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Public Service Commission

May 21, 2003

Mr. Martin S. Friedman  
Rose, Sundstrom & Bentley, LLP  
600 S. North Lake Blvd. Suite 160  
Altamonte Springs, Florida 32701

Re: Docket No. 020407-WS, Application for Increased Water and Wastewater Rates in Polk County for Cypress Lakes Utilities, Inc. - Recommendation For Apparent Violation of Commission Rules Regarding Books and Records for Florida Subsidiaries of Utilities, Inc.

Dear Mr. Friedman:

At the May 6, 2003 Agenda Conference, staff recommended in Docket No. 020407-WS that the utility should be required to show cause why it should not be fined for its apparent violation of Rule 25-30.115, Florida Administrative Code, and several Commission orders for its failure to maintain its books and records in conformance with the NARUC USOA. The Commission directed staff to send a letter to the utility detailing the specific deficiencies in the utilities' books and records, as well as rule deficiencies commonly observed when Commission staff audits the rate case minimum filing requirements for a Utilities, Inc. subsidiary. Listed below are the deficiencies that we believe the utility should correct. As discussed at the Agenda Conference, the utility shall submit a plan to correct these deficiencies within 21 days of the issuance of the Commission order, which is expected to be issued on May 26, 2003.

1. The MFRs are designed with a column titled "Balance Per Books". This column must reflect the balances on the General Ledger. The Annual Report must also reflect the same balances.
2. All adjustments to the utility balances that are included in Commission orders must be booked by the utility within 60 days of the date of the order. The utility must submit documentation showing that these adjustments have been made with 90 days of the date of the order. These adjustments include the following:
  - a. Transfers: when the utility purchases a system, the balances included in the Commission order setting rate base must be recorded on the utility books.
  - b. Adjustments: when the Commission adjusts rate base items in an order that becomes final, these adjustments must be made on the utility books.

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3. The structure of the utility's accounting system, particularly regarding O&M expenses, continues to require significant amounts of staff time to reconcile the MFR filings to the books and records. Specifically, our audit of Account 620 (Materials and Supplies-Water) and Account 720 (Materials and Supplies-Wastewater) is cumbersome, difficult, and time-consuming. We would suggest that the utility add two fields to its General Ledger and accounting reports as follows:

- a. USOA account cross-reference.
- b. Allocation methodology.

If these two fields are added, the Commission staff may be able to sort the General Ledger in a more efficient manner and reconcile the utility accounts to the NARUC accounts in an expeditious manner. Also, we have found some inconsistencies in how a particular account may be allocated in different methodologies for different subsidiaries. (For instance, GL Account #6355010, #6755090, and #6759503 are cross referenced to NARUC account #620. In Cypress Lakes, the amounts are allocated between water and wastewater. In UIF, the amounts are allocated to water only.) The addition of an allocation field will facilitate an efficient reconciliation of the accounting records and the MFRs. We believe that it may also be an opportunity for the utility to verify the consistent application of each allocation methodology.

4. The utility has generally done a good job at matching plant accounts to NARUC accounts. However, Account 310 (Power Generation Equipment) is included in Account 311 (Pumping Equipment).
5. The utility has a four-step policy for retirement of Utility Plant In Service (UPIS). The utility appears to be inconsistent in applying its policy. The utility should develop a method to improve its implementation of its policy, i.e. a new form, procedure, internal control, etc. Two findings regarding this are found in Docket No. 020071-WS (UIF), Exception No. 4 and the undocketed affiliate audit, Exception No. 1. In the UIF audit, staff found \$299,017.94 of additions which did not have corresponding retirements. In the affiliate audit, staff found inadequate documentation regarding the disposition of old computers that are either transferred or destroyed when new ones are purchased.
6. Rule 25-30.140(8), F.A.C., states that the CIAC "amortization rate shall be that of the appropriate account or function where supporting documentation is available to identify the account or function of the related CIAC plant. Otherwise, the composite plant amortization rate shall be used." The audit staff has found that the utility is able to identify the CIAC to specific plant accounts. Therefore, the utility is incorrect in using a composite amortization rate for those systems that CIAC has specifically identified by account. The utility shall begin amortizing CIAC using the corresponding depreciation rates.

Mr. Martin S. Friedman  
Page 3  
May 21, 2003

7. The utility does not maintain adequate documentation regarding its allocation methodology. As discussed in Disclosue No. 2 of the affiliate audit, staff attempted to verify the accuracy of the customer equivalents used to allocate the expenses of Water Services Corporation. In order to complete this task, staff requested gallons of water purchased and pumped and gallons of wastewater treated to determine our own calculation of equivalent residential connections (ERCs) for each company. The company could not provide gallons of wastewater treated for states other than Florida. It claimed that operating reports were not available to provide the information. In addition, some small water plants did not have usage reports. The report of number of customers that the company provided showed water customers and did not break down wastewater number of customers by division. Therefore, we were unable to determine ERCs and unable to determine if the company's computation is reasonable.
8. In a related matter to the above issue, the affiliate audit found evidence that the utility does not allocate costs to systems that the utility does not own but systems for which the utility performs management and/or billing functions.
9. As evidenced by the Cypress Lakes proceeding, the utility does not adequately document its normal "other water uses" such as line flushing and line breaks. The utility should maintain records indicating actual usage or documentation regarding estimation methodology for each individual event, with a monthly summary.

We have collected the above issues from a combination of the four rate cases: Docket Nos. 020071-WS; 020407-WS, 020408-SU, and 020409-SU. We believe that these issues must be addressed in any plan to correct the books and records of any Utilities, Inc. subsidiary so that they are in compliance with Commission rules.

Sincerely,



Denise N. Vandiver  
Bureau Chief of Auditing  
Division of Auditing & Safety



Patricia W. Merchant  
Supervisor, File and Suspend Cases  
Division of Economic Regulation

cc: Office of General Counsel (Harris)  
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