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TESTIMONY OF CARL WENZ
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
REGARDING THE APPLICATION FOR INCREASE
IN WATER RATES IN ORANGE COUNTY
BY WEDGEFIELD UTILITIES, INC.
AND THE SHOW CAUSE PORTION OF
DOCKET NO. 991437-WU

Q. Mr. Wenz, please state your business address for the record?

A. 2335 Sanders Road, Northbrook, Illinois 60062.

Q. By whom are you employed and what is your position?

A. I am the Vice President of Regulatory Matters for Utilities, Inc. and all of its subsidiaries, including Wedgefield Utilities, Inc.

Q. Please state your professional and educational experience.

A. I have been employed by Utilities, Inc. since 1984. Over the last seventeen years I have been involved in all phases of the regulatory process. Utilities, Inc. owns water and/or wastewater utilities in sixteen states. I have testified

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1 before the commissions in several states,
2 including Florida, North Carolina, South Carolina,
3 Louisiana, Illinois, Indiana, Nevada and Maryland.
4 In my present position I am responsible for all
5 aspects of utility commission regulation for the
6 group of 75 Utilities, Inc. subsidiaries in
7 sixteen states. This includes all of the systems
8 in Florida.

9
10 I am a Certified Public Accountant and hold a
11 Bachelors Degree in Business Administration from
12 Western Michigan University. I have attended
13 several utility regulation seminars sponsored by
14 NARUC and by Arthur Andersen LLP. For several
15 recent years I have been on the faculty of the
16 Eastern Utility Rate School which is sponsored by
17 the NARUC Water Committee and Florida State
18 University.

19

20 **Q. What is the purpose of your testimony?**

21 A. The purpose of my testimony is to address Issue 10
22 listed in Appendix A of the the Order Establishing
23 Procedure (Order No. PSC-00-1895-PCO-WU) issued on
24 October 16, 2000. This issue addresses the
25 maintenance of books and records in conformity

1 with the NARUC Uniform System of Accounts.

2

3 Q. Have you read the portion of Order No. PSC-00-
4 1528-PAA-WU which required Wedgefield Utilities,
5 Inc. to show cause why it should not be fined for
6 its record-keeping practices?

7 A. Yes.

8

9 Q. Do you agree that the utility's record-keeping
10 practices are not in conformance with the NARUC
11 Uniform System of Accounts and that it should be
12 required to pay a fine?

13 A. No, to both parts of the question. Wedgefield has
14 made significant improvements in the record-
15 keeping of the utility since it was purchased from
16 Econ Utilities. With the help of its parent,
17 Utilities, Inc., we believe that the record-
18 keeping is in substantial conformance.

19

20 Q. Please describe the corporate structure of
21 Wedgefield Utilities, Inc. and its parent,
22 Utilities, Inc.

23 A. Wedgefield Utilities, Inc. is a wholly owned
24 subsidiary of Utilities, Inc., which owns and
25 operates approximately 75 utility companies.

1 These subsidiaries are spread throughout 16 states
2 including Florida, Arizona, Georgia, Illinois,
3 Indiana, Louisiana, Maryland, Mississippi, North
4 Carolina, Nevada, New Jersey, Ohio, Pennsylvania,
5 South Carolina, Tennessee, and Virginia.

6 Utilities, Inc. maintains the books and records of
7 Wedgfield Utilities, Inc. in a manner consistent
8 with that of each of these 75 subsidiaries.

9

10 **Q. Has any other state determined that the books and**
11 **records of any subsidiaries of Utilities, Inc. are**
12 **not kept in accordance with the NARUC Uniform**
13 **System of Accounts?**

14 A. No. Of the sixteen states in which subsidiaries
15 of Utilities, Inc. provide service, fifteen
16 regulate water and wastewater utilities, and all
17 those fifteen jurisdictions prescribe the NARUC
18 Uniform System of Accounts or a modification
19 thereof. None of those State Commissions, except
20 Florida, has determined, or even alleged, that the
21 accounts and records of any of the subsidiaries of
22 Utilities, Inc. are not maintained in conformance
23 with the NARUC Uniform System of Accounts.

24

25 **Q. What was Wedgfield required to show cause in this**

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case?

