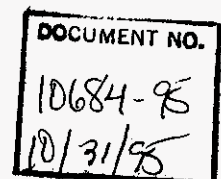


CONFIDENTIAL INFORMATION

950495- XLS

**For information on obtaining a copy,
see Document Listing**



M E M O R A N D U M

October 31, 1995

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *ON*

RE: DOCKET NO. 950495-WS -- SOUTHERN STATES UTILITIES, INC.
RATE CASE AUDIT REPORT - PERIOD ENDING 10/13/95
AUDIT CONTROL NO. 95-226-3-1

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on three diskettes (one confidential - two non confidential). The diskettes may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are confidential working papers associated with this audit.

Please forward a complete copy of this report to:

Southern States Utilities, Inc.
Brian P. Armstrong
1000 Color Place
Apopka, FL 32703

DNV/sp

Attachment

cc: Chairman Clark
Commissioner Deason
Commissioner Johnson
Commissioner Kiesling
Commissioner Garcia
Mary Andrews Bane, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Devlin/Causseaux/
File Folder)
Division of Water and Wastewater (Merchant)
Orlando District Office (Forbes)

Office of Public Counsel

DOCUMENT NUMBER-DATE

10687 OCT 31 1995 3303

FPSC-RECORDS/REPORTING

Florida Public Service Commission

Audit Report

Projected Test Year End

December 31, 1996

Field Work Completed

October 13, 1995

Southern States Utilities, Inc.


Apopka, Florida

Orange County

Rate Case

Docket Number 950495-WS

Audit Control Number 95-226-3-1

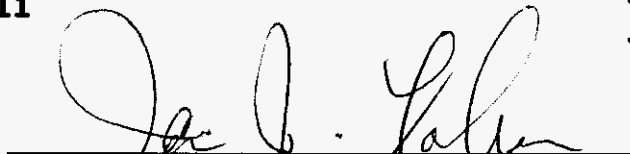

Charleston J. Winston
Audit Manager

Audit Staff

Robert F. Dodrill
Ronald Mayes
Robert Moore
Jeffery A. Small
Yen Ngo

Minority Opinion

Yes ___ No R
Yes ___ No for
Yes ___ No for
Yes ___ No for
Yes ___ No for


Ian J. Forbes
Regulatory Analyst Supervisor
Orlando District Office

DOCUMENT NUMBER-DATE
10687 OCT 31 85
FPSC-RECORDS/REPORTING

3304

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I. Executive Summary

AUDIT PURPOSE: We have applied the procedures described in Section II of this report to the appended exhibits as filed by Southern States Utilities, Inc. to support the Rate Case Docket Number 950495-WS for the projected twelve-month period ending December 31, 1996. Also, the Company's books and records were examined to determine compliance with Commission directives and to disclose any transactions or events that may influence Commission decision.

SCOPE LIMITATION: Due to untimely response from the Company, the Audit Staff could not properly audit Organization Costs. See Audit Exception Number 10.

There are confidential work papers associated with this report.

The last day of field work was October 13, 1995, and the audit exit conference was held on October 26, 1995.

DISCLAIM PUBLIC USE: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

OPINION: Subject to the procedures described in Section II, the Company books and records for the projected test year ending December 31, 1996, are maintained in substantial compliance with Commission directives.

SUMMARY FINDINGS:

Exceptions:

1. The MFRs did not allow for expedient review.
2. The Company should reduce Marco Island Water land account by \$5,529,200 or \$7,323,200 using the direct acreage method or the lump sum purchase method of allocation, respectively.
3. The Company should reclassify \$886,409 in deferred debits to nonutility expenses related to abandoned projects.
4. Due to the miscalculation of purchased water adjustment, the projected 1996 adjustment should be increased by \$9,648 and Regulatory Assessment Fees should be decreased by \$3,116.

5. The Company should be required to reduce 1996 O & M Expenses by \$208,776 because they are for shareholder services.
6. The Company incorrectly wrote off an abandoned project for \$19,143 to Contractual Services.
7. Accumulated Amortization of CIAC is overstated by \$10,451.
8. An abandonment project at Deltona Lakes was misclassified to Contractual Services for \$12,491 in 1996.
9. An abandonment project at Spring Hill Wastewater Treatment Plant was misclassified to Contractual Services for \$15,099 in 1996.
10. Due to untimely response from the Company, the Audit Staff could not properly audit Organization Costs.

Disclosures:

1. The Company has condemnation projects at Deltona Lakes and Marco Island.
2. Lehigh's land additions, representing Future Plant in Service, should be removed from current rate making consideration in the amounts of \$120,840 and \$260,562 from Water and Wastewater, respectively.
3. Audit staff could not determine if Sugarmill Woods Wastewater CIAC is properly stated.
4. Audit staff believes that the current balance for Hillsborough/Seaboard rate base may be overstated because of the effects of a water purchase agreement.
5. The Company classified the hauling of treated effluent as recurring rather than explore a more cost effective method.
6. The Company was unable to explain its consultant methodology for the 1996 conservation elasticity adjustment.
7. The Company included conservation expenses of \$524,425 in its 1996 O & M Expenses; however, it has no Commission-approved conservation program.
8. Audit staff believes that the Company's budgeted purchased power for Deltona Lakes is overstated by \$56,916.
9. The Company should be required to reduce 1996 O & M Expenses by \$22,753 for erroneously including purchased water amounts in the filing.

10. The Company's "Hurricane Preparedness Program" expenses should be classified as non-recurring; therefore, they should be reduced by \$7,736.
11. Audit staff believes that the amount budgeted for the Company's Hepatitis Immunization program represents non-recurring O & M expense and should be reduced by \$14,508 for 1996.
12. The Company should be required to remove Accrued Interest Receivable from its Working Capital Allowance for \$167,966 in 1996.
13. The Company should be required to reduce its amortization expense \$78,240 and increase its unamortized balance \$117,331 in 1996 for the miscalculation and the inclusion of AFUDC in its Seaboard Wastewater Plant Abandonment.
14. The Company's Preliminary Survey and Investigations 1996 balance should be reduced \$1,849,076 based on the wide variance between actual and projected amounts and improper documentation.
15. The Company's salary attrition rate used to determine 1996 wages was incorrectly stated in the filing resulting in an overstatement of \$16,764.
16. The Company incorrectly estimated the new president's annual salary.
17. The Company included "Plant Held for Future Use" in Utility Plant in Service accounts for \$33,082,895.
18. The Company violated Commission rules concerning the untimely response to Document Request No. 95 that requested information on the Company's organizational cost.

II. Audit Scope

The opinions contained in this report are based on the audit work described below. When used in this report, Compiled means that audit work includes:

COMPILED - means that the audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity, or inconsistency; and except as otherwise noted, performed no other audit work.

EXAMINED - means that the audit staff reconciled exhibit amounts to the general ledger; traced general ledger account balances to subsidiary ledgers; applied selective analytical review procedures; tested account balances to the extent further described; and disclosed any error, irregularity, or inconsistency observed.

RATE BASE

PLANNING: Read direct testimony of Judy Kimball, Scott Viermia and Morris Bencini. Attended initial D#950495-WS audit meeting at SSU headquarters.

UTILITY PLANT IN SERVICE: Calculated Southern States Utilities (SSU) Rate Base materiality thresholds for this audit. Materiality was calculated using filed rate of returns and standard corporate income tax rates. Scheduled both water and sewer year-end plant balances per plant for 1993 through projected 1996. Sorted plant additions per plant by year for sampling purposes. Requested material CWIP projects for detailed review.

LAND ADDITION: Read documents supporting \$9.2 million property acquisition costs associated with Collier condemnation. Requested and read five appraisals of condemned Collier Property Pulled land addition detail for sampling to a separate schedule.

DEFERRED DEBITS: Obtained and read an agreement between SSU, City of Naples and Florida Cities Water Company. Read documentation of water source acquisition efforts in an attempt to gain an understanding of the overall necessity for expenditures. Requested and read associated studies and reports for the same reason.

CONSTRUCTION WORK IN PROGRESS: Requested and read the SSU CWIP Practice and Procedures. Verified CWIP direct payroll charges D/R #102. Verified AFUDC Computation methodology D/R #102.

ACCUMULATED DEPRECIATION and DEPRECIATION EXPENSE: Requested that SSU employees provide depreciation workpapers and reconciled MFR Accumulated Depreciation with the General Ledger.

PLANT TOUR TO COLLIER COUNTY - September 11 and 12, 1995: Interviewed City of Naples Utility Director Dan Mercer obtaining information about interconnect project and outstanding agreements. Visited Collier County Water manager's office about outstanding agreements. Picked up three agreements between Collier County and SSU or Deltona. Interviewed Marco Island homeowner for insight into Marco utility service. Interviewed a principal of TGL Enterprises, a Collier County farming partnership. Researched Marco Island condemnation newspaper articles at Collier Public Library. Visited Collier County appraiser's office to verify property in Collier County with Property Tax invoices found in Audit Workpapers. (TAXES OTHER THAN INCOME section) Also obtained land maps and verified recorded agreements and condemnation order.

CIAC (CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION) AND AMORTIZATION: Compiled the Company's CIAC and Amortization schedules. Reviewed the Company's General Ledgers, Cash Receipts Ledgers, and Billing Registers for CIAC addition.

WORKING CAPITAL ALLOWANCE: Recomputed Working Capital Allowance using the 1/8 of Operation and Maintenance Expenses method for 1994 and 1995. Recomputed the Balance Sheet Method for Working Capital Allowance for 1996. Judgementally sampled the 1996 amounts for the proper amount, inclusion, and period.

NET OPERATING INCOME

REVENUES: Compiled the revenues for 1994. Recomputed the revenues for 1995 and 1996. Recomputed a sample of the revenues per tariffs.

OPERATIONS AND MAINTENANCE EXPENSES:

- 1) Compiled and determined that operation and maintenance accounts are accumulated and classified in compliance with Commission Rules and the Uniform System of Accounts.
- 2) Determined that operation and maintenance cost accounting is in compliance with management policy.
- 3) Determined that disbursements are only for authorized expenditures incurred and properly recorded in the correct account and dollar amount.
- 4) Determined that allocated cost are consistent with prior periods and that the basis and methodology are reasonable and mechanically accurate.
- 5) Determined that the filed exhibits agree to the results of the audit.
- 6) Determined the existence of related party transactions and that they appear prudent and competitive with non-affiliated transactions.
- 7) Scanned and recalculated Company's adjustments to the projected 1996 test year filing.
- 8) Scanned and recalculated a sample of Interim 1995 O&M expenses to test for accuracy and reasonableness as compared to 1994 historical filings.
- 9) Examined the 1994 base year amounts for O&M expenses and compared them to the corresponding budget 1995 amounts.
- 10) Obtained and enclosed in audit work papers the following company documents; 1995 Budget Variance Report, 1995 Itemized Salary Expense by line position, and 1996 Budget for Centralized Laboratory Facilities.

TAXES OTHER THAN INCOME: Compiled the Taxes Other Than Income for 1994. Sampled the Taxes Other Than Income for the proper amount, period and classification.

COST OF CAPITAL

Compiled the Capital Structure for 1994. Traced debt components to the debt agreements to determine the proper rates and amounts for 1994. Traced the customer deposit amounts to the customer deposit ledgers for the twelve months of 1994. Recomputed the 1995 and 1996 Capital Structures.

OTHER

OUTSIDE AUDITORS' REPORT: The Company's external auditor's report for 1994 was reviewed for items pertinent to this rate proceeding.

BOARD OF DIRECTORS MINUTES: The Company's Board of Directors' Minutes were reviewed for items pertinent to this audit from 1991 to June 1995.

