

State of Florida



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# Public Service Commission

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COMMISSION  
CLERK

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

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**DATE:** January 15, 2009  
**TO:** Kristin J. Billingslea, Regulatory Analyst II, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *DN*  
**RE:** Docket No: 080353-WU; Company Name: Placid Lakes Utilities, Inc.;  
Audit Purpose: Rate Case; Company Code: WU193;  
Audit Control No: 08-312-2-1;

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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

Ms. Lauren Elowsky  
Placid Lakes Utilities, Inc.  
410 Washington Blvd.. NW  
Lake Placid, FL 33852-6779

Mr. James L. Ade  
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**FLORIDA PUBLIC SERVICE COMMISSION**  
**DIVISION OF REGULATORY COMPLIANCE**  
**BUREAU OF AUDITING**

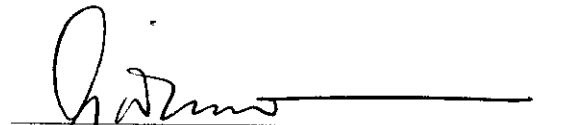
*Tampa District Office*

**PLACID LAKES UTILITIES, INC.**

**FILE & SUSPEND RATE CASE**  
**HISTORIC TEST YEAR ENDED DECEMBER 31, 2007**  
**UPDATED THROUGH OCTOBER 31, 2008**

**DOCKET NO. 080353-WU**  
**AUDIT CONTROL NO. 08-312-2-1**

  
\_\_\_\_\_  
*Tomer Kopelovich, Audit Manager*

  
\_\_\_\_\_  
*Simon O. Ojada, Audit Staff*

  
\_\_\_\_\_  
*Joseph W. Rohrbacher, District Supervisor*

DOCUMENT NUMBER-DATE

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

**DECEMBER 19, 2008**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated November 7, 2008. We have applied these procedures to the attached schedules prepared by Lake Placid Utilities Inc. in support of its filing for rate relief in Docket No. 080353-WU.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended only for internal Commission use.

## OBJECTIVES AND PROCEDURES

### RATE BASE

#### General

**Objective:** To determine that the utility's filing represents its recorded results from continuing operations.

**Procedures:** We reconciled the following individual component rate base balances to the utility's general ledger as of December 31, 2007. We also compiled the balances through October 31, 2008 and verified that adjustments required in Order No. PSC-01-0327-PAA-WU, issued February 6, 2001 were recorded.

#### Utility-Plant-in-Service (UPIS)

**Objective:** To determine that property exists and is owned by the utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that the proper retirements of UPIS were made when a replacement item was put in service.

**Procedures:** We tested UPIS additions for the period January 1, 2000 through October 31, 2008 to test the utility's balances reflected in its filing. We tested retirements to UPIS when a capital item was removed or replaced. We toured the utility plant sites to observe whether asset additions were completed and to ascertain if asset retirements were needed.

#### Land and Land Rights

**Objective:** To determine that utility land is recorded at original cost and is owned or secured under a long-term lease.

**Procedures:** We verified that the utility's land balance has not changed and that no land has been purchased or disposed of since its last Commission proceeding in Docket No. 000295-WU.

#### Contributions-in-Aid-of-Construction (CIAC)

**Objective:** To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts.

**Procedures:** We examined utility accounting records for cash contributions for the period January 1, 2000 through October 31, 2008. We verified the amount collected to the utility approved tariff.

#### Accumulated Depreciation

**Objective:** To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that depreciation expense accruals are calculated using the Commission authorized rates and that retirements are properly recorded.

**Procedures:** We recalculated accumulated depreciation accruals for the period January 1, 2000 through December 31, 2007 to test the utility's balances reflected in its filing. We tested retirements to accumulated depreciation when a capital item was removed or replaced.

### Accumulated Amortization of CIAC

**Objective:** To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts.

**Procedures:** We recalculated amortization of CIAC accruals for the period January 1, 2000 through December 31, 2007 to test the utility's balances reflected in its filing.

### Working Capital

**Objective:** To determine that the utility's working capital balance is properly calculated in compliance with Commission rules.