A. At page 35 of Order No. PSC-00-1528-PAA-WU, Wedgefield was required to show cause why it should not be fined for its apparent violation of Rule 25-30.155, Florida Administrative Code, and Order No. PSC-97-0531-FOF for its failure to maintain its books and records in conformance with the NARUC USOA.

Q. Is Order No. PSC-97-0531-FOF applicable to Wedgefield?

A. No. Order No. PSC-97-0531-FOF-WU, issued in a rate case of an affiliate of Wedgefield, placed forward going requirements on Utilities, Inc. with regard to its bookkeeping and with regard to notice to the Commission of the status of the books of future utility system purchases. That order was issued in May, 1997. Wedgefield filed its application for a certificate transfer in February, 1996, and the Commission approved the transfer in October, 1996. Wedgefield could not have been aware of Order No. PSC-97-0531-FOF-WU before it was issued. Therefore, the portion of the Show Cause Order regarding an apparent violation of Order No. PSC-97-0531-FOF-WU should

1 be dropped as being inapplicable.

2

3 **Q. Would you please summarize your understanding of**
4 **the Show Cause Order?**

5 A. The Show Cause Order identified four prior
6 Commission Orders, issued between 1995 and 1998,
7 which cited Utilities, Inc. and its Florida
8 subsidiaries for failure to fully comply with Rule
9 25-30.115 and/or Rule 25-30.450, Florida
10 Administrative Code. However, the Order to Show
11 Cause does not acknowledge that Utilities, Inc.,
12 in 1998, made a significant good faith effort to
13 modify its accounting system to fully conform with
14 the Florida Commission's interpretation of the
15 NARUC Uniform System of Accounts, as specified in
16 those orders. Utilities, Inc. consulted
17 extensively with the Florida Public Service
18 Commission during the transition period.
19 The Order to Show Cause further pointed out that,
20 in previous proceedings, a show cause order was
21 not issued because, "Although the auditors'
22 finding was that the utility was not in
23 compliance, the dollar amounts of the errors were
24 not considered sufficiently material to initiate a
25 show cause action at that time." [Order, page

1 32.] Similarly, in the current case, it is clear
2 that there is no material impact in the dollar
3 amounts in determining the proper level of
4 revenues required in the Wedgefield rate case.

5

6 **Q. Specifically, what did the Show Cause Order state**
7 **in regard to this case?**

8 A. The Order to Show Cause stated that the auditors
9 in the current case were able to perform the
10 audit, but that, ". . . the condition of the books
11 and records resulted in significant excess time in
12 the field and a corresponding delay in completing
13 the audit report". [Order, page 34.] Although
14 the Utility acknowledges that some additional time
15 may have been required by the Utility and by the
16 Audit Staff to appropriately reconcile various
17 expense accounts, the Staff did not remain at the
18 Utility's office for any longer than the two-week
19 period originally allotted by Staff to perform the
20 audit. The on-site audit began on Monday, May 1,
21 2000, and was completed on Friday, May 12, 2000.
22 Furthermore, the Utility made every effort to work
23 with the Staff on a punctual basis.

24

25 **Q. What did the Utility do?**

1 A. On April 7, 2000, approximately three weeks before
2 the Commission's on-site audit commenced, the
3 Commission's audit staff requested the Utility to
4 reconcile operating expense Account Nos. 620, 635,
5 641, 642, and 675. The Utility staff timely
6 provided data tapes to the audit staff prior to
7 the audit. With the data tapes and the assistance
8 of the Utility staff, commission audit personnel
9 were able to verify the accounts in an expedient
10 amount of time and were able to complete the on-
11 site audit within the time period that the
12 Commission audit staff had allotted for it, thus
13 meeting the requirements of PSC Rule 25-30.450,
14 Florida Administrative Code.

15
16 **Q. What does the Order to Show Cause state as to why**
17 **Staff had problems with the audit?**

18 A. The Order to Show Cause (at page 34) states that
19 the problems encountered by the Staff were caused
20 by a "complex utility accounting system" that must
21 be converted to the NARUC format for each rate
22 proceeding and that "clearly is a violation of the
23 requirement to keep the information readily
24 available." The Utility submits that there are
25 some variations in the accounting system

1 necessitated by the large number of systems and
2 jurisdictions involved. Nevertheless, the Utility
3 also submits that the use of an accounting system
4 that may require conversion of the format of
5 certain accounts does not, in and of itself,
6 violate the requirement to keep information
7 readily available. The practical measure of
8 whether there is a violation is whether any
9 significant delays were actually experienced in
10 completing the on-site audit. As previously
11 stated, and to the knowledge of the Utility, the
12 Commission audit staff did not find it necessary
13 to set aside a longer than normal on-site auditing
14 period for this utility because of any "complex
15 utility accounting system".

