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October 24, 1996

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Ms. Blanca S. Bayó
Director, Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Lake Utility Services, Inc.
Response to Audit Report
Docket No. 960444-WU

Dear Ms. Bayó:

Enclosed for filing on behalf of Lake Utility Services, Inc.
are the original and fifteen copies of its response to the
staff's audit report.

If you have any questions about this filing, please call.

Very truly yours,



Richard D. Melson

ACK _____
AFA 1 RDM/mee
APP _____ Enclosure
CAF _____ cc: Tim Vaccaro
CMU _____ ,Marshall Willis
CTR _____ Mark Kramer
EAG _____
LEG 1
LIN 3
OPC _____
ROH _____ 84750.1
SEC 11
WAS Willis
OTH _____

DOCUMENT NUMBER-DATE
11050 OCT 24 88
FPSC-RECORDS/REPORTING

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Audit Exception Number 3

Subject: Utility Plant-In-Service

Included among the staff's recommended reductions is the removal of \$12,171 of organizational expense. This amount relates to the cost of forming the corporation, Lake Utility Services, Inc., which was approved by the Florida Public Service Commission in Order No. 24139 and should properly be included in plant-in-service.

\$24,786 related to automobiles was not included in transportation in plant-in-service. Attached is a schedule of automobiles and accumulated depreciation for the test year. In addition, staff removed depreciation expense associated with these vehicles. These costs are proper business expenses.

In conjunction with **Audit Exception 12**, the initial construction contract for the Vistas needs to be reviewed. The contract, which acts as an invoice, specifically states that LUSI is purchasing the water supply and storage system for \$16,500. Further, "additional purchase payments for the construction and installation of the water distribution facilities" totaling \$59,800 will be made. The company did not account for the \$59,800 properly in our acquisition adjustment, and Staff removed the \$16,500 from plant in service.

The correct acquisition entry that should have been made is the following: (The division between wells and springs and distribution reservoirs was arbitrarily made using a 50-50 split.)

Wells and Springs	\$8,250	
Distribution Reservoirs	8,250	
Trans and Distrib Mains	59,800	
Advances in Aid of Const		\$59,800

Payments made to the developer since the inception of the system should be reflected:

Advances in Aid of Const	\$12,850	
Cash		\$12,850

The effect on the books of LUSI would be to increase plant for the construction price of the system, \$76,300, with a corresponding net increase to advances in aid of construction of \$46,950. The difference represents the \$16,500 of the construction project paid by the utility at its inception, and the \$12,850 paid by the utility to the current date.

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Audit Exception Number 6

Subject: Non-utility Insurance Premiums

The company purchased liability insurance for its officers and directors. Most corporations carry similar insurance, which is a cost of attaining talented individuals for these positions. This is a proper business expense and should be recoverable.

Audit Exception Number 7

Subject: Payroll Taxes

The company includes payroll taxes in calculating a capitalized rate for operators. Staff's proposed adjustment would not allow the utility to recover the payroll taxes associated with capitalized time.

The calculation of the capitalized rate includes: salary, payroll taxes and benefits. The Staff of this Commission and several other jurisdictions have reviewed these entries in numerous other audits of affiliated companies and determined that they were in accordance with proper accounting treatment.

The company properly accounted for payroll taxes in its capitalized rate and an adjustment is unnecessary and improper.

Audit Exception Number 9

Subject: Unsupported O&M expenses

All of the company's journal entries have appropriate support documentation. In the case of the Staff's proposed adjustment, an error occurred in the accrual process, not in lacking appropriate support.

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Audit Exception Number 12

Subject: CIAC and Advances

CIAC and Advances should be adjusted related to the Vistas as discussed in **Audit Exception Number 3** above.

The Staff proposes to increase CIAC \$65,050 in Crescent West to reflect a beginning balance determined in Order No. 22303, prior to LUSI's purchase of the assets. LUSI purchased the assets on 7/1/88.

The CIAC reported in Order No. 22303 may not have been attributed to the plant in question. The company should not be penalized for the CIAC collected by another entity that previously owned similar assets.

An adjustment to CIAC for Order No. 22303 is not proper.

The Staff made an adjustment to increase CIAC \$48,463 in Lake Saunders Acres. The company, after deliberation and negotiation with the Staff, agrees with this adjustment. However, in conjunction with this adjustment the company's plant acquisition adjustment was to be removed.

Our response to Staff Data Request Number 13 included the following:

"The Florida Public Service Commission has not approved a negative acquisition adjustment.

No extraordinary circumstances exist to necessitate the recording of a negative acquisition adjustment."

The purchase acquisition adjustment recorded on the company's books and reflected in the MFRs already accounts for the "CIAC" the Staff is attempting to provide for in its proposed adjustment. By not removing the PAA, the company is reducing rate base twice for the same contributions received.

Consequently, LUSI hereby rescinds its requests for permission of an acquisition adjustment in LUSI which is reflected in the books and records of the utility as well as the MFRs of the corresponding rate case.

The Staff proposes to increase CIAC by \$188,000 and Advances in Aid of Construction by \$406,000. It is appropriate to record deferred income taxes in conjunction with these adjustments. Please ensure that the final proposed adjustments to these accounts are reflected in deferred income taxes.

Lake Utility Services, Inc.

Autos

<u>Name of Operator</u>	<u>Percentage Allocated to LUSI</u>	<u>Purchase Date</u>	<u>Serial Number</u>	<u>Original Cost</u>	<u>A/D @ 12/31/95</u>	<u>Allocated to LUSI</u>	
						<u>Original Cost</u>	<u>A/D @ 12/31/95</u>
William Secoy	100.00%	1/17/94	1GCCS14Z1R8132477	11,360	(8,437)	11,360	(8,437)
Jay Aldrich	100.00%	12/20/93	1GCCS14Z1R8146153	11,444	(8,060)	11,444	(8,060)
Mike Dunn	3.92%	1/1/91	1FACP5245MA165196	15,200	(12,460)	596	(488)
Dave Zusi	3.92%	3/22/95	1FALP52U8SA263362	17,125	(3,060)	671	(120)
Don Rasmussen	3.92%	5/12/92	1G1BN53E6NW142462	18,239	(9,410)	715	(369)
Total				73,368	(41,427)	24,786	(17,474)