

State of Florida



Public Service Commission

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

DATE: May 28, 2003
TO: Division of Economic Regulation (Kyle)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 020071-WS; **Company Name:** Utilities Inc. of Florida; **Audit Purpose:** Audit rate base, capital structure and net operating income for the approved historic test year ended December 31, 2001;
Audit Control No. 02-249-3-1

On November 15, 2002, I forwarded to you the final audit report for the utility stated above and a copy of the auditor's work papers. Attached you will find a copy of a memo from the auditor regarding the revised pages for the final audit report and workpapers:

Revised Pages for Audit Report:

Page 61 (Schedule U for Exception No. 22)
Page 62 (Schedule V for Exception No. 22)
Page 66 (Exception No. 25)
Page 67 (Schedule W for Exception No. 25)

Revised workpapers:

Workpaper 1 (Audit Report Copy pages 61, 62, 66 & 67 revised))
Workpaper 43 (Operations and Maintenance Expense)
Workpaper 43-15/1, Pages 1 & 2 revised (Schedule U for Exception No. 22, Adjustment to Test Year O & M - Salaries)
Workpaper 53 revised (Taxes Other Than Income)
Workpaper 53-5 revised (Schedule W for Exception No. 25, Adjustment to Test Year Taxes Other Than Income-Payroll Tax Expense)

Please remove the existing pages of the audit report dated November 5, 2002 including the copy of the work papers that were provided to you and insert the attached documents. In addition, a revised copy on disk is enclosed, please place the disk in the workpaper file.

DOCUMENT NUMBER DATE

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FPSC-COMMISSION CLERK

Division of Economic Regulation (Kyle)
Page 2
May 28, 2003

I am sending a copy of the revised pages of the audit report to all the persons who received a copy of the original audit. In addition, a copy of the revised workpapers, listed above, will be provided to all persons who requested a copy of the original workpapers.

DNV/jcp
Attachments

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 (Burgess)

Carl J. Wenz, Vice President - Regulatory
Utilities Inc. of Florida

Mr. Martin Friedman, Esq. and Valerie L. Lord, Esq.
Rose Law Firm

Steven Lubertozzi, Vice President
Utilities Inc. of Florida

Mr. Donald Rasmussen
Utilities Inc. of Florida

State of Florida



Public Service Commission

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

DATE: May 21, 2003
TO: Denise Vandiver, Chief of Auditing
FROM: Jeffery A. Small, Professional Accountant Specialist
RE: Utilities Inc. of Florida, Docket No. 020071-WS

A handwritten signature in black ink, appearing to be "J. Small", written over the "FROM:" line.

The audit staff has completed revision work on the above mentioned docket to correct errors in its original filing. Please incorporate the following documents into the previous audit report dated November 5, 2002, and its corresponding work papers.

Delete

Add

Audit Report pages 61, 62, 66, and 67

Audit Report pages 61, 62, 66, and 67(revised)

W/P 1 pages 61, 62, 66, and 67

W/P 1 pages 61, 62, 66, and 67 (revised)

W/P 43

W/P 43 (revised)

W/P 43-15/1 pages 1 and 2

W/P 43-15/1 pages 1 and 2 (revised)

W/P 53

W/P 53 (revised)

W/P 53-5

W/P 53-5 (revised)

If you have any questions or discover any errors or omissions please feel free to contact me at (407) 317-7342

**Schedule U for Exception No. 22
Adjustment to Test Year O&M - Salaries**

C/E Ratios per Audit		Marion		Orange	Pasco		Pasco	Pinellas	Seminole		Totals
		Water	W/Water	Water	Water	W/Water	<u>Error</u>	Water	Water	W/Water	
County		6.39%		2.10%	41.30%			7.08%	43.12%		100.00%
System		86.87%	13.13%	100.00%	73.04%	26.96%		100.00%	64.91%	35.09%	
<u>Adjusted Salary Expense per Audit</u>											
Operators Salaries (actual)	\$410,576	\$37,877	\$5,640	\$21,146	\$93,087	\$29,074	\$0	\$15,225	\$135,417	\$73,110	\$410,576
UIF Office Salaries	70,477	3,913	591	1,483	21,259	7,847	0	4,993	19,726	10,664	70,477
WSC Salaries	<u>31,307</u>	<u>1,738</u>	<u>263</u>	<u>659</u>	<u>9,444</u>	<u>3,486</u>	<u>0</u>	<u>2,218</u>	<u>8,763</u>	<u>4,737</u>	<u>31,307</u>
Total Adjusted Salaries	512,360	43,528	6,494	23,288	123,790	40,407	0	22,436	163,906	88,511	512,360
<u>Adjusted Salary Expense per Utility</u>											
Operators Salaries (actual)	410,576	37,877	5,640	21,146	93,087	29,074	0	15,225	135,417	73,110	410,576
UIF Office Salaries	70,477	6,132	913	3,522	9,586	2,994	5,062	21,134	13,724	7,410	70,477
WSC Salaries	<u>31,307</u>	<u>2,725</u>	<u>406</u>	<u>1,565</u>	<u>5,964</u>	<u>1,863</u>	<u>0</u>	<u>9,392</u>	<u>6,099</u>	<u>3,293</u>	<u>31,307</u>
Total Adjusted Salaries	512,360	46,734	6,959	26,233	108,637	33,931	5,062	45,751	155,240	83,813	512,360
<u>Adjusted Salary Expense Audit Adjustment</u>											
Operators Salaries (actual)	0	0	0	0	0	0	0	0	0	0	0
UIF Office Salaries	0	(2,219)	(322)	(2,039)	11,673	4,853	(5,062)	(16,141)	6,002	3,254	0
WSC Salaries	<u>0</u>	<u>(987)</u>	<u>(143)</u>	<u>(906)</u>	<u>3,480</u>	<u>1,623</u>	<u>0</u>	<u>7,174</u>	<u>2,664</u>	<u>1,444</u>	<u>0</u>
Total Adjusted Salaries	\$0	(\$3,206)	(\$465)	(\$2,945)	\$15,153	\$6,476	(\$5,062)	(\$23,315)	\$8,666	\$4,698	\$0

