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Public Service Commission

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**DATE:** April 23, 2007  
**TO:** Stephen B. Fletcher, Professional Accountant Specialist, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance  
**RE:** **Docket No: 060285-SU; Company Name: Utilities, Inc. of Sandalhaven**  
**Audit Purpose: Audit the utilities wastewater rate base, capital structure, and net income; Company Code: SU809; Audit Control No: 07-052-4-1**

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 Commission Clerk. There are confidential work papers associated with this audit.

DNV:bj  
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)  
Division of Commission Clerk (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

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- COM \_\_\_\_\_ Mr. Patrick C. Flynn
- CTR \_\_\_\_\_ Utilities, Inc. of Sandalhaven
- ECR \_\_\_\_\_ 200 Weathersfield Avenue
- ECR \_\_\_\_\_ Altamonte Springs, FL 32714
- GCL \_\_\_\_\_ Steve Lubertozi, Director
- OPC \_\_\_\_\_ Regulatory Accounting
- RCA \_\_\_\_\_ Utilities, Inc. of Sandalhaven
- SCR \_\_\_\_\_ 200 Weathersfield Avenue
- SCR \_\_\_\_\_ Altamonte Springs, FL 32714
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FLORIDA PUBLIC SERVICE COMMISSION  
DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
BUREAU OF AUDITING

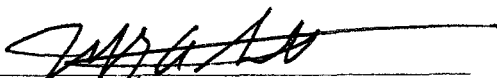
*Miami District Office*

UTILITIES INC. OF SANDALHAVEN  
FILE AND SUSPEND RATE CASE INVESTIGATION

AS OF DECEMBER 31, 2006

DOCKET NO. 060285-SU  
AUDIT CONTROL NO. 07-052-4-1

  
Kathy L. Welch, Audit Manager

  
Jeffery A. Small, Audit Staff

  
Iliana Piedra, Regulatory Accountant  
Specialist

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**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
AUDITOR'S REPORT**

**April 17, 2007**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED  
PARTIES**

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated February 21, 2007. We have applied these procedures to the 2006 projected costs on the attached schedules which were prepared by Utilities, Inc. of Sandalhaven in support of its filing for rate relief in Docket No. 060285-SU.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

## OBJECTIVES AND PROCEDURES

### RATE BASE

#### General

*Objective:* To determine that the utility's filing represents its recorded results from continuing operations.

*Procedures:* We reconciled the following individual component rate base balances to the 2005 audit workpapers. We audited the additions in the 2006 general ledger and compared the ledger to the projected amounts in the filings. Audit Finding No. 1 shows the comparison of adjusted actual to projected 2006 rate base components.

#### Utility-Plant-in-Service

*Objective:* In our audit of 2005 we determined that property exists and is owned by the utility. In this audit, we were to determine that additions in 2006 to plant in service were authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC Uniform System of Accounts. Also, we verified that the proper retirements of UPIS were made when a replacement item was put in service.

*Procedures:* We sampled UPIS additions for the period January 1, 2006 through December 31, 2006 for compliance with the stated objectives above. We verified that the utility properly recorded retirements when a capital item was removed or replaced. In the prior audit, we toured the utility plant sites late in 2006 to observe whether asset additions were completed and to ascertain if asset retirements were properly recorded. We used those observations in this audit also. We sampled construction project additions and the corresponding source documentation. We verified that the utility used Commission approved AFUDC rates and traced the capitalized salaries to individual employee time sheets. Audit Finding No. 4 discusses legal fees charged to Franchise Costs for the agreement with the Englewood Water District. Audit Finding No. 3 discusses the correction made for Finding 2 in the 2005 audit. Audit Finding No. 5 discusses cancelled projects due to the change in plans for the plant. The utility has still not corrected its books for Finding 3 in the 2005 audit. The finding still applies and needs to be made. It has not been repeated in this audit report. Audit Finding No. 6 discusses the transportation allocations that were not reversed by the company.

#### Land and Land Rights

*Objective:* To determine that utility land is recorded at original cost and is owned or secured under a long-term lease.

*Procedures:* We verified the changes to utility land since its last rate proceeding by searching public records. We obtained the deeds for land additions and verified that they were recorded at original cost. We examined other additions to land to determine if they were properly recorded in the land account. Audit Finding No. 2 discusses our adjustments to correct the land account for a \$10,000 deposit not recorded.

### Contributions-in-Aid-of-Construction (CIAC)

*Objective:* To determine that additions to CIAC in 2006 are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that CIAC additions are reflective of the utility's Commission approved service availability tariff. To verify and insure that all donated property is properly accounted for and recorded as CIAC and plant.

*Procedures:* We sampled CIAC additions for the period January 1, 2006 through December 31, 2006 for compliance with the stated objectives above. We reviewed developer agreements for unrecorded CIAC. We traced utility CIAC schedules to the general ledger and the utility's authorized tariff rates. We toured the utility's authorized service territory late in 2006 to look for new developments that may have been included in contributed property. Audit Finding No. 7 provides information on potentially unrecorded utility infrastructure that may have been contributed to the utility by developers.

### Accumulated Depreciation

*Objective:* To determine that accruals to accumulated depreciation in 2006 are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that depreciation expense accruals are calculated using the Commission authorized rates and that retirements are properly recorded.

*Procedures:* We traced the accumulated depreciation schedules to the corresponding plant in service schedules. We verified that the utility used Commission authorized rates to depreciate its plant accounts by calculating a sample of accumulated depreciation account balances to test for calculation errors. We verified that the utility properly recorded retirements to accumulated depreciation when the corresponding UPIS was removed or replaced. We recalculated a sample of accumulated depreciation account balances as of December 31, 2006. Audit Finding No. 12 discusses depreciation rates not in compliance with Commission rules. Audit Finding No. 4 discusses depreciation on the corrected franchise fees. Audit Finding No. 5 discusses depreciation on cancelled projects. Audit Finding No. 6 discusses the error in allocating accumulated depreciation on transportation equipment.

### Accumulated Amortization of CIAC

*Objective:* To determine that accruals to accumulated amortization of CIAC in 2006 are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that CIAC amortization expense accruals are properly recorded and calculated based on the rates and method used in the utility's last rate proceeding.

*Procedures:* We traced the accumulated amortization of CIAC schedules to the corresponding CIAC schedules. We verified that the utility used Commission authorized rates to amortize its CIAC accounts by calculating a sample of accumulated amortization account balances to test for calculation errors. We recalculated a sample of accumulated amortization of CIAC account balances as of December 31, 2006.

