

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: August 21, 2019

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20190031-WU
Company Name: Placid Lakes Utilities, Inc.
Company Code: WU193
Audit Purpose: A1f File & Suspend Rate Case (PAA)
Audit Control No.: 2019-168-2-1

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 Commission Clerk. There are no confidential work papers associated with this audit.

LMD/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

Placid Lakes Utilities, Inc.
File and Suspend Rate Case

Twelve Months Ended December 31, 2018

Docket No. 20190031-WU
Audit Control No. 2019-168-2-1
August 6, 2019

A handwritten signature in blue ink, appearing to read "Tomer".

Tomer Kopelovich
Audit Manager

A handwritten signature in blue ink, appearing to read "Linda Hill".

Linda Hill
Audit Staff

A handwritten signature in blue ink, appearing to read "Simon Ojada".

Simon Ojada
Reviewer

Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
None.....	7
Exhibits	
1: Rate Base	8
2: Capital Structure	9
3: Net Operating Income.....	10

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 14, 2019. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Placid Lakes Utilities, Inc. in support of its filing for rate relief in Docket No. 20190031-WU

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

The Utility refers to Placid Lakes Utilities, Inc.

Test Year refers to the 12-months ended December 31, 2018.

MFR - Minimum Filing Requirements

Utility Background

Placid Lakes Utilities, Inc. (Placid Lakes or the Utility) is a Class B water utility providing service to approximately 1,982 customers in Highlands County. Placid Lakes is located in a region which has been designated by the Southwest Florida Water Management District (SWFWMD) as a critical use area. The Utility's water rates were last established in its 2013 rate proceeding by Order No. PSC-2013-0646-PAA-WU. Placid Lakes is a wholly-owned subsidiary of Lake Placid Holding Company (LPHC), the primary developer of the Placid Lakes subdivision.

Utility Books and Records

Objective: The objective was to determine whether the Utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

Procedures: We reviewed the general ledger account numbers and descriptions. We verified that the Utility used the accrual method of accounting and maintain records on a calendar year basis. No exceptions were noted.

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, and are properly classified in compliance with Commission rules and the NARUC USOA, 3) Retirements are made when a replacement asset was put in service, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its filing and books and records.

Procedures: We reconciled our beginning balances from Order No. PSC-2013-0646-PAA-WU to the filing and general ledger. We then scheduled plant additions, by account, by year for 2013 through 2018. We selected major plant additions for testing and traced these to supporting documentation and company prepared worksheets. We verified that the appropriate amount for plant retirements was used. We determined the year-end and average balances as of December 31, 2018. We toured the plant facilities on August 6, 2019. No exceptions were noted.

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 required in the Utility's last rate proceeding were recorded in its filing and books and records.

Procedures: We reconciled our beginning balances from Order No. PSC-2013-0646-PAA-WU to the filing and general ledger. We accessed the Highlands County Property Appraiser's Website to verify the legal description of the property, whether any sales and purchases occurred and, to verify the visual description of the property when we toured the facilities on August 6, 2019. We accessed the Highlands County Clerk's Website to verify the Utility's Warranty Deed. We reviewed Order No. PSC-2013-0646-PAA-WU to determine whether Commission adjustments were made and whether detailed backup was available. We determined the year-end and average balances as of December 31, 2018. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether Accumulated Depreciation accruals are properly calculated and recorded based on Commission rules and the NARUC USOA and adjustments required in the Utility's last rate proceeding were recorded in its filing and books and records.

Procedures: We reconciled our beginning balances from Order No. PSC-2013-0646-PAA-WU to the filing and general ledger. We recalculated Accumulated Depreciation using rates prescribed in Rule 25-30.140, Florida Administrative Code (F.A.C.). We verified that retirements were made when a capital item was removed or replaced. We determined the year-end and average balances as of December 31, 2018. No exceptions were noted.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether Contributions-in-Aid-of-Construction (CIAC) is recorded correctly and is in compliance with the Utility's Commission approved service availability charges.

