88,963,597	92,611,247	90,787,422	11.77%
Customer Deposits	7,777	10,706	9,242	6.00%
Acc. Deferred Income Tax	<u>31,462</u>	<u>36,037</u>	<u>33,750</u>	0.00%
Totals	\$220,574,051	\$231,869,181	\$226,221,616	

The Commission's Division of Regulatory Compliance and Consumer Assistance, at the request of The Division of Economic Regulation, performed an affiliate transaction audit of Utilities, Inc. and its subsidiary WSC for the 12-month period ended December 31, 2005, in Docket No. 060253-WS. The scope of the audit included a review of the Utilities, Inc., the parent, capital structure component balances as of December 31, 2005. The audit report, issued July 15, 2006, determined the following average balances for Pennbrooke's parent, Utilities Inc. as of December 31, 2005.

Class of Capital	Prior Year 12/31/2004	Test Year 12/31/2005	Average	Cost Rate
<b>Parent Level</b>				
Long Term Debt	\$112,803,215	\$135,285,191	\$124,044,203	6.73%
Short Term Debt	18,768,000	3,926,000	11,347,000	2.00%
* Common Equity	92,087,507	95,673,345	93,880,426	
<b>Pennbrooke Level</b>				
** Customer Deposits	7,777	10,706	9,242	6.00%
** Acc. Deferred Income Tax	<u>31,462</u>	<u>36,037</u>	<u>33,750</u>	0.00%
Totals	\$223,697,961	\$234,931,279	\$229,314,620	

\* The cost rate for common equity to be determined after reconciliation to the utility's average rate base.

\*\* These balances do not include other audit adjustments in this report where applicable.

Based on the above-mentioned affiliate audit report findings the average common equity balance

should be increased by \$3,093,004 (\$93,880,426 - \$90,787,422), the long-term debt cost rate should be reduced by 0.08 percent (6.81% - 6.73%) as of December 31, 2005.

**EFFECT ON GENERAL LEDGER:** None, because capital structure balances are only used in rate case proceedings

**EFFECT ON FILING:** To be determined by the analyst in Tallahassee.

AUDIT FINDING NO. 13

36-9 all

SUBJECT: INFORMATION ON DEFERRED TAXES

SUMMARY: The utility reports \$31,462 upon its books in net deferred income taxes in 2005. This amount is reported at average as \$33,750. As a result of our testing as described below, the average balance used in this case should be changed from \$33,750 by \$5,369 to report \$39,119. This amount contains estimates which have been presented to the utility are subject to adjustments based upon further findings during this case.

<u>Calculations:</u>	<u>Average</u>	<u>Year End</u>
Beginning Balance	\$33,750	\$31,462
Deferred Income Tax		
Corrections		
State Depreciation	5,253	5,254
State Intangible	967	702
Federal Intangible	(851)	(2,402)
Federal Depreciation	<u>Pending</u>	<u>Pending</u>
Total	\$39,119	\$35,016

EFFECT ON FILING: If all the findings are accepted there is no direct effect on rate base or utility income. The capital structure effect is to reduce the provision for equity and debt by \$5,369 and increase deferred taxes by \$5,369.

Deferred Taxes -- Item 1: Accelerated Depreciation -- State of Florida

When the utility takes tax benefits due to accelerated depreciation, the utility must record deferred income taxes. In this case, the utility failed to record sufficient state deferred taxes in its accounts. The estimated correction at average is \$5,253 and at year end is \$5,254.

EFFECT ON GENERAL LEDGER:

NARUC

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings	\$5,254	
190	State Deferred Taxes -- Depreciation		\$5,254

Deferred Taxes -- Item 2: Deferred Taxes Intangible Plant -- Federal and State of Florida

Intangible plant is recorded as an asset in water and sewer plant accounts as either organization plant or as franchise plant. For income tax purposes, this intangible plant is expensed and deferred taxes are recorded. Intangible plant and deferred taxes for intangible plant during the normal course of business are not reduced unless a utility's assets are sold.