### Working Capital

*Objective:* To determine that the utility's working capital balance is properly calculated in compliance with Commission rules.

*Procedures:* We recalculated the utility's working capital balance as of December 31, 2006.

## **NET OPERATING INCOME**

### General

*Objective:* To determine that the utility's filing represents its results from continuing operations.

*Procedures:* We reconciled the following individual components of projected net operating income (NOI) balances to the utility's general ledger for the 12-month period ended December 31, 2006. Audit Finding No. 1 shows the comparison of adjusted actual to projected 2006 (NOI components).

### Revenues

*Objective:* To determine that revenues in 2006 are properly recorded in compliance with Commission rules and are based on the utility's Commission approved tariff rates.

*Procedures:* We traced revenues to the general ledger and utility billing registers and selected a sample of customer bills from each customer rate class on a random basis, and recalculated the bills using the Commission approved tariff rates. Audit Finding No. 9 discusses a correction and comparison to projected revenues.

### Operation and Maintenance Expenses (O&M)

*Objective:* To determine that operation and maintenance expenses in 2006 are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

*Procedures:* We sampled O&M expense items from the general ledger based on auditor judgment. We reviewed the sample for the proper utility system, classification, NARUC account, amount, period and recurring nature. We examined invoices and supporting documentation to determine if the above objectives were met. We obtained the detail for direct and allocated salaries. We compared 2006 allocations to 2005 allocations and investigated differences. We compared uncollectible expense to the five year average of uncollectible amounts to revenue. We compared rate case expense to the last rate order. Audit Finding No. 10 discusses our adjustment to the utility's prior rate case expense balance. Audit Finding No. 11 discusses hurricane costs charged in 2006.

### Taxes-Other-Than-Income

*Objective:* To determine that taxes other than income tax expense in 2006 is properly recorded and in compliance with Commission rules and reasonable and prudent for ongoing utility operations.

*Procedures:* We obtained the regulatory assessment fee filings and reconciled them to the general ledger. We obtained the property tax bills for review and to determine

if the amount booked reflects the discount amount. We reviewed the percent of payroll tax to total salaries for reasonableness. Audit Finding No. 13 discusses allocated Regulatory Assessment Fees that should not have been included.

### Depreciation Expense

*Objective:* To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of UPIS assets and amortization of CIAC assets for ongoing utility operations.

*Procedures:* We recalculated depreciation expense and CIAC amortization expense balances for the period using Commission approved rates and we verified that CIAC amortization expense was properly netted against depreciation expense. Audit Finding No. 12 discusses our adjustment to depreciation and CIAC amortization expense balances because the utility does not use Commission rates.

## **CAPITAL STRUCTURE**

### General

*Objective:* To determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules and that the components accurately represent the ongoing utility operations.

*Procedures:* We reconciled the following individual component capital structure balances to the utility's general ledger as of December 31, 2006. We recalculated the overall weighted cost of capital for the Projected Test Year Ended 2007. Audit Finding No. 8 provides information on the utility's capital structure component balances.

### Long-Term-Debt

*Objective:* To determine that long-term debt balances represent actual obligations of the utility's parent and that they are properly recorded in compliance with Commission rules.

*Procedures:* We compared actual debt balances and interest rates to the projected debt.

### Short-Term-Debt

*Objective:* To determine that short-term debt balances represent actual obligations of the utility's parent and that they are properly recorded in compliance with Commission rules.

*Procedures:* We compared actual debt balances and interest rates to the projected debt.

### Accumulated Deferred Income Taxes

*Objective:* To determine that accumulated deferred income taxes are properly stated and calculated based on the recorded differences between utility book and taxable income.

*Procedures:* We compared actual deferred tax balances to the projected taxes.



Customer Deposits

*Objective:* To determine that customer deposit balances represent actual obligations of the utility and are properly recorded in compliance with Commission rules.

*Procedures:* We compared actual deposits to the projected deposits.

**AUDIT FINDING NO. 1**

**SUBJECT: COMPARISON OF ACTUAL TO PROJECTED 2006**

**AUDIT ANALYSIS:** The actual 2006 ledger of the utility was compared to the 2006 projections in the filing. The following is a summary of the comparisons for both rate base and net operating income.

	2006 PROJECTED YEAR END	2006 ACTUAL YEAR END	STAFF ADJUSTMENTS	2006 ACTUAL ADJUSTED	DIFFERENCE YEAR END
PLANT	7,542,189.00	7,601,467.21	(388,206.54) A	7,213,260.67	328,928.33
LAND	154,429.00	156,259.67	10,000.00 B	166,259.67	(11,830.67)
ACCUMULATED DEPRECIATION	(912,373.00)	(974,114.70)	37,179.30 C	(936,935.40)	24,562.40
CIAC	(4,577,818.00)	(3,188,750.29)		(3,188,750.29)	(1,389,067.71)
AMORTIZATION OF CIAC	914,399.00	910,031.91		910,031.91	4,367.09
WSC RATE BASE				0.00	0.00
WORKING CAPITAL				0.00	0.00
NET YEAR END RATE BASE	<b>3,120,826.00</b>	<b>4,504,893.80</b>	<b>(341,027.24)</b>	<b>4,163,866.56</b>	<b>(1,043,040.56)</b>
	2006 PROJECTED AVERAGE	2006 ACTUAL AVERAGE	STAFF ADJUSTMENTS	2006 ACTUAL ADJUSTED	DIFFERENCE AVERAGE
PLANT	4,843,968.00	4,902,521.36	(200,241.79) A	4,702,279.58	141,688.43
LAND	141,508.00	142,423.93	10,000.00 B	152,423.93	(10,915.93)
ACCUMULATED DEPRECIATION	(876,178.00)	(923,998.19)	18,589.65 C	(905,408.54)	29,230.54
CIAC	(3,422,131.00)	(2,741,250.29)		(2,741,250.29)	(680,880.71)
AMORTIZATION OF CIAC	854,449.00	869,650.36		869,650.36	(15,201.35)
WSC RATE BASE	7,458.00			0.00	7,458.00
WORKING CAPITAL	42,556.00	44,790.88	(1,178.72) D	43,612.16	(1,056.16)
	<b>1,591,630.00</b>	<b>2,294,138.05</b>	<b>(172,830.86)</b>	<b>2,121,307.19</b>	<b>(529,677.19)</b>
	2006 PROJECTED	2006 ACTUAL	STAFF ADJUSTMENTS	2006 ACTUAL ADJUSTED	DIFFERENCE
REVENUE	(271,910.00)	(282,573.00)		(282,573.00)	10,663.00
OPERATION AND MAINTENANCE EXP	340,841.00	358,327.06	(9,429.75) E	348,897.31	(8,056.31)
DEPRECIATION	8,890.00	19,117.09	17,665.16 F	36,782.25	(27,892.25)
TAXES OTHER THAN INCOME	42,935.00	46,815.13	(1,715.38) G	45,099.75	(2,164.75)
	<b>392,666.00</b>	<b>424,259.28</b>	<b>6,520.03</b>	<b>430,779.31</b>	<b>(38,113.31)</b>