Procedures: We reconciled our beginning balance from Order No. PSC-2013-0646-PAA-WU to the filing and general ledger. We scheduled and tested all additions to CIAC recorded in the general ledger for years 2013 through 2018. We determined the year-end and average balances as of December 31, 2018. No exceptions were noted.

Accumulated Amortization of Contributions in Aid of Construction

Objectives: The objectives were to determine whether accruals of Accumulated Amortization of CIAC are properly calculated and recorded based on Commission rules and adjustments required in the Utility's last rate proceeding were recorded in its filing and books and records.

Procedures: We reconciled our beginning balance from Order No. PSC-2013-0646-PAA-WU to the filing and general ledger. We amortized the annual audited balances in the CIAC by the appropriate rates from January 1, 2013, to December 31, 2018. We determined the year-end and average balances as of December 31, 2018. No exceptions were noted.

Advances For Construction

Objectives: The objectives were to review the annual balance of Advances For Construction for all years since rate base was last established by this Commission and yearly additions and adjustments by dollar amount up to the end of the test year.

Procedures: We reconciled the MFR to the general ledger and reviewed the annual balance of Advances For Construction since rate base last established and yearly additions and adjustments by dollar amount up to the end of the test year. No exceptions were noted.

Working Capital

Objective: The objective was 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 adjustment as of December 31, 2018, using one-eighth of Operation and Maintenance (O&M) Expense as required by Commission Rule 30.433(2), F.A.C.

Capital Structure

Objectives: The objectives were to determine that the components of the Utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are recorded in compliance with Commission requirements.

Procedures: We determined that the Utility's capital structure is comprised of long-term debt, customer deposits, and common equity. We traced the long-term debt, customer deposits, and common equity from the filing to the general ledger. We verified if interest on customer deposits was credited to the customer bill and appropriately booked. No exceptions were noted.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether the Utility's test year revenues are recorded in compliance with Commission rules and calculated using Commission approved rates.

Procedures: We obtained the billing registers and tariff sheets for all customer classes. We audited revenue for the test year. We traced the revenue to the general ledger and the filing. We reviewed miscellaneous service revenues for compliance with the Utility's tariff. No exceptions were noted.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether the: 1) Utility's Operation and Maintenance (O&M) Expense is properly recorded in compliance with the NARUC USOA and Commission Rules, 2) Utility has adequate support for any charges from an affiliate and that the affiliate uses a reasonable allocation methodology to charge costs to the Utility, and 3) O&M Expense is representative of ongoing utility operations.

Procedures: We audited all accounts for analysis. We reviewed supporting documentation for the test year. We scanned the general ledger detail for non-recurring expenditures. We reviewed the costs shared between the Parent Company and the Utility and verified that the allocations were appropriate. No exceptions were noted.

Depreciation Expense

Objectives: The objectives were to determine whether Depreciation Expense is properly recorded in compliance with Commission Rule 25-30.140 and that it accurately represents the depreciation of plant assets from ongoing utility operations.

Procedures: We calculated Depreciation Expense using audited plant balances for the test year. We applied the appropriate depreciation rate to each account. No exceptions were noted.

CIAC Amortization Expense

Objective: The objective was to determine whether CIAC Amortization Expense is properly recorded in compliance with Commission Rule 25-30.140, F.A.C. and that it accurately represents amortization expense from ongoing utility operations.

Procedures: We calculated CIAC Amortization Expense using audited CIAC balances for the test year. We applied the appropriate amortization rate to each account. No exceptions were noted.

Taxes Other than Income

Objectives: The objectives were to determine the proper amounts for Taxes Other Than Income (TOTI) and ensure that TOTI Expenses are properly recorded and representative of ongoing utility operations.

Procedures: We obtained the Utility's 2018 tax bills for real estate and personal property taxes. We verified that the Utility utilized the discount offered for early payment. We verified the accuracy of the Utility's 2018 Regulatory Assessment Fees. We reconciled the MFR to the general ledger for payroll taxes. No exceptions were noted.

