

State of Florida



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CLERK

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

DATE: December 6, 2007
TO: Jared Deason, Regulatory Analyst IV, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: Docket No: 070601-WU; Company Name: Orangeland Water Supply;
Audit Purpose: Staff Assisted Rate Case;
Audit Control No: 07-285-2-1

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 no confidential work papers associated with this audit.

DNV:sbj
Attachments

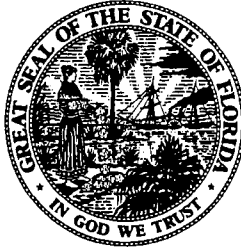
Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Mr. Fred J. Snell
Orangeland Water Supply
2109 Overview Drive
New Port Richey, FL 34655-4131

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

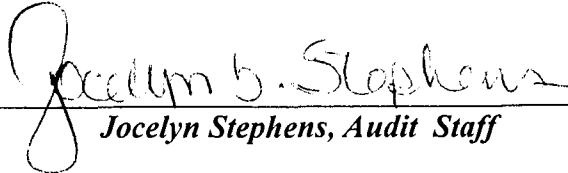


FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING


Tampa District Office

ORANGELAND WATER SUPPLY
STAFF ASSISTED RATE CASE
HISTORICAL YEAR ENDED JUNE 30, 2007

DOCKET NO. 070601-WU
AUDIT CONTROL NO. 07-285-2-1



Jocelyn Stephens, Audit Staff



Joseph W. Rohrbacher, District Audit Supervisor

DOCUMENT NUMBER-DATE

10749 DEC-6 6

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TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES.....	2
III. AUDIT FINDINGS	
1. GENERAL UTILITY INFORMATION	5
2. RATE BASE INFORMATION	6
3. REVENUES	8
4. OPERATION AND MAINTENANCE EXPENSE.....	9
5. TAXES OTHER THAN INCOME.....	11
6. CAPITALSTRUCTURE.....	12
IV. EXHIBITS	
1. RATE BASE	13
2. NET OPERATING INCOME	14

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

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

NOVEMBER 27, 2007

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by the audit staff in support of Orangeland Water Supply's petition for a Staff Assisted Rate Case in Docket No. 070601-WU.

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:

Utility Plant In Service (UPIS)

Objective: To determine that property exists and is owned by the utility. To determine that additions are authentic, recorded at original cost, and properly classified as a capital item in compliance with Commission Rules and Uniform System of Accounts. To verify that the proper retirements were made when a replacement item was put in service.

Procedures: We tested all plant additions and retirements for the period July 1, 2006 through June 30, 2007 for compliance with the objectives stated above. We prepared a schedule of UPIS, by account, showing year to year additions and retirements, using the 1976 – 2006 Annual Reports. The utility has not maintained original cost records for the utility plant in service. Therefore, an original cost study is needed. Audit Finding No. 2 addresses this issue.

Land

Objective: To determine that land is owned by the utility and included in rate base at original cost.

Procedures: We verified that the utility owner owns the land.

Contributions In Aid Of Construction (CIAC)

Objective: To test CIAC additions and adjustments since January 1, 1977. To verify that CIAC additions are reflective of the utility's Commission approved service availability tariff.

Procedures: The utility tariff includes a tap fee of \$100 for ¾ X5/8 inch meters and \$160 for 1 inch meters. The utility charged \$100 per hookup from 1976 to 1991 and \$150 from 1992 to 1997, the last new hookup.

Accumulated Depreciation

Objective: To verify that accumulated depreciation and depreciation expense are calculated using the Commission authorized rates and that the calculations are correct.

Procedures: We prepared a schedule of accumulated depreciation balances by plant account based on the 1976 – 2006 Annual Report additions. Because the utility has not maintained original cost records and an original cost study is needed, accumulated depreciation will be calculated based upon the results of the original cost study.

Accumulated Amortization of CIAC

Objective: To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules. To verify that CIAC amortization expense accruals are properly calculated by applying annual depreciation composite rates.