	YEAR END	AVERAGE
A-FINDING 3	(6,077.03)	(6,077.03)
FINDING 3 PRIOR AUDIT	(6,200.00)	(6,200.00)
FINDING 4	(9,915.90)	(4,957.95)
FINDING 5	(326,940.12)	(163,470.06)
FINDING 6	(39,073.49)	(19,536.75)
	<u>(388,206.54)</u>	<u>(200,241.79)</u>

B-To add land deposit of \$10,000 Y/E AND AVERAGE (FINDING 2)

C-FINDING 3 PRIOR AUDIT	517.00	258.50
FINDING 4	177.19	88.60
FINDING 5	6,269.00	3,134.50
FINDING 6	30,216.11	15,108.06
	<u>37,179.30</u>	<u>18,589.65</u>

D- 1/8 of adjustments to E

E-FINDING 11	(5,500.00)
FINDING 11	(401.00)
FINDING 10	(3,528.75)
	<u>(9,429.75)</u>

F-FINDING 3 PRIOR AUDIT	(207.00)
FINDING 4	(177.19)
FINDING 5	(6,269.00)
FINDING 12	24,318.35
	<u>17,665.16</u>

G-Remove allocated regulatory assessment fees. \$1,715.38 FINDING 13

H- SEE FINDING 9

The utility computed its average CIAC, Accumulated Depreciation and Accumulated Amortization using its 2005 average plus its 2006 projection and divided the total by two. The average computation should have used the 2005 historic balance instead of the average. This error is corrected in the computation above.

**EFFECT ON GENERAL LEDGER:** This finding is presented for informational purposes only.

**EFFECT ON FILING:** This finding is presented for informational purposes only.

## **AUDIT FINDING NO. 2**

### **SUBJECT: ADJUSTMENT TO LAND**

**AUDIT ANALYSIS:** The utility's filing reflected \$93,588 of additions to Acct. No. 353 - Land and Land Rights during the test year 2005 for a proposed treatment plant expansion. The utility purchased a parcel of land adjacent to the wastewater treatment plant for \$100,000. The closing statement for the above transaction indicates that there was a \$10,000 deposit placed at the time when the sales contract was signed. The land balance of \$93,588 includes some legal costs but does not include this deposit. We could not determine what utility account the deposit was posted in.

The warranty deed was executed on August 15, 2005. In our last audit, we had assumed that the land would not be used because of an agreement with Englewood Water District to process the wastewater.

In 2006, the utility entered into a land swap agreement where it transferred this land for a parcel at the entrance to the plant. Prior to this swap, the utility did not have legal access to the utility plant. The land was transferred for an equal value.

**EFFECT ON GENERAL LEDGER:** Utility Acct. No. 3537002 - Land should be increased by \$10,000 for the deposit. We cannot determine in which company the utility originally booked the deposit and therefore cannot prepare the entry.

**EFFECT ON FILING:** The utility's actual balance for land should be increased by \$10,000 as of December 31, 2005. The actual average rate base should be increased by \$10,000. See Audit Finding 1.

**AUDIT FINDING NO. 3**

**SUBJECT: ADJUSTMENT TO ORGANIZATION COST**

**AUDIT ANALYSIS:** The utility's filing for 2005 reflected a year end balance of \$27,106 in Acct. No. 351 - Organization Cost with an average balance of \$14,237 as of December 31, 2005.

Our last report discussed the additions to the Organization account were for legal fees related to the new land purchase.

In 2006, the utility transferred \$21,028.97 from Account No. 3511001 to 3537002 which is a land account. Therefore, only \$6,077.03 of the adjustment from the prior audit is still necessary.

Actual ledger balances did not contain any depreciation for Organization costs so the adjustment made to expense in 2005 for this finding is not needed in 2006.

**EFFECT ON GENERAL LEDGER:** The following general ledger entries are needed to correct the utility's general ledger balances.

Utility <u>Acct No</u>	NARUC <u>Acct No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
186****	186	Deferred Asset	\$6,077	
3511001	363	Organization Cost		\$6,077

**EFFECT ON FILING:** The utility's actual average rate base should be reduced by \$6,077 to remove all organization cost as reported in its filing. No adjustment is required for accumulated depreciation and depreciation expense because the utility did not include these balances in its filing. See Audit Finding No. 1.

**AUDIT FINDING NO. 4**

**SUBJECT: FRANCHISE CHARGES FOR ENGLEWOOD WATER DISTRICT**

**AUDIT ANALYSIS:** Legal fees related to the agreement with the Englewood Water District totaling \$9,915.90 were charged to account 3521020, Franchises. The two agreements with the Englewood Water District were for plant capacity. They were not franchise agreements. The utility charged the plant capacity fees to account 3542011. The description of Account 354 in the Uniform System of Accounts for Class A Wastewater Utilities does not include legal costs related to the plant projects.

Therefore, these costs would more appropriately be classified as account 733 Contract Services Legal. Since this was an unusual expense, the cost would be considered non-recurring for setting rates and is therefore not included in the comparison of actual costs to projected costs for 2006 in operation and maintenance expense.

Depreciation on these additions was computed as follows:

VENDOR	AMOUNT	DATE	RATE	MONTHS	DEPRECIATION
8286*15871*CROSSETT	850.80	Feb. 2006	0.21%	11	19.50
10421*08662*ROSE SUN	1,016.25	Feb. 2006	0.21%	11	23.29
14786*08662*ROSE SUN	1,875.25	April 2006	0.21%	9	35.16
18079*08662*ROSE SUN	1,403.00	May 2006	0.21%	8	23.38
18079*08662*ROSE SUN	3,543.25	May 2006	0.21%	8	59.05
19231*08662*ROSE SUN	703.85	June 2006	0.21%	7	10.26
21475*08662*ROSE SUN	523.50	July 2006	0.21%	6	6.54
	<u>9,915.90</u>				<u>177.19</u>

**EFFECT ON GENERAL LEDGER:** The following entry should be made:

ACCOUNT		DEBIT	CREDIT
733xxx	LEGAL EXPENSE	9,915.90	
1084020	ACCUMULATED DEPRECIATION FRANCHISE	177.19	
3521020	FRANCHISE		9,915.90
4032020	DEPRECIATION EXPENSE FRANCHISE		177.19

**EFFECT ON FILING:** Year end actual Franchise Costs should be reduced by \$9,915.90 which reduces plant in service. Year end actual Accumulated Depreciation and Depreciation Expense should be reduced by \$177.19. The average plant should be decreased by \$4,957.25 and accumulated depreciation by \$88.58. See Audit Finding No. 1.

