


M E M O R A N D U M

November 5, 1998

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) 

RE: DOCKET NO. 980214-WS -- UNITED WATER FLORIDA, INC.
REVISED RATE CASE AUDIT REPORT - PROJECTED TEST YEAR ENDED 12/31/99
AUDIT CONTROL NO. 98-169-1-1

The above-referenced revised 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.

Please forward a complete copy of this audit report to:

United Water Florida, Inc.
Gary R. Moseley
P. O. Box 8004
Jacksonville, FL 32239-0004

DNV/sp

Attachment

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

Research and Regulatory Review (Harvey)
Office of Public Counsel

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING

Tallahassee District Office

United Water Florida, Inc.

Rate Case

(REVISED)

PROJECTED TEST YEAR ENDED December 31, 1999

DOCKET NO. 980214-WS
AUDIT CONTROL NO. 98-169-1-1

Robert T. Moore

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DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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REVISED 11/4/98

**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT**

September 4, 1998

(REVISED REPORT - NOVEMBER 4, 1998)

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

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure for the projected 12-month period ended December 31, 1999, for United Water Florida, Inc. These schedules were prepared by the utility as part of its petition for rate relief in Docket No. 980214-WS. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should 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.

In our opinion, the schedules referred to above present fairly, in all material respects, the utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

SUMMARY OF SIGNIFICANT FINDINGS

Documentation provided by the Utility, to support preparation of schedules in the Minimum Filing Requirements (MFRs), was not provided in a systematic and rational manner. The Utility deducts fully depreciated plant from total plant prior to computing depreciation expense. Retained earnings, Deferred Taxes, and Working Capital Allowance in the MFRs do not reconcile to the Utility's books and records. The utility's projected Purchased Sewage Treatment Expense is overstated. The Allowance for Funds Used During Construction (AFUDC) rate exceeded the Commission allowed rate.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

RATE BASE: Reconciled plant to the books and records of the Company. Tested by judgmental sample closed Construction on Work In Progress (CWIP) additions to Plant in Service (sampled 8 percent of total 1996 and 1997 closed CWIP plant additions totaling \$24,180,093). Reconciled prior Order adjustments to the books and records. Scanned 1997 plant in service. Performed analytical review on selected rate base accounts. Scanned selected Capital Expenditure Authorizations for proper AFUDC rates. Compared utility depreciation rates used to rule rates and last order. Investigated debit balances in accumulated depreciation. Attempted to recompute Depreciation Expense. Compiled working capital accounts from the general ledger.

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NET OPERATING INCOME: Compiled revenues and expenses. Traced revenues, customers, and bills from MFR schedules to General Ledger and Billing Records. Prepared schedules from the Monthly Revenue Summary schedules and Revenue Journal entries to develop total consumption. Summarized the Sunray customers, revenues, and consumption that were not included in the historic billing records for United Water Florida. Recomputed several utility bills and compared rates to the tariff. Performed analytical review on selected expense accounts. Investigated projections and support for large increases. Determined the proper rates for Purchased Sewage Treatment expense. Studied the detail of rate case expense for prior rate case, limited proceeding, and current rate case. Observed property tax bills for selected systems.

CAPITAL STRUCTURE: Attempted to reconcile capital structure. Reconciled prior order adjustments to the books and records. Performed analytical review on selected capital structure accounts.

EXCEPTIONS

Exception No. 1

Subject: Burden of Proof and Audit Provisions

Statement of Fact: Rule 25-30.450, Florida Administrative Code (F.A.C.) states, ". . . 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. The supporting work sheets, etc., shall list all reference sources necessary to enable Commission personnel to trace to original source of entry into the financial and accounting system and, in addition, verify amounts to the appropriate schedules." The worksheets and other data supporting the MFR schedules, as provided by United Water of Florida, Inc., were not provided in a systematic and rational manner. In addition, audit staff was unable to verify the MFR schedules in an expedient manner.

