

State of Florida



Public Service Commission

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

DATE: May 30, 2002
TO: Economic Regulation (Moniz)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 011451-WS; Plantation Bay Utility Company; **Audit Purpose:** Investigation of 2001 earnings; **Audit Control No.** 02-104-3-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Martin S. Friedman, Esquire
Rose, Sundstrom & Bentley, LLP
2548 Blainstone Pines Drive
Tallahassee, FL 32301

Mr. Douglas Ross, Jr., Manager
Plantation Bay Utility Company
100 Plantation Bay Drive
Ormond Beach, FL 32174

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

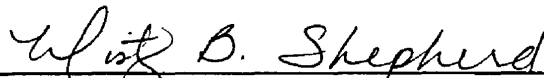
Orlando District Office

PLANTATION BAY UTILITY COMPANY

EARNINGS INVESTIGATION

HISTORICAL PERIOD ENDED DECEMBER 31, 2001

**DOCKET NO. 011451-WS
AUDIT CONTROL NO. 02-104-3-1**



Misty B. Shepherd, Audit Manager



Duane Chamberlin, Audit Staff



Intesar Terkawi, Audit Staff



Charleston J. Winston, District Audit Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

MAY 20, 2002

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 historical 12-month period ended December 31, 2001, for Plantation Bay Utility Company. The attached schedules were assembled by the audit staff as part of our work in the utility's Earnings Investigation, Docket No. 011451-WS.

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.

SUMMARY OF SIGNIFICANT FINDINGS

The utility's accumulated depreciation balances are understated by \$970 and \$2,141 for water and wastewater, respectively, as of December 31, 2001.

The utility's water and wastewater revenues are understated by \$1,223 and \$2,148, respectively, for the 12-month period ended December 31, 2001.

The utility's water and wastewater Regulatory Assessment Fees are understated by \$55 and \$97, respectively, for the 12-month period ended December 31, 2001.

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.

Verified - The items were tested for accuracy, and substantiating documentation was examined.

Assembled - Presented in Commission-required format financial information that was provided to the audit staff and is the representation of utility management.

RATE BASE: Assembled and verified utility-plant-in-service (UPIS) and accumulated depreciation (AD) additions as of December 31, 2001. Reconciled rate base balances authorized in Commission Order No. 01-2480-PCO-WS, issued December 20, 2001, to the utility's general ledger. Verified contributions-in-aid-of-construction (CIAC) and accumulated amortization (AA) additions as of December 31, 2001. Calculated a working capital balance as of December 31, 2001.

NET OPERATING INCOME: Assembled and verified utility revenue and operating and maintenance (O&M) accounts for the 12-month period ended December 31, 2001. Chose a judgmental sample of customer bills and recalculated using FPSC-approved rates. Chose a judgmental sample of O&M expenses and scanned the invoices and other supporting documentation. Tested the calculation of depreciation expense. Scanned support for taxes other than income and income taxes.

CAPITAL STRUCTURE: Assembled and verified the components of the utility parent's capital structure as of December 31, 2001.

Exception No. 1

Subject: Adjustments to Prior Order

Statement of Fact: The utility reported accumulated depreciation balances of \$1,277,470 and \$1,097,999 for water and wastewater, respectively, as of December 31, 2001.

Prior Commission Order No. PSC-01-2480-PCO-WS, issued December 20, 2001, made adjustments to increase accumulated depreciation by \$970 and \$2,141 for water and wastewater, respectively.

Recommendation: The utility did not record the above-mentioned adjustments to accumulated depreciation.

In compliance with the above-mentioned Order, the utility should increase accumulated depreciation by \$970 and \$2,141. The proper accumulated depreciation balances are \$1,278,440 and \$1,095,858, for water and wastewater, respectively, as of December 31, 2001.

Exception No. 2

Subject: Tariff Rates

Statement of Fact: The utility reported revenues of \$240,661 and \$157,273 for water and wastewater, respectively, for the 12-month period ending December 31, 2001.

Per the utility's water tariff, a general service 2-inch meter has a base facility charge of \$141.41, with a gallonage charge of \$2.05 per 1,000 gallons.

Per the utility's wastewater tariff, a general service 2-inch meter has a base facility charge of \$100.75, with a gallonage charge of \$2.12 per 1,000 gallons.

Recommendation: The utility had misclassified some of its meters between residential and general service.

The utility incorrectly billed some of its customers.

The utility should be required to increase its revenues by \$1,223 and \$2,148 for water and wastewater, respectively.

See the following schedules on pages 5 and 6.

The associated increases in the Regulatory Assessment Fees are \$55 ($\$1,223 \times 4.5\%$) for water and \$97 ($\$2,148 \times 4.5\%$) for wastewater.

The Commission should require the utility to use its correct tariff rates.

