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November 20, 1998

**FEDERAL EXPRESS**

Ms. Blanca Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

RE: Docket No. 980214-WS  
Audit Control 98-169-1-1  
Rate Case Audit Report - Projected Test  
Year Ended December 31, 1999

Dear Ms. Bayo:

In connection with the above-referenced matter, please find enclosed for filing an original and seven copies of Supplemental Comments of United Water Florida Inc. to Amended Audit Report on Rate Case by the Bureau of Auditing ("Supplemental Response"). Please file the original and distribute the copies in accordance with your usual procedures.

Also enclosed is a WordPerfect 6.1 formatted, high double density disk which contains a copy of the Supplemental Response.

If you have any questions or comments regarding this matter, please do not hesitate to

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LIM \_\_\_\_\_ cc:  
OPD \_\_\_\_\_  
RCR \_\_\_\_\_  
SEC \_\_\_\_\_  
VAS Willis  
DTH \_\_\_\_\_

cc: Mr. Walton F. Hill  
Mr. Jack Schreyer (2 sets)  
Mr. Gary R. Moseley (2 sets)  
Mr. Munipalli Sambamurthi  
Mr. Harold McLean (2 sets)  
Ms. Bobbie L. Reyes  
Mr. Marshall Willis (2 sets)

Sincerely yours,



Scott G. Schildberg

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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Rate Case Audit Report - )  
Projected Test Year Ended )  
December 31, 1999 )  
\_\_\_\_\_ )

Docket No. 980214-WS  
Audit Control 98-169-1-1  
Date Submitted for  
Filing: November 20, 1998

SUPPLEMENTAL COMMENTS  
OF UNITED WATER FLORIDA INC.  
TO AMENDED AUDIT REPORT ON RATE CASE  
BY THE BUREAU OF AUDITING

United Water Florida Inc., a Florida corporation (hereinafter referred to as "United Water Florida" or "Utility"), by and through its undersigned attorneys, makes the following supplemental responses to the audit exceptions and disclosures contained in that certain amended Audit Report of the rate case of United Water Florida, for the projected test year ended December 31, 1999, Audit Control number 98-169-1-1, received on or about November 9, 1998:

General Background

1. The Audit Staff originally issued its Audit Report on or about October 13, 1998 ("Original Audit Report").
2. United Water Florida timely submitted for filing its response to the Original Audit Report on October 23, 1998, entitled Comments of United Water Florida Inc. to Audit Report on Rate Case by the Bureau of Auditing ("Original Response").
3. The audit staff issued an Amended Audit Report on or about November 6, 1998 ("Amended Audit Report").
4. United Water Florida is filing its response to the Amended Audit Report with this Supplemental Comments of United Water Florida Inc. to Amended Audit Report on Rate Case by the Bureau of Auditing ("Supplemental Response").

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FPSD-RECORDS/REPORTING

5. This Supplemental Response adopts and incorporates the Original Response and provides additional information concerning the Auditor's Report and Exception Nos. 1-4. Accordingly, please refer to both the Original Response and Supplemental Response in reviewing the Amended Audit Report.

Auditor's Report

6. In both the Original Audit Report and the Amended Audit Report, the audit staff stated:

In our opinion, schedules [prepared by the Utility as part of its petition for rate relief in Docket No. 980214-WS] ... 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.

United Water Florida agrees that its schedules present fairly, in all material respects, its books and records and that its books and records are maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission ("Commission").

7. The Summary of Significant Findings has been revised to acknowledge the following:

(i) United Water Florida provided sufficient documentation to support preparation of schedules in the Minimum Filing Requirements ("MFRs"); and

(ii) Plant in Service in the MFRs does reconcile to the books and records.

8. The audit staff's criticism in the Summary of Significant Findings on the documentation provided by United Water Florida has

been reduced from an allegation that United Water Florida did not provide sufficient support to an allegation that the documentation was not provided in a systematic and rational manner. United Water Florida disputes audit staff's reduced allegation.

9. United Water Florida has previously explained its systematic and rational organization of documentation in the Original Response, especially in its response to Exception No. 1 (Original Response, pages 4-10), including details as to the following:

a. The MFRs filed by United Water Florida not only included the schedules required by Commission rule, but also included 53 supporting G Schedules which were properly indexed and cross-referenced with the standard MFR Schedules. (Original Response, page 4.)

b. The company's new computer system is a desktop system dedicated to providing a data base sophisticated enough to maintain the property and related depreciation records of the subsidiaries of United Waterworks Inc. in conformance with the applicable rules and regulations of the various regulatory agencies. The raw data is inputted into the data base and, using the desktop tools, the company generates the necessary reports. (Original Response, pages 5-9, 14.)

c. Supporting information for the MFRs is stored in the computer data base. The information can be retrieved by asking systematic and rational questions.