**AUDIT FINDING NO. 5**

**SUBJECT: CANCELLED PROJECTS**

**AUDIT ANALYSIS:** The utility capitalized two projects to plant in service that were actually cancelled when the utility decided to complete an interconnection an interconnection with the Englewood Water District. The first project was for the wastewater treatment plant expansion and the second related to design and engineering of a deep well injection. The cost of the Engineering for the wastewater plant was \$227,056.37 and was charged to account 3804005. The depreciation taken was \$4,329. The cost for the deep well injection was charged to account 3542011 and was \$99,883.75. The depreciation was \$1,940.

According to the Uniform System of Accounts for Class A Wastewater Utilities, preliminary survey and investigation expenses related to abandoned projects should be charged to account 426 Miscellaneous Non-utility Expenses. Therefore, these costs should be removed from plant in service.

**EFFECT ON GENERAL LEDGER:** The following entry should be made:

ACCOUNT		DEBIT	CREDIT
426XXXX	MISCELLANEOUS NON-UTILITY EXPENSES	326,940.12	
3804005	TREATMENT AND DISPOSAL EQ.		227,056.37
3542011	TREATMENT PLANT		99,883.75
1084005	ACCUMULATED DEPRECIATION T & D EQ.	4,329.00	
1084011	ACCUMULATED DEPRECIATION PLANT	1,940.00	
4033005	DEPRECIATION EXPENSE T & D EQUIP.		4,329.00
4033011	DEPRECIATION EXPENSE PLANT		1,940.00

**EFFECT ON FILING:** The year end actual plant should be reduced by \$326,940.12 and average plant reduced by \$163,470.06. The year end actual accumulated depreciation should be reduced by \$6,269 and average accumulated depreciation reduced by \$3,134.50. The actual depreciation expense should be reduced by \$6,269. See Audit Finding No. 1.

**AUDIT FINDING NO. 6**

**SUBJECT: ALLOCATED TRANSPORTATION PLANT AND ACCUMULATED DEPRECIATION**

**AUDIT ANALYSIS:** In July of 2006, the utility started using a new methodology to allocate transportation equipment and its related accumulated depreciation and depreciation expense. The utility now enters the allocated amount in plant and accumulated depreciation each quarter and then reverses it before entering the total allocated amount the next quarter. In 2006, the utility did not reverse the third quarter allocations. Therefore, plant and accumulated depreciation for transportation equipment is overstated. The third quarter entry needs to be reversed.

**EFFECT ON GENERAL LEDGER:** The following entry should be made:

ACCOUNT	DESCRIPTION	DEBIT	CREDIT
	UIF Receivable	38,144.55	
	WSC Receivable	928.94	
3917000	Transportation Plant		39,073.49
1082000	Accumulated Depreciation	30,216.11	
	UIF Receivable		171.71
	WSC Receivable		30,044.40

**EFFECT ON FILING:** The actual year end plant should be reduced by \$39,073.49 and average plant reduced by \$19,536.75. The actual year end accumulated depreciation should be reduced (debited) by \$30,216.11 and average accumulated depreciation reduced by \$15,108.05. See Audit Finding No. 1



## **AUDIT FINDING NO. 7**

### **SUBJECT: INFORMATION ON POTENTIAL UNRECORDED CIAC INFRASTRUCTURE**

**AUDIT ANALYSIS:** The utility provided the audit staff with a detailed schedule of tap fee connections to support its recorded CIAC additions for the years 2002 through 2006.

The audit staff recognizes that some developers may have retained ownership of the utility infrastructure once connected to the utility's system. However, without an agreement or other documentation, we cannot determine if this is the case.

The recording of contributed property would have no net effect on the utility's net rate base, and O&M expenses because the asset and expense accounts would offset each other. The NARUC Uniform System of Accounts, however, requires recording all UPIS and CIAC additions to the general ledger.

The utility did not record contributed property from Heartstone Developer, Hacienda Del Mar , Hammocks Cape Haze, Cape Haze Resort, Placida HG, LLP and the Cape Haze Plaza addition. These developer agreements state that, "All of the off-site Facilities installed by Developer pursuant to this Agreement shall become the property of Utility as installed." The utility was asked to explain if this related Plant in Service and CIAC were recorded. The utility indicated in its response that there has been no contributed property for any of the above-mentioned developments. No adjustment was made in 2006 for this finding. In the last three agreements, property has not been completed and accepted by the utility.

According to the National Association of Regulatory Utility Commissioners (NARUC), Account 271 Contribution in Aid of Construction should include any amount or item of money, services and property received by a utility, from any person or governmental agency.

**EFFECT ON GENERAL LEDGER:** When an amount of contributed assets is determined, UPIS and CIAC should be increased and the corresponding additions should then be depreciated and amortized at the same rates as prescribed in Rule 25-30.140, F.A.C. and recorded in the appropriate rate base accounts.

**EFFECT ON FILING:** All of the above balances, when determined, would be offsetting so that there is no effect on the utility's filing.

## AUDIT FINDING NO. 8

### SUBJECT: CAPITAL STRUCTURE BALANCES

**AUDIT ANALYSIS:** The utility's filing reflects the following capital structure balances for Utilities, Inc. (parent) prior to its reconciliation with Utilities Inc. of Sandalhaven's (utility) rate base as of December 31, 2005.

Class of Capital	Prior Year 12/31/2004	Test Year 12/31/2005	Average	Cost Rate
Long Term Debt	\$112,803,215	\$135,285,191	\$124,044,203	6.81%
Short Term Debt	18,768,000	3,926,000	11,347,000	2.00%
Common Equity	88,963,597	92,611,247	90,787,422	11.77%
Customer Deposits	16,500	16,500	16,500	6.00%
Acc. Deferred Income Tax	<u>142,890</u>	<u>148,865</u>	<u>145,878</u>	0.00%
Totals	\$220,694,202	\$231,987,803	\$226,341,003	

The utility used the above balances to calculate and project its requested cost of capital balances for the historical 2005 and projected 2006 and 2007 reconciled rate base balances in its filing which are displayed below.