The audit staff attempted, numerous times, to obtain supporting documentation for the utility's MFR schedules. The utility, in most cases, insufficiently answered audit document requests. At other times, the utility was late responding or failed to answer document requests until after the end of audit field work. Further, on one occasion, the utility provided the audit staff with copies of MFR schedules in response to requests for worksheets to support other MFR schedules.

A great deal of the problems the utility had in providing documentation was the recent implementation of a new computer system. Utility personnel experienced difficulties in extracting information, in hard copy form, from the computer. The utility was late responding to approximately 25% of the audit document requests.

The audit staff is sympathetic to the utility's frustration with its new computer system. The fact remains that the utility petitioned this Commission for test year approval and subsequently prepared and filed MFRs. Since the MFRs were prepared by utility personnel, it is reasonable to expect the utility would have the worksheets and supporting documentation the utility used to prepare the MFRs readily available. These worksheets and supporting documentation should have been provided to the audit staff. Instead, the utility kept trying to create new or generate reports from its computer system. These newly generated utility reports frequently had conflicting account balances which the utility failed to reconcile. As a result, the effectiveness of the audit has been reduced.

Recommendation: The company did not comply with Rule 25-30.450, F.A.C.

Exception No. 2

Subject: Plant in Service

Statement of Fact: Commission Order No. PSC-97-0618-FOF-WS, issued May 30, 1997 in Docket No. 960451-WS, ordered the utility to

“comply with Rule 25-30.115(1), Florida Administrative Code, by either keeping its accounts in accordance with the National Association of Regulatory Commissioners' (NARUC) Uniform System of Accounts, or by providing a reliable conversion chart which will map its own accounts to those prescribed by NARUC.”

The USoA required by rule 25-30.115(1), Florida Administrative Code also requires:

- “each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts relevant thereto.” (Instruction 2)
- "each utility shall keep its books on a monthly basis." (Instruction 4)
- “each . . . account shall be subdivided as shown in the plant account matrix” (i.e., use NARUC Accounts 301-348 to subdivide the 101 plant account) (Instruction 32)

The utility provided the audit staff with a report presented in the plant account matrix format. This report contained ending balances for NARUC Accounts 301-348. For the test year ended December 31, 1997, the audit staff was able to agree the ending balances reflected in the company report to the utility’s plant Account 101, reflected in the general ledger. However, the audit staff had an extremely difficult time agreeing the books and records to the MFRs because of the different balances for plant in service and plant additions which were reflected in the various reports received from the utility. In addition, the utility’s books and records did not incorporate adjustments which were reflected in the MFRs.

Recommendation: The utility is not in compliance with the NARUC USoA.

Exception No. 3

Subject: Depreciation Expense

Statement of Fact: Rule 25-30.140(3), Florida Administrative Code (F.A.C.) states "average service life depreciation rates based on the guideline lives and salvages shall be used in any proceeding before this Commission that involve the setting of rates." The rule also defines Average Service life as the "economic service life that can be reasonably expected from the plant type in question."

United Water Florida, Inc. excludes fully depreciated plant from its depreciation calculations. This method is permissible under unit depreciation. Rule 25-30.140(4), Florida Administrative Code, states that "utilities shall maintain depreciation rates and reserve activity by account." The audit staff believes this requires group depreciation practices which do not permit the exclusion of fully depreciated plant from depreciation calculations.

The audit staff tried to ascertain which accounts contained fully depreciated plant but was unable to do so. However, audit staff did determine the 1997 ending balances in Flow Measuring Devices (Account 364.2) and Transportation Equipment (Account 391.5) contain fully depreciated plant which the utility excluded from their depreciation calculation. It is unclear if additional plant accounts contain fully depreciated plant which was excluded from the depreciation expense calculation.

Also, during the audit staff's reconciliation of the utility's books and records to the MFRs, it was discovered that significant amounts of the ending 1997 plant account balances as reconciled to the general ledger differed from those balances reported in the MFRs. Although the total plant as reported in the MFRs reconciles to the books and records, the individual plant accounts have audited differences.