16

17 **Q In response to the Order to Show Cause, what has**
18 **the Utility done?**

19 A. Since the Order to Show Cause was issued on August
20 23, 2000, the Utility has carefully reviewed its
21 entire Chart of Accounts, as well as the 1996
22 Uniform System of Accounts for Class B Water
23 Utilities. Utility representatives have also
24 talked with members of the FPSC Staff involved in
25 the Wedgefield Utilities, Inc. rate case audit to

1 attempt to determine the specific areas of
2 concern. Through this process, the Utility has
3 been able to determine that there are a few
4 accounts remaining, especially Utility Account
5 Nos. 620 and 675, which the Utility may not be
6 utilizing totally in accordance with the NARUC
7 Uniform System of Accounts.

8

9 On September 13, 2000, the Utility filed its
10 Response and Petition on Final Order Initiating a
11 Show Cause Proceeding, basically setting forth the
12 facts that are contained in my testimony. We
13 thought that the Response and Petition had fully
14 addressed all matters of concern in the Order to
15 Show Cause.

16

17 **Q. Is the Utility in total conformance with the NARUC**
18 **USOA?**

19 **A.** No. The Utility recognizes that, because of a few
20 specific issues remaining with Account Nos. 620
21 and 675 which I just mentioned, it is not in total
22 conformance with the NARUC Uniform System of
23 Accounts. However, the Utility believes that its
24 books and records are in substantial conformance
25 with the NARUC USOA. The Utility further pledges

1 to sufficiently correct these differences by
2 January 31, 2001, if given some guidance from the
3 FPSC Audit Staff.

4

5 **Q. Did you discuss this with Commission Staff?**

6 A. We had been in frequent contact with the staff
7 because of the rate case audit. Also, there was
8 an informal meeting noticed and held at the
9 Commission on October 20, 2000 at which our
10 Response and Petition was discussed. That meeting
11 was attended by all parties, including the
12 Commission Staff, the Utility's attorney and its
13 consultant, and the attorney and two staff members
14 of the Office of Public Counsel (OPC). Several
15 matters, including the show cause order, were
16 discussed. It was learned that Commission Staff
17 might propose a resolution of the show cause issue
18 if the Utility would accept a fine of \$1,000
19 instead of the \$3,000 as originally proposed.

20

21 **Q. What was the basis of the \$1,000 fine?**

22 A. The Utility's representatives didn't know, because
23 we thought all matters had been addressed. They
24 requested specifics on what remained to be
25 accomplished so that the Utility could be in

1 compliance with the NARUC USOA. In response to
2 that request for specifics, a member of the PSC
3 accounting staff joined the meeting and provided
4 several matters which needed to be addressed.
5 Staff was requested to provide that information to
6 the Utility in writing so that we would have
7 something concrete to work on. Staff provided the
8 written response in a letter dated October 23,
9 2000 (Exhibit ^{CJW-3}~~EN-3~~) _____.
10

11 Q. Did the Staff's letter of October 23 provide
12 sufficient guidance to be able to address any
13 remaining alleged deficiencies?

14 A. No. A review of the letter shows that there were
15 two specific items mentioned, but it did not even
16 include most of the other items that were
17 mentioned at the informal meeting on October 20.
18 Other than some of the items mentioned at the
19 meeting, the letter did not mention any other
20 items which remained to be corrected for
21 Wedgefield Utilities, Inc. to be in substantial
22 conformance with the NARUC USOA. The most
23 complete list of alleged deficiencies came from
24 discussions at the informal meeting.
25

1 Q. Did Wedgefield respond to the Staff's concerns?
2 A. Yes. By letter dated October 26 (Exhibit ~~ELN-4~~ ^{CSW-4})
3 _____, Wedgefield responded to each and every
4 remaining matter raised by Staff in its letter of
5 October 23 as well as those additional matters
6 raised at the October 20 meeting. If there is any
7 other problem, we don't know about it. Staff has
8 not identified any other specific problem that
9 they believe needs to be fixed for the Utility to be
10 considered in substantial conformance with the
11 NARUC USOA. We believe we are in substantial
12 conformance.

