UnitedWater

United Water Management & Services
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February 26, 2001

ORIGINAL

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

Re: United Water Florida
Docket No. 001514-WS

Dear Ms. Bayo,

Attached please find the original and two copies of United Water's responses to Staff's second data request dated January 31, 2001.

If you require any additional information, please feel free to contact me at 201 986-4990.

Sincerely,

Al Candelmo

Al Candelmo
Senior Rate Analyst

Attachments

cc: S. Schildberg,

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COMMISSION STAFF'S SECOND SET OF DATA REQUESTS TO UNITED WATER FLORIDA INC. DOCKET NO. 001514-WS

REQUEST NO. 1:

The following questions relate to United Water Resources, Inc.'s SEC Form 10-K for the year ended December 31, 1999.

A) On page 18, it states:
"On July 13, 1999, United Water announced that it was offering a voluntary early retirement program to employees based on age and length of service. This program, which ended September 14, 1999, resulted in a charge to net income of $5 million and is expected to result in annual savings of approximately $3.5 million in payroll costs, starting in 2000."

1) Is the amount requested in this proceeding to be capitalized to construction work in progress (CWIP) and deferred as a regulatory asset included in the $5 million?

2) Describe in detail, by employee position title, the annual savings in payroll costs for UWF starting in 2000 and continuing to 2003?

B) Please provide a list of UWF's actual Information Technology Strategic Plan (ITSP) costs related to Y2K compliance efforts in 1999 broken down between water and wastewater. What is UWF's 2000 budgeted amount?

RESPONSE NO. 1:

A.1) Yes.

A.2) The table below describes in detail, by employee position title, the annual savings in payroll costs for UWF starting in 2000 and continuing to 2003.

	2000	2001	2002	2003
1.) Operator 3	$ 42,705	$ 43,986	$ 45,306	$ 46,665
2.) T&D Maintenance Supervisor	53,436	55,039	56,691	58,391
3.) T&D Crew Leader	39,726	40,918	42,145	43,410
4.) Maintenance Operator	42,066	43,328	44,628	45,967
5.) Maintenance Operator	42,066	43,328	44,628	45,967
6.) CSR	29,906	30,803	31,727	32,679
Total	$249,906	$257,403	$265,125	$273,079

Annual wage increase assumption **4%**

RESPONSE NO. 1 (continued...):

B) The Company replaced most Information Technology systems prior to 1999 for reasons unrelated to Y2K. One benefit, however, to these replacements was that they were Y2K compliant, accordingly, there were no specific Y2K costs incurred in 1999. There is no budget for Y2K in 2000.

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<u>REQUEST NO. 2:</u>

The following requests pertain to UWF's response to question number two of Staff's first Data Request, dated December 5, 2000.

A) It appears that the pension cost of $721,077 and the post retirement medical cost of $439,616 represent one-third of the total one time charge for actuarial valuation. What is the cost using the actual amount of salaries of the twelve UWF employees who elected the early retirement program instead of prorating by the total company number of electing employees?

B) Please provide a schedule showing the following information for the twelve UWF employees who elected to participate in the early retirement program:

1) Employee's name
2) Title or position
3) Last annual salary & benefits
4) Proposed salary & benefits for replacement

C) Please explain why deferring the cost of the early retirement program until UWF's next rate case benefits the ratepayers instead of expensing those costs in the year incurred?

<u>RESPONSE NO. 2:</u>

A) The $721,077 pension cost and the $439,616 post retirement medical cost represent 15% of the Company totals of $5,413,619 and $2,346,814 respectively and were not prorated by total Company number of employees electing the program. These amounts were calculated by the Company's actuaries, AON Consulting, using specific individual data such as age and expected benefit amounts.

B) The following schedule contains the requested information for the twelve UWF employees who elected to participate in the early retirement program:

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RESPONSE NO. 2 (continued...):

Name	Title	Salary	Benefits 42.0%	Proposed Salary	Proposed Benefits 51.7%
Kimbrell, David	Operator 3	$ 41,461	$ 17,414		
Warren, Donald	Operator 2	37,315	15,672	36,795	19,023
Starling, Robert	Lead Operator	43,216	18,151	43,569	22,525
Keister, Donald	T&D Maintenance Supervisor	51,880	21,790		
Ward Jr, Fray	Working Crew Leader	38,569	16,199		
Hammit, David	Maintenance Operator	40,841	17,153		
Parrish, Douglas	Maintenance Operator	40,841	17,153		
Henck, Howard	Maintenance Supervisor	49,346	20,725	38,000	19,646
McLeod, Charles	SCADA Operator	41,667	17,500	44,096	22,798
Corbin, Randall	New Business Coordinator	48,817	20,503	54,500	28,177
Walker, Dorothy	Customer Service Representative	29,282	12,298	23,192	11,990
Wells, Marie	Customer Service Representative	29,035	12,195		
		$492,270	$206,753	$240,152	$124,159

C) Customers will benefit from the reduction in payroll expense, and allowing the Company to defer and amortize these costs in a subsequent rate proceeding will avoid the penalty and disincentive that would result from a failure to recover any of the associated costs.

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REQUEST NO. 3:

In regard to the utility's response to Staff's First Data Request, question number four, please explain why it is appropriate to capitalize a portion of the early retirement program to CWIP. What future benefit of the early retirement program exists for ratepayers?

