

State of Florida




Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: August 9, 2022

TO: Office of the Commission Clerk

FROM: Todd M. Brown, Chief of Auditing, Office of Auditing and Performance Analysis 

RE: Docket No.: 20220099-WS
Company Name: LP Waterworks, Inc.
Company Code: WS963
Audit Purpose: A1b: Staff Assisted Rate Case
Audit Control No.: 2022-164-2-1

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.

TMB/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File.

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

LP Waterworks, Inc.
Staff-Assisted Rate Case

Twelve Months Ended December 31, 2021

Docket No. 20220099-WS
Audit Control No. 2022-164-2-1
August 2, 2022

Handwritten signature of Intesar Terkawi in cursive script.

Intesar Terkawi
Audit Manager

Handwritten signature of Simon O. Ojada in cursive script.

Simon O. Ojada
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated June 10, 2022. We have applied these procedures to the attached schedules prepared by the audit staff in support of LP Waterworks, Inc.'s request for a Staff Assisted Rate Case in Docket No. 20220099-WS.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Utility refers to the water facilities owned and operated by LP Waterworks, Inc.

Test year is the twelve months ended December 31, 2021.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts as adopted by Commission Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code. (F.A.C.).

Background

LP Waterworks, Inc. (LP or utility) is a Class C water and wastewater utility located in Highlands County with water and wastewater systems Certificate Nos. 620-W and 533-S.

According to the utility's 2021 annual report, the utility serves 458 water customers, which includes 435 residential customers, 22 general service customers, and a 6" fire flow. The utility also serves 374 wastewater customers and 17 general service customers. The utility's last SARC was in Docket No. 20160222-WS.

The utility applied for a staff-assisted rate case (SARC) on May 16, 2022, and requested an increase for water rates only. The utility's application indicated total water operating revenues of \$133,280, with a net loss of \$14,542. In its application, the utility indicated that the need to request for a SARC is due to the significant decrease in water consumption. In addition, the utility has invested \$145,997 in water plant in service.

The Utility's 2021 Annual Report shows total water revenues of \$133,280 and operating expenses of \$143,523.

The Utility files a 1120S Federal Tax Return, and is an S Corporation.

Utility Books and Records

Objective: The objective was to determine whether the Utility maintains its accounts and records in conformity with the (NARUC) (USOA).

Procedure: We reviewed the Utility's books and records and determined that it is in compliance with the NARUC USOA.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether utility plant in service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3)

Retirements are made when a replacement item is put into service, and 4) Adjustments required in the Utility's last rate case proceeding are recorded in its books and records.

Procedures: We obtained the beginning balances for water UPIS as of August 31, 2016, as reflected in Order No. PSC-2017-0334-PAA-WS, issued August 23, 2017. We scheduled UPIS activity from August 31, 2016, through December 31, 2021. We traced asset additions and retirements to supporting documentations and to the general ledger. We determined the year-end and simple average balances as of December 31, 2021. Our recommended adjustments to UPIS balance are discussed in Finding 1.

Land & Land Rights

Objectives: The objectives were to determine whether utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease, and 3) Adjustments to land in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: We reconciled the beginning balance for land that was established in Order No. PSC-2017-0334-PAA-WS, issued August 23, 2017, to the general ledger. There was no change to utility land since the last rate case proceeding. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether: 1) Adjustments to accumulated depreciation in the Utility's last rate case proceeding were recorded in its general ledger, 2) Accumulated depreciation accruals are properly recorded in compliance with Commission Rule 25-30.140-Depreciation, Florida Administrative Code (F.A.C.) and the NARUC USOA, 3) Depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Retirements are properly recorded when an asset is replaced.