Exception No. 2, continued

Water Revenues

Account No.	G/R Per Utility	G/R Per Audit	Meter Size	Gallons Used	Per Utility	Per Audit	Difference	Reason
00-0010-2	G	G	2	423,000	\$ 1,927.71	\$ 2,564.07	\$ 636.36	Incorrect Billing
00-0020-2	R	G	5/8 x 3/4	444,000	1,122.24	1,122.24	0.00	Misclassified
00-0030-2	R	G	5/8 x 3/4	39,000	291.99	291.99	0.00	Misclassified
00-0040-2	R	G	5/8 x 3/4	153,000	525.69	525.69	0.00	Misclassified
00-0051-1	R	G	5/8 x 3/4	10,000	240.74	232.54	(8.20)	Misclassified
00-0060-2	R	G	5/8 x 3/4	85,000	386.29	386.29	0.00	Misclassified
03-0027-1	R	R	5/8 x 3/4	38,000	454.87	201.59	(253.28)	Incorrect Billing
04-0004-1	R	G	5/8 x 3/4	69,000	353.49	353.49	0.00	Misclassified
11-0001-2	G	R	5/8 x 3/4	35,000	283.79	283.79	0.00	Misclassified
14-0022-1	G	R	5/8 x 3/4	11,000	234.59	234.59	0.00	Misclassified
15-0190-1	R	G	1 ½	286,000	798.34	1,646.86	848.52	Misclassified
16-0655-1	R	G	5/8 x 3/4	0	0.00	0.00	0.00	Misclassified
16-2120-1	G	R	5/8 x 3/4	156,000	531.84	531.84	0.00	Misclassified
16-2140-2	G	R	1 ½	44,000	<u>178.58</u>	<u>178.58</u>	<u>0.00</u>	Misclassified
Totals					\$ 7,330.16	\$ 8,553.56	\$ 1,223.40	

Exception No. 2, continued

Wastewater Revenues

Account No.	G/R Per Utility	G/R Per Audit	Meter Size	Gallons Used	Per Utility	Per Audit	Difference	Reason
00-0010-2	G	G	2	423,000	\$ 1,652.40	\$ 2,105.76	\$ 453.36	Incorrect Billing
00-0020-2	R	G	5/8 x 3/4	444,000	331.62	1,092.36	760.74	Misclassified
00-0030-2	R	G	5/8 x 3/4	39,000	220.81	233.76	12.95	Misclassified
00-0040-2	R	G	5/8 x 3/4	153,000	358.17	475.44	117.27	Misclassified
00-0051-1	R	G	5/8 x 3/4	10,000	175.86	172.28	(3.58)	Misclassified
00-0060-2	R	G	5/8 x 3/4	85,000	301.56	331.28	29.72	Misclassified
03-0027-1	R	R	5/8 x 3/4	38,000	328.77	155.39	(173.38)	Incorrect Billing
04-0004-1	R	G	5/8 x 3/4	69,000	257.28	297.36	40.08	Misclassified
11-0001-2	G	R	5/8 x 3/4	35,000	225.28	213.03	(12.25)	Misclassified
14-0022-1	G	R	5/8 x 3/4	11,000	0.00	0.00	0.00	Misclassified
15-0190-1	R	G	1 ½	286,000	363.48	1,361.96	998.48	Misclassified
16-0655-1	R	G	5/8 x 3/4	0	0.00	0.00	0.00	Misclassified
16-2120-1	G	R	5/8 x 3/4	156,000	0.00	0.00	0.00	Water Only
16-2140-2	G	R	1 ½	44,000	<u>156.25</u>	<u>80.67</u>	<u>(75.58)</u>	Misclassified
Totals					\$ 4,371.48	\$ 6,519.29	\$ 2,147.81	

Exception No. 3

Subject: Capital Structure

Statement of Fact: The utility reported a balance of \$2,531,000 for “Advances from Associated Companies” as of December 31, 2001. This long-term debt item belongs to Ecocen Corp., the original owners of the development. It has a stated cost rate of 10 percent and an accrued interest balance of \$1,040,367 as of December 31, 2001.

FPSC Order No. PSC-01-2480-PCO-WS, issued December 20, 2001, states:

In Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990245-WS, Sun Communities Finance, the utility recorded related party long term debt with no cost assignment and no available debt instrument. We found that the debt should be characterized as other common equity rather than long-term debt given the related party status of the “debt.” Based on the above, we have adjusted the capital structure to include the debt for Plantation Bay as common equity.

Recommendation: In compliance with the above Order, the utility should be required to record the above \$2,531,000 as other common equity.

Audit Disclosure No. 1

Subject: Pro Forma Rate Base

Statement of Fact: The utility reported UPIS balances of \$2,564,653 and \$2,662,913 for water and wastewater, respectively, as of December 31, 2001.

In a letter dated March 12, 2002, forwarded to the Commission staff in Tallahassee, the utility provided a summary of planned improvements for the water and wastewater plants. This summary included projected capital expenses of \$294,129 and \$128,748 for water and wastewater, respectively. The utility provided the audit staff with supporting documents, in the form of contracts, purchase orders, and invoices, totaling \$274,226 and \$401,335 for water and wastewater, respectively.

Recommendation: Final disposition is deferred to the staff analyst.