Class of Capital	Average 2005 Historical	Average 2006 Projected	Average 2007 Projected	Cost Rate
Long Term Debt	\$126,738	\$783,851	\$1,553,778	6.81%
Short Term Debt	11,593	71,703	142,133	2.00%
Common Equity	92,759	573,697	1,137,203	11.77%
Customer Deposits	16,500	16,500	16,500	6.00%
Acc. Deferred Income Tax	<u>145,878</u>	<u>148,878</u>	<u>145,878</u>	0.00%
Totals	\$393,468	\$1,594,629	\$2,995,491	

The Commission's Division of Regulatory Compliance and Consumer Assistance, at the request of The Division of Economic Regulation, performed an audit of Utilities, Inc. of Sandalhaven for the 12-month period ended December 31, 2005, in this proceeding. The audit report, issued October 4, 2006, recommended specific adjustments that increased the parent's average common equity balance by \$3,093,004 and reduced the long-term debt cost rate by 0.08 percent as of December 31, 2005.

In this supplemental proceeding we have revised the utility's filing displayed above by incorporating the findings in the prior audit report mentioned above and by replacing the projected 2006 capital structure balances displayed in the utility's filing with the actual

historical 2006 capital structure balances determined in our audit investigation. Our results and calculations are displayed below and on the following pages.

### Parent Level Capital Structure

Class of Capital	Prior Year 12/31/2005	Test Year 12/31/2006	Average	Cost Rate
Long Term Debt	\$135,285,191	\$180,000,000	\$157,642,596	6.53%
Short Term Debt	3,926,000	0	1,963,000	7.25%
Common Equity	95,673,345	120,831,226	108,252,286	To be determined
Customer Deposits	16,500	17,025	16,763	6.00%
Acc. Deferred Income Tax	<u>148,865</u>	<u>380,391</u>	<u>264,628</u>	0.00%
Totals	\$235,049,901	\$301,228,642	\$268,139,272	

### Utility Level Capital Structure – Reconciled to requested rate base

Class of Capital	Average 2005 Historical	Average 2006 Historical	Average 2007 Projected
Long Term Debt		\$771,116	\$1,694,828
Short Term Debt		9,602	0
Common Equity		529,521	1,019,272
Customer Deposits		16,763	16,763
Acc. Deferred Income Tax		<u>264,628</u>	<u>264,628</u>
Totals		\$1,591,629	\$2,995,491

*No longer applicable*

The cost rate for Common Equity was calculated using the leverage graph formula established in Order No. PSC-06-047

### Utility Level Weighted Cost of Capital – Historic 2006

Class of Capital	Average 2006	Ratio	Cost Rate	Weighted Cost
Long Term Debt	\$771,116	48.45%	6.53%	3.16%
Short Term Debt	9,602	0.60%	7.25%	0.04%
Common Equity	529,521	33.27%	11.54%	3.84%
Customer Deposits	16,763	1.05%	6.00%	0.06%
Acc. Deferred Income Tax	<u>264,628</u>	16.63%	0.00%	<u>0.00%</u>
Totals	\$1,591,629			7.11%

### Utility Level Weighted Cost of Capital – Projected 2007

Class of Capital (Reconciled)	Average 2007	Ratio	Cost Rate	Weighted Cost
Long Term Debt	\$1,694,828	56.58%	6.60%	3.73%
Short Term Debt	0	0.00%	0.00%	0.00%
Common Equity	1,019,272	34.03%	11.54%	3.93%
Customer Deposits	16,763	0.56%	6.00%	0.03%
Acc. Deferred Income Tax	<u>264,628</u>	8.83%	0.00%	<u>0.00%</u>
Totals	\$2,995,491			7.69%

In 2006 the parent issued a new long-term note payable for \$180,000,000. Part of the proceeds were used to extinguish all existing prior long-term and short-term debt liabilities.

Common Equity, Customer Deposits and Acc. Deferred Tax balances above are carried forward from 2006 and assumed un

(All average balances in the four schedules above were rounded to the closest whole dollar amount)

**EFFECT ON GENERAL LEDGER:** None, because capital structure balances are only used in rate case proceedings

**EFFECT ON FILING:** To be determined by the analyst in Tallahassee.

Long Term Debt		2005	2006	2006
Acct. No.	Account Title	Ending	Ending	Average
2241011	L/T Debt NP to Mutual Trust	\$0	\$180,000,000	\$90,000,000
2241021	L/T Debt NP \$50 million	50,000,000	0	25,000,000
2241031	L/T Debt NP \$20 million @ 4.55%	20,000,000	0	10,000,000
2241032	L/T Debt NP \$20 million @ 4.62%	20,000,000	0	10,000,000
2241039	L/T Debt NP Teachers @ 9.16%	1,000,000	0	500,000
2241042	L/T Debt NP Teachers @ 9.01%	3,000,000	0	1,500,000
2241047	L/T Debt NP \$41 million @ 8.42%	41,000,000	0	20,500,000
	L/T Variable N/P	<u>285,191</u>	<u>0</u>	<u>142,596</u>
		\$135,285,191	\$180,000,000	\$157,642,596

Short Term Debt		2005	2006	2006
Acct. No.	Account Title	Ending	Ending	Average
2321010	NP Chase	\$3,926,000	\$0	\$1,963,000

Common Equity		2005	2006	2006
Acct. No.	Account Title	Ending	Ending	Average
2021010	Common Stock	\$100	\$100	\$100
2071000	Premium on Common Stock	1,021,539	1,021,539	1,021,539
2111000	Paid In Capital	23,240,117	60,590,117	41,915,117
	Retained Earnings	<u>71,411,589</u>	<u>59,219,470</u>	<u>65,315,530</u>
		\$95,673,345	\$120,831,226	\$108,252,286

Customer Deposits		2005	2006	2006
Acct. No.	Account Title	Ending	Ending	Average
2361000	Customer Deposits	\$16,500	\$17,025	\$16,763

Accumulated Deferred Income Taxes		2005	2006	2006
Acct. No.	Account Title	Ending	Ending	Average
1901***	Acc/Deferred Federal	\$127,999	\$306,969	\$217,484
1902***	Acc/Deferred State	<u>20,866</u>	<u>73,422</u>	<u>47,144</u>
		\$148,865	\$380,391	\$264,628

Utilities, Inc (Parent)