Audit Findings

None

Exhibits

Exhibit 1: Rate Base

Schedule of Water Rate Base

Florida Public Service Commission

Company: Placid Lakes Utilities, Inc.
 Docket No.: 130025-WU
 Schedule Year Ended: 12/31/18
 Interim [] Final [X]
 Historical [X] Projected []

Schedule: A-1
 Page 1 of 1
 Preparer: Larry P. King, Treasurer

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.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	3,048,184	49,887 (C)	3,098,071	A-5
2	Utility Land & Land Rights	4,355	0	4,355	Vol. III, Sch. X
3	Less: Non-Used & Useful Plant	0	0 (A)	0	A-7
4	Construction Work in Progress	4,325	-4,325 (H)	0	A-3
5	Less: Accumulated Depreciation	-1,848,667	149,736 (E)	-1,698,931	A-9
6	Less: CIAC	-1,897,731	9,458 (D)	-1,888,273	A-11; A-12
7	Accumulated Amortization of CIAC	1,243,797	-26,324 (F)	1,217,474	A-14
8	Acquisition Adjustments	0	0	0	-
9	Accum. Amort. of Acq. Adjustments	0	0	0	-
10	Advances For Construction	-18,783	-3,351 (G)	-22,134	A-16
11	Working Capital Allowance	0	69,695 (B)	69,695	A-17
12	Total Rate Base	535,480	244,778	780,258	

Exhibit 2: Capital Structure

Company: Placid Lakes Utilities, Inc.
 Docket No.: 130025-WU
 Test Year Ended: 12/31/18
 Schedule Year Ended: 12/31/18
 Historic [X] or Projected []

Schedule: D-1
 Page 1 of 1
 Preparer: Larry P. King, Treasurer
 Subsidiary [X] or Consolidated []

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	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	239,187	30.65%	3.45%	1.06%
2	Short-Term Debt				
3	Preferred Stock				
4	Customer Deposits	37,450	4.80%	2.00%	0.10%
5	Common Equity	474,909	60.87%	9.07%	5.52%
6	Tax Credits - Zero Cost				
7	Tax Credits - Wtd. Cost				
8	Accum. Deferred Income Taxes	28,711	3.68%	0.00%	0.00%
9	Other (Explain)				
10	Total	780,258	100.00%		6.67%

2018 Leverage Formula (PSC-2018-0327-PAA-WS)

Return On Equity = 6.24% + (1.88 / 66.50%)

= 9.07%

Equity Ratio =(Common Equity / Common Equity + Preferred Equity + LT &ST Debt)

= 66.50%

Supporting Schedules: D-2

Recap Schedules: A-1,A-2

Exhibit 3: Net Operating Income

Company: Placid Lakes Utilities, Inc.
 Schedule Year Ended: 12/31/18
 Interim Final
 Historic or Projected

Schedule: B-1
 Page 1 of 2
 Docket No.: 130025-WU
 Preparer: Larry P. King, Treasurer

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) Balance 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	668,899		668,899	97,116 (A)	766,015	B-4; E-2 B-1, 2 of 2
2	Operation & Maintenance	540,289	17,274 (D)	557,563		557,563	B-5
3	Depreciation, net of CIAC Amort.	54,649	3,723 (E)	58,372		58,372	B-13
4	Amortization	0		0		0	
5	Taxes Other Than Income	80,091	-3,939 (F)	76,152	4,217 (B)	80,369	B-15
6	Provision for Income Taxes	5,890	4,266 (C)	10,156	7,512 (C)	17,668	B-1, 2 of 2; C-1
7	OPERATING EXPENSES	680,919	21,325	702,244	11,729	713,972	
8	NET OPERATING INCOME	-12,020	-21,325	-33,345	85,388	52,043	B-1, 2 of 2
9	RATE BASE	535,480		780,258		780,258	A-1
10	RATE OF RETURN	-2.24%		-4.27%		6.67%	D-1