

ORIGINAL

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: July 1, 2004

TO: Pat Brady, Division of Economic Regulation

FROM: Denise N. Vandiver, Bureau Chief
Bureau of Auditing *DNV*
Division of Regulatory Compliance and Consumer Assistance

RE: **Docket No.** 030747-SU; **Company Name:** Hacienda Utilities, LTD; **Audit Purpose:** Establish Rate Base at transfer of utility as of December 31, 2002; **Audit Control No.** 03-240-2-1

On January 16, 2004, I forwarded to you the final audit report for the utility stated above. Attached you will find a copy of the revised pages for the final audit report:

Revised Pages for Audit Report:

- Page 4 – Disclosure No. 2
- Page 5 – Disclosure No. 3
- Page 6 – Disclosure No. 4

Please remove the existing pages of the audit report dated December 29, 2003 and insert the attached documents.

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 report.

DNV/jcp
Attachments

- CMP _____
- COM _____ cc: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
- CTR _____ Division of the Commission Clerk and Administrative Services (2)
- ECR _____ Division of Competitive Markets and Enforcement (Harvey)
- GCL _____ General Counsel
- OPC _____ Office of Public Counsel
- MMS _____ Kathryn G. W. Cowdery, Esq., Ruden Law Firm
- RCA _____ HV Utility Systems, L.L.C.
- SCR _____ Hacienda Utilities, c/o Diversified Investment Services
- SEC 1 _____ Mr. Allan Martin, Property Manager, Hacienda Utilities, LTD.
- OTH _____

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

REVISED 04/08/04

Disclosure No. 2

Subject: Utility Plant and Land

Statement of Fact: The Commission last set rate base for the utility in Order No. 99-0636-FOF-SU, issued April 5, 1999. This order determined wastewater plant and land, as of October 8, 1998, to total \$355,948 (\$312,506+\$43,442). The utility did not adjust its books and records to reflect the required rate base. The utility balance for plant and land as of December 31, 1998 was \$800,015 (\$568,000+232,015).

The utility does not maintain its books and records in conformity with the NARUC Uniform System of Accounts as required by Rule 25-30.115, Florida Administrative Code. All of the utility's plant is recorded in four general ledger accounts, Land, Building, Building Improvements and Building and Maintenance Equipment. Also, the amounts reported in the Annual Reports do not agree to the general ledger.

The general ledger balance for plant and land as of December 31, 2002 was \$854,604 (\$622,589+232,015).

The Florida Department of Environmental Protection (DEP) required the utility to make improvements at the wastewater treatment plant (WWTP) holding pond for sludge removal and disposal. In discussion with the PSC analyst and engineer, it was determined that the associated costs should be capitalized

Recommendation: The utility's plant and land accounts should be adjusted to reflect the balances approved by the Commission with Order No. 99-0636-FOF-SU, reflect the costs incurred to be in compliance with DEP requirements and other audit adjustments.

A summary of the proposed adjustments follows:

Plant in Service per Utility's General Ledger		\$622,589
Add: WWTP upgrades per DEP	325,066	
Add: Items to capitalize	16,660	
Less: Adjustment to prior Order	(255,494)	
Less: Capitalized repairs	<u>(1,150)</u>	
		<u>85,082</u>
Plant in Service Per Audit		<u>\$707,671</u>
Land per Utility's General Ledger		\$232,015
Adjustment to prior Order		<u>(188,573)</u>
Land per audit		<u>\$ 43,442</u>

REVISED 04/08/04

Disclosure No. 3

Subject: Accumulated Depreciation

Statement of Fact: Hacienda Utilities, Ltd. did not adjust its books and records to reflect the rate base set by the Commission in Order No. 99-0636-FOF-SU. The utility has not been depreciating plant using guideline rates as required by Rule 25-30.140, Florida Administrative Code. It has been using a fifteen-year life for all depreciable assets.

Recommendation: The utility's books and records reflect incorrect plant balances being depreciated at incorrect rates. The accumulated depreciation accounts have been recalculated using approved rates and balances. A summary of the proposed adjustments follows:

Accumulated depreciation per utility @ 12/31/02	\$172,794
Adjustment to prior Order (181,734 - 9,421)	172,313
Accumulated depreciation 10/8 - 12/31/98	4,453
Recalculation of accumulated depreciation using correct plant balances and guideline rates	<u>(69,215)</u>
Accumulated depreciation per audit @ 12/31/02	<u>\$280,345</u>

REVISED 04/08/04

Disclosure No. 4

Subject: Contributions in Aid of Construction (CIAC)

Statement of Fact: Rule 25-30.140, Subsection 8 (a), F.A.C. states in part “Where CIAC records are not kept by account, the depreciation rates shall be applied to the entire depreciable plant . . . the composite plant amortization rate shall be used.”

The utility books do not reflect any CIAC or related amortization of CIAC. PSC Order 99-0636-FOF-SU, issued April 5, 1999, set balances of CIAC and Accumulated Amortization of CIAC to be \$35,264 and \$22,315 respectively.

Recommendation: The auditor used additions per the Annual Report and recalculated CIAC and amortization using the annual composite depreciation rates derived from the 1998 - 2002 depreciation schedules. As of December 31, 2002, the balance of CIAC should be \$47,864 and \$32,993 for accumulated amortization.