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

DATE: October 10, 2008
TO: Cheryl A. Johnson, Regulatory Analyst IV, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *D*
RE: Docket No: 070740-SU; Company Name: Hudson Utilities, Inc.;
Audit Purpose: Audit Wastewater Rate Base; Company Code: SU114;
Audit Control No: 08-025-2-1

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 a response to the Office of the Commission Clerk. There are no confidential work papers associated with this audit.

DNV/tbm

Attachment: Audit Report

CC: Division of Regulatory Compliance (Salak, Mailhot, Harvey,
District Offices, File Folder)
Office of Commission Clerk (2)
General Counsel
Office of Public Counsel

Hudson Utilities, Inc.
14334 Old Dixie Highway
Hudson, FL 34667-1134

Mr. Ken A. Hoffman & Ms. Marsha E. Rule
Rutledge Law Firm
P.O. Box 551
Tallahassee, FL 32302-0551

DOCUMENT NUMBER-DATE

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING*

Tampa District Office

HUDSON UTILITIES, INC.

CERTIFICATE TRANSFER AUDIT

AS OF DECEMBER 31, 2007

DOCKET NO. 070740-SU
AUDIT CONTROL NO. 08-025-2-1

A handwritten signature in cursive script, appearing to read "Tomer".

Tomer Kopelovich, Audit Staff

A handwritten signature in cursive script, appearing to read "Joseph W. Rohrbacher".

Joseph W. Rohrbacher, District Audit Supervisor

DOCUMENT NUMBER-DATE

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TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES.....	2
III. AUDIT FINDINGS	
1. UTILITY PLANT IN SERVICE	4
2. ACCUMULATED DEPRECIATION	5
3. AMORTIZATION OF CIAC.....	6
IV. EXHIBITS	
1. RATE BASE	7
2. SCHEDULE A	8

**DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT**

JULY 14, 2008

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 schedule prepared by the audit staff in support of Hudson Utilities, Inc.'s petition for a Certificate Transfer in Docket No. 070740-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:

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, 2004 through December 31, 2007 for compliance with the objectives stated above. We prepared a schedule of UPIS, by account, showing year to year additions and retirements. Audit Finding No. 1 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 does not own the land on which the wastewater system is located. Audit Finding No. 1 addresses this issue.

Contributions In Aid of Construction (CIAC)

Objective: To test CIAC additions and adjustments since July 1, 2004. To verify that CIAC additions are reflective of the utility's Commission approved service availability tariff.

Procedures: We verified 100% of all CIAC additions for the period July 1, 2004 through December 31, 2007 for compliance with the objective stated above.

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 from July 1, 2004 through December 31, 2007, using rates prescribed by Rule 25-30.140, F.A.C. Audit Finding No. 2 addresses this issue.

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 composite depreciation rates.

Procedures: We calculated accumulated amortization of CIAC account balances for the period July 1, 2004 through December 31, 2007. We found that the utility has not recorded amortization of CIAC using annual composite depreciation rates. Audit Finding No. 3 addresses this issue.

Audit Finding No. 1

Subject: Utility Plant in Service (UPIS)

Audit Analysis: The utility's Trial Balance shows \$7,570,351 in UPIS as of December 31, 2007. In 2004 and 2005 the utility replaced four pumps but did not retire the old pumps. In Order No. PSC-03-1250-PAA-WU, issued November 6, 2003, in Docket No. 030250-WU (In re: Application for staff-assisted rate case in Pasco County, by Floralino Properties, Inc.) and Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 00584-WS (In re: Application for a staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.) the Commission found, where original cost is not available for a retirement, that 75% of the replacement cost is a reasonable estimate of original cost. Therefore, the auditor made an adjustment to retire these pumps at 75% of the cost of the new pumps. A corresponding adjustment was made to accumulated depreciation.

Recorded in the above amount is \$9,513 for Land and Land Rights. This amount has been recorded in the utility's Annual Reports since 1998. The prior utility owner, Mathew Griffin, stated that the utility did not own any land. The land on which the wastewater system is located was obtained by easements. Mr. Griffin stated he thought this was the cost to acquire certain easements.

A review of the easements provided showed a cost of \$131 plus \$146,300 recorded as CIAC.

Schedule A, attached, shows the adjustment to be made to UPIS.

Effect on General Ledger: UPIS should be reduced by \$8,551 to reflect the retirement of the replaced pumps.

Effect on Filing: Rate Base should be reduced by \$8,551 for the retired plant. The information on the easements is provided for analyst review.

Audit Finding No. 2

Subject: Accumulated Depreciation

Audit Analysis: The utility's Trial Balance shows \$2,886,826 for Accumulated Depreciation as of December 31, 2007.

An audit of utility rate base as of June 30, 2004 was performed under Docket No. 981079-SU, Audit Control No. 04-222-2-1. The audit established an accumulated depreciation balance as of this date. The utility did not adjust its records to reflect this balance.