AUDIT EXCEPTION NO. 1

SUBJECT: COMPANY'S BOOKS AND RECORDS

FACTS: Per Commission Rule 25-30.450, "The work sheets, etc. supporting the schedules and data submitted must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimum amount of time."

In order for Southern States to reconcile with the MFR Water and Sewer combined Plant in Service total, as of 12-31-94, it went through the following steps:

| | | |
|------------------------------|-----------|----------------------|
| G/L Plant total | 1010 | \$274,161,869 |
| Plus Future Use | 1030 | 34,908,326 |
| Less County Plants | | |
| W & S Plant | 1010 | (30,864,863) |
| Future Use | 1030 | (1,387,592) |
| Reconciling items | Water | 41,142 |
| | Sewer | (196,585) |
| | Gen Plant | (168,642) |
| G/L Items not in MFRs | | (6,286) |
| County and Gas General Plant | | (5,804,867) |
| Land for Future Use 1030 | | (437,839) |
| Immaterial Difference | | <u>1,933</u> |
| | TOTAL | <u>\$270,246,596</u> |

MFR - FPSC ALL PLANTS
June 28, 1995 Filing

| | |
|----------------------------|----------------------|
| Vol III 5 of 6 1994 A-5(W) | \$149,079,749 |
| Vol III 5 of 6 1994 A-5(S) | <u>121,166,847</u> |
| TOTAL | <u>\$270,246,596</u> |

Southern States provided documentation for the above reconciling items.

Audit Exception No. 1, continued.

Southern States was also asked to reconcile General Ledger Accumulated Depreciation with the MFR total. This request was made via Document Request No. 113 on October 6, 1995. The request due date was October 13, 1995; however, it was not received until October 23, 1995.

Southern States stated that a reconciliation of book accumulated depreciation (A/D) to MFR accumulated depreciation, ". . . would be an extremely difficult task to accomplish."

Per the Company, "'Balance per books' is a generic column heading that is used on a multitude of schedules. It does not always necessarily mean the general ledger specifically."

OPINION/RECOMMENDATION: Southern States books and records are in violation of the above Commission Rule. The books and records (MFR Filings) of Southern States Utilities did not enable Commission personnel to verify the schedules in an expedient manner and with the minimum amount of time. For instance, concerning the above Accumulated Depreciation reconciliation, Southern States said that it would require, ". . . at least two weeks . . ." for its own employees to complete the task.

The Audit Staff is of the belief that the MFRs should begin with the general ledger amount, then adjustments made to achieve the balance submitted for rates. Presently, the Historical 1994 Per Book Balances in the MFRs cannot be agreed to the books expediently.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT EXCEPTION NO. 2

**SUBJECT: NONCOMPLIANCE WITH NARUC ACCOUNTING INSTRUCTION
#24.F UTILITY PLANT - LAND AND LAND RIGHTS**

FACTS: Rule 25-30.115, F.A.C., requires water and sewer utilities to maintain their books and records in conformity with the 1984 NARUC Uniform System of accounts (US of A) adopted by the National Association of Regulatory Utility Commissioners.

Southern States Utilities Inc. is a Class A Utility according to the NARUC definition found in Accounting Instruction 1.

The 1984 NARUC Class A Water Utility Accounting Instruction 24 Utility Plant - Land and Land Rights in Section F states in whole,

When the purchase of land for utility operations requires the purchase of more land than needed for such purposes, the charge to the specific land account shall be based upon the cost of the land purchased, less the fair market value of that portion of the land which is not to be used in utility operations. The portion of the cost measured by the fair market value of the land not to be used shall be included in account 103 - **Property Held for future use**, or account 121 - **Non-utility Property**, as appropriate.

The Southern States Collier family acquisition of land for a water source included a total of 212.5 acres. According to a survey for the Hanson Appraisal of the subject land commissioned by Gordon H. Harris, an attorney for Southern States Utilities, the acreage breakdown between Water Source Lakes, Wetlands and Uplands is as follows:

| | | |
|----|----------|--------------------|
| 1. | Lakes | 56.29 Acres |
| 2. | Wetlands | 71.28 Acres |
| 3. | Uplands | <u>84.93</u> Acres |
| | | 212.50 Total Acres |

Besides the April 1995 Hanson Appraisal, four other appraisals were presented to the audit staff. While the Florida Public Service Commission does not allow appraisals in place of original cost for rate base purposes, the use of appraisals for allocating the cost of "Lump Sum Purchases" is a generally accepted procedure. A summary of the five appraisals appears below.

When dealing with land costs FAS-67 states, "Total capitalized land cost are allocated based on the relative fair value of each land parcel prior to any construction. A land parcel may be identified as a lot, an acre, acreage, a unit, or a tract."

Audit Exception No. 2, continued.

| DATE | APPRAISER | VALUE OF ENTIRE PARCEL | WATER SOURCE LAKES | VALUE OF ACQUIRED REAL ESTATE |
|--------|----------------|------------------------|--------------------|-------------------------------|
| Apr-95 | Hanson Svcs. | \$3,606,500 | \$ 140,725 | \$ 3,296,416 |
| Apr-95 | Klusza Assoc. | 7,900,000 | 1,500,000 | 6,400,000 |
| Jun-94 | Carroll | 7,200,000 | 2,400,000 | 4,770,000 |
| Jun-94 | John Calhoun | 4,241,800 | -0- | 4,200,200 |
| Oct-92 | Calhoun Assoc. | 4,070,600 | -0- | 4,070,600 |

Southern States provided an invoice from Calhoun and Associates, Inc. dated November 24, 1992, for the above appraisal report for \$13,051. The invoice stated in whole,

Inspection of property, conferences with representative of Southern States Utilities, research for both commercial and residential land sales throughout Collier County, research land use issues, inspect all sales and verify all data, analysis of data, and preparation of appraisal report.

(Emphasis added)

The above appraisals were valued as if the subject property were zoned residential and commercial but, in fact, the property is zoned agricultural. Each appraiser indicated that it saw no difficulty in having the zoning changed for development purposes. The appraisals stated that Collier Planning Board has the long-term use for the subject property mapped out as residential.

Southern States is bringing the subject water source land addition into rate base in two portions. The first portion in 1994 with \$4,400,081 and the balance in 1995 with an addition to the land account of 4,799,919.

Marco Island Utilities
Plant in service
Land Addition

1994 \$4,400,081

1995 4,799,919

\$9,200,000

Audit Exception No. 2, continued.

OPINION: Based on the reading of the facts in above appraisals, it is clear that Southern States is acquiring more than just a water source with the Collier Condemnation. According to the NARUC Land account description at point 3. above, the final purchase price (condemnation settlement costs) should be allocated by an acceptable method to 1) the Collier Lakes water source acquisition and 2) the residential and commercial real estate investment.

Acceptable methods of allocation would include the generally accepted Lump Sum or basket purchase method of evaluating components of an acquisition. We might also look at the NARUC accounting instruction itself which mentions, ". . . less the fair market value of that portion of the land which is not to be used" in which "portion" appears to be talking about acreage.

For purposes of this exception, we will calculate the allocation using both the acreage method and the lump sum purchase method.

Using the Hanson acreage listed above, the percentage condemnation cost allocated to water source "LAKES" would be calculated as follows. The condemnation costs allocated to upland residential and commercial real estate remains.

| | Acres | Percent | Allocated Purchase Price | Corrected Charge |
|---------|--------------|--------------|--------------------------|----------------------------|
| Lakes | 56.29 | 39.9% | \$3,670,800 | UPIS-Water |
| Uplands | <u>84.93</u> | <u>60.1%</u> | <u>5,529,200</u> | Upland Real Estate |
| Total | 141.22 | 100.0% | \$9,200,000 | Total cost of condemnation |

Of the above four appraisals, the Hanson appraisal was the most detailed and contained facts concerning the acreage for the lake, the wetlands and the uplands including an allocation of the access easement.

Alternatively, the "lump sum purchase" method of allocating asset costs based on relative estimated fair market value yields the following allocation of the condemnation costs. In this case, the two Calhoun appraisals did not identify any costs associated with the water source lakes. Using the other three appraisals to allocate the \$9,200,000 condemnation costs between the water source and the real estate portions, the following calculation follows accepted accounting methodology for allocating "lump sum purchase" costs.

Audit Exception No. 2, continued.

| DATE | APPRAISER | PARCEL | REAL ESTATE | PERCENT |
|-----------------------|---------------|-------------|-------------|--------------|
| Apr-95 | Hanson Svcs. | \$3,606,454 | 3,296,416 | 91.4% |
| Apr-95 | Klusza Assoc. | 7,900,000 | 6,400,000 | 81.0% |
| Jun-94 | Carroll | 7,200,000 | 4,770,000 | <u>66.3%</u> |
| REAL ESTATE AVERAGE % | | | | 79.6% |

ALLOCATION OF THE COLLIER CONDEMNATION COST USING THE LUMP SUM PURCHASE METHOD.

| | Percent | Allocated Purchase Price | Correct Charge |
|---------|--------------|--------------------------|-----------------------------|
| Other* | 20.4% | \$1,876,800 | UPIS-Water Land |
| Uplands | <u>79.6%</u> | <u>7,323,200</u> | Upland Real Estate |
| Total | 100.0% | \$9,200,000 | Total cost of condemnation. |

* Other includes water source lakes and wetlands

NONUTILITY PROPERTY CLASSIFICATION

The real estate portion of the above allocations should be charged to Account 121 Nonutility Property as opposed to Account 103 Plant Held for Future Use. This statement is made for two logical reasons. First, in none of the engineering studies or Marco Island Planning documents reviewed during this docket's field work, including the January 1995 Draft Planning Document for Marco Island prepared by the Planning and Engineering Department of Southern States Utilities, Inc., was there any mention of additional water extraction from the Collier Lakes property. Secondly, all of the appraisals indicate the highest use of this land would be for residential and commercial development.

RECOMMENDATION: The Commission should reduce the cost of the condemnation of the Collier Property charged to Water Source Land Account 303 by the value of the real estate acquired. The cost allocated to Real Estate should be determined by either the direct acreage method or the lump sum purchase method. These allocation methods yield reductions of \$5,529,200 or \$7,323,200 from the Marco Island Water land account, respectively. These Real Estate Investment costs should be charged to Account Number 121 Nonutility Property.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT EXCEPTION NO. 3

SUBJECT: DEFERRED DEBITS FOR ACQUISITION OF WATER SOURCE LAND CONTAINED NONUTILITY CHARGES

FACTS: As stated in Exception No. 2, Southern States Utilities, Inc. is required to maintain its books and records in conformity with the 1984 Class A NARUC Uniform System of Accounts per Rule 25-30.115, Florida Administrative Code.

The Deferred Debits account filed in the current SSU Rate Proceeding contains \$886,409 for the development and ultimate purchase of water source land known as the Dude Property.

The 1984 NARUC Class A Water Uniform System of Accounts Utility Plant - Land and Land Rights in Section F states in whole,

When the purchase of land for utility operations requires the purchase of more land than needed for such purposes, the charge to the specific land account shall be based upon the cost of the land purchased, less the fair market value of that portion of the land which is not to be used in utility operations. The portion of the cost measured by the fair market value of the land not to be used shall be included in account 103 - **Property Held for future use**, or account 121 - **Non-utility Property**, as appropriate.

In 1992 Southern States hired and paid Appraisal Research to do an appraisal of the mining potential of the Dude Property.

The value of the mining potential of the Dude Property with 100 acres used as a borrow pit was stated by Appraisal Research to be \$3,600,000.