The differences result from the utility reclassifying plant accounts as reflected on the utility's books and records for MFR presentation. One would expect that the booked depreciation expense should differ from the depreciation expense in the MFRs if the utility is reclassifying plant accounts with different depreciation rates; however, the booked depreciation expense agrees to the expense reported in the MFRs.

Recommendation: The Utility does not comply with Rule 25-30.140, F.A.C.

Exception No. 4

Subject: Capital Structure

Statement of Fact: Minimum Filing Requirements (MFR) Schedule D-2a for 1997 reflects an ending balance of \$25,991,361 for retained earnings. The General Ledger provided by the utility shows an ending balance of \$23,212,430. Staff also found similar differences for the deferred tax balance.

The differences in the ending balances at December 31, 1997 for the MFR schedule compared to the Company's records is shown below:

Account	MFR	General Ledger	Difference
Retained Earnings	\$25,911,361	\$23,212,430	(\$2,698,931)
Deferred Taxes Liberalized Depreciation	\$1,799,426	\$5,456,073	\$3,656,646
Deferred Taxes - Other	\$0	\$160,398	\$160,398

The utility was unable to reconcile the differences.

Recommendation: The utility's MFR balances for retained earnings and deferred taxes do not reconcile to the utility's books and records.

DISCLOSURES

Disclosure No. 1

Subject: Purchased Sewage Treatment --- Projections

Statement of Fact: In 1997, United Water Florida, Inc. recorded \$222,590 to NARUC Account 710 for purchased sewage treatment. The utility projected \$476,652 for 1998 and \$488,233 for 1999. These projections represent an increase over 1997 of \$254,062 for 1998 and \$265,643 for 1999.

The utility, justifies its projection by stating that sewage flows in St. Johns, Nassau, and Duval counties are increasing. However, audit review of the historical trends indicates that sewage flows have decreased. In 1996 the flows decreased by 5 percent (7,372,000 gallons) and in 1997, the flows decreased by 10 percent (15,382,000 gallons.)

Projected 1998 and 1999 amounts for Account 710, Purchased Sewage Treatment, should be less than the 1997 recorded costs of \$222,590 because the sewage flows have fallen, not increased.

Recommendation: The utility's projected sewage treatment expense should not include increased flows.

Disclosure No. 2

Subject: Purchased Sewage Treatment --- Rebates

Statement of Fact: In 1997, the Utility recorded \$222,590 in purchased sewage treatment charges to NARUC Account 710, and charges totaling \$14,156 were charged to four other accounts. The total purchased sewage treatment expense recorded was \$236,744.

Out of 16 invoices, seven invoices contained rebates that totaled \$74,916. These rebates were not recorded on the utility's books nor included in test year projections. As an example, Voucher No. 1914 was recorded in Misc. Expense- Sewer Treatment & Pumping, Account 744 for \$14,012.15. The invoice indicated a previous balance of \$13,798.13 and a rebate for the same amount. Merriam Webster's dictionary defines rebate as "a return of a part of a payment." The utility's position was the rebate was a billing adjustment and should not be recorded.

Recommendation: The utility's test year expense is overstated.

Disclosure No. 3

Subject: Allowance For Funds Used During Construction (AFUDC)

Statement of Fact: The audit staff sampled voucher charges to 26 construction projects in 1996 and 42 projects in 1997. All projects accruing AFUDC that we reviewed were using rates in excess of the Commission authorized rate of 11.12% (monthly discounted rate of .882543%.) Commission Order No. 21492 issued June 30, 1989 in Docket No. 890466-WS established this rate.

The new rate of 9.57% (monthly discounted rate of .79704%) approved in order PSC-97-0618--FOF-WS, issued May 30, 1997, became effective January 1, 1998.

Recommendation: The utility did not use the correct AFUDC rate established by Order No.21492.