Additionally, as noted in Audit Finding No. 1, the utility did not adjust accumulated depreciation for retired plant items. Also, incorrect depreciation rates were used per Commission Rule 25-30.140, F.A.C., and group depreciation was not used in all accounts.

Schedule A, attached, shows the adjustment to be made to Accumulated Depreciation.

Effect on General Ledger: Decrease Accumulated Depreciation by \$16,345.

Effect on Filing: Rate Base should be increased by \$16,345.

Audit Finding No. 3

Subject: Accumulated Amortization of CIAC

Audit Analysis: The utility's Trial Balance shows \$1,186,714 for Accumulated Amortization of CIAC as of December 31, 2007.

An audit of utility rate base as of June 30, 2004 was performed under Docket No. 981079-SU, Audit Control No. 04-222-2-1. The audit established an accumulated amortization balance as of this date. The utility did not adjust its records to reflect this balance.

The National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USoA), for Class A Wastewater systems, account 272, page 93, states that a group or overall composite rate may be used for contributed balances that cannot be directly related to a plant asset. The auditor used a yearly composite depreciation rate for amortization while the utility used a straight 3% amortization rate.

Also, a comparison of the Trial balance and Annual Report as of December 31, 2007 has a difference of \$3,908.

Schedule A, attached, shows the adjustment to be made to Accumulated Amortization of CIAC.

Effect on General Ledger: Accumulated Amortization of CIAC is understated by \$35,457.

Effect on Filing: Rate Base should be increased by \$35,457.

EXHIBIT 1

**HUDSON UTILITIES, INC.
DOCKET: 070740 - SU
RATE BASE - WASTEWATER
AS OF DECEMBER 31, 2007**

DESCRIPTION	(a) BALANCE PER BOOKS @12/31/07	(b) AUDIT ADJUSTMENT REF	© AUDITED BALANCE @12/31/07
UTILITY PLANT IN SERVICE	7,560,838	(8,551) AF 1	7,552,287
LAND	9,513	0	9,513
PLANT HELD FOR FUTURE USE			
CIAC	(3,495,558)	0	(3,495,558)
ACCUMULATED DEPRECIATION	(2,886,826)	16,345 AF 2	(2,870,481)
ACCUMULATED AMORTIZATION-CIAC	1,186,714	35,457 AF 3	1,222,171
WORKING CAPITAL			
PLANT MATERIAL & SUPPLIES		0	
TOTAL	2,374,681	43,251	2,417,932

COMPANY : HUDSON UTILITIES, INC.
 SUBJECT : RATE BASE ADJUSTMENTS
 PERIOD : 06-30-04 TO 12-31-07
 AUDITOR : J.W. ROHRBACHER

SCHEDULE A

AUDIT : DKT#070740-SU
 CERT TRANSFER
 FILENAME : HUDSON RATE BASE
 SHEET: ADJUSTMENTS

<u>Utility Plant in Service (UPIS)</u>															Total	
A/C No.	351	353	354	360	361	362	363	364	370	371	389	390	391	393	398	@ 12/31/07
Balance per Utility	6,247	9,513	2,195	995,236	3,692,850	411,793	991,349	157,854	550,916	549,097	6,298	36,751	146,609	10,829	2,814	7,570,351
Retirements																
2004										(4,071)						(4,071)
2006										(4,480)						(4,480)
	6,247	9,513	2,195	995,236	3,692,850	411,793	991,349	157,854	550,916	540,546	6,298	36,751	146,609	10,829	2,814	7,561,800
Balance per Audit	6,247	9,513	2,195	995,236	3,692,850	411,793	991,349	157,854	550,916	540,546	6,298	36,751	146,609	10,829	2,814	7,561,800

<u>Accumulated Depreciation</u>															398	Total
A/C No.	351	353	354	360	361	362	363	364	370	371	389	390	391	393	398	Total
Balance per Utility	6,247	0	1,577	574,888	1,018,143	0	299,098	146,304	285,416	352,923	6,298	35,739	146,408	10,819	2,814	2,886,674
Retirements																
2004										(4,071)						(4,071)
2005										(4,480)						(4,480)
Adj for composite rate					3,705		(20,764)		(11,019)							(28,078)
Adj to prior PSC audit			(14)	7,654	(53,316)	77,996	(11,618)		(10,664)							10,038
Adj to NARUC "group" depreciation								11,550								11,550
Adj for retired assets										(1,351)						(1,351)
Unidentified Difference															199	199
Balance per Audit	6,247	0	1,563	582,542	968,532	77,996	266,716	157,854	263,733	343,021	6,298	35,739	146,408	10,819	3,013	2,870,481

Contributions in Aid Construction (CIAC)

Balance per utility @ 12/31/07	3,495,557
Balance per audit @ 12/31/07	3,495,558
Difference	(1)

Amortization of CIAC

Balance per Utility	1,186,714
Adjust to prior PSC audit	14,526
Adjust for composite rate	17,023
Diff TB/BS and Annual Report	3,908
Balance per Audit	1,222,171