Southern States provided an April 4, 1991, letter between two of its officers outlining its planned provision of raw irrigation water for Mass. Mutual Golf Course. The letter stated that, "Water supply for this project will come from the "Dude Project" (Southfield Farms)."

Audit Exception No. 3, continued.

OPINION: Out of the 160 acres of the Dude property, the appraisal states that 100 acres were available for the pit mining. Allocating the \$886,409 proposed as Dude property development costs based on acres devoted to mining vs. acres for a water source yields the following:

| | <u>ACRES</u> | <u>PERCENT</u> |
|---------------------------------------|-----------------|----------------|
| Mining acres | 100 | 62.5% |
| Water source acres | 60 | 37.5% |
| | ----- | ----- |
| Total acres | 160 | 100.0% |
| Total costs to be allocated are: | | \$886,409 |
| | Mining percent | 62.5% |
| | | ----- |
| Development costs allocated to mining | | \$554,000 |
| Balance allocated to water source | | <u>332,409</u> |
| | Total allocated | \$886,409 |

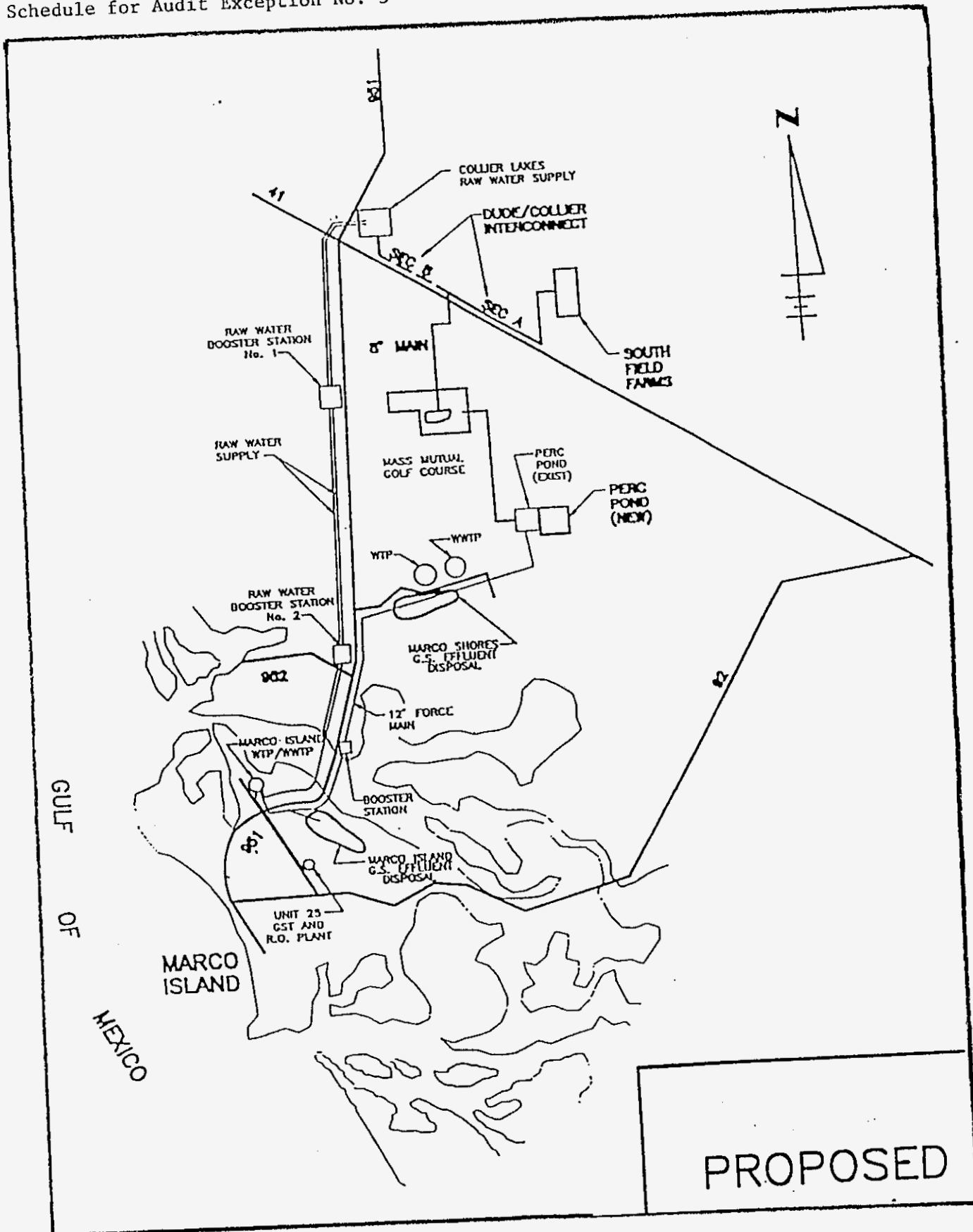
Concerning the water source classification, documents obtained during SSU field work indicate that the water source at the Dude property was to be used for raw water sales to Massachusetts Mutual Golf Course. This golf course is out of SSU's certificated service area and the revenue would be nonutility income. According to a draft of an agreement between Collier County, Mass. Mutual Golf Course and Southern States (Tri-party agreement), Southern States was to provide raw irrigation water as an interim step towards eventually providing treated effluent for irrigation.

As mentioned in the Facts section, Southern States provided a letter between two of its officers Re: Raw Water Supply - Mass. Mutual Golf Course outlining and mapping its planned provision of raw irrigation water for Mass. Mutual Golf Course. See attached map which was enclosed in the letter.

Expenditures made with the objective of earning nonutility income are nonutility in nature.

RECOMMENDATION: Reclassify the \$886,409 in deferred debits to account #426.13 Miscellaneous Nonutility Expenses - Preliminary survey and investigation expenses related to abandoned projects.

COMPANY COMMENTS: The Company may respond at a later date.



AUDIT EXCEPTION NO. 4

**SUBJECT: PURCHASED WATER ADJUSTMENTS
Marco Shores**

FACTS: The Company's filing for Historical 1994, Interim 1995, and Projected 1996 O&M Expenses includes adjustments for purchased water of \$24,378, \$24,378 and \$60,036, respectively, for Marco Shores.

The Company's filing for Historical 1994, Interim 1995, and Projected 1996 revenues include \$24,378, \$34,035 and \$69,291, respectively, for Marco Island's sale of raw water to Marco Shores.

Marco Shores and Marco Island are owned by Southern States.

The Company maintains that the above-mentioned purchase water adjustment is computed only for this filing to account for the water produced by Marco Island. No revenues or expenses for this transaction appear on the Company's books outside of this filing because the transfer of water resources from Marco Island to Marco Shores is considered an intercompany transaction that is eliminated when SSU's books are closed at year end.

Rule 25-30.120, (3) states, "Any utility that purchases water or wastewater treatment from another utility regulated by the FPSC is allowed a credit on the Regulatory Assessment Fee paid to the FPSC."

OPINION/RECOMMENDATION: Audit staff has discovered two calculation errors with the Company's filing.

- 1) Interim 1995's purchased water adjustment was calculated using Historical 1994 rates and consumption levels.
- 2) Projected 1996's purchased water adjustment was calculated using Projected 1996 rates and Historical 1994 consumption levels.

The Commission should require the Company to increase Interim 1995 and Projected 1996 purchased water adjustments for Marco Shores by \$9,648 and \$3,742, respectively, as illustrated in the attached Schedule A.

For filing purposes the Company recorded revenues twice for the previously mentioned intercompany water transaction - first, as raw water sold to Marco Shores from Marco Island and second, as finished water sold by Marco Shores to its customers.

When the Company calculated the Regulatory Assessment fees applicable for this filing they did not adjust the RAF fees as required per the Commission rule cited above.

Audit Exception No. 4, continued

The Commission should require the Company to reduce Taxes Other Than Income by the following amounts in its Historical 1994, Interim 1995, and Projected 1996 filings for excess Regulatory Assessment Fees of \$1,097, \$1,532 and \$3,118, respectively, as illustrated below.

RAF Fee Adjustments

| <u>Marco Island</u> | <u>Revenues per Company</u> | <u>RAF percentage</u> | <u>RAF amount</u> |
|---------------------|---------------------------------|---------------------------|-----------------------|
| Historical 1994 | \$24,387 | 4.50% | \$1,097 |
| Interim 1995 | \$34,035 | 4.50% | \$1,532 |
| Projected 1996 | \$69,291 | 4.50% | \$3,118 |

COMPANY COMMENTS: The Company may respond at a later date.

Schedule for Audit Exception No. 4

Summary of Purchased Water Adjustments

| | Per Company | Audit Adjustment | Elasticity Adjustment | Per Audit |
|-----------------------|----------------|---------------------|--------------------------|-------------------------|
| Historical 1994 | 24,387 | 0 | 0 | 24,387 |
| Interim 1995 | 24,387 | 9,648 | 0 | 34,035 <i>a</i> |
| Projected 1996 | 65,225 | 4,066 <i>b</i> | | 69,291 <i>c</i> |
| elasticity adjustment | <u>(5,189)</u> | | (324) <i>b</i> | <u>(5,513) <i>b</i></u> |
| | 60,036 | | | 63,778 <i>c</i> |

a)

| | |
|--------------------|-----------------|
| 1995 Consumption | 36.938 m/gal |
| 1995 Rate X | <u>\$0.87</u> |
| | \$32,136 |
| Plus base facility | <u>1,899</u> |
| | <u>\$34,035</u> |

b)

| | Purchased Water | Elasticity Rate | Elasticity Adjustment |
|------------------------|--------------------|--------------------|--------------------------|
| Per Audit | \$69,291 | -7.9560% | (\$5,513) |
| Per company | <u>\$65,225</u> | -7.9560% | <u>(\$5,189)</u> |
| Auditor Adjustments | \$4,066 | | <u>(\$324)</u> |
| Net adjustment | | | \$3,742 |

c)

| | |
|----------------------|-----------------|
| 1996 Consumption | 38.072 m/gal |
| 1996 Rate X | <u>\$1.82</u> |
| | 69,291 |
| less elasticity adj. | <u>5,513</u> |
| | <u>\$63,778</u> |

AUDIT EXCEPTION NO. 5

**SUBJECT: ALLOCATED COST FROM PARENT COMPANY
Shareholder Services**

FACTS: Southern States filing for this rate case includes the following amounts identified as shareholders services:

| NARUC Acc# 6358 | Contractual Services - Other (A&G) |
|-----------------|------------------------------------|
| Historical 1994 | \$232,379 |
| Interim 1995 | 204,783 |
| Projected 1996 | 208,776 |

The above-referenced amounts represent the allocated portion of cost incurred by SSU's parent, Minnesota Power, that are "apportioned to recipient subsidiaries as a function of their equity balance relative to Minnesota Power's consolidated equity."

These cost include charges for the following types of services:

- 1) labor cost for shareholders services department
- 2) proxy and annual meeting notices
- 3) utility investor group assessments
- 4) annual stockholders meetings
- 5) annual and quarterly shareholders reports
- 6) DRIP and stock purchase plans
- 7) NY and AMEX assessments
- 8) rating agency fees
- 9) SEC financial reports
- 10) registrar and transfer agent fees
- 11) meetings with trust officers/institutional investors
- 12) certificate printing
- 13) board fees
- 14) mailings to the financial community

Prior Commission policy has been to disallow any stockholder expenses that are incurred by a parent and passed through to subsidiary companies. TECO, Docket No. 820007-EU, Order No. 11307.