Long-Term Debt

		A	B	C	D	E	F
Historical 2006		2005	2006	2006	Coupon	Interest	Amortz.
Acct. No.	Account Title	Ending	Ending	Average	Rate	Cost	Issue C
2241011	L/T Debt NP to Mutual Trust	\$0	\$180,000,000	\$90,000,000	6.58%	\$5,922,000	\$19,4
2241021	L/T Debt NP \$50 million	50,000,000	0	25,000,000	5.41%	1,352,500	33,6
2241031	L/T Debt NP \$20 million @ 4.55%	20,000,000	0	10,000,000	4.55%	455,000	25,0
2241032	L/T Debt NP \$20 million @ 4.62%	20,000,000	0	10,000,000	4.62%	462,000	5,4
2241039	L/T Debt NP Teachers @ 9.16%	1,000,000	0	500,000	9.16%	45,800	3,9
2241042	L/T Debt NP Teachers @ 9.01%	3,000,000	0	1,500,000	9.01%	135,150	21,8
2241047	L/T Debt NP \$41 million @ 8.42%	41,000,000	0	20,500,000	8.42%	1,726,100	70,7
	L/T Variable N/P	<u>285,191</u>	<u>0</u>	<u>142,596</u>	variable	<u>11,550</u>	
	Totals	\$135,285,191	\$180,000,000	\$157,642,596		\$10,110,100	\$180,0

Utilities, Inc (Parent)

Long-Term Debt

		A	B	C	D	E	F
Projected 2007		2006	2007	2006	Coupon	Interest	Amortz.
Acct. No.	Account Title	Ending	Ending	Average	Rate	Cost	Issue C
2241011	L/T Debt NP to Mutual Trust	\$180,000,000	\$180,000,000	\$180,000,000	6.58%	\$11,844,000	\$42,4

Note: All prior long-term debt was retired in 2006 from proceeds of the above note payable

Calculations:

$$C = (A + B) / 2$$

$$E = (C \times D)$$

**AUDIT FINDING NO. 9**

**SUBJECT: WASTEWATER REVENUES**

**AUDIT ANALYSIS:** The utility's filing reflects the following amounts for revenues and gallons of wastewater treated in MFR Schedules E-2 and E-13 for the indicated periods.

<u>Period</u>	<u>Revenues</u>	<u>Consumption</u>
Historical 2005	\$270,518	25,559,000
Projected 2006	\$271,910	26,725,254
Projected 2007	\$323,708	32,293,179

The historical 2005 amounts illustrated above were audited in the prior audit investigation in this docket and no significant findings were noted. The projected 2006 and projected 2007 amounts illustrated above were estimated by the utility based on the historical 2005 amounts. The utility's calculations included an estimated change in the number of 5/8 inch reserved capacity and 5/8 inch residential customers. No changes were projected for any of the general service customers or the other residential service customers.

The audit staff has determined the following amounts for historical 2006 revenues and consumption from the utility's billing registers and general ledger.

Revenues:

Code	Service / Meter Size	Projected 2006			Actual 2006	Adjustment to Actual
		BFC	Usage	Total		
69020	Reserve Capacity Fees	\$17,436	\$0	\$17,436	\$19,008	\$1,572
69022	Residential - 5/8"	120,021	70,689	190,710	188,107 (a)	(2,603)
69023	Multi Residential - 3"	3,296	9,192	12,488	25,438	12,950
69024	Residential - 1"	158	126	284	272	(12)
69025	Multi Residential - 6"	6,499	5,334	11,833	10,343	(1,490)
69028	Restaurant	394	5,077	5,471	5,139	(332)
69029	General Service - 5/8"	2,587	8,864	11,451	14,156	2,705
06030	General Service - 1"	394	629	1,023	638	(385)
69032	General Service - 1.5"	2,365	2,742	5,107	5,896	789
69033	General Service - 2"	3,679	1,768	5,447	5,069	(378)
69090	Reuse	3,798	0	3,798	1,383	(2,415)
	Net Accruals			<u>0</u>	<u>(264)</u>	<u>(264)</u>
				\$265,048	\$275,184	\$10,136
	Miscellaneous			<u>6,862</u>	<u>7,389</u>	<u>527</u>
	Total Revenues			\$271,910	\$282,573	\$10,663

(a) Bill Code 069022 - 5/8" residential Billing adjustment from 2005 \$185,790 2,317 \$188,107 In March 2006 the utility posted \$2,317 of prior period revenue adjustments to its general ledger for customer refunds pertaining to calendar year 2005. We removed the adjustment to determine the actual 2006 revenue amount for filing purposes.

Consumption:

Code	Service / Meter Size	Projected 2006	Actual 2006	Adjustment to Actual
69022	Residential - 5/8"	19,105,254	22,431,049	3,325,795
69023	Multi Residential - 3"	2,075,000	2,150,000	75,000
69024	Residential - 1"	34,000	31,000	(3,000)
69025	Multi Residential - 6"	1,204,000	1,339,000	135,000
69028	Restaurant	1,146,000	1,071,000	(75,000)
69029	General Service - 5/8"	2,001,000	2,513,000	512,000
06030	General Service - 1"	142,000	55,000	(87,000)
69032	General Service - 1.5"	619,000	797,000	178,000
69033	General Service - 2"	<u>399,000</u>	<u>287,000</u>	<u>(112,000)</u>
Total Gallons		26,725,254	30,674,049	3,948,795

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the utility's general ledger because the filing represents projected balances.

**EFFECT ON THE FILING:** The utility's projected 2006 revenues should be increased by \$10,663 based on the historical 2006 balances determined in our audit. The utility's projected consumption should be increased by 3,948,795 gallons based on the historical 2006 consumption amounts determined in our audit.

Projected 2007 revenues and consumption amounts should be recalculated and include the historical 2006 amounts presented above. Additionally, the utility's 2007 projections and calculations that are based on historical 2005 customers and consumption levels for general service and certain residential customers should be re-examined for reasonableness given the known changes between the historical 2005 and historical 2006 amounts as evidenced above.



**AUDIT FINDING NO. 10**

**SUBJECT: ADJUSTMENT TO PRIOR RATE CASE EXPENSE**

**AUDIT ANALYSIS:** Order PSC-03-0602-PAA-SU, issued May 13, 2003, authorized \$49,750 of rate case expenses to be amortized over four years or \$12,438 per year. The utility's new tariffs were approved on June 18, 2003, which is the beginning of the four year amortization period for rate case expense recovery. The unamortized remaining balance is \$6,217 as of December 31, 2006.

