

FILED
SEP 10 1997

DOCKET NO.: 960444-WU - [Lake Utility Services, Inc.]

WITNESS: Direct Testimony Of Charleston J. Winston. Appearing On Behalf Of The Staff Of The Florida Public Service Commission, Division Of Auditing And Financial Analysis

DATE FILED: September 10, 1997

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FPSC-RECORDS/REPORTING

1 DIRECT TESTIMONY OF CHARLESTON J. WINSTON

2 Q. Please state your name and business address.

3 A. My name is Charleston J. Winston and my business address is Hurston N.
4 Tower, Suite N512, 400 W. Robinson Street, Orlando, FL. 32804.

5 Q. By whom are you presently employed and in what capacity?

6 A. I am employed by the Florida Public Service Commission as a Regulatory
7 Analyst IV in the Division of Auditing and Financial Analysis.

8 Q. How long have you been employed by the Commission?

9 A. I have been employed by the Florida Public Service Commission for
10 approximately eleven years and eight months.

11 Q. Briefly review your educational and professional background.

12 A. I have a Bachelor of Science degree in Accounting and Finance from the
13 University of South Carolina.

14 Q. Please describe your current responsibilities.

15 A. Currently, I am a Regulatory Analyst IV with the responsibilities of
16 planning and directing audits of regulated companies, and assisting in audits
17 of affiliated transactions. I am also responsible for creating audit work
18 programs to meet a specific audit purpose and I have specific authority to
19 direct and control assigned staff work as well as participate as a staff
20 auditor and audit manager.

21 Q. Have you presented expert testimony before this Commission or any other
22 regulatory agency?

23 A. Yes. I testified in the Southern States Utilities, Inc., rate case,
24 Docket No. 950495-WS and the United Telephone Company's rate case, Docket No.
25 910980-TC.

1 Q. What is the purpose of your testimony today?

2 A. The purpose of my testimony is to sponsor specific findings in the staff
3 audit report of Lake Utility Services, Inc., Docket No. 960444-WU. I am
4 sponsoring Audit Exceptions 1, 10, 11, and 12. These findings are filed with
5 my testimony and are identified as CJW-1.

6 Q. Please review the audit exceptions you are sponsoring.

7 A. Audit Exception No. 1 addresses the utility's books and records.
8 Commission Rule 25-30.115(1), Florida Administrative Code (F.A.C.), requires
9 that water and wastewater utilities shall maintain accounts and records in
10 conformity with the NARUC Uniform System of Accounts (USOA) adopted by the
11 National Association of Regulatory Utility Commissioners. The USOA,
12 Accounting Instructions 2.A., requires:

13 Each utility shall keep its books of account, and all other books,
14 records, and memoranda which support the entries in such books of account so
15 as to be able to furnish readily full information as to any item included in
16 any account. Each entry shall be supported by such detailed information as
17 will permit a ready identification, analysis, and verification of all facts
18 relevant thereto.

19 Also, Commission rule 25-30.450, F.A.C. states:

20 The work sheets, etc., supporting the schedules and data submitted must
21 be organized in a systematic and rational manner so as to enable Commission
22 personnel to verify the schedules in an expedient manner and minimum amount
23 of time.

24 I believe that Lake Utility Services, Inc.'s books and records are in
25 violation of the above NARUC Instruction and Commission Rule. The books,

1 records, and Minimum Filing Requirements (MRFs) of the utility did not enable
2 Commission personnel to verify the schedules in an expedient manner and with
3 the minimum amount of time. The following specific items were found to be in
4 violation of the above rules:

5 - Accumulated depreciation at December 31, 1994, Schedule A-9 of the
6 MFRs, is not in agreement with the general ledger.

7 - Some plant-in-service items are not supported by proper documentation,
8 invoices, canceled checks, etc.

9 - The utility is not properly recording its CIAC and advances for
10 construction. There are no ledgers for advances other than the
11 developer/purchase agreements.

12 - Revenues were misstated in the MFRs due to misclassifications.

13 Audit Exception No. 10 addresses Allowance for Funds Prudently Invested
14 (AFPI) revenues. The utility included \$32,912 in AFPI revenues in its
15 miscellaneous revenues. A breakdown of this amount, by system, is shown
16 below:

<u>System Number</u>	<u>System Name</u>	<u>Amount</u>
0661	Crescent Bay	\$1,839
0666	Preston Cove	12,800
0667	South Clermont Region	<u>18,273</u>
	Total:	\$32,912

22 AFPI revenues should not be recorded in revenues for rate making purposes.
23 Therefore, I recommend that miscellaneous revenues be reduced by \$32,912.