Procedures: We obtained the beginning balances for water accumulated depreciation as of August 31, 2016, as reflected in Order No. PSC-2017-0334-PAA-WS, issued August 23, 2017. We recalculated depreciation accruals for each UPIS account to verify that the correct depreciation rates were used. We determined whether retirements were made when a capital asset was removed or replaced. We recalculated and determined the year-end and simple average accumulated depreciation balance as of December 31, 2021. Our recommended adjustments to accumulated depreciation are discussed in Finding 2.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether: 1) Contributions-in-aid-of-construction (CIAC) is properly recorded in compliance with Commission rules and the NARUC USOA, 2) Donated property is properly accounted for and recorded as CIAC, and 3) Adjustments to CIAC in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: We obtained the beginning balances for water CIAC as of August 31, 2016, as reflected in Order No. PSC-2017-0334-PAA-WS, issued August 23, 2017. We traced CIAC additions to supporting documentation and to the general ledger. We determined the year-end and simple average balances as of December 31, 2021. No exceptions were noted.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether: 1) Accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission Rule 25-30.140, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, 3) Adjustments to accumulated amortization of CIAC in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: We obtained the beginning balances for water accumulated amortization of CIAC as of August 31, 2016, as reflected in Order No. PSC-2017-0334-PAA-WS, issued August 23, 2017. We recalculated amortization expense using the accumulated depreciation composite rate. We recalculated and determined the year-end and simple average accumulated Amortization balance as of December 31, 2021. Our recommended adjustments to CIAC accumulated amortization are discussed in Finding 3.

Working Capital

Objective: The objective was to determine the working capital adjustment to be included in the Utility's rate base per Commission Rule 25-30.433(3), F.A.C.

Procedures: We calculated the Utility's working capital adjustment using one-eighth of operation and maintenance (O&M) expense as required by Commission Rule 25-30.433(3), F.A.C. Our recommended working capital is calculated in Finding 5.

Capital Structure

Objectives: The objectives were to determine: 1) Component balances for the Utility's capital structure, 2) Cost rates to be used to arrive at the overall weighted cost of capital and, 3) If components are properly recorded in compliance with Commission requirements.

Procedures: We determined that the Utility's capital structure is composed of common equity, and customer deposits. We calculated the year-end simple average capital structure balances and its weighted average cost as of December 31, 2021. No exception was noted.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether revenues are: 1) Representative of the Utility's operation for the test year, 2) Calculated using Commission-approved tariff rates, and 3) Recorded in compliance with NARUC USOA.

Procedures: We obtained the Utility's monthly billing registers and summarized the billing and usage data for the test year by meter size. We reconciled the revenue in the billing register to the general ledger. We recalculated test year revenues based on the consumption data and billing determinants using the Utility's authorized tariff rates. Our recommended adjustments to revenue are discussed in Finding 4.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether operation and maintenance (O&M) expenses are: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with NARUC USOA.

Procedures: We reviewed all invoices for the Utility's O&M expense for the test year. We traced each invoice to the detailed general ledger. We ensured all expenses were correctly classified and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. We reviewed all available contracts and test checked billings for agreement. We verified payroll expense. Our recommended adjustments to O&M expenses are discussed in Finding 5.

Depreciation and CIAC Amortization Expense

Objectives: The objectives were to determine whether Utility's depreciation and CIAC amortization expense is properly calculated using the Commission authorized rates.

Procedures: We recalculated depreciation expenses for the test year ended December 31, 2021, by using the rates established by Commission Rule 25-30.140, F.A.C. We recalculated CIAC amortization expenses by using the composite rates. Our recommended adjustments to depreciation expenses and amortization expenses are discussed in Findings 2 and 3.

Taxes Other Than Income

Objectives: The objectives were to determine whether taxes other than income (TOTI) expenses is: 1) Properly recorded in compliance with Commission rules, 2) Reasonable for ongoing utility operations, and 3) Recorded in compliance with the NARUC USOA.

Procedures: We verified TOTI expenses for the test year ended December 31, 2021, by tracing the taxes to original source documentation. We reviewed the 2021 regulatory assessment fee returns. Our recommended adjustments to TOTI expenses are discussed in Finding 6.