OPINION/RECOMMENDATION: Audit staff believes that the above-mentioned expenses should not be allowed for determining test year expenses and be excluded per the Commission policy cited in Order No. 11307.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT EXCEPTION NO. 6

**SUBJECT: ABANDONED PRELIMINARY SURVEY AND INVESTIGATION
Volusia/Deltona Lakes**

FACTS: Southern States filing for Historical 1994 included a write-off of an abandoned Preliminary Survey and Investigation, PS&I, project for \$19,143 to Acc# 635 Contractual Services - Other.

Per NARUC, Class A, Water O&M Expense Accounts, Acc# 635, Contractual Services - Other, "This account shall include those operations and cost contracted for which are not included in accounts 631, 632, 633, 634."

The four NARUC accounts cited above are used to record expenses for "outside" engineering, accounting, and legal services as well as management fees.

Per NARUC, Class A, Income Accounts, Acc# 426 Miscellaneous Nonutility Expenses, "This account shall include all expenses other than expenses of utility operations and interest expense. Items included . . . (13) Preliminary Survey and Investigation expenses related to abandoned projects, when not written-off to the appropriate operating expense account."

Per NARUC, Class A, Balance Sheet Accounts, Acc# 183 Preliminary Survey and Investigation Charges, ". . ., if the work is abandoned, the charge shall be to account 426 - Miscellaneous Nonutility Expenses, or to the appropriate operating expense account unless otherwise ordered by the Commission (See account 675 - Miscellaneous Expenses)."

OPINION/RECOMMENDATION: The Company's write-off of the abandoned PS&I project to Acc# 635 is not an "appropriate operating expense account."

The Commission should require the Company to reduce Acc# 635 Contractual Services - Other by \$19,143.

The Company should be required to write off the PS&I project to either Acc# 426 Miscellaneous Nonutility Expense or Acc# 675 Miscellaneous Expenses as determined by the Commission.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT EXCEPTION NO. 7

SUBJECT: CIAC AMORTIZATION - OVERSTATEMENT

FACTS: In FPSC Document Request #22, the Company was requested to reconcile the difference between the book amount and the MFR amount for amortized CIAC for the Deltona Lakes water and wastewater accounts. The reply delineates part of the difference as being attributable to a sale to Volusia County which resulted in a retirement to the CIAC water of \$ 10,451. The Company states in its response, "It appears that the MFRs did not pick up this retirement of amortization which accounts for \$10,451 of the total difference. In other words, water accumulated amortization on the MFRs is overstated by \$10,451."

OPINION/RECOMMENDATION: The Company has reported an incorrect item on a filed exhibit. MFR A-13 did not include a retirement in the amount of \$10,451. The Commission should adjust the CIAC balance for the Company by the \$10,451 that is in error.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT EXCEPTION NO. 8

SUBJECT: DELTONA LAKES ABANDONED PROJECT

FACTS: The Company started a project to build a 1 MG storage tank and a building for well #10 at its Deltona Lakes Plant. The project was abandoned at the end of 1991 due to a potential sinkhole problem. The project cost \$49,009 was transferred from Preliminary Survey and Investigations into Operations and Administrative Projects, Account Number 1862, and included the Working Capital Allowance for 1996.

The project is being amortized over a four-year period beginning 1/1/93 at \$12,252 ($49,009 / 4$) per year ending 12/31/96. In 1996 the Company indexed the \$12,252 by 1.98% to \$12,491. The amortization expense was charged to Account Number 6353, Contractual Services - Other.

The Company used 1/8 of Operation and Maintenance Expense for 1994 and 1995 to determine Working Capital Allowance and the Balance Sheet Method was used for 1996.

OPINION/RECOMMENDATION: The Company should be required to write off the abandoned project to either Miscellaneous Nonutility Expense, Account Number 426, or Miscellaneous Expenses, Account Number 675, as determined by the Commission. Therefore, Account Number 6353 should be reduced each year by \$12,252 for 1994 and 1995 and \$12,491 for 1996.

The Company should be required to reduce Working Capital Allowance for \$1,532 ($12,252 / 8$) in 1994 and 1995 if Account Number 426 is used for the amortization expense.

If the Commission rule that Account Number 675 should be charged, then consideration should also be given for the elimination of the above \$12,491 from expenses at 12/31/96.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT EXCEPTION NO. 9

SUBJECT: SPRING HILL WASTEWATER TREATMENT PLANT EXPANSION

FACTS: The Company included \$55,361 in Operations and Administrative Projects, Account Number 1862, for an abandoned proposed 2 MGD addition to Spring Hill Utilities Wastewater Treatment Plant located in Hernando County.

The project is being amortized at \$15,099 per year beginning 1/1/94, with the balance being amortized until 8/31/97. The amortization expense was charged to Account Number 7315, Contractual Services - Engineering.

The Company used 1/8 of Operation and Maintenance Expense for 1994 and 1995 to determine Working Capital Allowance and the Balance Sheet Method was used for 1996.

OPINION/RECOMMENDATION: The Company should be required to write off the abandoned project to either Miscellaneous Nonutility Expense, Account Number 426, or Miscellaneous Expenses, Account Number 775, as determined by the Commission. Therefore, Account Number 7315 should be reduced each year by \$15,099 from 1994 through 1996.

The Company should be required to reduce Working Capital Allowance for \$1,887 (15,099 / 8) in 1994 and 1995 if Account Number 426 is used for the amortization expense.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT EXCEPTION NO. 10

SUBJECT: ORGANIZATION COSTS

FACTS: Document Request No. 95, dated September 27, was for Organization Cost removal documentation. On September 28, Southern States said that it would not provide the requested information. It finally provided the information on October 11, 1995.

The last day of field work was October 13, 1995.

FPSC Rule No. 25-30.450 Audit Provision states in part,

In each instance, the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility. The work sheets, etc. supporting the schedules and data submitted must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimum amount of time....

Emphasis added

Organization costs went from 1989 average balances of \$744,305 and \$93,938 to 1991 average balances of \$27,767 and \$43,393 for Water and Sewer, respectively.

OPINION/RECOMMENDATION: Field staff believes that the above delay was a violation of FPSC Rule No. 25-30.450 Audit Provision. If the data had been provided in a timely manner, a complete review of the information could have been accomplished with additional follow-up, if any, and the issue closed.

Given the problems associated with and the overall magnitude of this issue, it is recommended that this issue be reviewed further by the Commission. (See Disclosure 18.)

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT DISCLOSURE NO. 1

SUBJECT: DELTONA LAKES AND MARCO ISLAND CONDEMNATION PROJECTS

FACTS: The Company included in its 1996 Working Capital Allowance condemnation projects for Deltona Lakes and Marco Island. The condemnation amounts were included in Operations and Administrative Projects (OAPS), Account Number 1862. The condemnations are being amortized over a 15-year period to Miscellaneous Expense, Account Number 6758. The particulars for each project are shown below:

| | DELTONA LAKES PROJECT #90EN010 | MARCO ISLAND PROJECT #91ES027 |
|------------------------|-----------------------------------|----------------------------------|
| Beginning Date | 1/31/91 | 1/31/94 |
| Ending Date | 12/31/05 | 12/31/08 |
| Original Amount | \$ 319,083 | \$ 167,788 |
| Annual Amort. Expense | 21,273 | 10,634 |
| Unamort. Bal. 12/31/96 | \$ 191,455 | \$ 135,753 |

OPINION/RECOMMENDATION: This disclosure is for informational purposes.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT DISCLOSURE NO. 2

SUBJECT: NONCOMPLIANCE WITH NARUC ACCOUNT 103 - PROPERTY HELD FOR FUTURE USE

FACTS: Rule 25-30.115, F.A.C., requires, "Water and Sewer Utilities to maintain their books and records in conformity with the 1984 NARUC Uniform System of accounts (USofA) adopted by the National Association of Regulatory Utility Commissioners."

The 1984 NARUC Class A System of Accounts provides the following description of UPIS Account 103, Property Held for Future Use, "This account shall include the original cost of property owned and held for future use in utility service"

A CAR (Capital Authorization Request) form found in a sample of SSU project files indicated that the 1995 Lehigh land addition was for future utility use.

The Southern States MFRs for Lehigh Utilities did not indicate any 1995 non-used land.

In response to a document request, Southern States stated that of the \$414,605 1995 Lehigh land additions, \$120,840 and \$260,562 were actually future use Water and Sewer land, respectively.

OPINION: Lehigh land additions representing future Plant in Service should be removed from current rate making consideration in the amounts of \$120,840 and \$260,562 from Water and Sewer, respectively.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT DISCLOSURE NO. 3

**SUBJECT: CIAC - ERROR IN PRIOR MFRs
SUGARMILL WOODS**

FACTS: The Company reduced the beginning balance, 12/31/91, of CIAC - Water (MFR A11-W) and CIAC Wastewater (MFR A-11-S) for Sugarmill Woods in the amounts of \$87,080 and \$1,116,283, respectively. The Company, in reply to FPSC Document Request #38, said that incorrect amounts were included in the MFRs filed in Docket #920199-WS; however, the books were correct. The Company was able to reconcile the difference in the water accounts. Neither the Company nor the auditor could reconcile the difference in the wastewater accounts. The auditor reconstructed the "book balance" as of 12/31/91. At that point there was a difference between the Company's books and MFRs in the amounts of \$86,067 for water and \$1,102,389 for wastewater. In accordance with FPSC Order #93-0423-FOF-WS the Company subsequently reduced CIAC water in the amount of \$1,012 and CIAC wastewater in the amount of \$13,893. The combination of the difference between the Company's books and MFRs as of 12/31/91, and the rate order adjustments equal the Company's adjustments to the MFRs in the current rate case.

OPINION/RECOMMENDATION: There is a definite difference between the amounts as filed in Docket #920199-WS and the financial records of the Company as of 12/31/91. The auditor did not find any errors in the "booked amounts." Since incorrect amounts were filed in the last case, it can not be determined by the audit staff what adjustments would have been made to the Sugarmill CIAC if the correct amounts were filed. The Commission will have to determine if the full amounts, as deducted by the Company, are applicable for the current rate case.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT DISCLOSURE NO. 4

**SUBJECT: RATE BASE
Hillsborough/Seaboard**

FACTS: The Hillsborough/Seaboard system purchases water from the City of Tampa via Hillsborough County in accordance with a specific water purchase agreement.

In 1994 Hillsborough/Seaboard purchased approximately 62% of its water supply from the City of Tampa. The remaining 38% was produced by the system's four wells.

SSU's filing states the following,

Seaboard is located in a salt-water intrusion area which means there is only a limited amount of quality water that can be pumped. Each year, less quality water can be pumped from the wells, therefore it is necessary to increase the budget to purchase more from the city.

Section VI, Items A, B, and C in the water purchase agreement addresses the effects of the agreement on Seaboard's Rate Base before the Hillsborough County Commission.

The agreement allowed Seaboard to maintain in rate base all of the company's previously existing plant as well as all cost associated with constructing the interconnect with the city of Tampa.

SSU incorporated into this filing the Hillsborough/Seaboard rate base at the levels set by the Hillsborough County Commission.

OPINION/RECOMMENDATION: Audit staff believes that the current balance for Hillsborough/Seaboard rate base may be overstated because of the effects of the water purchase agreement. The company's rate base includes all original plant in service as well as all the cost associated with the construction of the interconnect with Hillsborough County.

The water purchase agreement has become Seaboard's primary source for water, 62.0%, as illustrated in the above facts. The company is therefore recovering the cost of the purchased water as well as earning a return on the original source of supply plant that provides only 38.0% of its water supply.

