

State of Florida



Public Service Commission

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

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

DATE: November 23, 2004

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Joyce, Merchant, Willis)
Office of the General Counsel (Fleming)
Division of Regulatory Compliance & Consumer Assistance (Vandiver)

RE: Docket No. 040316-WS – Analysis of Utilities, Inc.'s plan to bring all of its Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code.

AGENDA: 12/07/04 – Regular Agenda – Interested Persons May Participate

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\040316.RCM.DOC

Case Background

Utilities, Inc. (UI) is the parent corporation of the following 16 utilities that provide water and wastewater services in the State of Florida and are subject to the Commission's jurisdiction: Alafaya Utilities, Inc., Bayside Utility Services, Inc., Cypress Lakes Utilities, Inc., Labrador Utilities, Inc., Lake Utility Services, Inc., Mid-County Services, Inc., Miles Grant Water and Sewer Company, Sandy Creek Utility Services, Inc., Sanlando Utilities Corporation, Tierre Verde Utilities, Inc., Utilities, Inc. of Eagle Ridge, Utilities, Inc. of Florida, Utilities, Inc. of Longwood, Utilities, Inc. of Pennbrooke, Utilities, Inc. of Sandalhaven, and Wedgefield Utilities, Inc. Water Service Corporation (WSC) is also a wholly-owned subsidiary of UI. WSC provides the necessary administrative and financial services to all UI's subsidiaries. Sandy Creek Utility Services, Inc. and Bayside Utility Services, Inc. were originally included in this docket, but on September 9, 2004, Bay County rescinded jurisdiction.

Pursuant to Order No. PSC-04-0358-FOF-WS, issued April 5, 2004, in Docket No. 020407-WS, In re: Application for Rate Increase in Polk County by Cypress Lakes Utilities, Inc.,

Docket No. 040316-WS
Date: November 23, 2004

the Commission opened a docket to analyze UI's plan to bring all Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code (F.A.C.). In this docket, staff addresses the specific areas of concern that were identified in Docket No. 020407-WS. Staff suggested that a possible way to resolve the identified issues was for the company to make an offer of settlement in this docket to address each of the 11 issues.

On November 8, 2004, after discussions with staff, UI filed a proposed settlement agreement to bring all Florida subsidiaries into compliance. The purpose of this recommendation is to seek the Commission's approval of the settlement agreement. The Commission has jurisdiction pursuant to Sections 367.081 and 367.121, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve UI's Settlement Agreement?

Recommendation: Yes. The settlement agreement should be approved in its entirety. (Joyce, Fleming)

Staff Analysis: As discussed in the case background, the Commission opened a docket to analyze UI's plan to bring all Florida subsidiaries under the Commission's jurisdiction into compliance with Rule 25-30.115, F.A.C. On November 8, 2004, UI filed a proposed settlement agreement to bring all Florida subsidiaries into compliance. The proposed settlement agreement is appended hereto as Attachment A.

In the settlement agreement, UI agrees to the following:

- 1) **Annual Report and Minimum Filing Requirements (MFRs) shall begin with balance per books.** Beginning with all years ending after December 31, 2004, each UI subsidiary's annual report balances shall agree with the general ledger balances. All MFR pages that require a balance per books column shall either be the actual balance per the general ledger or an average test year balance, with supporting calculations provided that show that the components of the calculation came from the general ledger.
- 2) **Adjustments to Rate Base should be timely made.** Beginning with the year ended December 31, 2003, and continuing through December 31, 2004, UI shall have reviewed all Commission transfer and rate case orders to determine if proper adjustments have been made to correctly state rate base balances. UI shall complete the adjustments to the books of Labrador Utilities, Inc., Bayside Utility Services, Inc., Mid-County Services, Inc., and Utilities, Inc. of Eagle Ridge when the Commission orders in their respective pending rate cases have become final. UI will complete the adjustments to the remaining Utilities' books on or before December 31, 2004. If UI has questions regarding adjustments for a specific Utility, it shall notify Commission staff prior to December 31, 2004. UI shall maintain sufficient workpapers so that Commission staff can easily review adjustments made and whether appropriate adjustments to reserve accounts have been made, since the date of transfer or the end of the test year in a rate case or other proceeding where rate base was established.
- 3) **Improvements to accounts cross reference and allocation methodology.** Beginning with the year ended December 31, 2004, and annually thereafter, UI shall maintain a schedule reconciling each general ledger account and sub-account to the Uniform System of Accounts (USOA) primary accounts. For any system that is utilizing a December 31, 2003 test year, UI shall complete this analysis before filing its MFRs. For all future rate cases, UI will prepare a detailed schedule for reconciliation of the general ledger account and sub-account to the USOA primary accounts.