13
14 Q. What was your response to the matters raised in
15 the Staff's letter.

16 A. We have been working on this matter for quite some
17 time. In response to Staff's letter, I again
18 consulted with appropriate accounting and other
19 personnel at Utilities, Inc. and at Wedgefield
20 Utilities, Inc. so that I could give a current
21 response and address the question of what
22 Wedgefield Utilities, Inc. needs to do in order to
23 bring its books and records into conformance with
24 the NARUC Uniform System of Accounts.
25 In my letter dated October 26, I first commented

1 on the Staffletter's two major contentions with
2 Wedgefield's Response and Petition on Final Order
3 Initiating a Show Cause Proceeding. In regard to
4 the Staff audit, the Utility fully understands
5 that the time necessary to complete an audit
6 report is not limited to the amount of time an
7 audit staff spends on-site. In fact, in paragraph
8 of the Response and Petition, the Utility
9 acknowledged that some additional time may have
10 been required by the Utility and by the Audit
11 Staff to appropriately reconcile various expense
12 accounts prior to the on-site visit. However, the
13 Utility does not follow how this earlier conduct
14 forced any delay in issuing the audit report after
15 completion of the on-site audit, which was not
16 pushed forward due to Staff's requests made prior
17 to the on-site audit.
18 Furthermore, the Utility agrees with Staff's
19 contention that assistance from the Utility staff
20 was necessary to fully reconcile some of the
21 accounts, although it should be duly noted that
22 the Utility made every effort to oblige Staff's
23 request for assistance, in an attempt to avoid
24 delays.
25 In regard to Staff's contention that the Utility

1 did not provide a "usable" electronic data
2 processing (EDP) tape until March 1, 2000, there
3 are some additional, relevant details. First of
4 all, the filing was deemed complete on February
5 29, 2000. This means a "usable" EDP tape was
6 readily available to Staff within one day after
7 the official date of filing. Secondly, any delay
8 experienced with the arrival of a "usable" EDP
9 tape was not due to the Utility's lack of
10 responsiveness or lack of ability to respond.
11 In November of 1999, after receiving a request for
12 the EDP tape, the Utility's IT Manager/Systems
13 Administrator spoke with a member of the
14 Commission Staff. It was suggested by Staff to
15 have the Utility dump the data onto a different
16 form of media than previously used. In December,
17 the Utility's System Administrator sent an e-mail
18 to Staff addressing the types of media available.
19 It was then agreed that the tapes could not be
20 produced during January because of the year-end
21 closing schedule. In February, the Utility sent
22 four sets of tapes. One of the 4mm cassette sets
23 was lost by UPS (the Utility has the receipt), the
24 other set of 4mm cassettes were sent to Mr. Bud
25 Halbert of the Commission Staff for preliminary

1 tests to make sure that all needed information
2 could be extrapolated with this new type of media.
3 In addition, two sets of the old type of tapes
4 were also sent. The Staff found 4 incomplete
5 records in the first of these sets totaling only
6 \$1,577. No fault was determined; however the
7 Utility went ahead and dumped a fourth set of
8 tapes and sent them to Mr. Jeff Small, the
9 Commission Staff's audit manager, by March 1,
10 2000. As a note, this EDP program was written and
11 installed in February of 1997, specifically at the
12 request of the FPSC. Since that time the Utility
13 has revised and updated this program to be
14 compatible with the revised USOA, as well as new
15 forms of media. In the sixteen states in which
16 the Utilities, Inc. subsidiaries provide utility
17 services, Florida is the only Commission that
18 requests information in this manner, and the
19 Utility has made a substantial effort to
20 accommodate this request in a timely manner.

21

22 **Q. Were there other areas of concern expressed in the**
23 **Staff's letter?**

24 A. Yes. The letter stated two areas of concern with
25 the Utility's current accounting and records

1 system: 1) making reference to specific examples
2 of non-conformance included in the audit report,
3 and 2) suggesting that true book balances are
4 necessary in the first column of the minimum
5 filing requirements (MFR's).