24 Audit Exception No. 11 addresses deposit interest. In the MFRs, the
25 Cost of Capital Schedule includes a cost rate of eight percent for customer

1 deposits. However, in the company's billing registers, the interest paid on
2 customer deposits was six percent. In addition, Commission rule 25-30.311(4),
3 F.A.C. requires six percent. Therefore, I recommend that the customer deposit
4 rate used in the MFRs should be reduced to six percent.

5 Audit Exception No. 12 addresses CIAC and advances. The utility's MFRs
6 included the following amounts for 1995:

7	CIAC	\$1,058,113
8	CIAC Accumulated Amortization	\$ 126,729
9	CIAC Expense	\$ 34,599
10	Advances	0

11 The audit staff found several recording errors, misclassifications, and
12 unrecorded advances by developers. Therefore, I recommend that CIAC be
13 increased by \$188,478 and advances be increased by \$405,520. The utility also
14 used a composite amortization rate of 3.1%. To be consistent with the
15 auditors' recalculation of accumulated depreciation I used a composite
16 amortization rate of 2.7% for 1995 and 2.5% for all other years. Based on
17 this adjustment and the previous adjustment, I recommend that accumulated
18 amortization be increased by \$8,673 and that CIAC amortization expense be
19 decreased by \$6,258.

20 Q. Does this conclude your testimony?

21 A. Yes, it does.

22

23

24

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AUDIT EXCEPTION NUMBER 1

SUBJECT: COMPANY'S BOOKS AND RECORDS

FACTS: Per NARUC, National Association of Regulatory Utility Commissioners, Accounting Instructions 2.A.,

Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of account so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts relevant thereto.

Per Commission Rule 25-30.450,

The work sheets, etc. supporting the schedules and data submitted must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimum amount of time.

OPINION AND RECOMMENDATION: Lake Utility Services, Inc.'s books and records are in violation of the above NARUC and Commission Rule. The books, records, and MFRs of the company did not enable Commission personnel to verify the schedules in an expedient manner and with the minimum amount of time. The following specific items were found to be in violation of the above rules:

1. Accumulated depreciation at December 31, 1994, Schedule A-9 of the MFRs, is not in agreement with the general ledger.
2. Some plant-in-service are not supported by proper documentation, invoices, cancelled checks, etc.
3. The company is not properly recording its CIAC and advances for construction. There are no ledgers for advances other than the developer/purchase agreements. See Audit Exception Number 12.

AUDIT EXCEPTION NUMBER 1 (cont'd.)

4. Revenues were misstated in the MFRs due to misclassifications. See Audit Exception Number 10.

The Commission should require the company to maintain its books and records per NARUC and Commission Rules.

AUDIT EXCEPTION NUMBER 10**SUBJECT: AFPI**

FACTS: The company included \$32,912 in its MFRs as a portion of the miscellaneous revenues. A breakdown of the above amount by system is shown below:

<u>System Number</u>	<u>System Name</u>	<u>Amount</u>
0661	Crescent Bay	\$ 1,839
0666	Preston Cove	12,800
0667	South Clermont Region	18,273

	Total:	\$ 32,912

OPINION AND RECOMMENDATION: The above amounts are for AFPI, Allowance for Funds Prudently Invested; therefore, they should not be recorded in revenues for ratemaking purposes. However, they are used to determined Regulatory Assessment Fees.

The company's miscellaneous revenues for the year ended 1995 should be reduced by \$32,912.

AUDIT EXCEPTION NUMBER 11

SUBJECT: DEPOSIT INTEREST

FACTS: Per the MFRs Cost of Capital Schedule a cost rate of eight percent was used for customer deposits.

In the company's billing registers the interest paid on customer deposits was six percent.

OPINION AND RECOMMENDATION: The customer deposits' rate used in the MFRs should be reduced to six percent.

AUDIT EXCEPTION NUMBER 12**SUBJECT: CIAC AND ADVANCES**

FACTS: The company's MFRs included the following amounts for 1995:

CIAC	\$ 1,058,113
CIAC Accumulated Amortization	\$ 126,729
CIAC Expense	34,599
Advances	-0-

The company used a composite amortization rate of 3.1%.