Procedures: We calculated accumulated amortization of CIAC account balances for the period January 1, 1997 to June 30, 2007. We found that the utility has not recorded amortization of CIAC. Audit Finding No. 2 addresses this issue.

Working Capital

Objective: To determine the working capital allowance.

Procedures: We determined the working capital allowance by using the 1/8 of operation and maintenance expenses methodology.

REVENUES AND EXPENSES

Revenues

Objectives: To verify that revenues earned during the test year are properly recorded. To perform billing analysis for the test year.

Procedures: We compiled revenues following a billing report summary on a monthly basis. We prepared a billing analysis schedule and performed a simple estimation to determine what test year revenues should be. Audit Finding No. 3 addresses this issue.

Expenses

Objectives: Sample test year operation and maintenance expense accounts. Examine the expense for the proper period, amount, classification, support documentation and whether non-utility related, non-recurring, unreasonable or imprudent.

Procedures: We tested all operation and maintenance accounts. We examined invoices and supporting documentation to determine if the above objectives were met. Included in the expense amount were invoices for items that should have been capitalized, as well as other adjustments. Audit Finding No. 4 addresses these adjustments.

Objectives: To obtain or prepare a schedule of contracted services for the test year that separates engineering, accounting, legal, billing, testing, operating, and management expenses. Test documentation for amounts paid, period of service, and that the service was related to utility operations.

Procedures: We prepared a schedule of all contractual services for the test year. We reviewed those accounts for proper period, amount, classification, and whether non-utility related, non-recurring, unreasonable or imprudent. We examined invoices and supporting documentation to determine if the above objectives were met. Audit Finding No. 4 addresses this issue.

Objectives: To provide the number of hours per month that employees and/or contracted vendors spend on operating, billing, testing, maintenance, and general management activities.

Procedures: We reviewed documentation that provided the information mentioned above and included this in our work papers.

Objectives: To note expense areas where the utility has no costs assigned, but where benefits to utility are evident.

Procedures: The utility was not charged for office space, telephone, computer use. In addition, the utility was not charged for work performed by the owner and non-utility employees for clerical, meter reading and operations.

Objectives: To review Taxes Other Than Income. (TOTI)

Procedures: We obtained the 2006 Regulatory Assessment Fee (RAF) filing and recomputed the RAF based on test year revenues. We obtained and reviewed the property tax bills to determine if the amount booked reflects the discounted amount. Audit Finding No. 5 addresses this issue.

Audit Finding No. 1

Subject: General Utility Information

Audit Analysis: Orangeland Water Supply (OWS) was granted a certificate to operate a water utility in Pasco County in Docket No. 760763-W, Order No. 7790. There was no further activity until the current Staff Assisted Rate Case (SARC).

The utility has 72 residential and 2 commercial customers, and is a Sole Proprietorship. Records are kept manually and consist of a monthly billing register, checkbook and invoices. The utility uses a cash basis for recording revenues and expenses.

The utility was unable to provide documentation supporting plant in service except for 2006 additions, which the utility expensed on the 2006 Annual Report.

Commission Rule 25-30.115, F.A.C. states that water and wastewater utilities shall maintain their accounts and records in conformity with the NARUC Uniform System of Accounts (USOA). The utility does not use the NARUC USOA.

Effect on General Ledger: Even though the utility is small and does not have many transactions during the year, it should conform to the NARUC USOA.

Effect on Rate Case: There is no effect on the rate case filing. For information only.

Audit Finding No. 2

Subject: Rate Base Information

Audit Analysis: The utility's 2006 Annual Report reflects the following rate base balances as of December 31, 2006.