Disclosure No. 4

Subject: Sampling Units without Supporting Documentation

Statement of Fact: The audit staff judgementally sampled invoices and vouchers charged to 26 construction projects in 1996 and to 42 projects in 1997.

Thirty-eight percent of the amounts sampled were not supported by documentation. The total amount of unsupported charges booked into plant in service in 1996 are \$96,052 and in 1997, are \$493,989. Total unsupported invoice/vouchers booked into plant in service equal \$590,041.

Recommendation: The utility's plant in service should be reduced by \$590,041.

Disclosure No. 5

Subject: Purchased Sewage Treatment --- Incorrect Tariff Projected

Statement of Fact: In 1997, total purchased sewage treatment expense was \$236,744.

Schedule G-20 projects 1998 and 1999 purchased sewage treatment charges. This schedule uses a factor for cost per each thousand gallons of sewage of \$2.51. The utility derived this cost from an outdated tariff for \$1.88 per hundred cubic feet.

The audit staff recalculation of several bills shows JEA billed the utility in 1997 at the rate of \$1.74 per hundred cubic feet. The governing tariff shows \$1.74 as the current tariff rate. Further, JEA confirmed the current tariff is frozen for five years beginning 1997.

Recommendation: Projected purchased sewage treatment expense is overstated.

Disclosure No. 6

Subject: Historic Test Year revenues

Statement of Fact: MFR Schedule E-2 includes bills and revenues for the Sunray/United Water Florida customers during 1997. Commission Order PSC-97-0928-FOF-WS dated August 4, 1997, in Docket No. 970209-WS, approved the transfer of Sunray Utilities, Inc. - Nassau and approved implementation of UWF's existing rates and charges. Commission Order PSC-97-0929-FOF-WS, dated August 4, 1997, in Docket No. 970210-WS, approved rates and charges for Sunray Utilities, Inc. - St. Johns. The utility began including the residential customers of Sunray as part of its monthly billing in December 1997.

Recommendation: The historic test year ended December 31, 1997 did not include customers, revenues, and consumption in Schedule E-2. The following tables reflect this information for water and wastewater:

	WATER		
	<u>Bills</u>	<u>Revenues</u>	<u>Consumption (mg)</u>
January 1997	184	10,072	3,995
February 1997	196	13,620	5,090
March 1997	203	13,242	4,743
April 1997	209	16,210	6,647
May 1997	216	16,854	7,009
June 1997	210	16,935	7,142
July 1997	222	16,052	6,428
August 1997	227	16,417	6,655
September 1997	237	15,618	5,983
October 1997	242	17,752	7,398
November 1997	257	17,639	7,188
December 1997	<u>33</u>	<u>12,204</u>	<u>5,523</u>
TOTAL	<u>2,436</u>	<u>182,615</u>	<u>73,801</u>

WASTEWATER

	<u>Bills</u>	<u>Revenues</u>	<u>Consumption (mg)</u>
January 1997	179	14,130	3,625
February 1997	186	11,743	2,480
March 1997	191	11,819	2,272
April 1997	196	12,313	2,900
May 1997	203	12,536	3,082
June 1997	199	12,540	3,242
July 1997	210	12,311	2,767
August 1997	215	12,773	2,921
September 1997	225	13,222	2,921
October 1997	230	13,787	3,644
November 1997	243	14,505	3,739
December	<u>23</u>	<u>13,644</u>	<u>1,763</u>
TOTAL	<u>2,300</u>	<u>155,323</u>	<u>35,356</u>

Disclosure No. 7

Subject: Investment Tax Credit Cost Rate

Statement of Fact: The utility includes investment tax credits (ITCs) of \$1,141,661, with an associated weighted cost rate of 8.84% in the projected capital structure schedule as part of its minimum filing requirements (MFRs). MFR Schedule C-7, page 3 states that a copy of the utility's election made under Section 46(f), Internal Revenue Code (IRC) will be provided at a later date. A copy of this election would allow the utility to include ITCs in the capital structure with an associated cost rate. In the utility's last rate proceeding (Docket No. 960451 -WS, Order No. PSC-97-0618-FOF-WS), ITCs were included in the capital structure with an associated cost rate of zero.