6

7 **Q. What is the Utility willing to do to mitigate**
8 **these concerns?**

9 A. The Utility will agree to again thoroughly review
10 the USOA and Rules 25-30.115 and 25-30.450,
11 Florida Administrative Code, by January 31, 2001
12 to ensure compliance on a going forward basis.
13 The Utility also agrees that in future rate cases
14 it will provide the MFR's in a format that will
15 have the unadjusted, true book balance in the
16 first column for purposes of increased clarity,
17 efficiency and convenience to the Staff.

18

19 **Q. What has the Utility already done in response to**
20 **Staff's concerns?**

21 A. As discussed in Wedgefield's Response and Petition
22 filed on September 13, 2000, the Utility already
23 has made a significant good faith effort to modify
24 its accounting system to fully conform to the
25 Florida Commission's interpretation of the NARUC

1 Uniform System of Accounts. However, as also
2 mentioned in Wedgefield's Response and Petition,
3 the Utility has determined that there are a few
4 accounts remaining, especially account numbers 620
5 and 675, that may not be considered in full
6 conformance with the NARUC USOA. The Utility has
7 requested Staff's guidance to correct these few
8 remaining differences in an expedient manner.

9

10 **Q. What were those specific concerns mentioned at the**
11 **meeting, and what is your response to each concern**
12 **expressed?**

13 **A.** The only specific additional Staff requirements
14 included the following, listed in the order in
15 which they were mentioned:

16

17 **Specific concern:** The "Balance per Books" in the
18 MFR's should be shown without any adjustments.

19 **Response:** As stated above, the Utility agrees to
20 conform to this request in future rate cases.

21

22 **Specific concern:** It was alleged that some
23 wastewater items were included in the water
24 accounts.

25 **Response:** This is true, in part, due to the

1 Utility's general allocation methodology. For
2 instance, an office supply invoice billed to a
3 utility system that provides both water and
4 wastewater service initially would be coded to
5 water expense and then a portion would be
6 allocated to wastewater expense. This could
7 especially happen if an invoice does not specify
8 whether each item is water or wastewater.
9 However, in a few cases, an item that may be
10 specifically identifiable to water or wastewater
11 will then be initially coded to water, and then
12 allocated between the two. The Utility will make
13 specific refinements in its accounts payable
14 procedures in an effort to ensure that
15 specifically identifiable items, within a
16 reasonable degree of accuracy, are properly coded
17 to water or wastewater, respectively.

18
19 **Specific concern:** It was requested that the
20 Utility promptly bring the accounting system of
21 any newly acquired utility into substantial
22 conformance with the NARUC USOA within six months
23 after a purchase.

24 **Response:** The Utility is in the business of
25 identifying and purchasing often troubled water

1 and wastewater systems. Inevitably, these
2 utilities have substandard accounting systems and
3 records. The Utility will pledge to do its best
4 to bring each new system into substantial
5 conformance with NARUC USOA, as promptly as
6 possible, in an effort to meet the six-month goal.

7

8 **Specific concern:** It was asserted that "In every
9 case there is a new problem."

10 **Response:** To gain the benefits and advantages of
11 a larger overall system, with professional
12 management, centralized services, and improved
13 quality of services, the Utility is compelled to
14 fix a lot of problems, and not just mains, lines
15 and plant. Accounting and record systems also
16 need upgrading, along with numerous other
17 categories of effort that are required to operate
18 water and wastewater systems and to provide
19 quality services at a reasonable price. The
20 Utility is genuinely trying to identify and
21 resolve the problems which are concerning Staff,
22 but the concern that "In every case there is a new
23 problem" is difficult to address and resolve. I
24 am inclined to believe that a new problem is at
25 least preferred to an old problem that has not yet

1 been corrected. In any event, the Utility again
2 pledges to work to satisfy all legitimate issues
3 raised by Staff.

4

5 **Specific concern:** The last issue discussed at the
6 meeting, in relation to the Order to Show Cause,
7 is the EDP tapes requested for the audit.

8 **Response:** This has been addressed in detail
9 above.