Description	Balance
Utility Plant in Service (UPIS)	\$38,499
Land and Land Rights	1,000
Contributions in Aid of Construction (CIAC)	(9,287)
Accumulated Depreciation	(31,701)
Amortization of CIAC	0
Net Rate Base	(\$ 1,489)

Utility Plant in Service (UPIS)

The utility was unable to provide documentation supporting plant in service except for 2006 additions, which the utility expensed on the 2006 Annual Report. Audit Finding No. 4 of this report makes specific adjustments to the utility's operation and maintenance expense accounts that are reflected on the 2006 Annual Report and that should be reclassified to the following accounts:

Acct. No.	Account Description	Amount	Dep. Rate	Acc Dep & Exp.
311	Pumping Equipment	\$1,971	5.88%	\$58
320	Water Treatment Equipment	183	5.88%	5
334	Meters & Meter Installation	317	5.88%	9
		\$2,471		\$72

(Accumulated depreciation and expense was calculated using the ½ year convention method)

CIAC and Amortization of CIAC

The utility tariff includes a tap fee of \$100 for ¾ x 5/8 inch meters and \$160 for 1 inch meters. The utility charged \$100 per hookup from 1976 to 1991 and \$150 from 1992 to 1997, the last new hookup. Also, the owner recorded \$1,735 in 1988 and \$202 in 1991 on the Annual Reports as CIAC. This should have been recorded as owner equity.

The utility has not recorded amortization of CIAC on its Annual Reports. Based on the recorded tap fees, Staff calculated CIAC Accumulated Amortization to be \$4,926 as of June 30, 2007 and amortization expense to be \$184 for the 12 month period ended June 30, 2007.

Effect on General Ledger: Increase UPIS, for the above accounts, by \$2,471 and increase Accumulated Depreciation by \$72 respectively. Increase depreciation expense by \$72 for the 12

month period ended June 30, 2007. Decrease CIAC by \$1,937. Increase CIAC Accumulated Amortization by \$4,926 and amortization expense by \$184 for the 12 month period ended June 30, 2007 respectively.

Effect on Rate Case: The above adjustments to UPIS and accumulated depreciation should be considered by the staff engineer when determining the original cost rate base balances.

Audit Finding No. 3

Subject: Revenues

Audit Analysis: The utility charges \$5.00 for the first 5,000 gallons of use and \$0.25 for each additional 1,000 gallons on a monthly basis. Additionally, the utility charges 10% of the outstanding balance on past due bills. These are the rates authorized in its tariff.

As noted in Audit Finding No. 1, revenues are recorded on a cash basis as received. The utility also has customers who pre pay for water use.

Effect on General Ledger: There is no effect on the general ledger.

Effect on Rate Case: Provided for information.

Audit Finding No. 4

Subject: Operation and Maintenance Expense

Summary: The utility's operation and maintenance (O&M) expenses are overstated by \$2,043, for the 12 month period ended June 30, 2007. The utility O&M expenses were obtained by staff from its checkbook.

Audit Analysis: OWS paid the following during the test year: plant additions, taxes other than income, materials and supplies, postage and printing and contractual services for testing and a plant operator. The owner paid for electric (purchased power) and chemicals.

All invoices were reviewed for the above expenses to ensure they met the following criteria:

- Proper period
- Proper amount
- Utility related and reasonable
- Support documentation

The following adjustments are to be made to O&M expense:

Acct. No.	Acct. Description	Amount	Explanation
615	Purchased Power	\$ 1,447	Paid by owner
618	Chemicals	122	Paid by owner
620	Maintenance & Supplies	(162)	Out of Period
635	Contractual Service - Testing	(480)	Out of Period
636	Contractual Service - Other	(300)	Out of Period
675	Miscellaneous Expense	(34)	Customer Refund
675	Miscellaneous Expense	399	Bank Charges
675	Taxes Other Than Income	(564)	Reclass to TOTI
	In A/C 630 on 2006 Annual Report	(2,471)	Reclass to UPIS
		(2,043)	

No costs were assigned to the utility for office space, telephone, computer use, etc. Also, the utility was not charged for work performed by the owner and non utility employees for clerical, meter reading, operation. Utility staff stated that the following work was performed but not charged to the utility:

Clerical – 12 hours monthly. Prepare billing register, send monthly bills, receive payments and make deposits. (2 people) Owner's wife and bookkeeper for Snell Groves.