EXHIBIT I

**PLANTATION BAY UTILITY COMPANY
WATER RATE BASE
DOCKET NO. 011451-WS
INVESTIGATION OF EARNINGS
AS OF DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO	PER AUDIT(1)
UTILITY PLANT-IN-SERVICE	\$2,564,653	\$0		\$2,564,653
LAND & LAND RIGHTS	33,754	0		33,754
CONTRIBUTIONS-IN-AID- OF-CONSTRUCTION (CIAC)	(1,487,264)	0		(1,487,264)
ACCUMULATED DEPRECIATION	(1,277,470)	(970)	E-1	(1,278,440)
ACCUMULATED AMORTIZATION OF CIAC	395,135	0		395,135
WORKING CAPITAL(2)	<u>0</u>	<u>17,983</u>		<u>17,983</u>
TOTAL	\$228,808	\$17,013		\$245,821

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.
- 2) Working Capital is calculated as 1/8 of O&M Expenses.

EXHIBIT II

**PLANTATION BAY UTILITY COMPANY
WASTEWATER RATE BASE
DOCKET NO. 011451-WS
INVESTIGATION OF EARNINGS
AS OF DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO	PER AUDIT(1)
UTILITY PLANT-IN-SERVICE	\$2,662,914	\$0		\$2,662,914
LAND & LAND RIGHTS	50,631	0		50,631
CONTRIBUTIONS-IN-AID- OF-CONSTRUCTION (CIAC)	(2,146,102)	0		(2,146,102)
ACCUMULATED DEPRECIATION	(1,097,999)	2,141	E-1	(1,095,858)
ACCUMULATED AMORTIZATION OF CIAC	620,500	0		620,500
WORKING CAPITAL(2)	<u>0</u>	<u>12,297</u>		<u>12,297</u>
TOTAL	\$89,944	\$14,438		\$104,382

FOOTNOTES:

1) Small differences can be attributed to rounding errors.

2) Working Capital is calculated as 1/8 of O&M Expenses.

EXHIBIT III

**PLANTATION BAY UTILITY COMPANY
 WATER NET OPERATING INCOME
 DOCKET NO. 011451-WS
 INVESTIGATION OF EARNINGS
 FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO	PER AUDIT(1)
OPERATING REVENUES	\$240,661	\$1,223	E-2	\$241,884
OPERATING EXPENSE				
O&M EXPENSE	143,865	0		143,865
DEPRECIATION EXPENSE	98,907	0		98,907
AMORTIZATION EXPENSE	(41,655)	0		(41,655)
TAXES OTHER THAN INCOME	26,750	55	E-2	26,805
TOTAL OPERATING EXPENSE	<u>\$227,867</u>	<u>\$55</u>		<u>\$227,922</u>
NET OPERATING INCOME	\$12,794	\$1,168		\$13,962

FOOTNOTES:

1) Small differences can be attributed to rounding errors.

EXHIBIT IV

**PLANTATION BAY UTILITY COMPANY
WASTEWATER NET OPERATING INCOME
DOCKET NO. 011451-WS
INVESTIGATION OF EARNINGS
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO	PER AUDIT(1)
OPERATING REVENUES	\$157,273	\$2,148	E-2	\$159,421
OPERATING EXPENSE:				
O&M EXPENSE	98,374	0		98,374
DEPRECIATION EXPENSE	98,147	0		98,147
AMORTIZATION EXPENSE	(84,638)	0		(84,638)
TAXES OTHER THAN INCOME	22,997	97	E-2	23,094
TOTAL OPERATING EXPENSE	<u>\$134,880</u>	<u>\$97</u>		<u>\$134,977</u>
NET OPERATING INCOME	\$22,393	\$2,051		\$24,444

FOOTNOTES:

1) Small differences can be attributed to rounding errors.

EXHIBIT V

**PLANTATION BAY UTILITY COMPANY
AVERAGE CAPITAL STRUCTURE
DOCKET NO. 011451-WS
INVESTIGATION OF EARNINGS
AS OF DECEMBER 31, 2001**

Account Description	Per Utility(1)	Audit Adjustment(1)	Refer To	Per Audit(1)	Ratio	Cost Rate(3)	Weighted Cost Rate(1)
Long-term Debt (5)	\$2,531,000	(\$2,531,000)	E-3	\$0	0.00%	0.00%	0.00%
Other Common Equity	0	2,531,000	E-3	2,531,000	0.00%	0.00%	0.00%
Common Equity(2)	(2,624,564)	2,624,564		0	0.00%	11.34%	0.00%
Customer Deposits(4)	<u>16,667</u>	<u>0</u>		<u>16,667</u>	<u>0.65%</u>	6.00%	0.04%
Total Debt and Equity	(\$76,897)	\$2,624,564		\$2,547,667	100.00%		0.04%

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.
- 2) Negative equity balance is set to 0 for ratemaking purposes.
- 3) Cost rate for common equity was established in Order No. PSC-00-1162-PAA-WS, issued June 26, 2000.
- 4) Customer deposits reported by the utility
- 5) The cost rate on the long-term debt is reported as 10 percent, but no payments have been made and interest has ceased accruing. Therefore, the current cost rate for ratemaking purposes is 0 percent.