Utility intangible plant did not match the expected balance of deferred income taxes. Further the State of Florida deferred taxes had not been properly recorded. The estimated correction to Federal deferred accounts at average is (\$851) and at year end is (\$2,402). The estimated correction to state deferred account is \$967 at average and at year end is \$702.

**EFFECT ON GENERAL LEDGER:**

NARUC

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings		\$1,700
190	Federal Deferred Taxes – Intangible Plant	\$2,402	
190	State Deferred Taxes – Intangible Plant		\$702

**Deferred Taxes -- Item 3: Accelerated Depreciation – Federal**

Accelerated depreciation is a difficult account for a utility to maintain and difficult for the Commission to audit. We found there was a possibility of errors and non utility effects in the account. There was not enough available audit time for staff to verify the details in this account sufficiently to comment the account was free of error, free of non utility effects and reflected necessary Commission adjustments appropriately.

Absent available audit resources, we have asked the utility to present additional information concerning its deferred taxes in this matter. Absent additional audit procedures, we recommend industry staff use reported plant additions, retirements and Commission adjustments along with known state and federal depreciation rates to determine what level for Federal Accumulated Deferred Income Tax is reasonable. Once a Federal Deferred Tax – Accelerated Depreciation level is set, it would be appropriate to revise the estimate presented in item 2: Deferred Taxes -- Accelerated Depreciation State of Florida.

Possible Accounts Affected upon General ledger:

Retained Earnings

State Deferred Income Taxes – Depreciation

Federal Deferred Income Taxes – Depreciation

State Non Utility Deferred Income Taxes – Depreciation

Federal Non Utility Deferred Income taxes -- Depreciation

**Deferred Taxes -- Item 4: Accounting for Post 2000 Tap Fees**

Treasury Regulation Section 1.118-2(b) (3) excludes customer connection fees from the definition of CIAC for tax purposes. Therefore, Commission staff has advised that subsequent to the year 2000, CIAC in the form of cash tap fees paid to the utility is taxable. This appears to be a significant item in future utility accounting and ratemaking.

The utility records the effects of (1) taxable CIAC and (2) its amortization correctly in its deferred tax accounts, but the also utility reports (3) additional book depreciation in its reports where no book depreciation exists. Further, it appears that the taxable CIAC effects are at an accelerated rate rather than the straight line rate used by the utility. This reporting does not



affect the setting of rates in this case, but it clouds the auditing and determination of deferred taxes and the utility's ongoing and future reports such as annual report schedule F-23 and MFR schedules C-1 and C-2, and C-5. Clarification on this matter is needed.

From the auditor's perspective, it appears the proper accounting for taxable CIAC is to treat the amortization of tax on CIAC as income statement amortization and not provide a corresponding provision for income taxes on this amortization in ratemaking. Treating this item entirely in deferred tax accounts on the balance sheet seems to cause long-lived problems in assessing the impact of taxable CIAC and accelerated depreciation on rates.

**Deferred Taxes -- Item 5: Error in Utility MFR**

Utility information contained in its filing schedules C-1, C-2 and C-5 that report the provision for income taxes did not match utility schedule B-1 or Annual Report Schedule F-23 or Annual Report Schedule F-3. This type of error causes audit inefficiencies. Staff has relied upon annual report schedules during this audit of deferred income taxes.

**Deferred Taxes -- Item 6: AFUDC**

Based upon a review of cash flow model, it is apparent that when setting rates for a utility receiving both an income tax allowance and AFUDC, for ratemaking, it is appropriate to adjust the final calculations for income tax expense by the tax effect of equity AFUDC depreciation.

In the past, this item could be considered immaterial but the issue grows as AFUDC is accrued by utilities year-after-year which receive allowances for federal income tax.

