



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: August 12, 1999
TO: Miami District Office (Welch)
FROM: Denise N. Vandiver; Division of Auditing and Financial Analysis
RE: Docket No. 990535-WU: Florida Public Utilities
 (Fernandina Beach Water Division)
 Audit Service Request; Rate Case
 Audit Control No. 99-221-4-1

RECEIVED
 AUG 13 AM 11:06
 DIVISION OF RECORDS AND REPORTING

Attached is a new audit service request. The analyst's requested due date is October 25, 1999. By copy of this memorandum, I request that Kathy Welch be added to the CASR distribution list.

DNV: sp

Attachments

cc: Public Counsel
 Division of Auditing and Financial Analysis (Halbert)
 Division of Records and Reporting (Moses)

- AFA _____
- APP _____
- CAF _____
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DOCUMENT NUMBER-DATE
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 DIVISION OF RECORDS AND REPORTING

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AUDIT SERVICE REQUEST

August 5, 1999

99-221-4-1

(AFAD Control #)

99-221-4-1
AFAD CONTROL #
11-03-99
10-25-99

TO: DENISE VANDIVER, DIVISION OF AUDIT AND FINANCE
FROM: ^{OK} JAN KYLE, ^{CB} CONNIE BINFORD, DIVISION OF WATER AND WASTEWATER
RE: REQUEST FOR AUDIT OF FLORIDA PUBLIC UTILITIES COMPANY, FERNANDINA BEACH WATER DIVISION (FPUC), IN NASSAU COUNTY, IN DOCKET NO. 990535-WU

FILE AND SUSPEND RATE CASE - PAA - NO HEARING SCHEDULED

AUDIT PURPOSE: To audit rate base, capital structure and net operating income for the approved projected test year ending December 31, 2000.

LIST AUDIT OBJECTIVES AND OTHER INFORMATION ON BACK.

===== ADMINISTRATIVE DETAILS:

COMPANY CONTACT: George M. Bachman, Controller
Phone: (561-838-1731)
MAILING ADDRESS: 401 South Dixie Highway
West Palm Beach, FL 33401

LOCATION OF RECORDS: Cheryl Martin
401 South Dixie Highway
West Palm Beach, FL 33401
(561-838-1725)

AUDIT DUE DATE: ~~11-03-99~~ 10-25-99 ^{aw} PIECEMEAL RESULTS: NO

===== COORDINATING DETAILS:

Gerald Edwards, Staff Engineer
Jennie Lingo, Regression and Projected Billing Determinants
Andrew Maurey and Eva Samaan, Capital Structure
Neil Bethea, Conservation Rates

REFERENCES: Order No. 17554, and Order No. 17441 (Docket No. 860662-WU)

===== USE OF THE FIELD AUDIT SUPERVISOR:

REQUEST ACKNOWLEDGED BY: _____ DATE: _____

AUDIT MANAGER ASSIGNED: _____ DATE ON SITE: _____

COMMENTS: _____

AUDIT SERVICE REQUEST
DOCKET NO. 980214-WS
August 5, 1999

UTILITY AND CASE BACKGROUND

Rate base was last established for this utility in Order No. 17554, Consummating Order No. 17441, Docket No. 860662-WU, using the test year ended December 31, 1987. In the instant case, the company has requested a projected thirteen month average test year ending December 31, 2000, with a base year ended December 31, 1998 and an intermediate test year ending December 31, 1999. During the projected test years, FPUC's water plant in service will be increasing by approximately \$3,947,245.

In addition to the standard procedures outlined in the audit manual, please perform the following procedures. Following each procedure is the name of the staff member(s) to contact if questions arise.

HIGH PRIORITY - STANDARD REQUIREMENTS

1. Review prior workpapers, orders, etc. (Kyle, Binford)
2. Agree 1998 MFR amounts with company books and have company reconcile differences. (Kyle, Binford)
3. Verify that the adjustments from Order Number 17441 issued on April 20, 1987, are reflected on the books of the company and the MFRs. In particular, note the requirement of Order No. 17441, Rate Base, Paragraph 5, that CIAC be accounted for as prescribed by the NARUC Uniform System of Accounts. (Kyle, Binford)
4. Test additions and retirements to plant since the last audit, describing major additions, retirements or adjustments. (Kyle, Binford)
5. Test the annual accruals to accumulated depreciation based on adjusted plant, using depreciation rate(s) prescribed by Rule 25-30.140, FAC, for the test years. (Kyle, Binford)
6. Verify accuracy of projected provisions for plant in service, accumulated depreciation, CIAC, and accumulated amortization. Analyze the reasonableness of FPUC's projection methodologies. (Kyle, Binford)

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7. Sample test year O&M expenses. If any problems arise, contact the accounting analyst and, if necessary, audit the complete account(s). Examine the expense for the proper period, amount, classification, support documentation and whether non-utility related, non-recurring, unreasonable or imprudent.
(Binford)

Examine the following accounts for which the MFRs indicate a significant change from the last rate case:

- Salaries & Wages - Employees
- Employee Pensions & Benefits
- Materials & Supplies
- Transportation Expenses
- Bad Debt Expense
- Miscellaneous Expense

8. Review all the allocation methodologies used by the utility. Determine whether the original amounts to be allocated and the methodology are reasonable. According to the MFRs, the utility uses different allocations. There is an allocation methodology used between the electric and water divisions. There is an allocation methodology used within the company as a whole. There is also a plant allocation used between common plant and EDP. (Binford)

9. Audit revenues, bills, gallons sold and customers for 1998. (Kyle)

10. Obtain copies of supporting documentation for actual rate case expense incurred as available during the audit. (Kyle, Binford)

11. Follow the standard audit program for taxes - other.
(Kyle, Binford)

12. If the auditors believe that scope limitations necessitate deletion of these audit requests, please advise the technical staff so that other discovery measures may be employed.
(Kyle, Binford)

13. Review the minutes of the board of director meetings. If material items of interest are noted, attach a copy in the audit workpapers. (Kyle, Binford)

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14. Review the outside auditors' report or workpapers.
(Kyle, Binford)

HIGH PRIORITY - SPECIFIC REQUIREMENTS.

15. Verify that the Company per book amounts for average balance sheet items included in the capital structure agree with the general ledger. (Maurey)

16. Verify that the cost rates being used in the computation of the cost of capital are appropriate. (Maurey)

17. Verify that all non-regulated/non-utility assets are removed from Common Equity at the parent level before the relative percentages of investor capital are determined for allocating investor-supplied sources of capital to the utility. (Maurey)

18. Verify that Treasury Stock is removed from Common Equity at the parent level before the relative percentages of investor capital are determined for allocating investor-supplied capital to the utility. (Maurey)

19. Verify common plant allocation between water and electric divisions. According to Order No. 99-0022-FOF-EI, there is an adjustment that should have been made. (Binford)

MEDIUM PRIORITY - SPECIFIC REQUIREMENTS.

20. Obtain a list of all non-regulated/non-utility services the Company is currently providing. (Maurey)

21. Verify the activity in the land accounts. According to the MFRs, Schedule A-5, pg 1 and pg 3, the land and land rights associated with supply and pumping plant decreased as of June 1999. Rule 25-30.433(10). (Binford)