<u>Period</u>	<u>Balance Approved</u>	<u>Yearly Amtz.</u>	<u>Accrued Amtz</u>	<u>Un-Amtz. Balance</u>
Jun-03 to Dec-03	\$49,750	(\$6,219)	(\$6,219)	
Dec-04 to Dec-04	\$49,750	(\$12,438)	(\$18,657)	\$31,093
Jan-05 to Dec-05	\$49,750	(\$12,438)	(\$31,095)	\$18,655
Jan-06 to Dec-06	\$49,750	(\$12,438)	(\$43,533)	\$6,217

The utility has included \$15,966.75 of annual rate case expense in the filing for the 12-month period ended December 31, 2006. The above amount was included in Acct. Nos. 766 - Regulatory Commission Expense.

The utility's rate case expense is overstated by \$3,528.75.

**EFFECT ON GENERAL LEDGER:** There is no adjustment required to the utility's general ledger because rate case expense is determined for rate proceeding purposes. The utility, however, should review the balances for deferred rate case expense in its general ledger to ensure that they properly reflect the approved rate case expense balance discussed above

**EFFECT ON FILING:** The utility's actual rate case expense balance should be decreased by \$3,528.75 for the 12-month period ended December 31, 2006. See Audit Finding No. 1.

**AUDIT FINDING NO. 11**

**SUBJECT: HURRICANE EXPENSES FROM 2005**

**AUDIT ANALYSIS:** The utility charged the following two invoices to expense in 2006. They were actually for 2005 repairs but were not included with the deferred hurricane costs that were amortized.

ACCOUNT	VENDOR	AMOUNT	MONTH	DESCRIPTION
6759081	8518*19062*	2,500.00	FEB. 06	REPAIR FENCE
6759081	9727*19062*	3,000.00	FEB. 06	REPAIR FENCE
		<u>5,500.00</u>		

The expenses are out of period and not recurring and therefore, should not be included for rate case purposes. In addition, the utility included \$401 for allocated hurricane costs from Utilities Inc. of Florida (UIF). A review of these costs indicated that they were for specific UIF plants and not the office which can be allocated.

**EFFECT ON GENERAL LEDGER:** The adjustment is for filing purposes only.

**EFFECT ON FILING:** Actual operating and maintenance expenses should be reduced by \$5,500 and \$401. See Audit Finding No. 1.

**AUDIT FINDING NO. 12**

**SUBJECT: DEPRECIATION EXPENSE**

**AUDIT ANALYSIS:** The utility does not use the rates prescribed in Rule 25-30.140, F.A.C. to depreciate its plant in service. Staff recomputed direct depreciation and amortization expenses and compared them to the company. The depreciation was computed monthly. The result of the total of all the months follows:

ACCNT	BALANCE	RULE 25-30.140		STAFF DEPRECIATION	PER CO. DEPRECIATION	DIFFERENCE
		DEPRECIATION RATE	COMPANY RATE			
3511001 Oranization	6,740.79	2.50%	0.00%	168.52	0.00	168.52
3521020 Franchise	13,246.98	2.50%	2.50%	288.41	788.33	(499.92)
3542011 Lift Station	2,853,756.43	4.00%	3.30%	44,446.67	34,891.24	9,555.43
3547003 Building and Structures	588,311.79	3.13%	3.13%	18,414.16	18,414.12	0.04
3602006 Service Lines	108,092.31	2.63%	3.30%	2,790.64	3,467.28	(676.64)
3602007 Force Mains	99,467.75	3.33%	3.30%	3,282.44	3,312.24	(29.80)
3612008 Gravity Mains	486,197.87	2.22%	2.20%	10,597.62	10,537.02	60.60
3612010 Manholes	151,221.45	3.33%	3.30%	5,035.67	5,035.68	(0.01)
3752008 Reuse Trans. And Dist.	206.50	2.33%	2.33%	7.56	2.00	5.56
3804004 Lagoons	9,228.89	5.56%	2.86%	513.13	264.00	249.13
3804005 Sewer Treatment Plant	544,361.99	5.56%	2.86%	20,912.43	13,035.11	7,877.32
3907090 Office Structure	364.84	2.50%	2.50%	9.12	9.12	0.00
3907091 Office Equipment	388.39	6.67%	6.67%	25.91	25.92	(0.01)
3937094 Tools, Shop	19,338.41	6.25%	6.25%	1,161.87	1,130.64	31.23
3947095 Lab Equipment	4,590.30	6.67%	6.25%	296.82	278.16	18.66
	<b>4,885,514.69</b>			<b>107,950.96</b>	<b>91,190.86</b>	<b>16,760.10</b>

ACCNT	BALANCE	DEP. RATE		ESTIMATED	PER	DIFFERENCE
				AMORTIZATION	COMPANY	
2721000 Undistributed CIAC	(272,150.01)	2.19%	2.50%	(5,960.09)	(6,803.76)	843.67
2721003 CIAC Bldgs.	(356,583.94)	3.13%	3.13%	(11,161.08)	(11,161.08)	0.00
2721004 CIAC Lagoons	(184.53)	5.56%	2.86%	(10.26)	(5.28)	(4.98)
2721005 CIAC Sewage Treatmen	(62,926.58)	5.56%	2.86%	(3,492.43)	(2,649.24)	(843.19)
2721006 CIAC Service Lines	(62,033.45)	2.63%	3.30%	(1,631.48)	(2,065.68)	434.20
2721007 CIAC Force	(76,269.75)	3.33%	3.30%	(2,539.78)	(2,539.80)	0.02
2721008 CIAC Gravity	(336,393.54)	2.22%	3.30%	(7,467.94)	(7,467.96)	0.02
2721010 CIAC Tax	(1,583,574.54)	2.19%	3.30%	(24,051.94)	(33,464.09)	9,412.15
2721011 CIAC Lift Station	(340,845.71)	4.00%	3.30%	(13,633.83)	(11,350.20)	(2,283.63)
2721098 CIAC Manholes	(97,788.24)	3.33%	3.30%	(3,256.35)	(3,256.32)	(0.03)
	<b>(3,188,750.29)</b>			<b>(73,205.16)</b>	<b>(80,763.41)</b>	<b>7,558.25</b>
Net difference	<b>1,696,764.40</b>			<b>34,745.80</b>	<b>10,427.45</b>	<b>24,318.35</b>

**EFFECT ON GENERAL LEDGER:** The following entry should be made:

<b>ACCOUNT</b>	<b>DESCRIPTION</b>	<b>DEBIT</b>	<b>CREDIT</b>
403XXX	Depreciation Expense	16,760.10	
407XXX	Amortization Expense	7,558.25	
108XXX	Accumulated Depreciation		16,760.10
273XXX	Accumulated Amortization (Company needs to book by detailed account above)		7,558.25

**EFFECT ON FILING:** The actual depreciation expense should be increased by \$24,318.35. See Audit Finding No. 1.

**AUDIT FINDING NO. 13**

**SUBJECT: REGULATORY ASSESSMENT FEE**

**AUDIT ANALYSIS:** Account 4081301 Regulatory Assessment Fees included allocations from its Florida Office (SE90). The allocations do not relate to the assessment fees of Sandalhaven and should not be included in the actual Regulatory Assessment Fees. The balance of the account in 2006 was \$14,307.91. Actual taxes paid were \$12,592.53. The difference of \$1,715.38 needs to be removed from the 2005 actual taxes other than income.