Audit Findings

Finding 1: Utility Plant in Service (UPIS)

Audit Analysis: Utility records reflect water UPIS balance of \$664,237, as of December 31, 2021. The audit staff calculated UPIS water to be \$611,182, as of December 31, 2021. The Utility's water UPIS balance is overstated by \$53,055, as of December 31, 2021.

Table 1-1 outlines the adjustments discussed below:

1. Account 310 – Power Generation Equipment was reduced by total of \$2,934, consisting of \$2,103 for repair expense, and \$831 for an unrecorded retirement.
2. Account 311 – Pumping Equipment was reduced by \$1,294 for an unrecorded retirement.
3. Account 320 – Water Treatment Equipment was reduced by a total of \$1,249. This consisted of a retirement of \$837 that was included in the pro forma of the last Order, and \$412 for an unrecorded retirement.
4. Account 330 – Distribution Reservoirs & Standpipes was reduced by a total of \$40,858. This consisted of a decrease of \$62,352 for an unrecorded retirement, and an increase of \$21,494, for a capitalized item that was expensed.
5. Account 331 – Transmission & Distribution Mains was reduced by \$3,844, for expenses that were capitalized.
6. Account 333 – Services was reduced by total \$1,314, consisting of \$605 for an unrecorded retirement, and \$709 for an expense that was capitalized.
7. Account 334 – Meter & Meter Installations was reduced by \$1,561. The Utility recorded plant additions of \$4,590, and retirements of \$2,147. Audit staff recorded additions of \$3,528, and retirements of \$2,646, for a difference of \$1,561.

Table 1-1

Acct. No.	Description	Balance Per Utility 12/31/2021	Audit Adjustments	Balance Per Audit 12/31/2021	Simple Average
301	Organization	\$471	\$0	\$471	\$471
304	Structures & Improvements	75,171	0	75,171	75,171
307	Wells & Springs	41,707	0	41,707	41,707
309	Supply Mains	1,040	0	1,040	1,040
310	Power Generation Equipment	12,917	(2,934)	9,983	9,845
311	Pumping Equipment	1,910	(1,294)	616	401
320	Water Treatment Equipment	43,796	(1,249)	42,547	29,630
330	Distribution Reservoirs & Standpipes	118,153	(40,858)	77,295	77,295
331	Transmission & Distribution Mains	212,706	(3,844)	208,862	208,862
333	Services	60,079	(1,314)	58,765	58,765
334	Meters & Meter Installations	78,344	(1,561)	76,783	76,293
335	Hydrants	5,364	0	5,364	5,364
336	Backflow Prevention Devices	1,874	0	1,874	1,874
340	Office Furniture & Equipment	698	0	698	698
346	Communication Equipment	9,281	0	9,281	9,281
347	Miscellaneous Equipment	726	0	726	726
	Total UPIS	\$664,237	(\$53,055)	\$611,182	\$597,422

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Water UPIS should be decreased by \$53,055, as of December 31, 2021.

Audit staff determined the year-end and simple average UPIS for water to be \$611,182 and \$597,422, respectively, as of December 31, 2021.

Finding 2: Accumulated Depreciation and Depreciation Expense

Audit Analysis: Utility records reflect water depreciation balance of \$460,542, as of December 31, 2021. The audit staff recalculated water accumulated depreciation using the UPIS balances in Finding 1, and the depreciation rates established by Rule 25-30.140(2), F.A.C. Audit staff calculated the year-end balance of accumulated depreciation to be \$547,889.

Audit staff calculated water depreciation expenses to be \$22,388, for the year ended December 31, 2021. Our calculation for accumulated depreciation, depreciation expense, and simple average are shown in Tables 2-1.