10

11 **Q. Is a fine appropriate in this case?**

12 A. No. The Utility believes that its books and
13 records are in substantial conformance with the
14 NARUC USOA. With the effort that the Utility
15 already has put forth to be in substantial
16 conformance with Staff's interpretation of the
17 NARUC USOA, imposing a fine now would seem to be
18 improperly focused on punishment for prior
19 problems which have been corrected or on the few
20 remaining problems which are being identified and
21 corrected, rather than encouraging conformance in
22 the future.

23

24 **Q. Please summarize your testimony.**

25 A. The Utility believes that its books and records

1 are in substantial conformance with NARUC USOA.
2 The Utility further pledges to work diligently
3 with Staff to correct any remaining specific
4 deficiencies, if there are any, and requests that
5 the Commission waive the proposed fine.

6

7 **Q. What action does Wedgefield request that the**
8 **Commission take?**

9 A. Wedgefield Utilities, Inc. requests that the
10 Commission waive the entire fine proposed in the
11 Order to Show Cause and allow the Utility to work
12 with Staff to resolve any discrepancies remaining
13 after the 1998 modification of its accounting
14 system.

15

16 **Q. Does that conclude your testimony?**

17 A. Yes.

18

19

20

21

22

23

STATE OF FLORIDA

Commissioners:

J. TERRY DEASON, CHAIRMAN
 E. LEON JACOBS, JR.
 LILA A. JABER
 BRAULIO L. BAEZ



DIVISION OF LEGAL SERVICES
 NOREEN S. DAVIS
 DIRECTOR
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Public Service Commission

October 23, 2000

RECEIVED
 OCT 23 2000

Ben E. Girtman, Esquire
 1020 E. Lafayette Street, Suite 207
 Tallahassee, Florida 32301

Office of
 BEN E. GIRTMAN

Re: Docket No. 991437-WU, Application For Increased Water Rates by Wedgefield Utilities, Inc. In Orange County, Florida

Dear Mr. Girtman:

This is in response to your request for guidance as to what Wedgefield Utilities, Inc. needs to do in order to bring its books and records into compliance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), and with Commission rules. Staff analysts and auditors have reviewed Wedgefield's Response and Petition on Final Order Initiating a Show Cause Proceeding, and disagree with two of the major contentions therein.

In regard to paragraph 8, the condition of the utility's books and records and its effect on the length of time audit staff needed to complete the audit report is not limited to the amount of time audit staff spent at the utility's offices in Northbrook, IL. Prior to traveling to the utility's offices, audit staff spent a considerable amount of time reconciling the MFRs to its books and records. No reconciliation would have been possible without the direct intervention and assistance of utility staff.

In regard to paragraph 9, the utility's contention that electronic data processing (EDP) tapes were provided on a timely basis is incorrect. Staff requested EDP tapes on November 4, 1999, and the utility did not provide a "usable" copy until March 1, 2000, which was over three months after the due date. Additionally, the use of EDP information to reconcile the utility's MFRs to its books and records is of limited use because many of the account balances contained in the MFRs are adjusted book balances which were calculated specifically for the current filing.

There are two substantial areas of concern which must be addressed:

The utility's account structure must be brought into compliance with the USOA, so that transactions are recorded correctly as a matter of course. Examples of non-compliance were included in the audit report for this docket, and should be used as a guideline for the types of

Ben E. Girtman, Esquire

Page 2

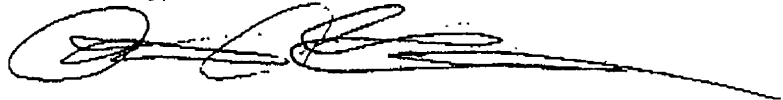
October 23, 2000

corrections needed. Beyond correction of the specific examples, Wedgefield and Utilities, Inc. should thoroughly review the USOA and Rules 25-30.115 and 25-30.450, Florida Administrative Code, and ensure that the accounting system as a whole is in compliance. Staff will be available to provide guidance to the utility, but acting upon guidance from staff on specific issues will not guarantee that the system as a whole will be deemed to be in compliance in future proceedings.

Further, the utility's system must be structured so that Minimum Filing Requirements (MFRs) filed in rate proceedings will have the true book balance in the first column, "Balance per Books." Any adjustments to book balances should be shown in the "Utility Adjustments" column, and explained clearly in supporting worksheets. The utility will be expected to file MFRs which conform to this requirement in all future rate proceedings in Florida.