Audit staff defers this issue to the staff analyst and engineers in Tallahassee for further review.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT DISCLOSURE NO. 5

**SUBJECT: SLUDGE HAULING EXPENSE
Beechers Point/Palm Port**

FACTS: Southern States, Inc. filing indicates the following amounts for sludge hauling expense.

| <u>System</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> |
|----------------|-------------|-------------|-------------|
| Beechers Point | \$12,179 | \$44,200 | \$45,062 |
| Palm Port | 3,540 | 44,200 | 45,062 |

SSU maintains that, ". . . the percolation ponds at Beechers Point and Palm Port are not properly percolating. Therefore, in order to dispose of the **treated effluent**, the company has hauled effluent to a sludge facility." and ". . . the effluent is being hauled in lieu of adequate percolation. Therefore, the disposal is considered sludge hauling."

The effect is an increase in sludge hauling expense in 1995 for Beechers Point and Palm Port of \$32,021 or 362.9% and \$40,660 or 1,248.6%, respectively. In 1996 the expense is determined by increasing 1995 expense by a 1.95% attrition factor.

Per the NARUC System of Uniform Accounts, Account 711 - Sludge Removal Expense, "This account shall include the **cost of removal of sludge** if such work is performed"

The revenues for Beechers Point and Palm Harbor for 1994 as filed are \$13,854 and \$30,030 with O&M expenses of \$42,532 and \$49,313, respectively. This results in a net deficit of (\$28,678) and (\$19,283) for each system before other non-O&M expenses are considered. The additional sludge hauling expense in 1995 will further increase this net deficit.

OPINION/RECOMMENDATION: The percolation ponds began to fail in early 1994. Southern States at that time decided to haul the treated effluent, with in-house personnel, to the Town of Welaka's wastewater facility. There was no evidence in the Company's response to audit staff's inquiry that Southern States explored any other cost effective alternatives.

Audit staff believes that, (1) The hauling of "treated effluent" should be identified as a Purchased Sewage Treatment Expense rather than sludge hauling expense because of the NARUC classifications cited above. (2) SSU's current solution to the percolation ponds problems at Beechers Point and Palm Port should not be treated as a recurring O&M expense item because a more cost effective method should be developed.

Audit staff defers this issue to the Commission staff analyst.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT DISCLOSURE NO. 6

**SUBJECT: ADJUSTMENT TO PROJECTED 1996 O&M EXPENSE
Conservation Elasticity Adjustment**

FACTS: Southern States initial filing for Projected 1996 O&M expenses includes a conservation elasticity adjustment of (\$287,585). In SSU's subsequent supplemental filing the conservation elasticity adjustment was reduced by \$90,450 to (\$197,135).

OPINION/RECOMMENDATION: Audit staff requested additional information about the above-mentioned adjustments from Company representatives. Their response was as follows:

The 11.0% elasticity adjustment and the correlating 7.956% O&M expense reduction were derived through Dr. Whitcomb's WaterRate model. A detailed explanation of the relationship between elasticity of demand and the correlating decrease in variable cost should be submitted as an interrogatory request rather than an audit request. Dr. Whitcomb will have to address this question.

Auditor defers this issue to the analyst and engineers in Tallahassee because of an inability to evaluate the company's representations on this adjustment due to the lack of supporting documentation.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT DISCLOSURE NO. 7

**SUBJECT: ADJUSTMENT TO PROJECTED 1996 O&M EXPENSE
Conservation Expenses**

FACTS: Chapter 366.81, F.S., states that, "The legislature finds and declares that it is critical to utilize the most efficient and cost-effective energy conservation systems in order to protect the health, prosperity, and general welfare of the state and its citizens."

Chapter 366.82 (2), F.S., assigns the authority to establish and monitor conservation programs for the electric and natural gas industry within the state of Florida to the Florida Public Service Commission. The Commission asserts its authority over conservation programs by means of Rule 25-17, F.A.C.

Southern States filing for Interim 1995 O&M expense budget includes conservation program expenses of \$199,250.

Southern States Projected 1996 O&M expense budget includes conservation expenses of \$524,425. This amount is the sum of the following two elements: (1) \$203,135, which is the interim 1995 budget escalated by a factor of 1.95%. (2) \$321,290, which is an adjustment to the projected 1996 budget for conservation program expenses. Please see attached schedule for details.

The Company has not requested Commission approval for its conservation program as of this filing.

OPINION/RECOMMENDATION: The Commission, through its actions with other state agencies, has expressed an on-going desire to promote the conservation of Florida's water resources.

Audit staff believes that the Commission should assert an implied authority to extend its responsibility over conservation programs to include the water and wastewater industries.

The Company's conservation program, as illustrated in the attachment provided, contains several expenses that are not considered recoverable under current Commission rules.

The Commission should determine that it does have the authority to administer a conservation program over the water and wastewater industry and develop the necessary guidelines to administer such a program.

Audit staff defers to the analyst and engineering staff in Tallahassee for additional recommendations on the conservation program established by Southern States in this rate proceeding.

COMPANY COMMENTS: The Company may respond at a later date.

SOUTHERN STATES UTILITIES, INC.
ANALYSIS OF CONSERVATION COSTS

| ACCOUNT DESCRIPTION | ACCOUNT NUMBER | CEC | 1995 | ESCALATION | BUDGETED | PROFORMA 1996* | TOTAL |
|-------------------------------|----------------|-----|------------|------------|------------|----------------|------------|
| | | | BUDGET | FACTOR | 1996 | ADJUSTMENT | 1996 |
| | | | \$ 34,150 | 1.95% | \$ 34,816 | \$ 19,991 | \$ 54,807 |
| M&S-Office Printing | 6208.0000 | 135 | \$ 2,350 | 1.95% | \$ 2,396 | \$ 4,880 | \$ 7,276 |
| M&S-Office Supplies | 6208.0000 | 140 | \$ 16,200 | 1.95% | \$ 16,516 | \$ 83,550 | \$ 100,066 |
| Contract Services-Other* | 6358.0000 | 150 | \$ 1,000 | 1.95% | \$ 1,020 | \$ 640 | \$ 1,660 |
| Rental Equipment | 6428.0000 | 155 | \$ 600 | 1.95% | \$ 612 | \$ - | \$ 612 |
| Transportation | 6508.0000 | 160 | \$ 14,500 | 1.95% | \$ 14,783 | \$ 24,600 | \$ 39,383 |
| Advertising | 6608.0000 | 166 | \$ 1,500 | 1.95% | \$ 1,529 | \$ 1,512 | \$ 3,041 |
| Misc Exp-Telephone | 6758.0000 | 175 | \$ 3,500 | 1.95% | \$ 3,568 | \$ 7,349 | \$ 10,917 |
| Misc Exp-Postage | 6758.0000 | 185 | \$ 800 | 1.95% | \$ 816 | \$ - | \$ 816 |
| Misc Exp-Dues & Subscription | 6758.0000 | 190 | \$ 400 | 1.95% | \$ 408 | \$ 2,736 | \$ 3,144 |
| Misc Exp-Travel | 6758.0000 | 195 | \$ 1,800 | 1.95% | \$ 1,835 | \$ 3,300 | \$ 5,135 |
| Misc Exp-Food | 6758.0000 | 200 | \$ 200 | 1.95% | \$ 204 | \$ - | \$ 204 |
| Misc Exp-Employee Training | 6758.0000 | 205 | \$ 150 | 1.95% | \$ 153 | \$ - | \$ 153 |
| Misc Exp-Office Cleaning | 6758.0000 | 210 | \$ 6,600 | 1.95% | \$ 6,729 | \$ - | \$ 6,729 |
| Misc Exp-Employee Recognition | 6758.0000 | 235 | \$ 3,000 | 1.95% | \$ 3,059 | \$ - | \$ 3,059 |
| Misc Exp-Temporary Help | 6758.0000 | 245 | \$ 112,500 | 1.95% | \$ 114,694 | \$ 77,163 | \$ 191,857 |
| Misc Exp-Other | 6758.0000 | 250 | \$ - | | \$ - | \$ 76,461 | \$ 76,461 |
| Labor | | | \$ - | | \$ - | \$ 19,108 | \$ 19,108 |
| Fringe Benefits** | | | \$ - | | \$ - | \$ - | \$ - |
| Total | | | \$ 199,250 | | \$ 203,135 | \$ 321,290 | \$ 524,425 |

* The proforma 1996 adjustment for contract services includes a reclassification of \$35,683 for contract services for the Marco Island Water Conservation Program which was classified as Misc Exp-Other (CEO 250) in the 1995 budget (\$35,000 in 1995 budget).
The proforma adjustment for printing, supplies, advertising, postage, and food also include a reclassification of \$43,839 for public education and special events for the Marco Island Water Conservation Program which was classified as Misc Exp-Other (CEO 250) in the 1995 budget (\$43,000 in 1995 budget).

** 1996 fringe benefit rate @ 24.99%.

AUDIT DISCLOSURE NO. 8

**SUBJECT: PURCHASED POWER
Deltona Lakes**

FACTS: Southern States filing indicates the following amounts for purchased power expense:

| <u>System</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> |
|---------------|-------------|-------------|-------------|
| Deltona Lakes | \$308,998 | \$417,300 | \$417,300 |

SSU maintains that they, "used a 1994 budget rather than 1994 actual to calculate a normalized expected power cost for 1995 due to the wet weather during the second half of 1994."

The budget figures provided by SSU are illustrated in the attached Schedule A.

OPINION/RECOMMENDATION: Audit staff believes that SSU's calculation of "normalized expected power cost" for the Deltona Lakes purchased power is flawed and overstates the actual amount that should be budgeted.

The Company has consistently over budgeted for purchased power at Deltona Lakes since 1992 as illustrated in the attached Schedule B.

Audit staff believes that the Interim 1995 and Projected 1996 purchased power expense for Deltona Lakes should be \$353,491 and \$360,384. These amounts were determined by using a simple average calculation for 1995 and an attrition factor of 1.95% for 1996 as illustrated in attached Schedule C.

The Commission should require the utility to reduce Interim 1995 and Projected 1996 purchased power expenses for Deltona Lakes by \$63,809 and \$56,916 as illustrated in attached Schedule D.

COMPANY COMMENTS: The Company may respond at a later date.

Schedule for Audit Disclosure No. 8

Schedule A

| | |
|------------------------------------|-----------|
| Purchased power per 1994 budget | \$385,200 |
| divided by number of wells in 1994 | <u>24</u> |
| Average cost per well | \$16,050 |
| times number of wells in 1995 | <u>26</u> |
| Per company 1995 budget | \$417,300 |

Schedule B

| Per company records | 1992 | 1993 | 1994 | Simple Average |
|----------------------------|------------------|------------------|------------------|------------------|
| Purchased power per budget | \$422,760 | \$423,000 | \$385,200 | \$410,320 |
| Purchased power actual | <u>\$317,409</u> | <u>\$352,490</u> | <u>\$308,998</u> | <u>\$326,299</u> |
| Difference – over/(under) | \$105,351 | \$70,510 | \$76,202 | \$84,021 |
| Percentage | 24.92% | 16.67% | 19.78% | 20.48% |

Schedule C

| | Interim 1995 | | Projected 1996 |
|--|--------------|------------------|----------------|
| Simple Average (see B above) | \$326,299 | | |
| divided by number of wells in 1994 | <u>24</u> | Budget 1995 | \$353,491 |
| Avg. cost per well | \$13,596 | attrition factor | <u>1.0195%</u> |
| times number of wells in 1995 | <u>26</u> | | |
| Per audit purchased power budget for Deltona Lakes | \$353,491 | | \$360,384 |

Schedule D

| | Interim 1995 | Projected 1996 |
|--|------------------|------------------|
| Per audit purchased power budget for Deltona Lakes | \$353,491 | \$360,384 |
| Per company purchased power budget for Deltona Lakes | <u>\$417,300</u> | <u>\$417,300</u> |
| Auditor determined adjustment | (\$63,809) | (\$56,916) |

AUDIT DISCLOSURE NO. 9

SUBJECT: PURCHASED WATER
Volusia/Enterprise

FACTS: The Company's filing for Interim 1995 and Projected 1996 O&M Expenses includes expenses for purchased water of \$24,720 and \$22,753, respectively, for Volusia/Enterprise system.