Recommendation: The utility's capital structure should include ITCs at zero cost unless the utility can provide justification (a copy of the election made under Section 46(f), Internal Revenue Code) for the inclusion of a cost rate for its ITCs.

Disclosure No. 8

Subject: Working Capital Allowance

Statement of Fact: Minimum Filing Requirement (MFR) Schedule A-17 reflects Working Capital to be \$4,763,343 for the year ending December 31, 1998. The audit staff noted several differences between the MFR and the General Ledger. These differences are noted below:

Account	Description	MFR	General Ledger	Difference
174	Miscellaneous Current Assets	\$98,430	\$0	(\$98,430)
162	Prepayments	\$0	\$33,393	\$33,393
186.601	Deferred Tank Painting Expense	\$1,132,413	\$202,646	(\$929,767)

Recommendation: The MFRs do not agree with the General Ledger.

Disclosure No. 9

Subject: Operating Expenses

Statement of Fact: Operating expenses for the historic year ended 1997 were examined. The audit staff scanned the utility's general ledger detail and selected a judgmental sample of entries based on the transaction description. The audit staff found a few items that seemed inappropriate for inclusion in the utility's expenses, but the amounts were immaterial. Large dollar amounts were examined, and the utility was asked to provide supporting documentation. The audit staff examined the transactions along with the supporting documentation and a few discrepancies were noted. The discrepancies are as follows:

Item No.	Co. Account No. (NARUC Acct.)	Period	Journal ID	Transaction Description	Amount
1	904000 (670.7)	07	029A	Uncollectible accounts	\$43,740.38
2	905000 (675)	04	AP00008499	None given	\$15,487.46
3	921110 (675)	02	AP00004165	None given	\$6,875.00
4	921110 (675)	02	AP00004167	NAWC membership dues	\$5,771.00
5	921110 (675)	02	AP00004181	AWWA annual subscription	\$6,950.00
6	923000 (635.8)	05	AP00009753	Fee for Rep. 97 session	\$5,000.00

1. The utility was unable to provide documentation for approximately \$26,000 of the \$43,740 of uncollectible accounts expense (Item No. 4).
2. This item relates to the company's payment of the Public Service Tax. This tax should be included in the Taxes-Other account.
3. Item Nos. 3 and 4 are expenditures for professional association dues to Florida Waterworks Association (FWWA) and the National Association of Water Companies (NAWC). The invoices state that "lobbying" accounts for approximately 38% and 20% of FWWA's and NAWC's activities, respectively. The utility did not make any adjustment to reduce these dues for the estimated cost of lobbying.

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4. Item No. 5 is a payment to the American Water Works Association for a “subscription for research.” The total payment was \$134,749, with \$6,950 allocated to the utility.
5. Item No. 6 is a \$5,000 payment to a law firm for “representation during the 1997 Legislative Session.”

Recommendation: Operating expenses are overstated

Schedule of Water Rate Base
 Company United Water Funds
 Docket No. 980214 WS
 Projected Test Year (ended 12/31/99)
 Base Year (a) or Projected (a)

Explanation: Provide the calculation of 13 month average rate base for the test year, showing all adjustments. All non-usable and useful items should be reported as Plant Held for Future Use. The balance sheet method approach to determine working capital December 31, 1997

Florida Public Service Commission
 Schedule A-1
 Page 1 of 1
 Preparer: P. McGuire