Due to audit time constraints, the auditor was not able to fully research this utility's AFUDC history or determine the correct amount of equity AFUDC depreciation in this case.

**EXHIBIT 1**

Schedule of Water Rate Base

Florida Public Service Commission

Company: Utilities, Inc. of Pennbrooke  
 Docket No.: 060261-WS  
 Schedule Year Ended: 12/31/05  
 Interim [ ] Final [x]  
 Historical [x] Projected [ ]

Schedule: A-1  
 Page 1 of 1  
 Preparer: Scott D. Fogelsanger

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments.

Line No.	(1) Description	(2) Average Balance Per Books	(3) Utility Adjustments		(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$1,829,054	\$31,125	A,B,C,D	\$1,860,179	A-5
2	Utility Land & Land Rights	21,115	0		21,115	A-5
3	Less: Non-Used & Useful Plant	0	0		0	A-7
4	Construction Work in Progress	12,253	0		12,253	A-18
5	Less: Accumulated Depreciation	(695,593)	75,060	E,F	(620,533)	A-9
6	Less: CIAC	(888,448)	0		(888,448)	A-12
7	Accumulated Amortization of CIAC	248,194	0		248,194	A-14
8	Acquisition Adjustments	476,560	(476,560)	G	0	-
9	Accum. Amort. of Acq. Adjustments	0	0		0	-
10	Advances For Construction	0	0		0	A-16
11	Working Capital Allowance	21,393	3,837	H	25,230	A-17
12	Total Rate Base	<u>\$1,024,528</u> =====	<u>(\$366,538)</u> =====		<u>\$657,990</u> =====	

## EXHIBIT 2

### Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Utilities, Inc. of Pennbrooke  
 Docket No.: 060261-WS  
 Schedule Year Ended: 12/31/05  
 Interim  Final   
 Historical  Projected

Schedule: A-2  
 Page 1 of 1  
 Preparer: Scott D. Fogelsanger

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments.

Line No.	(1) Description	(2) Average Balance Per Books	(3) Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$2,464,671	\$72,117 A,B,C	\$2,536,788	A-6
2	Utility Land & Land Rights	57,035	0	57,035	A-6
3	Less: Non-Used & Useful Plant	0	0	0	A-7
4	Construction Work in Progress	2,235	0	2,235	A-19
5	Less: Accumulated Depreciation	(673,618)	(11,216) E,F	(684,834)	A-10
6	Less: CIAC	(1,216,875)	0	(1,216,875)	A-12
7	Accumulated Amortization of CIAC	363,776	0	363,776	A-14
8	Acquisition Adjustments	0	0	0	-
9	Accum. Amort. of Acq. Adjustments	0	0	0	-
10	Advances For Construction	0	0	0	A-16
11	Working Capital Allowance	27,690	3,417 H	31,107	A-17
12	Total Rate Base	<u>\$1,024,914</u> =====	<u>\$64,318</u> =====	<u>\$1,089,232</u> =====	

**EXHIBIT 3**

Schedule of Water Net Operating Income  
 Company: Utilities, Inc. of Panbrooke  
 Docket No.: 060261-WS  
 Schedule Year Ended: 12/31/05  
 Interim  Final   
 Historical  Projected

Florida Public Service Commission  
 Schedule: B-1 Revised  
 Page 1 of 1  
 Preparer: Scott D. Fogelsanger

Explanation: Provide the calculation of net operating income for the test year. If amortization [Line 4] is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$340,926	\$259 A	\$341,185	\$26,596 F	\$367,783	B-4
2	Operation & Maintenance	\$171,140	\$7,834 B	\$178,974	\$22,868 G	\$201,842	B-5
3	Depreciation, net of CIAC Amort.	43,655	3,628 C	47,283		47,283	B-13
4	Amortization	292		292		292	
5	Taxes Other Than Income	43,472	618 D	44,090	1,379 H	45,469	B-15
6	Provision for Income Taxes	25,019		25,019	(7,294) I	17,725	C-1
7	OPERATING EXPENSES	\$283,878	\$12,080	\$295,958	\$16,953	\$312,911	
8	NET OPERATING INCOME	\$57,348	(\$11,821)	\$45,527	\$9,645	\$55,172	
9	RATE BASE	\$1,024,528		\$657,990		\$657,990	
10	RATE OF RETURN	5.60%		6.92%		8.38%	