The Volusia/Enterprise is currently being operated by SSU under a receivership agreement with the FPSC.

The Volusia/Enterprise system receives water from Deltona Lakes by means of an "intercompany transfer."

The Company maintains that the above-mentioned transaction should only appear in the billing system as a "memo entry" to account for the water produced by Deltona Lakes.

OPINION/RECOMMENDATION: Audit staff has determined that there are no water purchase agreements between Volusia/Enterprise and Deltona Lakes.

The Company's response to audit staff's inquiry indicates that the purchased water amounts were erroneously included in the Interim 1995 and Projected 1996 filings.

The Commission should require the Company to reduce the Interim 1995 and Projected 1996 purchased water expense for Volusia/Enterprise \$24,720 and \$22,753, respectively.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT DISCLOSURE NO. 10

**SUBJECT: ADJUSTMENT TO PROJECTED 1996 O&M EXPENSE
Hurricane Preparedness Program**

FACTS: The Company's filing for Projected 1996 O&M expenses includes an adjustment of \$9,670 for additional materials and supplies for its Hurricane Preparedness Program.

The following items requested include: concrete saws, chain saws, flood lights, traffic cones, and other miscellaneous mechanical repair items.

Rule 25-30.433 (8), F.A.C., states that, "Non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified."

OPINION/RECOMMENDATION: Audit staff believes that the items requested for the "Hurricane Preparedness Program" represent non-recurring O&M expense projections and are subject to the Commission rule cited above.

The amortization amount, as determined by audit staff, should be the following:

\$9,670 divided by 5 years equals \$1,934 per year

The Commission should require the Company to reduce its adjustment to Projected 1996 O&M expenses, Acc# 620, by \$7,736 as illustrated below.

| | |
|--------------|--------------------------------------|
| \$9,670 | Original company adjustment |
| <u>1,934</u> | less one year amortization per audit |
| \$7,736 | audit adjustment/deferred debit |

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT DISCLOSURE NO. 11

**SUBJECT: HEPATITIS IMMUNIZATION PROGRAM
Interim 1996 and Projected 1996 O&M Expense**

FACTS: Southern States' filing for Interim 1995 and Projected 1996 includes \$16,000 and \$16,312 for a newly implemented Hepatitis immunization program they started in 1995 for selected "at risk" employees.

The above amounts were budgeted to the Safety Department Responsibility Center (#592) for NARUC Acc# 6758, Miscellaneous Expenses - A&G.

The Company maintains that approximately 200 employees will receive a series of three inoculations for Hepatitis B as part of the Company's Bloodborn Pathogens' program.

The budgeted cost of the program divided by the number of employees immunized results in an average cost of \$80.00 per employee for the Hepatitis Immunization program in Interim 1995.

The Company's employee turnover rate for 1995 is estimated to be approximately 11% on an annualized basis per D.G. Lock's testimony for this filing.

Documentation provided to the general public by the State Health Office-Immunization Program, Department of Health and Rehabilitative Services for Florida states, "The vaccine is given in a 3-dose series over a period of six months. About 95% of healthy persons are immune after receiving the vaccine, and protection appears to last at least five years."

Rule 25-30.433 (8), F.A.C., states that, "Non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified."

Audit Disclosure No. 11, continued

OPINION/RECOMMENDATION: Audit staff believes that the amount budgeted for the Company's Hepatitis Immunization program represents non-recurring O&M expense projection and that it should be subject to the Commission rule cited above.

The Commission should require the Company to reduce Acc# 6758 - Miscellaneous Expenses for Interim 1995 and Projected 1996 by \$12,800 and \$14,508, respectively, as illustrated in the attached schedules.

COMPANY COMMENTS: The Company may respond at a later date.

Schedule for Audit Disclosure No. 11

1995 Interim

| | |
|--------------------------------------|----------------|
| Interim 1995 expense amount | \$16,000 |
| Divided by estimated life of vaccine | <u>5 years</u> |
| Equals yearly amortization amount | \$ 3,200 |
| <hr/> | |
| Interim 1995 per Company | \$16,000 |
| less Interim 1995 per Audit | <u>3,200</u> |
| Equals Audit adjustment | \$12,800 |

Projected 1996

| | |
|--|----------------|
| Projected 1996 per Company | \$16,312 a |
| less Projected 1996 per Audit | <u>1,804 b</u> |
| Equals audit adjustment | \$14,508 |
| a) Per company 1995 | \$16,000 |
| times 1.95% attrition | <u>312</u> |
| equals 1996 projected | \$16,312 |
| b) Initial number of employees | 200 |
| to be vaccinated in 1995 | |
| times employee turnover rate | <u>11%</u> |
| equals the number new employees | |
| to be vaccinated in 1996 | 22 |
| times the \$80 cost per employee | |
| for each vaccination increased by | |
| the 1.95% attrition factor | <u>\$ 82</u> |
| equals Projected 1996 per | \$ 1,804 |
| audit | |
| (numbers were rounded to the nearest dollar) | |

AUDIT DISCLOSURE NO. 12

SUBJECT: WORKING CAPITAL ALLOWANCE - ACCRUED INTEREST RECEIVABLE

FACTS: As required by the Commission, the Company used the balance sheet approach to compute Working Capital Allowance for 1996. For 1994 and 1995 1/8 of O & M was used.

In 1996 the Company recorded \$167,966 for year end and \$204,043 for 13-month average balance in Account Number 1710, Accrued Interest Receivable.

OPINION/RECOMMENDATION: Commission policy has been to exclude interest expense and interest bearing accounts for ratemaking purposes. Order Number PSC-92-1359-FOF-WS, page 5, addresses this issue.

If interest expense and interest bearing accounts are excluded for ratemaking, then the accrued interest receivable account should also be excluded.

The Company should be required to reduce Working Capital Allowance for the above amounts recorded for Accrued Interest Receivable.

COMPANY COMMENTS: The Company may respond at later date.

AUDIT DISCLOSURE NO. 13

SUBJECT: SEABOARD WASTEWATER PLANT ABANDONMENT

FACTS: The Company recorded an original amount of \$656,626 for the Seaboard Wastewater Plant abandonment located in Hillsborough County. AFUDC (Allowance for Funds Used During Construction) for \$19,590 was included in this amount. Per Commission Rule 25-30.116 AFUDC is included for CWIP (Construction Work in Progress) and not for abandonments. This amount was included in Rate Base, line item Other, for 1995 and 1996.

The amortization period for the above amount is for five years beginning 4/30/95.

OPINION/RECOMMENDATION: The Company miscalculated and included AFUDC in the calculation of the above abandonment amount. The Commission should adjust the Company's accounting for the plant abandonment per the following:

| Item | Per Company | Recomm. Adjs. | Per Audit | Reason |
|----------------------|----------------|------------------|--------------|-----------------|
| Original Amt 4/30/95 | \$656,626 | \$(19,590) | \$637,037 | AFUDC Disallow. |
| Amortization Period | 5 | 7 | 12 | Miscalculation |
| Monthly Amort. | \$ 10,944 | \$ (6,520) | \$ 4,424 | AFUDC/Miscal. |
| 1996 Amort. Expense | \$131,328 | \$(78,240) | \$ 53,088 | AFUDC/Miscal. |
| 1996 Unamort. Bal. | \$426,802 | \$117,331 | \$544,133 | AFUDC/Miscal. |
| 1996 Average Bal. | \$492,466 | \$ 78,211 | \$570,677 | AFUDC/Miscal. |

See Schedule 1 for the calculation of the above amounts.

COMPANY COMMENTS: The Company may respond at a later date.

Schedule for Audit Disclosure No. 13

| Schedule 1 | | | |
|--|-------------------------------------|----------------------|-----------------------------------|
| Item | Per Company 12/31/94 Balances | Audit Adjustments | Per Audit 12/31/94 Balances |
| Plant in Service | 886,966 | | 886,966 |
| Accumulated Depreciation | (800,926) | | (800,926) |
| CIAC | (58,546) | | (58,546) |
| Accumulated Amortization | 19,723 | | 19,723 |
| Rate Base @ 12/31/94 | 47,217 | | 47,217 |
| Estimated Cost of Removal | 609,410 | (19,590) | 589,820 |
| Net Abandoned Plant Basis | 656,627 | (19,590) | 637,037 |
| 1994 Depreciation Expense | 47,964 | | 47,964 |
| 1994 CIAC Amortization | (3,166) | | (3,166) |
| Return on Rate Base | 6,370 | | 6,370 |
| Net Depreciation Expense | 44,798 | 6,370 | 51,168 |
| Estimated Remaining Life - Years | 1 | 11 | 12 (1) |
| Actual Amortization Period Used | 5 | 7 | 12 |
| Amortization Amount - Monthly | 10,944 | (6,520) | 4,424 (2) |
| 1995 Amortization Amount (MONTHLY AMORTIZATION X 9 MONTHS) | 98,496 | (58,680) | 39,816 |
| 1996 Amortization Amount (MONTHLY AMORTIZATION X 12 MONTHS) | 131,328 | (78,240) | 53,088 |

Amortization Schedule - Per Audit

| | Monthly Amortization 12 Year Life | Unamortized Balance |
|-------------------------------------|---|------------------------|
| 12/31/95 Balance (637,037 - 39,816) | | 597,221 |
| Jan 96 | 4,424 | 592,797 |
| Feb 96 | 4,424 | 588,373 |
| Mar 96 | 4,424 | 583,949 |
| Apr 96 | 4,424 | 579,525 |
| May 96 | 4,424 | 575,101 |
| Jun 96 | 4,424 | 570,677 |
| Jul 96 | 4,424 | 566,253 |
| Aug 96 | 4,424 | 561,829 |
| Sep 96 | 4,424 | 557,405 |
| Oct 96 | 4,424 | 552,981 |
| Nov 96 | 4,424 | 548,557 |
| Dec 96 | 4,424 | 544,133 |
| Total Amortization Expense 12/31/96 | 53,088 | |
| Average Rate Base Balance 12/31/96 | | 570,677 |

(1) $637,037 / 51,168 = 12$ rounded

(2) $637,037 / 12 = 53,088 / 12 = 4,424$ rounded

AUDIT DISCLOSURE NO. 14

SUBJECT: PRELIMINARY SURVEY AND INVESTIGATIONS

FACTS: The Company projected its Preliminary Survey and Investigations, Account Number 183, to be \$2,737,272. This is the year end and thirteen-month average amount included in Working Capital Allowance at 12/31/96. The Company used internal projections to achieve the \$2,737,272 for 1995 with no additional amounts projected for 1996. The following is a variance between actual and projected through 9/30/95, the most recent data as of this writing:

| Month | Actual | Projected | Difference | |
|-------------|--------------|--------------|----------------|---------|
| Sep 94 | \$ 979,900 | \$ 979,900 | \$ 0 | Act Amt |
| Oct 94 | 983,595 | 983,595 | 0 | Act Amt |
| Nov 94 | 1,030,985 | 1,030,985 | 0 | Act Amt |
| Dec 94 | 774,158 | 774,158 | 0 | Act Amt |
| Jan 95 | 799,852 | 777,358 | 22,494 | |
| Feb 95 | 804,650 | 1,106,515 | (301,865) | |
| Mar 95 | 805,953 | 1,194,987 | (389,034) | |
| Apr 95 | 829,293 | 1,315,668 | (486,375) | |
| May 95 | 847,724 | 1,654,961 | (807,237) | |
| Jun 95 | 908,833 | 1,767,933 | (859,100) | |
| Jul 95 | 865,735 | 1,863,905 | (998,170) | |
| Aug 95 | 888,285 | 2,182,627 | (1,294,342) | |
| Sep 95 | 1,027,587 | 2,278,099 | (1,250,512) | |
| | ----- | ----- | ----- | |
| Total: | \$11,546,550 | \$17,910,691 | \$ (6,364,141) | |
| Divided by: | 13 | | | |

Average 888,196 - 2,737,272 = (1,849,076)

OPINION/RECOMMENDATION: The Company's 1996 projected amount, shown above, should be reduced \$1,849,076 for the following reasons:

1. The wide variance between the actual and projected amounts shown above;
2. The Company's supporting documentation for its projection was internally generated with no outside verification; and
3. The thirteen-month average balance at 9/30/95 is the most recent actual data available.