Line No	Description	Historical Base Year			Intermediate Year		Projected Test Year		Supporting Schedules
		13 Month Avg 1997	Balance 12/31/97	Adjustment	Balance 12/31/98	Adjustment	Balance at 12/31/99	13 Month Avg 1999	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Utility Plant on Service	511,106,317	55,619,030	11,701,700	67,320,738	5,155,500	72,476,238	89,887,255	
2	Utility Land & Land Rights	922,868	922,868		922,868		922,868	922,868	
3	Total Utility Plant in Svc	52,059,185	56,619,030	11,701,699	68,320,738	5,155,500	73,476,238	70,530,123	A-3, A-5
4	Less Non-Fixed & Useful Plant								
5	Construction Work in Progress	1,284,777	2,895,153	(2,895,153)					
6	Less Accum. Depreciation	(9,238,344)	(10,183,467)	(1,717,945)	(11,901,412)	(1,987,982)	(13,889,394)	(12,922,828)	A-3, A-9, B-13
7	Less (TAC)	(23,474,903)	(24,339,340)	(1,080,080)	(26,219,330)	(1,292,000)	(27,511,330)	(26,888,792)	A-3, A12
8	Accumulated Amount of (TAC)	5,502,004	5,716,309	500,144	6,304,513	627,009	6,931,522	6,016,017	A-3, A14
9	Acquisition Adjustments	594,326	594,326		594,326		594,326	594,326	A-3
10	Accum. Amount of Acq. Adjustments	(107,947)	(102,003)	(29,740)	(312,527)	(29,740)	(242,237)	(227,379)	A-3
11	Less Advances for Construction	(142,039)	(259,716)		(259,716)		(259,716)	(259,716)	
13	Working Capital Allowance	1,000,564	594,768		594,768	322,259	917,027	935,163	A-17, A-18, A-19
14	Unfunded OPEB Adjustment	(411,811)	(411,811)	158,923	(252,888)	(152,631)	(405,520)	(329,204)	A-3
15	Total	27,806,501	31,042,526	5,925,952	36,968,478	2,643,238	39,611,716	38,047,730	

Waterworks Maintenance Adjustment
 Company United Water Florida
 Booklet No. 98B14 WS
 Proposed Test Year Ended 12/31/99
 Base Year (a) for Proposed (a)

Explanation: Provide the calculation of 13-month average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held for future use. Use the Balance Sheet Method approach to determine working capital (December 31, 1997)

Florida Public Service Commission
 Schedule A.1, Wastewater
 Page 1 of 1
 Preparer: J. McIntire

	13 Month Avg		Intermediate Year		Projected Test Year		Supporting Schedules	(b)
	1997	Balance -12/31/97	Adjustment	Balance 12/31/98	Adjustment	Balance at 12/31/99		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
1 Utility Plant in Service	89,906,619	86,680,578	10,248,790	106,929,318	11,094,991	118,024,309	111,906,138	A 6
2 Utility Land & Land Rights	2,991,924	2,991,924	1,171,880	4,163,244	0	4,163,244	4,163,244	A 6
3 Total Utility Plant in Service	92,898,543	89,672,502	11,420,670	111,092,562	11,094,991	122,187,553	116,159,402	A.1, A.6
4 Less Non Used & Useful Plant								
5 Construction Work In Progress	1,810,347	3,097,310	(3,097,310)					
6 Less Accum Depreciation	(3,011,319)	(22,768,811)	13,611,489	(25,880,123)	(1,295,158)	(29,175,481)	(27,616,719)	A.1, A.10, B.14
7 Less CIP	(15,516,853)	(16,561,130)	(1,045,080)	(19,616,158)	(2,210,000)	(21,826,158)	(20,849,312)	A.1, A.12
8 Accumulated Amount of CIP	11,193,196	11,659,876	1,271,791	12,931,667	1,363,671	14,297,208	13,609,392	A.1, A.14
9 Acquisition Adjustments	867,986	867,986		867,986		867,986	867,986	A.3
10 Accum Amount of Acq Adjustments	(317,096)	(318,793)	134,609	(233,311)	(37,556)	(410,907)	(392,209)	A.3
11 Less Advances for Construction	(10,111)	(67,149)		(67,149)		(67,149)	(67,149)	
13 Working Capital Allowance	1,885,417	1,087,506		1,057,166	572,903	1,630,272	1,662,511	A.17, A.18, A.19
14 Unfunded CIP/FH Adjustment	(737,109)	(717,109)	287,510	(489,599)	(130,201)	(780,281)	(614,980)	A.1
15 Total	53,313,257	58,166,965	1,117,976	59,511,911	7,118,107	66,671,017	67,718,921	