EXHIBIT 4

Schedule of Wastewater Net Operating Income

Company: Utilities, Inc. of Penbrooke

Docket No.: 060261-WS

Schedule Year Ended: 12/31/05

Interim  Final

Historical  Projected

Explanation: Provide the calculation of net operating income for the test year. If amortization [Line 4] is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	Description	Balance Per Books	Test Year Adjustments	Adjusted Test Year Utility	Requested Revenue Adjustment	Requested Annual Revenues	Supporting Schedule[s]
		(2)	(3)	(4)	(5)	(6)	(7)
1	OPERATING REVENUES	\$308,977	(\$1,019)	\$307,958	\$156,513	\$464,471	B-4
2	Operation & Maintenance	\$221,517	\$7,621	\$229,138	\$19,717	\$248,855	B-6
3	Depreciation, net of CIAC Amort.	45,071	7,177	52,248		52,248	B-14
4	Amortization	268		268		268	
5	Taxes Other Than Income	39,394	503	39,897	7,209	47,106	B-15
6	Provision for Income Taxes	(20,668)	20,668	0	24,662	24,662	C-1
7	OPERATING EXPENSES	\$285,582	\$35,969	\$321,551	\$51,588	\$373,139	
8	NET OPERATING INCOME	\$23,395	(\$6,988)	(\$13,593)	(\$104,925)	\$91,332	
9	RATE BASE	\$1,024,914		\$1,089,232		\$1,089,232	
10	RATE OF RETURN	2.28%		-1.25%		8.38%	

Florida Public Service Commission

Schedule: B-2 Revised

Page 1 of 1

Preparer: Scott D. Fogelstaenger

**EXHIBIT 5**

Schedule of Requested Cost of Capital  
Beginning and Year End Average

Florida Public Service Commission

Company: Utilities, Inc. of Pennbrooke  
Docket No.: 060261-WS  
Schedule Year Ended: 12/31/05  
Interim  Final   
Historical  Projected

Schedule D-1 Revised  
Page 1 of 1  
Preparer: Kirsten E. Weeks

Explanation: Provide a schedule which calculates the requested cost of capital on a simple average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.	(1) Class of Capital	(2) Reconciled to Requested Rate Base AYE 12/31/05	(3) Ratio	(4) Cost Rate	(5) Weighted Cost
1	Long Term Debt	934,659.00	53.49%	6.81%	3.64%
2	Short Term Debt	85,498.00	4.89%	2.00%	0.10%
3	Preferred Stock	-	0.00%	0.00%	0.00%
4	Common Equity	684,074.00	39.15%	11.78%	4.61%
5	Customer Deposits	9,241.50	0.53%	6.00%	0.03%
6	Tax Credits - Zero Cost	-	0.00%	0.00%	0.00%
7	Tax Credits - Weighted Cost	-	0.00%	0.00%	0.00%
8	Accumulated Deferred Income Tax	33,749.50	1.93%	0.00%	0.00%
9	Other (Explain)	-	0.00%	0.00%	0.00%
10	Total	<u>1,747,222.00</u>	<u>100.00%</u>		<u>8.38%</u>

Note: Since the equity ratio is less than 40.00%, an 11.78% cost rate has been used.

Note: Long term debt, short term debt, preferred stock, and common equity are actual for Utilities, Inc. of Pennbrooke's parent company, Utilities, Inc.

Supporting Schedules: D-2  
Recap Schedules: B-1, B-2