

State of Florida



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

DATE: October 20, 2008
TO: Stephen B. Fletcher, Public Utilities Supervisor, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *DN*
RE: Docket No: 080121-WS; Company Name: Aqua Utilities Florida, Inc.;
Audit Purpose: Rate Case audit; Audit Control No: 08-093-1-1;

Attached are revised pages 22, 27 and 36 for the audit report issued by memo dated September 18, 2008. Please insert these corrected pages into the audit report previously issued.

Attachment

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

Mr. Troy Rendell
Aqua Utilities Florida, Inc.
3116 Capital Circle N.E., Suite 5
Tallahassee, FL 32308-7791

Ms. Kimberly A. Joyce
Aqua Utilities Florida, Inc.
762 West Lancaster Avenue
Bryn Mawr, PA 19010-3402

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

AUDIT FINDING NO. 10

SUBJECT: PRIOR PERIOD EXPENSES

AUDIT ANALYSIS: Aqua America, Inc. allocated to Aqua Utilities Florida, Inc., \$12,255 for prior period expenses. These expenses are listed on the next page and should be disallowed in this rate proceeding.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2007:

| NARUC | | | |
|----------|-------------------------------|----------|----------|
| Acct. No | Account Description | Debit | Credit |
| 215 | Retained Earnings | \$12,255 | |
| 604 | Employee Pension and Benefits | | \$ 1,540 |
| 633 | Contractual Services – Legal | | \$ 626 |
| 636 | Contractual Services – Other | | \$10,065 |
| 675 | Miscellaneous Expenses | | \$ 24 |

EFFECT ON THE FILING IF FINDING IS ACCEPTED:

Schedule 2 shows the impact of these adjustments on each system.

AUDIT FINDING NO. 12

SUBJECT: SHAREHOLDERS SERVICES EXPENSES

AUDIT ANALYSIS: Aqua America, Inc. allocated to Aqua Utilities Florida, Inc., \$32,134 (\$10,567 + \$21,567) for Shareholder Services expenses in Contractual Services – Other, Account 636. The Shareholder Services expenses were for Transfer Agent and Registrar and Investor Communication Services that included, Annual Stockholders’ Meeting, shareholders correspondence, stock certificate mailings, stock accounts maintenance, salaries, etc.

In a prior Commission order addressing shareholder services expense for Southern States Utilities, Inc. (Commission Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS), the Commission found that:

Through the ROE leverage formula, we have allowed recovery of costs associated with being a publicly traded utility. Specifically, in the calculation of the appropriate cost of equity, we recognized an additional 25 basis points to the otherwise determined cost of equity to provide for these costs. To ask SSU’s ratepayers to pay 25 basis points on ROE in addition to the amount requested by SSU would be duplicative. We also question whether the benefits SSU receives from MP&L are worth \$208,776 to the ratepayers in Florida. Consequently, we shall disallow all of the utility’s requested shareholder services expenses of \$208,776.

Therefore, audit staff recommends that these expenses be disallowed.

EFFECT ON THE GENERAL LEDGER IF FINDING IS ACCEPTED: The following general ledger entry is needed to correct the utility general ledger balances as of December 31, 2007:

| NARUC | | | |
|-----------|-----------------------------------|----------|----------|
| Acct. No. | Account Description | Debit | Credit |
| 426 | Miscellaneous Nonutility Expenses | \$32,134 | |
| 636 | Contractual Services - Other | | \$32,134 |

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:

| | | | |
|----------------------|--|----------|----------|
| Account 426 | Miscellaneous Nonutility Expenses | \$32,134 | |
| Accounts 634 and 734 | - Contractual Services – Management Fees | | \$32,134 |

The summary and the allocations of these adjustments to the individual utility systems are shown on the schedules following this finding.

AUDIT FINDING NO. 14

SUBJECT: LETTER OF CREDIT EXPENSES

AUDIT ANALYSIS: Aqua America, Inc. allocated to Aqua Utilities Florida, Inc., \$1,345 for Standby Letters of Credit expenses in Miscellaneous Expenses, Account 675. The Standby Letters of Credit expenses were used to obtain various loans for the utility.

According to the National Association of Regulatory Utility Commissioners (NARUC), Uniform System of Accounts (USoA), Account 181, Unamortized Debt Discount and Expense should include the total expense for all classes of long-term debt. Further, FPSC Order No. PSC-94-1452-FOF-WU, page 5, issued November 18, 1994, general states that debt-issuing costs should be included in Account 181. Therefore, \$1,345 should be recorded in Account 181, Unamortized debt Discount and Expense.

The unamortized balance in Account 181 should be included in the utility's Capital Structure and amortized over the period of the loan. The Standby Letters of Credit expenses were for various loans. We did not have sufficient information to determine the amortization period.

EFFECT ON THE GENERAL LEDGER IF FINDING IS ACCEPTED: The following general ledger entry is needed to correct the utility general ledger balances as of December 31, 2007:

| NARUC | | | |
|----------|---------------------------------------|---------|---------|
| Acct. No | Account Description | Debit | Credit |
| 181 | Unamortized Debt Discount and Expense | \$1,345 | |
| 675 | Miscellaneous Expenses | | \$1,345 |

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:

| | | |
|---|---------|---------|
| Account 181 - Unamortized Debt Discount and Expense | \$1,345 | |
| Accounts 634 and 734 - Contractual Services – Management Fees | | \$1,345 |

The summary, Schedule 1, and the allocations of these adjustments to the individual utility systems, Schedule 2, are shown on the schedules following this finding.