COMPANY COMMENTS: The Company may respond at later date.

AUDIT DISCLOSURE NO. 15

**SUBJECT: PROJECTED 1996 SALARY & WAGE EXPENSE
Attrition Adjustments**

FACTS: The Company's filing for Projected 1996 O&M Expenses includes an attrition adjustment of 5.87% to the Company's 1995 labor budget of \$10,965,564.

Per Company representative the above-mentioned attrition adjustment was calculated in error and should have been 5.75%.

The Company representative maintains that its total labor budget for Projected 1996 is overstated by .12% or \$16,764.

OPINION/RECOMMENDATION: Audit staff concurs with the Company's newly disclosed facts concerning the attrition adjustment. However, the \$16,764 overstatement calculated by the Company is based on the total labor budget which includes the Company's capitalized labor projections. The capitalized labor portion should not be included in the Projected 1996 O&M expense reduction.

Audit staff has recalculated the Projected 1996 labor attrition adjustments for O&M expenses and capitalized labor based on the correct percentage as stated above and recommends the following adjustments:

| | |
|---|---------------|
| <u>WATER O&M EXPENSES ACC# 601</u> | |
| Conventional Treatment | (\$ 7,504)* |
| Reverse Osmosis Treatment | (982)* |
| <u>WASTEWATER O&M EXPENSES ACC# 701</u> | |
| All systems | (5,478)* |
| Total O&M Expense reduction | (\$13,964)* |
| <u>CAPITALIZED LABOR</u> | |
| Total Capitalized Labor | (\$ 2,800) |
| Total Labor adjustment | (\$16,764) |

(* See attached schedule *)

The difference between audit staff's calculated adjustment and the Company's adjustment is a reduction to capitalized labor of \$2,800. (\$16,764 - \$13,964)

The Commission should require the Company to reduce its Projected 1996 O&M Salary Expenses and Projected 1996 Capitalized Salary Expenses by the amounts illustrated above to correct for the error in the Company's attrition adjustment calculation.

COMPANY COMMENTS: The Company may respond at a later date.

Schedule for Audit Disclosure No. 15

| Water | | | A | B | C | D | E | F | G | H | I |
|-------------------|-----|------------------|------------------|--|--------------|------------------|----------------|---------------------|---------------------------|--------------------|---------------------------|
| | | | Budget 1995 | Attrition Adjustment 5.87%/5.75% | Reallocation | Adjusted 1996 | Add OOU | Add Conservation | Hewitt Study 4.765% | Net Adjustments | Final Adjusted 1996 |
| | | | | See note 1 | | A+B+C | | See note 2 | D X 4.765% | E+F+G | D+H |
| Per Company | 601 | Salaries & Wages | <u>6,750,292</u> | <u>396,242</u> | <u>5,345</u> | <u>7,151,879</u> | <u>101,756</u> | <u>52,636</u> | <u>340,787</u> | <u>495,179</u> | <u>7,647,058</u> |
| | | Conventional | 5,968,878 | 350,373 | 29,302 | 6,348,553 | 96,124 | 49,723 | 302,509 | 448,356 | 6,796,909 |
| | | Reverse Osmosis | 781,414 | 45,869 | (23,957) | 803,326 | 5,632 | 2,913 | 38,278 | 46,823 | 850,149 |
| Per Audit | 601 | Salaries & Wages | <u>6,750,292</u> | <u>388,142</u> | <u>5,345</u> | <u>7,143,779</u> | <u>101,756</u> | <u>52,636</u> | <u>340,401</u> | <u>494,793</u> | <u>7,638,572</u> |
| | | Conventional | 5,968,878 | 343,210 | 29,302 | 6,341,390 | 96,124 | 49,723 | 302,167 | 448,014 | 6,789,405 |
| | | Reverse Osmosis | 781,414 | 44,931 | (23,957) | 802,338 | 5,632 | 2,913 | 38,234 | 46,779 | 849,167 |
| Audit Adjustments | 601 | Salaries & Wages | | <u>8,100</u> | | <u>8,100</u> | | | <u>388</u> | <u>386</u> | <u>8,486</u> |
| | | Conventional | | 7,163 | | 7,163 | | | 341 | 341 | 7,504 |
| | | Reverse Osmosis | | 938 | | 938 | | | 45 | 45 | 982 |
| Wastewater | | | A | B | C | D | E | F | G | H | I |
| | | | Budget 1995 | Attrition Adjustment 5.87%/5.75% | Reallocation | Adjusted 1996 | Add OOU | Add Conservation | Hewitt Study 4.765% | Net Adjustments | Final Adjusted 1996 |
| | | | | See note 1 | | A+B+C | | See note 2 | D X 4.765% | E+F+G | D+H |
| Per Company | 701 | Salaries & Wages | 4,120,416 | 241,668 | 440,720 | 4,803,004 | 46,058 | 23,528 | 228,863 | 298,746 | 5,101,751 |
| Per Audit | 701 | Salaries & Wages | 4,120,416 | 236,924 | 440,720 | 4,798,060 | 46,058 | 23,528 | 228,628 | 298,214 | 5,096,273 |
| Audit Adjustments | 701 | Salaries & Wages | | <u>4,944</u> | | <u>4,944</u> | | | <u>236</u> | <u>532</u> | <u>5,478</u> |

Note 1

Per Company - Column A x 5.87%

Per Audit - Column A X 5.75%

Note 2

The per audit amount is subject to change based on the Commission's decision concerning Audit Disclosure #7.

45

3350

AUDIT DISCLOSURE NO. 16

**SUBJECT: INTERIM 1995 AND PROJECTED 1996 SALARY & WAGE EXPENSE
Executive Division**

This disclosure is proprietary confidential pending Commission 25-22.006 ruling.

The contents of this disclosure can be found in the confidential binder of this audit engagement.

AUDIT DISCLOSURE NO. 17

SUBJECT: FUTURE PLANT REMAINING IN UTILITY PLANT IN SERVICE

FACTS: The audit staff asked Southern States to reconcile its General Ledger water and sewer Utility Plant in Service balances as of 12-31-94, to those balances in the MFRs.

Southern States began its reconciliation by adding \$34,908,326 of Plant Held for Future Use (Account 103) to booked Utility Plant in Service (Account 101). (See Exception No. 1.)

SSU then reduced this balance by the future use portion relating to county plants \$1,387,592 and the land held for future use amount of \$437,839. The remaining amount reconciled with the SSU Filed Utility Plant in Service Accounts. (#1010)

OPINION: It appears as though there is \$33,082,895 of Plant Held for Future Use remaining in the SSU General Ledger amount which reconciled to the MFR Plant balances. (The future use portions of that reconciliation is extracted in the calculation below.)

| | | FUTURE PLANT ONLY |
|--------------------|------|----------------------|
| Future Use Plant | 1030 | \$34,908,326 |
| Less County Plants | | |
| Future Use | 1030 | (1,387,592) |
| Future Use Land | 1030 | <u>(437,839)</u> |
| Total Remaining | 1030 | \$33,082,895 |

The FPSC Engineers assigned to review Future Use Plant should be aware that SSU feels that according to its classification there is \$33,082,895 of future plant in its filed UPIS balances.

COMPANY COMMENTS: The Company may respond at a later date.

AUDIT DISCLOSURE NO. 18

SUBJECT: ORGANIZATION COSTS

FACTS: Document Request No. 95, dated September 27, was for Organization Cost removal documentation. Southern States provided the information to the audit staff on October 11, 1995.

Document Request No. 114 dated October 11, 1995, was responded to on October 13, 1995, the last day of field work.

OPINION: The audit staff believes that the above is a violation of FPSC Rule No. 25-30.450 Audit Provision. (See Exception 10.)

Due to time considerations, only a judgmental sample of two journal entries of the documentation supplied, by way of Document Request No. 114, could be analyzed. The first was for the removal of \$20,080 of Organization Costs. Of that total, \$17,563 or 87.29% was transferred to other Rate Base accounts. \$1,009 or 5.02% went to Various Expenses and \$1,548 or 7.69% went to Acquisition Adjustment and Nonutility Expenses.

The second transaction analyzed consisted of a twelve-page journal entry to correct Organization Cost Accumulated Depreciation. A total of the regulated Accumulated Depreciation Account (#108.110) net reductions was taken. A total of the offsetting Accumulated Amortization of Acquisition Adjustment Account (#115.00) was taken. The following totals were accumulated from this journal entry for water and sewer combined.

| | | |
|--------|-----------|-------------|
| Debit | # 108.110 | \$ 152,709 |
| Credit | # 115.000 | \$(128,625) |

Given the problems associated with these Journal Entries and the lack of time for analysis, it is recommended that this issue be reviewed further by the Commission.

COMPANY COMMENTS: The Company may respond at a later date.

**SCHEDULE OF WATER RATE BASE - 1996
SUMMARY**

Company: *SSU / Total Company*

Docket No.: 950495-WS

Schedule Year Ended: 12/31/96

Interim Final

Historical Projected

Simple Ave. 13 Month Ave.

Conventional Reverse Osmosis

Explanation: Provide the calculation of average rate base for the test year. Non-used and useful items should be reported as Plant Held for Future Use.

FPSC

Schedule: A-1 (W)

Page 1 of 1

Preparer: Kimball

| Line No. | (1) Description | (2) 1996 AVERAGE RATE BASE | | | (5) Supporting Schedules |
|----------|------------------------------------|----------------------------|----------------------------|---------------------------------|-----------------------------|
| | | (2) Balance Per Books | (3) Utility Adjustments | (4) Adjusted Utility Balance | |
| 1 | Utility Plant in Service | 196,766,605 | (150,322) | 196,616,283 | A-5 (W) |
| 2 | Utility Land & Land Rights | 10,963,115 | 267,155 | 11,230,270 | A-5 (W) |
| 3 | Non-Used and Useful | (11,588,668) | 0 | (11,588,668) | A-7 (W) |
| 4 | Construction Work in Progress | 0 | 0 | 0 | -- |
| 5 | Accumulated Depreciation | (54,541,339) | 1,506,268 | (53,035,071) | A-9 (W) |
| 6 | CIAC | (54,284,419) | 43,542 | (54,240,877) | A-12 (W) |
| 7 | FPSC Margin Reserve - CIAC | 0 | 0 | 0 | A-12 (W) |
| 8 | Accumulated Amortization of CIAC | 13,781,234 | (42,920) | 13,738,314 | A-14 (W) |
| 9 | Acquisition Adjustments | (64,578) | 0 | (64,578) | A-20 (W) |
| 10 | Accumulated Amort. of Acq. Adjust. | 27,526 | 0 | 27,526 | A-20 (W) |
| 11 | Advances for Construction | (6,060,491) | 0 | (6,060,491) | A-16 (W) |
| 12 | Unfunded Post-Retirement Benefits | (837,715) | 0 | (837,715) | Vol. II |
| 13 | Deferred Taxes | 4,172,745 | 0 | 4,172,745 | C-7 (W) |
| 14 | Working Capital Allowance | 4,852,687 | 0 | 4,852,687 | A-17 (W) |
| 15 | Other | 1,319,227 | 0 | 1,319,227 | A-21(W) |
| 16 | TOTAL WATER RATE BASE | <u>104,505,929</u> | <u>1,623,723</u> | <u>106,129,652</u> | |

**SCHEDULE OF SEWER RATE BASE - 1996
SUMMARY**

Company: SSU / Total Company

Docket No.: 950495-WS

Schedule Year Ended: 12/31/96

Interim Final

Historical Projected

Simple Ave. 13 Month Ave.