I hope that this letter provides the specific guidance which you have requested. If you have additional questions, please do not hesitate to contact us.

Sincerely,



Patricia A. Christensen
Senior Attorney

cc: Division of Economic Regulation (Willis, Merchant, Kyle)
Division of Regulatory Oversight (Vandiver, Small)
Division of Legal Services (Fudge, Gervasi)
Division of Records and Reporting (Docket No. 991437-WU)
Office of Public Counsel (Charles Beck, Esquire)

UTILITIES, INC.

2335 Sanders Road
Northbrook, Illinois 60062-6196
Telephone 847 498-6440
Facsimile 847 498-2066

C. Wenz

Docket No. 991437-WU
E. Nicholas
Exhibit (~~EN-4~~) CSW-4
Nicholas letter dtd 10/26/00

October 26, 2000

Ms. Patricia A. Christensen, Esquire
Division of Water and Wastewater
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

**Re: Docket No. 991437-WU, Application For Increased Water Rates by
Wedgfield Utilities, Inc. In Orange County, Florida**

Dear Ms. Christensen:

This letter is in reply to your letter dated October 23, 2000, in which you addressed what Wedgfield Utilities, Inc. needs to do in order to bring its books and records into compliance with the NARUC Uniform System of Accounts. Herein, the Utility will also respond to the issues related to the Order to Show Cause discussed at an informal meeting attended by members of the Commission Staff, Utility representatives, and OPC representatives held on Friday, October 20, 2000. However, I would like to first comment on your letter's two major contentions with Wedgfield's Response and Petition on Final Order Initiating a Show Cause Proceeding.

In regard to the Staff audit, the Utility fully understands that the time necessary to complete an audit report is not limited to the amount of time an audit staff spends on-site. In fact, in paragraph 8 of the above-mentioned Response and Petition, the Utility acknowledges that some additional time may have been required by the Utility and by the Audit Staff to appropriately reconcile various expense accounts prior to the on-site visit. However, the Utility does not follow how this earlier conduct forced any delay in issuing the audit report after completion of the on-site audit, which was not pushed forward due to Staff's requests made prior to the on-site audit. Furthermore, the Utility agrees with Staff's contention that assistance from the Utility staff was necessary to fully reconcile some of the accounts, although it should be duly noted that the Utility made every effort to oblige Staff's request for assistance, in an attempt to avoid delays.

In regard to Staff's contention that the Utility did not provide a "usable" electronic data processing (EDP) tape until March 1, 2000, I will provide some details. First of all, the filing was deemed complete on February 29, 2000. This means a "usable" EDP tape was readily available to Staff within one day after the official filing date. Secondly, let me clarify that any delay experienced with the arrival of a "usable" EDP tape was not due to the Utility's lack of responsiveness. In November of 1999, after receiving a request for the EDP tape, the Utility's IT Manager/Systems Administrator spoke with a member of Staff. It was suggested by Staff to have the Utility dump the data onto a different form of media than previously used. In December, the Utility's System Administrator sent an e-mail to Staff addressing the types of media available. It was then agreed that the tapes could not be produced during January because of the year-end closing schedule. In February, the Utility sent

four sets of tapes. One of the 4mm cassette sets was lost by UPS (the Utility has the receipt), the other set of 4mm cassettes were sent to Mr. Bud Halbert of the Commission Staff for preliminary tests to make sure that all needed information could be extrapolated with this new type of media. In addition, two sets of the old type of tapes were also sent. The Staff found 4 incomplete records in the first of these sets totaling \$1,577. No fault was determined; however the Utility went ahead and dumped a fourth set of tapes and sent to them to Mr. Jeff Small, the Commission Staff's audit manager, by March 1, 2000. As a note, this EDP program was written and installed in February of 1997, specifically at the request of the FPSC. Since that time the Utility has revised and updated this program to be compatible with the revised USOA, as well as new forms of media. In the sixteen states in which Utilities, Inc. provides utility services, Florida is the only Commission that requests information in this manner, and the Utility fully believes it has made a substantial effort to accommodate this request in a timely manner.