**EFFECT ON GENERAL LEDGER:** The allocations should be reversed.

**EFFECT ON FILING:** The actual regulatory assessment fees in taxes other than income should be reduced by \$1,715.38. See Audit Finding No. 1.

**COMPANY EXHIBITS**

**Sewer Rate Base**

Company: Utilities Inc. of Sandalhaven  
 Docket No.: 060285-SU  
 Historic Year End: December 31, 2005  
 Projected Year End: December 31, 2007  
 Interim [ ] or Final [x]  
 Historic [x] or Projected [X]

**Florida Public Service Commission**

Schedule: A-2  
 Page 1 of 1  
 Preparer: Virchow, Krause  
 Revised: 12/06  
 Preparer: Seidman, F.

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(2) Historic 2005 Average Balance		(3) 2006 Average Balance		(4) TY 2007 Average Balance		(5) Supporting Schedule(s)
		Books	Projected	Projected	Projected			
1	Utility Plant in Service	\$ 2,076,274	\$ 4,843,968	\$ 7,062,555	A-6			
2	Utility Land & Land Rights	81,794	141,508	154,429	A-6			
3	Less: Non-Used & Useful Plant	-	-	-	A-3 (B), A-7			
4	Construction Work in Progress	59,410	-	-	A-3 (C), A-18			
5	Less: Accumulated Depreciation	(839,983)	(876,178)	(785,632)	A-10			
6	Less: CIAC	(2,266,445)	(3,422,131)	(4,115,745)	A-12			
7	Accumulated Amortization of CIAC	794,500	854,449	613,297	A-14			
8	Acquisition Adjustment	441,304	-	-	A-3 (D), A-18			
9	Accum. Amort. Of Acq. Adjustments	-	-	-				
10	WSC Rate Base (proforma)	7,458	7,458	7,458	A-3 (A)			
11	Advances for Construction	-	-	-	A-16			
12	Working Capital Allowance	39,156	42,556	59,131	A-3 (E), A-17			
13	Total Rate Base	\$ 393,468	\$ 1,591,629	\$ 2,995,491				

Net Operating Income Statement - Sewer

Company: Utilities Inc. of Sandalhaven  
 Docket No.: 060285-SU  
 Historic Year End: December 31, 2006  
 Projected Year End: December 31, 2007  
 Interim [ ] or Final [x]  
 Historic [x] or Projected [X]

Florida Public Service Commission

Schedule: B-2  
 Page 1 of 1  
 Preparer: Virchow, Krause

Revised: 12/06  
 Preparer: Seidman, F.

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Historic Test Year Adjustments	(4) Historic Adjusted Test Year	(3) 2006 Projected Year Adjustments	(4) 2006 Projected Year	(5) Requested Rev. Adjust. from 2005 Projected 2007 Test Year	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 270,518	\$ 6,044 A	\$ 276,562	\$ (4,862) A1	\$ 271,700	\$ 841,571 H	\$ 1,118,134	B-4, E-2, B-3
2	Operation & Maintenance	313,247	387 E1	313,644	27,198 E2	340,841	208,818 E3, F	522,461	B-6, B-3
3	Depreciation, net of CIAC amort.	(32,297)	-	(32,297)	41,187 D1,2	8,890	98,706 D1,3	64,409	B-14, B-3
4	Amortization	529	(529) B	-	-	-	-	-	B-3
5	Taxes Other Than Income	43,260	(325) G	42,935	-	42,935	178,950 J	221,885	B-15, B-3
6	Provision for Income Taxes	(44,051)	44,051 C	-	-	-	53,058 I	53,058	C-1, B-3
7	OPERATING EXPENSES	280,888	43,594	324,282	68,385	392,666	537,531	861,812	
8	NET OPERATING INCOME	\$ (10,170)	\$ (37,550)	\$ (47,719)	\$ (73,247)	\$ (120,966)	\$ 304,040	\$ 258,321	
9	RATE BASE	\$ 393,468		\$ 393,468		\$ 1,591,629		\$ 2,995,491	A-2
10	RATE OF RETURN	-2.58%		-12.13%		-7.60%		8.58%	



**Requested Cost of Capital**

**Company: Utilities Inc. of Sandalhaven**  
**Docket No.: 060285-SU**  
**Historic Year End: December 31, 2005**  
**Projected Year End: December 31, 2007**

**Interim [ ] or Final [x]**  
**Historic [x] or Projected [X]**

Provide a  
 schedule

**Florida Public Service Commission**

**Schedule: D-1**  
**Page 1 of 1**  
**Preparer: Kirsten E. Weeks**

**Revised: 12/06**  
**Preparer: Seidman, F.**

Line No.	(1) Class of Capital	(2) Reconciled Capital Historic 2005	(3) Reconciled Capital Projected 2006	(4) Reconciled Capital Projected 2007 TY	(5) Ratio	(6) Cost Rate	(7) Weighted Cost
1	Long Term Debt	\$ 126,738	\$ 783,851	\$ 1,553,778	54.84%	6.81%	3.73%
2	Short Term Debt	11,593	71,703	142,133	5.02%	2.00%	0.10%
3	Preferred Stock	-	-	-	0.00%	0.00%	0.00%
4	Common Equity	92,759	573,697	1,137,203	40.14%	11.77%	4.72%
5	Customer Deposits	16,500	16,500	16,500	0.01%	6.00%	0.00%
6	Tax Credits - Zero Cost	-	-	-	0.00%	0.00%	0.00%
7	Tax Credits - Weighted Cost	-	-	-	0.00%	0.00%	0.00%
8	Accumulated Deferred Income Tax	145,878	145,878	145,878	0.06%	0.00%	0.00%
9	Other (Explain)	-	-	-	0.00%	0.00%	0.00%
10	Total	<u>\$ 393,468</u>	<u>\$ 1,591,629</u>	<u>\$ 2,995,491</u>	<u>100%</u>		<u>8.56%</u>

Note: The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-050006. Since the equity ratio is greater than 40.00%, a(n) 11.77% cost rate has been used.