Schedule V for Exception No. 22
Adjustment to Test Year O&M - Pension and Benefits

C/E Ratios per Audit	Marion		Orange	Pasco		Pasco	Pinellas	Seminole		Totals	
	Water	W/Water	Water	Water	W/Water	<u>Error</u>	Water	Water	W/Water		
County	6.39%		2.10%	41.30%			7.08%	43.12%		100.00%	
System	86.87%	13.13%	100.00%	73.04%	26.96%		100.00%	64.91%	35.09%		
<u>Adjusted Pension and Benefit Expense per Audit</u>											
Operators P&B (actual)	\$70,293	\$6,372	\$949	\$3,445	\$15,886	\$4,962	\$0	\$2,267	\$23,646	\$12,766	\$70,293
UIF Office P&B	12,973	720	109	273	3,913	1,444	0	919	3,631	1,963	12,973
WSC P&B	<u>12,860</u>	<u>714</u>	<u>108</u>	<u>271</u>	<u>3,879</u>	<u>1,432</u>	<u>0</u>	<u>911</u>	<u>3,600</u>	<u>1,946</u>	<u>12,860</u>
Total Adjusted P&B	96,126	7,806	1,166	3,989	23,678	7,838	0	4,097	30,877	16,675	96,126
<u>Adjusted Pension and Benefit Expense per Utility</u>											
Operators P&B (actual)	70,293	6,372	949	3,445	15,886	4,962	0	2,267	23,646	12,766	70,293
UIF Office P&B	12,973	1,129	168	649	1,766	551	926	3,892	2,527	1,365	12,973
WSC P&B	<u>12,860</u>	<u>1,119</u>	<u>167</u>	<u>643</u>	<u>2,450</u>	<u>765</u>	<u>0</u>	<u>3,858</u>	<u>2,505</u>	<u>1,353</u>	<u>12,860</u>
Total Adjusted P&B	96,126	8,620	1,284	4,737	20,102	6,278	926	10,017	28,678	15,484	96,126
<u>Adjusted Pension and Benefit Expense Audit Adjustment</u>											
Operators P&B (actual)	0	0	0	0	0	0	0	0	0	0	0
UIF Office P&B	0	(409)	(59)	(376)	2,147	893	(926)	(2,973)	1,104	598	0
WSC P&B	<u>0</u>	<u>(405)</u>	<u>(59)</u>	<u>(372)</u>	<u>1,429</u>	<u>667</u>	<u>0</u>	<u>(2,947)</u>	<u>1,095</u>	<u>593</u>	<u>0</u>
Total Adusted P&B	\$0	(\$814)	(\$118)	(\$748)	\$3,576	\$1,560	(\$926)	(\$5,920)	\$2,199	\$1,191	\$0

Exception No. 25

Subject: Taxes Other Than Income - Adjustments to Test Year

Statement of Fact: The utility's MFR filing includes the following payroll tax expense adjustments to its 12-month period ended December 31, 2001.

<u>County</u>	<u>Payroll Tax</u>
Marion-Water	\$4,359
Marion-Wastewater	649
Orange-Water	2,453
Pasco-Water	10,060
Pasco-Wastewater	3,142
Pinellas-Water	5,756
Seminole-Water	13,860
Seminole-Wastewater	<u>7,484</u>
Total Adjustment	\$47,763

The utility's MFRs filing states that the payroll tax expense adjustments reflect the difference between year-end expense and present year expense for the utility system operators and UIF office staff.

Recommendation: The utility provided the audit staff with detailed schedules that compared the year-end 2001 payroll tax expense to the present year actual expense and calculated the proposed test year adjustments. The schedules illustrated the adjustments for the utility system operators, UIF office staff and WSC office staff.