Table 2-1

Acct. No.	Description	Balance Per Utility 12/31/2021	Audit Adjustments	Balance Per Audit 12/31/2021	Simple Average	Depreciation Expense
301	Organization	\$249	\$2	\$251	\$245	\$12
304	Structures and Improvements	74,125	(1)	74,124	72,732	2,784
307	Wells & Springs	38,082	9	38,091	37,318	1,545
309	Supply Mains	732	0	732	716	33
310	Power Generation Equipment	11,033	342	11,375	10,645	628
311	Pumping Equipment	44	1,945	1,989	1,293	100
320	Water Treatment Equipment	5,892	237	6,129	5,051	1,765
330	Distribution Reservoirs & Standpipes	38,275	62,747	101,022	99,851	2,342
331	Transmission & Distribution Lines	152,864	(327)	152,537	149,789	5,496
333	Services	52,371	603	52,974	52,134	1,679
334	Meters & Meters Installations	73,904	21,560	95,464	91,666	4,661
335	Fire Hydrant	4,258	(0)	4,258	4,191	134
336	Backflow Prevention Devices	1,874	995	2,869	2,775	187
340	Office Furniture & Equipment	699	11	710	687	47
346	Communication Equipment	6,045	939	6,984	6,520	928
347	Miscellaneous Equipment	95	(1,714)	(1,619)	(1,643)	48
	Total	\$460,542	\$87,347	\$547,889	\$533,969	\$22,388

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff determined the year-end and simple average balance of the water accumulated depreciation to be \$547,889 and \$533,969, respectively, as of December 31, 2021. Audit staff determined water depreciation expense to be \$22,388, for the test year ended December 31, 2021.

Finding 3: Accumulated Amortization of CIAC

Audit Analysis: Utility records reflect an amortization of CIAC balance of \$215,860, as of December 31, 2021. Audit staff recalculated accumulated amortization of CIAC for water using the composite rates to be \$220,470, and CIAC amortization expense to be \$9,844 for the test year ended December 31, 2021.

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff determined the simple average balance of accumulated amortization of CIAC for water to be \$215,548, as of December 31, 2021. Audit staff determined water CIAC amortization expense to be \$9,844, for the test year ended December 31, 2021.

Finding 4: Operating Revenue

Audit Analysis: The Utility reported on its general ledger total water revenues of \$133,280, for the 12 months ended December 31, 2021.

In our analysis of the billing register, we calculated water revenues to be \$125,181, for the 12 months ended December 31, 2021.

Table 4-1 summarizes the adjustments that are needed to water revenues for the test year. These adjustments resulted from audit staff's calculation of the billing registers for the test year using the two tariffs that were issued on May 20, 2019, and September 22, 2021.

Table 4-1

Description	Balance Per Utility 12/31/2021	Audit Adjustments	Balance Per Audit 12/31/2021
Water Residential Revenue	\$25,046	\$71,209	\$96,255
Water General Service Revenue	103,010	(79,365)	23,645
Miscellaneous Revenue	5,224	57	5,281
Total Water Revenue	\$133,280	(\$8,099)	\$125,181

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on Staff Prepared Exhibits: Water operating revenues should be decreased by \$8,099, for the period ending December 31, 2021.

Finding 5: Operations and Maintenance Expense

Audit Analysis: The Utility's water O&M account balance is \$121,305, for the test year. Audit staff reduced water O&M expense by \$6,093, per the following adjustments:

Account 603 – Salaries & Wages – We reduced Account 603 by \$6,300 as the payroll was accrued but not accounted for.

Account 615 – Purchased Power – We increased Account 615 by \$132, based on the calculation of actual power bills.

Account 641 – Rents – We decreased Account 641 by \$855, and reclassified the amount to Account 675 –Miscellaneous Expense.

Account 655 – Insurance Expense – We increased Account 655 by \$75, based on the actual bill.

Account 675 – Miscellaneous Expense – We increased Account 675 by \$855, the amount reclassified from Account 641 – Rent.