United Water Florida and United Water Management and Services Company ("UWM&S") obtained information from the data base by using the audit staff's questions and provided the results to the audit staff. The company answered all audit requests. When the audit staff was not satisfied with the information provided, it would inform the company and the company would obtain and provide additional reports. (Original Response, page 7.)

d. Representatives of United Water Florida and UWM&S provided extensive assistance to the audit staff. (Original Response, pages 6-9.)

**Exception No. 1**

10. In the Amended Audit Report, the audit staff made a few minor changes to Audit Exception No. 1. United Water Florida notes that the audit staff no longer takes the position that "many differences reconciled by the utility can not be verified by the audit staff."

11. In Audit Exception No. 1, the audit staff's main allegation is that the worksheets and other supporting data were not provided in a systematic and rational manner. However, the rule states that such information be organized in a systematic and rational manner--i.e., that such information be organized in an orderly and reasonable arrangement. In paragraph 9 above and in the Original Response, United Water Florida has explained that worksheets and supporting data were included in the application, organized in an orderly and reasonable arrangement with cross-

references and indices to assist in their use. United Water Florida also explained that any additional information is available through its desktop computer system. In fact, the company prepared and made several presentations to the audit staff to demonstrate the computer system's capabilities and the means for obtaining useful reports. (Original Response, pages 6-7.)

12. The primary problem in connection with the audit was a question of documentation format. The information sought to be reviewed by the audit staff is contained in the computer data base. The computer system uses PeopleSoft™, a standard off the shelf software. It provides information in a format which is consistent with the use of such information today. However, the audit staff is accustomed to reviewing data provided in a different format. Frequently, representatives of United Waterworks and United Water Florida would respond to requests for information from the audit staff, including audit requests, but because it was not in the format preferred by the audit staff, the audit staff would request that the company provide the information in another format. In order to convert the information to the format requested by the audit staff, the company had to query the data base for information and create new reports, which took additional time.

13. United Water Florida's information is organized in a systematic and rational manner. Merely because the audit staff would prefer for it to be organized differently does not mean that the information is not organized in a systematic and rational manner.

14. As noted above, Audit Exception No. 1 refers to the provision of information as being the test for systematic and rational--not the rule's requirement that the information be organized in a systematic and rational manner. However, United Water Florida not only organized its information in a systematic and rational manner--it also provided the information in a systematic and rational manner. The company repeatedly generated and provided reports customized in accordance with audit staff requests. As the broad scope of the audit continued to expand through the plant, revenue, and expense areas, the company continued to provide information in response to the inquiries of the audit staff. As the audit staff refined the inquiries, the company provided refined responses. Despite the large number of formal requests, informal requests, and frequent discussions, the broad scope of the audit, the extensive analysis required to answer and the short turnaround time for responding (e.g., two days), United Water Florida provided information in a timely manner, and made extensive efforts to comply with audit staff's follow up requests.

15. Even despite the allegations of Exception No. 1, the audit staff stated as its opinion that United Water Florida's MFRs present fairly in all material respects United Water Florida's books and records. The materiality aspect is demonstrated in the remainder of the audit exceptions. According to the Original Audit Report, Audit Exception No. 2 relates to a 0.0088% difference in plant accounts. The Amended Audit Report deleted the factual

information on the difference. Audit Exception No. 3 relates to a theoretical calculation of depreciation expense which incorrectly reflects depreciation expense on fully depreciated property, and which would produce a 3.39% increase in depreciation expense for customers. Audit Exception No. 4 ultimately has no differences between the MFRs and the general ledger, as stated in the Original Response.

Exception No. 2

16. In the Original Audit Report, the audit staff refers to three (3) accounting instructions, provided allegations as to United Water Florida's noncompliance with the three instructions, and recommended that "[t]he utility is not in compliance with the NARUC USOA."

17. In the Amended Audit Report, the audit staff deleted the allegations relating to Accounting Instruction No. 4 (i.e., monthly basis). Thus, this is no longer an issue and audit staff no longer alleges that United Water Florida is violating Accounting Instruction No. 4.