- 4) **Correction of pumping equipment account number.** UI will continue to review account 310 and 311 to correct any mismatches between accounts 310 and 311. UI shall maintain supporting documentation to allow Commission staff to confirm that the adjustments have been made for any future Commission staff audits, and any adjustment will be reflected in future rate cases.
- 5) **Retirements to be made consistently.** UI shall complete, by the end of 2004, a review of all systems to ensure that all appropriate retirement entries have been made. Beginning with the year ended December 31, 2003, UI shall ensure that its operation and accounting personnel consistently utilize UI's existing retirement policy. Beginning September 30, 2004, UI's regulatory accounting and operations personnel shall make quarterly analysis of all plant additions to ensure that all required retirements have been made. Adjustments to the books of the UI subsidiaries will be completed either before December 31, 2004, or prior to the filing of a rate case by the relevant subsidiary. UI has implemented a fully automated work order system to facilitate its work order process. UI has already added the following fields to its work order form and input screen to track retirements when items are moved from the CP ledger to the general ledger: (1) New, (2) Upgrade, (3) Repair, and (4) Replace. These additional data entry fields will allow UI to sort all projects and better evaluate which projects require retirements. In addition, UI will require operations employees to provide accounting staff with the original date the asset was placed in service or the original cost, if available.
- 6) **Corrections to Contributions-In-Aid of Construction Amortization (CIAC) Rate.** The utility shall comply with Rule 25-30.140(9)(a), F.A.C., which states the following:

Beginning with the year ending December 31, 2003, all Class A and B utilities shall maintain separate sub-accounts for: (1) each type of CIAC charge collected including, but not limited to, plant capacity, meter installation, main extension or system capacity; (2) contributed plant; (3) contributed lines; and (4) other contributed plant not mentioned previously. Establishing balances for each new sub-account may require an allocation based upon historical balances. Each CIAC sub-account shall be amortized in the same manner that the related contributed plant is depreciated. Separate sub-accounts for accumulated amortization of CIAC shall be maintained to correspond to each sub-account for CIAC.
- 7) **Lack of support for WSC Allocations.** Pursuant to Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, the Commission ordered that Utilities, Inc. shall use equivalent residential connections (ERCs) as its primary allocation factor for affiliate costs in future cases in Florida as of January 1, 2004, and shall use the end of the applicable year as the measurement date. UI is reviewing the appropriateness of an ERC allocation methodology in other jurisdictions in which it operates. Until the appropriateness of this type of allocation can be determined, UI

will prepare a second WSC allocation book specifically for its Florida subsidiaries using the ERC as its primary allocation factor as delineated in Rule 25-30.055, F.A.C., beginning January 1, 2004. UI shall also maintain workpaper for each utility to show how the ERCs are determined on an annual basis.

- 8) **Allocation to non-owned systems.** UI agrees to implement its allocation methodology to systems that it does not own but operates, and has included these systems in the 2003 allocation book.
- 9) **Documentation of “other water uses.”** UI has implemented and is using the following standard operating protocol to track other water usage. UI believes that this protocol satisfies staff’s concerns.

For each water system in Florida, the operator or field supervisor for each system will submit a report form each month entitled *water loss record* to the Florida regional office. This document shall identify the estimated volume of unmetered water used in the system on a given day and the reason why it was lost. For example, water lost due to a water main break would be calculated from the duration of the event, the size of the pipe, and the estimated flow rate.

Other types of unmetered water use include, but are not limited to:

- water main flushing activities;
- hydrant flow testing;
- filling and chlorinating new water main extensions, storage tanks or treatment units;
- filling new force main and reuse main extensions;
- water used internally in the treatment or disinfection process

Each month, the total sum of water noted on the *water loss record* is entered into the utility’s spreadsheet that tracks and compares water pumped and water purchased, against water sold for each system. In this way, UI has the means to review the data on a routine basis. The monthly form is attached to and filed with the file copy of each utility’s Monthly Operating Report and retained for future use.

- 10) **Maintenance of adjusting an entry log book.** For all years beginning with January 1, 2003, UI shall maintain an adjusting entry log book and supporting documentation (purpose of the entry, person making the entry, worksheets showing any calculations and any supporting documents, reconciliations, invoices, etc.) for each adjustment to the journal.
- 11) **Detailed supporting cash book and general ledger.** UI shall maintain supporting documentation (purpose of the entry, person making the entry, worksheets showing

Docket No. 040316-WS
Date: November 23, 2004

any calculations and any supporting documents, reconciliations, invoices, etc.), or a reference where the supporting documentation can be found.