**Procedures:** We calculated the utility's working capital balance as of December 31, 2007 using 1/8<sup>th</sup> of operation and maintenance expense as required by Commission rule 25-30.433 Rate Case Proceedings, Florida Administrative Code (F.A.C).

## **NET OPERATING INCOME**

### General

**Objective:** To determine that the utility's filing represents its recorded results from continuing operations.

**Procedures:** We reconciled the following individual component net operating income balances to the utility's general ledger as of December 31, 2007.

### Revenues

**Objective:** To determine that revenues are properly recorded in compliance with Commission rules and are based on the utility's Commission approved tariff rates.

**Procedures:** We traced recorded revenues for the 12-month period ended December 31, 2007 and the 10-month period ended October 31, 2008 from the utility's general ledger to test the utility's balances reflected in its filing. We recalculated a sample of customer bills to ensure that the utility was using the rates authorized in its approved tariff.

### Operation and Maintenance Expenses (O&M)

**Objective:** To determine that operation and maintenance expenses are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

**Procedures:** We reviewed 100 percent of O&M expense entries from the utility's general ledger for the 12-month period ended December 31, 2007 and the 10-month period ended October 31, 2008 to test the utility's balances reflected in its filing. We reviewed invoices for proper amount, period, classification, NARUC account and recurring nature.

### Taxes-Other-Than-Income (TOTI)

**Objective:** To determine that taxes other than income tax expense is properly recorded in compliance with Commission rules and was reasonable and prudent for ongoing utility operations.

**Procedures:** We reconciled the TOTI in the filing to the general ledger for the 12-month period ended December 31, 2007 and the 10-month period ended October 31, 2008 to test the utility's balances reflected in its filing. We reviewed utility real estate and tangible personal property tax invoices for proper amount, period and reclassification. We recalculated payroll taxes and regulatory assessment fee.

#### Depreciation Expense

**Objective:** To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of UPIS assets and amortization of CIAC assets for ongoing utility operations.

**Procedures:** We reviewed depreciation expense entries from the utility's general ledger for the 12-month period ended December 31, 2007 and the 10-month period ended October 31, 2008 to test the utility's balances reflected in its filing. We recalculated a sample of annual depreciation expense accruals to ensure that the utility used the Commission's rates prescribed in Rule 25-30.140, F.A.C.

### CAPITAL STRUCTURE

#### General

**Objective:** To determine the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules and that they accurately represent the ongoing utility operations.

**Procedures:** We reconciled the following individual component capital structure balances to the utility's general ledger as of December 31, 2007.

#### Customer Deposits

**Objective:** To determine that customer deposit balances represent actual obligations of the utility and are properly recorded in compliance with Commission rules.

**Procedures:** We traced a sample of customer deposit balances to supporting documentation and verified that customer deposits were refunded and credited with interest payments in compliance with Commission rules.

#### Owners' Equity

**Objective:** To determine that owners' equity balances represent actual equity of the utility and that they are properly recorded in compliance with Commission rules.

**Procedures:** We reconciled equity balances to the general ledger and recalculated the allowable return using Commission Order No. PSC-01-0327-PAA-WU, issued February 6, 2001 for the historic test year ending December 31, 2007. The utility used staff recommendation under Docket No. 080006-WS, issued May 8, 2008, for the projected test year ending December 31, 2008.

**AUDIT FINDING NO. 1**

**SUBJECT: ACTUAL 2008 REVENUES AND EXPENSES AS OF OCTOBER 31, 2008**

**AUDIT ANALYSIS:** The utility recorded \$438,926 as revenues and \$355,534 as expenses for the 10 month period ending October 31, 2008.

<b><u>Actual Revenues Jan 1 – Oct 31, 2008</u></b>	<b><u>Annualized Revenues Jan 1 – Dec 31, 2008</u></b>	<b><u>Actual Revenues 2007 Per MFR</u></b>
\$438,926	\$526,711	\$541,232
<b><u>Actual Expenses Jan 1 – Oct 31, 2008</u></b>	<b><u>Annualized Expenses Jan 1 – Dec 31, 2008</u></b>	<b><u>Projected Expenses 2008 Per MFR</u></b>
\$355,534	\$426,641	\$457,384

We took actual 2008 revenue and annualized it and compared it to 2007 revenues per MFR. We also took actual 2008 expenses and compared it to the projected expenses per MFR.