18. In the Amended Audit Report, the audit staff no longer states that the subsidiary ledger for 101 accounts for wastewater does not agree with the general ledger and that the utility was unable to reconcile the differences. Instead, the Amended Audit Report states that:

a. The utility provided audit staff with a report presented in the plant matrix format, which contained ending balances for NARUC accounts 301-348.



b. The ending balances in the report agree with the general ledger.

Accordingly, the audit staff deleted the following statement:

"Because the utility is unable to reconcile the 300 account subsidiary ledger to the general ledger and the MFRs, staff believes that the utility is not meeting the requirements of Instructions 2 and 32."

Therefore, it appears that the audit staff no longer alleges that United Water Florida is in violation of the other two (2) accounting instructions.

19. Accordingly, United Water Florida is not in violation of the three accounting instructions and is in compliance with NARUC USOA.

20. In the Amended Audit Report, audit staff stated that it "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." United Water Florida acknowledges that the transition from one computer system to another created some difficulties because of the audit staff's unfamiliarity with the new system. However, United Water Florida and UWM&S made every effort to familiarize the audit staff with the new system, and to provide access to and assistance from the company personnel who were trained in its uses. In addition to answering the audit requests, other data requests, and informal requests, United Water Florida made its onsite personnel available for consultation by the audit staff during the field audit of United Water Florida. UWM&S

also sent several representatives to the local office in order to aid the audit staff. Also, the company prepared and made several presentations to demonstrate the computer system's capabilities and the means for obtaining useful reports. For example, the Manager-General and Asset Accounting provided a step-by-step chronology of the asset management system and how it provided the plant and depreciation records required by the Florida Public Service Commission. When the audit staff spent the week of August 31, 1998, at UWM&S headquarters to review records, UWM&S made its onsite personnel available for consultation, including the following:

<u>Name</u>	<u>Title</u>
Frank Hildabrand	Manager-Engineering/Planning
Tom Cleveland	Managing Director-Capital Projects and Technical Support
Jack Schreyer	Manager-Rates
Mary Egan-Long	Rate Analyst III
Frank Gradilone III	Manager-Resource Planning, Rates
Bill Becker	Director of Accounting
John Gebbia	Manager-General and Asset Accounting
Frank McGuire	Regulatory Economist

21. In addition, most of the "different balances ... in the various reports" were the direct result of the company providing revised reports in response to requests from the audit staff for different information and in a different format. Furthermore, United Water Florida reconciled its books and records to its MFRs in response to Audit Request No. 38. (See also Exhibit E2-B, Original Response.)

22. In the Amended Audit Report, the audit staff stated "the utility's books and records did not incorporate adjustments which

were reflected in the MFRs." In the Original Audit Report, the difference that the audit staff stated the utility was unable to reconcile (\$8,774) is only .0088% of the total plant account for wastewater. However, United Water Florida has, in fact, previously reconciled this difference. Accordingly, not only was there only a de minimis difference between the MFRs and the ledger totals, even this small difference has been eliminated.

Exception No. 3

23. In its response to Exception No. 3 in the Original Response, United Water Florida explained that it does comply with Rule 25-30.140, FAC. United Water Florida also discussed its response to Audit Request No. 49, in which United Water Florida provided the audit staff with water and wastewater schedules which explain why the company's calculation of depreciation for 1997 varied from the calculations performed by the audit staff. Those schedules reflect the amount of fully depreciated property that was not utilized in the company's calculations and clearly show all accounts that contain fully depreciated property.

24. Excluding the Depreciation Transportation Equipment, which should be maintained under unit depreciation, the total additional depreciation expense which would have been calculated utilizing the "fully depreciated plant" method would be less than \$29,000, only 0.63% of the total depreciation expense.

25. Accounts such as 364.2 Flow Measuring Devices are depreciated using the mass property depreciation method by county. United Water Florida operates its utility system in three adjoining

counties and is liable for property tax in each county. In order to be able to accurately reflect the proper cost to the individual counties for purposes of paying the appropriate property taxes, United Water Florida created plant subaccounts for each county in which it operates. There is a 364.2 subaccount for Duval County, a 364.2 subaccount for St. Johns County and 364.2 subaccount for Nassau County. This is true for each and every plant account. Each plant subaccount for each county is handled as a separate and distinct group under the mass property depreciation method.