FPSC Uniform FPSC Non-uniform Non FPSC

Explanation: Provide the calculation of average rate base for the test year. Non-used and useful items should be reported as Plant Held for Future Use.

FPSC

Schedule: A-2 (S)

Page 1 of 1

Preparer: Kimball

| Line No. | (1) Description | 1996 AVERAGE RATE BASE | | | (5) Supporting Schedules |
|----------|------------------------------------|--------------------------|----------------------------|---------------------------------|-----------------------------|
| | | (2) Balance Per Books | (3) Utility Adjustments | (4) Adjusted Utility Balance | |
| 1 | Utility Plant in Service | 159,691,806 | 185,691 | 159,877,497 | A-6 (S) |
| 2 | Utility Land & Land Rights | 4,247,240 | 39,035 | 4,286,275 | A-6 (S) |
| 3 | Non-Used and Useful | (6,100,561) | 0 | (6,100,561) | A-7 (S) |
| 4 | Construction Work in Progress | 0 | 0 | 0 | --- |
| 5 | Accumulated Depreciation | (49,351,075) | 1,104,232 | (48,246,843) | A-10 (S) |
| 6 | CIAC | (59,832,623) | (21,295) | (59,853,918) | A-12 (S) |
| 7 | FPSC Margin Reserve - CIAC | 0 | 0 | 0 | A-12 (S) |
| 8 | Accumulated Amortization of CIAC | 17,711,308 | 0 | 17,711,308 | A-14 (S) |
| 9 | Acquisition Adjustments | (519,787) | 0 | (519,787) | A-20 (S) |
| 10 | Accumulated Amort. of Acq. Adjust. | 225,555 | 0 | 225,555 | A-20 (S) |
| 11 | Advances for Construction | (1,790,534) | 0 | (1,790,534) | A-16 (S) |
| 12 | Unfunded Post-Retirement Benefits | (379,180) | 0 | (379,180) | Vol. II |
| 13 | Deferred Taxes | 662,509 | 0 | 662,509 | C-7 (S) |
| 14 | Working Capital Allowance | 2,196,500 | 0 | 2,196,500 | A-17 (S) |
| 15 | Other | 3,268,584 | 0 | 3,268,584 | A-21(S) |
| 16 | TOTAL SEWER RATE BASE | <u>70,029,741</u> | <u>1,307,663</u> | <u>71,337,404</u> | |

SCHEDULE OF WATER NET OPERATING INCOME - 1996
PRESENT AND REQUIRED

Company: SSU / Total Company
Docket No.: 950495-WS
Schedule Year Ended: 12/31/96
Interim Final
Historical Projected
Simple Ave. 13 Month Ave.
Conventional Reverse Osmosis

Explanation: Provide the calculation of net operating income for the test year.
If amortization (line 8) is related to any amount other than an acquisition adjustment,
submit an additional schedule showing a description and calculation of charge.

FPSC
Schedule: B-1(W)
Page 2 of 3
Preparer: Kimball
Supporting Schedule: B-3(W)

| Line No. | (1) Description | (2) 1996 PRESENT OPERATING INCOME | | | (5) 1996 REQUIRED OPERATING INCOME | | | (8) Supporting Schedules |
|----------|--------------------------------|-----------------------------------|----------------------------|--------------------------------|------------------------------------|----------------------------------|------------------------------------|-----------------------------|
| | | (2) Income Per Books | (3) Utility Adjustments | (4) Utility Adjusted Income | (5) Required Revenue Increase | (6) Required Revenue Increase | (7) Required Revenue Increase % | |
| 1 | OPERATING REVENUES: | | | | | | | |
| 2 | Water Sales | 32,412,721 | 0 | 32,412,721 | 11,445,530 | 43,858,251 | 35.31% | B-4(W),B-3(W) |
| 3 | Other Revenue | 636,085 | 0 | 636,085 | 0 | 636,085 | | B-4(W) |
| 4 | TOTAL OPERATING REVENUES | 33,048,806 | 0 | 33,048,806 | 11,445,530 | 44,494,336 | | |
| 5 | OPERATING EXPENSES: | | | | | | | |
| 6 | Operation and Maintenance | 19,112,878 | 781,810 | 19,894,688 | 0 | 19,894,688 | | B-5(W) |
| 7 | Depreciation net of CIAC Amort | 5,719,041 | 0 | 5,719,041 | 0 | 5,719,041 | | B-13(W) |
| 8 | Amortization | (689) | 293,162 | 292,473 | 0 | 292,473 | | B-18(W), A-21(W) |
| 9 | Taxes Other Than Income | 4,283,378 | 53,763 | 4,337,141 | 515,051 (A) | 4,852,192 | | B-15(W),B-1(W)3/3 |
| 10 | Provision for Income Taxes | (961,346) | (468,542) | (1,429,889) | 4,216,431 (B) | 2,786,542 | | B-16(W),B-1(W)3/3 |
| 11 | TOTAL OPERATING EXPENSES | 28,153,262 | 660,192 | 28,813,454 | 4,731,482 | 33,544,936 | | |
| 12 | NET OPERATING INCOME | 4,895,544 | (660,192) | 4,235,352 | 6,714,048 | 10,949,400 | | |
| 13 | RATE BASE | 104,505,929 | 1,623,723 | 106,129,652 | | 106,129,652 | | A-1(W) |
| 14 | RATE OF RETURN | 4.68% | | 3.99% | | 10.32% | | D-1(W) |

Notes:

(A) Required Taxes Other Than Income Increase = Required Revenue Increase multiplied by .045.

(B) Required Income Taxes Increase = Required Revenue Increase - Required Taxes Other Than Income Increase multiplied by .38575.

**SCHEDULE OF SEWER NET OPERATING INCOME - 1996
PRESENT AND REQUESTED**

Company: SSU / Total Company

Docket No.: 950495-WS

Schedule Year Ended: 12/31/96

Interim Final

Historical Projected

Simple Ave. 13 Month Ave.

FPSC Uniform FPSC Non-uniform Non FPSC

Explanation: Provide the calculation of net operating income for the test year.

If amortization (line 8) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

FPSC

Schedule: B-2(S)

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Preparer: Kimball

Supporting Schedule: B-3(S)

| Line No. | (1) Description | 1996 PRESENT OPERATING INCOME | | | 1996 REQUESTED OPERATING INCOME | | | (8) Supporting Schedules |
|----------|--------------------------------|-------------------------------|----------------------------|--------------------------------|-----------------------------------|-------------------------|-------------------------------------|-----------------------------|
| | | (2) Income Per Books | (3) Utility Adjustments | (4) Utility Adjusted Income | (5) Requested Revenue Increase | (6) Requested Income | (7) Requested Revenue Increase % | |
| 1 | OPERATING REVENUES | | | | | | | |
| 2 | Sewer Sales | 24,732,910 | 0 | 24,732,910 | 7,214,608 | 31,947,518 | 29.17% | B-4(S),B-3(S) |
| 3 | Other Revenue | 0 | 0 | 0 | 0 | 0 | | B-4(S) |
| 4 | Total Operating Revenue | 24,732,910 | 0 | 24,732,910 | 7,214,608 | 31,947,518 | | |
| 5 | OPERATING EXPENSES | | | | | | | |
| 6 | Operation and Maintenance | 15,016,503 | 493,167 | 15,509,691 | 0 | 15,509,691 | | B-6(S) |
| 7 | Depreciation net of CIAC Amort | 4,203,210 | 0 | 4,203,210 | 0 | 4,203,210 | | B-14(S) |
| 8 | Amortization | (11,655) | 131,328 | 119,673 | 0 | 119,673 | | B-18(S),A-21(S) |
| 9 | Taxes Other than Income | 3,322,861 | 14,138 | 3,336,999 | 324,659 (A) | 3,661,658 | | B-15(S),B-2(S)3/3 |
| 10 | Provision for Income Taxes | (861,294) | (702,379) | (1,563,673) | 2,657,799 (B) | 1,094,126 | | B-17(S),B-2(S)3/3 |
| 11 | Total Operating Expenses | 21,669,626 | (63,726) | 21,605,900 | 2,982,458 | 24,588,358 | | |
| 12 | NET OPERATING INCOME | <u>3,063,284</u> | <u>63,726</u> | <u>3,127,010</u> | <u>4,232,150</u> | <u>7,359,160</u> | | |
| 13 | RATE BASE | <u>70,029,741</u> | <u>1,307,663</u> | <u>71,337,404</u> | | <u>71,337,404</u> | | A-2(S) |
| 14 | RATE OF RETURN | <u>4.37%</u> | | <u>4.38%</u> | | <u>10.32%</u> | | D-1(S) |

Notes:

(A) Requested Taxes Other Than Income Increase = Requested Revenue Increase multiplied by .045.

(B) Requested Income Taxes Increase = Requested Revenue Increase - Requested Taxes Other Than Income Increase multiplied by .38575.

SCHEDULE OF REQUESTED COST OF CAPITAL - 1996

Company: Southern States Utilities, Inc.

FPSC

Docket No: 950495 - WS

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

Schedule: D-1

Test Year Ended: 12/31/96

Page 1 of 1

Interim Final

Preparer: Scott W. Vierma

Historic or Projected

Simple Average 13 Month Average

| COST OF CAPITAL | | | | | | |
|-----------------|-----------------------|-----------------------------------|----------------|-----------|---------------|----------------------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| Line No. | Class of Capital | Reconciled To Requested Rate Base | Ratio | Cost Rate | Weighted Cost | Supporting Schedules |
| 1 | LONG TERM DEBT | 118,535,363 | 58.40% | 9.06% | 5.29% | D-5 |
| 2 | SHORT TERM DEBT | 0 | 0.00% | 0.00% | 0.00% | D-4 |
| 3 | CUSTOMER DEPOSITS | 1,753,184 | 0.86% | 6.00% | 0.05% | D-7 |
| 4 | DEFERRED ITC | 1,335,813 | 0.66% | 9.68% | 0.06% | D-5a |
| 5 | DEFERRED INCOME TAXES | 0 | 0.00% | 0.00% | 0.00% | D-5a |
| 6 | PREFERRED STOCK | 0 | 0.00% | 0.00% | 0.00% | D-3 |
| 7 | EQUITY | 82,821,786 | 40.81% | 12.25% | 5.01% | D-5a |
| 8 | ADJUSTMENT FOR GAS | (1,481,000) | (0.73%) | 12.25% | (0.09%) | D-5a |
| 9 | TOTAL | <u>202,965,146</u> | <u>100.00%</u> | | <u>10.32%</u> | |