Schedule of Requested Cost of Capital
 13 Month Average Balance
 Company: United Water Florida
 Docket No.: 980214 WS
 Projected Test Year ending 12/31/99

Explanation: Provide a schedule which calculates the requested
 Cost of Capital on a 13 Month average basis.

Line No.	Item	Requested Rate Base 13 Month Average For Year ending 12/31/99	Ratio	Cost Rate	Weighted
1	Long Term Debt	51,921,823	51.50%	7.69%	3.96%
2	Short Term Debt		0.00%		0.00%
3	Preferred Stock	141,837	0.14%	5.00%	0.01%
4	Common Equity (b)	45,795,951	45.43%	10.18%	4.63%
5	Customer Deposits	6,000	0.01%	7.00%	0.00%
6	Investment Tax Credit (a)	1,141,663	1.13%	8.84%	0.10%
7	Deferred Income Taxes	1,799,426	1.79%	0.00%	0.00%
8	Total	100,806,703	100.00%		8.69%

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

(a) Reflects United Waterworks cost of capital
 (b) To determine United Water Florida's source and cost of common equity capital, I look to its Parent's (United Waterworks Inc.) capital structure and its debt costs as shown below. For the 13 year ending 12/31/99 I am using the 13 month average of United Waterworks Inc. capital structure.

Item	United Waterworks Inc. (From D-2, Page thousands of dollars)	Ratio	Cost	Weighted
(Preferred)	211,077	53.69%	7.69%	4.13%
Long Term Debt	627	0.15%	5.00%	0.01%
Common Equity	198,677	46.16%	10.18%	4.70%
Total Capital	410,381	100.00%		8.84%

Cost of Equity calculated according to Florida Public Service Commission directive (5/8/97)

Formula	8.38%
Add	1.80%
Common Equity Cost	10.18%

Supporting Schedules: A-19, C-7, C-8, D-3, D-4, D-5, D-7

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

LINE NO.	DESCRIPTION	Balance Per Books 1997	Utility Test year Adjustments	Utility Adjusted Test Year 1998	Requested Revenue Adjustment	Requested Annual Revenue	Supporting Schedules
1	OPERATING REVENUES	\$9,080,002	\$1,363,672	\$10,443,674	\$2,204,773	\$12,648,447	B-4
2	Operation and Maintenance	4,891,881	140,804	\$5,032,685	13,721	5,046,406	B-3 & B-5
3	Depreciation, Net of GAC Amort.	938,042	892,416	\$1,830,458		1,830,458	B-13
4	Amortization of Acquisition Adjustment	192,902	(783,185)	\$29,717		29,717	G-30
5	Taxes Other Than Income	1,172,757	94,861	\$1,267,618	99,215	1,366,833	B-15
	OPERATING EXPENSES	7,195,582	364,896	7,560,478	112,936	7,673,414	
6	Operating Income Before Income Taxes	1,884,420	358,776	2,243,196	2,091,837	4,335,033	
	Income Taxes:						
	State Income Taxes	77,866	25,182	103,048	115,051	157,735	
	Federal Income Taxes	444,813	205,969	650,782	672,107	910,951	
7	Provision for Income Taxes	522,679	(241,151)	281,528	787,158	1,068,686	C-2
8	Utility Operating Income	\$1,361,741	\$19,927	1,381,668	1,304,679	3,306,347	
9	Rate Base			38,047,730		38,047,730	A-1
10	Rate of Return on Rate Base			3.25%		8.69%	
	Requested Revenue Adjustment	\$2,204,773			Requested Revenue Adjustment:	\$2,204,773	
	Uncollectible Rate (Schedule G-28)	0.62%			PSC Assessment:	4.5%	
	Additional O&M Expense-Uncollectibles	\$ 13,721			Additional Taxes Other-PSC Assmt:	\$ 99,215	