OPINION AND RECOMMENDATION: Due to various recording errors, misclassifications, and unrecorded advances made by developers, the audit staff is recommending the following adjustments to the above amounts:

	<u>Per Audit</u> <u>12/31/95</u>	<u>Per MFR</u> <u>12/31/95</u>	<u>Audit</u> <u>Adjustment</u>
CIAC	\$ 1,246,591	\$ 1,058,113	\$ 188,478
CIAC Acc. Amtz.	135,402	126,729	8,673
CIAC Expense	28,341	34,599	(6,258)
Advances	405,520	-0-	405,520

For a breakdown of the above amounts refer to the attached schedule.

The audit staff used a composite amortization rate of 2.7% for 1995 and 2.5% for all other years.

Included in the above advances amount is \$35,000 that was misclassified as miscellaneous revenues in the MFRs. The above adjustments reclassified this amount to advances.

However, miscellaneous revenues should be reduced by \$35,000 and Regulatory Assessment Fees reduced by \$1,575 (35,000 x 4.5%). The company should file a Notice of Regulatory Assessment Fee Adjustment form with the Commission.

AUDIT EXCEPTION NUMBER 12 SCHEDULE

System & Number	CIAC Per Audit 1994	CIAC Per Audit 1995	CIAC Average Balance	CIAC Expense Per Audit 1995	Advances Per Audit 1994	Advances Per Audit 1995	Advances Average Balance	Acc Amtz Per Audit 1994	Acc Amtz Per Audit 1995	Acc Amtz Average Balance
Clermont #0628	71,663	75,013	73,338	1,980	5,320	3,520	4,420	34,266	36,246	35,256
Amber Hill #0631	78,641	79,586	79,114	2,136				16,336	18,472	17,404
Highland Point #0632	61,150	61,850	61,500	1,661	11,850	11,750	11,800	12,251	13,911	13,081
The Oranges #0633	36,350	37,850	37,100	1,002	16,850	15,950	16,400	3,674	4,676	4,175
Lake Ridge Club #0634	16,250	22,350	19,300	521	65,200	61,600	63,400	704	1,225	965
The Vistas #0636	27,150	36,900	32,025	865		35,000	17,500	831	1,695	1,263
Crescent Bay #0661	53,515	58,115	55,815	1,507	125,350	121,050	123,200	5,190	6,697	5,944
Crescent West #0662	90,920	94,420	92,670	2,502				11,066	13,568	12,317
Four Lakes #0663	26,770	14,390	20,580	556				10,953	11,509	11,231
Lake Saunders #0664	50,213	50,913	50,563	1,365				6,712	8,077	7,395
Crescent Hills #0665	23,750	27,600	25,675	693				943	1,636	1,290
Preston Cove #0666	23,081	70,551	46,816	1,264	15,369		7,685	295	1,559	927
South Clermont #0667	293,260	617,053	455,157	12,289	107,050	156,650	131,850	3,842	16,131	9,987
Total:	852,713	1,246,591	1,049,652	28,341	346,989	405,520	376,255	107,063	135,402	121,233
Per Company:	704,294	1,058,113	881,203	34,599	0	0	0	92,130	126,729	109,430
Difference:	148,419	188,478	168,449	(6,258)	346,989	405,520	376,255	14,933	8,673	11,803

25

Schedule of Water Rate Base

Florida Public Service Commission

EXHIBIT I

Company: Lake Utility Services, Inc.
 Docket No.: 960444-WU
 Schedule Year Ended: 12/31/95
 Interim Final
 Historic Projected