The audit staff's review of the utility's schedules revealed two errors that materially misstate what the proposed payroll tax expense adjustments should be.

1. The utility prepared five separate schedules to calculate the payroll tax expense adjustment for each of the five counties in this rate proceeding. All of the counties except for Pasco County were allocated 14 percent of the UIF office and WSC office payroll tax expense based on a revised customer equivalent (CE) percentage.
2. The utility allocated the UIF office staff and WSC office staff payroll tax expense to the five counties in this rate proceeding based on the regional vice president's estimate of time that he spends on each Florida utility system. The current test year UIF office staff and WSC office staff payroll tax expense are allocated based on CE percentages.

The audit staff has recalculated the utility's proposed adjustment to payroll tax expense and corrected the above-mentioned errors. See Schedule W on the following page for details.

Schedule W for Exception No. 25

Adjustment to Test Year Taxes Other Than Income- Payroll Tax Expense

C/E Ratios per Audit	Marion		Orange		Pasco		Pasco	Pinellas	Seminole		Totals
	Water	W/Water	Water	Water	W/Water	<u>Error</u>	Water	Water	W/Water		
County	6.39%		2.10%		41.30%			7.08%	43.12%		100.00%
System	86.87%	13.13%	100.00%	73.04%	26.96%		100.00%	64.91%	35.09%		
<u>Adjusted Payroll Tax Expense per Audit</u>											
Operators Payroll Tax (actual)	\$33,022	\$3,041	\$453	\$1,696	\$7,484	\$2,338	\$0	\$1,211	\$10,909	\$5,890	\$33,022
UIF Office Payroll Tax	5,701	317	48	120	1,720	635	0	404	1,596	863	5,701
WSC Payroll Tax	<u>9,448</u>	<u>525</u>	<u>79</u>	<u>199</u>	<u>2,850</u>	<u>1,052</u>	<u>0</u>	<u>669</u>	<u>2,644</u>	<u>1,430</u>	<u>9,448</u>
Total Adjusted Payroll Tax	48,171	3,882	580	2,015	12,054	4,025	0	2,284	15,149	8,182	48,171
<u>Adjusted Payroll Tax Expense per Utility</u>											
Operators Payroll Tax (actual)	33,022	3,041	453	1,696	7,484	2,338	0	1,211	10,909	5,890	33,022
UIF Office Payroll Tax	5,701	496	74	285	776	242	408	1,710	1,110	600	5,701
WSC Payroll Tax	<u>9,448</u>	<u>822</u>	<u>122</u>	<u>472</u>	<u>1,800</u>	<u>562</u>	<u>0</u>	<u>2,835</u>	<u>1,841</u>	<u>994</u>	<u>9,448</u>
Total Adjusted Payroll Tax	48,171	4,359	649	2,453	10,060	3,142	408	5,756	13,860	7,484	48,171
<u>Adjusted Payroll Tax Expense Audit Adjustment</u>											
Operators Payroll Tax (actual)	0	0	0	0	0	0	0	0	0	0	0
UIF Office Payroll Tax	0	(179)	(26)	(165)	944	393	(408)	(1,306)	486	263	0
WSC Payroll Tax	<u>0</u>	<u>(297)</u>	<u>(43)</u>	<u>(273)</u>	<u>1,050</u>	<u>490</u>	<u>0</u>	<u>(2,166)</u>	<u>803</u>	<u>436</u>	<u>0</u>
Total Adjusted Payroll Tax	\$0	(\$477)	(\$69)	(\$438)	\$1,994	\$883	(\$408)	(\$3,472)	\$1,289	\$698	\$0

STATE OF FLORIDA

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DIVISION OF AUDITING & SAFETY
DANIEL M. HOPPE, DIRECTOR
(850) 413-6480

Public Service Commission

May 28, 2003

Valerie L. Lord, Esq.
Rose, Sundstrom & Bentley, LLP
600 S. North Lake Blvd. , Suite 160
Altamonte Springs, FL 32701

RE: Docket No. 020071-WS, Application of Utilities, Inc. of Florida for a rate increase
Audit Control No. 02-249-3-1, Your File No. 30057.40

Dear Ms. Lord:

In February 2003 you requested certain copies of the auditor's workpapers for the above captioned docket. One set of workpapers included all of Series 53. I have attached a copy of 53 and 53-5 (revised) for your convenience. Please replace your current copies of 53 and 53-5 with the revised copies attached. These are the only pages that have been revised in the workpapers which you have in your possession.

If you have any questions, please feel free to contact me at (850) 413-6487.

Sincerely,

A handwritten signature in black ink that reads "Denise N. Vandiver".

Denise N. Vandiver, Chief
Bureau of Auditing

DNV/jcp
Attachment

cc: Mr. Martin Friedman, Esq., Rose Law Firm
Jan Kyle, Audit Analyst, Florida Public Service Commission
Steve Burgess, Office of Public Counsel