Read meters – 12 hours monthly. Done by owner, his son and employee of Snell Groves.

Other – 30 hours monthly. Checks on water plant daily, orders new meters when needed, turns on generator if there is a power outage. Done by owner.

Also, the owner stated that he was trying to get a waiver or reduction on the SARC filing fee of \$1,000. Therefore, no allowance was made for amortization by audit staff.

Effect on General Ledger: The utility records should reflect the above adjustments for the 12 month period ended June 30, 2007.

Effect on Rate Case: The utility's operation and maintenance expenses should be reduced by \$2,043.

Audit Finding No. 5

Subject: Taxes Other Than Income (TOTI)

Audit Analysis: The utility records reflect Taxes Other Than Income (TOTI) of \$564 for the 12-month period ended June 30, 2007. The Regulatory Assessment Fee (RAF) reflects an amount of \$280. This is the amount of the 2006 RAF.

The Real Estate and Tangible Personal Property taxes reflect a February 2007 payment for the 2006 taxes. The full allowable discount was not taken.

The audit staff calculated the RAF based on revenues for the 12 month period ended June 30, 2007 and the property taxes based on the full discount. The following adjustments should be made:

	<u>Per Utility</u>	<u>Per Audit</u>	<u>Adjustment</u>
Regulatory Assessment Fee	\$ 280	\$ 255	\$(25)
Property Tax – Real Estate	268	260	(8)
Tangible Personal Property Tax	<u>16</u>	<u>16</u>	<u>0</u>
	\$ 564	\$ 531	\$(33)

Effect On General Ledger: The utility records should reflect the audit balance of \$531 for the 12 month period ended June 30, 2007.

Effect On Rate Case: Taxes Other Than Income are overstated by \$33.

Audit Finding No. 6

Subject: Capital Structure

Audit Analysis: The utility is listed as a Sole Proprietorship. The owner, Mr. Snell, stated that there are no outstanding loans for the utility and that he has been putting money into the utility as needed but does not have any documentation supporting his payments. The Annual Reports show that the utility has been losing money the last several years.

Effect on General Ledger: There is no effect on the general ledger.

Effect on Rate Case: Provided as information for Staff.

EXHIBIT 1

**ORANGELAND WATER SUPPLY
DOCKET: 070601 - WU
RATE BASE - WATER
AS OF JUNE 30, 2007**

DESCRIPTION	(a) BALANCE PER BOOKS @06/30/07	(b) AUDIT ADJUSTMENT REF	© AUDITED BALANCE @06/30/07
UTILITY PLANT IN SERVICE	38,499	To be determined by original cost study	
LAND	1,000	0	1,000
PLANT HELD FOR FUTURE USE			
CIAC	(9,287)	1,937	(7,350)
ACCUMULATED DEPRECIATION	(31,701)	To be determined by original cost study	
AMORTIZATION-CIAC	0	4,926 AF 2	4,926
WORKING CAPITAL		749	749
PLANT MATERIAL & SUPPLIES		0	
TOTAL	(1,489)	7,612	(675)

Note: Utility balance from 2006 Annual Report

EXHIBIT II

**ORANGELAND WATER SUPPLY
DOCKET: 070601 - WU
NET OPERATING INCOME
AS OF JUNE 30, 2007**

DESCRIPTION	(a) BALANCE PER BOOKS @06/30/07	(b) AUDIT ADJUSTMENTS REF	(c) BALANCE PER AUDIT @06/30/07
OPERATING REVENUES:	5,668		5,668
OPERATING EXPENSES:			
O&M EXPENSE	8,031	(2,043) AF 4	5,989
DEPRECIATION EXPENSE	0	To be determined by original cost study	
AMORTIZATION - CIAC	0	(232) AF 2	(184)
TAXES-OTHER	564	(33) AF 5	531
INTEREST EXPENSE			0
OTHER UTILITY			0
TOTAL PROFIT (LOSS)	(2,927)	2,308	(668)

Note: Utility balance from 2006 Annual Report