Schedule: A-1
 Page 1 of 1
 Preparer: MPK

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. If method other than formula approach (1/8 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	(1) Description	(2) Balance Per Books YE 12/31/95	(3) Utility Adjustments	(4) Adjusted Utility Balance YE 12/31/95	(5) Year End 12/31/94	(6) Test Year Average 12/31/95	(7) Supporting Schedule(s)
1	Utility Plant In Service	\$1,979,991	0	\$1,979,991	\$1,912,124	\$1,946,058	A-5
2	Utility Land & Land Rights	3,730	0	3,730	3,730	3,730	A-5
3	Less: Non-Used & Useful Plant	0	(49,361)	(49,361)	0	(49,361)	A-7
4	Construction Work in Progress	0	0	0	0	0	-
5	Less: Accumulated Depreciation	(157,183)	0	(157,183)	(106,325)	(131,754)	A-9
6	Less: CIAC	(1,058,113)	0	(1,058,113)	(704,294)	(881,203)	A-12
7	Accumulated Amortization of CIAC	126,729	0	126,729	92,130	109,430	A-14
8	Acquisition Adjustments	(70,169)	0	(70,169)	(70,169)	(70,169)	-
9	Accum. Amort. of Acq. Adjustments	8,182	0	8,182	6,007	7,095	-
10	Advances For Construction	0	0	0	0	0	A-16
11	Positive Accumulated Deferred Income Taxes	250,916	0	250,916	(17,833)	116,542	C-6
12	Working Capital Allowance	27,371	3,471	30,841	24,815	27,828	A-17
13	Total Rate Base	\$1,111,454	(\$45,890)	\$1,065,564	\$1,140,185	\$1,078,194	

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Lake Utility Services, Inc.
 Docket No.: 960444-WU
 Schedule Year Ended: 12/31/95
 Interim Final
 Historic Projected

Schedule: B-1
 Page 1 of 1
 Preparer: MFK

EXHIBIT II

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) Utility Test Year 12/31/95	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year 12/31/95	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	Supporting Schedule(s)
1	OPERATING REVENUES	\$339,294	(\$25,348)	\$313,946	\$133,236	\$447,182	B-3 & B-4
2	Operation & Maintenance	218,965	27,767	246,732	0	246,732	B-3 & B-5
3	Depreciation	64,177	(1,724)	62,453	0	62,453	B-3 & B-13
4	Acq. Adj. Amortization	(2,175)	0	(2,175)	0	(2,175)	
5	CIAC Amortization	(34,599)	0	(34,599)	0	(34,599)	B-3
6	Taxes Other Than Income	35,332	2,256	37,588	5,996	43,583	B-3 & B-15
7	Provision for Income Taxes	9,066	(7,645)	1,421	19,353	20,774	B-3 & C-1
8	OPERATING EXPENSES	290,766	20,653	311,419	25,348	336,768	
9	NET OPERATING INCOME	\$48,528	(\$46,001)	\$2,527	\$107,888	\$110,414	
13	RATE BASE	\$1,078,194		\$1,078,194		\$1,078,194	
14	RATE OF RETURN	4.50%		0.23%		10.24%	

Schedule of Requested Cost of Capital
Beginning and End of Year Average

Florida Public Service Commission

EXHIBIT III

Schedule: Utilities, Inc. (Parent Company)
Company: Lake Utility Services, Inc.
Docket No.: 960444-WU
Test Year Ended: 12/31/95
Schedule Year Ended: 12/31/95
Historic Projected

Schedule: D-1
Page 1 of 2
Preparer: MFK

Subsidiary or Consolidated

Simple average capital structure.

Explanation: Provide a schedule which calculates the requested Cost of Capital on a beginning and end of year average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.	Class of Capital	(1) Reconciled To Requested Rate Base AYE 12/31/95	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	\$503,195	46.67%	9.19%	4.29%
2	Short-Term Debt	91,427	8.48%	9.12%	0.77%
3	Preferred Stock	0	0.00%	0.00%	0.00%
4	Customer Deposits	14,518	1.35%	8.00%	0.11%
5	Common Equity	469,055	43.50%	11.65%	5.07%
6	Tax Credits - Zero Cost	0	0.00%	0.00%	0.00%
7	Tax Credits - Wtd. Cost	0	0.00%	0.00%	0.00%
8	Accum. Deferred Income Taxes	0	0.00%	0.00%	0.00%
9	Other (Explain)	0	0.00%	0.00%	0.00%
10	Total	<u>\$1,078,194</u>	<u>100.00%</u>		<u>10.24%</u>

Supporting Schedules: D-2
Recap Schedules: A-1, A-2

Note: Leverage Formula: $9.05 + (1.131/43.5\%)$

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate
increase and for increase in
service availability charges in
Lake County by Lake Utility
Services, Inc.

DOCKET NO. 960444-WU

FILED: SEPTEMBER 10, 1997

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the **DIRECT TESTIMONIES OF CHARLESTON J. WINSTON, ELBERT E. PHILLIPS, IAN J. FORBES, LEE R. MUNROE, PATRICIA W. MERCHANT AND TIMOTHY G. BANKS** on behalf of the Staff of the Florida Public Service Commission, have been furnished by U.S. Mail this 10th day of September to the following:

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