26. Using subaccount 364.2 as an example, the 1997 depreciation was calculated as shown below:

	<u>Plant</u>	Prior Year Depreciation <u>Reserve</u>	<u>Rate</u>	<u>Expense</u>
Duval	9,215	(92,982)	11.50%	1,060
St. John	4,609	4,609	11.50%	0
<u>Nassau</u>	<u>0</u>	<u>0</u>	11.50%	<u>0</u>
Totals	13,824	<88,373>		1,060

27. Because the property in St. Johns County was fully depreciated, no depreciation was taken on this equipment in 1997. This preserves the integrity of the subaccount for the Flow Measuring Devices located in St. Johns County and does not distort the subaccounts for the remaining counties. This method of accumulating costs and calculating depreciation has been utilized by United Water Florida since its initial acquisition of utility facilities outside of Duval County. United Water Florida can create reports which consolidate the subaccounts into accounts.

28. Because of the taxing requirements of the various counties in which the Company operates, it must keep separate its

property for reporting to the counties. If the Company did not track these accounts by county, it could overpay its property taxes which, in turn, would then have to be collected from its customers.

29. In the Amended Audit Report, the audit staff notes that the total plant from the general ledger reconciles to the MFRs, but there are differences among the individual accounts. United Water Florida has provided the audit staff with the appropriate depreciation levels by individual plant account as of December 31, 1997, in response to Audit Request No. 49. Furthermore, this rate case uses a projected test year and will be based upon depreciation for 1999 projected plant.

Exception No. 4

30. In the Statement of Facts to Audit Exception No. 4, the audit staff stated "[t]he utility was unable to reconcile the differences [in retained earnings and deferred taxes]." However, not only is the utility able to reconcile such differences, the utility has reconciled such differences and, in fact, demonstrated that there are no real differences between the MFRs and the General Ledger in the Original Response. (See Original Response, pages 19-21)

31. As United Water Florida has shown in its Original Response, with respect to Retained Earnings, the difference in the Retained Earnings was the net amount of 1997 revenue and expense accounts. The company provided the auditors with the general ledger which included the amounts for revenue and expense accounts for 1997. This general ledger enabled the revenue and expense

account balance information to be available for audit. If the company had provided a general ledger which had the revenue and expense accounts closed into Retained Earnings, the new accounting system would have shown only zero balances in the revenue and expense accounts, thus impeding the audit of these accounts. After closing the 1997 revenue and expense accounts, the general ledger balance of Retained Earnings at December 31, 1997 is \$25,911,361, the same as the MFRs. (See Original Response, page 19 and Exhibit E4-A.)

32. As shown on page 11 of the Balance Sheet Report (attached in the Original Response), the deferred income tax balances stemming from liberalized depreciation, which includes general ledger accounts numbers 282000 through 282012, is \$1,799,426. This amount agrees with the MFR total. The total balance from the general ledger of \$5,456,073 not only includes the deferred income taxes arising from liberalized depreciation, but also includes the FAS 109 deferred taxes. (Note that the line on the balance sheet report labeled "282 Accum dfd inc tax - liberal depn" in the amount of \$5,456,072.90 is a misnomer since it includes other deferred income taxes as well.) The FAS 109 deferred taxes are revenue neutral and must be excluded from the rate base calculation. As shown on Schedule D-1, page 1, line 7, of the MFRs, the only deferred tax balance included in rate base is the \$1,799,426 related to liberalized depreciation.

33. Finally, the deferred taxes amounting to \$160,398 represents deferred taxes stemming from other than liberalized

depreciation (e.g., pensions, OPEB, AFUDC, etc.) which are required by FAS 109 rules and, therefore, are set forth in the general ledger. These amounts are also shown on page 11 of the Balance Sheet Report, but again, reference to Schedule D-1, page 1, clearly shows that only deferred taxes related to liberalized depreciation are included in the rate base. The \$160,398 other deferred taxes are accounted for differently under the regulatory process and are not to be included in rate base for the MFRs.

Disclosure Nos. 1-9

34. Please refer to Original Response.

DATED this 20th day of November, 1998.

Respectfully submitted,

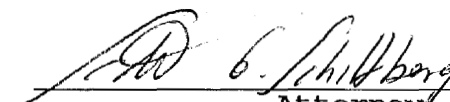
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the original and seven copies of the Supplemental Comments of United Water Florida Inc. to Amended Audit Report on Rate Case has been furnished, by Federal Express, this 20th day of November, 1998, to Blanca Bayo, Director, Division of Records and Reporting, Florida Public Service Commission, 2450 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, and copies of the foregoing have been furnished to Bobbie Reyes, Attorney for the Staff of the Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, and to Harold McLean, Esquire, Office of Public Counsel, c/o The Florida Legislature, 111 W. Madison Street, Room 812, Tallahassee, Florida 32399-1400, by U.S. Mail, this 20th day of November, 1998.

  
\_\_\_\_\_  
Attorney