Staff has reviewed the settlement agreement filed by UI and believes that it is a reasonable resolution to this compliance issue. Further, staff believes that it is in the best interest for the Commission to approve the settlement agreement because UI has addressed all of staff's concerns identified in Docket No. 020407-WS. Based on the foregoing, staff recommends that the Commission approve the settlement agreement in its entirety.

Docket No. 040316-WS
Date: November 23, 2004

Issue 2: Should this docket be closed?

Recommendation: Yes. If the Commission approves staff's recommendation on Issue 1, then the docket should be closed upon the issuance of the final order approving the settlement agreement. (Fleming)

Staff Analysis: If the Commission approves staff's recommendation on Issue 1, then the docket should be closed upon the issuance of the final order approving the settlement agreement.

LAW OFFICES
ROSE, SUNDBSTROM & BENTLEY, LLP
2548 BLAIRSTONE PINES DRIVE
TALLAHASSEE, FLORIDA 32301

FREDERICK L. ASCHAUER, JR.
CHRIS H. BENTLEY, P.A.
ROBERT C. BRANNAN
DAVID F. CHESTER
F. MARSHALL DETERING
JOHN R. JENKINS, P.A.
STEVEN T. MINDLIN, P.A.
DAREN L. SHEPPY
WILLIAM E. SUNDBSTROM, P.A.
DIANE D. TREMPER, P.A.
JOHN L. WHARTON
ROBERT M. C. ROSE, *OF COUNSEL*
WAYNE L. SCHIEFFELDEIN, *OF COUNSEL*

(850) 877-6555
FAX (850) 656-4029
www.rsballoorneys.com

REPLY TO ALTAMONTE SPRINGS

CENTRAL FLORIDA OFFICE
600 S. NORTH LAKE BLVD., SUITE 160
ALTAMONTE SPRINGS, FLORIDA 32701-6177
(407) 830-6331
FAX (407) 830-8522

MARTIN S. FRIEDMAN, P.A.
VALERIE L. LORD

November 5, 2004

Ms. Blanca Bayo
Commission Clerk and Administrative Services Director
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Re: Docket No. 040316-WS; Analysis of Utilities, Inc.'s plan to bring Florida subsidiaries into compliance with Rule 25-20.115, Florida Administrative Code
Our File No.: 30057.81

Dear Ms. Bayo:

Utilities, Inc. proposes the following in settlement of the issues in this docket:

1. Annual Report and Minimum Filing Requirements (MFRs) to begin with balance per books. Beginning with all years ending after December 31, 2004, each of the Utilities' annual report balances shall agree with the general ledger balances. All MFR pages that require a balance per book's column shall either be the actual balance per the general ledger or an average test year balance, with supporting calculations provided that show that the components of the calculation came from the general ledger.

2. Adjustments to Rate Base to be timely made. Beginning with the year ended December 31, 2003, and continuing through December 31, 2004, UI shall have reviewed all Commission transfer and rate case orders to determine if proper adjustments have been made to correctly state rate base balances. UI shall complete the adjustments to the books of Labrador Utilities, Inc., Bayside Utility Services, Inc., Mid-County Services, Inc. and Utilities, Inc. of Eagle Ridge when the Commission orders in their respective pending rate cases have become final. UI will complete the adjustments to the remaining Utilities' books on or before December 31, 2004. If UI has questions regarding adjustments for a specific Utility, it shall notify Commission Staff prior to December 31, 2004. UI shall maintain sufficient workpapers so that Commission Staff can easily review adjustments made and whether appropriate adjustments to reserve accounts have been made since the date of transfer or the end of the test year in a rate case, or other proceeding where rate base was established.

Ms. Blanca Bayo
November 5, 2004
Page 2

3. Improvements to account cross reference and allocation methodology. Beginning with the year ended December 31, 2004, and annually thereafter, UI shall maintain a schedule reconciling each general ledger account and sub-account to the USOA primary accounts. For any system that is utilizing a December 31, 2003-test year, UI shall complete this analysis before filing its MFRs. For all future rate cases, UI will prepare a detailed schedule for reconciliation of the general ledger account and sub-account to the USOA primary accounts.

4. Correction of pumping equipment account number. UI will continue to review accounts 310 and 311 to correct any mismatches between accounts 310 and 311. UI shall maintain supporting documentation to allow Commission Staff to confirm that the adjustments have been made for any future Commission Staff audits, and any adjustment will be reflected in future rate cases.