Table 5-1
Summary of Test Year Water O&M Adjustments

Acct. No.	Acct. Description	Per Utility 12/31/2021	Audit Adjustments	Per Audit 12/31/2021
601	Salaries & Wages	\$6,300	(\$6,300)	\$0
604	Pension & Benefits	0	0	0
610	Purchased Water	0	0	0
615	Purchased Power	2,549	132	2,681
616	Fuel for Power Production	0	0	0
618	Chemicals	0	0	0
620	Material & Supplies	0	0	0
630	Contract - Billing	0	0	0
632	Contract - Accounting	425	0	425
633	Contract - Legal	150	0	150
635	Contract - Testing	0	0	0
636	Contract - Other	109,890	0	109,890
640	Rents	855	(855)	0
650	Transportation Expense	0	0	0
655	Insurance Expense	741	75	816
665	Regulatory Commission Exp.	0	0	0
670	Bad Debt Expense	(468)	0	(468)
675	Miscellaneous Expense	863	855	1,718
		\$121,305	(\$6,093)	\$115,212

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on Staff Prepared Exhibit: We reduced water O&M by \$6,093. Working capital was calculated using one-eighth of O&M as prescribed by Rule 25-30.433(3), F.A.C., to be \$14,402, for the test year ended December 31, 2021.

Finding 6: Taxes Other than Income (TOTI)

Audit Analysis: The Utility’s records reflect water taxes other than income expense of \$10,604 for the test year. The amounts represent the Utility’s Regulatory Assessment Fee (RAF) payments and property taxes for the year ended December 31, 2021.

We recalculated RAF based on water revenues of \$125,181, for the test year. RAF expenses due on this amount is \$5,633. The total adjustment for water TOTI Expenses is displayed in Table 6-1 below.

Table 6-1

Description	Per Utility 12/31/2021	Audit Adjustments	Per Audit 12/31/2021
Property Tax	\$4,741	\$8	\$4,749
RAF	5,863	(230)	5,633
Total	\$10,604	(\$222)	\$10,382

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: We decreased water TOTI expense by \$222, for the test year.

Exhibits

Exhibit 1: Rate Base

LP Waterworks, Inc.
Water Rate Base
As of December 31, 2021
Docket No. 20220099-WU

	Per Utility 12/31/2021	Audit Adjustments	Audit Findings	Per Audit 12/31/2021	Simple Average
Utility Plant in Service	\$664,237	(\$53,055)	1	\$611,182	\$597,422
Land	27,412	0		27,412	27,412
Accumulated Depreciation	(460,542)	(87,347)	2	(547,889)	(533,969)
CIAC	(268,967)	0		(268,967)	(268,842)
Amortization of CIAC	215,860	4,610	3	220,470	215,548
Working Capital Allowance	0	14,402	5	14,402	14,402
Net Rate Base	\$178,000	(\$121,390)		\$56,610	\$51,973

Exhibit 2: Capital Structure

LP Waterworks, Inc.
Capital Structure
As of December 31, 2021
Docket No. 20220099-WU

Capital Component	Average Per Utility 12/31/2021	Audit Adjustments	Average Per Audit 12/31/2021	Ratio	Cost	Weighted Cost
Long Term Debt	\$0	\$0	\$0	0.00%	0.00%	0.00%
Common Equity	203,050	0	203,050	93.25%	7.85%	7.32%
Customer Deposits	14,704	0	14,704	6.75%	2.00%	0.14%
Total Capital	\$217,754	\$0	\$217,754	100.00%		7.45%

Order No. PSC-2021-0244-PAA-WS, issued July 6, 2021.

Exhibit 3: Net Operating Income

LP Waterworks, Inc.
Water Net Operating Income (NOI)
12 Months Ended December 31, 2021
Docket No. 20220099-WU

Description	Balance per Utility 12/31/2021	Audit Adjustments	Audit Findings	Balance per Audit 12/31/2021
Revenues	\$133,280	(\$8,099)	4	\$125,181
Operation & Maintenance Expense	121,305	(6,093)	5	115,212
Depreciation Expense	20,233	2,155	2	22,388
CIAC Amortization Expense	8,218	1,626	3	9,844
Taxes Other Than Income	10,604	(222)	6	10,382
Total Operating Expense	160,360	(2,534)		157,826
Net Operating Income	(\$27,080)	(\$5,565)		(\$32,645)