

DOCKET NO.: 950495-WS - [Southern States Utilities, Inc.]

WITNESS: Direct Testimony of Jeffrey A. Small, Appearing On Behalf
of the Staff of the Florida Public Service Commission, Division of
Auditing and Financial Analysis

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FPSC-RECORDS/REPORTING

1 DIRECT TESTIMONY OF JEFFERY A. SMALL

2 Q. Please state your name and business address.

3 A. My name is Jeffery A. Small and my business address is Hurston North
4 Tower, Suite N512, 400 W. Robinson Street, Orlando, Florida.

5 Q. By whom are you presently employed and in what capacity?

6 A. I am employed by the Florida Public Service Commission as a Regulatory
7 Analyst II in the Division of Auditing and Financial Analysis.

8 Q. How long have you been employed by the Commission?

9 A. I have been employed by the Florida Public Service Commission for two
10 years.

11 Q. Briefly review your educational and professional background.

12 A. I have a Bachelor of Science degree in Accounting from the University
13 of South Florida. I was hired as a Regulatory Analyst I by the Florida Public
14 Service Commission January 1994. I am also a Certified Public Accountant
15 licensed in the State of Florida.

16 Q. Please describe your current responsibilities.

17 A. Currently, I am a Regulatory Analyst II with the responsibilities of
18 participating as a staff auditor in a large team effort and working
19 unaccompanied as an audit manager or team leader directing a small audit
20 staff. I am also responsible for modifying standard audit work programs to
21 accomplish stated audit objectives.

22 Q. What is the purpose of your testimony today?

23 A. The purpose of my testimony is to sponsor specific findings in the staff
24 audit report of Southern States Utilities, Inc., Docket No. 950495-WS. I am
25 sponsoring Audit Exceptions 4 through 6, and Audit Disclosures 4 through 11.

1 15, and 16. These findings are filed with my testimony and are identified as
2 JAS-1.

3 Q. Please review the audit exceptions you are sponsoring.

4 A. Audit Exceptions disclose substantial non-compliance with the Uniform
5 System of Accounts, a Commission rule or order, Staff Advisory Bulletins, and
6 formal company policy. Audit Exceptions also disclose company exhibits that
7 do not represent company books and records and company failure to provide
8 underlying records or documentation to support the general ledger or exhibits.

9 Audit Exception No. 4 recommends two adjustments related to the Marco
10 Shores system's purchase of water from the Marco Island system. The first
11 adjustment is to state the projected revenues using projected consumption and
12 rates, instead of historical consumption and rates. The second adjustment is
13 to reflect the reduction of reportable revenues for purposes of calculating
14 the regulatory assessment fees payable to the Commission.

15 Audit Exception No. 5 recommends the removal of shareholder services
16 expenses allocated from Minnesota Power. In a Tampa Electric Company rate
17 case, Commission Order No. 11307 states the following:

18 Stockholder relations expenses are incurred for activities related
19 to image building and good will. This type of expense is not
20 normally allowed by this Commission if incurred by a utility.
21 This type of expense should be disallowed if incurred by a parent
22 and passed through to subsidiary companies.

23 Therefore, based on this past Commission action, I recommend that these
24 expenses be removed. The audit workpapers supporting this exception are
25 attached as JAS-2.

1 Audit Exception No. 6 discusses the utility's write-off of \$19,143 for
2 an abandoned Preliminary Survey and Investigation project. The utility
3 recorded this amount in Contractual Services - Other. I believe that this is
4 incorrect. I recommend that this amount be charged to either Miscellaneous
5 Expense or Miscellaneous Non-utility Expense.

6 Q. Please review the audit disclosures you are sponsoring.

7 A. Audit Disclosures disclose material facts that are outside the
8 definition of an Audit Exception.

9 Audit Disclosure No. 4 discusses the Seaboard system in Hillsborough
10 county and my concern regarding the utility plant in service included in rate
11 base. The utility purchases water from the City of Tampa via Hillsborough
12 County in accordance with a specific water purchase agreement. These
13 purchases equal approximately 62% of the water sold. The utility includes all
14 original plant in service as well as all the cost associated with the
15 construction of the interconnect with Hillsborough County.

16 Audit Disclosure No. 5 discusses the recorded sludge hauling expense for
17 the Beecher Point and Palm Port systems. This expense should be identified
18 as a Purchased Sewage Treatment Expense rather than sludge hauling. In
19 addition the expense should not be treated as a recurring O&M expense because
20 a more cost effective method should be developed.

21 Audit Disclosure No. 6 discusses an audit request regarding the
22 elasticity adjustment. The utility stated the information requested would
23 have to be provided by Dr. Whitcomb. Therefore, I did not review the
24 elasticity adjustment.

25 Audit Disclosure No. 7 discusses the utility's conservation expenses and

1 | makes certain comparisons with the way these expenses are incurred and
2 | recorded and those for the electric and gas industries. Generally, I
3 | recommend that conservation programs should be approved in advance and only
4 | expenses specifically related to those approved programs should be charged to
5 | conservation. The audit workpapers related to this disclosure are attached
6 | as JAS-3.

7 | Audit Disclosure No. 8 recommends that the purchased power expense for
8 | the Deltona Lakes system be reduced. The utility has consistently over
9 | budgeted for this expense. Since 1992, the utility has over budgeted an
10 | average of 20.48%. The audit workpapers related to this disclosure are
11 | attached as JAS-4.

12 | Audit Disclosure No. 9 recommends that the purchased water expense for
13 | the Volusia/Enterprise system be reduced. The utility operates this system
14 | under a receivership agreement with the Commission. The water sold to this
15 | system from the Deltona Lakes system should not be included in the MFRs for
16 | this rate case.

17 | Audit Disclosure No. 10 recommends that the projected expenses for a
18 | Hurricane Preparedness program are non-recurring expenses and should be
19 | amortized over five years.

20 | Audit Disclosure No. 11 recommends that the projected expenses for the
21 | Hepatitis Immunization program are non-recurring and should be amortized over
22 | five years. The audit workpapers related to this disclosure are attached as
23 | JAS-5.

24 | Audit Disclosure No. 15 recommends that the projected salary expense
25 | should be reduced to correct an error in the attrition adjustment calculation.

1 | The utility stated that the attrition adjustment for 1996 should be 5.75%, not
2 | the 5.87% included in the MFRs.

3 | Audit Disclosure No. 16 discusses the salary expense for the Executive
4 | Division.

5 | Q. Does this conclude your testimony?

6 | A. Yes, it does.

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