Your recent letter also states two areas of concern with the Utility's current accounting and records system: making reference to specific examples of non-compliance included in the audit report, and suggesting that true book balances are necessary in the first column of the minimum filing requirements (MFR's). In an effort to mitigate these concerns, the Utility will agree to again thoroughly review the USOA and Rules 25-30.115 and 25-30.450, Florida Administrative Code by January 31, 2001 to ensure compliance on a going forward basis. The Utility also agrees that in future rate cases it will provide the MFR's in a format that will have the unadjusted, true book balance in the first column for purposes of increased clarity, efficiency and convenience to the Staff.

As discussed in Wedgefield's Response and Petition filed on September 13, 2000, the Utility already has made a significant good faith effort to modify its accounting system to fully comply with the Florida Commission's interpretation of the NARUC Uniform System of Accounts. However, as also mentioned in Wedgefield's Response and Petition, the Utility has determined that there are a few accounts remaining, especially account numbers 620 and 675, that may not be considered in full compliance with the NARUC USOA. The Utility has requested Staff's guidance to correct these few remaining differences in an expedient manner.

Prior to the receipt of your letter, an informal meeting was held at the Public Service Commission on Friday, October 20, 2000, at which Wedgefield's Response and Petition was discussed. The Utility thought it had responded to all outstanding issues in that written response. Therefore, when Staff still insisted on a \$1000 fine, the Utility's representatives requested specifics on what remained to be accomplished so that the Utility would be in substantial compliance with the NARUC USOA. A member of the PSC accounting staff, Ms. Patricia Merchant, joined the meeting to discuss those specific requirements. Those issues are addressed below.

- The "Balance per Books" in MFR's should be shown without any adjustments. The Utility agrees to conform to this in future rate cases, as stated above.

- It was alleged that some wastewater items were included in the water accounts. This is true, in part, due to the Utility's general allocation methodology. For instance, an office supply invoice billed to a utility system that provides both water and wastewater service initially would be coded to water expense and then a portion would be allocated to wastewater expense. However, in a few cases, an item that may be specifically identifiable to water or wastewater will be initially coded to water, and then allocated between the two. This could especially happen if an invoice does not specify whether each item is water or wastewater. The Utility will make specific refinements in its accounts payable procedures in effort to ensure that specifically identifiable items, within a reasonable degree of accuracy, are properly coded to water or wastewater, respectively.

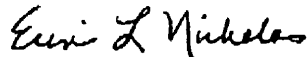
• It was requested that the Utility promptly bring any newly acquired utility's accounting system into substantial compliance with the NARUC USOA within six months after a purchase. The Utility is in the business of identifying and purchasing often troubled water and wastewater systems. Inevitably, these utilities have substandard accounting systems and records. The Utility will pledge to do its best to bring each new system into substantial compliance with NARUC USOA, as promptly as possible, in an effort to meet the six-month goal.

• It was asserted that "In every case there is a new problem." To gain the benefits and advantages of a larger overall system, with professional management, centralized services, and improved quality of services, the Utility is compelled to fix a lot of problems, and not just mains, lines and plant. Accounting and record systems also need upgrading, along with numerous other categories of effort that are required to operate water and wastewater systems and to provide quality services at a reasonable price. The Utility is genuinely trying to identify and resolve the problems which are concerning Staff, but the concern that "In every case there is a new problem" is difficult to address and resolve. I am inclined to believe that a new problem is at least preferred to an old problem that has not yet been corrected. In any event, the Utility again pledges to work to satisfy all legitimate issues raised by Staff.

• The last issue discussed in relation to the Order to Show Cause relates to the EDP tapes requested for the audit. This has been addressed in detail above.

In summary, the Utility believes that its books and records are in substantial compliance with the NARUC USOA. The Utility further pledges to work diligently with Staff to correct any specific issues raised, and requests that the Commission waive the proposed fine. With the effort that the Utility has put forth to be in substantial compliance with Staff's interpretation of the NARUC USOA, imposing a fine now would seem to be improperly focused on punishment for prior problems which have been corrected or on the few remaining problems which are being identified and corrected, rather than encouraging compliance in the future.

Sincerely,



Erin L. Nicholas
Regulatory Analyst

cc: Charles Beck, Esquire (Office of Public Counsel)
Ben E. Girtman, Esquire