Schedule of Wastewater Net Operating Income
 Company: United Water Florida
 Schedule Year Ended
 Projected: 1999

Florida Public Service Commission
 Schedule B-2
 Page 1 of 3
 Docket No. 980214-W3
 Preparer: Schreyer

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

LINE NO.	DESCRIPTION	Balance Per Books 1987	Utility Test Year Adjustments	Utility Adjusted Test Year 1988	Requested Revenue Adjustment	Requested Annual Revenue	Supporting Schedules
1	OPERATING REVENUES	\$18,375,517	\$2,332,712	\$18,708,229	\$3,087,140	\$21,775,369	B-4
2	Operation and Maintenance	7,193,716	1,888,877	8,882,393	19,087	8,901,480	B-3 & B-5
3	Depreciation, Net of CIAC Amort.	2,137,289	1,274,053	3,411,342		3,411,342	B-13
4	Amortization of Acquisition Adjustment	343,955	(300,156)	43,399		43,399	G-30
5	Taxes Other Than Income	1,655,315	420,810	2,076,125	138,021	2,214,146	B-15
	OPERATING EXPENSES	11,329,875	3,083,384	14,413,259	157,108	14,570,367	
6	Operating Income Before Income Taxes	5,045,642	(750,672)	4,294,970	2,910,032	7,205,002	
	INCOME TAXES:						
	State Income Taxes	138,432	(38,936)	99,496	150,052	259,547	
	Federal Income Taxes	789,878	(233,169)	556,707	934,993	1,491,700	
7	Provision for Income Taxes	928,308	(272,105)	656,203	1,095,045	1,751,247	C-2
8	Utility Operating Income	\$4,117,324	(478,567)	3,638,767	1,814,987	5,453,755	
9	Rate Base			62,758,972		62,758,972	A-1
10	Rate of Return on Rate Base			5.60%		8.69%	
	Requested Revenue Adjustment	\$3,087,140			Requested Revenue Adjustment	\$3,087,140	
	Uncollectible Rate (Schedule G-28)	0.00%			PSC Assessment	4.50%	
	Additional O&M Expenses-Uncollectibles	\$ 19,087			Additional Taxes Other-PSC Assmnt	\$ 138,021	

MAILING AND LIAISON INFORMATION

AS OF 11/05/1998

United Water Florida Inc. (WS127)

Mailing name

United Water Florida Inc.

Company code

WS127

Mailing address

Mr. Gary R. Moseley
United Water Florida Inc.
P. O. Box 8004
Jacksonville, FL 32239-0004

Federal Employee Identification (FEID) Number

59-1145158

Company liaison(s)

Gary R. Moseley, V.P. - General Mgr. (904) 725-2865 or, (904) 721-4600

FAX number(s)

(904) 721-4680

STATE OF FLORIDA

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.



DIVISION OF RECORDS & REPORTING
BLANCA S. BAYÓ
DIRECTOR
(850) 413-6770

Public Service Commission

November 6, 1998

Gary R. Moseley
United Water Florida Inc.
Post Office Box 8004
Jacksonville, Florida 32239-0004

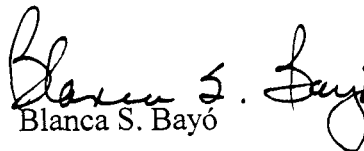
Re: Docket No. 980214 - WS - United Water Florida Inc.
Audit Report - Staff-assisted Rate Case - Projected Test Year Ended 12/31/99
Audit Control # 98-169-1-1

Dear Mr. Moseley:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above case will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,


Blanca S. Bayó

BSB/abf

Enclosure

cc: Division of Audit and Financial Analysis
James Ade, Esquire