**EFFECT ON THE GENERAL LEDGER:** No effect

**EFFECT ON THE FILING:** No effect, for information purposes only.



**Schedule of Water Rate Base**

**Florida Public Service Commission**

**Placid Lakes Utilities, Inc.**  
 Docket No. 080353-WS  
 Base Year Ended 12/31/07  
 Interim  Final   
 Historical  Projected

Schedule: A-1  
 Page: 2 of 2  
 Preparer: Guastella Associates

Description: Provide the calculation of the rate base for the test year, showing all adjustments.  
 All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(2) Per Book Balance 12/31/2007	(3) Utility Adjustments	(4) Adjusted Balance 12/31/2007	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$2,668,467		\$2,668,467	A-5
2	Utility Land & Land Rights	1,000		1,000	A-5
3	Less: Non-Used & Useful Plant	0	(36,993)	(36,993)	A-7
4	Construction Work in Progress	0		0	
5	Less: Accumulated Depreciation	(1,064,711)		(1,064,711)	A-9
6	Less: CIAC	(1,648,731)		(1,648,731)	A-12
7	Accumulated Amortization of CIAC	704,165		704,165	A-14
8	Acquisition Adjustments	0		0	
9	Accum. Amort. Of Acq. Adjustments	0		0	
10	Advances For Construction	(132,116)	(955)	(133,071)	A-16
11	Working Capital Allowance	0	57,012	57,012	A-17
12	<b>Total Rate Base</b>	<b>\$528,074</b>	<b>\$19,064</b>	<b>\$547,138</b>	

Schedule of Water Net Operating Income

Florida Public Service Commission

Placid Lakes Utilities, Inc.  
 Docket No. 080353-WS  
 Base Year Ended 12/31/07  
 Interim  Final   
 Historical  Projected

Schedule: B-1  
 Page: 2 of 2  
 Preparer: Guastella Associates

Description: 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) Amount Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$549,215	(\$7,983)	\$541,232	\$101,903	\$643,135	B-4,E-2
2	Operation & Maintenance	449,111	6,988	456,099		456,099	B-5
3	Depreciation, net of CIAC Amort.	43,302	(437)	42,865		42,865	B-13
4	Amortization			0		0	
5	Taxes Other Than Income	70,095	(7,452)	62,644	4,586	67,229	B-15
6	Provision for Income Taxes			0	28,574	28,574	C-1
7	OPERATING EXPENSES	<u>562,509</u>		<u>561,608</u>		<u>594,768</u>	
8	NET OPERATING INCOME	<u>(\$13,294)</u>		<u>(\$20,377)</u>		<u>\$48,367</u>	
9	RATE BASE	<u>\$528,074</u>		<u>\$547,138</u>		<u>\$547,138</u>	
10	RATE OF RETURN	<u>-2.52%</u>		<u>-3.72%</u>		<u>8.84%</u>	

Schedule of Requested Cost of Capital

Florida Public Service Commission

Placid Lakes Utilities, Inc.  
 Docket No. 080353-WS  
 Base Year Ended 12/31/07  
 Historical [ ] Projected [X]

Schedule: D-1  
 Page: 2 of 4  
 Preparer: Guastella Associates

Description: Provide a schedule which calculates the requested Cost of Capital on a simple 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	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	\$0	0.00%		
2	Short-Term Debt	0	0.00%		
3	Preferred Stock	0	0.00%		
4	Common Stock	500	0.09%	8.93%	0.01%
5	Customer Deposits	16,796	3.07%	6.00%	0.13%
6	Tax Credits - Zero Cost	0	0.00%		
7	Tax Credits - Weighted Cost	0	0.00%		
8	Accumulated Deferred Income Taxes	0	0.00%		
9	Other-Retained Earnings & Paid-in-Capital	529,842	96.84%	8.93%	8.65%
10	Total	<u>547,138</u>	<u>100.00%</u>		<u>8.84%</u>

Low limit of Equity return range established in the last case = 8.93%