RESPONSE NO. 3:

Pension and post retirement medical benefits are earned during an employee's career. The cost of the early retirement program relates to benefits accrued during an employee's career. It is therefore proper to capitalize the same percentage of this early retirement cost as would have been done without the early retirement.

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REQUEST NO. 4:

The calculations for the year ended December 31, 1999, rate base and net operating income, provided by the utility in response to Staff's First Data Request, question number six, do not match the amounts in the 1999 annual report submitted to the Commission. Please explain the difference. Also, please provide itemized schedules of rate base and net operating income for water and wastewater component (i.e., plant, accumulated depreciation, used and useful, etc., for rate base; and operating revenues, operation and maintenance expense, etc., for net operating income).

RESPONSE NO. 4:

To be consistent with ratemaking treatment, the rate base used in response to question number six of the first set of data requests was a thirteen month average and therefore, would not match the Annual Report. Net operating income differs only in that income tax expense was calculated based on interest expense which is calculated based on rate base and cost of debt. This is consistent with the calculation of operating income for ratemaking purposes. The schedule below provides a breakout of rate base and net operating income for water and wastewater.

	Year ended 12/31/99		
	Water	Wastewater	Total
Operating Revenues	$ 11,535,437	$ 18,273,451	$ 29,808,888
Operating Expense	6,001,366	9,087,719	15,089,085
Depreciation Expense	1,509,375	2,786,629	4,296,004
Amortizations of Plant Adjustment	41,256	39,396	80,652
Taxes Other Than Income	1,412,047	1,777,382	3,189,429
Income Taxes	302,490	814,571	1,117,061
Net Operating Income	$ 2,571,393	$ 4,582,325	$ 7,153,718
Utility Plant in Service	73,191,143	$ 118,086,463	191,277,606
Blacks Ford Wastewater Plant	0	(2,945,936)	(2,945,936)
Accumulated Depreciation	(13,525,319)	(28,993,852)	(42,519,171)
CIAC-net	(18,725,333)	(30,551,859)	(49,277,192)
Acquisition Adjustment-Net	587,562	747,806	1,335,368
Advances for Construction	(100,383)	(163,782)	(264,165)
Unfunded Post-Retirement Benefits	(543,484)	(966,193)	(1,509,677)
Working Capital Allowance	676,299	1,203,948	1,880,247
Rate Base	$ 41,560,485	$ 56,416,595	$ 97,977,080

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REQUEST NO. 5:

The following questions pertain to UWF's 1999 annual report.

A) When did UWF write-off to income the Other Post Retirement Employee Benefits (OPEB) deferred expenses for the years 1994-1997 disallowed by Order No. PSC-97-0618-FOF-WS, issued May 30, 1997, in Docket No. 960451-WS? The First District Court Appeal upheld Order No. PSC-97-0618-FOF-WS in February 2000. Please provide a copy of the journal entries.

B) What is the amount, excluding the employees that chose to participate in the early retirement program, of the current OPEB expense (including transition obligation amortization), salaries, and benefits for UWF as of December 31, 2000?

C) UWF's 1999 annual report does not reflect its unfunded OPEB obligation on its rate base schedule. Please explain why this adjustment was not reflected in the 1999 annual report.

D) UWF's 1999 annual report shows exactly the same amount of working capital allowance as in the projected schedule of rate base for December 31, 1999 for the most recent rate case, Docket No. 980214-WS. Please explain why the calculation was not made using actual amounts.

E) Based on staff's comparison of Order No. PSC-97-1146-FOF-WS, issued on September 30, 1997, and UWF's 1999 annual report, the utility has not corrected the amortization of acquisition adjustment pursuant to Order No. PSC-97-0618-FOF-WS, issued April 24, 1995, and Amended Order No. PSC-97-1146-FOF-WS, issued on September 30, 1997. Please explain.

F) Did the year ended December 31, 1999, contain any material non-recurring expenses that were in excess of 1% of above the line revenues for UWF? If so, please provide a description of the expense, the account number, and the dollar amount for each item(s).

RESPONSE NO. 5:

A) The Company wrote off the Other Post Retirement Employee Benefits deferred for the years 1994-1997, which were disallowed by Order No. PSC-97-0618-FOF-WS, issued May 30, 1997 in November of 1998. A copy of the journal entry is attached.

RESPONSE NO. 5 (continued):

B) The current OPEB expense, salaries and benefits for the year ended December 31, 2000 was $549,537, $3,645,144 and $1,174,436 respectively.

C) The unfunded OPEB obligation was overlooked when preparing the 1999 Annual Report rate base schedule. It will be included as necessary in future annual report submissions.

D) A recalculation of the Company's working capital allowance was overlooked when preparing the 1999 Annual Report rate base schedule. It will be included as necessary in future annual report submissions.

E) Amortization of the approved acquisition adjustment amounts is being made pursuant to Order No. PSC 97-1146-FOF-WS. As noted in the 1999 Annual Report, the unapproved acquisition adjustments are also being amortized in accordance with generally accepted accounting principles. Due to a clerical error, the unapproved amortization was erroneously recorded above the line. This error will be corrected in the future.

F) Other than the Early Retirement Program no material non-recurring expenses in excess of 1% of above the line revenues were booked for United Water Florida.