5. Retirements to be made consistently. UI shall complete, by the end of 2004, a review of all systems to ensure that all appropriate retirement entries have been made. Beginning with the year ended December 31, 2003, UI shall ensure that its operation and accounting personnel consistently utilize UI's existing retirement policy. Beginning September 30, 2004, UI's regulatory accounting and operations personnel shall make quarterly analyses of all plant additions to ensure that all required retirements have been made. Adjustments to the books of the Utilities will be completed either before December 31, 2004, or prior to the filing of a rate case by the relevant Utility. UI has implemented a fully automated work order system to facilitate its work order process. UI has already added the following fields to its work order form and input screen to track retirements when items are moved from the CP ledger to the general ledger: 1. New, 2. Upgrade, 3. Repair, and 4. Replace. These additional data entry fields will allow UI to sort all projects and better evaluate which projects require retirements. In addition, UI will require operations employees to provide accounting staff with the original date the asset was placed in service or the original cost, if available.

6. Corrections to CIAC amortization rate. UI has completed these adjustments.

7. Lack of support for Water Service Corp. Allocations. Pursuant to Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 0200710WS, the Commission ordered that "Utilities, Inc. shall use ERCs as its primary allocation factor for affiliate costs in future cases in Florida as of January 1, 2004, and shall use the end of the applicable test year as the measurement date." UI is reviewing the appropriateness of an ERC allocation methodology in other jurisdictions in which it operates. Until the appropriateness of this type of allocation can be determined, UI will prepare a second Water Services Corp. allocation book specifically for its Florida subsidiaries using the ERC as its primary allocation factor as delineated in Rule 25-30.055, Florida Administrative Code,

Rose, Sundstrom & Bentley, LLP

600 S. North Lake Blvd., Suite 160, Altamonte Springs, Florida 32701-6177

Ms. Blanca Bayo
November 5, 2004
Page 3

beginning January 1, 2004. UI shall also maintain workpapers for each Utility to show how the ERCs are determined on an annual basis.

8. Allocation to non-owned systems. UI agrees to implement its methodology to systems that it doesn't own but operates, and has included these systems in the 2003 allocation book.

9. Documentation of "other water uses." UI has implemented and is using the following standard operating protocol to track other water usage. UI believes that this protocol conforms to the Staff's proposal.

For each water system in Florida, the operator or field supervisor for each system will submit a report form each month entitled **WATER LOSS RECORD** to the Florida regional office. This document shall identify the estimated volume of unmetered water used in the system on a given day and the reason why it was lost. For example, water lost due to a water main break would be calculated from the duration of the event, the size of the pipe, and the estimated flow rate.

Other types of unmetered water use include, but are not limited to:

- water main flushing activities;
- hydrant flow testing;
- filling and chlorinating new water main extensions, storage tanks, or treatment units;
- filling new force main and reuse main extensions;
- water used internally in the treatment or disinfection process.

Each month, the total sum of water noted on the **WATER LOSS RECORD** is entered into our spreadsheet that tracks and compares water pumped and water purchased, against water sold for each system. In this way, UI has the means to review the data on a routine basis. The monthly form is attached to and filed with the file copy of each Utility's Monthly Operating Report and retained for future use.

10. Maintenance of adjusting an entry log book. For all years beginning with January 1, 2003, UI shall maintain an adjusting entry log book and supporting documentation (purpose of the entry, person making the entry, worksheets showing any calculations and any supporting documents, reconciliations, invoices, etc.), with each adjustment to the journal.

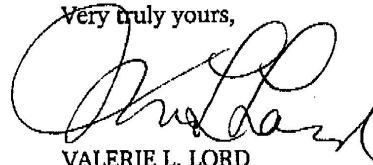
Rose, Sundstrom & Bentley, LLP
600 S. North Lake Blvd., Suite 160, Altamonte Springs, Florida 32701-6177

Ms. Blanca Bayo
November 5, 2004
Page 4

11. Detail supporting cash book and general ledger. UI shall maintain supporting documentation (purpose of the entry, person making the entry, worksheets showing any calculations and any supporting documents, reconciliations, invoices, etc.), or a reference where the supporting documentation can be found.

Please do not hesitate to contact me, if you have any questions.

Very truly yours,



VALERIE L. LORD
For the Firm

VLL/tlc

cc: Ms. Tricia Merchant, Division of Economic Regulation (by facsimile)
Mr. Steven M. Lubertozzi

M:\1 ALTAMONTE\UTILITIES INC\SUBSIDIARIES COMPLIANCE (.81)\PSC Clerk (Bayo)03 (Stipulation and Settlement).ltr.wpd